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Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., FOR A LIMITED WAIVER OF THE REQUIREMENTS OF A.A.C. R14-2-801, ET SEQ., AND CERTAIN RELATED RELIEF.	DOCKET NO. W-01303A-01-0983 **AMENDMENT TO APPLICATION FOR WAIVER AND NOTICE OF INTENT TO REORGANIZE**

Arizona Corporation Commission
DOCKETED

APR 22 2002

DOCKETED BY

APPENDIX VOLUME II
(SEC FILINGS)

SEC FILINGS

A. FORM 10-Q

B. SCHEDULE 13D & UPDATES

C. FORM 8K & UPDATES

D. SCHEDULE 14A – PRELIMINARY PROXY STATEMENT

E. SCHEDULE 14A – DEFINITIVE PROXY STATEMENT

F. SCHEDULE 14A – SOLICITATION MATERIAL

G. BENEFICIAL OWNERSHIP STATEMENTS

H. FORM 8A

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Form 10-Q for AMERICAN WATER WORKS CO INC filed on Nov 14 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	51-0063696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1025 Laurel Oak Road, Voorhees, New Jersey 08043
(Address of principal executive offices) (Zip Code)

(856) 346-8200
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

At November 1, 2001, the number of shares of common stock, $1.25 par value, outstanding was 99,983,686 shares.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Comprehensive Income and of Retained Earnings (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2001	2000
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	$394,956	$364,125
Operating expenses		
Operation and maintenance	166,890	154,400
Depreciation and amortization	46,819	41,648
General taxes	33,049	31,942
Total operating expenses	246,758	227,990
Operating income	148,198	136,135
Other income (deductions)		
Interest	(47,512)	(48,556)
Allowance for other funds used during construction	1,098	1,241
Allowance for borrowed funds used during construction	968	931
Amortization of debt expense	(694)	(691)
Preferred dividends of subsidiaries	(750)	(789)
RWE/AG acquisition expense	(9,860)	-
Gain from sale of operating system	4,820	-
Other, net	1,481	(4,052)
Total other income (deductions)	(50,449)	(51,916)
Income before income taxes	97,749	84,219
Provision for income taxes	41,972	33,488
Net income	55,777	50,731
Dividends on preferred stocks	146	996

Net income to common stock	55,631	49,735
Other comprehensive loss, net of tax		
Unrealized loss on securities	(12,181)	(23,856)
Reclassification adjustment for gain included in net income	(1,104)	-
Other comprehensive loss, net of tax	(13,285)	(23,856)
Comprehensive income	$ 42,346	$ 25,879

	Three Months Ended September 30,	
	2001	2000
Average shares of basic common stock outstanding	99,723	98,139
Basic and diluted earnings per common share on average shares outstanding	$ 0.56	$ 0.51

CONSOLIDATED RETAINED EARNINGS

Balance at July 1	$1,096,271	$1,026,417
Add - net income	55,777	50,731
Gain (loss) on treasury stock	57	(15)
	1,152,105	1,077,133
Deduct - dividends paid		
Preferred stock	32	882
Preference stock	114	114
Common stock - $.235 per share in 2001; $.225 per share in 2000	23,409	22,062
	23,555	23,058
Balance at September 30	$1,128,550	$1,054,075

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Comprehensive Income and of Retained Earnings (Unaudited)
(In thousands, except per share amounts)

	Nine Months Ended September 30, 2001	2000
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	$1,075,261	$1,018,293
Operating expenses		
Operation and maintenance	478,189	453,028
Depreciation and amortization	136,248	122,061
General taxes	98,825	96,610
Total operating expenses	713,262	671,699
Operating income	361,999	346,594
Other income(deductions)		
Interest	(144,653)	(143,030)
Allowance for other funds used during construction	3,364	5,747
Allowance for borrowed funds used during construction	3,035	4,210
Amortization of debt expense	(2,082)	(2,081)
Preferred dividends of subsidiaries	(2,275)	(2,382)
RWE/AG acquisition expense	(9,860)	-
Gain from sale of operating system	4,820	-
Other, net	3,876	(5,126)
Total other income (deductions)	(143,775)	(142,662)
Income before income taxes	218,224	203,932
Provision for income taxes	89,605	80,979
Net income	128,619	122,953
Dividends on preferred stocks	438	2,988
Net income to common stock	128,181	119,965
Other comprehensive loss, net of tax		
Unrealized loss on securities	(16,636)	(47,062)
Reclassification adjustment for gain included in net income	(3,158)	-
Other comprehensive loss, net of tax	(19,794)	(47,062)
Comprehensive income	$108,387	$ 72,903

	Nine Months Ended September 30, 2001	2000
Average shares of basic common stock outstanding	99,287	97,944
Basic and diluted earnings per common share on average shares outstanding	$ 1.29	$ 1.22
CONSOLIDATED RETAINED EARNINGS		
Balance at January 1	$1,069,486	$1,001,029
Add - net income	128,619	122,953
- gain (loss) on treasury stock	801	(959)
	1,198,906	1,123,023
Deduct - dividends paid		
Preferred stock	96	2,646
Preference stock	342	342
Common stock - $.705 per share in 2001; $.675 per share in 2000	69,918	65,960
	70,356	68,948
Balance at September 30	$1,128,550	$1,054,075

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

Consolidated Balance Sheet (Unaudited)
(In thousands)

	September 30 2001	December 31 2000
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	$ 5,358,174	$ 5,202,833
Utility plant acquisition adjustments, net	72,881	75,294
Non-utility property, net of accumulated depreciation	47,236	37,831
Excess of cost of investments in subsidiaries over book equity at acquisition, net	59,142	55,590
Total property, plant and equipment	5,537,433	5,371,548
Current assets		
Cash and cash equivalents	43,357	28,571
Customer accounts receivable	134,232	103,975
Allowance for uncollectible accounts	(3,316)	(2,575)
Unbilled revenues	94,168	83,878
Miscellaneous receivables	12,911	15,117
Materials and supplies	23,154	20,683
Deferred vacation pay	12,818	10,923
Restricted funds	224	224
Other	17,820	16,900
Total current assets	335,368	277,696
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	216,376	216,652
Other investments	39,196	73,997
Debt and preferred stock expense	46,571	47,630
Deferred pension expense	28,755	23,479
Deferred postretirement benefit expense	9,521	10,129
Deferred business services project costs	32,559	4,796
Deferred tank painting costs	16,005	16,829
Restricted funds	8,590	8,343
Other	88,301	83,699
Total regulatory and other long-term assets	485,874	485,554
TOTAL ASSETS	$ 6,358,675	$ 6,134,798

	September 30 2001	December 31 2000
CAPITALIZATION AND LIABILITIES		

Capitalization		
Common stockholders' equity	$ 1,746,520	$ 1,669,677
Preferred stocks without mandatory redemption requirements	11,673	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	30,698	32,902
Preferred stocks of subsidiaries without mandatory redemption requirements	8,118	8,118
Long-term debt		
American Water Works Company, Inc.	147,000	159,000
Subsidiaries	2,234,916	2,112,165
Total capitalization	4,178,925	3,993,535
Current liabilities		
Short-term debt	447,556	412,179
Current portion of long-term debt	79,661	161,395
Accounts payable	46,344	52,447
Taxes accrued, including federal income	86,402	25,960
Interest accrued	49,153	42,641
Accrued vacation pay	13,060	11,564
Other	66,758	67,865
Total current liabilities	788,934	774,051
Regulatory and other long-term liabilities		
Advances for construction	224,741	216,125
Deferred income taxes	603,051	605,343
Deferred investment tax credits	38,889	40,098
Accrued pension expense	61,231	50,414
Accrued postretirement benefit expense	13,394	13,930
Other	37,263	37,823
Total regulatory and other long-term liabilities	978,569	963,733
Contributions in aid of construction	412,247	403,479
Commitments and contingencies	--	--
TOTAL CAPITALIZATION AND LIABILITIES	$ 6,358,675	$ 6,134,798

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2001	2000

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$128,619	$122,953
Adjustments		
Depreciation and amortization	136,248	122,061
Provision for deferred income taxes	10,148	13,757
Provision for losses on accounts receivable	7,266	6,334
Allowance for other funds used during construction	(3,364)	(5,747)
Gain from sale of telecommunications company investments	(5,177)	-
Gain from sale of operating system	(4,820)	-
Employee benefit expenses greater than funding	525	4,946
Employee stock plan expenses	3,745	(2)
Deferred business services project expenses	(27,763)	-
Deferred tank painting costs	(2,184)	(1,591)
Deferred rate case expense	(2,095)	(1,322)
Amortization of deferred charges	12,332	8,266
Other, net	(2,683)	(7,047)
Changes in assets and liabilities, net		
Accounts receivable	(34,576)	(29,458)
Unbilled revenues	(10,290)	(7,489)
Other current assets	(3,391)	(4,226)
Accounts payable	(6,103)	(26,480)
Taxes accrued, including federal income	60,442	21,206
Interest accrued	6,512	4,679
Other current liabilities	(1,107)	(19,778)
Net cash from operating activities	262,284	201,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(251,225)	(253,011)
Allowance for other funds used during construction	3,364	5,747
Acquisitions	(55,859)	(48,951)
Proceeds from the disposition of property, plant and equipment	19,359	2,342
Removal costs from property, plant and equipment retirements	(9,633)	(4,500)
Restricted funds	(247)	12,540
Net cash used in investing activities	(294,241)	(285,833)

Nine Months Ended

	September 30, 2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$148,321	$ 46,014
Proceeds from common stock	34,736	25,455

Purchase of common stock for treasury	(932)	(3,426)
Net borrowings under short-term debt agreements	35,377	73,583
Advances and contributions for construction, net of refunds	22,109	21,243
Debt issuance costs	(1,004)	(1,782)
Repayment of long-term debt	(119,304)	(26,796)
Redemption of preferred stocks	(2,204)	(926)
Dividends paid	(70,356)	(68,948)
Net cash from financing activities	46,743	64,417
Net increase (decrease) in cash and cash equivalents	14,786	(20,354)
Cash and cash equivalents at January 1	28,571	43,100
Cash and cash equivalents at September 30	$43,357	$ 22,746

Common stock issued in lieu of cash in connection with the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan totaled $1,488 in 2000.

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees, and 2000 Stock Award and Incentive Plan totaled $1,774 in 2001 and $4,871 in 2000.

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

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Information Accompanying Financial Statements (Unaudited)
(In thousands, except share and per share amounts)

	September 30 2001	December 31 2000
Preferred stocks without mandatory redemption requirements		
Cumulative preferred stock - $25 par value		
5% series (one-tenth of a vote per share) - 101,777 shares outstanding	$ 2,544	$ 2,544
Cumulative preference stock - $25 par value		
Authorized - 750,000 shares		
5% series (non-voting) - 365,158 shares		

outstanding	9,129	9,129
Cumulative preferential stock - $35 par value		
Authorized - 3,000,000 shares		
(one-tenth of a vote per share)-		
no outstanding shares	--	--
	$ 11,673	$ 11,673
Common stockholders' equity		
Common stock - $1.25 par value		
Authorized - 300,000,000 shares		
Issued - 100,006,273 shares in 2001; 98,819,845 shares in 2000	$ 125,008	$ 123,525
Paid-in capital	489,257	454,568
Retained earnings	1,128,550	1,069,486
Accumulated other comprehensive income	5,509	25,303
Unearned compensation	(778)	(359)
Treasury stock at cost - 34,731 shares in 2001; 129,216 shares in 2000	(1,026)	(2,846)
	$1,746,520	$1,669,677

At September 30, 2001, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 1,641,852 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan and 532,381 shares for the Savings Plan for Employees. Up to 4,254,367 shares of common stock may be issued under the 2000 Stock Award and Incentive Plan, of which approximately 3,300,000 shares were available to be granted at September 30, 2001.

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 -- Financial Statement Presentation

The information presented in this Form 10-Q is unaudited. In the opinion of management the information reported reflects all adjustments, consisting of normal recurring adjustments, which were necessary to a fair statement of the results for the periods reported. Certain reclassifications have been made to conform previously reported data to the current presentation.

NOTE 2 -- RWE/AG Acquisition of American Water Works

On September 17, 2001 the Company announced that it had entered into a definitive agreement under which an indirect wholly owned subsidiary of RWE Aktiengesellschaft (RWE/AG) will merge with and into the Company, with

each outstanding share of the Company's common stock converted in the merger into the right to receive $46.00 per share in cash. RWE/AG is a global multi-utility company that does business, through its subsidiaries and affiliates, in over 120 countries. Its core businesses are electricity, gas, water, and wastewater management services.

RWE/AG's all-cash proposal represents a 37.2% premium over the average closing price per share of the Company's shares over the 30 trading days prior to September 10, 2001, and a 29.5% premium over the highest closing share price the Company's stock ever obtained prior to the public announcement of the agreement. The proposed transaction has a total value of $7.6 billion, including the assumption of approximately $3.0 billion in debt the Company had outstanding as of June 30, 2001.

Upon completion of the transaction, the Company will join with Thames Water, RWE/AG's London-based international water services business. The American Water brand will continue, and its management team headquartered in Voorhees, New Jersey is expected to lead the RWE/AG-Thames water business in North, Central and South America.

The transaction is expected to take at least a year to complete, following approval by the Company's shareholders and appropriate state regulatory agencies. The Company has identified fourteen states that it believes are required to approve the transaction. Those states are Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Virginia, and West Virginia. Approval in Connecticut and New Hampshire will likely not be required when the sale of those properties to Kelda Group (See Note 3) is completed. In five states only advisory letter filings are required. Those states are Hawaii, Iowa, Missouri, Tennessee, and Texas. The Company does not believe filings will be necessary in Georgia, Indiana, Massachusetts, and Michigan.

NOTE 3 -Sales of Operating Systems
TOWN OF SALISBURY MASSACHUSETTS
On September 28, 2001 the Company completed the sale of its Salisbury Water Supply Company's operating system to the Town of Salisbury, Massachusetts for $11.5 million in cash plus outstanding accounts receivable. The Salisbury system serves 3,000 customers and had revenues of $1.9 million in 2000.

KELDA GROUP ACQUISITION OF NEW ENGLAND OPERATIONS
Kelda Group Plc and the Company jointly announced on August 30, 2001 that they had reached an agreement whereby Kelda Group would acquire the Company's New England operations. The transaction price is approximately $118 million in cash plus the assumption of $115 million in debt.

The utility operations being acquired by Kelda Group serve a total of 64,000 customers and had revenues of $47.3 million in 2000. Massachusetts Capital Resources Company, a finance subsidiary of the Company, which owns and leases certain assets to Massachusetts-American, will also be acquired as part of the transaction.

The Public Utility Commissions in Connecticut, New York, and New Hampshire must approve the Kelda Group transaction, which is expected to be consummated by the end of the first half of 2002. The transaction is also subject to review by the Federal Trade Commission.

Note 4 -- Pending Acquisition

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

The Company now has approval from state regulatory agencies in all six states covered by the purchase agreement. The California Public Utility Commission approved the Company's acquisition of Citizens' water and wastewater assets in that state on September 30, 2001, but the Company is awaiting a possible rehearing before that commission and a possible appellate proceeding before closing the acquisition.

Note 5-- Acquisition
AZURIX NORTH AMERICA AND AZURIX INDUSTRIALS
On August 6, 2001 the Company entered into an agreement to acquire Azurix North America Corp. and Azurix Industrials Corp. for approximately $150 million in cash and debt. Azurix North America and Azurix Industrials are wholly-owned subsidiaries of Azurix Corp. and provide a range of water and wastewater services, including operations and maintenance, engineering, carbon regeneration, underground infrastructure rehabilitation and residuals management.

Azurix North America and Azurix Industrials, which had revenues totaling approximately $157 million in 2000, have approximately 1,050 employees and operate facilities serving an end-user population of approximately 2 million people across North America.

This acquisition, which was completed on November 7, 2001, strengthens the Company's position as a premier provider of water resource management services in the United States and Canada.

Note 6-- Security Issues
In the aftermath of the tragic events of September 11, 2001, all aspects of how the Company secures its facilities in order to protect the safety of its customers and associates are being reviewed and additional security measures are being implemented. It is anticipated that these additional measures will result in a significant increase in spending on security.

The regulated utility subsidiaries are seeking recognition of these increased security costs in the rates charged for utility service. At this time the Company plans to defer these additional costs because it believes that it is probable that they will be recovered in rates, and therefore expects no significant impact on the Company's financial position or results of operations.

NOTE 7 -- New Accounting Standards
On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

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

In June of 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset.

The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

Note 8 - Subsequent Event
On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp., executed a Note Purchase Agreement for up to $1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes

will be purchased at par by RWE/AG and mature on November 6, 2006. The Company and its subsidiaries are using proceeds from the sale of the notes to acquire the common stock of Azurix North America and Azurix Industrials, to fund the acquisition of the water and wastewater assets of Citizens Communication Company and to reduce outstanding short-term debt. Closing will occur in two or more tranches, the first of which took place on November 6, 2001 in the amount of $298.5 million.

PART I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

---

Results of Operations

Operating revenues for the third quarter and the first nine months of 2001 were higher than for the same periods of 2000 by 8% and 6%, respectively. Increased revenues were the result of water sales to 40,000 new customers, authorized increases in rates charged for service and modest weather pattern improvements.

Water sales volume during the third quarter of 2001 increased 3% to 102.0 billion gallons from 99.5 billion gallons in the third quarter of 2000. The 260.7 billion gallons of sales volume for the first nine months of 2001 was 1% greater than the 258.0 billion gallons sold in the same period of 2000.

During 2001, ten utility subsidiaries have received rate decisions, which are expected to provide approximately $23.5 million in additional annual revenues. Four subsidiaries have rate increase applications on file before regulatory agencies, which, if granted in full, would provide approximately $55.4 million in additional annual revenues. The largest portion of this total is from two separate requests filed by Pennsylvania-American and Indiana-American at $39 million and $13 million, respectively. Decisions in the Pennsylvania and Indiana cases are expected in the first and third quarters of 2002, respectively.

Operating expenses in the third quarter and the first nine months of 2001 were 8% and 6% higher compared to the same periods in 2000. Operation and maintenance expenses increased by 8% and 6% in the third quarter and the first nine months when compared to the same periods in 2000 primarily because of increased production costs such as power, purchased water and chemicals. A portion of the expense increase was associated with customer growth. The increases in depreciation expense for the quarter and first nine months were related to the Company's ongoing program of utility plant construction.

Interest expense decreased by 2% in the third quarter and increased 1% in the first nine months of 2001 compared to the same periods in 2000, reflecting declining interest rates in 2001. The total allowance for funds used (equity and borrowed) during construction ("AFUDC") recorded in the third quarter of 2001 was $2.1 million, compared to $2.2 million in the third quarter of 2000. AFUDC for the first nine months of 2001 was $6.4 million compared to $10.0 million for the same period in 2000. The utility subsidiaries record AFUDC to the extent permitted by the regulatory authorities. During the third quarter and first nine months of 2001 the Company sold a portion of its telecommunication company investments and realized pre-tax gains of $1.8 million and $5.2 million in other income.

Income taxes increased in the third quarter and first nine months of 2001 when compared to the comparable periods in 2000, as a result of increased earnings in 2001.

Net income to common stock was $55.6 million for the third quarter of 2001 compared with $49.7 million for the same period in 2000. Net income to common stock for the first nine months of 2001 was $128.2 million compared with $120.0 million for the first nine months of 2000.

Other comprehensive loss was $13.3 million and $19.8 million in the third quarter and first nine months of 2001, respectively, compared to other comprehensive loss of $23.9 million and $47.1 million in the same periods in 2000. The Company's other comprehensive loss represents the unrealized loss on passive investments in publicly traded securities.

Earnings per share of common stock in 2001 were $.63 for the quarter and $1.36 for the nine months ended September 30, 2001 prior to one-time transactions. Earnings per share in 2000 were $.51 for the third quarter and $1.22 for the nine months year-to-date. In 2001 a $.10 per share charge resulted from expenses incurred for the RWE/AG transaction and a $.03 per share net gain was recorded for the sale of the operating system in Salisbury Massachusetts. After these one-time transactions, per share earnings in 2001 were $.56 for the third quarter and $1.29 for the year-to-date.

Capital Resources and Liquidity

During the first nine months of 2001, 1,154,244 shares of common stock were issued in connection with the Dividend Reinvestment and Stock Purchase Plan, and 32,184 shares were issued for non-qualified stock options that were exercised. Also, 163,892 non-qualified stock options

were granted in connection with the 2000 Stock Award and Inventive Plan during the first nine months of 2001.

The Company issued 153,648 shares of common stock out of treasury during the first nine months of 2001 in connection with the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan.

On March 29, 2001 the Company's financing subsidiary, American Water Capital Corp. (AWCC) closed on its inaugural long-term debt financing of $140 million. The securities issued are senior unsecured notes carrying an interest rate of 6.87% maturing on March 29, 2011. The Company loaned the proceeds of that financing to nine utility subsidiaries to repay short-term debt. In the first nine months of 2001, the Company invested $7.2 million in the common stock of two subsidiaries.

New Accounting Standards

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. The statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

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

In June of 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a

liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

Subsequent Event

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp., executed a Note Purchase Agreement for up to $1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes will be purchased at par by RWE/AG and mature on November 6, 2006. The Company and its subsidiaries are using proceeds from the sale of the notes to acquire the common stock of Azurix North America and Azurix Industrials, to fund the acquisition of the water and wastewater assets of Citizens Communication Company and to reduce outstanding short-term debt. Closing will occur by the issuance of two or more tranches, the first of which took place on November 6, 2001 in the amount of $298.5 million.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases; inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions; weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality;

competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit Number	Description
10	Material Contracts
	(a) Note Purchase Agreement for up to $1.2 billion 4.92% senior notes due November 6, 2006

B. Reports on Form 8-K

A current report on Form 8-K was filed on August 7, 2001 by the Company regarding the agreement to acquire Azurix North America Corp. and Azurix Industrials Corp.

A current report on Form 8-K was filed on August 30, 2001 by the Company regarding the agreement to sell the Company's New England Operations to the Kelda Group Plc.

A current report on Form 8-K was filed on September 17, 2001 by the Company regarding the RWE/AG merger agreement.

A current report on Form 8-K was filed on October 30, 2001 by the Company regarding the release of the Company's third quarter earnings.

A current report on Form 8-K was filed on November 7, 2001 by the Company regarding the note purchase agreement with RWE/AG.

A current report on Form 8-K was filed on November 8, 2001 by the Company regarding completion of the acquisition of Azurix North America Corp. and Azurix Industrials Corp.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.
(Registrant)

Date November 14, 2001

\s\Ellen C. Wolf
Vice President and Chief Financial Officer
(Authorized Officer)

Date November 14, 2001

\s\Robert D. Sievers
Comptroller
(Chief Accounting Officer)

CONFORMED COPY

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AMERICAN WATER WORKS COMPANY, INC.

UP TO $150,000,000 4.92% SENIOR NOTES DUE NOVEMBER 6, 2006

AMERICAN WATER CAPITAL CORP.

UP TO $1,050,000,000 4.92% SENIOR NOTES DUE NOVEMBER 6, 2006

Support Agreement from

AMERICAN WATER WORKS COMPANY, INC.

NOTE PURCHASE AGREEMENT

Dated as of November 6, 2001

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SCHEDULE A -- Defined Terms

EXHIBIT 1 -- Form of 4.92% Senior Note

EXHIBIT 2 -- Form of Support Agreement

EXHIBIT 4.4 -- Form of Opinion of Counsel for the Company and American Water Works

EXHIBIT 4.9 -- Form of Registration Rights Agreement

AMERICAN WATER CAPITAL CORP.
AMERICAN WATER WORKS COMPANY, INC.
1025 Laurel Oak Road,
Voorhees, New Jersey 08043

4.92% SENIOR NOTES DUE NOVEMBER 6, 2006

Dated as of November 6, 2001

RWE AKTIENGESELLSCHAFT
OPERNPLATZ 1, 45128
ESSEN, GERMANY

Ladies and Gentlemen:

The undersigned, American Water Capital Corp., a Delaware corporation (the "Company"), and American Water Works Company, Inc., a Delaware corporation ("American Water Works"), hereby jointly and severally agree with RWE Aktiengesellschaft (the "Purchaser") as follows:

SECTION 1. AUTHORIZATION OF NOTES, SUPPORT AGREEMENT.

American Water Works will authorize the issue and sale of up to $150,000,000 aggregate principal amount of its 4.92% Senior Notes due November 6, 2006 (the "AWWC Notes") and the Company will authorize the issue and sale of up to $1,050,000,000 aggregate principal amount of its 4.92% Senior Notes due November 6, 2006 (the "AWCC Notes," and, together with the AWWC Notes, the "Notes," such term to include any such notes issued in substitution therefor pursuant to Section 13.2 or Section 13.3 of this Agreement. The Notes shall be in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by the Purchaser and the Company or American Water Works, as the case may be. Certain capitalized terms used in this Agreement are defined in Schedule A; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

American Water Works previously entered into a Support Agreement, dated June 22, 2000 and amended as of July 26, 2000 (as such agreement may be hereafter amended, modified or supplemented from time to time in accordance with its terms and the provisions of this Agreement, the "Support Agreement"),

with the Company, a copy of which (as in effect on the date of this Agreement) is attached hereto as Exhibit 2, pursuant to which American Water Works has agreed, among other things, to ensure the timely payment of principal of and premium, if any, and interest on Debt (as defined in the Support Agreement) issued by the Company.

SECTION 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to the Purchaser and the Purchaser will purchase from the Company, at the AWCC Closings as

defined and provided for in Section 3, AWCC Notes in the principal amount of up to $1,050,000,000 at the purchase price of 100% of the principal amount thereof.

Subject to the terms and conditions of this Agreement, American Water Works will issue and sell to the Purchaser and the Purchaser will purchase from American Water Works, at the AWWC Closing as defined and provided for in Section 3, AWWC Notes in the principal amount of up to $150,000,000 at the purchase price of 100% of the principal amount thereof.

SECTION 3. CLOSINGS.

The sale and purchase of the AWCC Notes and the AWWC Notes to be purchased by the Purchaser shall occur at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017 at 10:00 a.m., New York time, at one or more closings (the "AWCC Closings" and the "AWWC Closing," respectively, each being a "Closing") on the third Business Day following the giving of written notice by the Company or American Water Works, as the case may be, to the Purchaser of such Closing, or on such later Business Day as may be agreed upon by the Company and the Purchaser; provided, however, that in no event shall a Closing occur later than February 6, 2002, and provided further that there shall only be one AWWC Closing. Such notice by the Company or American Water Works, as the case may be, shall set forth the aggregate principal amount of Notes to be issued at such Closing, provided that such amount shall not be less than $100,000,000. At each Closing, the Company or American Water Works, as the case may be, will deliver to the Purchaser the Notes to be so purchased in the form of a single Note (or such greater number of Notes in denominations of at least $5,000,000 as the Purchaser may request) dated the date of such Closing and registered in the Purchaser's name, against delivery by the Purchaser to the Company or American Water Works, as the case may be, or either of their order, of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company or American Water Works, as the case may be, to account number 8013583379 at PNC Bank, National Association, Moorestown, New Jersey 08057, ABA# 031207607, or to such other account or accounts as the Company or American Water Works shall have designated in writing. If at a Closing the Company or American Water Works, as the case may be, shall fail to tender such Notes to the Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to the Purchaser's satisfaction, the Purchaser shall, at the Purchaser's election, be relieved of all obligations under this Agreement with respect to such Closing, without thereby waiving any rights the Purchaser may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

The obligation of the Purchaser to purchase and pay for the Notes at a Closing is subject to the fulfillment to the Purchaser's satisfaction, prior

to or at such Closing, of the following conditions with respect to such Notes:

Section 4.1. Representations and Warranties. The representations and warranties of the Company and American Water Works in this Agreement that are qualified as to materiality

shall be true and correct at the time of the Closing and the representations and warranties of the Company and American Water Works in this Agreement that are not qualified as to materiality shall be true and correct in all material respects at the time of the Closing.

Section 4.2. Performance; No Default. The Company and American Water Works shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by each of them prior to or at the Closing and, after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates and Organizational Documents.

(a) Officer's Certificate. The Company and American Water Works shall each have delivered to the Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.6, and in the case of American Water Works Section 4.8, have been fulfilled.

(b) Secretary's Certificate. The Company and American Water Works shall each have delivered to the Purchaser a certificate, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

(c) Organizational Documents. The Company and American Water Works shall each have delivered such other certificates and documents relating to the organization, existence and good standing of each such party as the Purchaser may reasonably request.

Section 4.4. Opinions of Counsel. The Purchaser shall have received opinions in form and substance satisfactory to the Purchaser and the Purchaser's special counsel, dated the date of the Closing, from Simpson Thacher & Bartlett, special counsel for American Water Works and the Company, and W. Timothy Pohl, General Counsel and Secretary to American Water Works, covering the matters set forth in Exhibit 4.4 and covering such other matters incident to the transactions contemplated hereby as the Purchaser or the Purchaser's special counsel may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, etc. On the date of the Closing, each purchase of Notes shall (a) not violate any applicable law or regulation (including, without limitation, Regulation U, T or X of the Board of Governors of the Federal Reserve System) and (b) not subject any Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof.

Section 4.6. Changes in Corporate Structure. Neither the Company nor American Water Works shall have changed its jurisdiction of incorporation or, with the exception of the Merger Agreement, or any transaction permitted or contemplated thereby, been a party to any merger or consolidation or shall have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in the Disclosure Documents filed prior to the date of this Agreement.

Section 4.7. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to the Purchaser and the Purchaser's special counsel, and the Purchaser and the Purchaser's special counsel shall have received all such counterpart originals or certified or other copies of documents as the Purchaser or the Purchaser's special counsel may reasonably request.

Section 4.8. Merger Agreement. The Merger Agreement shall not have been terminated by American Water Works pursuant to Article VII thereof. American Water Works shall not be in default in the performance of its obligations under the covenants and agreements set forth in Articles IV and V of the Merger Agreement, and the representations and warranties of American Works contained in the Merger Agreement shall be true and correct, other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 4.9. Registration Rights. American Water Works, the Company and the Purchaser shall have entered into a registration rights agreement substantially in the form of Exhibit 4.9 hereto.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND AMERICAN WATER WORKS.

The Company and American Water Works, jointly and severally, represent and warrant to the Purchaser that:

(a) Disclosure. The Disclosure Documents do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) Organization; Power and Authority. Each of the Company and American Water Works has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with corporate power and corporate authority to own its properties and conduct its business as described in the Disclosure Documents; and, except as set forth in Section 3.01(a) of the Company Disclosure Schedule to the Merger Agreement, each of the Company and American Water Works is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, unless such failure to be so qualified by the Company or American Water Works would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Organization and Ownership of Shares of Subsidiaries. Each Subsidiary of American Water Works other than the Company has been duly incorporated and is an existing corporation in good standing under the laws of the jurisdiction of its incorporation, with power and authority (corporate and other) to own its properties and conduct its business as described in the Disclosure Documents; and each Subsidiary is duly qualified to do business as a foreign corporation in good standing in all other

jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the

failure to be so qualified or be in good standing would not reasonably be expected to have a Material Adverse Effect; all of the issued and outstanding capital stock of each Subsidiary of American Water Works has been duly authorized and validly issued and is fully paid and nonassessable; and, except as otherwise set forth in Section 3.01(b) of the Company Disclosure Schedule to the Merger Agreement, all of the issued and outstanding shares of capital stock of, or other equity or voting interests in, each Subsidiary of American Water Works as of the date of this Agreement are owned by American Water Works, by another wholly-owned Subsidiary of American Water Works or by American Water Works and another wholly-owned Subsidiary of American Water Works, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever and are duly authorized, validly issued, fully paid and nonassessable.

(d) Authorization by Company. This Agreement has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery by the Purchaser, constitutes a valid and legally binding agreement of the Company and is enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. The AWCC Notes have been duly authorized by the Company and, at any AWCC Closing, will have been duly executed by the Company, and when issued and delivered in the manner provided for in this Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(e) Governmental Authorization. No consent, approval, authorization, or order of, or filing with, any governmental agency or body or any court is required to be obtained or made by American Water Works or the Company for the consummation of the transactions contemplated by this Agreement or for the compliance by American Water Works with the provisions of the Support Agreement in connection with the issuance and sale of the AWCC Notes by the Company.

(f) Observance of Statutes and Orders. The execution, delivery and performance of the Support Agreement and this Agreement and the issuance and sale of the Notes in accordance with this Agreement and compliance with the terms and provisions of this Agreement, the Notes and the Support Agreement will not result in a breach or violation of or conflict with any of the terms and provisions of, or constitute a default under, (i) any statute, any rule, regulation, order, judgment or decree of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company, American Water Works or any other Subsidiary or any of their respective properties, or (ii) any agreement or instrument to which the Company, American Water Works or any such other Subsidiary is a party or by which the Company, American Water Works or any such other Subsidiary is bound or to which any of the properties of the Company, American Water Works or any such other Subsidiary is subject, or (iii) the

charter or by-laws of the Company, American Water Works or any such other Subsidiary, except in each case (other than with respect to such charter or by-laws) for such breaches, violations or defaults that would not reasonably be expected to have a Material Adverse Effect. The Company has full corporate power and corporate authority to authorize, issue and sell the AWCC Notes as contemplated by this Agreement. American Water Works has full corporate power and corporate authority to authorize, issue and sell

the AWWC Notes as contemplated by this Agreement.

(g) Authorization by American Water Works. This Agreement and the Support Agreement have been duly authorized, executed and delivered by American Water Works and, assuming due authorization, execution and delivery of this Agreement by the Purchaser, such agreements constitute valid and legally binding obligations of American Water Works enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. The AWWC Notes have been duly authorized by American Water Works and, at any AWWC Closing, will have been duly executed by American Water Works, and when issued and delivered in the manner provided for in this Agreement, will constitute valid and binding obligations of American Water Works, enforceable against the American Water Works in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(h) Title to Properties; Leases. Except as disclosed in the Disclosure Documents, the Company, American Water Works and the Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them that are necessary to the conduct of their respective businesses as presently conducted, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by them; and except as disclosed in the Disclosure Documents, the Company, American Water Works and the Subsidiaries hold any leased real or personal property that are necessary to the conduct of their respective businesses as presently conducted under valid and enforceable leases with no exceptions that would materially interfere with the use made or to be made thereof by them.

(i) Licenses, Permits. The Company, American Water Works and the other Subsidiaries possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct in all material respects the businesses now operated by them and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company, American Water Works or any of the other Subsidiaries, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

(j) Labor Disputes. No labor dispute with the employees of the Company, American Water Works or any other Subsidiary exists or, to the knowledge of the

Company or American Water Works, is imminent, that would reasonably be expected to have a Material Adverse Effect.

(k) Patents and Trademarks. The Company, American Water Works and the other Subsidiaries own, possess or can acquire on reasonable terms, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "intellectual property rights") necessary to conduct the businesses now operated by them or presently employed by them, except where the failure to own, possess or acquire such intellectual property rights would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect; and none of the Company, American Water Works, or any other Subsidiary has received any notice of infringement of or conflict with asserted rights

of others with respect to any intellectual property rights that, if determined adversely to the Company, American Water Works or any other Subsidiary, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

(l) Environmental Matters. Except as disclosed in the Disclosure Documents and as set forth in Section 3.01(j) of the Company Disclosure Schedule to the Merger Agreement, neither the Company, American Water Works nor any of the other Subsidiaries is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "environmental laws"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any claim relating to any environmental laws, which violation, contamination, liability or claim would individually or in the aggregate reasonably be expected to have a Material Adverse Effect; and neither the Company nor American Water Works is aware of any pending investigation which might lead to such a claim.

(m) Litigation; Observance of Agreements, Statutes and Orders. Except as disclosed in the Disclosure Documents and as set forth in Section 3.01(g) of the Company Disclosure Schedule to the Merger Agreement, there are no pending actions, suits or proceedings against or affecting the Company, American Water Works or any of the Subsidiaries or any of their respective properties that, if determined adversely to the Company, American Water Works or any of the Subsidiaries, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect, or that are otherwise material in the context of the sale of the Notes; and no such actions, suits or proceedings are, to the Company's or American Water Works' knowledge, threatened. None of American Water Works, the Company or any other Subsidiary is, to the knowledge of American Water Works or the Company, in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or governmental authority or is in violation of any applicable law, ordinance, rule or regulation (including, without limitation, environmental laws) of any governmental authority, which default or

violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(n) Financial Statements. The financial statements included in the Disclosure Documents present fairly in all material respects the financial position of American Water Works and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with GAAP applied on a consistent basis, except as otherwise disclosed therein.

(o) Absence of Material Adverse Change. Except as disclosed in the Disclosure Documents filed prior to the date of this Agreement, since the date of the latest audited financial statements included in the Disclosure Documents filed prior to the date of this Agreement there has been no development or event that would reasonably be expected to result in a Material Adverse Effect and, except as disclosed in or contemplated by the Disclosure Documents and as disclosed in or contemplated by Section 3.01(f) of the Merger Agreement, there has been no dividend or distribution of any kind declared, paid or made by American Water Works

on any class of its capital stock.

(p) Investment Company. None of American Water Works, the Company or any other Subsidiary is or, after giving effect to the sale of the Notes and the application of the proceeds thereof, will be an "investment company" as defined in the Investment Company Act of 1940 (the "1940 Act"). The Company has received an order from the Commission exempting it from all provisions of the 1940 Act, a copy of which has been delivered to the Purchaser. None of American Water Works, the Company or any other Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended.

(q) Private Offering. Neither American Water Works nor the Company has, directly or indirectly, sold or offered, or attempted to offer or dispose of, any of the Notes to or solicited any offers to buy any of the Notes from, or otherwise approached or negotiated in respect thereof with, any Person, other than the Purchaser.

(r) ERISA. Neither American Water Works nor any Subsidiary has incurred any accumulated funding deficiency within the meaning of ERISA; and neither American Water Works nor any Subsidiary has incurred any material liability to the PBGC established under ERISA in connection with any employee pension benefit plan established or maintained by American Water Works or any Subsidiary other than for premium payments, all of which have been made when due.

(s) Use of Proceeds; Margin Regulations. The Company will apply up to $901,500,000 of the proceeds from the sale of the AWCC Notes toward the purchase price of the water and wastewater assets of Citizens Communications Company (f/k/a Citizens Utilities Company) pursuant to those certain Asset Purchase Agreements dated as of October 15, 1999, and $148,500,000 of the proceeds of the sale of the AWCC Notes to repay short-term borrowings and for general corporate purposes. American Water

Works will apply the entire proceeds of the sale of the AWWC Notes toward the purchase price of the capital stock of Azurix Industrials Corp. and Azurix America Corp. pursuant to that Purchase and Sale Agreement dated as of August 2, 2001. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve American Water Works or the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Neither American Water Works nor the Company owns any margin stock in an amount in excess of 5% of consolidated total assets. As used in this paragraph, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

SECTION 6. REPRESENTATIONS OF THE PURCHASER.

Section 6.1. Purchase for Investment. The Purchaser represents that it is purchasing the Notes for its own account and not with a view to the distribution thereof that would violate the Securities Act. The Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law.

SECTION 7. INFORMATION AS TO AMERICAN WATER WORKS AND THE COMPANY.

Section 7.1. Financial and Business Information. American Water Works and the Company, as the case may be, shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements. Within 60 days after the end of each of the first three quarterly fiscal periods of each year or within 10 days of filing with the Securities and Exchange Commission, whichever is earlier:

(i) a comparative consolidated balance sheet of American Water Works and its Subsidiaries, as at the end of each such quarterly fiscal period and as of the end of the immediately preceding fiscal year; and

(ii) comparative consolidated statements of income and retained earnings of American Water Works and its Subsidiaries, for the three months then ended and for the portion of the fiscal year to the end of such quarterly period and for the corresponding periods of the previous fiscal year and a comparative consolidated statement of changes in cash flows of American Water Works and its Subsidiaries, for the portion of the fiscal year to the end of such quarterly period and for the corresponding period of the previous fiscal year;

all in reasonable detail and accompanied by a certificate of a Senior Financial Officer of American Water Works that such financial statements have been prepared in accordance with GAAP and fairly present, in all material respects, the financial position of the

companies being reported on and their results of operations and cash flows; provided that delivery within the time period specified above of copies of the American Water Works Quarterly Report on Form 10-Q for such quarter prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a).

(b) Annual Statements. Within 100 days after end of each fiscal year or within 10 days of filing with the Securities and Exchange Commission, whichever is earlier:

(i) a comparative consolidated balance sheet of American Water Works and its Subsidiaries as at the end of such year and the previous fiscal year; and

(ii) comparative consolidated statements of income, surplus, retained earnings and cash flows of American Water Works and its Subsidiaries for such year and for the previous fiscal year;

all in reasonable detail and in the case of the consolidated statements certified by independent accountants to have been prepared in accordance with GAAP and fairly present, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows; provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act (to the extent required to be filed)) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b).

(c) Balance Sheet of Company. Concurrently with the delivery of the financial statements referred to in paragraphs (a) and (b) of this Section 7.1, the Company shall deliver to holders of the AWCC Notes an unaudited balance sheet of the Company, as at the end of each such quarterly or annual fiscal period and as of the end of the immediately preceding fiscal year, all in reasonable detail and accompanied by a certificate of a Senior Financial Officer of American Water Works that such financial statements have been prepared in accordance with GAAP.

(d) Statement as to Default, Notices. Concurrently with the delivery of the financial statements referred to in this Section 7.1, a certificate, signed by a Senior Financial Officer of American Water Works (in the case of the AWWC Notes) or of the Company and American Water Works (in the case of the AWCC Notes) stating whether or not to the best knowledge of the signers thereof the Company or American Water Works, as the case may be, is in Default in the performance and observance of any of the terms, provisions and conditions of this Agreement and, if the Company or American Water Works shall be in Default, specifying all such Defaults and the nature and status thereof of which they may have knowledge. In addition, the Company or American Water Works, as applicable, will deliver to the holders of the Notes, within ten days after the occurrence thereof, written notice of (i) any Default pursuant to Section 11.1

or Section 11.2 and (ii) any event or any contest that if adversely determined would result in the occurrence of an Event of Default under Section 11.1(g).

(e) Public Information. Promptly upon transmission thereof, copies of such financial statements and reports as American Water Works shall send to the Securities and Exchange Commission, the New York Stock Exchange or to its stockholders in any general mailing.

(f) Requested Information. With reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of American Water Works, the Company or any other Subsidiary or relating to the ability of the Company or American Water Works to perform its respective obligations hereunder and under the Notes, as from time to time may be reasonably requested by any such holder of Notes.

(g) Deliveries Under the Merger Agreement. In the event the information required to be delivered by any of paragraphs (a), (b) or (c) of this Section 7.1 is delivered to the Purchaser pursuant to the terms of the Merger Agreement, such delivery shall be deemed to satisfy the requirements of such paragraph of this Section 7.1 with regard to the Purchaser.

Section 7.2. Inspection. American Water Works will permit any Institutional Investor that is a holder of 10% or more of the aggregate principal amount of any series of the outstanding Notes, and any agents or representatives of such holder designated by such holder, at all reasonable intervals and places and upon reasonable prior written notice, to (i) examine the books of account, records, reports and other papers of American Water Works and its Subsidiaries and to make copies and extracts therefrom for the purpose of determining whether American Water Works is complying with the terms and provisions of this Agreement, (ii) visit and inspect, under the guidance of American Water Works, the properties of American Water Works or of any of its Subsidiaries and (iii) discuss its or their affairs, finances and accounts with, and be advised as to the same by, its or their officers; provided that unless an Event of Default has occurred and is continuing no

such visit to, inspection of or discussions with officers of, any Subsidiary shall be permitted if the book value of American Water Works' investment therein (as determined in accordance with GAAP) is less than 2% of all of American Water Works' investments in its Subsidiaries. So long as any Default or Event of Default shall have occurred and shall be continuing, all expenses incurred by an Institutional Investor in the exercise of any rights under this Section shall be borne by the Company.

SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Final Maturity. The entire unpaid principal amount of each Note shall become due and payable on November 6, 2006.

Section 8.2. Optional Prepayments with Make-Whole Amount. Either the Company or American Water Works may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the AWCC Notes or the AWWC Notes, respectively, at 100% of the principal amount so prepaid, and accrued interest thereon to the date of such prepayment,

plus the Make-Whole Amount determined in accordance with Section 8.6 for the prepayment date with respect to such principal amount. Either the Company or American Water Works, as the case may be, will give each holder of AWCC Notes or AWWC Notes, as applicable, written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company or American Water Works, as the case may be, shall deliver to each holder of AWCC Notes or AWWC Notes, as applicable, a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date. The holders of the Notes then to be prepaid shall be reasonably satisfied that such calculation of the Make-Whole Amount has been made in accordance with this Section 8.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes of that series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company or American Water Works, as the case may be, shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company or American Water Works, as the case may be, upon written request and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or

indirectly, any of the outstanding AWCC Notes and American Water Works will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding AWWC Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company, American Water Works, or an Affiliate pro rata to the holders of all Notes of at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least ten Business Days. If the holders of more than 20% of the principal amount of the Notes then outstanding accept such offer, the Company or American Water Works, as the case may be, shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the

number of days necessary to give each such remaining holder at least ten Business Days from its receipt of such notice to accept such offer. The Company or American Water Works, as the case may be, will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1 or 12.2, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% (or if at any time the Company or American Water Works, as the case may be, shall agree to a lesser spread over a U.S. Treasury obligation for purposes of calculating the make whole amount or any other yield maintenance formula in connection with the issuance of debt obligations of the Company or American Water Works, as the case may be, having a weighted average life to maturity which is five or more years from the date of issue of such debt obligation, then such lesser spread shall automatically be substituted for .50% from and after the issuance of such other debt obligation and the Company or American Water Works, as the case may be, shall promptly so notify the holders of such change) over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "PX-1" on the Bloomberg Financial Market Screen (or such other display as may replace "PX-1" on the Bloomberg Financial Market Screen) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such

Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in

accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2, 12.1 or 12.2.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1 or 12.2, as the context requires.

SECTION 9. AFFIRMATIVE COVENANTS.

Section 9.1. Corporate Existence. (a) So long as any of the AWCC Notes are outstanding, subject to Sections 10.2 and 10.3, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its rights (charter and statutory) and franchises.

(b) So long as any of the Notes are outstanding, except as contemplated by the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof) and subject to Sections 10.2 and 10.3 hereof, American Water Works will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 9.2. Support Agreement. So long as any of the AWCC Notes are outstanding, each of the Company and American Water Works covenants and agrees for the benefit of the holders of the AWCC Notes that (1) it will perform its

respective obligations under the Support Agreement, and (2) it will not agree to any amendment or termination of the Support Agreement as in effect on the date of this Agreement, except in accordance with the terms of the Support Agreement as in effect on the date of this Agreement. The holders of AWCC Notes are entitled to the benefits of the Support Agreement available to Lenders (as defined in the Support Agreement), it being understood and agreed that the AWCC Notes constitute Debt (as defined in the Support

Agreement) for purposes of the Support Agreement. If the Company and American Water Works shall at any time modify the obligations of American Water Works under the Support Agreement (whether by amendment or supplement thereto) for the benefit of any holder of any Debt of the Company, the Company and American Water Works shall also provide in such amendment or supplement that the benefits of such modification extend to the AWCC Notes and the holders thereof. If American Water Works shall at any time enter into another form of support agreement or guaranty of indebtedness of the Company (or any other Subsidiary that is primarily engaged in the financing of the business of American Water Works or its utility Subsidiaries) that is to be sold in a public offering that has been registered under the Securities Act, then American Water Works shall also enter into an amendment of the Support Agreement or guaranty providing the same benefits to the AWCC Notes and the holders thereof.

Section 9.3. Maintenance of Properties. (a) So long as any of the AWCC Notes are outstanding, except as permitted pursuant to Section 4.01(a)(v) of the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof), the Company will cause all properties used or held for use in the conduct of its businesses to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as may be necessary so that the businesses carried on in connection therewith may be properly and advantageously conducted at all times; provided, that nothing in this Section 9.3(a) shall prevent the Company from discontinuing the operation or maintenance of any of such properties or disposing of them if such discontinuance or disposal is, in the judgment of the Company, desirable in the conduct of its business and not disadvantageous in any material respect to the holders of AWCC Notes.

(b) So long as any of the Notes are outstanding, except as permitted pursuant to Section 4.01(a)(v) of the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof), American Water Works will cause all properties used or held for use in the conduct of its businesses, and will cause all properties used or held for use in the business of its Subsidiaries, to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as may be necessary so that the businesses carried on in connection therewith may be properly and advantageously conducted at all times; provided, that nothing in this Section 9.3 shall prevent American Water Works from discontinuing the operation or maintenance of any of such properties or disposing of them if such discontinuance or disposal is, in the judgment of the American Water Works, desirable in the conduct of its business and not disadvantageous in any material respect to the holders of Notes.

Section 9.4. Payment of Taxes and Other Claims. (a) So long as any of the AWCC Notes are outstanding, the Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon it or upon the income, profits or property of the Company, and (2) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a lien

upon the property of the Company; provided, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose

amount, applicability or validity is being contested in good faith by appropriate proceedings and for which the Company has set aside on its books adequate reserves with respect thereto in accordance with GAAP..

(b) So long as any of the Notes are outstanding, American Water Works will, and will cause each of its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon it or upon the income, profits or property of American Water Works and each such Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a lien upon the property of American Water Works and each such Subsidiary; provided, that American Water Works and each such Subsidiary shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which American Water Works has set aside on its books adequate reserves with respect thereto in accordance with GAAP.

Section 9.5. Nature of Business of the Company. So long as any of the AWCC Notes are outstanding, the Company will at all times remain engaged solely in the business of financing the capital requirements of American Water Works and its utility Subsidiaries and activities reasonably related thereto, including, without limitation, cash management activities, all treasury activities and loan administration for such subsidiaries.

Section 9.6. Rating of the Notes. In the event that the Merger Agreement is terminated pursuant to Article VII thereof, American Water Works or the Company, as applicable, shall use its best reasonable efforts to obtain a rating for the Notes from Standard & Poor's Rating Group and Moody's Investor Service, Inc. within 30 days of such termination; provided that if at such time either such rating agency shall cease to be in the business of rating corporate debt, an organization as shall be mutually agreed by American Water Works, the Company and the Purchaser shall be substituted therefore.

Section 9.7. Transfer of Notes. In the event that the Merger Agreement is terminated pursuant to Article VII thereof, then at such time as the Purchaser notifies American Water Works that it intends to transfer any of the Notes it holds, (i) American Water Works shall actively assist the Purchaser in transferring such notes to a third party, which assistance shall include, but is not limited to (a) assisting in the preparation of marketing materials to be used in connection with the transfer of the Notes and (b) the hosting of one or more meetings of prospective transferees and (ii) none of American Water Works, the Company or any other Subsidiary shall offer, sell, contract to sell or otherwise dispose of any securities substantially similar to the Notes so long as such offer, sale or disposition would impair the ability of the Purchaser to transfer the Notes; provided, however, that such obligations of American Water Works are subject to the condition that such transfer by the Purchaser shall not be in violation of any applicable federal or state securities laws.

SECTION 10. NEGATIVE COVENANTS.

Section 10.1. Restrictions on Liens. (a) Neither American Water Works (so long as any of the AWWC Notes are outstanding) nor the Company (so long as any of the AWCC Notes are

outstanding) will issue, assume or guarantee any indebtedness for money borrowed (hereinafter in this Section 10.1 referred to as "Debt"), secured by any mortgage, security interest, pledge, lien or other encumbrance (hereinafter in this Section 10.1 called "mortgage" or "mortgages") upon any property of American Water Works or the Company, as the case may be, without in any such case effectively securing, prior to or concurrently with the issuance, assumption or guarantee of any such Debt, the Notes (together with, if American Water Works or the Company shall so determine, any other Debt of or guaranteed by American Water Works or the Company, as the case may be, ranking equally with the Notes and then existing or thereafter created) equally and ratably with (or prior to) such Debt; provided, that the foregoing restrictions shall not apply to nor prevent the creation or existence of:

(i) mortgages on any property, acquired, constructed or improved by American Water Works or the Company after the date of this Agreement, and any improvements thereon, accessions thereto or other property acquired or constructed for use in connection therewith or related thereto, that are created or assumed prior to or contemporaneously with, or within 180 days after, such acquisition or completion of such construction or improvement, or within one year thereafter pursuant to a firm commitment for financing arranged with a lender or investor within such 180-day period, to secure or provide for the payment of all or any part of the purchase price of such property or the cost of such construction or improvement incurred after the date of this Agreement, or, in addition to mortgages contemplated by clauses (ii) and (iii) below, mortgages on any property existing at the time of acquisition thereof; provided, that the mortgages shall not extend to any property theretofore owned by American Water Works or the Company other than, in the case of any such construction or improvement, (1) unimproved real property on which the property so constructed or the improvement is located, (2) other property (or improvement thereon) that is an improvement to or is acquired or constructed for use in connection therewith or related thereto, (3) any right and interest under any agreement or other documents relating to the property being so constructed or improved or such other property and (4) the stock of any Subsidiary created or maintained for the primary purpose of owning the property so constructed or improved;

(ii) existing mortgages on any property of a Person which is acquired by, merged with or into or consolidated with American Water Works or the Company; provided, that mortgages shall not extend to any property theretofore owned by American Water Works or the Company;

(iii) mortgages, security interests, pledges, liens or other encumbrances to secure Debt of the Company to American Water Works;

(iv) mortgages, security interests, pledges, liens or other encumbrances in favor of the United States of America, any State, any foreign country or any department, agency or instrumentality or political subdivision of any such jurisdiction, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to such mortgages, security

interests, pledges, liens or other encumbrances including, without limitation, mortgages to secure Debt of the industrial revenue bond type;

(v) mortgages to secure Debt of American Water Works or the Company maturing within 12 months from the creation thereof and incurred in the ordinary course of business;

(vi) mortgages existing on the date of this Agreement; and

(vii) mortgages for the purposes of extending, renewing or replacing in whole or in part Debt secured by any mortgage referred to in the foregoing clauses (i) to (vi), inclusive, or this clause (vii); provided, that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property or Debt that secured the mortgage so extended, renewed or replaced (plus improvements on such property).

Notwithstanding the foregoing, nothing herein shall be deemed (1) to prohibit the Company from assuming or guaranteeing any Debt of American Water Works or any Subsidiary of American Water Works (other than the Company), which Debt is secured by assets of American Water Works or any Subsidiary of American Water Works (other than the Company), or (2) to prohibit American Water Works from assuming or guaranteeing any Debt of any of its Subsidiaries, which Debt is secured by the assets of any Subsidiary of American Water Works, or(3) to prohibit American Water Works or the Company (or any other Subsidiary) from securing Debt with accounts receivable in an accounts receivable financing.

(b) The provisions of subsection (a) of this Section 10.1 shall not apply to the issuance, assumption or guarantee by American Water Works or the Company of Debt secured by a mortgage that would otherwise be subject to the foregoing restrictions up to an aggregate amount that does not at the time exceed 10% of Consolidated Net Tangible Assets.

(c) If at any time American Water Works or the Company shall issue, assume or guarantee any Debt secured by any mortgage and if subsection (a) of this Section 10.1 requires that the Notes be secured equally and ratably with such Debt, American Water Works or the Company, as the case may be, will promptly deliver to holders of the Notes an Officers' Certificate stating that, and Opinion of Counsel to the effect that, the covenants of American Water Works or the Company, as the case may be, contained in subsection (a) of this Section 10.1 have been complied with.

Section 10.2. Company and American Water Works May Consolidate, Etc., Only on Certain Terms. Except as contemplated pursuant to the terms of the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof), neither the Company nor American Water Works shall consolidate with or merge into any other Corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) the Corporation formed by any such consolidation or into which it is merged or the Person that acquires by conveyance or transfer, or that leases, its properties

and assets substantially as an entirety shall be a Corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume the due and punctual payment of the principal of (and premium, if any) and interest on the Notes issued by the company so consolidated, merged or acquired, the performance of every covenant of this Agreement on the part of the Company or American Water Works, as applicable, and in the case of American Water Works, all the obligations under the Support Agreement to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event that, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company or American Water Works, as applicable, has delivered to the holders of the Notes an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with this Section 10.2 and that all conditions precedent herein provided for relating to such transaction have been complied with.

Each of the Company and American Water Works covenants and agrees that if, upon its consolidation with or merger into any other Corporation, or upon any consolidation or merger of any other Corporation with or into it, or upon any sale or conveyance of all or substantially all of its property and assets to any other Corporation, any of its property or any property of its Subsidiaries, if any, would thereupon become subject to any mortgage, security interest, pledge, lien or other encumbrance not permitted by Section 10.1 hereof, prior to or concurrently with such consolidation, merger, sale or conveyance, it will effectively secure the AWCC Notes or AWWC Notes, as applicable, (equally and ratably with (or prior to) any other indebtedness of or guaranteed by it then entitled thereto) by a direct lien, on such of its property or such property of a Subsidiary or such indebtedness issued by a Subsidiary, prior to all liens other than any theretofore existing thereon.

Section 10.3. Successor Corporation Substituted. Upon any consolidation by the Company or American Water Works with or merger by the Company or American Water Works into any other Corporation or any conveyance, transfer or lease of either the Company's or American Water Works' properties and assets substantially as an entirety in accordance with Section 10.2, the successor Corporation formed by such consolidation or into which it is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company or American Water Works, as applicable, under this Agreement with the same effect as if such successor Corporation had been named as the Company or American Water Works, as applicable, herein, and thereafter, except in the case of a lease, the predecessor Corporation shall be relieved of all obligations and covenants under this Agreement, the Notes and, in the case of American Water Works, the Support Agreement.

SECTION 11. EVENTS OF DEFAULT.

Section 11.1. Events of Default for the AWCC Notes. "Event of Default," with respect to the AWCC Notes means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Company defaults in the payment of any interest upon any AWCC Note when it becomes due and payable and continuance of such default for a period of 10 days; or

(b) the Company defaults in the payment of the principal of (or Make Whole Amount, if any, on) any AWCC Note when the same becomes due and payable, whether at maturity or a date fixed for prepayment or by declaration of acceleration or otherwise and continuance of such default for a period of three Business Days thereafter; or

(c) the Company or American Water Works defaults in the performance of or breaches any covenant or warranty of the Company or American Water Works, as the case may be, in this Agreement or the Support Agreement (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section 11.1 specifically dealt with),

and continuance of such default or breach for a period of 90 days after the earlier of (i) a Responsible Officer of American Water Works or the Company obtaining actual knowledge of such default and (ii) written notice, to the Company and American Water Works by the holders of at least 33% in aggregate principal amount of the AWCC Notes, specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; provided, however, that, except with respect to defaults under or breaches of the covenants contained in Section 9.4 or Section 10.1, the holder of such principal amount of AWCC Notes shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company or American Water Works within such period and is being diligently pursued; or

(d) The Company defaults under any bond, debenture, note or other evidence of indebtedness for money borrowed or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay in excess of $20,000,000 of the principal or interest of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in such indebtedness in any amount in excess of $20,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged or such acceleration having been rescinded or annulled within a period of 60 days after a Responsible Officer of the Company obtains actual knowledge thereof; or

(e) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of any of the Company or American Water Works in an involuntary case or proceeding under any applicable Federal or State bankruptcy,

insolvency, reorganization or other similar law or (B) a decree or order adjudging any of the Company or American Water Works a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company, American Water Works, or any of their Affiliates seeking reorganization, arrangement, adjustment or composition of or in respect of any of the Company or American Water Works under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for any of the Company or American Water Works or for any substantial part of the property of any of the Company or American Water Works or ordering the liquidation or winding up of the affairs of any of the Company or American Water Works and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(f) the commencement by the Company or American Water Works of a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of it in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official in respect of it or any substantial part of its property, or the making by it of an assignment for the benefit of

creditors, or its admission in writing of its inability to pay its debts generally as they become due, or its taking of corporate action in furtherance of any such action;

(g) the Support Agreement shall cease to be in full force and effect for any reason whatsoever, including, without limitation, a final and nonappealable determination by any governmental body or court that the Support Agreement is invalid, void or unenforceable, or American Water Works shall contest or deny in writing the validity or enforceability of any provision of, or obligation under, the Support Agreement; or

(h) an Event of Default has occurred with respect to the AWWC Notes.

Section 11.2. Events of Default for the AWWC Notes. "Event of Default," with respect to the AWWC Notes means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) American Water Works defaults in the payment of any interest upon any AWWC Note when it becomes due and payable and continuance of such default for a period of 10 days; or

(b) American Water Works defaults in the payment of the principal of (or Make Whole Amount, if any, on) any AWWC Note when the same becomes due and payable, whether at maturity or a date fixed for prepayment or by declaration of acceleration or otherwise and continuance of such default for a period of three Business Days thereafter; or

(c) American Water Works defaults in the performance of or breaches any of its covenants or warranties in this Agreement (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section 11.2 specifically dealt with), and continuance of such default or breach for a period of 90 days after the earlier of (i) a Responsible Officer of American Water Works obtaining actual knowledge of such default and (ii) written notice, to American Water Works by the holders of at least 33% in aggregate principal amount of the AWWC Notes, specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; provided, however, that, except with respect to defaults under or breaches of the covenants contained in Section 9.4 or Section 10.1, the holder of such principal amount of AWWC Notes shall be deemed to have agreed to an extension of such period if corrective action is initiated by American Water Works within such period and is being diligently pursued; or

(d) American Water Works defaults under any bond, debenture, note or other evidence of indebtedness for money borrowed or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by American Water Works, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay in excess of $20,000,000 of the principal or interest of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in such indebtedness in any amount in excess of $20,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged or such acceleration having been rescinded or annulled within a period of 60 days after a Responsible Officer of American Water Works obtains actual knowledge thereof; or

(e) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of any of American Water Works in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging American Water Works a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than American Water Works or any of its Affiliates seeking reorganization, arrangement, adjustment or composition of or in respect of American Water Works under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for American Water Works or for

any substantial part of the property of American Water Works or ordering the liquidation or winding up of the affairs of American Water Works and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days;

(f) the commencement by American Water Works of a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of it in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official in respect of it or any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or its admission in writing of its inability to pay its debts generally as they become due, or its taking of corporate action in furtherance of any such action; or

(g) an Event of Default has occurred with respect to the AWCC Notes.

SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration of the AWCC Notes. (a) If an Event of Default described in paragraph (e) or (f) of Section 11.1 has occurred, all the AWCC Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default described in Section 11.1 has occurred and is continuing, any holder or holders of more than 50% in principal amount of the AWCC Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company and American Water Works, declare all the AWCC Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11.1 has occurred and is continuing, any holder or holders of AWCC Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company and American Water Works, declare all the AWCC Notes held by it or them to be immediately due and payable.

Upon any AWCC Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such AWCC Notes will forthwith mature and the entire unpaid principal amount of such AWCC Notes, plus (i) all

accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. American Water Works and the Company acknowledge, and the parties hereto agree, that each holder of an AWCC Note has the right to maintain its investment in the AWCC Notes free from

repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the AWCC Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Acceleration of the AWWC Notes. (a) If an Event of Default described in paragraph (e) or (f) of Section 11.2 has occurred, all the AWWC Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default described in Section 11.2 has occurred and is continuing, any holder or holders of more than 50% in principal amount of the AWWC Notes at the time outstanding may at any time at its or their option, by notice or notices to American Water Works, declare all the AWWC Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11.2 has occurred and is continuing, any holder or holders of AWWC Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to American Water Works, declare all the AWWC Notes held by it or them to be immediately due and payable.

Upon any AWWC Notes becoming due and payable under this Section 12.2, whether automatically or by declaration, such AWWC Notes will forthwith mature and the entire unpaid principal amount of such AWWC Notes, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. American Water Works acknowledges, and the parties hereto agree, that each holder of an AWWC Note has the right to maintain its investment in the AWWC Notes free from repayment by American Water Works (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by American Water Works in the event that any of the AWWC Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.3. Other Remedies. If any Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1 or Section 12.2, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.4. Rescission. At any time after any Note has been declared due and payable pursuant to clause (b) or (c) of Section 12.1 or Section 12.2, the holders of not less than 67% in principal amount of the Notes then outstanding, by written notice to the Company and American Water Works, may rescind and annul any such declaration and its consequences if (a) the Company or American Water Works, as the case may be, has paid all overdue interest on

such Notes, all principal of and Make-Whole Amount, if any, on any such Notes that are due and

payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of such Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.4 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.5. No Waivers or Election of Remedies, Expenses, etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company or American Water Works under Section 15, the Company or American Water Works, as the case may be, will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. Each of the Company and American Water Works shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and neither the Company nor American Water Works shall be affected by any notice or knowledge to the contrary. The Company or American Water Works, as the case may be, shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company or American Water Works, as applicable, for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company or American Water Works, as the case may be, shall execute and deliver, at the Company's or American Water Works' expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be in the form of Exhibit 1 hereto. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered

Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company or American Water Works, as the case maybe, may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $5,000,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $5,000,000.

Section 13.3. Replacement of Notes. Upon receipt by the Company or American Water Works, as applicable, of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, the original Purchaser or is an Institutional Investor, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company or American Water Works, as the case may be, at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made at the principal office of PNC Bank, National Association, in New York, New York.

Section 14.2. Home Office Payment. So long as the Purchaser or the Purchaser's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company or American Water Works, as the case may be, will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest at the principal office of PNC Bank, National Association, in New York, New York and by the method specified on the first page hereof, or by such other method or at such other address as the Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company or American Water Works, as the case may be, made concurrently with or reasonably promptly after payment or prepayment in full of any Note, the Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company or American Water Works, as the case may be, at its principal executive office or at the place of payment most recently designated by the Company or American Water Works, as the case may be, pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by the Purchaser or the Purchaser's nominee, the Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been

paid thereon or surrender such Note to the Company or American Water Works, as the case may be, in exchange for a new Note or Notes pursuant to Section 13.2. The Company or American Water Works, as the case may be, will afford the

benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by the Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchaser has made in this Section 14.2.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company or American Water Works, as applicable, will pay all costs and expenses (including reasonable attorneys' fees of Cravath, Swaine & Moore, special counsel to the Purchaser, directly related to this Agreement and the actions contemplated hereby but excluding, (i) with respect to (a) below, the fees and expenses of any other counsel to the Purchaser, (ii) with respect to (b) below, the fees and expenses of more than one counsel to the Purchaser and (iii) any fees and expenses incurred by or in connection with a transferee of the Purchaser) incurred by the Purchaser in connection with (a) the negotiation, preparation, execution, and delivery of this Agreement and the Notes, (b) any amendments, waivers or consents under or in respect of this Agreement, the Support Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), (c) the reasonable costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Support Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Support Agreement or the Notes, or by reason of being a holder of any Note, and (d) the reasonable costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of American Water Works or the Company or any other Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby, by the Support Agreement and by the Notes. The Company or American Water Works, as applicable, will pay, and will hold the Purchaser harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by or on behalf of the Purchaser).

Section 15.2. Survival. The obligations of the Company and American Water Works under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by the Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of the Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of American Water Works or the Company pursuant to this Agreement shall be deemed representations and warranties of American Water Works or the Company, as the case may be, under this Agreement. Subject to the preceding

sentence, this Agreement and the Notes embody the entire agreement and understanding among the Purchaser, American Water Works and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of American Water Works, the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4 or 21 hereof, or any defined term (as it is used therein), will be effective as to any holder of a Note unless consented to by such holder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or change the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11.1(a), 11.1(b), 11.2(a), 11.2(b), 12, 17 or 20.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. American Water Works and the Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. American Water Works and the Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes of a series affected thereby promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. Neither American Water Works nor the Company will, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes of such series then outstanding even if such holder did not consent to such waiver or amendment.

(c) Consent in Contemplation of Transfer. At any time prior to a Public Offering, any consent made pursuant to this Section 17.2(c) by a holder of Notes that has transferred or has agreed to transfer its Notes to American Water Works or the Company or any other Subsidiary or any Affiliates of American Water Works and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that

would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 17.3. Binding Effect, etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note, as applicable, and upon American Water Works and the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right

consequent thereon. No course of dealing between American Water Works or the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by American Water Works or the Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by American Water Works or the Company or any of their respective Affiliates shall be deemed not to be outstanding.

SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to the Purchaser or the Purchaser's nominee, to the Purchaser or the Purchaser's nominee at the address set forth on the first page hereof, or at such other address as the Purchaser or the Purchaser's nominee shall have specified to American Water Works and the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to American Water Works and the Company in writing, or

(iii) if to American Water Works or the Company, as the case may be, at the address set forth at the beginning hereof to the attention of its Senior Financial Officer, or at such other address as American Water Works or the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by the Purchaser at any Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to the Purchaser, may be reproduced by the Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and the Purchaser may destroy any original document so reproduced. American Water Works and the Company agree and stipulate that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Purchaser in the regular course of business) and any enlargement, facsimile or further

reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit American Water Works or the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to a holder of any Note or its representatives by or on behalf of American Water Works or the Company or any other Subsidiary, or any of their respective representatives, in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such holder as being confidential information of American Water Works or the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such holder or any Person acting on such holder's behalf, (c) otherwise becomes known to such holder other than through disclosure by American Water Works or the Company or any other Subsidiary or any of their respective representatives or (d) constitutes financial statements delivered to such holder under Section 7.1 that are otherwise publicly available. Each holder of a Note, other than the Purchaser (so long as the letter agreement dated July 26, 2001 among the Purchaser, Thames Water plc and American Water Works is still in effect), will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such holder in good faith to protect confidential information of third parties delivered to such holder, provided that such holder may deliver or disclose Confidential Information to (i) such holder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by the Notes), (ii) such holder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such holder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing with the Company prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20),

(v) any Person from which such holder offers to purchase any security of the Company (if such Person has agreed in writing with the Company prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such holder, or (vii) any other Person to which such delivery or disclosure may be required in the reasonable opinion of such holder (w) to effect compliance with any law, rule, regulation or order applicable to such holder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such holder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such holder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under the Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by American Water Works or the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with American Water Works and the Company embodying the provisions of this Section 20. Each holder of a

Note recognizes its responsibility for compliance with applicable securities laws and regulations in connection with its use of non-public information regarding American Water Works and its Subsidiaries.

SECTION 21. SUBSTITUTION OF PURCHASER.

The Purchaser shall have the right to substitute any one of the Purchaser's Affiliates as the purchaser of the Notes, by written notice to American Water Works and the Company, which notice shall be signed by both the Purchaser and the Purchaser's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6; provided that such notice shall also contain the agreement of the Purchaser to unconditionally and irrevocably guarantee the obligations of the Purchaser's Affiliate under this Agreement. Upon receipt of such notice, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of the Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to the Purchaser all of the Notes then held by such Affiliate, upon receipt by American Water Works and the Company of notice of such transfer, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to the Purchaser, and the Purchaser shall have all the rights of an original holder of the Notes under this Agreement.

SECTION 22. MISCELLANEOUS.

Section 22.1. Assumption by American Water Works or Subsidiary. American Water Works or a Subsidiary may directly assume, by a written instrument, executed and delivered to the holders of the AWCC Notes, in form satisfactory to the Required Holders, the due and punctual payment of the principal of (Make-Whole Amount, if any) and interest on all the AWCC Notes and the performance of every covenant of this Agreement on the part of the Company to be performed or observed. Upon any such assumption, American Water Works or such Subsidiary shall succeed to and be substituted for and may exercise every right and power

of the Company under this Agreement with the same effect as if American Water Works or such Subsidiary had been named as the Company herein and the Company shall be released from its liability as obligor on the AWCC Notes; provided that, in the case of such assumption by a Subsidiary, that American Water Works' obligations under this Agreement (modified as aforesaid) remain in full force and effect and American Water Works and such Subsidiary shall have entered into a support agreement in the form of the Support Agreement, satisfactory to the Required Holders.

Section 22.2. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.3. Entire Agreement. This Agreement, together with the Schedules and Exhibits hereto, along with the Notes constitute the entire agreement among the parties hereto with respect to the subject matter hereof. The terms hereof in no way amend, alter or otherwise modify the terms of the Merger Agreement and, except as expressly stated herein, the terms of the Merger Agreement in no way amend, alter or otherwise modify the terms hereof.

Section 22.4. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.5. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.6. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or that such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.7. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.8. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

Section 22.9. No Right of Set-off. American Water Works and the Company each hereby expressly waive any and all right to set-off any amounts that may be owed, or may be claimed to be owed, to American Water Works or the Company by any Holder of any Note, including, but not limited to, amounts that may be owed or claimed to be owed to American Water Works under the Merger Agreement.

* * * * *

The execution hereof by the Purchaser shall constitute a contract among American Water Works, the Company and the Purchaser for the uses and purposes hereinabove set forth. This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Very truly yours,

AMERICAN WATER CAPITAL CORP.

By /c/Joseph F. Hartnett, Jr.
Its Vice President & Treasurer

AMERICAN WATER WORKS COMPANY, INC.

By /c/ Joseph F. Hartnett, Jr.
Its Treasurer

The foregoing is hereby agreed to as of the date thereof.

RWE AKTIENGESELLSCHAFT

By /c/ Klaus Sturany
Its Managing Director

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"American Water Works" means the American Water Works Company, Inc., and any permitted successors or assigns thereto.

"Board of Directors" means either the board of directors of the Company or American Water Works, as the case may be, or any duly authorized committee thereof.

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City or Essen, Germany are required or authorized to be closed.

"Closing" is defined in Section 3.

"Company" means the American Water Capital Corp., and any permitted successors or assigns thereto.

"Confidential Information" is defined in Section 20.

"Consolidated Net Tangible Assets" means the total amount of assets appearing on a consolidated balance sheet of the Company and its subsidiaries less, without duplication, the following:

(a) all current liabilities (excluding any thereof that are by their terms extendable or renewable at the sole option of the obligor thereon without requiring the consent of the obligee to a date more than 12 months after the date of determination);

(b) all reserves for depreciation and other asset valuation reserves but excluding any reserves for deferred Federal income taxes arising from accelerated amortization or otherwise; and

(c) all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset on said balance sheet.

Consolidated Net Tangible Assets shall be determined in accordance with generally accepted accounting principles and as of a date not more than 90 days prior to the happening of the event for which such determination is being made.

SCHEDULE A
(to Note Purchase Agreement)

"Corporation" includes any corporation, association, company, limited liability company or business trust.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means, with respect to the Notes, the greater of (a) the prime (i.e. index or base) rate of interest published or publicly announced as such from time to time by PNC Bank, National Association, plus 2%; or (b) the rate of interest borne by the Notes prior to Default plus 2%.

"Disclosure Documents" shall mean the Registration Statement of the Company filed with the Securities and Exchange Commission on January 30, 2001 (including the documents incorporated by reference therein) and all forms, reports, schedules, statements and other documents required to be filed by the Company or American Water Works with the Securities and Exchange Commission since such date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form; provided, however that for the purposes of this Agreement, any holder of Notes that purchased such Notes in, or subsequent to, a Public Offering shall not be an Institutional Investor.

"Make-Whole Amount" is defined in Section 8.6.

"Material Adverse Effect" means a material adverse change or effect on (a) the business, assets, properties, condition (financial or otherwise) or results of operations of American Water Works and its Subsidiaries taken as a whole or (b) the ability of American Water Works or the Company to perform its respective obligations under this Agreement and the Notes, and, in the case of American Water Works, the Support Agreement or (c) the validity or enforceability of this Agreement, the Support Agreement or the Notes.

"Merger Agreement" means the Agreement and Plan of Merger, dated as of September 16, 2001, by and among RWE Aktiengesellschaft, Thames Water Aqua Holdings GMBH, Apollo Acquisition Company and American Water Works, as amended or modified from time to time.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of American Water Works or the Company, as the case may be, whose responsibilities extend to the subject matter of such certificate.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company or American Water Works, as the case may be, and who shall be reasonably acceptable to the Required Holders.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Public Offering" means any sale or transfer of the Notes pursuant to a registration statement filed with the Securities and Exchange Commission pursuant to the Securities Act.

"Purchaser" means RWE Aktiengesellschaft.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the AWCC Notes or AWWC Notes, as applicable, at the time outstanding (exclusive of Notes then owned by American Water Works, the Company or any of their respective Affiliates which, for the avoidance of doubt, does not include the Purchaser or its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of American Water Works or the Company, as the context requires, with responsibility for the administration of the relevant portion of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the senior financial officer, principal accounting officer, treasurer or controller of American Water Works or the Company, as the context requires.

"Subsidiary" means a Person more than 50% of the outstanding voting

stock of which is owned, directly or indirectly, by American Water Works or by one or more other Subsidiaries, or by American Water Works and one or more other Subsidiaries. For the purposes of this

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definition, "voting stock" means stock or other security which ordinarily has voting power for the election of directors or similar officials, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Support Agreement" is defined in Section 1.

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Form SC 13D/A for AMERICAN WATER WORKS CO INC filed on Nov 13 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No. 1)

American Water Works Company, Inc.
(Name of Issuer)

Common Stock, par value $1.25 per share
(Title of Class of Securities)

030411 10 2
(CUSIP Number)

Dr. Georg Muller
RWE Aktiengesellschaft
Opernplatz 1
D-45128 Essen, Germany
011 49-201-12-00

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

With a copy to:
Peter S. Wilson, Esq.
Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
(212) 474-1000

November 6, 2001
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Section 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box.[_]

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Page 1 of 6)
(Exhibit Index is at page 6)

CUSIP No. 030411 10 2

1	Names of Reporting Persons I.R.S. Identification Nos. of Above Persons (entities only) RWE AKTIENGESELLSCHAFT		
2	Check the Appropriate Box if a Member of a Group (See Instructions)		(a) [ ] (b) [ ]
3	SEC Use Only		
4	Source of Funds (See Instructions) WC, 00		
5	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)		[ ]
6	Citizenship or Place of Organization Federal Republic of Germany		
Number of Shares Beneficially Owned by Each Reporting Person With		7	Sole Voting Power 0
		8	Shared Voting Power 25,989,476
		9	Sole Dispositive Power 0
		10	Shared Dispositive Power 24,647,414
11	Aggregate Amount Beneficially Owned by Each Reporting Person 25,989,476		

12	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	[ ]
13	Percent of Class Represented by Amount in Row (11) 26.0%	
14	Type of Reporting Person (See Instructions) CO	

CUSIP No. 030411 10 2

1	Names of Reporting Persons I.R.S. Identification Nos. of Above Persons (entities only) THAMES WATER AQUA HOLDINGS GMBH		
2	Check the Appropriate Box if a Member of a Group (See Instructions)	(a) [ ] (b) [ ]	
3	SEC Use Only		
4	Source of Funds (See Instructions) WC, 00		
5	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	[ ]	
6	Citizenship or Place of Organization Federal Republic of Germany		
Number of Shares Beneficially Owned by Each Reporting Person With	7	Sole Voting Power 0	
	8	Shared Voting Power 25,989,476	
	9	Sole Dispositive Power 0	
	10	Shared Dispositive Power 24,647,414	
11	Aggregate Amount Beneficially Owned by Each Reporting Person 25,989,476		
12	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	[ ]	
13	Percent of Class Represented by Amount in Row (11) 26.0%		
14	Type of Reporting Person (See Instructions) CO		

This Amendment No. 1 amends the statement on Schedule 13D (the "Schedule 13D") filed by RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany ("RWE"), and Thames Water Aqua Holdings GmbH, a limited liability company organized under the laws of the Federal Republic of Germany ("Parent"), on September 25, 2001. Terms used but not defined herein will have the meanings given to them in the Schedule 13D, unless otherwise specified.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER

Item 5 (a) and (b) are hereby amended by replacing the first paragraph in its entirety with the following language:

"As of November 6, 2001, the shares subject to the Voting Agreement consisted of 25,989,476 shares of Common Stock, representing approximately 26.0% of the issued and outstanding shares of Common Stock as of September 10, 2001, as represented by AWW in the Merger Agreement."

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER

Item 6 is hereby amended by adding the following paragraph after the existing paragraph:

"Parent and the stockholders of AWW that are parties thereto (the "Additional Stockholders") entered into a Joinder Agreement dated as of November 6, 2001 (the "Joinder Agreement," the terms of which are hereby incorporated by reference). Pursuant to the terms of the Joinder Agreement, the Additional Stockholders have agreed to be bound by all the provisions of the Voting Agreement as Stockholders thereunder."

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS

Item 7 is hereby amended to add the following exhibit:

Exhibit 3: Joinder Agreement dated as of November 6, 2001, among Parent, the Willard M. Ware Q-Tip Trust and the Willard M. Ware Residual Trust.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: November 13, 2001

RWE AKTIENGESELLSCHAFT

By: /s/ Dr. Georg Muller

Name: Dr. Georg Muller
Title: General Counsel

By: /s/ Dr. Heinz-Jurgen Telkamp

Name: Dr. Heinz-Jurgen Telkamp
Title: Vice President Accounting

THAMES WATER AQUA HOLDINGS GMBH

By: /s/ Dr. Richard R. Klein

Name: Dr. Richard R. Klein
Title: Managing Director

By: /s/ Dr. Klaus Sturany

Name: Dr. Klaus Sturany
Title: Managing Director

EXHIBIT INDEX

Exhibit No.	Document
Exhibit 3	Joinder Agreement dated as of November 6, 2001, among Parent, the Willard M. Ware Q-Tip Trust and the Willard M. Ware Residual Trust.

Exhibit 3

JOINDER AGREEMENT

JOINDER AGREEMENT, dated as of November 6, 2001, between Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany ("Parent"), the Willard M. Ware Q-TIP Trust and the Willard M. Ware Residual Trust (the "Additional Stockholders"), each a stockholder of American Water Works Company, Inc., a Delaware corporation (the "Company").

W I T N E S S E T H:

WHEREAS, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Parent, Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and the Company entered into an Agreement and Plan of Merger, dated as of September 16, 2001 (as the same may be amended or supplemented, the "Merger Agreement"), providing for the merger of Sub with and into the Company upon the terms and subject to the conditions set forth in the Merger Agreement;

WHEREAS, Parent and certain stockholders of the Company entered into a Voting Agreement, dated as of September 16, 2001 (as the same may be amended or supplemented, the "Voting Agreement"; capitalized terms used without definition herein having the meanings assigned to them in the Voting Agreement) to induce Parent to enter into the Merger Agreement; and

WHEREAS, as of the date hereof, each Additional Stockholder is a beneficial owner of, and has the power to vote or direct the vote with respect to, the number of shares of Company Common Stock as set forth on the signature page hereto beneath such Additional Stockholders' name; and

WHEREAS, the parties to this Joinder Agreement desire that the Additional Stockholders become parties to the Voting Agreement as hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1.1 Each Additional Stockholder (a) confirms that it has received a copy of the Merger Agreement and Voting Agreement; (b) agrees that it hereby becomes a Stockholder under

the Voting Agreement as indicated by its signature below; (c) represents and warrants as to itself, severally and not jointly, as to each of the representations and warranties set forth in Article II of the Voting Agreement which shall apply, mutatis mutandis, to this Joinder Agreement; and (d) agrees that it will be bound by all of the provisions of the Voting Agreement and will perform all the covenants, agreements and obligations which are required to be performed by it as a Stockholder thereunder, including without limitation, the provisions of Articles I and III of the Voting Agreement which shall apply, mutatis mutandis, to this Joinder Agreement.

1.2 The provisions of Article IV of the Voting Agreement shall apply, mutatis mutandis, to this Joinder Agreement.

IN WITNESS WHEREOF, Parent and each of the Additional Stockholders have signed or caused this Joinder Agreement to be signed by their respective officers or other authorized person thereunto duly authorized, as of the date first written above.

BESSEMER TRUST COMPANY, as trustee
as set forth below

By: /s/ Bartholomew H. Sharp

Name: Bartholomew H. Sharp

Title: Principal

As Trustee for the Willard M. Ware Q-TIP Trust, with respect to 1,145,000 Existing Shares.

As Trustee for the Willard M. Ware Residual Trust, with respect to 657,600 Existing Shares.

Existing Shares: 1,802,600

Shares Not Subject to Transfer Restrictions for purposes of Exhibit A of the Voting Agreement: 57,250 Shares with respect to the Willard M. Ware Q-TIP Trust and 32,880 Shares with respect to the Willard M. Ware Residual Trust.

Notices for purposes of Exhibit B of the Voting Agreement: Willard M. Ware Q-TIP Trust and the Willard M. Ware Residual Trust, c/o Bessemer Trust Company, Attn: Fred Sandstrom, 100 Woodbridge Center Drive, Woodbridge, NJ 07095-0980

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Acknowledged and Agreed:

Thames Water Aqua Holdings GmbH

By: /s/ Dr. Richard R. Klein

Name: Dr. Richard R. Klein
Title: Member of the Executive Board

By: /s/ Dr. Klaus Sturany

Name: Dr. Klaus Sturany
Title: Member of the Executive Board

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

American Water Works Company, Inc.
(Name of Issuer)

Common Stock, par value $1.25 per share
(Title of Class of Securities)

030411 10 2
(CUSIP Number)

Dr. Georg Muller
RWE Aktiengesellschaft
Opernplatz 1
D-45128 Essen, Germany
011 49-201-12-00

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

With a copy to:
Peter S. Wilson, Esq.
Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
(212) 474-1000

September 16, 2001
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Section 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. [ ]

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Page 1 of 13)
(Exhibit Index is at page 7)

CUSIP No. 030411 10 2

1	Names of Reporting Persons I.R.S. Identification Nos. of Above Persons (entities only) RWE AKTIENGESELLSCHAFT	
2	Check the Appropriate Box if a Member of a Group (See Instructions)	(a) [ ] (b) [ ]
3	SEC Use Only	
4	Source of Funds (See Instructions) WC, 00	
5	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	[ ]
6	Citizenship or Place of Organization Federal Republic of Germany	
Number of Shares Beneficially Owned by Each Reporting Person With	7 Sole Voting Power 0	
	8 Shared Voting Power 24,186,876	
	9 Sole Dispositive Power 0	
	10 Shared Dispositive Power 22,934,944	
11	Aggregate Amount Beneficially Owned by Each Reporting Person 24,186,876	
12	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	[ ]
13	Percent of Class Represented by Amount in Row (11) 24.2%	
14	Type of Reporting Person (See Instructions) CO	

CUSIP No. 030411 10 2

1	Names of Reporting Persons I.R.S. Identification Nos. of Above Persons (entities only) THAMES WATER AQUA HOLDINGS GMBH	
2	Check the Appropriate Box if a Member of a Group (See Instructions)	(a) [ ] (b) [ ]
3	SEC Use Only	
4	Source of Funds (See Instructions) WC, 00	
5	Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	[ ]
6	Citizenship or Place of Organization Federal Republic of Germany	

Number of Shares Beneficially Owned by Each Reporting Person With	7	Sole Voting Power 0
	8	Shared Voting Power 24,186,876
	9	Sole Dispositive Power 0
	10	Shared Dispositive Power 22,934,944

11	Aggregate Amount Beneficially Owned by Each Reporting Person 24,186,876	
12	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	[ ]
13	Percent of Class Represented by Amount in Row (11) 24.2%	
14	Type of Reporting Person (See Instructions) CO	

Item 1. Security and Issuer

This statement relates to the common stock, $1.25 par value per share ("Common Stock"), of American Water Works Company, Inc., a Delaware corporation ("AWW"), with its principal executive offices at 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, New Jersey 08043.

Item 2. Identity and Background

This statement is filed by RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany ("RWE"). The address of the principal office and the principal business of RWE is Opernplatz 1, D-45128 Essen, Germany. The principal business of RWE is that of a holding company for a leading international energy-based industrial conglomerate.

For information with respect to the identity and background of each director and executive officer of RWE, see Schedule A attached hereto.

This statement is also filed by Thames Water Aqua Holdings GmbH, a limited liability company organized under the laws of the Federal Republic of Germany ("Parent") and a wholly owned subsidiary of RWE. The address of the principal office and the principal business of Parent is Opernplatz 1, D-45128 Essen, Germany. The principal business of Parent is that of a holding company for a leading international water-based industrial conglomerate.

For information with respect to the identity and background of each director and executive officer of Parent, see Schedule B attached hereto.

During the last five years, none of RWE, Parent or, to the best of their knowledge, any person identified on Schedule A or B (i) has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration

Parent and the stockholders of AWW that are parties thereto (the "Stockholders") entered into a Voting Agreement dated as of September 16, 2001 (the "Voting Agreement," the terms of which are hereby incorporated by reference). The Stockholders were required to enter into the Voting Agreement in order to induce Parent to enter into the Agreement and Plan of Merger dated as of September 16, 2001, among RWE, Parent, Apollo Acquisition Company, a Delaware corporation ("Sub"), and AWW (the "Merger Agreement," the terms of which are hereby incorporated by reference) providing for the merger of Sub with and into AWW (the "Merger"), with AWW surviving the Merger as a wholly owned subsidiary of Parent. It is presently expected that the consideration to be paid by Parent to the holders of Common Stock pursuant to the Merger Agreement will be financed by RWE and Parent through the issuance of debt securities and cash on hand.

Item 4. Purpose of Transaction

Parent required the Stockholders to enter into the Voting Agreement in order to induce Parent to enter into the Merger Agreement. Pursuant to the terms of the Voting Agreement, the Stockholders have agreed, among other things, (i) to vote all the shares of Common Stock owned by them in favor of

the approval and adoption of the Merger Agreement and the Merger and against (a) any Takeover Proposal (as defined in the Merger Agreement), other than the Merger Agreement and the Merger; (b) any proposal, action or transaction, with certain exceptions, that would reasonably be expected to materially impede or delay the Merger, or materially adversely affect the Merger Agreement or the consummation of the Merger or (c) any amendment, with certain exceptions, to AWW's Restated Certificate of Incorporation or By-laws which amendment would reasonably be expected to materially impede or delay the Merger, or materially adversely affect the Merger Agreement or the consummation of the

Merger; and (ii) with certain exceptions, not to sell, transfer, pledge, encumber, assign or otherwise dispose of such shares, unless the transferee party agrees to be bound by the Voting Agreement. The Voting Agreement terminates upon the earlier to occur of (x) the completion of the Merger; (y) the termination of the Merger Agreement in accordance with its terms; or (z) with respect to any Stockholder, any amendment to the Merger Agreement that (A) is material and adverse to such Stockholder and (B) is executed subsequent to the date of the Voting Agreement. The name of each Stockholder and the number of outstanding shares of Common Stock held by such Stockholder and subject to the Voting Agreement as of September 16, 2001 are set forth on the signature pages thereto and are incorporated herein by reference.

In addition to providing for the Merger, the Merger Agreement provides, among other things, for changes to the board of directors, certificate of incorporation and by-laws of AWW at the effective time of the Merger. The Merger Agreement also restricts AWW from, among other things, engaging in certain transactions, including extraordinary corporate transactions (other than the Merger), making certain acquisitions, selling certain assets, incurring certain indebtedness, changing its capitalization in certain respects and paying certain dividends and otherwise requires AWW to operate in the ordinary course of business. In connection with the Merger, it is expected that the Common Stock will be delisted from all exchanges upon which it is listed and will become eligible for termination of registration under the Securities Exchange Act of 1934.

Item 5. Interest in Securities of the Issuer

(a) and (b) As of September 16, 2001, the shares subject to the Voting Agreement consisted of 24,186,876 shares of Common Stock, representing approximately 24.2% of the issued and outstanding shares of Common Stock as of September 10, 2001, as represented by AWW in the Merger Agreement.

By virtue of the Voting Agreement, Parent may be deemed to share with the Stockholders the power to vote or, with certain exceptions, dispose of shares of Common Stock subject to the Voting Agreement. However, Parent is not entitled to any rights as a stockholder of AWW as to the shares of Common Stock covered by the Voting Agreement.

By virtue of Parent being a wholly-owned subsidiary of RWE, RWE may be deemed to share with the Stockholders the power to vote or, with certain exceptions, dispose of shares of Common Stock subject to the Voting Agreement. However, RWE is not entitled to any rights as a stockholder of AWW as to the shares of Common Stock covered by the Voting Agreement.

Pursuant to Rule 13d-4 under the Act, RWE and Parent hereby state that this Schedule 13D shall not be deemed an admission that either RWE or

Parent is, for purposes of Section 13(d) of the Act, the beneficial owner of any equity securities of AWW.

(c) Except as described in this Schedule 13D, there have been no transactions in the shares of Common Stock effected by RWE, Parent or, to the best of their knowledge, any person identified on Schedule A or B, during the last sixty days.

(d) and (e) Not Applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

The information set forth under Items 4 and 5 above and the Exhibits attached hereto are incorporated herein by reference.

Item 7. Material to Be Filed as Exhibits

Exhibit 1: Agreement and Plan of Merger dated as of September 16, 2001, among RWE, Parent, Sub and AWW.

Exhibit 2: Voting Agreement dated as of September 16, 2001, among Parent and the Stockholders.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: September 25, 2001

RWE AKTIENGESELLSCHAFT

By: /s/ Georg Lambertz

Name: Georg Lambertz
Title: Senior Vice President Finance

By: /s/ Georg Muller

Name: Georg Muller
Title: General Counsel

THAMES WATER AQUA HOLDINGS GMBH

By: /s/ Dr. Richard Klein

Name: Dr. Richard Klein
Title: Managing Director

By: /s/ Dr. Klaus Sturany

Name: Dr. Klaus Sturany
Title: Managing Director

EXHIBIT INDEX

Exhibit No.	Document
Exhibit 1	Agreement and Plan of Merger dated as of September 16, 2001, among RWE Aktiengesellschaft, Thames Water Aqua Holdings GmbH, Apollo Acquisition Company and American Water Works Company, Inc.
Exhibit 2	Voting Agreement dated as of September 16, 2001, among Thames Water Aqua Holdings GmbH and the stockholders of American Water Works Company, Inc. that are parties thereto.

Schedule A

RWE's business is managed by an Executive Board currently consisting of six members. Under German law, the Executive Board has management responsibility for RWE and broad authority to take actions in the name of RWE, subject to the authority expressly reserved by the German Stock Corporation Law and by RWE's Articles of Association to the shareholders or the Supervisory Board. The following list sets forth the (i) name and (ii) citizenship of the members of RWE's Executive Board. In each case, the present principal occupation or employment and the name, principal business and the address of the corporation or other organization in which such employment is conducted is: Member of the Executive Board, RWE Aktiengesellschaft, holding company, Opernplatz 1, D-45128 Essen, Germany.

Dr. Richard R. Klein

Dr. Klein's country of citizenship is Germany.

Dr. Dietmar Kuhnt

Dr. Kuhnt's country of citizenship is Germany.

Dr. Gert Maichel

Dr. Maichel's country of citizenship is Germany.

Manfred Remmel

Mr. Remmel's country of citizenship is Germany.

Dr. Klaus Sturany

Dr. Sturany's country of citizenship is Austria.

Jan Zilius

Mr. Zilius's country of citizenship is Germany.

The Supervisory Board supervises the management of RWE by the Executive Board and has the responsibility of making whatever ongoing checks and inspections it deems appropriate and of reviewing such documents as it deems necessary or appropriate for the performance of its duties. The following list sets forth the (i) name, (ii) business address, (iii) present principal occupation or employment and the name, address and principal business (where applicable) of the corporation or organization in which such employment is conducted and (iv) citizenship of each member of RWE's Supervisory Board.

Dr. Paul Achleitner
Allianz Aktiengesellschaft
Koniginstrasse 28
80802 Munchen
Germany

Dr. Achleitner is a Member of the Board of Management of Allianz Aktiengesellschaft, Koniginstrasse 28, 80802 Munchen (insurance business). Dr. Achleitner's country of citizenship is Austria.

Carl-Ludwig von Boehm-Bezing
Deutsche Bank Aktiengesellschaft
Taunusanlage 12
60325 Frankfurt am Main
Germany

Mr. von Boehm-Bezing is the former Member of the Group Board of managing directors of Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main (banking business). Mr. von Boehm-Bezing's country of citizenship is Germany.

Frank Bsirske
ver.di Vereinte Dienstleistungsgewerkschaft e. V.
Potsdamer Platz 10
10785 Berlin
Germany

Mr. Bsirske is the Chairman of ver.di Vereinte

Dienstleistungsgewerkschaft e. V., Potsdamer Platz 10, 10785 Berlin, Germany (labor union). Mr. Bsirske's country of citizenship is Germany.

Burkhard Drescher
Stadt Oberhausen
Schwarzstr. 72
46042 Oberhausen
Germany

Mr. Drescher is the Lord Mayor of the City of Oberhausen, Stadt Oberhausen, Schwarzstr. 72, 46042 Oberhausen, Germany. Mr. Drescher's country of citizenship is Germany.

Johann Heiss
RWE Solutions Aktiengesellschaft
Landshuter Strasse 65
84030 Ergolding
Germany

Mr. Heiss is an electrician at RWE Solutions Aktiengesellschaft, Landshuter Strasse 65, 84030 Ergolding, Germany (service business). Mr. Heiss's country of citizenship is Germany

Ralf Hiltenkamp
Edelhoff Umwelt Services GmbH & Co. KG
Hegestuck 20
58640 Iserlohn
Germany

Mr. Hiltenkamp is a machine fitter at Edelhoff Umwelt Services GmbH & Co. KG, Hegestuck 20, 58640 Iserlohn, Germany (service business). Mr. Hiltenkamp's country of citizenship is Germany.

Heinz-Eberhard Holl
Landkreis Osnabruck
Am Scholerberg 1
49082 Osnabruck
Germany

Mr. Holl is the Chief Administrative Officer of Landkreis Osnabruck, Landkreis Osnabruck, Am Scholerberg 1, 49082 Osnabruck, Germany. Mr. Holl's country of citizenship is Germany.

Berthold Huber
IG Metall
Bezirk Baden-Wurttemberg
Holzelweg 2
70191 Stuttgart
Germany

Mr. Huber is the Head of the Baden-Wurttemberg district of IG Metall Trade Union, IG Metall, Bezirk Baden-Wurttemberg , Holzelweg 2,

70191 Stuttgart, Germany (labor union). Mr. Huber's country of citizenship is Germany.

Berthold Krell
RWE Net Aktiengesellschaft
Netzregion Sud
Friedrichstrasse 60
57072 Siegen
Germany

Mr. Krell is a chief fitter at RWE Net Aktiengesellschaft, Netzregion Sud, Friedrichstrasse 60, 57072 Siegen, Germany (energy business). Mr. Krell's country of citizenship is Germany.

Dr. Gerhard Langemeyer
Stadt Dortmund
Friedensplatz 1
44135 Dortmund
Germany

Dr. Langemeyer is the Lord Mayor of the City of Dortmund, Stadt Dortmund, Friedensplatz 1, 44135 Dortmund, Germany. Dr. Langemeyer's country of citizenship is Germany.

Dr. h.c. Friedel Neuber
Westdeutsche Landesbank Girozentrale
Herzogstrasse 15
40217 Dusseldorf
Germany

Dr. Neuber is the former President and CEO of Westdeutsche Landesbank Girozentrale, Herzogstrasse 15, 40217 Dusseldorf, Germany (banking business). Dr. Neuber's country of citizenship is Germany.

Dr. Wolfgang Reiniger
Stadt Essen
Rathaus
45121 Essen
Germany

Dr. Reiniger is the Lord Mayor of the City of Essen, Rathaus, 45121 Essen, Germany. Dr. Reiniger's country of citizenship is Germany.

Gunter Reppien
RWE Power Aktiengesellschaft
Am Hilgenberg
49811 Lingen
Germany

Mr. Rippien is a chief fitter at RWE Power Aktiengesellschaft, Am Hilgenberg, 49811 Lingen, Germany (energy business). Mr. Reppien's country of citizenship is Germany.

Bernhard von Rothkirch
RWE Rheinbraun AG
Tagebau Inden
Durwisserstrasse
52249 Eschweiler
Germany

Mr. von Rothkirch is a chief engineer at RWE Rheinbraun AG, Tagebau Inden, Durwisserstrasse, 52249 Eschweiler, Germany (lignite business). Mr. von Rothkirch's country of citizenship is Germany.

Dr. Manfred Schneider
Bayer AG
51368 Leverkusen
Germany

Dr. Schneider is the President and CEO of Bayer AG, 51368 Leverkusen, Germany (chemical business). Dr. Schneider's country of citizenship is Germany.

Ernst-W. Stuckert
RWE-DEA Aktiengesellschaft fur Mineraloel und Chemie
Uberseering 40
22297 Hamburg
Germany

Mr. Stuckert is the Commercial Officer of RWE-DEA Aktiengesellschaft fur Mineraloel und Chemie, Uberseering 40, 22297 Hamburg, Germany (oil and petrochemical business). Mr. Stuckert's country of citizenship is Germany.

Klaus-Dieter Sudhofer
IG Bergbau, Chemie, Energie
Konigsworther Platz 6
30167 Hannover
Germany

Mr. Sudhofer is the Trade Union Secretary Deputy Chairman, IG Bergbau, Chemie, Energie Trade Union, Konigsworther Platz 6, 30167 Hannover, Germany (labor union). Mr. Sudhofer's country of citizenship is Germany.

Dr. Alfons Friedrich Titzrath
Dresdner Bank AG
Konigsallee 37
40212 Dusseldorf
Germany

Dr. Titzrath is a member of the Supervisory Board of Dresdner Bank AG, Konigsallee 37, 40212 Dusseldorf, Germany (banking business). Dr. Titzrath's country of citizenship is Germany.

Prof. Karel Van Miert
University Nyenrode
Straatweg 25
3621 BG Breukelen
Netherlands

Mr. Van Miert is the President of the University Nyenrode, Straatweg 25, 3621 BG Breukelen, Netherlands (education). Mr. Van Miert's country of citizenship is Belgium.

Erwin Winkel
Tagebau Hambach
Heideweg
52382 Niederzier
Germany

Mr. Winkel is a power systems electronics engineer at Tagebau Hambach, Heideweg, 52382 Niederzier, Germany (lignite business). Mr. Winkel's country of citizenship is Germany.

Schedule B

Parent is a German limited liability company, known as a Gesellschaft mit beschraenkter Haftung. As such, Parent's business is managed by three managing directors who are functionally equivalent to the directors and executive officers of a corporation. The following list sets forth the (i) name (ii) business address and (iii) citizenship of each of Parent's managing directors. In each case, unless otherwise indicated, the present principal occupation or employment and the name, principal business and address of the corporation or other organization in which such employment is conducted is: Member of the Executive Board, RWE Aktiengesellschaft, holding company, Opernplatz 1, D-45128 Essen, Germany.

Dr. Richard R. Klein
Thames Water Aqua Holdings GmbH
Opernplatz 1
D-45128 Essen
Germany

Dr. Klein's country of citizenship is Germany.

Dr. Klaus Sturany
Thames Water Aqua Holdings GmbH
Opernplatz 1
D-45128 Essen
Germany

Dr. Sturany's country of citizenship is Austria.

William Alexander
Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB

United Kingdom

Mr. Alexander is the Chief Executive Officer of Thames Water Plc, Clearwater Court, Vastern Road, Reading RG1 8DB, United Kingdom (water and wastewater services). Mr. Alexander's country of citizenship is the United Kingdom.

Exhibit 1
CONFORMED COPY

AGREEMENT AND PLAN OF MERGER

Among

RWE AKTIENGESELLSCHAFT,

THAMES WATER AQUA HOLDINGS GMBH,

APOLLO ACQUISITION COMPANY

and

AMERICAN WATER WORKS COMPANY, INC.

Dated as of September 16, 2001

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EXHIBIT A Certificate of Incorporation

AGREEMENT AND PLAN OF MERGER dated as of September 16, 2001, by and among RWE AKTIENGESELLSCHAFT, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), THAMES WATER AQUA HOLDINGS GMBH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), APOLLO ACQUISITION COMPANY, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and AMERICAN WATER WORKS COMPANY, INC., a Delaware corporation (the "Company").

WHEREAS the Board of Directors of each of the Company and Sub has approved and declared advisable, the Supervisory Board of Guarantor has approved and deemed advisable, and the Managing Directors of Parent have approved and declared advisable, this Agreement and the merger of Sub with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of Common Stock, par value $1.25 per share, of the Company (the "Company Common Stock") not owned by Parent, Sub or the Company, other than the Appraisal Shares (as defined in Section 2.01(d)), will be converted into the right to receive $46.00 in cash;

WHEREAS simultaneously with the execution and delivery of this Agreement, Parent and certain stockholders of the Company (the "Specified Company Stockholders") are entering into a voting agreement (the "Company Voting Agreement") pursuant to which the Specified Company Stockholders are agreeing to take certain actions in furtherance of the Merger; and

WHEREAS Guarantor, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

The Merger

SECTION 1.01. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), Sub shall be merged with and into the Company at the Effective Time (as defined in Section 1.03). At the Effective Time, the separate corporate existence of Sub shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of Sub in accordance with the DGCL.

SECTION 1.02. Closing. Upon the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the "Closing") shall take place at 11:00 a.m., New

York time, on the second business day after the satisfaction or waiver of the conditions set forth in Article VI (other than those that by their terms cannot be satisfied until the time of the Closing), at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York 10019, or at such other time, date or place agreed to in writing by Parent and the Company; provided, however, that if all the conditions set forth in Article VI shall not have been satisfied or waived on such second business day, then the Closing shall take place on the first business day on which all such conditions shall have been satisfied or waived. The date on which the Closing occurs is referred to in this Agreement as the "Closing Date."

SECTION 1.03. Effective Time. Upon the terms and subject to the conditions set forth in this Agreement, as soon as practicable on or after the Closing Date, a certificate of merger or other appropriate documents (in any such case, the "Certificate of Merger") shall be duly prepared and executed by the parties in accordance with the relevant provisions of the DGCL and filed with the Secretary of State of the State of Delaware. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such subsequent time or date as Parent and the Company shall agree and specify in the Certificate of Merger. The time at which the Merger becomes effective is referred to in this Agreement as the "Effective Time."

SECTION 1.04. Effects of the Merger. The Merger shall have the effects set forth in Section 259 of the DGCL.

SECTION 1.05. Certificate of Incorporation and By-laws. (a) The Restated Certificate of Incorporation of the Company shall be amended at the Effective Time to read in the form of Exhibit A and, as so amended, such Restated Certificate of Incorporation shall be the Restated Certificate of Incorporation of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

(b) The By-laws of Sub as in effect immediately prior to the Effective Time shall be the By-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

SECTION 1.06. Directors. (a) The directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

(b) Guarantor shall take all necessary action to cause J. James Barr to be elected as a director, as of the Effective Time, of Thames Water Plc ("Thames").

(c) Guarantor shall take all necessary action to cause Marilyn Ware to be elected as a member, as of the Effective Time, of the Thames Water International Advisory Council.

SECTION 1.07. Officers. The officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE II

Conversion of Securities

SECTION 2.01. Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of capital stock of the Company or Sub:

(a) Capital Stock of Sub. Each issued and outstanding share of common stock of Sub shall be converted into and become one fully paid and nonassessable share of common stock, par value $1.00 per share, of the Surviving Corporation.

(b) Cancelation of Treasury Stock and Parent-Owned Stock. Each share of Company Common Stock that is owned by the Company, as treasury stock, or by Parent or Sub immediately prior to the Effective Time shall automatically be canceled and shall cease to exist and no consideration shall be delivered or deliverable in exchange therefor.

(c) Conversion of Company Common Stock. Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled in accordance with Section 2.01(b) and the Appraisal Shares) shall be converted into the right to receive $46.00 in cash without interest (the "Merger Consideration"). At the Effective Time all such shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of a certificate that immediately prior to the Effective Time represented any such shares (a "Certificate") shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any dividends declared and unpaid thereon payable to holders of record thereof as of a record date preceding the Effective Time. Following the Effective Time, upon surrender of Certificates in accordance with Section 2.02, the Surviving Corporation shall pay to the holders of Certificates as of the Effective Time any unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C).

(d) Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, shares (the "Appraisal Shares") of Company Common Stock issued and outstanding immediately prior to the Effective Time that are held by any holder who is entitled to demand and properly demands appraisal of such shares pursuant to, and who complies in all respects with, the provisions of Section 262 of the DGCL ("Section 262") shall not be converted into the right to receive the Merger Consideration as provided in

Section 2.01(c), but instead such holder shall be entitled to payment of the fair value of such shares in accordance with the provisions of

Section 262. At the Effective Time, all Appraisal Shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of Appraisal Shares shall cease to have any rights with respect thereto, except the right to receive the fair value of such shares in accordance with the provisions of Section 262. Notwithstanding the foregoing, if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under Section 262 or a court of competent jurisdiction shall determine that such holder is not entitled to the relief provided by Section 262, then the right of such holder to be paid the fair value of such holder's Appraisal Shares under Section 262 shall cease and each such Appraisal Share shall be deemed to have been converted at the Effective Time into, and shall have become, the right to receive the Merger Consideration as provided in Section 2.01(c). The Company shall serve prompt notice to Parent of any demands for appraisal of any shares of Company Common Stock, and Parent shall have the right to participate in and direct all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands, or agree to do any of the foregoing.

SECTION 2.02. Exchange of Certificates. (a) Paying Agent. Prior to the Effective Time, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the payment of the Merger Consideration upon surrender of Certificates (the "Paying Agent"). Parent shall take all steps necessary to enable, and shall cause, the Surviving Corporation to provide to the Paying Agent immediately following the Effective Time all the cash necessary to pay for the shares of Company Common Stock converted into the right to receive the Merger Consideration pursuant to Section 2.01(c), plus any amounts payable in respect of unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C) (such cash being hereinafter referred to as the "Exchange Fund").

(b) Exchange Procedure. As soon as reasonably practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a Certificate (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates held by such person shall pass, only upon proper delivery of the Certificates to the Paying Agent and shall be in customary form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancelation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash payable in respect of the shares formerly represented by such Certificate pursuant to Section 2.01(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the stock transfer books of the

Company, the proper amount of cash may be paid in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise

be in proper form for transfer and the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. No interest shall be paid or shall accrue on the cash payable upon surrender of any Certificate.

(c) No Further Ownership Rights in Company Common Stock. All cash paid upon the surrender of a Certificate in accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock formerly represented by such Certificate. At the close of business on the day on which the Effective Time occurs the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Paying Agent for transfer or any other reason, they shall be canceled and exchanged as provided in this Article II.

(d) Termination of Exchange Fund. Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock for one year after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation for payment of its claim for Merger Consideration.

(e) No Liability. None of Parent, the Surviving Corporation or the Paying Agent shall be liable to any person in respect of any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. If any Certificates shall not have been surrendered prior to three years after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration would otherwise escheat to or became the property of any Governmental Entity (as defined in Section 3.01(d)), any such Merger Consideration in respect thereof shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(f) Investment of Exchange Fund. The Paying Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis; provided, however, that such investments shall be in (i) obligations of or guaranteed by the United States of America and backed by the full faith and credit of the United States of America, (ii) commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, (iii) certificates of deposit maturing not more than 180 days after the date of purchase issued by a bank organized under the laws of the United States or any state thereof having a combined capital and

surplus of at least $500,000,000 or (iv) a money market fund having assets of at least $3,000,000,000. Any interest and other income resulting from such investments shall be paid to Parent.

(g) Lost Certificates. If any Certificate shall have been lost,

stolen, defaced or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, defaced or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent shall pay in respect of such lost, stolen, defaced or destroyed Certificate the Merger Consideration.

(h) Withholding Rights. Parent, the Surviving Corporation or the Paying Agent shall be entitled to deduct and withhold any applicable taxes from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock.

SECTION 2.03. Redemption of Preferred Stock and Preference Stock. On or prior to the date on which the Effective Time occurs, but in any event prior to the Effective Time, the Company shall redeem (the "Stock Redemption") (i) each issued and outstanding share of its Cumulative Preferred Stock, 5% Series, par value $25.00 per share (the "Company 5% Cumulative Preferred Stock"), for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 6 ("Section 6") of Division A of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 6) and (ii) each issued and outstanding share of its 5% Cumulative Preference Stock, par value $25.00 per share (the "Company 5% Cumulative Preference Stock" and, together with the Company 5% Cumulative Preferred Stock and the Company Common Stock, the "Company Capital Stock"), for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 5 ("Section 5") of Division B of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 5) (the redemption price for the Company 5% Cumulative Preferred Stock and the Company 5% Cumulative Preference Stock being referred to as the "Redemption Price").

ARTICLE III

Representations and Warranties

SECTION 3.01. Representations and Warranties of the Company. The Company represents and warrants to Parent and Sub as follows:

(a) Organization, Standing and Power. Each of the Company and each of its subsidiaries (as defined in Section 8.03) (i) is duly organized, validly existing and in good

standing under the laws of the jurisdiction of its organization, (ii) has all requisite corporate power and authority to carry on its business as now being conducted and (iii) except as set forth in Section 3.01(a) of the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), is duly qualified or licensed to do business and is in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be

so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to have a material adverse effect (as defined in Section 8.03). The Company has made available to Parent and its representatives true and complete copies of (A) the Restated Certificate of Incorporation and By-laws of the Company by reference to the Filed SEC Documents (as defined in Section 3.01(e)), in each case as amended to the date of this Agreement and (B) the minutes of all meetings of the stockholders, the Board of Directors and each committee of the Board of Directors of the Company since June 1, 1998.

(b) Subsidiaries. Section 3.01(b)(i) of the Company Disclosure Schedule contains a true and complete list of each Significant Subsidiary (as defined in Section 8.03) of the Company as of the date of this Agreement, including its jurisdiction of organization, the Company's interest therein and a brief description of the principal line or lines of business conducted by each such Significant Subsidiary. Except as set forth in Section 3.01(b)(i) of the Company Disclosure Schedule, all the issued and outstanding shares of capital stock of, or other equity or voting interests in, each subsidiary of the Company as of the date of this Agreement are owned by the Company, by another wholly owned subsidiary of the Company or by the Company and another wholly owned subsidiary of the Company, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens"), and are duly authorized, validly issued, fully paid and nonassessable. Except for the capital stock of, or other equity or voting interests in, its subsidiaries and as set forth in Section 3.01(b)(ii) of the Company Disclosure Schedule, as of the date of this Agreement, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interests in, any corporation, partnership, joint venture, association, limited liability company or other entity.

(c) Capital Structure. The authorized capital stock of the Company consists of (i) 300,000,000 shares of Company Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value $25.00 per share (the "Company Cumulative Preferred Stock"), of which 101,777 shares have been designated as Company 5% Cumulative Preferred Stock, (iii) 750,000 shares of Cumulative Preference Stock, par value $25.00 per share (the "Company Cumulative Preference Stock"), of which 365,158 shares have been designated as Company 5% Cumulative Preference Stock and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value $35.00 per share (the "Company Cumulative Preferential Stock"). As of the close of business on September 10, 2001, (1) 99,817,628 shares of Company Common Stock (excluding shares held by the Company as treasury shares) were issued and outstanding, (2) 63,693 shares of Company Common Stock were held by the Company as treasury shares, (3) 2,232,100

shares of Company Common Stock were reserved for issuance pursuant to the Company's 2000 Stock Award and Incentive Plan and the Company's Long-Term Performance-Based Incentive Plan (such plans, collectively, the "Company Stock Plans"), of which 905,751 shares were subject to outstanding Company Stock Options (as defined below), (4) the following number of shares of Company Common Stock were reserved (or registered with the SEC (as defined in Section 3.01(d)) for issuance pursuant to each of the following Company Benefit Plans (as defined below): 876,125 shares under the Savings Plan For Employees of American Water Works Company, Inc. and its Designated Subsidiaries, 942,157 shares under the Employees' Stock

Ownership Plan of American Water Works Company, Inc. and its Designated Subsidiaries, 50,000 shares under the Company's Deferred Compensation Plan, 10,000 shares under the Company's Director Deferred Compensation Plan and 1,755,049 shares under the Company's Dividend Reinvestment and Stock Purchase Plan (collectively, the "Other Company Stock Plans"), (5) 80,865,863 shares of Company Common Stock were reserved for issuance in connection with the rights (the "Company Rights") issued pursuant to the Rights Agreement dated as of February 18, 1999, as amended as of June 1, 2000 (as amended from time to time (the "Company Rights Agreement")), between the Company and BankBoston N.A. (presently known as Fleet National Bank), as Rights Agent, (6) 101,777 shares of Company 5% Cumulative Preferred Stock were issued and outstanding, (7) 365,158 shares of Company 5% Cumulative Preference Stock were issued and outstanding, (8) no shares of Company Cumulative Preferred Stock (other than the Company 5% Cumulative Preferred Stock) were issued and outstanding, (9) no shares of Company Cumulative Preference Stock (other than the Company 5% Cumulative Preference Stock) were issued and outstanding and (10) no shares of Company Cumulative Preferential Stock were issued and outstanding. There are no outstanding stock appreciation rights or other rights that are linked to the price of Company Common Stock granted under any Company Stock Plan whether or not granted in tandem with a related Company Stock Option (as defined below). No shares of Company Capital Stock are owned by any subsidiary of the Company. As of the close of business on September 10, 2001, there were outstanding options to purchase Company Common Stock granted under the Company Stock Plans (collectively, the "Company Stock Options") to purchase 905,751 shares of Company Common Stock with exercise prices on a per share basis lower than the Merger Consideration, and the weighted average exercise price of such Company Stock Options was equal to $23.65. Except as set forth above, as of the close of business on September 10, 2001, no shares of capital stock of, or other equity or voting interests in, the Company, or options, warrants or other rights to acquire any such stock or securities, were issued, reserved for issuance or outstanding. During the period from September 10, 2001 to the date of this Agreement, (x) there have been no issuances by the Company of shares of capital stock of, or other equity or voting interests in, the Company other than issuances of shares of Company Common Stock pursuant to the exercise of Company Stock Options outstanding on such date in accordance with their terms as in effect on the date of this Agreement and (y) there have been no issuances by the Company of options, warrants or other rights to acquire shares of capital stock or other equity or voting interests from the Company. All outstanding shares of capital stock of the Company are, and all shares that may be issued pursuant to the Company Stock Plans and Other Company Stock Plans will be, when

issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of the Company or any of its subsidiaries, and, except as set forth above, no securities or other instruments or obligations of the Company or any of its subsidiaries the value of which is in any way based upon or derived from any capital or voting stock of the Company, having in any such case at any time (whether actual or contingent) the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company or any of its subsidiaries may vote. Except as set forth above and except as specifically permitted under Section 4.01(a) (including as set forth in

Section 4.01(a)(ii) of the Company Disclosure Schedule), there are no Contracts (as defined in Section 3.01(d)) of any kind to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound obligating the Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of, or other equity or voting interests in, or securities convertible into, or exchangeable or exercisable for, shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries or obligating the Company or any of its subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right or Contract. Except for the Stock Redemption and the redemption terms of any preferred stock of any of the Company's subsidiaries and as permitted by Section 4.01(a)(i)(y), there are not any outstanding contractual obligations of the Company or any of its subsidiaries to (I) repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries as of the date of this Agreement or (II) vote or dispose of any shares of the capital stock of, or other equity or voting interests in, any of the Company's subsidiaries as of the date of this Agreement. The copy of the Company Rights Agreement on file with the SEC (as defined in Section 3.01(d)) as an exhibit to the Form 8-A Registration Statement of the Company filed with the SEC on March 1, 1999, as amended by the amendment thereto on file with the SEC as an exhibit to the Form 8-A Registration Statement of the Company filed on June 1, 2000, is complete and correct.

(d) Authority; Noncontravention. (i) The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Stockholder Approval (as defined in Section 3.01(n)) and the Company Required Consents (as defined below), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby subject, in the case of the consummation of the Merger, to obtaining the Stockholder Approval (assuming consummation of the Stock Redemption). This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. The Board of Directors of the Company, at a meeting duly called and held at which all directors of the Company were present, duly and unanimously adopted

resolutions (A) approving the Stock Redemption and the Company Voting Agreement and approving and declaring advisable this Agreement, the Merger and the other transactions contemplated hereby, (B) directing that this Agreement be submitted to a vote at a meeting of the Company's stockholders and (C) recommending that the Company's stockholders adopt this Agreement. In its determination of whether the Merger is in the best interests of the Company's stockholders, the Board of Directors of the Company has complied with the provisions of Article Tenth of the Restated Certificate of Incorporation of the Company. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof do not and will not conflict with, or

result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of the Company or any of its subsidiaries under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (x) the Restated Certificate of Incorporation or By-laws of the Company or the certificate of incorporation or by-laws (or similar organizational documents) of any of its subsidiaries, (y) subject to obtaining the third party consents set forth in Section 3.01(d) of the Company Disclosure Schedule, any loan or credit agreement, bond, debenture, note, mortgage, indenture, guarantee, lease or other contract, agreement, instrument, arrangement or understanding, whether oral or written (each, including all amendments thereto, a "Contract"), to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject or (z) subject to obtaining the Company Required Consents and the receipt of the Stockholder Approval and the other matters referred to in the following sentence, any (A) statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective properties or assets ("Applicable Law"), (B) judgment, order or decree applicable to the Company or any of its subsidiaries or their respective properties or assets ("Judgment"), or (C) Permit (as defined in Section 3.01(h)) other than, in the case of clauses (y) and (z), any such conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that individually or in the aggregate would not reasonably be expected to have a material adverse effect. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any domestic or foreign (whether national, federal, state, provincial, local or otherwise) government or any court, administrative agency or commission or other governmental or regulatory authority or agency (including a state public utility commission, state public service commission or similar state regulatory body (each, a "PUC")) (each a "Governmental Entity"), is required by or with respect to the Company or any of its subsidiaries in connection with (I) the execution and delivery of this Agreement by the Company, (II) the execution and delivery of the Company Voting Agreement or (III) the consummation of the transactions contemplated hereby and thereby or compliance with the provisions hereof and thereof, except for (1) the filing of a premerger notification and report form by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law

or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws or regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with the Securities and Exchange Commission (the "SEC") of a proxy statement relating to the adoption by the Company's stockholders of this Agreement (as amended or supplemented from time to time, the "Proxy Statement") and such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of

Delaware and appropriate documents with the relevant authorities of other states in which the Company or any of its subsidiaries is qualified to do business, (4) any filings required under the rules and regulations of the New York Stock Exchange ("NYSE"), (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any state departments of public health or departments of health or similar state regulatory bodies or of any federal or state regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (collectively, "Health Agencies"), (7) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any non-U.S. Governmental Entity due solely to the identity or involvement of Guarantor, Parent, Sub or any of their respective subsidiaries and (8) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not reasonably be expected to have a material adverse effect. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices (x) described (i) in the foregoing clause (5) that are required to be obtained or made by the Company or any of its subsidiaries and (ii) in the foregoing clause (6) the failure of which to obtain or make would reasonably be expected to have a material adverse effect or (y) of any Governmental Entity that would not be required to be obtained or made by the Company or any of its subsidiaries but for an acquisition of a business or asset by the Company or any of its subsidiaries that is consummated after the date of this Agreement the failure of which to obtain or make would reasonably be expected to have a material adverse effect are hereinafter referred to as the "Company Required Consents."

(ii) The Company and the Board of Directors of the Company have taken all action necessary to (A) render the Company Rights inapplicable to the execution, delivery and performance of this Agreement and the Company Voting Agreement and to the consummation of the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) and (B) ensure that (x) neither Parent nor any of its affiliates or associates is or will become an "Acquiring Person" (as defined in the Company Rights Agreement) by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b), (y)

neither a "Distribution Date" nor a "Triggering Event" (each as defined in the Company Rights Agreement) shall occur by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b) and (z) except as set forth in Section 3.01(d)(ii) of the Company Disclosure Schedule, the Company Rights shall terminate or be redeemed prior to the Effective Time.

(e) SEC Documents. The Company has filed with the SEC all forms, reports, schedules, statements and other documents required to be filed with the SEC by the Company since January 1, 2000 (together with all

information incorporated therein by reference, the "SEC Documents"). Except as set forth in Section 3.01(e) of the Company Disclosure Schedule, no subsidiary of the Company is required to file any form, report, schedule, statement or other document with the SEC. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents at the time they were filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any SEC Document filed and publicly available prior to the date of this Agreement (a "Filed SEC Document") has been revised or superseded by a later filed Filed SEC Document, none of the SEC Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including the related notes) included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal, recurring year-end audit adjustments).

(f) Absence of Certain Changes or Events. Since December 31, 2000, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course consistent with past practice and other than as set forth in the Filed SEC Documents, there has not been (i) prior to the date of this Agreement, any state of facts, change, development, effect, condition or occurrence that individually or in the aggregate constitutes, has had, or would reasonably be expected to have, a material adverse effect, (ii) prior to the date of this Agreement, any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of

the Company's or any of its subsidiaries' capital stock or other equity or voting interests, except for dividends by a wholly owned subsidiary of the Company to its shareholders and except for the regular quarterly cash dividend with respect to (w) preferred stock of the Company's subsidiaries, in accordance with the terms thereof, (x) the Company Common Stock in the amount of $0.235 per share, in accordance with the Company's past dividend policy, (y) the Company 5% Cumulative Preferred Stock in the amount of $0.3125 per share, in accordance with the terms thereof, and (z) the Company 5% Cumulative Preference Stock in the amount of $0.3125 per share, in accordance with the terms thereof, (iii) prior to the date of this Agreement, any purchase, redemption or other acquisition of any shares of capital stock of, or other equity or voting

interests in, the Company or any options, warrants, calls or rights to acquire such shares or other interests, (iv) prior to the date of this Agreement, any split, combination or reclassification of any of the Company's capital stock or other equity or voting interests or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of, or other equity or voting interests in, the Company, (v) prior to the date of this Agreement, any material unfunded liability incurred as a result of any entry by the Company or any of its subsidiaries into, or any amendment of, any Company Benefit Plan (as defined in Section 3.01(k)), (vi) prior to the date of this Agreement, any change in financial or tax accounting methods, principles or practices by the Company or any of its subsidiaries, except insofar as may have been required by a change in GAAP or Applicable Law, (vii) except as set forth in Section 3.01(f)(vii) of the Company Disclosure Schedule, prior to the date of this Agreement, any material election with respect to taxes by the Company or any of its subsidiaries or any settlement or compromise of any material tax liability or refund or (viii) prior to the date of this Agreement, any revaluation by the Company or any of its subsidiaries of any of the material assets of the Company or any of its subsidiaries.

(g) Litigation. Except as set forth in the Filed SEC Documents and except as set forth in Section 3.01(g) of the Company Disclosure Schedule, there is no suit, claim, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective assets that individually or in the aggregate would reasonably be expected to have a material adverse effect, nor is there any Judgment of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of the Company, investigation, notice of violation, order of forfeiture or complaint by any Governmental Entity against, the Company or any of its subsidiaries that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(h) Compliance with Laws. Except as set forth in Section 3.01(h) of the Company Disclosure Schedule, and except with respect to Environmental Laws (as defined in Section 3.01(j)), the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and taxes, which are the subject of Sections 3.01(j), 3.01(k) and 3.01(l), respectively, or as set forth in the Filed SEC Documents, the Company and its subsidiaries are in compliance with all Applicable Laws and Judgments of any Governmental Entity applicable to their businesses or operations, except for instances of noncompliance that individually or in the aggregate would not reasonably be expected to

have a material adverse effect. Neither the Company nor any of its subsidiaries has received, since January 1, 2001, a written notice or other written communication alleging a possible violation by the Company or any of its subsidiaries of any Applicable Law or Judgment of any Governmental Entity applicable to its businesses or operations, except for written notices or other written communications alleging possible violations that individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries have in effect all material permits, licenses, variances, exemptions, authorizations, franchises, orders and approvals of all Governmental Entities (collectively, "Permits"), necessary or advisable for them to own, lease or operate their properties and assets and to

carry on their businesses as now conducted, except for those which the failure to obtain individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries is in violation of, default (with or without notice or lapse of time or both) under, or event giving to any other person any right of termination, amendment or cancelation of, with or without notice or lapse of time or both, any Permit of the Company or any of its subsidiaries, except for any such violations, defaults or events that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(i) [Intentionally omitted].

(j) Environmental Matters. Except as disclosed in the SEC Documents and as set forth in Section 3.01(j) of the Company Disclosure Schedule, and except for such matters that individually or in the aggregate would not reasonably be expected to have a material adverse effect: (i) each of the Company and its subsidiaries possesses all Environmental Permits (as defined below) necessary to conduct its businesses and operations; (ii) each of the Company and its subsidiaries is in compliance with all applicable Environmental Laws and all applicable Environmental Permits, and none of the Company or its subsidiaries has received any written communication from any Governmental Entity or other person that alleges that the Company or any of its subsidiaries has violated or is liable under any Environmental Law or Environmental Permit; (iii) there are no Environmental Claims (as defined below) pending or, to the knowledge of the Company, threatened in writing (A) against the Company or any of its subsidiaries or (B) against any person whose liability for any such Environmental Claim the Company or any of its subsidiaries has retained or assumed, either contractually or by operation of law; and (iv) to the knowledge of the Company, there have been no Releases (as defined below) of any Hazardous Materials (as defined below) that would reasonably be expected to form the basis of any Environmental Claim or any liability under any Environmental Law or Environmental Permit.

For the purposes of this Agreement: (A) "Environmental Claims" means any and all administrative, regulatory or judicial actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any Governmental Entity or other person alleging liability arising out of, based on or related to (x) the presence, Release or threatened Release of, or exposure to, any Hazardous Materials at any location, whether or not owned, operated, leased or

managed by the Company or any of its subsidiaries, or (y) any other circumstances forming the basis of any violation or alleged violation of any Environmental Law or Environmental Permit; (B) "Environmental Laws" means all laws, rules, regulations, orders, decrees, common law, judgments or binding agreements issued, promulgated or entered into by or with any Governmental Entity relating to pollution or protection of the environment (including ambient air, surface water, groundwater, soils or subsurface strata) or to health and safety as affected by the exposure to Hazardous Materials, including laws and regulations relating to the presence of, exposure to, Release of or threatened Release of Hazardous Materials or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, recycling, transport, handling of, or the arrangement for such activities with respect to,

Hazardous Materials; (C) "Environmental Permits" means all permits, licenses, certificates, registrations, waivers, exemptions and other authorizations required under applicable Environmental Laws; (D) "Hazardous Materials" means all hazardous, toxic, explosive or radioactive substances, wastes or other pollutants, including (x) petroleum, petroleum distillates and all other hydrocarbons, asbestos or asbestos-containing material, and (y) all other substances or wastes of any nature prohibited, limited or regulated as harmful to or polluting of or in order to protect the environment; and (E) "Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

(k) ERISA Compliance. (i) Section 3.01(k)(i) of the Company Disclosure Schedule contains a true and complete list of any benefit, employment, personal services, collective bargaining, compensation, change in control, severance, time-off or perquisite agreement, plan, policy or other similar arrangement, (A) covering one or more current or former employees or directors of, or current or former independent contractors with respect to, the Company or any of its subsidiaries (each, a "Participant"), and maintained by the Company and/or one or more of its subsidiaries or (B) with respect to which the Company and/or any of its subsidiaries has or would reasonably be expected to have any liability (collectively, "Company Benefit Plans"). The Company has provided or made available to Parent true and complete copies of (1) each Company Benefit Plan (or, in the case of any unwritten Company Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 required to be filed with the United States Internal Revenue Service (the "IRS") with respect to each Company Benefit Plan (if any such report was required), (3) the most recent summary plan description for each Company Benefit Plan for which such summary plan description is required and (4) each trust agreement and group annuity contract relating to any Company Benefit Plan; provided that any of the foregoing not provided to Parent as of the date of this Agreement shall be delivered to Parent promptly but in no event later than 30 days following the date of this Agreement. Each Company Benefit Plan has been administered in accordance with its terms, except where the failure so to be administered individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries and all the Company Benefit Plans are in compliance with all applicable provisions of ERISA and the Code, except for instances of possible noncompliance that

individually or in the aggregate would not reasonably be expected to have a material adverse effect. Except as set forth in Section 3.01(k)(i) of the Company Disclosure Schedule, all Company Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received favorable determination letters from the IRS to the effect that such Company Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked nor, to the knowledge of the Company, has revocation been threatened, and nothing has occurred since the date of such letter that would reasonably be expected to adversely affect its qualification. There is not pending or, to the knowledge of the Company, threatened any litigation relating to the Company Benefit Plans that individually or in the aggregate would reasonably be expected

to have a material adverse effect.

(ii) Neither the Company nor any of its subsidiaries, nor any Company Benefit Plan which is subject to ERISA, has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility that could subject the Company, any of its subsidiaries or any officer of the Company or any of its subsidiaries to the tax or penalty on prohibited transactions imposed by such Section 4975 or to any liability under Section 502(i) or 502(1) of ERISA, except for any such tax, penalty or liability that individually or in the aggregate would not reasonably be expected to have a material adverse effect. All contributions and premiums required to be made under the terms of any Company Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Filed SEC Documents, except as, individually or in the aggregate, would reasonably be expected to have a material adverse effect.

(iii) Except as, individually or in the aggregate, would not reasonably be expected to have a material adverse effect, the deduction of any amount payable pursuant to the terms of the Company Benefit Plans would not reasonably be expected to be subject to disallowance under Section 162(m) (before giving effect to Section 162(m)(4)(F)) of the Code for taxable years of the Company ending prior to the date hereof.

(iv) Section 3.01(k)(iv) of the Company Disclosure Schedule contains a list of all Company Benefit Plans which, as a consequence of the consummation of the Merger, are reasonably expected to (x) entitle any Participant to severance pay and/or (y) accelerate the time of payment or vesting or trigger any payment or funding (whether through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation.

(v) The Company has provided to Parent a true and complete copy of the Report (as hereinafter defined) given to the compensation committee of the

board of directors of the Company containing the estimates of any payments and/or benefits that would reasonably be expected to be received (whether in cash or property or the vesting of property) as a result of the Merger or any other transaction contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) by any Participant who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) (each, a "Primary Company Executive") under any Company Benefit Plan (including any additional payment from the Company or any of its subsidiaries or any other person in the event that the excise tax under Section 4999 of the Code is imposed on such individual) that would be reasonably be expected to be paid to the Primary Company Executives as a result of the Merger and the other transactions contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) under all Company Benefit Plans and (y) the

"base amount" (as defined in Section 280G(b)(3) of the Code) for each Primary Company Executive, all as calculated and set forth in the report (dated August 1, 2001) prepared by the compensation consultant retained by the Company (the "Report"). To the knowledge of the Company, the information provided to the compensation consultant that prepared the Report is accurate in all material respects.

(l) Taxes. Except as would not, individually or in the aggregate with respect to clause (i), (ii), (iii) or (iv), reasonably be expected to have a material adverse effect: (i) Each of the Company and each of its subsidiaries has filed (or caused to be filed) all tax returns required to be filed by it and all such returns are true, complete and correct, or requests for extensions to file such tax returns have been timely filed, granted and have not expired. Each of the Company and each of its subsidiaries has paid (or caused to be paid) all taxes shown as due on such tax returns, and the most recent financial statements contained in the Filed SEC Documents reflect an adequate reserve (in addition to any reserve for deferred taxes established to reflect timing differences between book and tax income) of tax for all taxes payable by each of the Company and each of its subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements.

(ii) Except as set forth in Section 3.01(l)(ii) of the Company Disclosure Schedule, no tax return of the Company or any of its subsidiaries is under audit or examination by any taxing authority, and no written notice of such an audit or examination has been received by the Company or any of its subsidiaries. There is no deficiency, refund litigation, written proposed adjustment or matter in controversy with respect to any taxes due and owing by the Company or any of its subsidiaries. Each deficiency resulting from any completed audit or examination relating to taxes by any taxing authority has been timely paid, except for such deficiencies being contested in good faith and for which adequate reserves are reflected on the books of the Company. The United States Federal income tax returns of the Company and each of its subsidiaries consolidated in such tax returns have been either examined by and settled with the

IRS or closed by virtue of the applicable statute of limitations and no requests for waivers of the time to assess any such taxes are pending.

(iii) No liens for taxes (other than for current taxes not yet due and payable or for taxes being contested in good faith and for which adequate reserves are reflected on the books of the Company) exist with respect to any assets or properties of the Company or any of its subsidiaries. Neither the Company nor any of its subsidiaries is bound by any agreement with respect to the allocation, indemnification or sharing of taxes.

(iv) Neither the Company nor any of its subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the two years prior to the date of this Agreement or (y) in a distribution which could

otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(v) As used in this Agreement, (A) "taxes" shall include (1) all forms of taxation, whenever created or imposed, and whether domestic or foreign, and whether imposed by a national, federal, state, provincial, local or other Governmental Entity, including all interest, penalties and additions imposed with respect to such amounts, (2) liability for the payment of any amounts of the type described in clause (1) as a result of being a member of an affiliated, consolidated, combined or unitary group and (3) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amount described in clause (1) or (2) and (B) "tax returns" shall mean all domestic or foreign (whether national, federal, state, provincial, local or otherwise) returns, declarations, statements, reports, schedules, forms and information returns relating to taxes and any amended tax return.

(m) State Takeover Statutes. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), the approval by the Board of Directors of the Company of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) constitutes approval of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) for purposes of Section 203 of the DGCL and such approval represents the only action necessary to ensure that the restrictions contained in Section 203(a) of the DGCL do not and will not apply to the performance of this Agreement, to the consummation of the Merger in accordance with the provisions of this Agreement or any acquisition of Company Common Stock contemplated by Section 4.03(b) or to the Company Voting Agreement. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), no other state takeover or similar statute or regulation (excluding, for the avoidance of doubt, any Applicable Law which requires the Company Required Consents or the Parent

Required Consents to be obtained) is applicable to this Agreement, the Company Voting Agreement or the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b).

(n) Voting Requirements. The affirmative vote at the Stockholders Meeting (as defined in Section 5.01(b)) or any adjournment or postponement thereof of the holders of a majority of the votes represented by all the outstanding shares of Company Common Stock and Company 5% Cumulative Preferred Stock, voting together as a single class, with each share of Company Common Stock entitled to one vote and each share of Company 5% Cumulative Preferred Stock entitled to 1/10th of a vote, in favor of adopting this Agreement (the "Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve or adopt this Agreement or the Merger. The affirmative vote of the holders of the Company Capital Stock is not necessary to approve any other action required to be taken by this Agreement or the Company Voting Agreement (other than the consummation of the Merger).

(o) Regulation as a Utility. Except as set forth in Section 3.01(o) of the Company Disclosure Schedule , the Company is not subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC. Section 3.01(o) of the Company Disclosure Schedule contains a true and complete list of each subsidiary of the Company that is subject to regulation as a public utility or public service company (or similar designation) by any PUC, including the name of each such jurisdiction in which such subsidiary is subject to such regulation. None of the Company or any of its subsidiaries is a "public utility company" or a "holding company" within the meaning of Section 2(a)(5) or 2(a)(7), respectively, of the Public Utility Holding Company Act of 1935 (the "Holding Company Act") or a "subsidiary company" or an "affiliate" (within the meaning of Section 2(a)(8) or 2(a)(11), respectively, of the Holding Company Act) of any holding company which is required to register as a holding company under the Holding Company Act. All filings required to be made by the Company or any of its subsidiaries since January 1, 2000, under any Applicable Laws or Judgments relating to the regulation of public utilities or public service companies (or similarly designated companies), have been filed with the appropriate PUC, Health Agency or other appropriate Governmental Entity, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of all Applicable Laws or Judgments, except for such filings or such failures to comply that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(p) Title to Properties. (i) Each of the Company and each of its subsidiaries owns or has valid and enforceable right to use under existing franchises, water rights, easements or licenses, or valid and enforceable leasehold interests in, all of its properties, rights and assets necessary for the conduct of its respective business and operations as currently conducted, except where the failure to have such title, rights or interests

individually or in the aggregate would not reasonably be expected to have a material adverse effect. All such properties, rights and assets, other than properties, rights and assets in which the Company or any of its subsidiaries has a leasehold interest, are free and clear of all Liens, except for Liens relating to secured indebtedness or that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(q) Brokers. No broker, investment banker, financial advisor or other person, other than Goldman, Sachs & Co., the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or any of its subsidiaries.

(r) Opinion of Financial Advisor. The Company has received the written opinion of Goldman, Sachs & Co. to the effect that, as of the date of this Agreement, the Merger Consideration is fair to the Company's

stockholders from a financial point of view.

(s) Contracts. All material Contracts to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject that are required to be filed as an exhibit to any Filed SEC Document have been filed as an exhibit to such Filed SEC Document (such filed Contracts, the "Filed Contracts"). All the Filed Contracts are valid and in full force and effect, except to the extent they have previously expired or terminated in accordance with their terms or they expire or terminate in compliance with the provisions of Section 4.01(a)(x)(C) and except for any invalidity or failure to be in full force and effect which would not reasonably be expected to have a material adverse effect. None of the Company or any of its subsidiaries is in violation of or default (with or without notice or lapse of time or both) under, or has waived or failed to enforce any rights or benefits under, any Filed Contract, except for violations, defaults, waivers or failures to enforce rights or benefits that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(t) Information Supplied. None of the information included or incorporated by reference in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation or warranty is made by the Company with respect to statements made in the Proxy Statement based on information supplied by Guarantor, Parent or Sub specifically for inclusion or incorporation by reference therein. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.02. Representations and Warranties of Guarantor, Parent and Sub. Guarantor, Parent and Sub jointly and severally represent and warrant to the Company as follows:

(a) Organization. Each of Guarantor and Parent is a company duly organized and validly existing under the laws of the Federal Republic of Germany. Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Guarantor, Parent and Sub (i) has all requisite corporate power and authority to carry on its business as now being conducted and (ii) is duly qualified or licensed to do business and is, if applicable, in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. Guarantor owns 100% of the outstanding capital stock of Parent and, indirectly through Parent, 100% of the outstanding capital stock of Sub.

(b) Authority; Noncontravention. Guarantor, Parent and Sub have the

requisite corporate power and authority to execute and deliver this Agreement and, subject to the Parent Required Consents (as defined below), to consummate the transactions contemplated hereby and Parent has the requisite corporate power and authority to execute and deliver the Company Voting Agreement and to consummate the transactions contemplated thereby. The execution and delivery of this Agreement by Guarantor, Parent and Sub, the execution and delivery of the Company Voting Agreement by Parent and the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby have been duly authorized by all necessary company or corporate action, as applicable, on the part of Guarantor, Parent and Sub and no other corporate proceedings on the part of Guarantor, Parent or Sub are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Guarantor, Parent and Sub and the Company Voting Agreement has been duly executed and delivered by Parent and each of this Agreement and the Company Voting Agreement constitutes the valid and binding obligation of Guarantor, Parent and Sub, as applicable, enforceable against Guarantor, Parent and Sub, as applicable, in accordance with their terms. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions of this Agreement and the Company Voting Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Guarantor, Parent or Sub under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the Certificate of Incorporation or By-laws of Sub or equivalent organizational documents of Guarantor or Parent, (ii) any Contract applicable to Guarantor, Parent, Sub or their

respective subsidiaries or their respective properties or assets or (iii) subject to obtaining the Parent Required Consents and other matters referred to in the following sentence, any (A) Applicable Law or (B) Judgment, in each case applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any Governmental Entity is required by or with respect to Guarantor, Parent or Sub or their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for (1) the filing of a premerger notification and report form under the HSR Act and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the

competition, merger control, antitrust or similar laws and regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with, or furnishing to, the SEC of such reports under the Exchange Act as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, (4) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under the Applicable Laws and Judgments of any Health Agency, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any Governmental Entity due solely to any acquisition of any business or person by the Company or any of its subsidiaries following the date of this Agreement and (7) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices described (i) in the foregoing clause (4) that are required to be obtained or made by Guarantor, Parent or Sub or any of their respective subsidiaries and (ii) in the foregoing clause (5) the failure of which to obtain or make would impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement, are hereinafter referred to as the "Parent Required Consents." No consent, approval, order, authorization, registration, declaration, filing or notice the failure of which to obtain or make would prevent or materially impede

or delay the consummation of the transactions contemplated by this Agreement with any non-U.S. Governmental Entity is required to be made or obtained by Guarantor, Parent or Sub or any of their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for such consents, approvals, orders, authorizations, registrations, declarations, filings or notices (x) required as a result of a change in Applicable Law after the date of this Agreement or (y) required to be obtained from or made to any Governmental Entity due solely to any acquisition of a business or person by the Company or any of its subsidiaries following the date of this Agreement. To the knowledge of Guarantor and Parent, as of the date of this Agreement, there exists no state of facts, condition, event or circumstance which would materially adversely affect Parent's ability to obtain the Parent Required Consents in a reasonably timely manner.

(c) Interim Operations of Sub. Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has engaged in no business other than in connection with the transactions contemplated by

this Agreement.

(d) Regulation as a Utility. Except as set forth in Section 3.02(d) of the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule") or as permitted in accordance with Section 4.03(a)(a), neither Guarantor, Parent, Sub nor any of their respective subsidiaries (i) is a "public utility company" or a "holding company" or a "subsidiary company" of any holding company which is required to register as a holding company under the Holding Company Act, in each case as defined in the Holding Company Act, or (ii) is otherwise subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC; provided, however, the foregoing representation shall not be deemed to be breached as a result of (x) after the date hereof, any of Guarantor, Parent or Sub or any of their respective subsidiaries entering into any operation and maintenance or concession contract that would not be prohibited under Section 4.03(a)(b) or (y) changes in Applicable Law after the date of this Agreement.

(e) Capital Resources. On or prior to the Closing Date, Parent will have sufficient cash to pay the Merger Consideration and any other amounts payable under Section 2.02.

(f) Brokers. No broker, investment banker, financial advisor or other person, other than Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, the fees and expenses of which will be paid by or on behalf of Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Guarantor, Parent, Sub or any of their subsidiaries.

(g) Information Supplied. None of the information supplied or to be supplied by Guarantor, Parent or Sub specifically for inclusion in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) Ownership of Company Stock. As of the date of this Agreement, neither Guarantor, Parent nor Sub nor any of their respective subsidiaries "beneficially owns" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock.

ARTICLE IV

Covenants Relating to Conduct of Business

SECTION 4.01. Conduct of Business. (a) Conduct of Business by the Company. During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed; and which consent shall be deemed given if

the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement, the Company shall, and shall cause each of its subsidiaries to, carry on their respective businesses in the ordinary course consistent with past practice and use their commercially reasonable efforts to comply with all Applicable Laws and, to the extent consistent therewith, use their commercially reasonable efforts to preserve their material assets and technology, preserve their relationships with PUCs, Health Agencies, customers, suppliers and others having business dealings with them and maintain their material franchises, rights and Permits necessary to the conduct of their business. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not unreasonably be withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement or as set forth in Section 4.01(a) of the Company Disclosure Schedule, the Company shall not, and shall not permit any of its subsidiaries to:

(i) (x) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock or other equity or voting interests except for:

(A) dividends by a direct or indirect wholly owned subsidiary of the Company to its shareholders;

(B) regular quarterly cash dividends with respect to the Company Common Stock, not in excess of an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in each case with usual declaration, record and payment dates and in accordance with the Company's past dividend policy;

(C) if the Effective Time occurs other than on a record date for quarterly cash dividends with respect to the Company Common Stock, a "stub period" dividend equal to an amount not to exceed 25% of the amount of the cash dividend per share permitted to be paid pursuant to the immediately preceding clause (B) during such fiscal year in which the Effective Time occurs multiplied by a fraction, the numerator of which is the number of days between the immediately preceding record date and the Effective Time and the denominator of which is the number of days between such record date and the next regularly scheduled record date;

(D) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preferred Stock in accordance with the terms thereof as in effect on the date of this Agreement;

(E) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preference Stock in accordance with the terms thereof as in effect on the date of this Agreement; or

(F) (x) cash dividends with respect to any outstanding shares of preferred stock of any of the Company's subsidiaries or (y) cash dividends with respect to any outstanding shares of non-preferred capital stock of any of the Company's non-wholly owned subsidiaries; provided, however, that in the case of subsidiaries owned as of the date of this Agreement, such dividends shall be paid only in the ordinary course of business consistent with such subsidiary's past practice; or

(y) purchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or its subsidiaries or any options, warrants, calls or rights to acquire any such shares or other interests, except (A) for the Stock Redemption, (B) purchases, redemptions or other acquisitions as required by the respective terms of any preferred stock of the Company or as required or permitted by the respective terms of any preferred stock of any of the Company's subsidiaries, (C) for the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors plans and the dividend reinvestment provisions of the Company's Dividend Reinvestment and Stock Purchase Plan, (D) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of a subsidiary of the Company not held by the

Company or its subsidiaries or (E) the purchases of shares of capital stock of a wholly owned subsidiary of the Company by the Company or a wholly owned subsidiary of the Company; or

(z) split, combine or reclassify any of its capital stock or other equity or voting interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity or voting interests;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other equity or voting interests or any securities convertible into, or exchangeable for, or any options, warrants, calls or rights to acquire, any such shares, interests or securities or any stock appreciation rights or other rights that are linked to the price of Company Common Stock other than:

(A) the issuance of shares of Company Common Stock (and associated Company Rights) upon the exercise of Company Stock Options and settlement of all other rights to purchase or receive Company Common Stock (collectively, the "Company Stock Issuance Rights") in accordance with the terms of such Company Stock Options and Company Stock Issuance Rights as in effect on the date of this Agreement;

(B) the delivery or sale of shares of Company Common Stock held as treasury stock of the Company as of the date hereof or thereafter purchased on the open market by the Company or one of its subsidiaries as permitted by, and for the purposes set forth in, Section 4.01(a)(i)(y)(C);

(C) the issuance of shares of capital stock to the Company or a wholly owned subsidiary of the Company by a subsidiary of the Company;

(D) the issuance of shares of Company Common Stock pursuant to the Company Rights Agreement pursuant to the terms thereof as in effect on the date hereof;

(E) to the extent permitted by Section 5.09(i), the issuance of shares of Company Common Stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan; or

(F) issuances of shares of Company Common Stock which are necessary, in the reasonable judgment of the Company, in order to maintain the credit ratings of the Company or its subsidiaries; provided that any such issuance of shares shall be permitted only if prior to such issuance the Company shall have consulted with

Parent, and the Company and Parent shall have been unable to agree on a mutually acceptable alternative basis to maintain the credit rating of the Company or its subsidiary, as the case may be;

(iii) amend its certificate of incorporation or by-laws (or similar organizational documents) except as may be required by Applicable Law or by the rules and regulations of the New York Stock Exchange; or

(iv) (A) directly or indirectly acquire or agree to acquire, whether by merging or consolidating with, or by purchasing assets of, or by any other manner, any assets constituting a business or any corporation, partnership, joint venture, association, limited liability company or other entity or division thereof, other than:

(x) the acquisition of any business which is regulated by a PUC or owned or operated by a municipality or local Governmental Entity; provided, that all such acquisitions permitted by this clause (x) shall not involve aggregate payments (including debt assumption) by the Company and its subsidiaries of more than $300,000,000; or

(y) the acquisition of any business in or related to (1) the water services or wastewater services industry or (2) any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a PUC or owned or operated by a municipality or local Governmental Entity; provided that all such acquisitions permitted by this clause (y) shall not involve aggregate payments (including debt assumption) by the Company or any of its subsidiaries of more than $100,000,000;

provided that, if the Company or any of its subsidiaries requests

the consent of Parent for any acquisition not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such acquisition or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this Section 4.01(a)(iv) with respect to such acquisition (provided further that, for the purposes of this Section 4.01(a)(iv), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for an acquisition which (i) is not prohibited by Section 4.03 and (ii) has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of

Parent or otherwise be subject to the provisions of this Section 4.01(a)(iv) with respect to any such acquisition); or

(B) any other assets that are material (unless such assets are acquired in the ordinary course of business), other than assets constituting a business the acquisition of which does not require consent or approval under Section 4.01(a)(iv)(A);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any acquisition which requires approval of the Company's Board of Directors; or

(v) directly or indirectly sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any real property, or any other properties or assets or any interest therein that are material, individually or in the aggregate, other than:

(A) sales of real property or other properties or assets, provided that the fair market value of all such properties and assets does not exceed $100,000,000;

(B) the sale of any property or asset that the Company or one of its subsidiaries is legally required, or under bona fide threat of condemnation or similar proceedings, to sell to any Governmental Entity so long as the Company sells such property or asset to such Governmental Entity in a manner consistent with past practice;

(C) the sale of shares of capital stock or other securities which are held as passive minority investments so long as such sale is made in an arm's-length transaction; or

(D) the grant of easements, rights of way and Liens in the ordinary course of business consistent with past practice, or in connection with secured indebtedness of the Company

or any of its subsidiaries permitted by Section 4.01(a)(vi) and consistent with past practice;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any sale, lease, license, sale/leaseback, mortgage,

encumbrance or other disposition which requires approval of the Company's Board of Directors; or

(vi) (x) incur any indebtedness or guarantee any indebtedness of another person or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company or any of its subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing (excluding for purposes of clarification, advances received as contemplated by Section 4.01(a)(vii)(B)), except for:

(A) the incurrence of short-term indebtedness in the ordinary course of business consistent with past practice;

(B) the incurrence of long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of this Agreement (excluding, without duplication, long-term indebtedness otherwise permitted under this Section 4.01(a)(vi)(x), but including long-term indebtedness incurred to fund capital expenditures permitted by Section 4.01(a)(vii) to the extent the incurrence of such indebtedness is included in the Company's business plan described below), does not exceed 110% of the aggregate amount of all long-term indebtedness contemplated to be outstanding as of the end of such fiscal year by the Company's business plan for the five-year period ending on December 31, 2005, a true and complete copy of which has been provided to Parent prior to the date of this Agreement;

(C) (1) the incurrence of indebtedness or guarantees of indebtedness to finance acquisitions and the incurrence or assumption of indebtedness of the entities acquired in such acquisitions, in either case in connection with acquisitions permitted by Section 4.01(a)(iv), or (2) the incurrence of indebtedness or guarantees of indebtedness to fund capital expenditures permitted by Section 4.01(a)(vii);

(D) the incurrence of any guarantees, bid bonds, performance

bonds, surety bonds, payment bonds, letters of credit and "keep well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between the Company and its subsidiaries or in support of the indebtedness

or other obligations of the Company, the Company's subsidiaries or among the Company's subsidiaries; or

(E) the incurrence of indebtedness in an amount equal to (1) the cost of Company Common Stock purchased for issuance pursuant to Section 4.01(a)(ii)(B), plus (2) the amount of cash proceeds that would otherwise be expected to be received by the Company from the sale of Company Common Stock under the Company's Dividend Reinvestment and Stock Purchase Plan after the date, and for so long as, such plan is indefinitely suspended pursuant to Section 5.09(i); or

(y) make any material loans, advances or capital contributions to, or investments in, any other person, other than the Company or any direct or indirect subsidiary of the Company other than (A) investments made in joint ventures formed for purposes permitted pursuant to Section 4.01(a)(iv), (B) loans, advances, capital contributions and investments made in connection with actions permitted pursuant to Sections 4.01(a)(iv), (v), (vi)(x), (vii) or (x) or (C) in the ordinary course of business;

it being understood and agreed that the Company and its subsidiaries shall consult with Parent (i) on the Company's and its subsidiaries' credit ratings and (ii) prior to incurring any material long-term indebtedness (other than issuances of tax-free long-term indebtedness) of the Company or any of its subsidiaries; or

(vii) incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in the Company's five-year capital plan, a true and complete copy of which has been provided to Parent prior to the date of this Agreement, other than:

(A) capital expenditures required by changes in or newly promulgated Applicable Laws or Judgments or applicable standards or policies of any Governmental Entity after the date of this Agreement;

(B) capital expenditures funded by customer advances or contributions in aid of construction;

(C) capital expenditures incremental to the Company's five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates;

(D) capital expenditures related to the operation of any business acquired through an acquisition permitted by Section 4.01(a)(iv);

(E) capital expenditures to the extent covered by insurance or as reasonably required in the Company's judgment following a catastrophic event; or

(F) capital expenditures in connection with performance by the Company or one of its subsidiaries under any Contract to the extent the Company's or such subsidiary's obligations in connection with any such capital expenditure are non-recourse to the Company or such subsidiary and funded by the United States government;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any capital expenditure which requires approval of the Company's Board of Directors; or

(viii) except as required by Applicable Law or any Judgment (x) pay, discharge, settle or satisfy any material claims (including claims of stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice, (B) as required by their terms as in effect on the date of this Agreement or on the date of acquisition of the person subject thereto or (C) incurred since the date of this Agreement in the ordinary course of business consistent with past practice, (y) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (z) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respect to which its consent is required under, any material confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(ix) except (i) as required to comply with Applicable Law or any Judgment, any Collective Bargaining Agreement or any provision of any Company Benefit Plan or other Contract as in effect on the date of this Agreement, (ii) in the ordinary course of the Company or its subsidiaries conducting their respective businesses consistent with past practice, (iii) as would, in the discretion of the Company, be commercially reasonable in order to retain Company Employees (as defined in Section 5.09(a)) or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by the Company and/or its subsidiaries or (v)

as would not, individually or in the aggregate, materially increase the Company's and its subsidiaries' annual expense for compensation and benefits provided or to be provided to the Company Employees:

(A) take any action to fund or in any other way secure the payment of compensation or benefits under any Company Benefit Plan or other Contract;

(B) take any action to accelerate the vesting or payment of any compensation or benefit under any Company Benefit Plan or other Contract;

(C) grant any compensation, benefits, severance or termination pay or increases therein to any Participant; or

(D) establish, adopt, enter into, amend or terminate any Company Benefit Plan, except as required to implement grants or increases permitted under Section 4.01(a)(ix)(C); or

(x) (A) enter into any material Contract other than:

(1) any Contract related to the Company's PUC-regulated business entered into in the ordinary course of business consistent with past practice;

(2) any Contract related to the water services or wastewater services industry; provided that the average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of such Contract, together with the total average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of all such other Contracts entered into pursuant to this clause (2) during the twelve-month period beginning on the date of this Agreement or during any subsequent twelve-month period shall not exceed $60 million per year (excluding any consumer price index or other similar adjustments and without regard to any extension thereof); provided, further that (A) the average annual amounts of any payments to be made to the Company during the first three years of such Contract in respect of any capital expenditures permitted by Section 4.01(a)(vii)(F) of this Agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts

of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" Contract, payments in respect of the "design-build" portion of such Contract to the extent that those payments are (x) guaranteed by a non-affiliate of the Company which the Company reasonably determines is sufficiently creditworthy or (y) passed through to

third parties who perform the "design-build" portion of such Contract) during the first three years of such Contract shall not count against such $60 million per year limit; or

(3) any Contract providing for any transaction otherwise permitted by this Section 4.01(a);

provided that if the Company or any of its subsidiaries requests the consent of Parent to enter into any Contract not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such Contract and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such Contract or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this clause (A) with respect to such Contract (provided further that, for the purposes of this clause (A), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for a Contract which has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this clause (A) with respect to any such Contract);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any material Contract which requires the approval of the Company's Board of Directors;

(B) renew any material Contract unless such renewal (i) shall not modify the terms of such Contract, taken as a whole, in any material adverse respect or (ii) is on terms that are reasonably agreed to by the Company in carrying on its business in the ordinary course; or

(C) modify, amend, waive or terminate (x) any material Contract other than in the ordinary course of business or (y) the Filed Contracts, in either case without consulting with Parent in good faith in advance; or

(xi) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(b) Administration of Consents. Any request for a consent of Parent under Section 4.01(a), and any correspondence between the parties with respect to those consents (including the granting or refusal to grant any such consent) and any consultation required under Section 4.01(a) shall be made solely by and between the person

identified in Section 4.01(b) of the Company Disclosure Schedule, on behalf of the Company and its subsidiaries, and the person identified in Section 4.01(b) of the Parent Disclosure Schedule, on behalf of Guarantor, Parent and their respective subsidiaries.

(c) Control of the Company's Business. It is understood and agreed that Guarantor, Parent, Sub and their affiliates do not have the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

(d) Certain Tax Matters. Except as set forth in Section 4.01(d) of the Company Disclosure Schedule, during the period from the date of this Agreement to the Effective Time, the Company shall, and shall cause each of its subsidiaries to, (i) not make any material tax election without Parent's consent and (ii) to the extent permitted by the applicable agreement, cause all existing tax sharing agreements to be terminated as of the Closing Date.

(e) Utility Filings. The Company shall, and shall cause each of its subsidiaries to, timely file in the ordinary course of business consistent with past practice all rate applications and all other material filings required to be made with PUCs. Except for filings in the ordinary course of business consistent with past practice that individually or in the aggregate would not reasonably be expected to have a material adverse effect, the Company shall, and shall cause each of its subsidiaries to, consult with Parent reasonably in advance of making any filing to implement any changes in any of its or any of its subsidiaries' rates or surcharges for water service, standards of service or accounting.

SECTION 4.02. No Solicitation. (a) From and after the date hereof, the Company agrees (i) that it and its subsidiaries shall not, nor shall it or its subsidiaries authorize or knowingly permit any director, officer or employee of the Company or any of its subsidiaries or any investment banker, attorney, accountant or other advisor or representative of the Company or any of its subsidiaries (collectively, the "Representatives") to, directly or indirectly, solicit, initiate or encourage, or take any other action knowingly to facilitate, any Takeover Proposal (as defined below) or engage in any discussions or negotiations regarding, or provide any nonpublic information or data to make or implement, any Takeover Proposal, in each case other than a Takeover Proposal made by Parent; (ii) that it shall immediately cease and cause to be terminated any existing discussions or negotiations with any third persons conducted heretofore

with a view to formulating a Takeover Proposal; and (iii) that it shall immediately notify Parent of the receipt of any Takeover Proposal and that it shall keep Parent informed of the status of such Takeover Proposal; provided, however, that, at any time prior to obtaining the Stockholder Approval, the Company may, in response to a bona fide Takeover Proposal that the Board of Directors of the Company determines in good faith could reasonably be expected to lead to a Superior Proposal (as defined below) and which Takeover Proposal did not result from a breach of this Section 4.02, (x) furnish information with respect to the Company and its subsidiaries to the person making such Takeover Proposal (and its representatives) pursuant to a customary

confidentiality agreement (except that such confidentiality agreement shall not prohibit such person from making an unsolicited Takeover Proposal), provided that all such information is provided on a prior or substantially concurrent basis to Parent, and (y) participate in discussions or negotiations with the person making such Takeover Proposal (and its representatives) regarding such Takeover Proposal.

The term "Takeover Proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to, any direct or indirect acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (A) assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of the Company and its subsidiaries, taken as a whole, or (B) 20% or more of the outstanding shares of Company Capital Stock or capital stock of, or other equity or voting interests in, any of the Company's subsidiaries directly or indirectly holding the assets or businesses referred to in clause (A) above.

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw (or modify in a manner adverse to Parent or Sub) or propose publicly to withdraw (or modify in a manner adverse to Parent or Sub) the recommendation or declaration of advisability by such Board of Directors of the Company or any such committee of this Agreement or the Merger, or recommend, or propose publicly to recommend, the approval or adoption of any Takeover Proposal (other than a Takeover Proposal made by Parent) (each such action being referred to herein as an "Adverse Recommendation Change"), unless the Board of Directors of the Company determines in good faith, based on such matters as it deems appropriate, after consulting with legal counsel, that such action is necessary for the Board of Directors of the Company to comply with its fiduciary duties to the Company's stockholders under applicable law and the Company's certificate of incorporation, (ii) adopt or approve, or publicly propose to adopt or approve, any Takeover Proposal (other than a Takeover Proposal made by Parent), or withdraw its approval of the Merger, (iii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement (each, an "Acquisition Agreement") constituting or related to any Takeover Proposal (other than a confidentiality agreement referred to in Section 4.02(a)) or (iv) agree or resolve to take any of the actions prohibited by clauses (i), (ii) or (iii) of this sentence. Notwithstanding anything in this Agreement to the contrary, at any time prior to obtaining the Stockholder Approval, the Board of Directors of the Company may,

in response to a Superior Proposal (as defined below) that did not result from a breach of Section 4.02(a), cause the Company to terminate this Agreement pursuant to Section 7.01(f) and concurrently or promptly thereafter enter into an Acquisition Agreement; provided, however, that the Company shall not terminate this Agreement pursuant to Section 7.01(f), unless the Company shall have complied with all the provisions of this Section 4.02 (except for any failure to comply that would not adversely affect the rights of Parent under this Section 4.02), including the notification provisions in this Section 4.02, and with all applicable requirements of Section 5.06(b) (including the payment of the Termination

Fee (as defined in Section 5.06(b)) prior to or concurrently with such termination); and provided further, however, that the Company shall not exercise its right to terminate this Agreement pursuant to Section 7.01(f) until the fifth business day following Parent's receipt of written notice (a "Notice of Superior Proposal") from the Company advising Parent that the Board of Directors of the Company has received a Superior Proposal specifying the terms and conditions of the Superior Proposal, identifying the person making such Superior Proposal and stating that the Board of Directors of the Company intends to exercise its right to terminate this Agreement pursuant to Section 7.01(f) (it being understood and agreed that, prior to any such termination taking effect, any amendment to the price or any other material term of a Superior Proposal shall require a new Notice of Superior Proposal and a new five business day period).

The term "Superior Proposal" means any bona fide written offer made by a third party in respect of (i) a transaction that if consummated would result in such third party acquiring, directly or indirectly, 50% or more of the voting power of the Company Common Stock or 50% or more of the assets of the Company and its subsidiaries, taken as a whole, or (ii) a direct merger between such third party and the Company, in either case providing for consideration to the Company's stockholders consisting of cash and/or securities (it being understood that securities retained by the Company's stockholders be included for purposes of this determination), which transaction the Board of Directors of the Company determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) (taking into account the person making the offer, the consideration offered, the likelihood of consummation (including the legal, financial and regulatory aspects of the offer) as well as any other factors deemed relevant by the Board of Directors of the Company) to be more favorable from a financial point of view to the stockholders of the Company, taking into account any changes to the terms of this Agreement offered by Parent in response to such Superior Proposal or otherwise.

(c) Nothing contained in this Section 4.02 or elsewhere in this Agreement shall prohibit the Company from (i) taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to the Company's stockholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure to make such disclosure would be inconsistent with applicable law; provided, however, that in no event shall the Company or its Board of Directors or any committee thereof take, agree or resolve to take any action prohibited by Section 4.02(b)(i) (subject to the last clause of Section 4.02(b)(i)) or Section 4.02(b)(ii).

SECTION 4.03. Certain Conduct of the Parties. (a) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by the Company (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if Parent has not received written notice otherwise from the Company within eight business days after requesting such consent of the Company), Guarantor and Parent shall not, and shall cause their subsidiaries not to, directly or indirectly (a) acquire or agree to acquire or, except as required by Applicable Law, the rules and regulations of the Frankfurt Stock Exchange or, with respect to any disclosure by any subsidiary, the rules and regulations of the principal stock exchange on which such subsidiary's securities are listed, publicly disclose any

acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (i) any United States water services or wastewater services business that is regulated by a PUC or is owned or operated by a municipality or local Governmental Entity (other than any such acquisition which does not involve aggregate payments (including debt assumption) by Guarantor, Parent or their subsidiaries in excess of $20 million) or (ii) (A) any business that would, upon the consummation of such acquisition, (x) cause Guarantor, Parent or any of their respective subsidiaries to be required to register as a holding company under the Holding Company Act or (y) subject Guarantor, Parent, Sub or any of their respective subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or (B) any business (x) that would, upon the consummation of such acquisition, subject Guarantor, Parent or any of their respective subsidiaries to regulation under the Holding Company Act in a manner other than that described in clause (A) above or (y) that is a United States gas or electric utility, if in the case of clause (B), such business is subject to regulation as a gas or electric utility (or similar designation) by a PUC in any state which the parties agree is material or (b) take any other action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger. In the event that Guarantor or Parent shall seek the consent of the Company to make an acquisition of the type described in Section 4.03(a)(a)(ii)(B), the sole basis on which the Company may withhold its consent shall be a determination by the Company that such acquisition would reasonably be expected to (x) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (y) otherwise materially impede or delay the consummation of the Merger.

(b) Prior to the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire "beneficial ownership" (as such term is defined for purposes of Section 13(d) of the Exchange Act) of any shares of Company Common Stock. After the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire shares of Company Common Stock if such acquisition would result in Guarantor, Parent and their subsidiaries acquiring "beneficial ownership" (as so defined) of more than 4.9% of the shares of Company Common Stock outstanding at the time of such acquisition.

(c) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within eight business days after requesting such consent of Parent), the Company shall not, and shall cause its subsidiaries not to, directly or indirectly, take any action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger.

ARTICLE V

Additional Agreements

SECTION 5.01. Preparation of the Proxy Statement; Stockholders Meeting. (a) As promptly as reasonably practicable following the date of this Agreement, the Company shall prepare and file with the SEC the Proxy Statement in preliminary form and the Company shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto and to cause the Proxy Statement to be mailed to the Company's stockholders as promptly as practicable following the date of this Agreement. The Company shall promptly notify Parent upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Proxy Statement and shall provide Parent with copies of all correspondence between the Company and its representatives, on the one hand, and the SEC and its staff, on the other hand. Parent shall promptly provide any information or responses to comments, or other assistance, reasonably requested in connection with the foregoing. Prior to filing or mailing the Proxy Statement (or any amendment or supplement thereto) or responding to any comments of the SEC with respect thereto, the Company (i) shall provide Parent an opportunity to review and comment on such document or response and (ii) shall give reasonable consideration to all comments proposed by Parent.

(b) The Company shall, as promptly as reasonably practicable following the date of this Agreement, establish a record date for, duly call, give notice of, convene and hold a meeting of its stockholders (the "Stockholders Meeting") for the purpose of obtaining the Stockholder Approval, regardless of whether an Adverse Recommendation Change has occurred at any time after the date of this Agreement. The Company shall, through its Board of Directors, recommend to its stockholders that they adopt this Agreement, and shall include such recommendation in the Proxy Statement, in each case subject to its rights under Section 4.02(b)(i). Without limiting the generality of the foregoing, the Company agrees that its obligations pursuant to this Section 5.01(b) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company or any other person of any Takeover Proposal.

SECTION 5.02. Access to Information; Confidentiality; Transition Planning. (a) The Company shall, and shall cause each of its subsidiaries to, afford to Parent, and to Parent's officers, employees, investment bankers, attorneys, accountants and other advisors and representatives, reasonable access at reasonable times and during normal business hours during the period prior to the Effective Time or the termination of this Agreement, in a manner which does not unreasonably interfere with the business and operations of the Company, to all their respective properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records and, during such period, the Company shall, and shall cause each of its subsidiaries to, make available to Parent on a prompt basis (a) access to each material report, schedule, form, statement and other document filed or received by it during such period to or from any PUC or pursuant to the requirements of applicable securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request; provided that such right of access shall not include sampling, testing or Phase II environmental site assessment

activities. For the purposes of this Section 5.02, all communications, including requests for information or access, pursuant to this Section 5.02, shall only be made by and between a representative of each of Parent, on the one hand, and of the Company, on the other hand, which representative (a) shall initially be Jim McGivern for Parent and Ellen Wolf for the Company and (b) may be replaced with a substitute representative by either party from time to time upon reasonable written notice to the other party. The Company will promptly advise Parent of any material developments in its business. Notwithstanding the foregoing, (i) the Company and its subsidiaries shall not be required to provide any information to the extent that the Company or any of its subsidiaries is legally obligated to keep such information confidential or otherwise not to provide such information or to the extent that such access would constitute a waiver of the attorney-client privilege and (ii) the Company shall provide access to those properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records described above of its subsidiaries that are not wholly-owned subsidiaries only to the extent that the Company has or is reasonably able to obtain such access. Parent will hold, and will direct its officers, employees, investment bankers, attorneys, accountants and other advisors and representatives to hold, any and all information received from the Company, directly or indirectly, in confidence in accordance with the Confidentiality Agreement dated June 26, 2001, among Guarantor, Thames and the Company (as it may be amended from time to time, the "Confidentiality Agreement").

(b) The Company and Parent shall, and shall cause each of their respective subsidiaries to, reasonably cooperate to obtain an orderly transition and integration process in connection with the Merger in order to minimize the disruption to, and preserve the value of, the business of the Surviving Corporation and its subsidiaries during the period from and after the Effective Time. The Company and Parent agree that such cooperation shall include the development as soon as reasonably practicable following the date hereof of a mutually acceptable integration plan on a business-by-business and region-by-region basis with reasonable provisions for visitation by employees.

SECTION 5.03. Reasonable Best Efforts; Notification. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use its

reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper and advisable to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement, including using its reasonable best efforts to accomplish the following as promptly as reasonably practicable following the date of this Agreement: (a) the taking of all acts necessary to cause the conditions precedent set forth in Article VI to be satisfied, (b) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or to avoid an action or proceeding by, any Governmental Entity and (c) the obtaining of all necessary consents, approvals or waivers from third parties. In connection with and without limiting the foregoing, the

Company shall, if any state takeover statute or similar statute or regulation is or becomes applicable to this Agreement, the Company Voting Agreement, the Merger or any of the other transactions contemplated hereby or thereby, use its reasonable best efforts to allow the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement to be consummated as promptly as practicable on the terms contemplated by this Agreement and the Company Voting Agreement and otherwise to minimize the effect of such statute or regulation on this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The Company, Guarantor and Parent shall provide such assistance, information and cooperation to each other as is reasonably requested in connection with the foregoing and, in connection therewith, shall notify the other person promptly following the receipt of any comments from any Governmental Entity and of any request by any Governmental Entity for amendments, supplements or additional information in respect of any registration, declaration or filing with such Governmental Entity and shall supply the other person with copies of all correspondence between such person or any of its representatives, on the one hand, and any Governmental Entity, on the other hand. In addition, the Company, Guarantor and Parent shall cooperate to promptly develop a mutually acceptable plan to obtain the Company Required Consents and the Parent Required Consents as expeditiously as reasonably practicable and without undue expense. To the extent that either party or any of its subsidiaries is required to make any registration, declaration or filing with any PUC in connection with obtaining the Company Required Consents or the Parent Required Consents, such party shall use its reasonable best efforts to (i) provide the other party an opportunity to review and comment on such registration, declaration or filing reasonably in advance of making any such registration, declaration or filing, (ii) give reasonable consideration to all comments proposed by the other party and (iii) if applicable, coordinate the submission of such registration, declaration or filing with the other party. Neither the Company nor any of its subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Company Required Consents without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed). None of Guarantor, Parent, Sub or any of their respective subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Parent Required Consents without the prior written consent of the Company (which consent shall not be unreasonably withheld or delayed).

SECTION 5.04. Company Stock Options. (a) As soon as practicable following the date of this Agreement, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall adopt such resolutions or take such other actions (if any) as may be required to provide that:

(i) each Company Stock Option outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to (A) the excess, if any, of (1) the Merger Consideration over (2) the exercise price per share of Company Common Stock subject to such Company Stock Option, multiplied by (B) the number of shares of Company Common Stock for which such Company Stock Option shall not theretofore have been exercised;

(ii) each Company Stock Issuance Right outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount

of cash equal to the product of (A) the Merger Consideration and (B) the number of shares of Company Common Stock subject to such Company Stock Issuance Right; and

(iii) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

(b) All amounts payable pursuant to Section 5.04(a) shall be subject to any required withholding of taxes or proof of eligibility of exemption therefrom, and shall be paid as soon as practicable following the Effective Time, without interest.

(c) The Company shall take all actions determined to be necessary to effectuate the provisions of this Section 5.04 as mutually agreed by Parent and the Company. Prior to the Effective Time, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall take or cause to be taken such actions as are required to cause (i) the Company Stock Plans to terminate as of the Effective Time and (ii) the provisions in any other Company Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest on or following the Effective Time in respect of any capital stock of the Company to be deleted as of the Effective Time.

SECTION 5.05. Indemnification, Exculpation and Insurance. (a) To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Guarantor and Parent shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer or director of the Company or any of its subsidiaries (each an "Indemnified Party" and, collectively, the "Indemnified Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to

the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director or officer of the Company or any of its subsidiaries ("Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based in whole or in part on or arise in whole or in part out of or pertain to this Agreement or the transactions contemplated hereby. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), Guarantor and Parent shall pay or cause to be paid the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred; provided, however, that Guarantor and Parent shall not be liable for any settlement effected without its written prior consent (which consent shall not be unreasonably withheld or delayed). In the event any Indemnified Party is required to bring any action against Guarantor or Parent to enforce rights or to collect money due under this Agreement and such action results in a final, non-appealable judgment in favor of such Indemnified Party, Guarantor and Parent shall reimburse such

Indemnified Party for all of its reasonable expenses in bringing and pursuing such action. Each Indemnified Party shall be entitled to the advancement of expenses to the full extent contemplated in this Section 5.05(a) in connection with any such action; provided, however, that any person to whom expenses are advanced provides an undertaking, if and to the extent required by the DGCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) For six years after the Effective Time, Guarantor and Parent shall maintain in effect (i) the Company's current directors' and officers' liability insurance covering each person currently covered by the Company's directors' and officers' liability insurance policy for acts or omissions occurring prior to the Effective Time on terms with respect to such coverage and amounts no less favorable in the aggregate to such directors and officers than those of such policy as in effect on the date of this Agreement; provided that Guarantor or Parent may substitute therefor policies of a reputable insurance company the terms of which, including coverage and amount, are no less favorable in the aggregate to such directors and officers than the insurance coverage otherwise required under this Section 5.05(b); provided however, that in no event shall Guarantor and Parent be required to pay aggregate annual premiums for insurance under this Section 5.05(b) in excess of 200% of the amount of the aggregate premiums paid by the Company for the year from July 22, 2001 through July 22, 2002 for such purpose (which premiums for the year from July 22, 2001 through July 22, 2002 are hereby represented and warranted by the Company to be $327,500), provided that Guarantor and Parent shall nevertheless be obligated to provide a policy with the best coverage available as may be obtained for such 200% amount and (ii) in the Restated Certificate of Incorporation and By-Laws of the Surviving Corporation the provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers or directors contained in the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company.

(c) In the event that Guarantor or Parent or any of their successors or assigns (i) consolidates with or merges into any other person and is not the continuing or

surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all its properties and assets to any person, then, and in each such case, Guarantor and Parent shall cause proper provision to be made so that the successors and assigns of Guarantor or Parent, as the case may be, assume the obligations set forth in this Section 5.05.

(d) To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the directors and officers of the Company and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in, with respect to the Company, the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company, or, with respect to the Company's subsidiaries, their respective certificates of incorporation and by-laws (or similar organizational documents) in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective

Time; provided, however, that in the event any claim or claims are asserted or made within such six-year period, all such rights to indemnification in respect of such claim or claims shall continue until the final disposition thereof.

(e) The provisions of this Section 5.05 are intended to be for the benefit of, and will be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

SECTION 5.06. Fees and Expenses. (a) Except as provided below, all fees and expenses incurred in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) In the event that (i) (A) a Takeover Proposal shall have been made to the Company or its stockholders or any person has publicly announced an intention (which has not been withdrawn) to make a Takeover Proposal, (B) thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 7.01(b)(i) (but only if the Stockholders Meeting has not been held by the date that is five business days prior to the date of such termination due to a breach of Section 5.01 by the Company) or 7.01(b)(iii) and (C) within 12 months after such termination, the Company or any of its subsidiaries enters into a definitive agreement to consummate, or consummates, any Takeover Proposal (solely for purposes of this Section 5.06(b)(i)(C), the term "Takeover Proposal" shall have the meaning set forth in the definition of Takeover Proposal contained in Section 4.02(a) except that all references to 20% shall be deemed references to 50%), (ii) this Agreement is terminated by the Company pursuant to Section 7.01(f) or (iii) this Agreement is terminated by Parent pursuant to Section 7.01(c), then the Company shall pay Parent a fee equal to $138 million (the "Termination Fee") by wire transfer of same day funds to an account in the United States designated by Parent (x) in the case of a termination by the Company pursuant to Section 7.01(f), concurrently with such termination, (y) in the case of a termination by Parent pursuant to Section 7.01(c), within

two business days after such termination and (z) in the case of a payment as a result of any event referred to in Section 5.06(b)(i)(C), upon the first to occur of such events. The Company acknowledges that the agreements contained in this Section 5.06(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amounts due pursuant to this Section 5.06(b), and, in order to obtain such payment, Parent commences a suit that results in a final, non-appealable judgment against the Company for the amounts set forth in this Section 5.06(b), the Company shall pay to Parent interest on the amounts set forth in this Section 5.06(b) from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit.

(c) If this Agreement is terminated (i) by the Company pursuant to Section 7.01(e) (other than on account of a breach of Section 3.02(d), Section 4.03 or Section 5.03) or (ii) by Parent pursuant to Section 7.01(d), then the non-terminating party shall promptly (but not later

than five business days after receipt of notice of the amount due from the other party) pay to the terminating party an amount equal to all documented out-of-pocket expenses and fees incurred by such terminating party or its affiliates (including fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors) arising out of, in connection with or related to the Merger or the other transactions contemplated by this Agreement ("Out-of-Pocket Expenses") not to exceed $20 million in the aggregate; provided, however, that if this Agreement is terminated under the circumstances described in clauses (i) or (ii) above by a party as a result of a willful breach by the non-terminating party, the terminating party may pursue any remedies available to it at law or in equity and such party's Out-of-Pocket Expenses shall not be limited to $20 million.

SECTION 5.07. [Intentionally omitted].

SECTION 5.08. Collective Bargaining Agreements. From and after the Effective Time, Parent shall cause the Surviving Corporation and its subsidiaries to honor and continue to be bound by the terms of all collective bargaining agreements to which the Company or any of its subsidiaries is a party (the "Collective Bargaining Agreements").

SECTION 5.09. Benefits Matters. (a) For purposes hereof, "Company Employees" shall mean those individuals who are employees of the Company and its subsidiaries (including those employees who are on vacation, leave of absence, disability or maternity leave) as of the Effective Time.

(b) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, give the Company Employees full credit, for all purposes, under any employee benefit plans or arrangements maintained by Parent's (or one of its

subsidiaries') water business in the United States, the Surviving Corporation and their respective subsidiaries, and in which Company Employees may become eligible to participate for the Company Employees' service with the Company and its subsidiaries to the same extent recognized by the Company and its subsidiaries immediately prior to the Effective Time, except for purposes of benefit accrual under defined benefit pension plans in which the Company Employees do not participate immediately prior to the Effective Time, so long as credit for past service under any such pension plan is also not given to other employees employed in Parent's (or one of its subsidiaries') water businesses in the United States or to the extent giving such credit would result in a duplication of benefits (including in respect of benefit accrual under defined benefit pension plans) for the same period of service.

(c) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Company Employees and, to the extent applicable, any retired employee constituting a member of the Retiree Group (as defined below) (any such employee a "Retired Employee") under any welfare benefit plans in which such employees may be eligible to participate after the Effective Time to the extent waived under the applicable Company Benefit Plan immediately prior to the Effective Time

and (ii) provide each Company Employee (and each Retired Employee) with credit for any co-payments and deductibles paid prior to the Effective Time in the calendar year in which the Effective Time occurs (or, if later, the year in which such Company Employee (and each Retired Employee) commences participation) in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans in which such Company Employee (and each Retired Employee) is eligible to participate after the Effective Time.

(d) Parent agrees to honor, and shall cause the Surviving Corporation to honor, the Company Benefit Plans disclosed in the Filed SEC Documents or Section 3.01(k)(i) of the Company Disclosure Schedule in accordance with their current terms. Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, for a period of 18 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, provide to the Company Employees compensation (including base pay and annual and long term incentive opportunities) and employee benefits (including health, welfare, pension, vacation, savings and severance) that are no less favorable in the aggregate than those provided to the Company Employees immediately prior to the Effective Time; provided, that for a period of 12 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, maintain the Company Benefit Plans in accordance with their terms as in effect immediately prior to the Effective Time (other than equity or equity-based plans) without any adverse amendment thereto or termination thereof (except as required by Applicable Law and Judgments or any Collective Bargaining Agreement). Notwithstanding the foregoing, following the Effective Time, there shall be no obligation to provide Company Employees with awards of capital stock of any entity or awards of options or other rights of any kind to acquire capital stock of any entity); provided,

however, that the value of any equity-based compensation provided to Company Employees immediately prior to the Effective Time shall be taken into account in determining whether compensation and benefits provided during the 18 months after the Effective Time are no less favorable in the aggregate than those provided to Company Employees immediately prior to the Effective Time.

(e) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, or shall cause the Surviving Corporation to, provide to the Retiree Group (as defined below), without adverse amendment, the post-retirement medical and life insurance benefits as in effect immediately prior to the Closing Date (at the same levels, and at the same cost (if any), as in effect immediately prior to the Closing Date), provided to Company Employees who are not covered by a Collective Bargaining Agreement and their dependents as set forth in the retiree medical plan listed in Section 3.01(k)(i) of the Company Disclosure Schedule (the "Retiree Medical Plan"). The "Retiree Group" means each Company Employee who is not (or was not while employed) covered by a Collective Bargaining Agreement and who, as of the Closing Date, (i) is either retired under the terms of the Retiree Medical Plan as in effect on the date hereof or (ii) has satisfied all applicable eligibility requirements (under the terms of the Retiree Medical Plan as in effect on the date hereof) necessary to commence receiving benefits if his or her employment were terminated at the Effective Time.

(f) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, in the event and to the extent that Guarantor or one of its subsidiaries maintains a qualified employer stock ownership plan for the benefit of employees employed in Parent's or one of its subsidiaries' (or one of their respective successors') water business in the United States (a "Guarantor ESOP"), Guarantor shall allow all current non-union Company Employees to participate in such Guarantor ESOP as soon as practicable after the Effective Time.

(g) Between the date of this Agreement and the Closing Date, the Company shall provide Parent commercially reasonable access to the Company Employees for purposes of implementing this Agreement.

(h) The Company shall use its reasonable best efforts to cause the Board of Directors of the Company not to exercise any discretion it possesses solely in respect of the transactions contemplated by this Agreement, to expressly set the date when a "change in control" occurs for the purposes of any applicable individual agreement covering a Participant (other than to deem such "change in control" to occur no earlier than the Effective Time).

(i) The Company shall take all action necessary (i) to provide that the component of the Company's Dividend Reinvestment and Stock Purchase Plan permitting independent monthly purchases of Company Common Stock (other than purchases of Company Common Stock funded solely by reinvestment of Company

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dividends) (the "DRSPP Stock Purchase Component") shall be indefinitely suspended as promptly as reasonably practicable following the date of this Agreement (but in no event later than immediately following the second stock purchase effected following the date of this Agreement under the DRSPP Stock Purchase Component) and (ii) to cause all amounts not yet applied as of the date of termination of the DRSPP Stock Purchase Component to purchase Company Common Stock under the DRSPP Stock Purchase Component to be returned as promptly as practicable following such suspension.

SECTION 5.10. Public Announcements. Subject to each party's disclosure obligations imposed by law or any applicable securities exchange, and except with respect to any Adverse Recommendation Change, Parent and Sub, on the one hand, and the Company, on the other hand, shall, to the extent reasonably practicable, consult and cooperate with each other before issuing, and give each other a reasonable opportunity to review and comment upon, any press release or other public statements (other than routine employee communications) with respect to this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.11. Rights Agreement. The Board of Directors of the Company shall take all action necessary in order to render the Company Rights inapplicable to the Merger, the Company Voting Agreement and the performance of this Agreement.

SECTION 5.12. Stockholder Litigation. The Company agrees that it shall not settle or offer to settle any litigation commenced prior to or after

the date hereof against the Company or any of its directors by any stockholder of the Company relating to this Agreement, the Company Voting Agreement, the Merger, any other transaction contemplated hereby or thereby, without the prior written consent of Parent (not to be unreasonably withheld or delayed).

SECTION 5.13. Director Resignations. On the Closing Date, the Company shall cause to be delivered to Parent duly executed resignations, effective as of the Effective Time, of each member of the Board of Directors of the Company and shall take such other action as is necessary to accomplish the foregoing.

ARTICLE VI

Conditions Precedent

SECTION 6.01. Conditions to Each Party's Obligation to Effect the Merger. The obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Stockholder Approval. The Stockholder Approval shall have been obtained.

(b) Antitrust. Any waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired and any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation or the Investment Canada Act, if applicable, the failure of which to obtain or comply with which would be reasonably expected to have a material adverse effect, shall have been obtained or terminated or shall have expired.

(c) No Injunctions or Legal Restraints. No temporary restraining order, preliminary or permanent injunction or other order or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Merger shall be in effect (collectively, "Legal Restraints").

(d) Required Consents. The Company Required Consents and the Parent Required Consents shall have been obtained prior to the Effective Time and shall have become Final Orders. Any reference in this Agreement to the "obtaining" of any such Company Required Consents or Parent Required Consents shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law. A "Final Order" for purposes of this Agreement means action by the relevant regulatory authority (i) which has not been reversed, stayed, enjoined, set aside, annulled or suspended and (ii) with respect to which any waiting period prescribed by Applicable Law or Judgment before the Merger and the other transactions contemplated hereby may be consummated has expired, and as to which all conditions to be satisfied before the consummation of such transactions prescribed by Applicable Law or Judgment have been satisfied.

(e) Stock Redemption. The Stock Redemption shall have been consummated.

SECTION 6.02. Conditions to Obligations of Guarantor, Parent and Sub. The obligations of Guarantor, Parent and Sub to effect the Merger are further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained herein shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect. For the

purposes of determining the satisfaction of this condition, the representations and warranties of the Company shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect.

(c) Material Adverse Effect. No material adverse effect shall have occurred and there shall be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect.

(d) Required Consents. The Final Orders relating to the Company Required Consents and the Parent Required Consents, together with any consents, approvals, orders, authorizations and declarations that shall have been obtained following the date of this Agreement and prior to the Effective Time in connection with any acquisition of any business or person by the Company or any of its subsidiaries, shall not individually or in the aggregate impose any terms or conditions, excluding any terms and conditions that may be imposed with respect to the acquisitions contemplated by the agreements dated as of October 15, 1999 between the Company and certain of its subsidiaries on one hand, and Citizens Communications Company ("Citizens") and certain of its subsidiaries, on the other hand, to acquire certain water and wastewater assets of those Citizens subsidiaries, to the extent reflected or referred to in the Proposed Decision of ALJ McVicar dated as of September 6, 2001 and excluding any terms and conditions that may be imposed to the extent attributable to any acquisition of any business or person by Guarantor or any of its subsidiaries with respect to which an acquisition agreement is entered into or that is publicly announced or consummated after the date of this Agreement, that would reasonably be expected to have a material adverse effect, or a material adverse effect on the combined business, assets, properties, condition (financial or otherwise) or results of operations of the Company and Thames Water Holdings, Inc. and their respective subsidiaries taken as a whole.

SECTION 6.03. Conditions to Obligation of the Company. The

obligation of the Company to effect the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Guarantor, Parent and Sub contained herein shall be true and correct, as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to impair in any material respect the ability of Guarantor, Parent or Sub to

perform its obligations under this Agreement or prevent or materially delay the consummation of any of the transactions contemplated by this Agreement. The Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of Guarantor, Parent and Sub shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) Performance of Obligations of Parent and Sub. Guarantor, Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect.

SECTION 6.04. Frustration of Closing Conditions. None of the Company, Guarantor, Parent or Sub may rely on the failure of any condition set forth in Section 6.01, 6.02 or 6.03, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 5.03.

ARTICLE VII

Termination, Amendment and Waiver

SECTION 7.01. Termination. This Agreement may be terminated, and the Merger contemplated hereby may be abandoned, at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained:

(a) by mutual written consent of Parent, Sub and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated by March 16, 2003; provided, however, (A) that the right to terminate this Agreement pursuant to this Section 7.01(b)(i) shall not be available to any party whose breach of this Agreement has been the primary reason the Merger has not been consummated by such date, (B) that neither Parent nor the Company may terminate pursuant to this clause

(b)(i) if on such date all conditions in Article VI shall have been satisfied or be capable of being satisfied other than the condition set forth in Section 6.01(e), and the Company shall have mailed a notice of redemption to effect the Stock Redemption, and (C) that if on such date a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied but all other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, then such

date shall be extended to September 16, 2003; and provided, further, that if on such date (or such extended date pursuant to the immediately preceding proviso, as applicable), a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied solely because the period described in clause (ii) of the definition of Final Order set forth in Section 6.01(d) shall not have expired, but all of the other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, such date shall be extended to the date of expiration of such period (up to a maximum of 60 days for such extension);

(ii) if any Legal Restraint of the type referred to in Section 6.01(c) shall be in effect and shall have become final and nonappealable (provided that the party seeking to terminate this Agreement pursuant to this Section 7.01(b)(ii) shall have used its reasonable best efforts to resist, resolve or lift, as applicable, such Legal Restraint); or

(iii) if, upon a vote at a duly held meeting to obtain the Stockholder Approval, the Stockholder Approval shall not have been obtained;

(c) by Parent in the event an Adverse Recommendation Change has occurred;

(d) by Parent if the Company shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (A) would give rise to the failure of a condition set forth in Section 6.02(a) or 6.02(b), and (B) has not been cured by the Company within twenty business days after its receipt of written notice thereof from Parent;

(e) by the Company if Parent shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Section 6.03(a) or 6.03(b), and (ii) has not been cured by Parent within twenty business days after its receipt of written notice thereof from the Company; or

(f) by the Company in accordance with the terms and subject to the conditions of Section 4.02(b).

Notwithstanding the foregoing, in no event shall Parent terminate this Agreement unless prior to the date of such termination Parent shall have complied with Section 7.03 (including paying to the Company the Reverse Fee) if applicable.

SECTION 7.02. Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company, other than the provisions of the last sentence of Section 5.02(a), Section 5.06, this Section 7.02, Section 7.03 and Article VIII; provided, however, that no such

termination shall relieve any party hereto from any liability or damages resulting from a wilful breach by a party of any of its representations, warranties or covenants set forth in this Agreement.

SECTION 7.03. Certain Breaches. If (a) this Agreement is terminated by either party pursuant to Section 7.01 (other than (w) the termination of this Agreement by either Parent or the Company pursuant to Section 7.01(a) or (b)(iii), (x) the termination of this Agreement by Parent pursuant to Section 7.01(c) or (y) the termination of this Agreement by the Company pursuant to Section 7.01(f)) at a time when any of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) have not been satisfied and (b) at the time of such termination either (i) Section 3.02(d)(i) is not true and correct such that Guarantor, Parent, Sub or any of their respective subsidiaries (A) would be required to register as a holding company under the Holding Company Act or (B) would be subject to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or Guarantor or Parent is in breach of Section 4.03(a)(a)(i) or 4.03(a)(a)(ii)(A) or (ii) Section 3.02(d)(i) (other than as set forth above) or 3.02(d)(ii) is not true and correct or Guarantor or Parent is in breach of Section 4.03(a)(a)(ii)(B), 4.03(a)(b)(i), 5.03(a) (to the extent relating to Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d)) or 5.03(b) (to the extent relating to the Company Required Consents and the Parent Required Consents) and, in the case of clause (ii), such failure to be true and correct or such breach is the primary cause of the failure of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) to be satisfied, then Parent shall pay the Company an amount equal to $138 million (the "Reverse Fee") by wire transfer of same day funds in U.S. dollars to an account in the United States designated by the Company within two business days after (or, in the case of a termination by Parent, concurrently with) such termination. Guarantor and Parent acknowledge that the agreements contained in this Section 7.03 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company would not enter into this Agreement; accordingly, if Parent fails promptly to pay the amounts due pursuant to this Section 7.03, and, in order to obtain such payment, the Company commences a suit that results in a final, non-appealable judgment against Guarantor or Parent for the amounts set forth in this Section 7.03, Parent and Guarantor shall pay to the Company interest on the amounts set forth in this Section 7.03 from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit. The parties acknowledge and agree that, notwithstanding any other provision in this Agreement to the contrary, the Company's sole and exclusive remedy with respect to any and all claims based on or with respect to any failure of Section 3.02(d) to be true and correct or any breach of Section 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above), in circumstances where the Company is entitled to payment of the Reverse Fee (other than any claims resulting from a willful breach by Guarantor or Parent or any of their

respective subsidiaries of Section 3.02(d), 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above)) shall be the payment of the Reverse Fee pursuant to this Section 7.03.

SECTION 7.04. Amendment. This Agreement may be amended by the parties hereto at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained; provided, however, that after the Stockholder Approval has been obtained, there shall be made no amendment that by law requires further approval by stockholders of the parties without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

SECTION 7.05. Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) waive compliance with any of the agreements or conditions contained herein; provided, however, that after the Stockholder Approval has been obtained, there shall be made no waiver that by law requires further approval by stockholders of the parties without the further approval of such stockholders. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure or delay by any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights nor shall any single or partial exercise by any party to this Agreement of any of its rights under this Agreement preclude any other or further exercise of such rights or any other rights under this Agreement.

ARTICLE VIII

General Provisions

SECTION 8.01. Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

SECTION 8.02. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally or one business day after being sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Guarantor, Parent or Sub, to:

Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB
United Kingdom

Attention: Bill Alexander

Janet Ravenscroft

with a copy to:

RWE Aktiengesellschaft
Opernplatz 1, 45128
Essen, Germany

Attention: General Counsel

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019

Attention: Peter S. Wilson, Esq.
Mark I. Greene, Esq.

if to the Company, to:

American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Attention: W. Timothy Pohl

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017

Attention: Caroline B. Gottschalk, Esq.
Peter S. Malloy, Esq.

SECTION 8.03. Definitions. For purposes of this Agreement:

(a) an "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person;

(b) "knowledge of the Company" means the actual knowledge of those individuals set forth in Section 8.03(b) of the Company Disclosure Schedule;

(c) "knowledge of Guarantor and Parent" means the actual knowledge of those individuals set forth in Section 8.03(c) of the Parent Disclosure Schedule;

(d) "material adverse effect" means any material adverse change or effect (i) on the business, assets, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, or (ii) which would reasonably be expected, directly or indirectly, to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated by this Agreement, except in the case of either (i) or (ii) for any change or effect (w) set forth in Section 8.03(d) of the Company Disclosure Schedule, (x) relating to financial markets or the economy in general, (y) affecting the water services or wastewater services industries generally and not specifically relating to the Company or its subsidiaries, or (z) to the extent attributable to or resulting from the public announcement of the transactions contemplated by this Agreement or the identity of Guarantor or Parent or their subsidiaries as the acquiring person in the Merger including any loss of customers or employees or condemnation proceedings resulting therefrom;

(e) "person" means an individual, corporation, partnership, joint venture, association, trust, limited liability company, Governmental Entity, unincorporated organization or other entity;

(f) a "Significant Subsidiary" of any person means any subsidiary of such person that constitutes a significant subsidiary within the meaning of Rule 1-02 of Regulation S-X of the SEC;

(g) a "subsidiary" of any person means another person (i) of which 50% or more of the capital stock, voting securities, other voting ownership or voting partnership interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such voting interests, 50% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person or (ii) of which such first person is a general partner; and

(h) a "wholly owned subsidiary" of any person means a subsidiary of which 99% or more of the common equity securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such equity securities having such voting power, 99% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person.

SECTION 8.04. Interpretation. When a reference is made in this Agreement to a Section, Subsection or Schedule, such reference shall be to a Section or Subsection of, or a Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or

"including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this

Agreement as a whole and not to any particular provision of this Agreement. The term "or" is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Any agreement or instrument defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement or instrument as from time to time amended, modified or supplemented. References to a person are also to its permitted successors and assigns.

SECTION 8.05. Guarantee. In connection with the Merger and the other transactions contemplated by this Agreement, Guarantor hereby irrevocably, absolutely and unconditionally guarantees the due, punctual and complete performance and payment (and not merely collection) in full of all obligations and liabilities of Parent, Sub and the Surviving Corporation under this Agreement, and of any other person to whom any of their obligations shall be assigned in accordance with Section 8.09, as and when due and payable or required to be performed pursuant to any provisions of this Agreement, subject to the terms and conditions thereof (the "Guaranteed Obligations") and agrees that the Company shall be entitled to enforce directly against Guarantor any of the Guaranteed Obligations. To the fullest extent permitted by Applicable Law, Guarantor waives presentment to, demand of payment from and protest to any other person of any of the Guaranteed Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. The obligations of Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations, or otherwise. Notwithstanding any of the foregoing, nothing herein shall be deemed to waive or limit Guarantor's ability to assert any claims, defenses or other rights that Parent or Sub may have under this Agreement.

SECTION 8.06. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 8.07. Entire Agreement; No Third-Party Beneficiaries. This Agreement, together with the Company Disclosure Schedules, the Parent Disclosure Schedules and the Exhibits (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, (other than the Confidentiality Agreement), among the parties with respect to the subject matter hereof and thereof and (b) except for the provisions of Section 5.05, are not intended to confer upon any person other than the parties hereto and thereto (and their respective successors and assigns) any rights or remedies.

SECTION 8.08. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 8.09. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated, in whole or in part (except by operation of law), by any of the parties hereto without the prior written consent of the other parties hereto, and any attempt to make any such assignment without such consent shall be null and void.

Notwithstanding the foregoing, Parent or Sub may assign, in its sole discretion, any of or all its respective rights, interests and obligations under this Agreement to Guarantor or to any direct or indirect wholly owned subsidiary of Guarantor with written notice to the Company and upon taking of any actions required by the DGCL with respect thereto (including amending this Agreement if necessary), provided that the Company agrees to provide reasonable assistance to Parent with any such actions and agrees to execute any such amendments to this Agreement, but no such assignment shall relieve Parent or Sub of any of their respective obligations hereunder; provided, however, that Parent and such substitute subsidiary shall represent and warrant to the Company, on the day such substitution is to be effective, the representations and warranties set forth in Section 3.02; provided, further, that no action shall be taken that would require the Company to amend or supplement in any material respect the Proxy Statement at any time after the Proxy Statement has first been mailed to the Company's stockholders or materially delay or impede the consummation of the Merger. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8.10. Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in any Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State of Delaware or of any Delaware state court in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of Delaware or a Delaware state court. By the execution and delivery of this Agreement, each of Guarantor and Parent appoints CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, as its agent upon which process may be served in any such legal action or proceeding. Service of process upon such agent, together with notice of such service given to Guarantor or Parent in the manner specified in Section 8.02 shall be deemed in every respect effective service of process upon Guarantor or Parent in any legal action or proceeding.

SECTION 8.11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other

provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the

extent possible.

SECTION 8.12. Waiver of Jury Trial. Each party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, Guarantor, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RWE AKTIENGESELLSCHAFT,

By: / s / Richard Klein

Name: Richard Klein
Title: Member of the Executive Board

By: / s / William John Alexander

Name: William John Alexander
Title: Chief Executive

THAMES WATER AQUA HOLDINGS GMBH,

By: / s / Richard Klein

Name: Richard Klein
Title: Member of the Executive Board

By: / s / William John Alexander

Name: William John Alexander
Title: Chief Executive

APOLLO ACQUISITION COMPANY,

By: / s / Jim McGivern

Name: Jim McGivern
Title: Managing Director International Business Development

AMERICAN WATER WORKS COMPANY, INC.,

By: / s / J. James Barr

Name: J. James Barr
Title: President and Chief Executive

Exhibit 2
Conformed Copy

VOTING AGREEMENT, dated as of September 16, 2001 (this "Agreement"), among Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany ("Parent"), and the stockholders of American Water Works Company, Inc., a Delaware corporation (the "Company"), that are parties hereto (each, a "Stockholder" and, collectively, the "Stockholders").

W I T N E S S E T H:

WHEREAS, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Parent, Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and the Company are, concurrently with the execution and delivery of this Agreement, entering into an Agreement and Plan of Merger, dated as of the date hereof (as the same may be amended or supplemented, the "Merger Agreement;" capitalized terms used without definition herein having the meanings assigned to them in the Merger Agreement), providing for the merger of Sub with and into the Company upon the terms and subject to the conditions set forth in the Merger Agreement (the "Merger");

WHEREAS, as of the date hereof, each Stockholder is a beneficial owner of, and has the power to vote or direct the vote with respect to, the number of shares of common stock, par value $1.25 per share, of the Company ("Company Common Stock"), as set forth on the signature page hereof beneath such Stockholder's name (with respect to each Stockholder, such Stockholder's "Existing Shares" and, together with any shares of the Company Common Stock or other voting capital stock of the Company as to which the power to vote or direct the vote with respect to is acquired after the date hereof, whether upon the exercise of warrants, options, conversion of convertible securities or otherwise, such Stockholder's "Shares"); and

WHEREAS, as a condition to its willingness to enter into the Merger Agreement, Parent has required that each Stockholder enter into this Agreement;

NOW THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

VOTING

1.1 Agreement to Vote. Each Stockholder hereby agrees that it shall, and shall cause the holder of record on any applicable record date to, from time to time, at the request of Parent, at any meeting (whether annual or special and whether or not an adjourned or postponed meeting) of stockholders of the Company, however called, or in connection with any written consent of the holders of the Company Common Stock, (a) if a meeting is held, appear at such meeting or otherwise cause such Stockholder's Shares to be counted as present thereat for purposes of establishing a quorum and (b) vote (or cause to be voted), in person or by proxy, or provide (or cause to be provided) a written consent in lieu of a meeting with respect to, all the Shares of such Stockholder (i) in favor of the approval and adoption of the Merger Agreement

and the Merger, (ii) against (x) any Takeover Proposal (other than the Merger Agreement and the Merger), (y) any proposal, action or transaction that would reasonably be expected to materially impede or delay the Merger, or materially adversely affect the Merger Agreement or the consummation of the Merger (so long as, in the case of this clause (y), Parent requests in writing, at or prior to the meeting or written consent, that such Stockholder vote against any such proposal, action or transaction) or (z) any amendment to the Company's Restated Certificate of Incorporation or By-laws which amendment would reasonably be expected to materially impede or delay the Merger, or materially adversely affect the Merger Agreement or the consummation of the Merger (so long as, in the case of this clause (z), Parent requests in writing, at or prior to the meeting or written consent, that such Stockholder vote against any such amendment).

1.2 No Ownership Interest. Nothing contained in this Agreement shall be deemed to vest in Parent or Sub any direct or indirect ownership or incidence of ownership of or with respect to any Shares. All rights and ownership and economic benefits of and relating to the Shares shall remain vested in and belong to the Stockholders, and Parent and Sub shall have no authority to manage, direct, superintend, restrict, regulate, govern or administer any of the policies or operations of the Company or exercise any power or authority to direct the Stockholders in the voting of any of the Shares, except as otherwise provided herein.

1.3 No Inconsistent Agreements. Each Stockholder hereby represents to Parent and covenants and agrees that, except as contemplated by this Agreement and the Merger Agreement, such Stockholder (a) has not entered, and at any time while this Agreement remains in effect shall not enter, into any voting agreement or voting trust with respect to any Shares which is inconsistent with such Stockholder's obligations under this Agreement and (b) has not granted, and shall not grant at any time while this Agreement remains in effect, a proxy or power of attorney with respect to any Shares which is inconsistent with such Stockholder's obligations under this Agreement.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF EACH STOCKHOLDER

Each Stockholder hereby, severally and not jointly, represents and warrants as to itself to Parent as follows:

2.1 Authorization; Validity of Agreement; Necessary Action. Such Stockholder has full power and authority to execute and deliver this Agreement, to perform such Stockholder's obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance by such Stockholder of this Agreement and the consummation by it of the transactions contemplated hereby have been duly and validly authorized by such Stockholder and no other actions or proceedings on the part of such Stockholder or any record holder of such Stockholders' Shares are necessary to authorize the execution and delivery by it of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by such Stockholder, and, assuming this Agreement constitutes a valid and binding obligation of Parent, constitutes a valid and binding obligation of such Stockholder, enforceable against it in accordance with its terms. No Stockholder who is executing and delivering this Agreement in a trustee capacity is required to obtain the consent of any beneficiary or other person to execute and deliver this Agreement or to consummate the transactions contemplated hereby, other than any consent that has been obtained as of the date hereof.

2.2 Shares. Such Stockholder's Existing Shares are, and all of its Shares from the date hereof through and on the date of the Stockholders Meeting will be, owned beneficially as indicated on the signature page hereto for such Stockholder and

such Stockholder has, and through the date of the Stockholders Meeting will have, the power to vote or direct the vote with respect to all such Shares (subject to any dispositions of Shares permitted by Section 3.1(a) hereof). Such Stockholder has and will have the power to vote and the power to issue instructions with respect to the matters set forth in Article I hereof, in each case with respect to all of such Stockholder's Existing Shares and with respect to all of such Stockholder's Shares on the date of the Stockholders Meeting, with no limitations, qualifications or restrictions on such rights, subject to applicable federal securities laws and the terms of this Agreement.

ARTICLE III

OTHER COVENANTS

3.1 Further Agreements of Stockholders.

(a) Each Stockholder, severally and not jointly, hereby agrees, from the date hereof until the completion of the Stockholders Meeting, not to sell, transfer, pledge, encumber, assign or otherwise dispose of (collectively, a "Transfer") or enter into any contract, option or other arrangement or understanding with respect to the offer for sale, sale, transfer, pledge, encumbrance, assignment or other disposition of, any of its Existing Shares or any Shares acquired after the date hereof, except (i) by testamentary disposition or operation of law (including, without limitation, the laws of intestacy) or (ii) to a person who agrees in writing, in an instrument reasonably acceptable to Parent, to be bound by this Agreement as a Stockholder, including Section 1.1; provided, however, that, notwithstanding the provisions of this Section 3.1(a), such Stockholder may Transfer that number of Shares set forth opposite its name on Exhibit A hereto without compliance with this sentence; provided that each such Transfer is not, to the knowledge of such Stockholder, to a person who has made a Takeover Proposal.

(b) In the event of a stock dividend or distribution, or any change in the Company Common Stock by reason of any stock dividend or distribution, or any change in the Company Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Shares" shall be deemed to refer to and include the Shares as well as all such stock dividends and distributions and any securities into which or for which any or all of the

Shares may be changed or exchanged or which are received in such transaction.

ARTICLE IV

MISCELLANEOUS

4.1 Termination. This Agreement shall automatically terminate and no party shall have any rights or duties hereunder upon the earlier of (a) the Effective Time; (b) the termination of the Merger Agreement in accordance with its terms; or (c) with respect to any Stockholder, any amendment to the Merger Agreement that (i) is material and adverse to such Stockholder, and (ii) is

executed subsequent to the date of this Agreement. For purposes of this Section 4.1, a material and adverse amendment to the Merger Agreement includes, without limitation, any amendment, modification, change or waiver to the terms of the Merger Agreement, in any case that results in any decrease in the price to be paid per share of Company Common Stock, any change in the form of consideration to be used to purchase Shares that results in a reduction of the amount of cash to be paid in respect thereof or any delay in the deposit with the Paying Agent of all cash required to be deposited pursuant to Section 2.02(a) of the Merger Agreement (as in effect on the date hereof) beyond the fifth business day after the time at which the Merger becomes effective. Nothing in this Section 4.1 shall relieve or otherwise limit any party of liability for breach of this Agreement.

4.2 Further Assurances. From time to time, at Parent's request and without further consideration, each Stockholder shall execute and deliver such additional documents and take all such further action as may be reasonably necessary or desirable to carry out the provisions of this Agreement.

4.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or telefacsimile, upon confirmation of receipt, (b) on the first business day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the tenth business day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) If to Parent, to

Thames Water Plc
Clearwater Court
Vastern Road
Reading RGI 8DB
United Kingdom

Attention: Jim McGivern
Janet Ravenscroft
Helmut Kempf

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
Attention: Peter S. Wilson, Esq.
Mark I. Greene, Esq.
Telecopy: (212) 474-3700

(b) if to a Stockholder, as provided on Exhibit B hereof.

4.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

4.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws

that might otherwise govern under applicable principles of conflicts of laws thereof.

4.6 Amendment. This Agreement may not be amended except by an instrument in writing signed on behalf of the Parent and each Stockholder to be affected thereby.

4.7 Stockholder Capacity. No person executing this Agreement who is or becomes during the term of this Agreement an officer or director of the Company makes (or shall be deemed to have made) any agreement or understanding herein in his or her capacity as such officer or director. Without limiting the generality of the foregoing, each Stockholder signs solely in his or her capacity as the beneficial owner of such

Stockholder's Shares and nothing herein shall limit or affect any action taken by a Stockholder in his or her capacity as an officer or director of the Company.

4.8 Several Basis. The parties hereto agree and acknowledge that each Stockholder's duties, obligations, covenants, representations and warranties are made individually and on a several and not joint basis, and, if made by a trustee of a trust that owns Shares, are made by such trustee in his or her fiduciary capacity, and not individually.

4.9 Entire Agreement; No Third-Party Beneficiaries. This Agreement (including the documents and instruments referred to herein) (i) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter of this Agreement and (ii) is not intended to confer upon any person other than the parties hereto (and their respective successors and assigns) any rights or remedies.

4.10 Assignment. Except as provided in Section 3.1(a), neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by any of the parties hereto without the prior written consent of the other parties hereto, except that Parent may assign, in its sole discretion, any of or all its rights, interests and obligations under this Agreement to any direct or indirect wholly owned subsidiary of Parent, but no such assignment shall relieve Parent of any of its obligations under this Agreement. Any purported assignment in violation of this Section 4.9 shall be void. Subject to the preceding sentences of this Section 4.9, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

4.11 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner and to the end that the transactions contemplated hereby are fulfilled to the extent possible.

4.12 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not

performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to specific performance of the terms hereof in any Delaware state court or any Federal court located in the State of Delaware, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Delaware state court or any Federal court located in the State of Delaware in the event any dispute arises out of or under or relates to this Agreement or any of the transactions contemplated hereby, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action, suit or proceeding arising out of or under or relating to this Agreement or any of the transactions contemplated hereby in any court other than any Delaware state court or any Federal court located in the State of Delaware and (iv) waives any right to trial by jury with respect to any action, suit or proceeding arising out of or under or relating to this Agreement or any of the transactions contemplated hereby in any Delaware state court or any Federal court located in the State of Delaware, and hereby further and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, Parent and each of the Stockholders have signed or caused this Agreement to be signed by their respective officers or other authorized person thereunto duly authorized, as of the date first written above.

Thames Water Aqua Holdings GmbH

By: /s/ Richard R. Klein

Name: Richard R Klein
Title: Attorney-in-Fact

By: /s/ William John Alexander

Name: William John Alexander
Title: Attorney-in-fact

By: /s/ Marilyn Ware

Name: Marilyn Ware

As Managing General Partner of Waterworks Associates, L.P., a Delaware limited partnership, with respect to 3,687,605 Existing Shares.

As Manager of Amworks, L.L.C., a Delaware limited liability company, with respect to 1,225,864 Existing Shares.

Existing Shares: 4,913,469

By: /s/ Marian S. Ware

Name: Marian S. Ware

In her individual capacity, with respect to 4,050,239 Existing Shares.

Existing Shares: 4,050,239

HARDING MOTT FAMILY TRUST

By: /s/ William S. White

Name: William S. White
Title: Trustee

By: /s/ Frederick S. Kirkpatrick

Name: Frederick S. Kirkpatrick
Title: Trustee

Existing Shares: 4,769,720

CLAIRE INVESTMENT COMPANY

By: CLAIRE M. WHITE 1946 TRUST, as general partner

By: /s/ William S. White

Name: William S. White
Title: Trustee

By: CLAIRE M. WHITE 1952 TRUST, as general partner

By: /s/ William S. White

Name: William S. White
Title: Trustee

By: /s/ Tiffany White Lovett

Name: Tiffany White Lovett
Title: Trustee

Existing Shares: 2,981,075

Ware Family Investments Limited

By: WARE FAMILY INVESTMENTS, INC., as general partner

By: RHODA C. WARE REVOCABLE TRUST, as sole shareholder

By: BESSEMER TRUST COMPANY OF FLORIDA, as trustee

By:/s/ James L. Myers, Jr.

Name: James L. Myers, Jr.
Title: Managing Director

By:/s/ Nancy Wainwright

Name: Nancy Wainwright
Title: Trustee

By:/s/ Rhoda W. Cobb

Name: Rhoda Cobb
Title: Trustee

By:/s/ Martha Ware

Name: Martha Ware
Title: Trustee

Existing Shares: 428,572

RHODA C. WARE REVOCABLE TRUST

By: BESSEMER TRUST COMPANY OF FLORIDA, as trustee

By:/s/ James L. Myers, Jr.

Name: James L. Myers, Jr.
Title: Managing Director

By:/s/ Nancy Wainwright

Name: Nancy Wainwright
Title: Trustee

By:/s/ Rhoda W. Cobb

Name: Rhoda Cobb
Title: Trustee

By:/s/ Martha Ware

Name: Martha Ware
Title: Trustee

Existing Shares: 1,451,996

BESSEMER TRUST COMPANY

By: /s/ Bartholomew H. Sharp

Name: Bartholomew H. Sharp
Title: Principal

As Trustee for the Irrevocable Trust For The Benefit Of Nancy Wainwright, with respect to 1,187,362 Existing Shares.

As Trustee for the Martha Ware Irrevocable Trust, with respect to 1,148,212 Existing Shares.

As Trustee for the Martha Ware Revocable Trust, with respect to 24,919 Existing Shares.

Existing Shares: 2,360,493

BANKERS TRUST FLORIDA, N.A.

By: /s/ Charles B. Fischer, Jr.

Name: C.B. Fischer, Jr.
Title: Vice President

As Trustee for Irrevocable Trust For The Benefit Of Rhoda Cobb, with respect to 891,784 Existing Shares.

As Trustee for the Rhoda C. Ware Generation Skipping Trust, with respect to 37,764 Existing Shares.

Existing Shares: 929,548

MELLON BANK

By: /s/ Barbara F. Buckman

Name: Barbara F. Buckman
Title: Vice President

By: /s/ Elizabeth H. Gemmill

Name: Elizabeth H. Gemmill

Each as Trustee under the Deed of Trust of Kenneth Gemmill as appointed by Will of Catherine G. Cowen, with

respect to 397,048 Existing Shares.

Each as Trustee under the Deed of Trust of Kenneth Gemmill as appointed by Will of William K. Gemmill, with respect to 503,536 Existing Shares.

Each as Trustee under the John K. Gemmill Appointive Trust #1, with respect to 142,948 Existing Shares.

Each as Trustee under the John K. Gemmill Appointive Trust #2, with respect to 230,000 Existing Shares.

Existing Shares: 1,273,532

MELLON BANK

By: /s/ Barbara F. Buckman

Name: Barbara F. Buckman
Title: Vice President

As Trustee under the Deed of Trust of Kenneth Gemmill for Helen H. Gemmill, with respect to 547,984 Existing Shares.

As Trustee under the Deed of Trust of Kenneth Gemmill for Elizabeth H. Gemmill, with respect to 480,248 Existing Shares.

Existing Shares: 1,028,232

EXHIBIT A

Shares Not Subject To Transfer Restrictions

Name:	Number of Shares:
Marian S. Ware	202,512
Amworks, L.L.C	61,293
Waterworks Associates, L.P	184,380
Harding Mott Family Trust	238,486
Claire Investment Company	149,054
Deed of Trust of Kenneth Gemmill as appointed by Will of Catherine G. Cowen	19,852
Deed of Trust of Kenneth Gemmill	

as appointed by Will of William K. Gemmill	25,177
John K. Gemmill Appointive Trust #1	7,147
John K. Gemmill Appointive Trust #2	11,500
Deed of Trust of Kenneth Gemmill for Helen H. Gemmill	27,399
Deed of Trust of Kenneth Gemmill for Elizabeth H. Gemmill	24,012
Ware Family Investments Limited	21,429
Rhoda C. Ware Revocable Trust	72,600
Irrevocable Trust For The Benefit Of Nancy Wainwright	59,368
Martha Ware Irrevocable Trust	100,000
Martha Ware Revocable Trust	1,246

Name:	Number of Shares:
Irrevocable Trust For The Benefit Of Rhoda Cobb	44,589
Rhoda C. Ware Generation Skipping Trust	1,888

EXHIBIT B

Notices

Name:	Address:
Marilyn Ware	c/o Marian S. Ware 125B Lancaster Ave. Strasburg, PA 17579
Marian S. Ware	125B Lancaster Ave. Strasburg, PA 17579
Harding Mott Family Trust Attn: Frederick S. Kirkpatrick	MFO Management Company 111 E. Court St., Suite 3-D Flint, MI 48502
Claire Investment Company	C.S. Mott Foundation

Attn: William S. White	Mott Foundation Building 503 South Saginaw Street, 12th Floor Flint, MI 48502
Ware Family Investments Limited C/o Bessemer Trust Company of Florida Attn: James L. Myers, Jr.	222 Royal Palm Way Palm Beach, FL 33480-4394
Rhoda C. Ware Revocable Trust C/o Bessemer Trust Company of Florida Attn: James L. Myers, Jr.	222 Royal Palm Way Palm Beach, FL 33480-4394
Bessemer Trust Company Attn: James L. Myers, Jr.	222 Royal Palm Way Palm Beach, FL 33480-4394
Bessemer Trust Company Attn: Fred Sandstrom	100 Woodbridge Center Drive Woodbridge, NJ 07095-0980
Bankers Trust Florida, N.A. Attn: C.B. Fischer, Jr.	350 Royal Palm Way Palm Beach, FL 33480
Elizabeth Gemmill	608 Harts Ridge Road Conshohocken, PA 19428
Mellon Bank Attn: Barbara F. Buckman	1735 Market Street, 3rd floor Philadelphia, PA 19103

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Form 8-K for AMERICAN WATER WORKS CO INC filed on Feb 8 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 6, 2002

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (856) 346-8200

ITEM 9. REGULATION FD DISCLOSURE.

American Water Works Company, Inc. is furnishing herewith a copy of an employee communication relating to its proposed merger with a subsidiary of RWE. This information is attached to this Form 8-K as Exhibit 99.1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: February 7, 2002

EXHIBIT INDEX

Exhibit No.	Description
99.1	RWE Acquisition Update #15 dated February 6, 2002.

Exhibit 99.1

[Logo] RWE Acquisition Update #15

February 6, 2002

This is an update on the RWE/Thames transaction for American Water Associates. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

Progress on the Regulatory Front
In the recent survey of Associates, you told us you wanted to have more information about the regulatory approval process for the proposed RWE acquisition. As of the end of January, all of the applications for approval were filed where they are required. Here's the latest on the status of the filing in each state:

Arizona
We filed our application on December 17, 2001 and the public utility agency's staff asked to delay a review of our application until May 8, 2002. We agreed to that request. In the meantime, we have been asked to respond to a series of questions from the staff.

California
The application was officially accepted as filed on January 28, 2002 and no further action has taken place.

Hawaii
On December 11, 2001 we filed an official notification of the proposed merger. The public utility agency later informed the company that it does not intend to review the matter at this time, but reserves the right to conduct a review

at a later date. Since that notification, the company has filed additional documentation regarding the transaction to minimize the time the agency might require if it decides to move forward on the review at a later date.

Continued . . .

Illinois
The filing was made on December 21, 2001. Since then, the cities of Pekin and Peoria have become official interveners in the proceedings. An intervenor is any individual, company, or organization with an interest in the proceedings such as customers, legislators or unions. Intervenors have the right to participate in the formal hearings, request information, present testimony, and appeal to the courts if they are dissatisfied with the decisions. Since the filing in December, the Company has been responding to requests for information. Public hearings have been scheduled for May 21 and 22, 2002.

Iowa
The public utility agency's general counsel agreed with the company's position that that agency's approval of the merger is not needed. No further action is required.

Kentucky
Since the application was filed on January 31, 2002, the company has received several requests for more information and is responding. The Attorney General of the Commonwealth has intervened.

Maryland
The application was filed on December 20. It is scheduled to be considered as part of the agency's February 13, 2002 agenda.

Missouri
It appeared to us that the state of Missouri did not require a filing. On December 18, 2001 the public utility commission responded to a petition filed by the state's consumer advocate's office requesting that the agency review the proposed acquisition. The agency agreed with the company's position that approval of the merger was not needed. No further action is required.

New Jersey
The filing was made on December 21, 2001. Since then, a proposed schedule has been circulated to the parties, which sets April 15, 2002 as the date a Merger Study is to be filed. This study will look at the options to consolidate the New Jersey-American operations and those of E'Town Corporation. Public hearings are scheduled for May 28, 2002. The state's office of ratepayer advocate has intervened.

New Mexico
The petition was filed on December 20, 2001. Since then a hearing examiner has been appointed and will convene a meeting to set a schedule for the remainder of the proceedings.

Continued . . .

New York
The application was filed on December 20, 2001 and published in the New York State Register. An initial meeting was held with the members of the public

utility agency's staff to discuss future proceedings.

Ohio
The filing was made on December 13, 2001 and on January 24, 2002 the public utility commission issued an order agreeing that approval of the merger is not required. No further action is required.

Pennsylvania
The application for the transaction was filed on December 14. Petitions to intervene have been received by the state's Office of Consumer's Advocate and Local 537 of the Utility Workers Union of America. The company is drafting responses to those petitions.

Tennessee
On December 12, 2001, the company filed a petition asking the Tennessee Regulatory Authority to approve the acquisition of Tennessee-American and American Water Works. At its January 8, 2002 meeting, the regulatory authority approved the company's petition stating it was "authorizing Thames Holdings, RWE and any other entity owned or controlled, directly or indirectly, by Thames Holdings and managed by Thames Water to acquire control of Tennessee-American and AWW." The actual order will be issued later.

Texas
The company filed a letter with the state public utility agency on December 12, 2001 asking the regulator to agree that no action was required on the transaction. In a letter dated January 22, 2002, the public utility agency concluded that the transaction is not subject to the requirements of the Texas Water Code. No further action is required.

Virginia
The company's filing in Virginia was made on December 19, 2001. The public utility agency has issued an order extending the time for review to March 19, 2002. A report from the agency's staff is to be filed on February 14, 2002.

Continued . . .

West Virginia
On December 20, 2001, the company filed a petition with the state public utility agency. In January the company received a memorandum from the agency's staff, and responses to issues raised in the memorandum are being prepared.

The other states
State public utility agencies in Georgia, Indiana and Michigan were not requested to act on the transaction since approval is not required. In addition, the company has not requested regulatory approval in Connecticut, Massachusetts and New Hampshire since the sale of these operations to Aquarion is pending.

* * *

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions,

weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

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Form 8-K for AMERICAN WATER WORKS CO INC filed on Jan 17 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 17, 2002

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (856) 346-8200

ITEM 5. OTHER EVENTS.

On January 17, 2002, American Water Works Company, Inc. ("American Water Works") issued a press release announcing that at a special meeting of its stockholders held today, its stockholders voted overwhelmingly to approve American Water Works' September 16, 2001 agreement and plan of merger pursuant to which American Water Works will merge with a subsidiary of RWE AG. The press release is attached hereto as Exhibit 99.1 and incorporated by reference herein.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not Applicable.

(b) Not Applicable.

(c) Exhibits.

The exhibit listed below and in the accompanying Exhibit Index is filed as part of this Current Report on Form 8-K.

EXHIBIT NO.	DESCRIPTION
99.1	Press Release, dated as of January 17, 2002, of American Water Works Company, Inc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: January 17, 2002

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated as of January 17, 2002, of American Water Works Company, Inc.

Exhibit 99.1

FOR IMMEDIATE RELEASE

James E. Harrison
Vice President, Investor Relations
856-346-8207

Nancy A. Macenko
Vice President, External Affairs
856-566-4026

AMERICAN WATER WORKS STOCKHOLDERS GIVE
RESOUNDING APPROVAL TO RWE AG MERGER AGREEMENT

VOORHEES, N. J., January 17, 2002 - At a special meeting today, owners of common stock of American Water Works Company, Inc. (NYSE:AWK) representing 80% of the total number of outstanding shares, cast their ballots in favor of adopting the September 16, 2001 merger agreement under which American Water Works will merge with a subsidiary of RWE AG and holders of American Water

Works' common stock will receive $46 per share.

"We are pleased that our stockholders recognized the value created by this transaction that was so compelling to the members of the Board," stated Marilyn Ware, Chairman of the American Water Works Board of Directors.

Before the transaction that was approved by stockholders today can be completed, state and federal regulatory approvals are required. Petitions seeking these approvals are underway. As a result of the time required to complete the approval process by the various regulatory agencies, the company does not anticipate completion of the merger until the first half of 2003.

American Water Works Company is the largest publicly traded U.S. corporation devoted exclusively to the business of water. Its 6,600 associates provide water, wastewater and other related services to nearly 16 million people in 29 states and three Canadian provinces. More information can be found on the Web at www.amwater.com.

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(A) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential. For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement
[X] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Rule 14a-12

AMERICAN WATER WORKS COMPANY, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount previously paid:

---

2) Form, Schedule or Registration Statement No.:

---

3) Filing Party:

---

4) Date Filed:

[Logo] RWE Acquisition Update #13

January 7, 2002

This is an update on the RWE/Thames transaction for American Water Associates. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

Frequently Asked Questions

As the transition planning moves forward, has RWE or Thames made any decisions to change the American Water organization?

No matter if this transaction were taking place or not, there will always be changes in the works. Like all companies, American Water will continue to make modifications to the organization so we can evolve, adapt and take advantage of economies of scale and best business practices. This is the only way we can continue to achieve the highest quality, cost-effective service to customers. When the transaction is complete, the American Water team will be responsible for a much larger group of customers in North, Central and South America. That means that additional organization changes are inevitable to put us in the best position to support our customers and grow the business.

How might future changes impact American Water Works subsidiaries?

In New Jersey, and only in New Jersey, Thames and American Water currently have separate regulated operating companies -- New Jersey-American Water and Elizabethtown Water. Over the next few months, the transition team will be studying the two organizations. If the team concludes that combining them makes sense and the decision is made to take that step, it is likely that some loss of jobs in those utilities would result. At the same time, there will be an analysis of opportunities in other areas of our organization to minimize job losses.

Continued . . .

Acquisition Update -2-

These changes will not happen until the transaction has received all regulatory approvals and a closing has taken place. Apart from this unique situation, there are no plans for any other workforce reductions and all collective bargaining contracts will be honored. In fact, since a primary objective of the transaction is to grow the RWE water business in the Americas, it is likely that, in the aggregate, more Associates will be needed, not fewer.

We've heard the proposed transaction will offer Associates more career opportunities. What do those opportunities look like?

The association with Thames offers the potential for international assignments and new challenges that would not have been possible otherwise. This will come about, in large part, through Thames Water's global resourcing program that is designed to overlay worldwide staffing requirements against one- and three-year business plans -- offering new possibilities where skill sets and job requirements match.

American Water Associates will also have access to a broader spectrum of training and development opportunities as a result of the merger. Like American Water, Thames has a long history of equipping its employees with the skills and tools to deliver high performance. RWE and Thames invest substantially in training and development in all levels of management. Thames spends approximately $6 million a year on training alone.

In addition to these new career opportunities, does the transaction offer Associates any other benefits?

There is a very tangible benefit. As American Water Works shareholders, Associates will benefit from the acquisition share price of $46.

Continued . . .

Acquisition Update -3-

Are benefits plans and policies changing?

The acquisition agreement ensures that benefits plans for non-bargaining unit Associates will be maintained as they currently are for 12 months following the close of the transaction. For six months after that point, benefits changes may be made but, on the whole, those changes will not cause benefits to be any less favorable than before the transaction closed. Benefits for Associates represented by collective bargaining agreements will be dictated by the agreements currently in place, and may only be changed through the collective bargaining process.

But a few changes are being made. As you know, Associates can no longer invest ESOP dividends in the dividend reinvestment and stock purchase plan. This plan was suspended effective September 17, the first business day after the

acquisition agreement was reached. You can still contribute to your ESOP account and the Company will continue to match your contributions until the transaction is complete. Once the deal is closed, American Water stock will no longer be traded and the ESOP program, as it is known today, will end.

Another change will take place in the 401(k) plan. Until the transaction closes, American Water Works Company, Inc. stock will continue to be one of the plan's investment options. Dividends will continue to be reinvested within the plan, although the stock purchased with those dividends will not be purchased at a discount. But once the deal is closed, Associates will not have American Water Works stock as an investment option because the company will no longer issue common stock. Your American Water Works shares will be exchanged for $46 per share and you will be able to move the value of your stock account into any of the other funds in the 401(k) Plan.

Is the transaction considered closed after the shareholder vote is taken on January 17?

No. The transaction will be closed when regulatory approvals have been received. We remain confident that this will take place within the next 12 to 18 months.

Continued . . .

Acquisition Update -4-

What is the Thames philosophy on management at the state or regional level?

Thames is an equal opportunity employer, fully complying with all applicable laws regarding equal employment opportunity. Beyond that, Thames has a solid track record in relying on experienced country nationals to run the businesses in their countries. For example, in the U.S. at the five major Thames operations (E'town Corp., Leopold, Ashbrook, Thames Water North America and Puerto Rico Superacquaduct), all of the corporate presidents are U.S. nationals. In Chile, the operations are run by a Chilean national and in Thailand, a native Thai oversees the plants.

What will happen to the pension payments that retirees receive once the Company has been acquired by RWE?

Retirees who currently receive payments under the "Pension Plan of American Water Works Company, Inc. and Its Designated Subsidiaries," will continue to receive pension payments. These benefits cannot be forfeited, reduced or eliminated. In other words, nothing changes.

I know someone who no longer works for the American Water System but is entitled to receive a pension from the Company pension plan at some later date. Will he still receive his pension once the transaction is complete?

For those people vested under the American Water Works pension plan or a pension plan under its designated subsidiaries, their right to receive the accrued benefit in the future cannot be forfeited. This means they will continue to receive this benefit.

Will retiree medical benefits be affected by the acquisition?

No. In recognition of the contributions by those who built American Water Works into the industry leader it is today, the agreement will provide current retirees with medical and life insurance benefits at the same level that exists at the close of the transaction.

* * *

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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(A) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:

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[ ] Confidential. For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement
[X] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Rule 14a-12

AMERICAN WATER WORKS COMPANY, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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[Logo] RWE Acquisition Update #12

December 28, 2001

This is an update on the RWE/Thames transaction for American Water Associates. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

Done! Regulatory Filing Work Complete

As December draws to a close, a significant milestone in the RWE/Thames transaction has been reached. Petitions were filed in the 9 of the 10 states where regulatory approval is required before the transaction can close. Those states are:

California	New Jersey	Pennsylvania
Illinois	New Mexico	Virginia
Maryland	New York	West Virginia

Regulatory approval is also required in Kentucky, but at the request of the state commission staff, we have delayed that filing until later this month.

In another six states the Company has formally notified the various commissions of the transaction. Those states are:

Arizona	Iowa	Tennessee
Hawaii	Ohio	Texas

In another four states, neither regulatory approval nor formal notification is required. They are: Georgia, Indiana, Michigan and Missouri.

Finally, since the Company is in the process of divesting its operations in New England, we are not pursuing any regulatory review in Connecticut, Massachusetts and New Hampshire.

* * *

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Washington, D.C. 20549

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(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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[Logo] RWE Acquisition Update #11

December 11, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

RWE Expands its Position in Chilean Water Market
Thames Water - RWE Group Acquires Majority in ESSEL

Thames Water, the management company of RWE's core water business, has acquired a majority interest in the Chilean water supplier ESSEL, in Rancagua. Until now, Thames Water and Electricidade de Portugal SA, Lisbon (EDP), jointly held 51% in ESSEL. After the transfer of EDP's shareholding of 25.5% to Thames Water, Corfo, a Chilean state-owned company, will continue to hold the remaining 49%.

ESSEL, or Empresa de Servicios Sanitarios del Libertador SA, supplies more than 500,000 people of Chile's sixth region with water and wastewater services. In fiscal 2000, the company generated net sales of approximately US$24 million. With this move, Thames Water further expands its position in the Chilean water market. Together with its majority interest in ESSBIO in Concepcion, and the franchise acquisition of ESSAM, the company now has a market share of 20% in Chile.

* * *

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limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

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[Logo] RWE Acquisition Update #10

December 6, 2001

This is an update on the RWE/Thames acquisition for American Water Associates. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

Paying a Visit to Our Friends at RWE and Thames

Jim Barr and Ellen Wolf recently completed a three-day whirlwind visit of some RWE facilities in Germany and Thames Water operations in the United Kingdom. They're pictured here in front of a water

[Photo of Jim Barr, Ellen Wolf, Dr. Deitmar Kuhnt and Bill Alexander]

cascade in the lobby of the Thames headquarters with RWE President and CEO Dr. Deitmar Kuhnt (far l.) and Thames Water CEO Bill Alexander (far r.)

Ellen's thoughts on the visit appear on the following page.

"Update" page 2

You and Jim were in Germany and the United Kingdom to learn more about the operations and people of RWE and Thames Water. What are the overriding impressions that you came away with?

There are several standouts. The first had to do with RWE's commitment to the business of water. We've never doubted the conviction behind the RWE strategy to expand the core business of water and to use it as a platform for international growth, and we're enthusiastic about being part of that. Even so, as we visited with our colleagues in Essen, I was struck by the strength of that conviction. It was evident in every presentation and discussion we had. It was evident even in the company's message to the community in the nearby town of Oberhausen. RWE is a prime sponsor of a dramatic and most impressive exhibition in the town called "Blue Gold." This remarkable interactive exhibition tells the story of water - from its abundance, to its shortage and preciousness. It offers fascinating suggestions for examining the true value of reliable, affordable water and how we very often take that for granted.

Then at Thames Water, we saw how state-of-the-art technology can be used to improve operations and customer service -- in very real and practical ways. For example, at the Thames Operations Center, the company can monitor its distribution network anywhere in the world. And by keeping track of weather patterns, they are able to understand and even predict the potential changes in water quality in the pipe networks between treatment and customers' taps. It's an exciting new way of looking at water and wastewater management that we can learn from.

Our Thames colleagues also do an excellent job of partnering with the community. For example, we visited an area in Reading on the outskirts of London, where Thames has been working with the city council to clean up a polluted part of town and to build a new wastewater treatment facility at the site. The new facility will replace an aging operation some miles away, and new homes will be built on that decommissioned land. It's a smart use of resources because the sale of the land will offset the cost of building the new water treatment facility.

What did you learn about the people of RWE and Thames?

We learned that our original perception was correct...they are just like us. We may have cultural differences, but we all care about the same thing - water, and the reliable delivery of that water. Like us, they constantly look for ways to serve customers better. They value the contributions that everyone on the team makes, and they respect the work that was done by those who helped build the company into an industry leader. We're more alike than different.

Any other observations?

Yes. I can confirm that drivers do, indeed, travel very fast on the Autobahn. Often well in excess of 90 mph. That was a little unnerving -- even for someone who's used to the Jersey Turnpike.

* * *

American Water Works Company, Inc. (the "Company"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger, dated as of September 16, 2001, pursuant to which Sub will be merged with and into the Company with the Company surviving the merger (the "Merger"). In connection with the Merger, the Company has filed a proxy statement with the Securities and Exchange Commission (the "SEC") which is first being mailed to security holders of record on or about December 7, 2001. SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC BECAUSE THEY CONTAIN IMPORTANT INFORMATION REGARDING THE MERGER. Investors and security holders may obtain a free copy of the proxy statement and other documents filed by the Company with the SEC in connection with the Merger at the SEC's website at http://www.sec.gov or at the SEC's public reference room at 450 Fifth Street, N.W., Washington, DC 20549. Security holders of the Company may also obtain for free a copy of the proxy statement and other documents filed with the SEC by the Company in connection with the Merger by contacting Nancy A. Macenko, Vice President External Affairs, at (856) 566-4026.

The Company and its subsidiaries and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the Company's stockholders in favor of the Merger. These directors include the following: Marilyn Ware, Gerald C. Smith, J. James Barr, Henry G. Hager, Ross A. Webber, Frederick S. Kirkpatrick, Paul W. Ware, Nancy Ware Wainwright, Ray J. Groves, Elizabeth H. Gemmill, William S. White, Anthony P. Terracciano, William O. Albertini, Rhoda W. Cobb and Horace Wilkins, Jr. and these officers include Joseph F. Hartnett, Jr., Daniel L. Kelleher, W. Timothy Pohl, Robert D. Sievers, Ellen C. Wolf, Nancy A. Macenko and James E. Harrison. Collectively, as of March 5, 2001, the directors and executive officers of the Company may be deemed to beneficially own approximately 21.9% of the outstanding shares of the Company's common stock and under 5% of the outstanding shares of the Company's Cumulative Preferred Stock, 5% Series. Stockholders of the Company may obtain additional information regarding the interests of the participants by reading the proxy statement.

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Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 7, 2001

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (856) 346-8200

ITEM 5. OTHER EVENTS

On November 7, 2001, the Registrant issued a press release announcing that it has completed the acquisition of Azurix North America and Azurix Industrial Corp. The press release is attached hereto as Exhibit 99.1 and incorporated by reference herein.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not Applicable.

(b) Not Applicable.

(c) Exhibits.

The exhibit listed below and in the accompanying Exhibit Index is filed as part of this Current Report on Form 8-K.

EXHIBIT NO.	TITLE
99.1	Press Release, dated as of November 7, 2001, of American Water Works.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: November 8, 2001

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated as of November 7, 2001, of American Water Works.

Exhibit 99.1

FOR IMMEDIATE RELEASE

Sherry Lytle
Vice President Corporate Communications
856-346-8309

Jim Harrison
Vice President Investor Relations

AMERICAN WATER WORKS COMPANY COMPLETES ACQUISITION
OF AZURIX NORTH AMERICA

Combined Company To Provide Full Range of Water Resource
Management Services Throughout U.S. and Canada

VOORHEES, NJ - November 7, 2001 -- American Water Works Company, Inc. (NYSE:AWK) announced today that it has successfully completed the acquisition of Azurix North America and Azurix Industrial Corp. at a purchase price of $141.5 million plus the assumption of $6.1 million in debt. This acquisition strengthens American Water's position as a premier provider of water resource management services in the U.S. and Canada.

"Completion of this acquisition is a significant milestone in American Water's history as it propels the company beyond its historical focus as a regulated water utility service provider," said J. James Barr, President and CEO of American Water. "The additional talent and diversity of services acquired through this transaction are key elements in American Water's growth strategy."

Azurix North America was a wholly-owned subsidiary of Azurix Corp. and provides a broad range of water and wastewater services, including operations and maintenance, engineering, carbon regeneration, underground infrastructure rehabilitation and residuals management. The company has completed projects in 41 U.S. states and Canadian provinces, employs approximately 1,050 people and reported revenues in 2000 of $157 million.

Azurix Industrials Corp., also a former subsidiary of Azurix Corp., provides water and wastewater related technical, operation and maintenance services to industrial markets. The company reported revenues of $3.5 million for 2000.

After accounting for initial transition costs, the acquisition is expected to be accretive to American Water's earnings per share and cash flow in its first full year.

About American Water

With annual revenues of $1.5 billion, American Water Works Company is the nation's largest publicly traded enterprise devoted exclusively to the water and wastewater business. Its 6,300 associates provide ongoing water resource management services to businesses and communities in 27 U.S. states and 3 Canadian provinces. More information can be found on the Web at www.amwater.com.

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Form 8-K

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(Exact Name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (856) 346-8200

ITEM 5. OTHER EVENTS

On November 6, 2001, the Registrant issued a press release announcing that it has entered into a note purchase agreement with RWE Aktiengesellschaft for $1.2 billion in senior unsecured notes. The press release is attached hereto as exhibit 99.1 and incorporated by reference herein.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not Applicable.

(b) Not Applicable.

(c) Exhibits.

The exhibit listed below and in the accompanying Exhibit Index is filed as part of this Current Report on Form 8-K.

EXHIBIT NO.	TITLE
99.1	Press Release, dated as of November 6, 2001, of American Water Works.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: November 7, 2001

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated as of November 6, 2001, of American Water Works.

Exhibit 99.1

FOR IMMEDIATE RELEASE

James E. Harrison
Vice President, Investor Relations
856-346-8207

Nancy A. Macenko
Vice President, External Affairs
856-566-4026

AMERICAN WATER WORKS COMPANY, INC.
ARRANGES $1.2 BILLION FINANCING

VOORHEES, N. J., November 6, 2001 - American Water Works Company, Inc. (NYSE:AWK) announced it has executed a Note Purchase Agreement for $1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes will be purchased at par by RWE/AG and have a five-year maturity. Closing will occur by the issuance of two or more tranches over the next 90 days. American Water Works and its affiliates will use proceeds from the sale of the notes to fund the acquisition of the water and wastewater assets of Citizens Communication Company, to acquire the common stock of Azurix - North America and to reduce outstanding short-term debt. On September 17, 2001 both companies announced they had reached agreement for RWE/AG's purchase of all the outstanding common stock of American Water Works, upon receipt of shareholder and regulatory approvals.

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

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Form 8-K for AMERICAN WATER WORKS CO INC filed on Sep 17 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 16, 2001

AMERICAN WATER WORKS COMPANY, INC.
(Exact Name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770 Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (856) 346-8200

Item 5. Other Events

American Water Works Company, Inc., a Delaware corporation ("American Water Works"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("RWE"), Thames Water Aqua Holdings GmbH, a

company organized under the laws of the Federal Republic of Germany ("Thames"), and Apollo Acquisition Company, a Delaware corporation ("Apollo"), entered into an Agreement and Plan of Merger dated as of September 16, 2001, whereby Apollo shall be merged with and into American Water Works (the "Merger") with American Water Works surviving the Merger. In the Merger, each issued and outstanding share of the common stock, par value $1.25 per share, of American Water Works will be canceled and converted into the right to receive $46.00 in cash.

In connection with the Merger, the Company has amended the terms of the Rights Agreement, dated as of February 18, 1999, as amended as of June 1, 2000, by and between American Water Works and Fleet National Bank (formerly known as BankBoston N.A.), as rights agent (the "Rights Agreement"), to provide that the execution, delivery and performance of the Merger Agreement will not cause any "Rights" (as defined in the Rights Agreement) to become exercisable, cause RWE, Thames, Apollo or any of their affiliates to become an "Acquiring Person" (as defined in the Rights Agreement) or give rise to a "Distribution Date," "Shares Acquisition Date" or "Triggering Event" (as each such term is defined in the Rights Agreement).

The Merger Agreement, second amendment to the Rights Agreement, press release issued by American Water Works on September 17, 2001, questions and answers for financial analysts and questions and answers for stockholders are attached as exhibits and are incorporated by reference herein.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not Applicable.

(b) Not Applicable.

(c) Exhibits.

The exhibits listed below and in the accompanying Exhibit Index are filed as part of this Current Report on Form 8-K.

EXHIBIT NO.	TITLE
2.1	Agreement and Plan of Merger, dated as of September 16, 2001, by and among American Water Works, RWE, Thames and Apollo.
2.2	Second Amendment, dated as of September 16, 2001, to the Rights Agreement, dated as of February 18, 1999, as amended June 1, 2000, by and between American Water Works Company, Inc. and Fleet National Bank (formerly known as BankBoston N.A.) (Incorporated by reference to the Company's Amendment No. 2 to the Registration Statement on Form 8-A filed on September 17, 2001).
99.1	Press Release, dated as of September 17, 2001, of American Water Works.
99.2	Questions and answers for financial analysts, dated as of September 17, 2001.
99.3	Questions and answers for stockholders, dated as of September 17, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: September 17, 2001

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of September 16, 2001, by and among American Water Works, RWE, Thames and Apollo.
2.2	Second Amendment, dated as of September 16, 2001, to the Rights Agreement, dated as of February 18, 1999, as amended June 1, 2000, by and between American Water Works Company, Inc. and Fleet National Bank (formerly known as BankBoston N.A.) (Incorporated by reference to the Company's Amendment No. 2 to the Registration Statement on Form 8-A filed on September 17, 2001).
99.1	Press Release, dated as of September 17, 2001, of American Water Works.
99.2	Questions and answers for financial analysts, dated as of September 17, 2001.
99.3	Questions and answers for stockholders, dated as of September 17, 2001.

Exhibit 2.1

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

Among

RWE AKTIENGESELLSCHAFT,

THAMES WATER AQUA HOLDINGS GMBH,

APOLLO ACQUISITION COMPANY

and

AMERICAN WATER WORKS COMPANY, INC.

Dated as of September 16, 2001

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EXHIBIT A Certificate of Incorporation

AGREEMENT AND PLAN OF MERGER dated as of September 16, 2001, by and among RWE AKTIENGESELLSCHAFT, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), THAMES WATER AQUA HOLDINGS GMBH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), APOLLO ACQUISITION COMPANY, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and AMERICAN WATER WORKS COMPANY, INC., a Delaware corporation (the "Company").

WHEREAS the Board of Directors of each of the Company and Sub has approved and declared advisable, the Supervisory Board of Guarantor has approved and deemed advisable, and the Managing Directors of Parent have approved and declared advisable, this Agreement and the merger of Sub with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of Common Stock, par value $1.25 per share, of the Company (the "Company Common Stock") not owned by Parent, Sub or the Company, other than the Appraisal Shares (as defined in Section 2.01(d)), will be converted into the right to receive $46.00 in cash;

WHEREAS simultaneously with the execution and delivery of this Agreement, Parent and certain stockholders of the Company (the "Specified

Company Stockholders") are entering into a voting agreement (the "Company Voting Agreement") pursuant to which the Specified Company Stockholders are agreeing to take certain actions in furtherance of the Merger; and

WHEREAS Guarantor, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I
The Merger

SECTION 1.01. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), Sub shall be merged with and into the Company at the Effective Time (as defined in Section 1.03). At the Effective Time, the separate corporate existence of Sub shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of Sub in accordance with the DGCL.

SECTION 1.02. Closing. Upon the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the "Closing") shall take place at 11:00 a.m., New York time, on the second business day after the satisfaction or waiver of the conditions set forth in Article VI (other than those that by their terms cannot be satisfied until the time of the Closing), at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York 10019, or at such other time, date or place agreed to in writing by Parent and the Company;

provided, however, that if all the conditions set forth in Article VI shall not have been satisfied or waived on such second business day, then the Closing shall take place on the first business day on which all such conditions shall have been satisfied or waived. The date on which the Closing occurs is referred to in this Agreement as the "Closing Date."

SECTION 1.03. Effective Time. Upon the terms and subject to the conditions set forth in this Agreement, as soon as practicable on or after the Closing Date, a certificate of merger or other appropriate documents (in any such case, the "Certificate of Merger") shall be duly prepared and executed by the parties in accordance with the relevant provisions of the DGCL and filed with the Secretary of State of the State of Delaware. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such subsequent time or date as Parent and the Company shall agree and specify in the Certificate of Merger. The time at which the Merger becomes effective is referred to in this Agreement as the "Effective Time."

SECTION 1.04. Effects of the Merger. The Merger shall have the effects set forth in Section 259 of the DGCL.

SECTION 1.05. Certificate of Incorporation and By-laws. (a) The Restated Certificate of Incorporation of the Company shall be amended at the Effective Time to read in the form of Exhibit A and, as so amended, such Restated Certificate of Incorporation shall be the Restated Certificate of Incorporation of the Surviving Corporation until thereafter changed or amended

as provided therein or by applicable law.

(b) The By-laws of Sub as in effect immediately prior to the Effective Time shall be the By-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

SECTION 1.06. Directors. (a) The directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

(b) Guarantor shall take all necessary action to cause J. James Barr to be elected as a director, as of the Effective Time, of Thames Water Plc ("Thames").

(c) Guarantor shall take all necessary action to cause Marilyn Ware to be elected as a member, as of the Effective Time, of the Thames Water International Advisory Council.

SECTION 1.07. Officers. The officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE II
Conversion of Securities

SECTION 2.01. Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of capital stock of the Company or Sub:

(a) Capital Stock of Sub. Each issued and outstanding share of common stock of Sub shall be converted into and become one fully paid and nonassessable share of common stock, par value $1.00 per share, of the Surviving Corporation.

(b) Cancelation of Treasury Stock and Parent-Owned Stock. Each share of Company Common Stock that is owned by the Company, as treasury stock, or by Parent or Sub immediately prior to the Effective Time shall automatically be canceled and shall cease to exist and no consideration shall be delivered or deliverable in exchange therefor.

(c) Conversion of Company Common Stock. Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled in accordance with Section 2.01(b) and the Appraisal Shares) shall be converted into the right to receive $46.00 in cash without interest (the "Merger Consideration"). At the Effective Time all such shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of a certificate that immediately prior to the Effective Time represented any such shares (a "Certificate") shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any dividends declared and unpaid thereon payable to holders of record thereof as of a record date preceding the Effective Time. Following the Effective Time, upon surrender of Certificates in accordance with Section 2.02, the Surviving Corporation shall pay to the holders of Certificates as of the Effective Time any unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and

which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C).

(d) Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, shares (the "Appraisal Shares") of Company Common Stock issued and outstanding immediately prior to the Effective Time that are held by any holder who is entitled to demand and properly demands appraisal of such shares pursuant to, and who complies in all respects with, the provisions of Section 262 of the DGCL ("Section 262") shall not be converted into the right to receive the Merger Consideration as provided in Section 2.01(c), but instead such holder shall be entitled to payment of the fair value of such shares in accordance with the provisions of Section 262. At the Effective Time, all Appraisal Shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of Appraisal Shares shall cease to have any rights with respect thereto, except the right to receive the fair value of such shares in accordance

with the provisions of Section 262. Notwithstanding the foregoing, if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under Section 262 or a court of competent jurisdiction shall determine that such holder is not entitled to the relief provided by Section 262, then the right of such holder to be paid the fair value of such holder's Appraisal Shares under Section 262 shall cease and each such Appraisal Share shall be deemed to have been converted at the Effective Time into, and shall have become, the right to receive the Merger Consideration as provided in Section 2.01(c). The Company shall serve prompt notice to Parent of any demands for appraisal of any shares of Company Common Stock, and Parent shall have the right to participate in and direct all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands, or agree to do any of the foregoing.

SECTION 2.02. Exchange of Certificates. (a) Paying Agent. Prior to the Effective Time, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the payment of the Merger Consideration upon surrender of Certificates (the "Paying Agent"). Parent shall take all steps necessary to enable, and shall cause, the Surviving Corporation to provide to the Paying Agent immediately following the Effective Time all the cash necessary to pay for the shares of Company Common Stock converted into the right to receive the Merger Consideration pursuant to Section 2.01(c), plus any amounts payable in respect of unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C) (such cash being hereinafter referred to as the "Exchange Fund").

(b) Exchange Procedure. As soon as reasonably practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a Certificate (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates held by such person shall pass, only upon proper delivery of the Certificates to the Paying Agent and shall be in customary form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancelation to the Paying

Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash payable in respect of the shares formerly represented by such Certificate pursuant to Section 2.01(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the stock transfer books of the Company, the proper amount of cash may be paid in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been

paid or is not applicable. No interest shall be paid or shall accrue on the cash payable upon surrender of any Certificate.

(c) No Further Ownership Rights in Company Common Stock. All cash paid upon the surrender of a Certificate in accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock formerly represented by such Certificate. At the close of business on the day on which the Effective Time occurs the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Paying Agent for transfer or any other reason, they shall be canceled and exchanged as provided in this Article II.

(d) Termination of Exchange Fund. Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock for one year after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation for payment of its claim for Merger Consideration.

(e) No Liability. None of Parent, the Surviving Corporation or the Paying Agent shall be liable to any person in respect of any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. If any Certificates shall not have been surrendered prior to three years after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration would otherwise escheat to or became the property of any Governmental Entity (as defined in Section 3.01(d)), any such Merger Consideration in respect thereof shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(f) Investment of Exchange Fund. The Paying Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis; provided, however, that such investments shall be in (i) obligations of or guaranteed by the United States of America and backed by the full faith and credit of the United States of America, (ii) commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, (iii) certificates of deposit maturing not more than 180 days after the date of purchase issued by a bank organized under

the laws of the United States or any state thereof having a combined capital and surplus of at least $500,000,000 or (iv) a money market fund having assets of at least $3,000,000,000. Any interest and other income resulting from such investments shall be paid to Parent.

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(g) Lost Certificates. If any Certificate shall have been lost, stolen, defaced or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, defaced or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent shall pay in respect of such lost, stolen, defaced or destroyed Certificate the Merger Consideration.

(h) Withholding Rights. Parent, the Surviving Corporation or the Paying Agent shall be entitled to deduct and withhold any applicable taxes from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock.

SECTION 2.03. Redemption of Preferred Stock and Preference Stock. On or prior to the date on which the Effective Time occurs, but in any event prior to the Effective Time, the Company shall redeem (the "Stock Redemption") (i) each issued and outstanding share of its Cumulative Preferred Stock, 5% Series, par value $25.00 per share (the "Company 5% Cumulative Preferred Stock"), for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 6 ("Section 6") of Division A of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 6) and (ii) each issued and outstanding share of its 5% Cumulative Preference Stock, par value $25.00 per share (the "Company 5% Cumulative Preference Stock" and, together with the Company 5% Cumulative Preferred Stock and the Company Common Stock, the "Company Capital Stock"), for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 5 ("Section 5") of Division B of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 5) (the redemption price for the Company 5% Cumulative Preferred Stock and the Company 5% Cumulative Preference Stock being referred to as the "Redemption Price").

ARTICLE III
Representations and Warranties

SECTION 3.01. Representations and Warranties of the Company. The Company represents and warrants to Parent and Sub as follows:

(a) Organization, Standing and Power. Each of the Company and each of its subsidiaries (as defined in Section 8.03) (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has all requisite corporate power and authority to carry on its business as now being conducted and (iii) except as set forth in Section 3.01(a) of the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure

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Schedule"), is duly qualified or licensed to do business and is in good

standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to have a material adverse effect (as defined in Section 8.03). The Company has made available to Parent and its representatives true and complete copies of (A) the Restated Certificate of Incorporation and By-laws of the Company by reference to the Filed SEC Documents (as defined in Section 3.01(e)), in each case as amended to the date of this Agreement and (B) the minutes of all meetings of the stockholders, the Board of Directors and each committee of the Board of Directors of the Company since June 1, 1998.

(b) Subsidiaries. Section 3.01(b)(i) of the Company Disclosure Schedule contains a true and complete list of each Significant Subsidiary (as defined in Section 8.03) of the Company as of the date of this Agreement, including its jurisdiction of organization, the Company's interest therein and a brief description of the principal line or lines of business conducted by each such Significant Subsidiary. Except as set forth in Section 3.01(b)(i) of the Company Disclosure Schedule, all the issued and outstanding shares of capital stock of, or other equity or voting interests in, each subsidiary of the Company as of the date of this Agreement are owned by the Company, by another wholly owned subsidiary of the Company or by the Company and another wholly owned subsidiary of the Company, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens"), and are duly authorized, validly issued, fully paid and nonassessable. Except for the capital stock of, or other equity or voting interests in, its subsidiaries and as set forth in Section 3.01(b)(ii) of the Company Disclosure Schedule, as of the date of this Agreement, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interests in, any corporation, partnership, joint venture, association, limited liability company or other entity.

(c) Capital Structure. The authorized capital stock of the Company consists of (i) 300,000,000 shares of Company Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value $25.00 per share (the "Company Cumulative Preferred Stock"), of which 101,777 shares have been designated as Company 5% Cumulative Preferred Stock, (iii) 750,000 shares of Cumulative Preference Stock, par value $25.00 per share (the "Company Cumulative Preference Stock"), of which 365,158 shares have been designated as Company 5% Cumulative Preference Stock and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value $35.00 per share (the "Company Cumulative Preferential Stock"). As of the close of business on September 10, 2001, (1) 99,817,628 shares of Company Common Stock (excluding shares held by the Company as treasury shares) were issued and outstanding, (2) 63,693 shares of Company Common Stock were held by the Company as treasury shares, (3) 2,232,100 shares of Company Common Stock were reserved for issuance pursuant to the Company's 2000 Stock Award and Incentive Plan and the Company's Long-Term Performance-Based Incentive Plan (such plans, collectively, the "Company Stock Plans"), of which 905,751 shares were subject to outstanding Company Stock Options (as defined below), (4) the following number of

shares of Company Common Stock were reserved (or registered with the SEC (as defined in Section 3.01(d)) for issuance pursuant to each of the following Company Benefit Plans (as defined below): 876,125 shares under

the Savings Plan For Employees of American Water Works Company, Inc. and its Designated Subsidiaries, 942,157 shares under the Employees' Stock Ownership Plan of American Water Works Company, Inc. and its Designated Subsidiaries, 50,000 shares under the Company's Deferred Compensation Plan, 10,000 shares under the Company's Director Deferred Compensation Plan and 1,755,049 shares under the Company's Dividend Reinvestment and Stock Purchase Plan (collectively, the "Other Company Stock Plans"), (5) 80,865,863 shares of Company Common Stock were reserved for issuance in connection with the rights (the "Company Rights") issued pursuant to the Rights Agreement dated as of February 18, 1999, as amended as of June 1, 2000 (as amended from time to time (the "Company Rights Agreement")), between the Company and BankBoston N.A. (presently known as Fleet National Bank), as Rights Agent, (6) 101,777 shares of Company 5% Cumulative Preferred Stock were issued and outstanding, (7) 365,158 shares of Company 5% Cumulative Preference Stock were issued and outstanding, (8) no shares of Company Cumulative Preferred Stock (other than the Company 5% Cumulative Preferred Stock) were issued and outstanding, (9) no shares of Company Cumulative Preference Stock (other than the Company 5% Cumulative Preference Stock) were issued and outstanding and (10) no shares of Company Cumulative Preferential Stock were issued and outstanding. There are no outstanding stock appreciation rights or other rights that are linked to the price of Company Common Stock granted under any Company Stock Plan whether or not granted in tandem with a related Company Stock Option (as defined below). No shares of Company Capital Stock are owned by any subsidiary of the Company. As of the close of business on September 10, 2001, there were outstanding options to purchase Company Common Stock granted under the Company Stock Plans (collectively, the "Company Stock Options") to purchase 905,751 shares of Company Common Stock with exercise prices on a per share basis lower than the Merger Consideration, and the weighted average exercise price of such Company Stock Options was equal to $23.65. Except as set forth above, as of the close of business on September 10, 2001, no shares of capital stock of, or other equity or voting interests in, the Company, or options, warrants or other rights to acquire any such stock or securities, were issued, reserved for issuance or outstanding. During the period from September 10, 2001 to the date of this Agreement, (x) there have been no issuances by the Company of shares of capital stock of, or other equity or voting interests in, the Company other than issuances of shares of Company Common Stock pursuant to the exercise of Company Stock Options outstanding on such date in accordance with their terms as in effect on the date of this Agreement and (y) there have been no issuances by the Company of options, warrants or other rights to acquire shares of capital stock or other equity or voting interests from the Company. All outstanding shares of capital stock of the Company are, and all shares that may be issued pursuant to the Company Stock Plans and Other Company Stock Plans will be, when issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of the Company or any of its subsidiaries, and, except as set forth above, no securities or other instruments or obligations of the Company or any of its subsidiaries the value of which is in any way

based upon or derived from any capital or voting stock of the Company, having in any such case at any time (whether actual or contingent) the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company or any of its subsidiaries may vote. Except as set forth above and except as specifically permitted under Section 4.01(a) (including as

set forth in Section 4.01(a)(ii) of the Company Disclosure Schedule), there are no Contracts (as defined in Section 3.01(d)) of any kind to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound obligating the Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of, or other equity or voting interests in, or securities convertible into, or exchangeable or exercisable for, shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries or obligating the Company or any of its subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right or Contract. Except for the Stock Redemption and the redemption terms of any preferred stock of any of the Company's subsidiaries and as permitted by Section 4.01(a)(i)(y), there are not any outstanding contractual obligations of the Company or any of its subsidiaries to (I) repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries as of the date of this Agreement or (II) vote or dispose of any shares of the capital stock of, or other equity or voting interests in, any of the Company's subsidiaries as of the date of this Agreement. The copy of the Company Rights Agreement on file with the SEC (as defined in Section 3.01(d)) as an exhibit to the Form 8-A Registration Statement of the Company filed with the SEC on March 1, 1999, as amended by the amendment thereto on file with the SEC as an exhibit to the Form 8-A Registration Statement of the Company filed on June 1, 2000, is complete and correct.

(d) Authority; Noncontravention. (i) The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Stockholder Approval (as defined in Section 3.01(n)) and the Company Required Consents (as defined below), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby subject, in the case of the consummation of the Merger, to obtaining the Stockholder Approval (assuming consummation of the Stock Redemption). This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. The Board of Directors of the Company, at a meeting duly called and held at which all directors of the Company were present, duly and unanimously adopted resolutions (A) approving the Stock Redemption and the Company Voting Agreement and approving and declaring advisable this Agreement, the Merger and the other transactions contemplated hereby, (B) directing that this Agreement be submitted to a vote at a meeting of the Company's stockholders and (C) recommending that the Company's stockholders adopt this Agreement. In its determination of whether the

Merger is in the best interests of the Company's stockholders, the Board of Directors of the Company has complied with the provisions of Article Tenth of the Restated Certificate of Incorporation of the Company. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof do not and will not conflict with, or result in any violation or breach of, or default (with

or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of the Company or any of its subsidiaries under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (x) the Restated Certificate of Incorporation or By-laws of the Company or the certificate of incorporation or by-laws (or similar organizational documents) of any of its subsidiaries, (y) subject to obtaining the third party consents set forth in Section 3.01(d) of the Company Disclosure Schedule, any loan or credit agreement, bond, debenture, note, mortgage, indenture, guarantee, lease or other contract, agreement, instrument, arrangement or understanding, whether oral or written (each, including all amendments thereto, a "Contract"), to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject or (z) subject to obtaining the Company Required Consents and the receipt of the Stockholder Approval and the other matters referred to in the following sentence, any (A) statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective properties or assets ("Applicable Law"), (B) judgment, order or decree applicable to the Company or any of its subsidiaries or their respective properties or assets ("Judgment"), or (C) Permit (as defined in Section 3.01(h)) other than, in the case of clauses (y) and (z), any such conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that individually or in the aggregate would not reasonably be expected to have a material adverse effect. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any domestic or foreign (whether national, federal, state, provincial, local or otherwise) government or any court, administrative agency or commission or other governmental or regulatory authority or agency (including a state public utility commission, state public service commission or similar state regulatory body (each, a "PUC")) (each a "Governmental Entity"), is required by or with respect to the Company or any of its subsidiaries in connection with (I) the execution and delivery of this Agreement by the Company, (II) the execution and delivery of the Company Voting Agreement or (III) the consummation of the transactions contemplated hereby and thereby or compliance with the provisions hereof and thereof, except for (1) the filing of a premerger notification and report form by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws or regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with the Securities and Exchange Commission (the "SEC") of a proxy statement relating to the adoption by the Company's stockholders of this

Agreement (as amended or supplemented from time to time, the "Proxy Statement") and such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other

states in which the Company or any of its subsidiaries is qualified to do business, (4) any filings required under the rules and regulations of the New York Stock Exchange ("NYSE"), (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any state departments of public health or departments of health or similar state regulatory bodies or of any federal or state regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (collectively, "Health Agencies"), (7) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any non-U.S. Governmental Entity due solely to the identity or involvement of Guarantor, Parent, Sub or any of their respective subsidiaries and (8) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not reasonably be expected to have a material adverse effect. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices (x) described (i) in the foregoing clause (5) that are required to be obtained or made by the Company or any of its subsidiaries and (ii) in the foregoing clause (6) the failure of which to obtain or make would reasonably be expected to have a material adverse effect or (y) of any Governmental Entity that would not be required to be obtained or made by the Company or any of its subsidiaries but for an acquisition of a business or asset by the Company or any of its subsidiaries that is consummated after the date of this Agreement the failure of which to obtain or make would reasonably be expected to have a material adverse effect are hereinafter referred to as the "Company Required Consents."

(ii) The Company and the Board of Directors of the Company have taken all action necessary to (A) render the Company Rights inapplicable to the execution, delivery and performance of this Agreement and the Company Voting Agreement and to the consummation of the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) and (B) ensure that (x) neither Parent nor any of its affiliates or associates is or will become an "Acquiring Person" (as defined in the Company Rights Agreement) by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b), (y) neither a "Distribution Date" nor a "Triggering Event" (each as defined in the Company Rights Agreement) shall occur by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common

Stock contemplated by Section 4.03(b) and (z) except as set forth in Section 3.01(d)(ii) of the Company Disclosure Schedule, the Company Rights shall terminate or be redeemed prior to the Effective Time.

(e) SEC Documents. The Company has filed with the SEC all forms, reports, schedules, statements and other documents required to be filed with the SEC by the Company since January 1, 2000 (together with all information incorporated therein by reference, the "SEC Documents"). Except as set forth in Section 3.01(e) of the Company Disclosure Schedule, no subsidiary of the Company is

required to file any form, report, schedule, statement or other document with the SEC. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents at the time they were filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any SEC Document filed and publicly available prior to the date of this Agreement (a "Filed SEC Document") has been revised or superseded by a later filed Filed SEC Document, none of the SEC Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including the related notes) included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal, recurring year-end audit adjustments).

(f) Absence of Certain Changes or Events. Since December 31, 2000, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course consistent with past practice and other than as set forth in the Filed SEC Documents, there has not been (i) prior to the date of this Agreement, any state of facts, change, development, effect, condition or occurrence that individually or in the aggregate constitutes, has had, or would reasonably be expected to have, a material adverse effect, (ii) prior to the date of this Agreement, any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of the Company's or any of its subsidiaries' capital stock or other equity or voting interests, except for dividends by a wholly owned subsidiary of the Company to its shareholders and except for the regular quarterly cash dividend with respect to (w) preferred stock of the Company's subsidiaries, in accordance with the terms thereof, (x) the Company Common Stock in the amount of $0.235 per share, in accordance with the Company's

past dividend policy, (y) the Company 5% Cumulative Preferred Stock in the amount of $0.3125 per share, in accordance with the terms thereof, and (z) the Company 5% Cumulative Preference Stock in the amount of $0.3125 per share, in accordance with the terms thereof, (iii) prior to the date of this Agreement, any purchase, redemption or other acquisition of any shares of capital stock of, or other

equity or voting interests in, the Company or any options, warrants, calls or rights to acquire such shares or other interests, (iv) prior to the date of this Agreement, any split, combination or reclassification of any of the Company's capital stock or other equity or voting interests or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of, or other equity or voting interests in, the Company, (v) prior to the date of this Agreement, any material unfunded liability incurred as a result of any entry by the Company or any of its subsidiaries into, or any amendment of, any Company Benefit Plan (as defined in Section 3.01(k)), (vi) prior to the date of this Agreement, any change in financial or tax accounting methods, principles or practices by the Company or any of its subsidiaries, except insofar as may have been required by a change in GAAP or Applicable Law, (vii) except as set forth in Section 3.01(f)(vii) of the Company Disclosure Schedule, prior to the date of this Agreement, any material election with respect to taxes by the Company or any of its subsidiaries or any settlement or compromise of any material tax liability or refund or (viii) prior to the date of this Agreement, any revaluation by the Company or any of its subsidiaries of any of the material assets of the Company or any of its subsidiaries.

(g) Litigation. Except as set forth in the Filed SEC Documents and except as set forth in Section 3.01(g) of the Company Disclosure Schedule, there is no suit, claim, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective assets that individually or in the aggregate would reasonably be expected to have a material adverse effect, nor is there any Judgment of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of the Company, investigation, notice of violation, order of forfeiture or complaint by any Governmental Entity against, the Company or any of its subsidiaries that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(h) Compliance with Laws. Except as set forth in Section 3.01(h) of the Company Disclosure Schedule, and except with respect to Environmental Laws (as defined in Section 3.01(j)), the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and taxes, which are the subject of Sections 3.01(j), 3.01(k) and 3.01(l), respectively, or as set forth in the Filed SEC Documents, the Company and its subsidiaries are in compliance with all Applicable Laws and Judgments of any Governmental Entity applicable to their businesses or operations, except for instances of noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries has received, since January 1, 2001, a written notice or other written communication alleging a possible violation by the Company or any of its subsidiaries of any Applicable Law or Judgment of any Governmental Entity applicable to its businesses or operations, except for written notices or other written communications alleging possible violations that

individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries have in effect all material permits, licenses, variances,

exemptions, authorizations, franchises, orders and approvals of all Governmental Entities (collectively, "Permits"), necessary or advisable for them to own, lease or operate their properties and assets and to carry on their businesses as now conducted, except for those which the failure to obtain individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries is in violation of, default (with or without notice or lapse of time or both) under, or event giving to any other person any right of termination, amendment or cancelation of, with or without notice or lapse of time or both, any Permit of the Company or any of its subsidiaries, except for any such violations, defaults or events that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(i) [Intentionally omitted].

(j) Environmental Matters. Except as disclosed in the SEC Documents and as set forth in Section 3.01(j) of the Company Disclosure Schedule, and except for such matters that individually or in the aggregate would not reasonably be expected to have a material adverse effect: (i) each of the Company and its subsidiaries possesses all Environmental Permits (as defined below) necessary to conduct its businesses and operations; (ii) each of the Company and its subsidiaries is in compliance with all applicable Environmental Laws and all applicable Environmental Permits, and none of the Company or its subsidiaries has received any written communication from any Governmental Entity or other person that alleges that the Company or any of its subsidiaries has violated or is liable under any Environmental Law or Environmental Permit; (iii) there are no Environmental Claims (as defined below) pending or, to the knowledge of the Company, threatened in writing (A) against the Company or any of its subsidiaries or (B) against any person whose liability for any such Environmental Claim the Company or any of its subsidiaries has retained or assumed, either contractually or by operation of law; and (iv) to the knowledge of the Company, there have been no Releases (as defined below) of any Hazardous Materials (as defined below) that would reasonably be expected to form the basis of any Environmental Claim or any liability under any Environmental Law or Environmental Permit.

For the purposes of this Agreement: (A) "Environmental Claims" means any and all administrative, regulatory or judicial actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any Governmental Entity or other person alleging liability arising out of, based on or related to (x) the presence, Release or threatened Release of, or exposure to, any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its subsidiaries, or (y) any other circumstances forming the basis of any violation or alleged violation of any Environmental Law or Environmental Permit; (B) "Environmental Laws" means all laws, rules, regulations, orders, decrees, common law, judgments or binding agreements issued, promulgated or entered into by or with any Governmental Entity relating to pollution or protection of the

environment (including ambient air, surface water, groundwater,

soils or subsurface strata) or to health and safety as affected by the exposure to Hazardous Materials, including laws and regulations relating to the presence of, exposure to, Release of or threatened Release of Hazardous Materials or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, recycling, transport, handling of, or the arrangement for such activities with respect to, Hazardous Materials; (C) "Environmental Permits" means all permits, licenses, certificates, registrations, waivers, exemptions and other authorizations required under applicable Environmental Laws; (D) "Hazardous Materials" means all hazardous, toxic, explosive or radioactive substances, wastes or other pollutants, including (x) petroleum, petroleum distillates and all other hydrocarbons, asbestos or asbestos-containing material, and (y) all other substances or wastes of any nature prohibited, limited or regulated as harmful to or polluting of or in order to protect the environment; and (E) "Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

(k) ERISA Compliance. (i) Section 3.01(k)(i) of the Company Disclosure Schedule contains a true and complete list of any benefit, employment, personal services, collective bargaining, compensation, change in control, severance, time-off or perquisite agreement, plan, policy or other similar arrangement, (A) covering one or more current or former employees or directors of, or current or former independent contractors with respect to, the Company or any of its subsidiaries (each, a "Participant"), and maintained by the Company and/or one or more of its subsidiaries or (B) with respect to which the Company and/or any of its subsidiaries has or would reasonably be expected to have any liability (collectively, "Company Benefit Plans"). The Company has provided or made available to Parent true and complete copies of (1) each Company Benefit Plan (or, in the case of any unwritten Company Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 required to be filed with the United States Internal Revenue Service (the "IRS") with respect to each Company Benefit Plan (if any such report was required), (3) the most recent summary plan description for each Company Benefit Plan for which such summary plan description is required and (4) each trust agreement and group annuity contract relating to any Company Benefit Plan; provided that any of the foregoing not provided to Parent as of the date of this Agreement shall be delivered to Parent promptly but in no event later than 30 days following the date of this Agreement. Each Company Benefit Plan has been administered in accordance with its terms, except where the failure so to be administered individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries and all the Company Benefit Plans are in compliance with all applicable provisions of ERISA and the Code, except for instances of possible noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Except as set forth in Section 3.01(k)(i) of the Company Disclosure Schedule, all Company Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received favorable determination letters from the IRS to the effect that such Company Benefit Plans are qualified and exempt from Federal income

taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked nor, to the knowledge of the Company, has revocation been threatened, and nothing has occurred since the date of such letter that would reasonably be expected to adversely affect its qualification. There is not pending or, to the knowledge of the Company, threatened any litigation relating to the Company Benefit Plans that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(ii) Neither the Company nor any of its subsidiaries, nor any Company Benefit Plan which is subject to ERISA, has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility that could subject the Company, any of its subsidiaries or any officer of the Company or any of its subsidiaries to the tax or penalty on prohibited transactions imposed by such Section 4975 or to any liability under Section 502(i) or 502(1) of ERISA, except for any such tax, penalty or liability that individually or in the aggregate would not reasonably be expected to have a material adverse effect. All contributions and premiums required to be made under the terms of any Company Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Filed SEC Documents, except as, individually or in the aggregate, would reasonably be expected to have a material adverse effect.

(iii) Except as, individually or in the aggregate, would not reasonably be expected to have a material adverse effect, the deduction of any amount payable pursuant to the terms of the Company Benefit Plans would not reasonably be expected to be subject to disallowance under Section 162(m) (before giving effect to Section 162(m)(4)(F)) of the Code for taxable years of the Company ending prior to the date hereof.

(iv) Section 3.01(k)(iv) of the Company Disclosure Schedule contains a list of all Company Benefit Plans which, as a consequence of the consummation of the Merger, are reasonably expected to (x) entitle any Participant to severance pay and/or (y) accelerate the time of payment or vesting or trigger any payment or funding (whether through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation.

(v) The Company has provided to Parent a true and complete copy of the Report (as hereinafter defined) given to the compensation committee of the board of directors of the Company containing the estimates of any payments and/or benefits that would reasonably be expected to be received (whether in cash or property or the vesting of property) as a result of the Merger or any other transaction contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) by any Participant who is a

"disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) (each, a "Primary Company Executive") under any Company Benefit Plan (including any additional payment from the Company or any of its subsidiaries or any other person in the event that the excise tax under Section 4999 of the Code is imposed on such individual) that would be reasonably be expected to be paid to the Primary Company Executives as a result of the Merger and the other transactions contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) under all Company Benefit Plans and (y) the "base amount" (as defined in Section 280G(b)(3) of the Code) for each Primary Company Executive, all as calculated and set forth in the report (dated August 1, 2001) prepared by the compensation consultant retained by the Company (the "Report"). To the knowledge of the Company, the information provided to the compensation consultant that prepared the Report is accurate in all material respects.

(l) Taxes. Except as would not, individually or in the aggregate with respect to clause (i), (ii), (iii) or (iv), reasonably be expected to have a material adverse effect: (i) Each of the Company and each of its subsidiaries has filed (or caused to be filed) all tax returns required to be filed by it and all such returns are true, complete and correct, or requests for extensions to file such tax returns have been timely filed, granted and have not expired. Each of the Company and each of its subsidiaries has paid (or caused to be paid) all taxes shown as due on such tax returns, and the most recent financial statements contained in the Filed SEC Documents reflect an adequate reserve (in addition to any reserve for deferred taxes established to reflect timing differences between book and tax income) of tax for all taxes payable by each of the Company and each of its subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements.

(ii) Except as set forth in Section 3.01(l)(ii) of the Company Disclosure Schedule, no tax return of the Company or any of its subsidiaries is under audit or examination by any taxing authority, and no written notice of such an audit or examination has been received by the Company or any of its subsidiaries. There is no deficiency, refund litigation, written proposed adjustment or matter in controversy with respect to any taxes due and owing by the Company or any of its subsidiaries. Each deficiency resulting from any completed audit or examination relating to taxes by any taxing authority has been timely paid, except for such deficiencies being contested in good faith and for which adequate reserves are reflected on the books of the Company. The United States Federal income tax returns of the Company and each of its subsidiaries consolidated in such tax returns have been either examined by and settled with the IRS or closed by virtue of the applicable statute of limitations and no requests for waivers of the time to assess any such taxes are pending.

(iii) No liens for taxes (other than for current taxes not yet due and payable or for taxes being contested in good faith and for which adequate reserves are reflected on the books of the Company) exist with respect to any assets or

properties of the Company or any of its subsidiaries. Neither the Company nor any of its subsidiaries is bound by any agreement with respect to the allocation, indemnification or sharing of taxes.

(iv) Neither the Company nor any of its subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the two years prior to the date of this Agreement or (y) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(v) As used in this Agreement, (A) "taxes" shall include (1) all forms of taxation, whenever created or imposed, and whether domestic or foreign, and whether imposed by a national, federal, state, provincial, local or other Governmental Entity, including all interest, penalties and additions imposed with respect to such amounts, (2) liability for the payment of any amounts of the type described in clause (1) as a result of being a member of an affiliated, consolidated, combined or unitary group and (3) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amount described in clause (1) or (2) and (B) "tax returns" shall mean all domestic or foreign (whether national, federal, state, provincial, local or otherwise) returns, declarations, statements, reports, schedules, forms and information returns relating to taxes and any amended tax return.

(m) State Takeover Statutes. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), the approval by the Board of Directors of the Company of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) constitutes approval of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) for purposes of Section 203 of the DGCL and such approval represents the only action necessary to ensure that the restrictions contained in Section 203(a) of the DGCL do not and will not apply to the performance of this Agreement, to the consummation of the Merger in accordance with the provisions of this Agreement or any acquisition of Company Common Stock contemplated by Section 4.03(b) or to the Company Voting Agreement. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), no other state takeover or similar statute or regulation (excluding, for the avoidance of doubt, any Applicable Law which requires the Company Required Consents or the Parent Required Consents to be obtained) is applicable to this Agreement, the Company Voting Agreement or the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b).

(n) Voting Requirements. The affirmative vote at the Stockholders Meeting (as defined in Section 5.01(b)) or any adjournment or postponement thereof of the holders of

a majority of the votes represented by all the outstanding shares of Company Common Stock and Company 5% Cumulative Preferred Stock, voting together as a single class, with each share of Company Common Stock entitled to one vote and each share of Company 5% Cumulative Preferred Stock entitled to 1/10th of a vote, in favor of adopting this Agreement (the "Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve or adopt this Agreement or the Merger. The affirmative vote of the holders of the Company Capital Stock is not necessary to approve any other action required to be taken by this Agreement or the Company Voting Agreement (other than the consummation of the Merger).

(o) Regulation as a Utility. Except as set forth in Section 3.01(o) of the Company Disclosure Schedule , the Company is not subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC. Section 3.01(o) of the Company Disclosure Schedule contains a true and complete list of each subsidiary of the Company that is subject to regulation as a public utility or public service company (or similar designation) by any PUC, including the name of each such jurisdiction in which such subsidiary is subject to such regulation. None of the Company or any of its subsidiaries is a "public utility company" or a "holding company" within the meaning of Section 2(a)(5) or 2(a)(7), respectively, of the Public Utility Holding Company Act of 1935 (the "Holding Company Act") or a "subsidiary company" or an "affiliate" (within the meaning of Section 2(a)(8) or 2(a)(11), respectively, of the Holding Company Act) of any holding company which is required to register as a holding company under the Holding Company Act. All filings required to be made by the Company or any of its subsidiaries since January 1, 2000, under any Applicable Laws or Judgments relating to the regulation of public utilities or public service companies (or similarly designated companies), have been filed with the appropriate PUC, Health Agency or other appropriate Governmental Entity, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of all Applicable Laws or Judgments, except for such filings or such failures to comply that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(p) Title to Properties. (i) Each of the Company and each of its subsidiaries owns or has valid and enforceable right to use under existing franchises, water rights, easements or licenses, or valid and enforceable leasehold interests in, all of its properties, rights and assets necessary for the conduct of its respective business and operations as currently conducted, except where the failure to have such title, rights or interests individually or in the aggregate would not reasonably be expected to have a material adverse effect. All such properties, rights and assets, other than properties, rights and assets in which the Company or any of its subsidiaries has a leasehold interest, are free and clear of all Liens, except for Liens relating to secured indebtedness or that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(q) Brokers. No broker, investment banker, financial advisor or

other person, other than Goldman, Sachs & Co., the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or any of its subsidiaries.

(r) Opinion of Financial Advisor. The Company has received the written opinion of Goldman, Sachs & Co. to the effect that, as of the date of this Agreement, the Merger Consideration is fair to the Company's stockholders from a financial point of view.

(s) Contracts. All material Contracts to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject that are required to be filed as an exhibit to any Filed SEC Document have been filed as an exhibit to such Filed SEC Document (such filed Contracts, the "Filed Contracts"). All the Filed Contracts are valid and in full force and effect, except to the extent they have previously expired or terminated in accordance with their terms or they expire or terminate in compliance with the provisions of Section 4.01(a)(x)(C) and except for any invalidity or failure to be in full force and effect which would not reasonably be expected to have a material adverse effect. None of the Company or any of its subsidiaries is in violation of or default (with or without notice or lapse of time or both) under, or has waived or failed to enforce any rights or benefits under, any Filed Contract, except for violations, defaults, waivers or failures to enforce rights or benefits that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(t) Information Supplied. None of the information included or incorporated by reference in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation or warranty is made by the Company with respect to statements made in the Proxy Statement based on information supplied by Guarantor, Parent or Sub specifically for inclusion or incorporation by reference therein. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.02. Representations and Warranties of Guarantor, Parent and Sub. Guarantor, Parent and Sub jointly and severally represent and warrant to the Company as follows:

(a) Organization. Each of Guarantor and Parent is a company duly organized and validly existing under the laws of the Federal Republic of Germany. Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Guarantor, Parent and Sub (i) has all requisite corporate power and authority to carry on its business as now being conducted and (ii) is duly qualified or

licensed to do business and is, if applicable, in good standing to do business in each jurisdiction in which the nature of its business or the

ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. Guarantor owns 100% of the outstanding capital stock of Parent and, indirectly through Parent, 100% of the outstanding capital stock of Sub.

(b) Authority; Noncontravention. Guarantor, Parent and Sub have the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Parent Required Consents (as defined below), to consummate the transactions contemplated hereby and Parent has the requisite corporate power and authority to execute and deliver the Company Voting Agreement and to consummate the transactions contemplated thereby. The execution and delivery of this Agreement by Guarantor, Parent and Sub, the execution and delivery of the Company Voting Agreement by Parent and the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby have been duly authorized by all necessary company or corporate action, as applicable, on the part of Guarantor, Parent and Sub and no other corporate proceedings on the part of Guarantor, Parent or Sub are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Guarantor, Parent and Sub and the Company Voting Agreement has been duly executed and delivered by Parent and each of this Agreement and the Company Voting Agreement constitutes the valid and binding obligation of Guarantor, Parent and Sub, as applicable, enforceable against Guarantor, Parent and Sub, as applicable, in accordance with their terms. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions of this Agreement and the Company Voting Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Guarantor, Parent or Sub under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the Certificate of Incorporation or By-laws of Sub or equivalent organizational documents of Guarantor or Parent, (ii) any Contract applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets or (iii) subject to obtaining the Parent Required Consents and other matters referred to in the following sentence, any (A) Applicable Law or (B) Judgment, in each case applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any Governmental Entity is required by or with

respect to Guarantor, Parent or Sub or their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or the consummation by Guarantor, Parent and Sub

of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for (1) the filing of a premerger notification and report form under the HSR Act and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws and regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with, or furnishing to, the SEC of such reports under the Exchange Act as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, (4) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under the Applicable Laws and Judgments of any Health Agency, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any Governmental Entity due solely to any acquisition of any business or person by the Company or any of its subsidiaries following the date of this Agreement and (7) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices described (i) in the foregoing clause (4) that are required to be obtained or made by Guarantor, Parent or Sub or any of their respective subsidiaries and (ii) in the foregoing clause (5) the failure of which to obtain or make would impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement, are hereinafter referred to as the "Parent Required Consents." No consent, approval, order, authorization, registration, declaration, filing or notice the failure of which to obtain or make would prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement with any non-U.S. Governmental Entity is required to be made or obtained by Guarantor, Parent or Sub or any of their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for such consents, approvals, orders, authorizations, registrations, declarations, filings or notices (x) required as a result of a change in Applicable Law after the date of this Agreement or (y) required to be obtained from or made to any Governmental Entity

due solely to any acquisition of a business or person by the Company or any of its subsidiaries following the date of this Agreement. To the knowledge of Guarantor and Parent, as of the date of this Agreement,

there exists no state of facts, condition, event or circumstance which would materially adversely affect Parent's ability to obtain the Parent Required Consents in a reasonably timely manner.

(c) Interim Operations of Sub. Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has engaged in no business other than in connection with the transactions contemplated by this Agreement.

(d) Regulation as a Utility. Except as set forth in Section 3.02(d) of the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule") or as permitted in accordance with Section 4.03(a)(a), neither Guarantor, Parent, Sub nor any of their respective subsidiaries (i) is a "public utility company" or a "holding company" or a "subsidiary company" of any holding company which is required to register as a holding company under the Holding Company Act, in each case as defined in the Holding Company Act, or (ii) is otherwise subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC; provided, however, the foregoing representation shall not be deemed to be breached as a result of (x) after the date hereof, any of Guarantor, Parent or Sub or any of their respective subsidiaries entering into any operation and maintenance or concession contract that would not be prohibited under Section 4.03(a)(b) or (y) changes in Applicable Law after the date of this Agreement.

(e) Capital Resources. On or prior to the Closing Date, Parent will have sufficient cash to pay the Merger Consideration and any other amounts payable under Section 2.02.

(f) Brokers. No broker, investment banker, financial advisor or other person, other than Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, the fees and expenses of which will be paid by or on behalf of Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Guarantor, Parent, Sub or any of their subsidiaries.

(g) Information Supplied. None of the information supplied or to be supplied by Guarantor, Parent or Sub specifically for inclusion in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) Ownership of Company Stock. As of the date of this Agreement, neither Guarantor, Parent nor Sub nor any of their respective subsidiaries "beneficially owns" (as

such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock.

ARTICLE IV
Covenants Relating to Conduct of Business

SECTION 4.01. Conduct of Business. (a) Conduct of Business by the Company. During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement, the Company shall, and shall cause each of its subsidiaries to, carry on their respective businesses in the ordinary course consistent with past practice and use their commercially reasonable efforts to comply with all Applicable Laws and, to the extent consistent therewith, use their commercially reasonable efforts to preserve their material assets and technology, preserve their relationships with PUCs, Health Agencies, customers, suppliers and others having business dealings with them and maintain their material franchises, rights and Permits necessary to the conduct of their business. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not unreasonably be withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement or as set forth in Section 4.01(a) of the Company Disclosure Schedule, the Company shall not, and shall not permit any of its subsidiaries to:

(i) (x) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock or other equity or voting interests except for:

(A) dividends by a direct or indirect wholly owned subsidiary of the Company to its shareholders;

(B) regular quarterly cash dividends with respect to the Company Common Stock, not in excess of an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in each case with usual declaration, record and payment dates and in accordance with the Company's past dividend policy;

(C) if the Effective Time occurs other than on a record date for quarterly cash dividends with respect to the Company Common Stock, a "stub period" dividend equal to an amount not to exceed

25% of the amount of the cash dividend per share permitted to be paid pursuant to the immediately preceding clause (B) during such fiscal year in which the Effective Time occurs multiplied by a fraction, the numerator of which is the number of days between the immediately preceding record date and the Effective Time and the denominator of which is the number of days between such record date and the next regularly scheduled record date;

(D) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preferred Stock in accordance with the terms thereof as in effect on the date of this Agreement;

(E) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preference Stock in accordance with the terms thereof as in effect on the date of this Agreement; or

(F) (x) cash dividends with respect to any outstanding shares of preferred stock of any of the Company's subsidiaries or (y) cash dividends with respect to any outstanding shares of non-preferred capital stock of any of the Company's non-wholly owned subsidiaries; provided, however, that in the case of subsidiaries owned as of the date of this Agreement, such dividends shall be paid only in the ordinary course of business consistent with such subsidiary's past practice; or

(y) purchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or its subsidiaries or any options, warrants, calls or rights to acquire any such shares or other interests, except (A) for the Stock Redemption, (B) purchases, redemptions or other acquisitions as required by the respective terms of any preferred stock of the Company or as required or permitted by the respective terms of any preferred stock of any of the Company's subsidiaries, (C) for the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors plans and the dividend reinvestment provisions of the Company's Dividend Reinvestment and Stock Purchase Plan, (D) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of a subsidiary of the Company not held by the Company or its subsidiaries or (E) the purchases of shares of capital stock of a wholly owned subsidiary of the Company by the Company or a wholly owned subsidiary of the Company; or

(z) split, combine or reclassify any of its capital stock or other equity or voting interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity or voting interests;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other equity or voting interests or any securities convertible

into, or exchangeable for, or any options, warrants, calls or rights to acquire, any such shares, interests or securities or any stock appreciation rights or other rights that are linked to the price of Company Common Stock other than:

(A) the issuance of shares of Company Common Stock (and associated Company Rights) upon the exercise of Company Stock Options and settlement of all other rights to purchase or receive Company Common Stock (collectively, the "Company Stock Issuance Rights") in accordance with the terms of such Company Stock Options and Company Stock Issuance Rights as in effect on the date of this Agreement;

(B) the delivery or sale of shares of Company Common Stock

held as treasury stock of the Company as of the date hereof or thereafter purchased on the open market by the Company or one of its subsidiaries as permitted by, and for the purposes set forth in, Section 4.01(a)(i)(y)(C);

(C) the issuance of shares of capital stock to the Company or a wholly owned subsidiary of the Company by a subsidiary of the Company;

(D) the issuance of shares of Company Common Stock pursuant to the Company Rights Agreement pursuant to the terms thereof as in effect on the date hereof;

(E) to the extent permitted by Section 5.09(i), the issuance of shares of Company Common Stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan; or

(F) issuances of shares of Company Common Stock which are necessary, in the reasonable judgment of the Company, in order to maintain the credit ratings of the Company or its subsidiaries; provided that any such issuance of shares shall be permitted only if prior to such issuance the Company shall have consulted with Parent, and the Company and Parent shall have been unable to agree on a mutually acceptable alternative basis to maintain the credit rating of the Company or its subsidiary, as the case may be;

(iii) amend its certificate of incorporation or by-laws (or similar organizational documents) except as may be required by Applicable Law or by the rules and regulations of the New York Stock Exchange; or

(iv) (A) directly or indirectly acquire or agree to acquire, whether by merging or consolidating with, or by purchasing assets of, or by any other

manner, any assets constituting a business or any corporation, partnership, joint venture, association, limited liability company or other entity or division thereof, other than:

(x) the acquisition of any business which is regulated by a PUC or owned or operated by a municipality or local Governmental Entity; provided, that all such acquisitions permitted by this clause (x) shall not involve aggregate payments (including debt assumption) by the Company and its subsidiaries of more than $300,000,000; or

(y) the acquisition of any business in or related to (1) the water services or wastewater services industry or (2) any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a PUC or owned or operated by a municipality or local Governmental Entity; provided that all such acquisitions permitted by this clause (y) shall not involve aggregate payments (including debt assumption) by the Company or any of its subsidiaries of more than $100,000,000;

provided that, if the Company or any of its subsidiaries requests the consent of Parent for any acquisition not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such acquisition or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this Section 4.01(a)(iv) with respect to such acquisition (provided further that, for the purposes of this Section 4.01(a)(iv), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for an acquisition which (i) is not prohibited by Section 4.03 and (ii) has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this Section 4.01(a)(iv) with respect to any such acquisition); or

(B) any other assets that are material (unless such assets are acquired in the ordinary course of business), other than assets constituting a business the acquisition of which does not require consent or approval under Section 4.01(a)(iv)(A);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any acquisition which requires approval of the Company's Board of Directors; or

(v) directly or indirectly sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any real property, or any other properties or assets or any interest therein that are material, individually or in the aggregate, other than:

(A) sales of real property or other properties or assets, provided that the fair market value of all such properties and assets does not exceed $100,000,000;

(B) the sale of any property or asset that the Company or one of its subsidiaries is legally required, or under bona fide threat of condemnation or similar proceedings, to sell to any Governmental Entity so long as the Company sells such property or asset to such Governmental Entity in a manner consistent with past practice;

(C) the sale of shares of capital stock or other securities which are held as passive minority investments so long as such sale is made in an arm's-length transaction; or

(D) the grant of easements, rights of way and Liens in the ordinary course of business consistent with past practice, or in connection with secured indebtedness of the Company or any of its subsidiaries permitted by Section

4.01(a)(vi) and consistent with past practice;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any sale, lease, license, sale/leaseback, mortgage, encumbrance or other disposition which requires approval of the Company's Board of Directors; or

(vi) (x) incur any indebtedness or guarantee any indebtedness of another person or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company or any of its subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing (excluding for purposes of clarification, advances received as contemplated by Section 4.01(a)(vii)(B)), except for:

(A) the incurrence of short-term indebtedness in the ordinary course of business consistent with past practice;

(B) the incurrence of long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of this Agreement (excluding, without duplication, long-term indebtedness otherwise permitted under this Section 4.01(a)(vi)(x), but including long-term indebtedness incurred to fund capital expenditures permitted by Section 4.01(a)(vii) to the extent the incurrence of such indebtedness is included in the Company's business plan described below), does not exceed 110% of the aggregate amount of all long-term indebtedness contemplated to be outstanding as of the end of such fiscal year by the Company's business plan for the five-year period ending on December 31, 2005, a true and complete copy of which has been provided to Parent prior to the date of this Agreement;

(C) (1) the incurrence of indebtedness or guarantees of indebtedness to finance acquisitions and the incurrence or assumption of indebtedness of the entities acquired in such acquisitions, in either case in connection with acquisitions permitted by Section 4.01(a)(iv), or (2) the incurrence of indebtedness or guarantees of indebtedness to fund capital expenditures permitted by Section 4.01(a)(vii);

(D) the incurrence of any guarantees, bid bonds, performance bonds, surety bonds, payment bonds, letters of credit and "keep well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between the Company and its

subsidiaries or in support of the indebtedness or other obligations of the Company, the Company's subsidiaries or among the Company's subsidiaries; or

(E) the incurrence of indebtedness in an amount equal to (1) the cost of Company Common Stock purchased for issuance pursuant to Section 4.01(a)(ii)(B), plus (2) the amount of cash proceeds that would otherwise be expected to be received by the Company from the sale of Company Common Stock under the Company's Dividend Reinvestment and Stock Purchase Plan after the date, and for so long as, such plan is indefinitely suspended pursuant to Section 5.09(i); or

(y) make any material loans, advances or capital contributions to, or investments in, any other person, other than the Company or any direct or indirect subsidiary of the Company other than (A) investments made in joint ventures formed for purposes permitted pursuant to Section 4.01(a)(iv), (B) loans, advances, capital contributions and investments

made in connection with actions permitted pursuant to Sections 4.01(a)(iv), (v), (vi)(x), (vii) or (x) or (C) in the ordinary course of business;

it being understood and agreed that the Company and its subsidiaries shall consult with Parent (i) on the Company's and its subsidiaries' credit ratings and (ii) prior to incurring any material long-term indebtedness (other than issuances of tax-free long-term indebtedness) of the Company or any of its subsidiaries; or

(vii) incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in the Company's five-year capital plan, a true and complete copy of which has been provided to Parent prior to the date of this Agreement, other than:

(A) capital expenditures required by changes in or newly promulgated Applicable Laws or Judgments or applicable standards or policies of any Governmental Entity after the date of this Agreement;

(B) capital expenditures funded by customer advances or contributions in aid of construction;

(C) capital expenditures incremental to the Company's five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates;

(D) capital expenditures related to the operation of any business acquired through an acquisition permitted by Section 4.01(a)(iv);

(E) capital expenditures to the extent covered by insurance or as reasonably required in the Company's judgment following a catastrophic event; or

(F) capital expenditures in connection with performance by the Company or one of its subsidiaries under any Contract to the extent the Company's or such subsidiary's obligations in connection with any such capital expenditure are non-recourse to the Company or such subsidiary and funded by the United States government;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any capital expenditure which requires approval of the Company's Board of Directors; or

(viii) except as required by Applicable Law or any Judgment (x) pay, discharge, settle or satisfy any material claims (including claims of stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice, (B) as required by their terms as in effect on the date of this Agreement or on the date of acquisition of the person subject thereto or (C) incurred since the date of this Agreement in the ordinary course of business consistent with past practice, (y) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (z) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respect to which its consent is required under, any material confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(ix) except (i) as required to comply with Applicable Law or any Judgment, any Collective Bargaining Agreement or any provision of any Company Benefit Plan or other Contract as in effect on the date of this Agreement, (ii) in the ordinary course of the Company or its subsidiaries conducting their respective businesses consistent with past practice, (iii) as would, in the discretion of the Company, be commercially reasonable in order to retain Company Employees (as defined in Section 5.09(a)) or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by the Company and/or its subsidiaries or (v) as would not, individually or in the aggregate, materially increase the Company's and its subsidiaries' annual expense for compensation and benefits provided or to be provided to the Company Employees:

(A) take any action to fund or in any other way secure the payment of compensation or benefits under any Company Benefit Plan or other Contract;

(B) take any action to accelerate the vesting or payment of any compensation or benefit under any Company Benefit Plan or other Contract;

(C) grant any compensation, benefits, severance or termination pay or increases therein to any Participant; or

(D) establish, adopt, enter into, amend or terminate any Company Benefit Plan, except as required to implement grants or increases permitted under Section 4.01(a)(ix)(C); or

(x) (A) enter into any material Contract other than:

(1) any Contract related to the Company's PUC-regulated business entered into in the ordinary course of business consistent with past practice;

(2) any Contract related to the water services or wastewater services industry; provided that the average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of such Contract, together with the total average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of all such other Contracts entered into pursuant to this clause (2) during the twelve-month period beginning on the date of this Agreement or during any subsequent twelve-month period shall not exceed $60 million per year (excluding any consumer price index or other similar adjustments and without regard to any extension thereof); provided, further that (A) the average annual amounts of any payments to be made to the Company during the first three years of such Contract in respect of any capital expenditures permitted by Section 4.01(a)(vii)(F) of this Agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" Contract, payments in respect of the "design-build" portion of such Contract to the extent that those payments are (x) guaranteed by a non-affiliate of the Company which the Company reasonably determines is sufficiently creditworthy or (y) passed through to third parties who perform the "design-build" portion of such Contract) during the first three years of such Contract shall not count against such $60 million per year limit; or

(3) any Contract providing for any transaction otherwise permitted by this Section 4.01(a);

provided that if the Company or any of its subsidiaries requests the consent of Parent to enter into any Contract not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such Contract and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such Contract or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this clause (A) with respect to such Contract (provided further

that, for the purposes of this clause (A), the

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Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for a Contract which has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this clause (A) with respect to any such Contract);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any material Contract which requires the approval of the Company's Board of Directors;

(B) renew any material Contract unless such renewal (i) shall not modify the terms of such Contract, taken as a whole, in any material adverse respect or (ii) is on terms that are reasonably agreed to by the Company in carrying on its business in the ordinary course; or

(C) modify, amend, waive or terminate (x) any material Contract other than in the ordinary course of business or (y) the Filed Contracts, in either case without consulting with Parent in good faith in advance; or

(xi) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(b) Administration of Consents. Any request for a consent of Parent under Section 4.01(a), and any correspondence between the parties with respect to those consents (including the granting or refusal to grant any such consent) and any consultation required under Section 4.01(a) shall be made solely by and between the person identified in Section 4.01(b) of the Company Disclosure Schedule, on behalf of the Company and its subsidiaries, and the person identified in Section 4.01(b) of the Parent Disclosure Schedule, on behalf of Guarantor, Parent and their respective subsidiaries.

(c) Control of the Company's Business. It is understood and agreed that Guarantor, Parent, Sub and their affiliates do not have the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

(d) Certain Tax Matters. Except as set forth in Section 4.01(d) of the Company Disclosure Schedule, during the period from the date of this Agreement to the Effective Time, the Company shall, and shall cause each of its subsidiaries to, (i) not make any material tax election without Parent's consent and (ii) to the extent permitted by the applicable agreement, cause all existing tax sharing agreements to be terminated as of the Closing Date.

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(e) Utility Filings. The Company shall, and shall cause each of its

subsidiaries to, timely file in the ordinary course of business consistent with past practice all rate applications and all other material filings required to be made with PUCs. Except for filings in the ordinary course of business consistent with past practice that individually or in the aggregate would not reasonably be expected to have a material adverse effect, the Company shall, and shall cause each of its subsidiaries to, consult with Parent reasonably in advance of making any filing to implement any changes in any of its or any of its subsidiaries' rates or surcharges for water service, standards of service or accounting.

SECTION 4.02. No Solicitation. (a) From and after the date hereof, the Company agrees (i) that it and its subsidiaries shall not, nor shall it or its subsidiaries authorize or knowingly permit any director, officer or employee of the Company or any of its subsidiaries or any investment banker, attorney, accountant or other advisor or representative of the Company or any of its subsidiaries (collectively, the "Representatives") to, directly or indirectly, solicit, initiate or encourage, or take any other action knowingly to facilitate, any Takeover Proposal (as defined below) or engage in any discussions or negotiations regarding, or provide any nonpublic information or data to make or implement, any Takeover Proposal, in each case other than a Takeover Proposal made by Parent; (ii) that it shall immediately cease and cause to be terminated any existing discussions or negotiations with any third persons conducted heretofore with a view to formulating a Takeover Proposal; and (iii) that it shall immediately notify Parent of the receipt of any Takeover Proposal and that it shall keep Parent informed of the status of such Takeover Proposal; provided, however, that, at any time prior to obtaining the Stockholder Approval, the Company may, in response to a bona fide Takeover Proposal that the Board of Directors of the Company determines in good faith could reasonably be expected to lead to a Superior Proposal (as defined below) and which Takeover Proposal did not result from a breach of this Section 4.02, (x) furnish information with respect to the Company and its subsidiaries to the person making such Takeover Proposal (and its representatives) pursuant to a customary confidentiality agreement (except that such confidentiality agreement shall not prohibit such person from making an unsolicited Takeover Proposal), provided that all such information is provided on a prior or substantially concurrent basis to Parent, and (y) participate in discussions or negotiations with the person making such Takeover Proposal (and its representatives) regarding such Takeover Proposal.

The term "Takeover Proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to, any direct or indirect acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (A) assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of the Company and its subsidiaries, taken as a whole, or (B) 20% or more of the outstanding shares of Company Capital Stock or capital stock of, or other equity or voting interests in, any of the Company's subsidiaries directly or indirectly holding the assets or businesses referred to in clause (A) above.

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw (or modify in a manner adverse to Parent or Sub) or propose publicly

to withdraw (or modify in a manner adverse to Parent or Sub) the

recommendation or declaration of advisability by such Board of Directors of the Company or any such committee of this Agreement or the Merger, or recommend, or propose publicly to recommend, the approval or adoption of any Takeover Proposal (other than a Takeover Proposal made by Parent) (each such action being referred to herein as an "Adverse Recommendation Change"), unless the Board of Directors of the Company determines in good faith, based on such matters as it deems appropriate, after consulting with legal counsel, that such action is necessary for the Board of Directors of the Company to comply with its fiduciary duties to the Company's stockholders under applicable law and the Company's certificate of incorporation, (ii) adopt or approve, or publicly propose to adopt or approve, any Takeover Proposal (other than a Takeover Proposal made by Parent), or withdraw its approval of the Merger, (iii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement (each, an "Acquisition Agreement") constituting or related to any Takeover Proposal (other than a confidentiality agreement referred to in Section 4.02(a)) or (iv) agree or resolve to take any of the actions prohibited by clauses (i), (ii) or (iii) of this sentence. Notwithstanding anything in this Agreement to the contrary, at any time prior to obtaining the Stockholder Approval, the Board of Directors of the Company may, in response to a Superior Proposal (as defined below) that did not result from a breach of Section 4.02(a), cause the Company to terminate this Agreement pursuant to Section 7.01(f) and concurrently or promptly thereafter enter into an Acquisition Agreement; provided, however, that the Company shall not terminate this Agreement pursuant to Section 7.01(f), unless the Company shall have complied with all the provisions of this Section 4.02 (except for any failure to comply that would not adversely affect the rights of Parent under this Section 4.02), including the notification provisions in this Section 4.02, and with all applicable requirements of Section 5.06(b) (including the payment of the Termination Fee (as defined in Section 5.06(b)) prior to or concurrently with such termination); and provided further, however, that the Company shall not exercise its right to terminate this Agreement pursuant to Section 7.01(f) until the fifth business day following Parent's receipt of written notice (a "Notice of Superior Proposal") from the Company advising Parent that the Board of Directors of the Company has received a Superior Proposal specifying the terms and conditions of the Superior Proposal, identifying the person making such Superior Proposal and stating that the Board of Directors of the Company intends to exercise its right to terminate this Agreement pursuant to Section 7.01(f) (it being understood and agreed that, prior to any such termination taking effect, any amendment to the price or any other material term of a Superior Proposal shall require a new Notice of Superior Proposal and a new five business day period).

The term "Superior Proposal" means any bona fide written offer made by a third party in respect of (i) a transaction that if consummated would result in such third party acquiring, directly or indirectly, 50% or more of the voting power of the Company Common Stock or 50% or more of the assets of the Company and its subsidiaries, taken as a whole, or (ii) a direct merger between such third party and the Company, in either case providing for consideration to the Company's stockholders consisting of cash and/or securities (it being understood that securities retained by the Company's stockholders be included for purposes of

this determination), which transaction the Board of Directors of the Company determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) (taking into account the person making the offer, the consideration offered, the likelihood of consummation

(including the legal, financial and regulatory aspects of the offer) as well as any other factors deemed relevant by the Board of Directors of the Company) to be more favorable from a financial point of view to the stockholders of the Company, taking into account any changes to the terms of this Agreement offered by Parent in response to such Superior Proposal or otherwise.

(c) Nothing contained in this Section 4.02 or elsewhere in this Agreement shall prohibit the Company from (i) taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to the Company's stockholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure to make such disclosure would be inconsistent with applicable law; provided, however, that in no event shall the Company or its Board of Directors or any committee thereof take, agree or resolve to take any action prohibited by Section 4.02(b)(i) (subject to the last clause of Section 4.02(b)(i)) or Section 4.02(b)(ii).

SECTION 4.03. Certain Conduct of the Parties. (a) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by the Company (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if Parent has not received written notice otherwise from the Company within eight business days after requesting such consent of the Company), Guarantor and Parent shall not, and shall cause their subsidiaries not to, directly or indirectly (a) acquire or agree to acquire or, except as required by Applicable Law, the rules and regulations of the Frankfurt Stock Exchange or, with respect to any disclosure by any subsidiary, the rules and regulations of the principal stock exchange on which such subsidiary's securities are listed, publicly disclose any acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (i) any United States water services or wastewater services business that is regulated by a PUC or is owned or operated by a municipality or local Governmental Entity (other than any such acquisition which does not involve aggregate payments (including debt assumption) by Guarantor, Parent or their subsidiaries in excess of $20 million) or (ii) (A) any business that would, upon the consummation of such acquisition, (x) cause Guarantor, Parent or any of their respective subsidiaries to be required to register as a holding company under the Holding Company Act or (y) subject Guarantor, Parent, Sub or any of their respective subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or (B) any business (x) that would, upon the consummation of such acquisition, subject Guarantor, Parent or any of their respective subsidiaries to regulation under the Holding Company Act in a manner other than that described in clause (A) above or (y) that is a United States gas or electric utility, if in the case of clause (B), such business is subject to regulation as a gas or electric utility (or similar designation) by a PUC in any state which the parties agree is material or (b) take any other action that would reasonably be expected to (i) materially impede or delay obtaining any Parent

Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger. In the event that Guarantor or Parent shall seek the consent of the Company to make an acquisition of the type described in Section 4.03(a)(a)(ii)(B), the sole basis on which the Company may withhold

its consent shall be a determination by the Company that such acquisition would reasonably be expected to (x) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (y) otherwise materially impede or delay the consummation of the Merger.

(b) Prior to the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire "beneficial ownership" (as such term is defined for purposes of Section 13(d) of the Exchange Act) of any shares of Company Common Stock. After the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire shares of Company Common Stock if such acquisition would result in Guarantor, Parent and their subsidiaries acquiring "beneficial ownership" (as so defined) of more than 4.9% of the shares of Company Common Stock outstanding at the time of such acquisition.

(c) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within eight business days after requesting such consent of Parent), the Company shall not, and shall cause its subsidiaries not to, directly or indirectly, take any action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger.

ARTICLE V
Additional Agreements

SECTION 5.01. Preparation of the Proxy Statement; Stockholders Meeting. (a) As promptly as reasonably practicable following the date of this Agreement, the Company shall prepare and file with the SEC the Proxy Statement in preliminary form and the Company shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto and to cause the Proxy Statement to be mailed to the Company's stockholders as promptly as practicable following the date of this Agreement. The Company shall promptly notify Parent upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Proxy Statement and shall provide Parent with copies of all correspondence between the Company and its

representatives, on the one hand, and the SEC and its staff, on the other hand. Parent shall promptly provide any information or responses to comments, or other assistance, reasonably requested in connection with the foregoing. Prior to filing or mailing the Proxy Statement (or any amendment or supplement thereto) or responding to any comments of the SEC with respect thereto, the Company (i) shall provide Parent an opportunity to review and comment on such document or response and (ii) shall give reasonable consideration to all comments proposed by Parent.

(b) The Company shall, as promptly as reasonably practicable following the date of this Agreement, establish a record date for, duly call, give notice of, convene and hold a meeting of its stockholders (the "Stockholders

Meeting") for the purpose of obtaining the Stockholder Approval, regardless of whether an Adverse Recommendation Change has occurred at any time after the date of this Agreement. The Company shall, through its Board of Directors, recommend to its stockholders that they adopt this Agreement, and shall include such recommendation in the Proxy Statement, in each case subject to its rights under Section 4.02(b)(i). Without limiting the generality of the foregoing, the Company agrees that its obligations pursuant to this Section 5.01(b) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company or any other person of any Takeover Proposal.

SECTION 5.02. Access to Information; Confidentiality; Transition Planning. (a) The Company shall, and shall cause each of its subsidiaries to, afford to Parent, and to Parent's officers, employees, investment bankers, attorneys, accountants and other advisors and representatives, reasonable access at reasonable times and during normal business hours during the period prior to the Effective Time or the termination of this Agreement, in a manner which does not unreasonably interfere with the business and operations of the Company, to all their respective properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records and, during such period, the Company shall, and shall cause each of its subsidiaries to, make available to Parent on a prompt basis (a) access to each material report, schedule, form, statement and other document filed or received by it during such period to or from any PUC or pursuant to the requirements of applicable securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request; provided that such right of access shall not include sampling, testing or Phase II environmental site assessment activities. For the purposes of this Section 5.02, all communications, including requests for information or access, pursuant to this Section 5.02, shall only be made by and between a representative of each of Parent, on the one hand, and of the Company, on the other hand, which representative (a) shall initially be Jim McGivern for Parent and Ellen Wolf for the Company and (b) may be replaced with a substitute representative by either party from time to time upon reasonable written notice to the other party. The Company will promptly advise Parent of any material developments in its business. Notwithstanding the foregoing, (i) the Company and its subsidiaries shall not be required to provide any information to the extent that the Company or any of its subsidiaries is legally obligated to keep such information confidential or otherwise not to provide such information or to the extent that such access would constitute a waiver of the attorney-client privilege and (ii) the Company shall provide access to those properties, assets, books, contracts,

commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records described above of its subsidiaries that are not wholly-owned subsidiaries only to the extent that the Company has or is reasonably able to obtain such access. Parent will hold, and will direct its officers, employees, investment bankers, attorneys, accountants and other advisors and representatives to hold, any and all information received from the Company, directly or indirectly, in confidence in accordance with the Confidentiality Agreement dated June 26, 2001, among Guarantor, Thames and the Company (as it may be amended from time to time, the "Confidentiality Agreement").

(b) The Company and Parent shall, and shall cause each of their respective subsidiaries to, reasonably cooperate to obtain an orderly transition and integration process in connection with the Merger in order to minimize the disruption to, and preserve the value of, the business of the

Surviving Corporation and its subsidiaries during the period from and after the Effective Time. The Company and Parent agree that such cooperation shall include the development as soon as reasonably practicable following the date hereof of a mutually acceptable integration plan on a business-by-business and region-by-region basis with reasonable provisions for visitation by employees.

SECTION 5.03. Reasonable Best Efforts; Notification. Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper and advisable to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement, including using its reasonable best efforts to accomplish the following as promptly as reasonably practicable following the date of this Agreement: (a) the taking of all acts necessary to cause the conditions precedent set forth in Article VI to be satisfied, (b) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or to avoid an action or proceeding by, any Governmental Entity and (c) the obtaining of all necessary consents, approvals or waivers from third parties. In connection with and without limiting the foregoing, the Company shall, if any state takeover statute or similar statute or regulation is or becomes applicable to this Agreement, the Company Voting Agreement, the Merger or any of the other transactions contemplated hereby or thereby, use its reasonable best efforts to allow the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement to be consummated as promptly as practicable on the terms contemplated by this Agreement and the Company Voting Agreement and otherwise to minimize the effect of such statute or regulation on this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The Company, Guarantor and Parent shall provide such assistance, information and cooperation to each other as is reasonably requested in connection with the foregoing and, in connection therewith, shall notify the other person promptly following the receipt of any comments from any Governmental Entity and of any request by any Governmental Entity for

amendments, supplements or additional information in respect of any registration, declaration or filing with such Governmental Entity and shall supply the other person with copies of all correspondence between such person or any of its representatives, on the one hand, and any Governmental Entity, on the other hand. In addition, the Company, Guarantor and Parent shall cooperate to promptly develop a mutually acceptable plan to obtain the Company Required Consents and the Parent Required Consents as expeditiously as reasonably practicable and without undue expense. To the extent that either party or any of its subsidiaries is required to make any registration, declaration or filing with any PUC in connection with obtaining the Company Required Consents or the Parent Required Consents, such party shall use its reasonable best efforts to (i) provide the other party an opportunity to review and comment on such registration, declaration or filing reasonably in advance of making any such registration, declaration or filing, (ii) give reasonable consideration to all comments proposed by the other party and (iii) if applicable, coordinate the submission of such registration, declaration or filing with the other party. Neither the Company nor any of its subsidiaries shall enter into or agree to any terms or conditions in connection with

obtaining the Company Required Consents without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed). None of Guarantor, Parent, Sub or any of their respective subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Parent Required Consents without the prior written consent of the Company (which consent shall not be unreasonably withheld or delayed).

SECTION 5.04. Company Stock Options. (a) As soon as practicable following the date of this Agreement, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall adopt such resolutions or take such other actions (if any) as may be required to provide that:

(i) each Company Stock Option outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to (A) the excess, if any, of (1) the Merger Consideration over (2) the exercise price per share of Company Common Stock subject to such Company Stock Option, multiplied by (B) the number of shares of Company Common Stock for which such Company Stock Option shall not theretofore have been exercised;

(ii) each Company Stock Issuance Right outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to the product of (A) the Merger Consideration and (B) the number of shares of Company Common Stock subject to such Company Stock Issuance Right; and

(iii) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

(b) All amounts payable pursuant to Section 5.04(a) shall be subject to any required withholding of taxes or proof of eligibility of exemption therefrom, and shall be paid as soon as practicable following the Effective Time, without interest.

(c) The Company shall take all actions determined to be necessary to effectuate the provisions of this Section 5.04 as mutually agreed by Parent and the Company. Prior to the Effective Time, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall take or cause to be taken such actions as are required to cause (i) the Company Stock Plans to terminate as of the Effective Time and (ii) the provisions in any other Company Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest on or following the Effective Time in respect of any capital stock of the Company to be deleted as of the Effective Time.

SECTION 5.05. Indemnification, Exculpation and Insurance. (a) To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Guarantor and Parent shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer or director of the Company or any of its subsidiaries (each an "Indemnified Party" and, collectively, the "Indemnified Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages

or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director or officer of the Company or any of its subsidiaries ("Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based in whole or in part on or arise in whole or in part out of or pertain to this Agreement or the transactions contemplated hereby. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), Guarantor and Parent shall pay or cause to be paid the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred; provided, however, that Guarantor and Parent shall not be liable for any settlement effected without its written prior consent (which consent shall not be unreasonably withheld or delayed). In the event any Indemnified Party is required to bring any action against Guarantor or Parent to enforce rights or to collect money due under this Agreement and such action results in a final, non-appealable judgment in favor of such Indemnified Party, Guarantor and Parent shall reimburse such Indemnified Party for all of its reasonable expenses in bringing and pursuing such action. Each Indemnified Party shall be entitled to the advancement of expenses to the full extent contemplated in this Section 5.05(a) in connection with any such action; provided, however, that any person to whom expenses are advanced provides an undertaking, if and to the extent required by the DGCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

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(b) For six years after the Effective Time, Guarantor and Parent shall maintain in effect (i) the Company's current directors' and officers' liability insurance covering each person currently covered by the Company's directors' and officers' liability insurance policy for acts or omissions occurring prior to the Effective Time on terms with respect to such coverage and amounts no less favorable in the aggregate to such directors and officers than those of such policy as in effect on the date of this Agreement; provided that Guarantor or Parent may substitute therefor policies of a reputable insurance company the terms of which, including coverage and amount, are no less favorable in the aggregate to such directors and officers than the insurance coverage otherwise required under this Section 5.05(b); provided however, that in no event shall Guarantor and Parent be required to pay aggregate annual premiums for insurance under this Section 5.05(b) in excess of 200% of the amount of the aggregate premiums paid by the Company for the year from July 22, 2001 through July 22, 2002 for such purpose (which premiums for the year from July 22, 2001 through July 22, 2002 are hereby represented and warranted by the Company to be $327,500), provided that Guarantor and Parent shall nevertheless be obligated to provide a policy with the best coverage available as may be obtained for such 200% amount and (ii) in the Restated Certificate of Incorporation and By-Laws of the Surviving Corporation the provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers or directors contained in the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company.

(c) In the event that Guarantor or Parent or any of their successors or assigns (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all its properties

and assets to any person, then, and in each such case, Guarantor and Parent shall cause proper provision to be made so that the successors and assigns of Guarantor or Parent, as the case may be, assume the obligations set forth in this Section 5.05.

(d) To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the directors and officers of the Company and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in, with respect to the Company, the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company, or, with respect to the Company's subsidiaries, their respective certificates of incorporation and by-laws (or similar organizational documents) in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time; provided, however, that in the event any claim or claims are asserted or made within such six-year period, all such rights to indemnification in respect of such claim or claims shall continue until the final disposition thereof.

(e) The provisions of this Section 5.05 are intended to be for the benefit of, and will be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

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SECTION 5.06. Fees and Expenses. (a) Except as provided below, all fees and expenses incurred in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) In the event that (i) (A) a Takeover Proposal shall have been made to the Company or its stockholders or any person has publicly announced an intention (which has not been withdrawn) to make a Takeover Proposal, (B) thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 7.01(b)(i) (but only if the Stockholders Meeting has not been held by the date that is five business days prior to the date of such termination due to a breach of Section 5.01 by the Company) or 7.01(b)(iii) and (C) within 12 months after such termination, the Company or any of its subsidiaries enters into a definitive agreement to consummate, or consummates, any Takeover Proposal (solely for purposes of this Section 5.06(b)(i)(C), the term "Takeover Proposal" shall have the meaning set forth in the definition of Takeover Proposal contained in Section 4.02(a) except that all references to 20% shall be deemed references to 50%), (ii) this Agreement is terminated by the Company pursuant to Section 7.01(f) or (iii) this Agreement is terminated by Parent pursuant to Section 7.01(c), then the Company shall pay Parent a fee equal to $138 million (the "Termination Fee") by wire transfer of same day funds to an account in the United States designated by Parent (x) in the case of a termination by the Company pursuant to Section 7.01(f), concurrently with such termination, (y) in the case of a termination by Parent pursuant to Section 7.01(c), within two business days after such termination and (z) in the case of a payment as a result of any event referred to in Section 5.06(b)(i)(C), upon the first to occur of such events. The Company acknowledges that the agreements contained in this Section 5.06(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amounts due pursuant to this Section 5.06(b), and, in order to obtain such payment, Parent commences a suit that results in a final, non-appealable judgment against the Company for

the amounts set forth in this Section 5.06(b), the Company shall pay to Parent interest on the amounts set forth in this Section 5.06(b) from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit.

(c) If this Agreement is terminated (i) by the Company pursuant to Section 7.01(e) (other than on account of a breach of Section 3.02(d), Section 4.03 or Section 5.03) or (ii) by Parent pursuant to Section 7.01(d), then the non-terminating party shall promptly (but not later than five business days after receipt of notice of the amount due from the other party) pay to the terminating party an amount equal to all documented out-of-pocket expenses and fees incurred by such terminating party or its affiliates (including

fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors) arising out of, in connection with or related to the Merger or the other transactions contemplated by this Agreement ("Out-of-Pocket Expenses") not to exceed $20 million in the aggregate; provided, however, that if this Agreement is terminated under the circumstances described in clauses (i) or (ii) above by a party as a result of a willful breach by the non-terminating party, the terminating party may pursue any remedies available to it at law or in equity and such party's Out-of-Pocket Expenses shall not be limited to $20 million.

SECTION 5.07. [Intentionally omitted].

SECTION 5.08. Collective Bargaining Agreements. From and after the Effective Time, Parent shall cause the Surviving Corporation and its subsidiaries to honor and continue to be bound by the terms of all collective bargaining agreements to which the Company or any of its subsidiaries is a party (the "Collective Bargaining Agreements").

SECTION 5.09. Benefits Matters. (a) For purposes hereof, "Company Employees" shall mean those individuals who are employees of the Company and its subsidiaries (including those employees who are on vacation, leave of absence, disability or maternity leave) as of the Effective Time.

(b) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, give the Company Employees full credit, for all purposes, under any employee benefit plans or arrangements maintained by Parent's (or one of its subsidiaries') water business in the United States, the Surviving Corporation and their respective subsidiaries, and in which Company Employees may become eligible to participate for the Company Employees' service with the Company and its subsidiaries to the same extent recognized by the Company and its subsidiaries immediately prior to the Effective Time, except for purposes of benefit accrual under defined benefit pension plans in which the Company Employees do not participate immediately prior to the Effective Time, so long as credit for past service under any such pension plan is also not given to other employees employed in Parent's (or one of its subsidiaries') water businesses in the United States or to the extent giving such credit would result in a duplication of benefits (including in respect of benefit accrual under defined benefit pension plans) for the same period of service.

(c) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, (i) waive all limitations as to preexisting conditions,

exclusions and waiting periods with respect to participation and coverage requirements applicable to the Company Employees and, to the extent applicable, any retired employee constituting a member of the Retiree Group (as defined below) (any such employee a "Retired Employee") under any welfare benefit plans in which such employees may be eligible to participate after the Effective Time to the extent waived under the applicable Company Benefit Plan immediately prior

to the Effective Time and (ii) provide each Company Employee (and each Retired Employee) with credit for any co-payments and deductibles paid prior to the Effective Time in the calendar year in which the Effective Time occurs (or, if later, the year in which such Company Employee (and each Retired Employee) commences participation) in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans in which such Company Employee (and each Retired Employee) is eligible to participate after the Effective Time.

(d) Parent agrees to honor, and shall cause the Surviving Corporation to honor, the Company Benefit Plans disclosed in the Filed SEC Documents or Section 3.01(k)(i) of the Company Disclosure Schedule in accordance with their current terms. Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, for a period of 18 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, provide to the Company Employees compensation (including base pay and annual and long term incentive opportunities) and employee benefits (including health, welfare, pension, vacation, savings and severance) that are no less favorable in the aggregate than those provided to the Company Employees immediately prior to the Effective Time; provided, that for a period of 12 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, maintain the Company Benefit Plans in accordance with their terms as in effect immediately prior to the Effective Time (other than equity or equity-based plans) without any adverse amendment thereto or termination thereof (except as required by Applicable Law and Judgments or any Collective Bargaining Agreement). Notwithstanding the foregoing, following the Effective Time, there shall be no obligation to provide Company Employees with awards of capital stock of any entity or awards of options or other rights of any kind to acquire capital stock of any entity); provided, however, that the value of any equity-based compensation provided to Company Employees immediately prior to the Effective Time shall be taken into account in determining whether compensation and benefits provided during the 18 months after the Effective Time are no less favorable in the aggregate than those provided to Company Employees immediately prior to the Effective Time.

(e) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, or shall cause the Surviving Corporation to, provide to the Retiree Group (as defined below), without adverse amendment, the post-retirement medical and life insurance benefits as in effect immediately prior to the Closing Date (at the same levels, and at the same cost (if any), as in effect immediately prior to the Closing Date), provided to Company Employees who are not covered by a Collective Bargaining Agreement and their dependents as set forth in the retiree medical plan listed in Section 3.01(k)(i) of the Company Disclosure Schedule (the "Retiree Medical Plan"). The "Retiree Group" means each Company Employee who is not (or was not while employed) covered by a Collective Bargaining Agreement and who, as of the Closing Date, (i) is either retired under the terms of the Retiree Medical Plan as in effect on the date hereof or (ii) has satisfied all applicable eligibility requirements (under the terms of the Retiree Medical Plan as in

effect on the date hereof) necessary to commence receiving benefits if his or her employment were terminated at the Effective Time.

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(f) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, in the event and to the extent that Guarantor or one of its subsidiaries maintains a qualified employer stock ownership plan for the benefit of employees employed in Parent's or one of its subsidiaries' (or one of their respective successors') water business in the United States (a "Guarantor ESOP"), Guarantor shall allow all current non-union Company Employees to participate in such Guarantor ESOP as soon as practicable after the Effective Time.

(g) Between the date of this Agreement and the Closing Date, the Company shall provide Parent commercially reasonable access to the Company Employees for purposes of implementing this Agreement.

(h) The Company shall use its reasonable best efforts to cause the Board of Directors of the Company not to exercise any discretion it possesses solely in respect of the transactions contemplated by this Agreement, to expressly set the date when a "change in control" occurs for the purposes of any applicable individual agreement covering a Participant (other than to deem such "change in control" to occur no earlier than the Effective Time).

(i) The Company shall take all action necessary (i) to provide that the component of the Company's Dividend Reinvestment and Stock Purchase Plan permitting independent monthly purchases of Company Common Stock (other than purchases of Company Common Stock funded solely by reinvestment of Company dividends) (the "DRSPP Stock Purchase Component") shall be indefinitely suspended as promptly as reasonably practicable following the date of this Agreement (but in no event later than immediately following the second stock purchase effected following the date of this Agreement under the DRSPP Stock Purchase Component) and (ii) to cause all amounts not yet applied as of the date of termination of the DRSPP Stock Purchase Component to purchase Company Common Stock under the DRSPP Stock Purchase Component to be returned as promptly as practicable following such suspension.

SECTION 5.10. Public Announcements. Subject to each party's disclosure obligations imposed by law or any applicable securities exchange, and except with respect to any Adverse Recommendation Change, Parent and Sub, on the one hand, and the Company, on the other hand, shall, to the extent reasonably practicable, consult and cooperate with each other before issuing, and give each other a reasonable opportunity to review and comment upon, any press release or other public statements (other than routine employee communications) with respect to this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.11. Rights Agreement. The Board of Directors of the Company shall take all action necessary in order to render the Company Rights inapplicable to the Merger, the Company Voting Agreement and the performance of this Agreement.

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SECTION 5.12. Stockholder Litigation. The Company agrees that it shall not settle or offer to settle any litigation commenced prior to or after

the date hereof against the Company or any of its directors by any stockholder of the Company relating to this Agreement, the Company Voting Agreement, the Merger, any other transaction contemplated hereby or thereby, without the prior written consent of Parent (not to be unreasonably withheld or delayed).

SECTION 5.13. Director Resignations. On the Closing Date, the Company shall cause to be delivered to Parent duly executed resignations, effective as of the Effective Time, of each member of the Board of Directors of the Company and shall take such other action as is necessary to accomplish the foregoing.

ARTICLE VI
Conditions Precedent

SECTION 6.01. Conditions to Each Party's Obligation to Effect the Merger. The obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Stockholder Approval. The Stockholder Approval shall have been obtained.

(b) Antitrust. Any waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired and any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation or the Investment Canada Act, if applicable, the failure of which to obtain or comply with which would be reasonably expected to have a material adverse effect, shall have been obtained or terminated or shall have expired.

(c) No Injunctions or Legal Restraints. No temporary restraining order, preliminary or permanent injunction or other order or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Merger shall be in effect (collectively, "Legal Restraints").

(d) Required Consents. The Company Required Consents and the Parent Required Consents shall have been obtained prior to the Effective Time and shall have become Final Orders. Any reference in this Agreement to the "obtaining" of any such Company Required Consents or Parent Required Consents shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law. A "Final Order" for purposes of this Agreement means action by the relevant regulatory authority (i) which has not been reversed, stayed,

enjoined, set aside, annulled or suspended and (ii) with respect to which any waiting period prescribed by Applicable Law or Judgment before the Merger and the other transactions contemplated hereby may be consummated has expired, and as to which all conditions to be satisfied before the consummation of such transactions prescribed by Applicable Law or Judgment have been satisfied.

(e) Stock Redemption. The Stock Redemption shall have been consummated.

SECTION 6.02. Conditions to Obligations of Guarantor, Parent and Sub. The obligations of Guarantor, Parent and Sub to effect the Merger are further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained herein shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of the Company shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect.

(c) Material Adverse Effect. No material adverse effect shall have occurred and there shall be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect.

(d) Required Consents. The Final Orders relating to the Company Required Consents and the Parent Required Consents, together with any consents, approvals, orders, authorizations and declarations that shall have been obtained following the date of this Agreement and prior to the Effective Time in connection with any acquisition of any business or person by the Company or any of its subsidiaries, shall not individually or in the aggregate impose any terms or conditions, excluding any terms and conditions that may be imposed with respect to the acquisitions contemplated by the agreements dated as of October 15, 1999 between the Company and certain of its subsidiaries on one hand, and Citizens Communications Company ("Citizens"), and certain of its subsidiaries, on the other hand, to acquire certain water and wastewater assets of those Citizens subsidiaries, to the extent reflected or referred to in the Proposed Decision of ALJ McVicar dated as of September 6, 2001 and excluding any terms and conditions that may be imposed to the extent attributable to

any acquisition of any business or person by Guarantor or any of its subsidiaries with respect to which an acquisition agreement is entered into or that is publicly announced or consummated after the date of this Agreement, that would reasonably be expected to have a material adverse effect, or a material adverse effect on the combined business, assets, properties, condition (financial or otherwise) or results of operations of the Company and Thames Water Holdings, Inc. and their respective subsidiaries taken as a whole.

SECTION 6.03. Conditions to Obligation of the Company. The

obligation of the Company to effect the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Guarantor, Parent and Sub contained herein shall be true and correct, as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially delay the consummation of any of the transactions contemplated by this Agreement. The Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of Guarantor, Parent and Sub shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) Performance of Obligations of Parent and Sub. Guarantor, Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect.

SECTION 6.04. Frustration of Closing Conditions. None of the Company, Guarantor, Parent or Sub may rely on the failure of any condition set forth in Section 6.01, 6.02 or 6.03, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 5.03.

ARTICLE VII
Termination, Amendment and Waiver

SECTION 7.01. Termination. This Agreement may be terminated, and the Merger contemplated hereby may be abandoned, at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained:

(a) by mutual written consent of Parent, Sub and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated by March 16, 2003; provided, however, (A) that the right to terminate this Agreement pursuant to this Section 7.01(b)(i) shall not be available to any party whose breach of this Agreement has been the primary reason the Merger has not been consummated by such date, (B) that neither Parent nor the Company may terminate pursuant to this clause (b)(i) if on such date all conditions in Article VI shall have been satisfied or be capable of being satisfied other than the condition set forth in Section 6.01(e), and the Company shall have mailed a notice of redemption to effect the Stock Redemption, and (C) that if

on such date a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied but all other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, then such date shall be extended to September 16, 2003; and provided, further, that if on such date (or such extended date pursuant to the immediately preceding proviso, as applicable), a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied solely because the period described in clause (ii) of the definition of Final Order set forth in Section 6.01(d) shall not have expired, but all of the other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, such date shall be extended to the date of expiration of such period (up to a maximum of 60 days for such extension);

(ii) if any Legal Restraint of the type referred to in Section 6.01(c) shall be in effect and shall have become final and nonappealable (provided that the party seeking to terminate this Agreement pursuant to this Section 7.01(b)(ii) shall have used its reasonable best efforts to resist, resolve or lift, as applicable, such Legal Restraint); or

(iii) if, upon a vote at a duly held meeting to obtain the Stockholder Approval, the Stockholder Approval shall not have been obtained;

(c) by Parent in the event an Adverse Recommendation Change has occurred;

(d) by Parent if the Company shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (A) would give rise to the failure of a condition set forth in Section 6.02(a) or 6.02(b), and (B) has not been cured by the Company within twenty business days after its receipt of written notice thereof from Parent;

(e) by the Company if Parent shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Section 6.03(a) or 6.03(b), and (ii) has not been cured by Parent within twenty business days after its receipt of written notice thereof from the Company; or

(f) by the Company in accordance with the terms and subject to the conditions of Section 4.02(b).

Notwithstanding the foregoing, in no event shall Parent terminate this Agreement unless prior to the date of such termination Parent shall have complied with Section 7.03 (including paying to the Company the Reverse Fee) if applicable.

SECTION 7.02. Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company, other than the provisions of the last sentence of Section 5.02(a), Section 5.06, this Section 7.02, Section 7.03 and Article VIII; provided, however, that no such termination shall relieve any party hereto from any liability or damages resulting from a willful breach by a party of any of its representations,

warranties or covenants set forth in this Agreement.

SECTION 7.03. Certain Breaches. If (a) this Agreement is terminated by either party pursuant to Section 7.01 (other than (w) the termination of this Agreement by either Parent or the Company pursuant to Section 7.01(a) or (b)(iii), (x) the termination of this Agreement by Parent pursuant to Section 7.01(c) or (y) the termination of this Agreement by the Company pursuant to Section 7.01(f)) at a time when any of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) have not been satisfied and (b) at the time of such termination either (i) Section 3.02(d)(i) is not true and correct such that Guarantor, Parent, Sub or any of their respective subsidiaries (A) would be required to register as a holding company under the Holding Company Act or (B) would be subject to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or Guarantor or Parent is in breach of Section 4.03(a)(a)(i) or 4.03(a)(a)(ii)(A) or (ii) Section 3.02(d)(i) (other than as set forth above) or 3.02(d)(ii) is not true and correct or Guarantor or Parent is in breach of Section 4.03(a)(a)(ii)(B), 4.03(a)(b)(i), 5.03(a) (to the extent relating to Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d)) or 5.03(b) (to the extent relating to the Company Required Consents and the Parent Required Consents) and, in the case of clause (ii), such failure to be true and correct or such breach is the primary cause of the failure of the

conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) to be satisfied, then Parent shall pay the Company an amount equal to $138 million (the "Reverse Fee") by wire transfer of same day funds in U.S. dollars to an account in the United States designated by the Company within two business days after (or, in the case of a termination by Parent, concurrently with) such termination. Guarantor and Parent acknowledge that the agreements contained in this Section 7.03 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company would not enter into this Agreement; accordingly, if Parent fails promptly to pay the amounts due pursuant to this Section 7.03, and, in order to obtain such payment, the Company commences a suit that results in a final, non-appealable judgment against Guarantor or Parent for the amounts set forth in this Section 7.03, Parent and Guarantor shall pay to the Company interest on the amounts set forth in this Section 7.03 from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit. The parties acknowledge and agree that, notwithstanding any other provision in this Agreement to the contrary, the Company's sole and exclusive remedy with respect to any and all claims based on or with respect to any failure of Section 3.02(d) to be true and correct or any breach of Section 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above), in circumstances where the Company is entitled to payment of the Reverse Fee (other than any claims resulting from a willful breach by Guarantor or Parent or any of their respective subsidiaries of Section 3.02(d), 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above)) shall be the payment of the Reverse Fee pursuant to this Section 7.03.

SECTION 7.04. Amendment. This Agreement may be amended by the parties hereto at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained; provided, however, that

after the Stockholder Approval has been obtained, there shall be made no amendment that by law requires further approval by stockholders of the parties without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

SECTION 7.05. Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) waive compliance with any of the agreements or conditions contained herein; provided, however, that after the Stockholder Approval has been obtained, there shall be made no waiver that by law requires further approval by stockholders of the parties without the further approval of such stockholders. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure or delay by any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights nor shall any single or partial exercise by any party to this Agreement of

any of its rights under this Agreement preclude any other or further exercise of such rights or any other rights under this Agreement.

ARTICLE VIII
General Provisions

SECTION 8.01. Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

SECTION 8.02. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally or one business day after being sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Guarantor, Parent or Sub, to:

Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB
United Kingdom

Attention: Bill Alexander
Janet Ravenscroft

with a copy to:

RWE Aktiengesellschaft
Opernplatz 1, 45128
Essen, Germany

Attention: General Counsel

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019

Attention: Peter S. Wilson, Esq.
Mark I. Greene, Esq.

if to the Company, to:

American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Attention: W. Timothy Pohl

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017

Attention: Caroline B. Gottschalk, Esq.
Peter S. Malloy, Esq.

SECTION 8.03. Definitions. For purposes of this Agreement:

(a) an "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person;

(b) "knowledge of the Company" means the actual knowledge of those individuals set forth in Section 8.03(b) of the Company Disclosure Schedule;

(c) "knowledge of Guarantor and Parent" means the actual knowledge of those individuals set forth in Section 8.03(c) of the Parent Disclosure Schedule;

(d) "material adverse effect" means any material adverse change or effect (i) on the business, assets, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, or (ii) which would reasonably be expected, directly or indirectly, to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated by this Agreement, except in the case of either (i) or (ii) for any change or effect (w) set forth in Section 8.03(d) of the Company Disclosure Schedule, (x) relating to financial markets or the economy in general, (y) affecting the water services or wastewater services industries generally and not specifically relating to the Company or its subsidiaries, or (z) to the extent attributable to or resulting from the public announcement of the transactions contemplated by this Agreement or the identity of Guarantor or Parent or their subsidiaries as the acquiring person in the Merger including any loss of customers or employees or condemnation proceedings resulting therefrom;

(e) "person" means an individual, corporation, partnership, joint venture, association, trust, limited liability company, Governmental Entity, unincorporated organization or other entity;

(f) a "Significant Subsidiary" of any person means any subsidiary of such person that constitutes a significant subsidiary within the meaning of Rule 1-02 of Regulation S-X of the SEC;

(g) a "subsidiary" of any person means another person (i) of which 50% or more of the capital stock, voting securities, other voting ownership or voting partnership interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no

such voting interests, 50% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person or (ii) of which such first person is a general partner; and

(h) a "wholly owned subsidiary" of any person means a subsidiary of which 99% or more of the common equity securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such equity securities having such voting power, 99% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person.

SECTION 8.04. Interpretation. When a reference is made in this Agreement to a Section, Subsection or Schedule, such reference shall be to a Section or Subsection of, or a Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term "or" is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Any agreement or instrument defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement or instrument as from time to time amended, modified or supplemented. References to a person are also to its permitted successors and assigns.

SECTION 8.05. Guarantee. In connection with the Merger and the other transactions contemplated by this Agreement, Guarantor hereby irrevocably, absolutely and unconditionally guarantees the due, punctual and complete performance and payment (and not merely collection) in full of all obligations and liabilities of Parent, Sub and the Surviving Corporation under this Agreement, and of any other person to whom any of their obligations shall be assigned in accordance with Section 8.09, as and when due and payable or required to be performed pursuant to any provisions of this Agreement, subject to the terms and conditions thereof (the "Guaranteed Obligations") and agrees that the Company shall be entitled to enforce directly against Guarantor any of the Guaranteed Obligations. To the fullest extent permitted by Applicable Law, Guarantor waives presentment to, demand of payment from and protest to any other person of any of the Guaranteed Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. The

obligations of Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations, or otherwise. Notwithstanding any of the foregoing, nothing herein shall be deemed to waive or limit Guarantor's ability to assert any claims, defenses or other rights that Parent or Sub may have under this Agreement.

SECTION 8.06. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 8.07. Entire Agreement; No Third-Party Beneficiaries. This Agreement, together with the Company Disclosure Schedules, the Parent Disclosure Schedules and the Exhibits (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, (other than the Confidentiality Agreement), among the parties with respect to the subject matter hereof and thereof and (b) except for the provisions of Section 5.05, are not intended to confer upon any person other than the parties hereto and thereto (and their respective successors and assigns) any rights or remedies.

SECTION 8.08. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 8.09. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated, in whole or in part (except by operation of law), by any of the parties hereto without the prior written consent of the other parties hereto, and any attempt to make any such assignment without such consent shall be null and void. Notwithstanding the foregoing, Parent or Sub may assign, in its sole discretion, any of or all its respective rights, interests and obligations under this Agreement to Guarantor or to any direct or indirect wholly owned subsidiary of Guarantor with written notice to the Company and upon taking of any actions required by the DGCL with respect thereto (including amending this Agreement if necessary), provided that the Company agrees to provide reasonable assistance to Parent with any such actions and agrees to execute any such amendments to this Agreement, but no such assignment shall relieve Parent or Sub of any of their respective obligations hereunder; provided, however, that Parent and such substitute subsidiary shall represent and warrant to the Company, on the day such substitution is to be effective, the representations and warranties set forth in Section 3.02; provided, further, that no action shall be taken that would require the Company to amend or supplement in any material respect the Proxy Statement at any time after the Proxy Statement has first been mailed to the Company's stockholders or materially delay or impede the consummation of the Merger. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8.10. Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached.

It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in any Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located

in the State of Delaware or of any Delaware state court in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of Delaware or a Delaware state court. By the execution and delivery of this Agreement, each of Guarantor and Parent appoints CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, as its agent upon which process may be served in any such legal action or proceeding. Service of process upon such agent, together with notice of such service given to Guarantor or Parent in the manner specified in Section 8.02 shall be deemed in every respect effective service of process upon Guarantor or Parent in any legal action or proceeding.

SECTION 8.11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

SECTION 8.12. Waiver of Jury Trial. Each party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, Guarantor, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RWE AKTIENGESELLSCHAFT,

By: /s/ Richard Klein

Name: Richard Klein
Title: Member of the Executive Board

By: /s/ William John Alexander

Name: William John Alexander

Title: Chief Executive

THAMES WATER AQUA HOLDINGS GMBH,

By: /s/ Richard Klein
_____
Name: Richard Klein
Title: Member of the
Executive Board

By: /s/ William John Alexander
_____
Name: William John Alexander
Title: Chief Executive

APOLLO ACQUISITION COMPANY,

By: /s/ Jim McGivern
_____
Name: Jim McGivern
Title: Managing Director
Internatinal Business
Development

AMERICAN WATER WORKS COMPANY, INC.,

By: /s/ J. James Barr
_____
Name: J. James Barr
Title: President and
Chief Executive

* * *

Exhibit 99.1

Immediate Release

American Water Works to be Acquired by RWE in $4.6 Billion Cash Transaction;

Compelling Combination of Companies to Produce Powerful New Force
in World Water Marketplace

Voorhees, NJ -- (September 17, 2001) - American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded water services company in the United States, and RWE AG, a leading international provider of electricity, gas, water and wastewater management services, today announced that they have entered into a definitive agreement under which RWE will purchase all the outstanding shares of American Water at a price of US$46 per share in cash.

RWE's all-cash proposal represents a premium of 36.5% to the average closing price of American Water shares over the 30 trading days ended September 10, 2001, and a 29.5% premium above the all-time high closing price of $35.52. The proposed transaction has a total value of approximately US$7.6 billion, including the assumption of approximately US$3.0 billion in debt American Water had outstanding as of June 30, 2001.

Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water, RWE's London-based international water services business. American Water will manage the joint operations in North and South America. American Water's CEO, Jim Barr, will report directly to Bill Alexander, CEO of Thames Water.

Continued . . .

The transaction is expected to take more than a year to complete, following approval by American Water's shareholders and appropriate state regulatory agencies. It is expected to have no effect on the Company's previously announced plans to acquire Azurix North America as well as the water and wastewater assets of Citizens Communications, or to sell its Salisbury, MA operations and divest its New England operations to Aquarion.

Commenting on the transaction, Dr. Dietmar Kuhnt, President and Chief Executive Officer of RWE, stated: "We are extremely pleased to have reached this agreement with American Water Works, the largest and most geographically diversified water services company in the US. In addition to providing us with a top position in the U.S., the acquisition of American Water will further establish RWE as a global leader in the provision of water services. The development of RWE's world-class water business, in turn, will provide greater balance to our core utility portfolio and allow us to deliver enhanced growth and shareholder value."

Bill Alexander, Chief Executive Officer of Thames Water, said, "American Water provides RWE and Thames Water with a highly respected management team and a strong platform for developing our water business in North, Central and South America, which are among the world's largest and fastest-growing markets. Together, we will strengthen our ability to serve the interests of our customers and employees. RWE and Thames, like American Water, are strongly committed to preserving the environment, participating in local activities, and otherwise adding value to the communities in which we operate."

On behalf of the American Water Works Board of Directors, Chairman Marilyn Ware commented that, "our professional heritage and expertise are consistent with those of RWE and Thames Water. This transaction pairs us with strong international partners and positions us perfectly to continue the momentum we've created toward becoming the water resources manager of choice in the U.S."

American Water Works President and Chief Executive Officer J. James Barr, who will lead the integrated water services operations for the Americas, described the transaction "a compelling combination of companies that will create a powerful new force in the world water market and deliver value for our customers, our shareholders, our associates, and the communities we serve.

Continued . . .

Over the years, through multiple consolidations, we have been able to enhance our ability to address water resource issues throughout the U.S. Joining forces with Thames Water and RWE is the next logical step in a growth strategy based on the delivery of vital community services," Barr said.

Commenting on the tragic events of September 11th, RWE's Dr. Kuhnt said, "The RWE family around the world mourns the loss of innocent life suffered in America last week. With more than 16,000 of our employees based in the United States, we share America's horror, grief and outrage. Rather than delay, we are making this announcement today because we believe it is more important than ever to show the world that we are investing in America. We believe in the courage and resiliency of its people and remain ever confident in its future."

Merrill Lynch and Morgan Stanley served as financial advisors to RWE and Goldman Sachs & Co. served as financial advisor to American Water.

About RWE

RWE is a leading international multi-utility company. Its core businesses are electricity, natural gas, water, waste management and services. In financial year 2000/2001, the RWE Group's 172,000 employees worldwide generated sales of approximately US$57 billion. The Group has 12 major operating subsidiaries. More information on RWE can be found at www.RWE.com.

About Thames Water

With more than 14,000 employees in 44 countries, Thames Water provides water and wastewater services to approximately 43 million customers, ranking it as the third-largest water company worldwide. The London-based company has led all of the international water services activities of the RWE Group since November 2000. In the UK, the company is the leading supplier of water and wastewater services. Thames Water also delivers water services to customers through international operations in North and South America, Asia-Pacific, Eastern Europe and the Mediterranean. In the United States, Thames Water operates Westfield, NJ based water company E-Town Corporation, which supplies fresh water to approximately 1 million people in New Jersey. More information on Thames Water can be found at www.thames-water.com.

Continued . . .

About American Water Works

With annual revenues of $1.4 billion, American Water Works Company is the nation's largest publicly traded enterprise devoted exclusively to the water and wastewater business. Its 5,000 associates provide water, wastewater and other water resource management services to more than 10 million people in 1,300 communities throughout the U.S. More information can be found on the Web at www.amwater.com and a conference call with analysts about this annoucement will be available on that website at 2:00 p.m. (EDT) today.

Editors please note: Summary fact sheet attached.

Investors and security holders are urged to read the proxy statement regarding the proposed transaction when it becomes available because it will contain important information. The proxy statement will be filed with the U.S. Securities and Exchange Commission by American Water Works and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed or furnished by American Water with the SEC at the SEC's web site at www.sec.gov. The proxy statement and other documents filed or furnished by American Water Works may also be obtained for free by directing a request to American Water at (856) 346-8200.

Investors may obtain a detailed list of names, affiliations and interests of participants in the solicitation of proxies of American Water shareholders to approve the merger at the following address: American Water Works Company, Inc; 1025 Laurel Oak Road; P.O. Box 1770; Voorhees, NJ 08043.

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

Continued . . .

Fast Facts	[American Water Works Company Logo]	[Thames Water Logo]	[RWE Logo]
Headquarters	Voorhees, NJ	London, U.K.	Essen, Germany
CEO	Jim Barr	Bill Alexander	Dietmar Kuhnt
Businesses	Water, wastewater services	Water, wastewater services, other water-related products and services	Primarily energy and utilities (electricity, gas, waste and recycling, water and wastewater services)
Business presence	1,300 communities in 23 states	United Kingdom, Australia, Chile, China, Indonesia, Malaysia, Puerto Rico, Thailand, Turkey, Eastern Europe, United States	Worldwide
Market leadership position	Nation's largest publicly-traded water services company	World's 3rd largest water services provider #1 supplier of water and wastewater services in the U.K. and Germany	78th largest corporation on "Fortune Global 500" list (acquired Thames Water in November 2000) Germany's 5th largest industrial corporation Electricity supplier: #1 in Germany #3 in Europe Gas supplier: #2 in Germany Waste & recycling: #1 in Germany #3 in Europe

Fast Facts	[American Water Works Company Logo]	[Thames Water Logo]	[RWE Logo]
People served	10 million	43 million	n/a
Employees	5,000	17,000 (800 in U.S.)	172,000

Market Cap	$3.5 billion	n/a	$21 billion
Revenues	$1.4 billion	n/a	$44 billion (fiscal year 2000)
Net income	$157.4 million	n/a	$1.1 billion
Shareholders	43,577	n/a	194,000
Stock exchange	New York	n/a	Germany, Switzerland
Common shares	99.6 million	n/a	531 million
Key Business Goals	o Shareholder value o Customer service o Expansion o Technological superiority	o Expansion o Customer service o Technological superiority	o Shareholder value o Customer service o Expansion o Technological superiority
Core commitments	o Customers o Investors o Associates o Environment o Community	o Customers o Investors o Employees o Environment o Community	o Customers o Investors o Employees o Environment o Community

American Water Works Contacts:

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Vice President External Affairs
856-566-4026

James E. Harrison
Vice President Investor Relations
856-346-8207

RWE Contacts:

Dieter Schweer
Vice President, RWE Group Corporate Communications
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Bill McAndrews, Senior Manager, RWE Press Relations
+49 201 121 5095
+49 177 551 5302 (mobile)

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Exhibit 99.2

American Water Works: RWE Acquisition
Financial Analysts Q&A

How is the transaction structured?

American Water's common stock that is outstanding at the date of closing will be purchased for $46 per share. At June 30, 2001 the Company had 99,256,000 shares outstanding. American Water Works preferred stock will be redeemed and RWE will assume American Water's outstanding debt at closing. As of June 30, 2001, American Water Works had $2.9 billion in outstanding debt and preferred stock. That, combined with the value of common equity at $46 per share, results in an enterprise value for the transaction of $7.5 billion.

Why did American Water agree to this transaction?

Consolidation will define our future, as it has shaped our past. We have built the largest water company in the United States through a series of consolidations. These started with the coming together of more than 100 small water companies in the late 19th and early 20th centuries, and have continued right up through today, with our pending acquisitions of Azurix North America and the water and wastewater assets of Citizens Communications.

As Jim Barr noted in the Company's annual report, the fundamental trend in our industry toward consolidation is unstoppable - in the United States and internationally. This is because it's essential to access the capital that ensures our consumers receive reliable service, at the most affordable rates, now and in the future.

This is particularly important in a business like water services, which delivers a vital community service that is capital intensive, technologically demanding, and requires continual investment in a massive, aging and expanding infrastructure.

How do you believe this deal will change the US regulated water industry?

Consolidation within the water industry is crucial regardless of whether the assets are owned by municipalities or private investors. American Water Works was built on that business model. American Water Works knows that regulated water service provides the best long-term alternative for customers and we will continue to pursue that business model. Thames Water is experienced in providing service to a significant number of people through regulated businesses. Under their guidance, pursuit of business opportunities that

advance industry consolidation will continue. At the same time, American Water Works' goal of expanding service under non-regulated agreements will be enhanced.

Continued . . .

Analysts Q&A page 2

Why did you agree to RWE buy-out offer without putting the company on the auction block?

American Water Works did not initiate the discussions for the acquisition. However, once it agreed to begin negotiations, the Company concentrated on achieving the best possible outcome for its investors, customers and the associates who built the organization. We believe the transaction we have announced accomplishes this objective.

How long will it take to complete the transaction?

In addition to shareholder approvals, we anticipate regulatory review in more than half of the states in which we operate, and estimate at least a year will be required to complete that process.

What states will need to review this transaction?

At the present time, a final determination is under review.

Do you anticipate difficulties with the approval process in California?

If approval is required in the state of California, we are confident the Public Utility Commission will recognize the benefit to ratepayers.

Is there a termination date in the agreement?

The agreement allows for termination after 18 months, unless the only remaining conditions are receipt of regulatory approvals, in which case it will be extended for an additional 6 months, plus 60 days if necessary to satisfy waiting periods.

Where can I get a copy of the agreement?

The agreement has been filed with the SEC and is available through EDGAR.

Is there a termination fee in the agreement?

Yes. The agreement calls for a 3% termination fee for both the buyer and seller under certain very well defined circumstances.

What are the multiples for this transaction?

The per-share price represents a 35% premium above the latest closing share price of $34.12, and a 29% premium above the all-time high closing price of $35.60. The enterprise value of $7.5 billion represents a multiple of 12 times EBITDA, 16.4 times EBIT and 28 times EPS for the year 2000. The equity value, based upon the per-share offer price and the number of outstanding shares at June 30, 2001, represents a multiple of 2.7 times above the book value of that equity on that date.

Continued . . .

Analysts Q&A page 3

Will there be any impact on earnings between the date of the agreement to the date of closing?

Transaction costs will be expensed as required by proper accounting and will impact earnings. However, provisions in the agreement allow American Water Works to continue paying a dividend and to grow that dividend as much as four cents per year. Therefore, shareholders will not be harmed by these charges to earnings. Other provisions in the agreement compensate American Water Works for these expenses if certain events occur and the transaction is not closed.

Is there likelihood that this transaction will not be completed due to regulatory complications?

While both companies are extremely committed to completion of this transaction, it is impossible to predict the outcome of any part of the approval process, and we will not speculate.

Where can information be found about RWE or Thames?

Both companies have Web sites, and RWE's common stock is publicly traded in Europe. On the Internet, their sites are www.rwe.com and www.thames-water.com.

Will financial information continue to be available, conference calls conducted and questions answered by AWK while the merger transaction proceeds?

As long as the common stock of American Water Works remains publicly traded, the company will comply with SEC and NYSE regulations regarding the filing of financial information. It will conduct conference calls regarding that information and respond to requests for information consistent with SEC and NYSE regulations as has been past practice.

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Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the

safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly

update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

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Exhibit 99.3

American Water Works: RWE Acquisition
Shareholder Q&A

When will I get my $46 per share?

You will receive $46 per share shortly after the acquisition is complete. We expect it to take more than a year to close the transaction.

When will shareholders get to vote on the agreement?

A proxy statement and documents to be filed with the Securities and Exchange Commission (SEC) will be completed during the fourth quarter. At the time of the filing, a package of materials will be mailed to all shareholders of record. This package will contain a proxy card and instructions for a mail-in, telephonic and internet vote, and will also set a date, time and place for a shareholders' meeting.

Will I still be able to exercise the provisions of the shareholder rights plan?

Those rights applied in the event an acquisition of the company was attempted in a manner that excluded involvement of the company's Board of Directors in determining the company's value. This acquisition agreement was the result of negotiation and it has the approval of the Board of Directors. Therefore, we

have provided that it will be excluded from the provisions of the shareholder rights plan that would result in the right to purchase additional shares.

What will happen to American Water Works stock if the transaction is not completed?

First, both companies are firmly committed to completing this transaction. However, until the closing date, as well as in the event that the transaction is not completed, American Water Works stock will remain publicly traded.

Can I still participate in the company's Dividend Reinvestment and Optional Stock Purchase plan?

No. That plan was suspended when the agreement was executed. Optional payments received by September 17, 2001 will be invested on that investment date. During the suspension of the plan, all cash dividends declared by the Company will be paid to plan participants and no further optional purchase payments will be accepted.

Continued . . .

Shareholder Q&A, page 2

Do I have to accept the $46 per share if I disagree that is a fair price?

No. Shareholders who vote against the adoption of the agreement and disagree with the per-share offer price may exercise their appraisal rights and seek a determination by the Delaware Court of Chancery as to the fair value of those shares. However, once having advised the company of their election to pursue this approach, the shareholder is entitled only to the per-share determination made by the court and is no longer entitled to the $46 per-share offer price.

Will the company's outstanding preferred stock also be redeemed at closing, and if so, at what price?

Before the transaction closes, the American Water Works 5% preferred stock issue will be redeemed for $25 per share, and the American Water Works 5% preference stock issue will be redeemed for $25.25 per share. Preferred stock of the company's subsidiaries will remain outstanding.

Will American Water Works suspend dividend payments, conduct a stock split, or otherwise change historical practices regarding its distribution of earnings while this transaction is being completed?

No. Provisions in the agreement allow the company to continue its past practices for payment of dividends and to grow those payments up to four cents per year during the time period anticipated for completion of the transaction. The agreement also allows for a "pro rata" stub period dividend, if the transaction does not close on a dividend record date.

Can stock be purchased in either Thames Water or RWE?

Common stock of Thames Water cannot be purchased since it is a subsidiary of RWE and is not publicly traded. Common stock of RWE is traded on European markets.

Will shareholders be routinely advised about the status of the transaction and regulatory approval process?

Yes. As a publicly traded company, American Water Works will continue to file financial statements and other documents required by the SEC and the New York Stock Exchange (NYSE). In addition to these public documents, news releases and other information will be made available about material events regarding the completion of this transaction.

Continued . . .

Shareholder Q&A, page 3

What impact will the acquisition costs have on the earnings of American Water Works while the transaction is pending?

Costs incurred by American Water Works are not anticipated to have a significant impact on earnings during the period required to complete the transaction.

Will American Water's financial information continue to be made available to shareholders and the public?

Yes. Until the transaction closes, American Water Works will continue to file and make available public information required by the SEC and the NYSE. We will continue to conduct our business and our public information programs consistent with our past practices.

Why has American Water Works decided to sell the company?

For several years, American Water Works has pointed out the need to consolidate the water industry. This transaction advances that goal. Additionally, the transaction will reward shareholders for their investment and support of this company over the years. The transaction will also reward customers with expanded quality service through the worldwide experience of the larger organization. Associates who built this company, as well as those who continue to invest their professional expertise each day to deliver quality service, benefit by joining an organization with significant capital resources and international opportunities.

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expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant /x/
Filed by a Party other than the Registrant / /

Check the appropriate box:
/x/ Preliminary Proxy Statement
/ / **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Rule 14a-12

AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/ / No fee required.
/x/ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

common stock, par value $1.25 per share

(2) Aggregate number of securities to which transaction applies:

99,983,686 shares of common stock and options to purchase 905,751 shares of common stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

the sum of (i) 99,983,686 shares of common stock at $46.00 per share in cash and (ii) cash-out of 905,751 shares of common stock subject to options at an aggregate cost of $20,241,862

(4) Proposed maximum aggregate value of transaction:

$4,619,491,418

(5) Total fee paid:

$923,898

/ / Fee paid previously with preliminary materials.

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AMERICAN WATER WORKS COMPANY, INC.

1025 Laurel Oak Road
Voorhees, New Jersey 08043

Dear Fellow Stockholder:

As you may know, on September 16, 2001, we entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. A special meeting of stockholders of American Water Works will be held on Thursday, January • , 2002 at • [a.m./p.m.] local time, to consider a proposal to adopt the merger agreement so that the merger can occur. The meeting will be held at The Mansion on Main Street in Voorhees, New Jersey. Notice of the special meeting is enclosed.

Upon completion of the merger, you will be entitled to receive $46.00 in cash for each share of common stock that you own. This price represents a 37.2% premium over the average closing price per share over the 30 trading days prior to September 10, 2001, and a 29.5% premium over the highest closing share price our stock ever obtained prior to the public announcement of the merger agreement.

This proxy statement gives you detailed information about the special meeting and the merger and includes the merger agreement as Annex A. The receipt of cash in exchange for your shares of common stock in the merger will constitute a taxable transaction for U.S. federal income tax purposes. We encourage you to read the proxy statement and the merger agreement carefully.

Our board of directors has, by a unanimous vote, approved the merger agreement and determined that the merger agreement and the merger are fair to and in the best interests of American Water Works and our stockholders. In connection with its evaluation of the merger, the board of directors considered a number of factors, including the written opinion of Goldman, Sachs & Co., delivered on September 16, 2001 to the board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share to be received by holders of American Water Works common stock pursuant to the merger agreement, was fair from a financial point of view to those holders. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. The written opinion of Goldman Sachs is attached as Annex B to the enclosed proxy statement, and you should read it in its entirety.

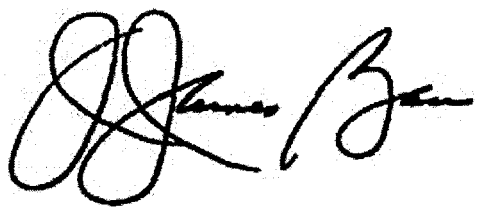
Your vote is important. We cannot complete the merger unless holders of a majority of the voting power of our outstanding common stock (which is entitled to one vote per share) and cumulative preferred stock, 5% series (which is entitled to one-tenth of a vote per share), voting together as a single class, vote to adopt the merger agreement. Our board of directors recommends that you vote **"for"** the proposal to adopt the merger agreement. **The failure of any stockholder to vote on the merger will have the same effect as a vote against the merger.**

Stockholders owning or controlling a total of 25,989,476 shares of common stock, which represents approximately 26% of all outstanding votes, have entered into a voting agreement in which they agreed to vote in favor of adopting the merger agreement. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal to adopt the merger agreement. Whether or not you plan to attend the special meeting, please complete,

sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so.

The board of directors and management of American Water Works appreciate your continuing interest and support of our company, and we hope you will support this exciting transaction.

Sincerely,



Marilyn Ware
Chairman of the Board of Directors

J. James Barr
Chief Executive Officer and President

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD JANUARY • , 2002

TO THE HOLDERS OF:

COMMON STOCK
CUMULATIVE PREFERRED STOCK, 5% SERIES
5% CUMULATIVE PREFERENCE STOCK

We are pleased to notify you of and invite you to a special meeting of stockholders. At the meeting, holders of common stock and cumulative preferred stock, 5% series will be asked:

- to vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 16, 2001, among American Water Works, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned of RWE, and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Thames Water Holdings, as the merger agreement may be amended from time to time; and

- to consider any other matters that are properly brought before the special meeting or any adjournments or postponements of the special meeting.

Only holders of record of common stock and cumulative preferred stock, 5% series at the close of business on • , 2001 may vote at the special meeting.

We urge you to read the accompanying proxy statement carefully as it sets forth details of the proposed merger and other important information related to the merger.

Under Delaware law, holders of our common stock who do not vote in favor of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the Delaware law procedures explained in the accompanying proxy statement.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or Internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so.

By Order of the Board of Directors,

W. Timothy Pohl
General Counsel and Secretary

Voorhees, New Jersey
• , 2001.

AMERICAN WATER WORKS COMPANY, INC.

1025 Laurel Oak Road
Voorhees, New Jersey 08043
856-346-8200

PROXY STATEMENT
FOR THE SPECIAL MEETING OF STOCKHOLDERS

January • , 2002

This proxy statement is being furnished to our stockholders in connection with the solicitation of proxies by our board of directors to be used at a special meeting of our stockholders to be held at The Mansion on Main Street in Voorhees, New Jersey, on Thursday, January • , 2002, at • [a.m./p.m.], local time, and any adjournments or postponements thereof.

At the special meeting, the stockholders will be asked to consider and vote upon a proposal to adopt the agreement and plan of merger dated as of September 16, 2001, among American Water Works, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of RWE, and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Thames Wate Holdings, as the merger agreement may be amended from time to time. In the merger, Apollo will merge into American Water Works with American Water Works continuing as the surviving corporation and an indirect wholly owned subsidiary of RWE.

Subject to the terms and conditions of the merger agreement, upon consummation of the merger each issued and outstanding share of our common stock, other than shares held by stockholders who validly exercise appraisal rights (as discussed in this proxy statement), will automatically be canceled and cease to exist and will be converted into the right to receive a per share amount equal to $46.00 in cash, without interest. Prior to the merger and as a condition to completing the merger, we will redeem (1) each issued and outstanding share of our cumulative preferred stock, 5% series for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon to the redemption date and (2) each issued and outstanding share of our 5% cumulative preference stock for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon to the redemption date.

Upon the consummation of the merger, stockholders of American Water Works will have no further interest in the surviving corporation. A copy of the merger agreement is attached to this proxy statement as Annex A.

In connection with the proposed merger, appraisal rights will be available to those holders of the common stock of American Water Works who do not vote in favor of adoption of the merger agreement and who otherwise comply with the requirements of Section 262 of the Delaware General Corporation Law, a copy of which is included as Annex C to this proxy statement. You should read the section entitled "Appraisal Rights" in this proxy statement for a discussion of the procedures to be followed in asserting appraisal rights under Section 262 in connection with the proposed merger and the full text of Section 262, which is included as Annex C to this proxy statement.

AMERICAN WATER WORKS' BOARD OF DIRECTORS, AFTER CAREFUL CONSIDERATION, HAS APPROVED AND DECLARED ADVISABLE THE MERGER AGREEMENT, HAS DETERMINED THAT THE MERGER IS FAIR TO, AND IN THE BEST INTERESTS OF, AMERICAN WATER WORKS AND ITS STOCKHOLDERS, AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "**FOR**" ADOPTION OF THE MERGER AGREEMENT AT THE SPECIAL MEETING.

Our board of directors has fixed the close of business on • , 2001 as the record date for the special meeting and only holders of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote • shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

This proxy statement is dated • , 2001 and is first being mailed on or about • , 2001.

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SUMMARY TERM SHEET

This summary term sheet highlights important information in this proxy statement and does not contain all of the information that is important to you. You should carefully read this entire proxy statement and the other documents we refer you to for a more complete understanding of the matters being considered at the special meeting. In addition, we incorporate by reference important business and financial information about American Water Works into this proxy statement. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in the section entitled "Where You Can Find More Information."

The Proposed Transaction

In the merger, a wholly owned indirect subsidiary of RWE will merge into American Water Works with American Water Works continuing as the surviving corporation. American Water Works will become the Americas division of RWE's water business and it will operate under the name American Water Works.

- Upon consummation of the merger each issued and outstanding share of our common stock, other than shares held by stockholders who validly exercise appraisal rights (as discussed in this proxy statement), will automatically be canceled and cease to exist and will be converted into the right to receive a per share amount equal to $46.00 in cash, without interest.

- As a result of the merger, we will cease to be an independent, publicly traded company and will become an indirect, wholly owned subsidiary of RWE.

The Companies (see page 10)

American Water Works

American Water Works is the largest publicly traded enterprise devoted exclusively to the water and wastewater business in the United States. On November 7, 2001, we completed the acquisition of Azurix North America Corp. and Azurix Industrials Corp., which expanded our presence into the southeastern and northwestern United States and three Canadian provinces. American Water Works and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and Canada. In addition, we have received the necessary approvals from the states of Arizona, Illinois, Indiana, Ohio and Pennsylvania for our purchase of the water and wastewater assets of Citizens Communications Company, a multi utility holding company. The California Public Utility Commission approved our acquisition of Citizen's water and wastewater assets in that state in September 2001, but we are awaiting a possible rehearing before that commission and a possible appellate proceeding before we will close the acquisition. On August 30, 2001, we announced an agreement to sell our New England operations to Kelda Group Plc for approximately $118 million in cash plus the assumption of approximately $115 million in debt.

RWE

RWE is a global multi-utility company that does business, through its subsidiaries and affiliates, in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling.

Thames Water Holdings

Thames Water Aqua Holdings GmbH, which we will refer to in this proxy statement as Thames Water Holdings, is the holding company for all of RWE's global water business. In 2000, RWE acquired Thames Water Plc, the leading supplier of water and wastewater service in the United Kingdom.

Thames Water Plc is a subsidiary of Thames Water Holdings and, after the merger, American Water Works will be a subsidiary of Thames Water Holdings as well.

Apollo Acquisition Company

Apollo Acquisition Company, which we will refer to in this proxy statement as Apollo, is a Delaware corporation formed solely for the purpose of merging into American Water Works and has not conducted any unrelated activities since its organization. Apollo is a wholly owned subsidiary of Thames Water Holdings.

What You Will Be Entitled to Receive Upon Completion of the Merger (see page 31)

Upon completion of the merger, you will be entitled to receive $46.00 in cash, without interest, for each share of common stock that you own, plus any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is completed. Prior to the merger and as a condition to completing the merger, we will redeem (1) each issued and outstanding share of our cumulative preferred stock, 5% series for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon to the redemption date and (2) each issued and outstanding share of our 5% cumulative preference stock for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon to the redemption date.

After we complete the merger, Thames Water Holdings or one of its wholly owned subsidiaries will be the sole stockholder of American Water Works.

The Special Meeting (see page 11)

Date, Time and Place of the Special Meeting

The special meeting is scheduled to be held as follows:

Date: January •, 2002

Time: •, local time

Place: The Mansion on Main Street, Voorhees, New Jersey

Proposal to be Considered at the Special Meeting

At the special meeting, you will be asked to vote on a proposal to adopt the merger agreement. A copy of the merger agreement is attached as Annex A to this proxy statement.

Record Date

Our board of directors has fixed the close of business on • , 2001 as the record date for the special meeting and only holders of record of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote • shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

Voting Rights; Vote Required for Adoption

Each share of common stock entitles its holder to one vote on all matters properly coming before the special meeting and each share of cumulative preferred stock, 5% series entitles its holder to one-tenth of a vote on all matters properly coming before the special meeting. The presence in person or representation by proxy of stockholders entitled to cast a majority of the votes of all outstanding

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shares entitled to vote on the proposal to adopt the merger agreement, considered together, shall constitute a quorum for the purpose of considering that proposal.

If you hold your shares in an account with a broker or bank, you must instruct the broker or bank on how to vote your shares. If an executed proxy card returned by a broker or bank holding shares indicates that the broker or bank does not have authority to vote on the proposal to adopt the merger agreement, the shares will be considered present at the meeting for purposes of determining the presence of a quorum, but will not be voted on the proposal to adopt the merger agreement. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Under Delaware law and our certificate of incorporation, the proposal to adopt the merger agreement must be adopted by the affirmative vot of the holders of a majority of the votes represented by all of the outstanding shares of common stock and cumulative preferred stock, 5% series, voting together as a single class, with each share of common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to one-tenth of a vote. **Abstentions and broker non-votes will have the same effect as a vote against the proposal to adopt the merger agreement.**

Some of our major stockholders (including some of our directors) holding 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special meeting have entered into a voting agreement with Thames Water Holdings obligating those stockholders to vote their shares in favor of the transaction. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal to adopt the merger agreement. If our directors and officers and the other major stockholders party to the voting agreement vote their shares for the proposal to adopt the merger agreement, approximately 28.6% of the voting power of our outstanding common stock and cumulative preferred stock, 5% series will have voted for the proposal to adopt the merger agreement. This means that holders of only an additional 21.5% of the voting power of all shares entitled to vote at the meeting would need to vote for the proposal to adopt the merger agreement in order for it to be adopted.

Voting and Revocation of Proxies

After carefully reading and considering the information contained in this proxy statement, you should complete, date and sign your proxy card and mail it in the enclosed return envelope as soon as possible so that your shares are represented at the special meeting. You can also vote in person at the meeting, but we encourage you to submit your proxy now in any event. You can also submit your proxy by telephone by calling the number on your proxy card or over the Internet by going to the web site designated on your proxy card. Unless you specify to the contrary on your proxy card, all of your shares represented by valid proxies will be voted "for" the proposal to adopt the merger agreement.

Please do not send in your stock certificates with your proxy card. After the merger is completed, a separate letter of transmittal will be mailed to you which will enable you to receive the merger consideration.

Until exercised at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by delivering written notification to American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043;
- by delivering a proxy of a later date by mail, Internet or telephone in the manner described in this proxy statement;
- by attending the special meeting and voting in person. Your attendance at the meeting will not, by itself, revoke your proxy—you must vote in person at the meeting; or
- if you have instructed a broker or bank to vote your shares, by following the directions received from your broker or bank to change those instructions.

Questions and Additional Information

For additional information regarding the procedure for delivering your proxy see "The Special Meeting—Voting and Revocation of Proxies" and "The Special Meeting—Solicitation of Proxies."

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Georgeson Shareholder Communications Inc. at 17 State Street, 10th Floor, New York, New York 10004, or by telephone at 800-223-2064 or American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, or by telephone at 856-346-8223.

Recommendations of Our Board of Directors (see page 17)

After careful consideration, our board of directors unanimously:

- determined that the merger agreement, the merger and the transactions contemplated thereby are fair to, and in the best interests of, American Water Works and its stockholders;
- approved and declared advisable the merger agreement; and
- recommended that our stockholders vote to adopt the merger agreement.

Our board of directors recommends that you vote **"for"** the proposal to adopt the merger agreement at the special meeting.

Opinion of Financial Advisor (see page 19)

On September 16, 2001, Goldman Sachs delivered its oral opinion, which was subsequently confirmed in writing as of September 16, 2001,

to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders.

The full text of the written opinion of Goldman Sachs, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the American Water Works board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. We urge you to read the opinion in its entirety.

Interests of Directors and Executive Officers in the Merger (see page 28)

In considering the recommendation of our board of directors to vote for the proposal to adopt the merger agreement so that the merger can occur, you should be aware that some of our executive officers and members of our board of directors have interests in the merger that may be in addition to or different from the interests of our stockholders generally. The members of the American Water Works board of directors were aware of these interests and considered them at the time they approved the merger. These interests include the following:

- Stock options held by our officers and directors will be treated in the same manner as stock options held by other American Water Works employees. Upon the consummation of the merger, all unvested options for common stock and other stockbased rights issued under our stock incentive plans will vest and become exercisable. Also, at the time of the merger, RWE

will cash out all the options to purchase common stock at a price equal to the excess, or the spread, of the $46.00 in cash per share merger consideration over the per share exercise price of each option.

- Each of our executive officers has entered into a change in control agreement with us. These agreements provide that, if within three years after the merger, the officer's employment terminates without cause (as defined in the agreements) or for good reaso (as defined in the agreements), the officer will receive certain severance benefits.

- After the merger, J. James Barr, President and Chief Executive Officer, Ellen C. Wolf, Vice President and Chief Financial Officer, Daniel L. Kelleher, Senior Vice President of our American Water Works Service Company subsidiary, W. Timothy Pohl, General Counsel and Secretary, Joseph F. Hartnett, Jr., Treasurer, and Robert D. Sievers, Comptroller (the "executive officers"), each will be entitled to receive, upon termination of their employment with American Water Works, a lump sum payment equal to the present value of each of their respective accrued benefits under either the Supplemental Executive Retirement Plan or the Supplemental Retirement Plan, as applicable.

- Each of our executives and non-employee directors may elect to receive payment of his or her account under our Executive and Director Deferred Compensation Plans (subject to a 5% early withdrawal penalty) within one year after the merger.

- After the merger, each of our executive officers and other key employees will be eligible to receive retention bonuses equal to a multiple of their current base salary (2, 1.50, 1.25 or .75, depending upon the level of the employee), with (1) 75% of the bonus amount payable on the date of the merger, so long as the employee continues to be employed on such date, and (2) the remaining 25% payable upon the earlier to occur of a specified date (without regard to whether or not the merger actually occurs) or six months after the date of the merger (assuming the employee continues to be employed on such date). The 25% of the bonus amount is also subject to accelerated payment upon a termination of employment by us without cause or by the employee for good reason after the merger.

- Upon completion of the merger, J. James Barr, our President and Chief Executive Officer and a member of our board of directors, will become President and Chief Executive Officer of RWE's combined water operations in North and South America and be elected a director of Thames Water Plc. In addition, upon completion of the merger, Marilyn Ware, chairman of our board of directors, will be elected a member of the Thames International Advisory Council.

Material U.S. Federal Income Tax Consequences (see page 27)

The receipt of $46.00 in cash for each share of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, each of our stockholders generally will realize taxable gain or loss as a result of the merger measured by the difference, if any, between $46.00 per share and the adjusted tax basis in that share owned by the stockholder. For additional information regarding material U.S. federal income tax consequences of the merger to our stockholders, see "The Merger—Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders."

Regulatory Approvals (see page 26)

Utilities Regulation

American Water Works and its subsidiaries have a business presence in 28 states and Canada and are regulated by state agencies in 21 of those states. Under applicable state laws, the merger may not be consummated until it is approved by certain of those state regulatory agencies in accordance with their respective laws. We currently anticipate regulatory review in more than half of the states in which we are regulated and have undertaken a definitive review to determine which state agencies will need to review the transaction. We estimate that it will take at least a year to complete the required regulatory reviews and obtain the required regulatory approvals. The merger agreement may be terminated by either American Water Works or RWE if the required regulatory approvals are not obtained by September 16, 2003, subject to a 60 day extension for any regulatory waiting period that has not yet expired by September 16, 2003 if all other conditions are satisfied.

We believe that regulatory agencies with jurisdiction over the transaction will consider whether it is in the public interest, whether RWE, Thames Water Holdings and Thames Water Plc are financially, technologically and managerially suitable to control the American Water Works subsidiaries that are regulated by the particular agency and the ability of those subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. We believe that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Wate Works subsidiaries to continue as well-run, customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations. We therefore expect all state regulatory approvals necessary to consummate the transaction will be obtained. It is a condition to the closing of the merger that all such required state regulatory approvals be obtained and that these regulatory approvals not impose terms or conditions which would reasonably be expected to have a material adverse effect on us or on us and Thames Water Holdings' U.S. subsidiaries, taken as a whole. While we do not anticipate any such terms or conditions, we cannot assure you that this condition will be met.

Antitrust Regulation

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the Federal Trade Commission, the merger may not be completed until notifications have been given and certain information has been furnished to the FTC and the Antitrust Division of the Department of Justice and the applicable waiting period has expired or been terminated. We expect to file notification and report forms under the HSR Act with the FTC and the Antitrust Division during the spring of 2002. It is a condition to the closing of the merger that the waiting period under the HSR Act with respect to the merger expire, or the FTC and the Antitrust Division grant early termination of the waiting period under the HSR Act.

The Merger Agreement (see page 31)

Conditions to the Merger (see page 38)

Conditions to Each Party's Obligations. Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

- we must obtain the adoption of the merger agreement by the affirmative vote of the holders of a majority of the votes represented by all the outstanding shares of our common stock and our cumulative preferred stock, 5% series, voting together as a single class, with each share of our

common stock entitled to one vote and each share of cumulative preferred stock, 5% series, entitled to 1/10th of a vote;

- the waiting period applicable to the completion of the merger under the Hart-Scott-Rodino Antitrust Improvements Act shall have expired or been terminated;

- any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation, the failure of which to obtain or comply with would reasonably be expected to have a material adverse effect on us, shall have been obtained or terminated or shall have expired;

- there must not be in effect any temporary restraining order, preliminary or permanent injunction or other order or decree issued by a court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the completion of the merger;

- all required regulatory approvals under the laws and judgments of any state public utility commission, state public service commission or similar state regulatory body must have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied;

- all material required regulatory approvals under the laws and judgments of any public health departments, environmental protection agencies or of any federal or state regulatory body having jurisdiction over similar matters shall have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied; and

- the redemption of our outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock, must be completed.

Conditions to RWE's, Thames Water Holdings' and Apollo's Obligations. The obligation of RWE, Thames Water Holdings and Apollo to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- our representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to have a material adverse effect on us;

- we must have performed in all material respects all obligations that we are required to perform under the merger agreement prio to the closing date;

- no material adverse effect on us shall have occurred and there must be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect on us; and

- the required regulatory approvals for the merger and other regulatory approvals obtained between the date of the merger agreement and the closing date in connection with acquisitions by us must not impose any terms or conditions that would reasonably be expected to have a material adverse effect on us or on Thames Water Holdings' U.S. subsidiaries and us, taken as a whole.

Conditions to American Water Works' Obligations. Our obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- RWE, Thames Water Holdings and Apollo's representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date which must be true

and correct as of that earlier

date, other than any failure to be true and correct that would not reasonably be expected to impair in any material respect the ability of RWE, Thames Water Holdings or Apollo to perform its obligations under the merger agreement or prevent or materially delay the completion of the merger; and

- RWE, Thames Water Holdings and Apollo must have performed in all material respects all obligations that each of them are required to perform under the merger agreement prior to the closing date.

Termination of the Merger Agreement (see page 41)

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after stockholder approval has been obtained:

- by mutual written consent of American Water Works, Thames Water Holdings and Apollo;
- by either American Water Works or Thames Water Holdings, if:
  - the merger is not completed on or before March 16, 2003, except that:
    - (i) this right to terminate will not be available to any party whose failure to comply with the merger agreement has been the primary reason the merger has not been completed by that date;
    - (ii) the date will be extended to September 16, 2003, if all conditions are satisfied other than obtaining the required regulatory approvals, and the date will be further extended up to an additional 60 days for any waiting period in respect of a regulatory approval that has not yet expired if all other conditions are satisfied; and
    - (iii) neither party may terminate if all other conditions are satisfied other than the consummation of the redemption of our cumulative preferred stock, 5% series and 5% cumulative preference stock and American Water Works has mailed the notices of redemption;
  - any order, injunction or other legal restraint or prohibition that prevents the completion of the merger is in effect and has become final and nonappealable; or
  - our stockholders do not approve the merger agreement at the special meeting; or
- by Thames Water Holdings if:
  - our board of directors withdraws or modifies in a manner adverse to RWE its recommendation for approval of the merger agreement or recommends to our stockholders any takeover proposal by a third party; or
  -

we have breached any of our representations or warranties, other than any failures of our representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

by us if:

- Thames Water Holdings has breached any of its representations or warranties, other than any failures of its representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

- prior to obtaining stockholder approval, our board of directors authorizes us to enter into an agreement with respect to a takeover proposal from a third party concurrently with such termination, provided that we have complied with the provisions of the merger agreement described below under "The Merger Agreement—No Solicitation of Other Offers," including the payment to Thames Water Holdings of the $138 million termination fee described below.

Termination Fees (see page 42)

The merger agreement provides that upon termination in specified circumstances we must pay to Thames Water Holdings a termination fee of $138 million. In addition, upon termination in certain other specified circumstances, Thames Water Holdings must pay to us a termination fee of $138 million. See "The Merger Agreement—Termination Fees."

Appraisal Rights (see page 45)

Stockholders who do not wish to accept the $46.00 per share cash consideration payable pursuant to the merger may seek, under Delaware law, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more or less than or the same as the merger consideration of $46.00 in cash per share. This right of appraisal is subject to a number of restrictions and technical requirements. Generally, in order to exercise appraisal rights, among other things:

- you must not vote in favor of the proposal to adopt the merger agreement;
- you must make a written demand on us for appraisal in compliance with Delaware law before the vote on the proposal to adopt the merger agreement at the special meeting; and
- you must hold your shares of record continuously from the time of making a written demand for appraisal until the effective time of the merger.

Merely voting against the merger agreement will not preserve your right of appraisal under Delaware law. Also, because a submitted proxy not marked "against" or "abstain" will be voted for the proposal to adopt the merger agreement, the submission of a proxy not marked "against" or "abstain" will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to enable you to assert appraisal rights. If you or your nominee fails to follow all of the steps required by the statute, you will lose your right of appraisal.

Annex C to this proxy statement contains the relevant provisions of the Delaware statute relating to your right of appraisal.

THE COMPANIES

American Water Works Company, Inc.

American Water Works is the largest publicly traded enterprise devoted exclusively to the water and wastewater business in the United States. The core business of American Water Works is the ownership of common stock of utility companies providing water and wastewater services. American Water Works refers to the combination of it and its utility subsidiaries as the "American Water System." The American Water System has functioned for over 50 years. Each subsidiary operates independently, yet shares in the benefits of size and identity afforded by the American Water System. In addition to its utility subsidiaries, some of American Water Works' subsidiaries engage in nonregulated businesses. For example, American Water Services, Inc. is focused on the growing contract operations segment of the water and wastewater market, and American Water Resources is a subsidiary formed to invest in water and wastewaterrelated products and services.

On November 7, 2001, we completed the acquisition of Azurix North America Corp. and Azurix Industrials Corp., which expanded our presence into the southeastern and northwestern United States and three Canadian provinces. American Water Works and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and Canada. In addition, we have received the necessary approvals from the states of Arizona, Illinois, Indiana, Ohio and Pennsylvania for our purchase of the water and wastewater assets of Citizens Communications Company, a multi utility holding company. The California Public Utility Commission approved our acquisition of Citizen's water and wastewater assets in that state in September 2001, but we are awaiting a possible rehearing before that commission and a possible appellate proceeding before we will close the acquisition. On August 30, 2001, we announced an agreement to sell our New England operations to Kelda Group Plc for $118 million in cash plus the assumption of $115 million in debt.

Each utility subsidiary is subject to the rules of both federal and state environmental protection agencies, particularly with respect to the quality of water distributed. In addition, with one exception, the utility subsidiaries function under economic regulations prescribed by state regulatory commissions.

The executive offices of American Water Works are located at 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, New Jersey 08043, telephone 856-346-8200.

RWE Aktiengesellschaft

RWE is a global multi-utility company that does business, through its subsidiaries and affiliates, in over 120 countries. Its core business segments are electricity, gas, water, and waste and recycling. RWE's worldwide water activities are managed through RWE's wholly owned subsidiary, Thames Water Holdings. RWE, which was founded in 1898, is a company organized under the laws of The Federal Republic of Germany. RWE's executive offices are located at Opernplatz 1, 45128 Essen, Germany, telephone 49-201-1200.

Thames Water Aqua Holdings GmbH

Thames Water Holdings is a wholly owned subsidiary of RWE. Thames Water Holdings is the holding company for all of RWE's global water business. In 2000, RWE acquired Thames Water Plc, the leading supplier of water and wastewater services in the United Kingdom. Thames Water Plc is a subsidiary of Thames Water Holdings and, after the merger, American Water Works will be a subsidiary of Thames Water Holdings as well. Thames Water Holdings is a company organized under the laws of The Federal Republic of Germany. Its executive offices are located at Opernplatz 1, 45128 Essen, Germany, telephone 49-201-1200.

Apollo Acquisition Company

Apollo Acquisition Company is a Delaware corporation formed solely for the purpose of merging into American Water Works and has not conducted any unrelated activities since its organization. Apollo is a wholly owned subsidiary of Thames Water Holdings. The executive offices of Apollo are located at Clearwater Court, Vastern Road, Reading RG1 8DB, United Kingdom, telephone 44-118-373-8420.

THE SPECIAL MEETING

This proxy statement is furnished in connection with the solicitation of proxies by our board of directors in connection with a special of our stockholders.

Date, Time and Place of the Special Meeting

The special meeting is scheduled to be held as follows:

Date: January • , 2002

Time: • , local time

Place: The Mansion on Main Street, Voorhees, New Jersey

Proposal to be Considered at the Special Meeting

At the special meeting, you will consider and vote upon a proposal to adopt an agreement and plan of merger, dated as of September 16, 2001, among American Water Works, RWE, Thames Water Holdings and Apollo. A copy of the merger agreement is attached as Annex A to this proxy statement.

Record Date

Our board of directors has fixed the close of business on • , 2001 as the record date for the special meeting and only holders of record of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote • shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

Voting Rights; Vote Required for Adoption

Each share of common stock entitles its holder to one vote on all matters properly coming before the special meeting and each share of cumulative preferred stock, 5% series entitles its holder to one-tenth of a vote on all matters properly coming before the special meeting. The presence in person or representation by proxy of stockholders entitled to cast a majority of the votes of all outstanding shares entitled to vote on the proposal to adopt the merger agreement, considered together, shall constitute a quorum for the purpose of considering that proposal.

If you hold your shares in an account with a broker or bank, you must instruct the broker or bank on how to vote your shares. If an executed proxy card returned by a broker or bank holding shares indicates that the broker or bank does not have authority to vote on the proposal to adopt the merger agreement, the shares will be considered present at the meeting for purposes of determining the presence of a quorum, but will not be voted on the proposal to adopt the merger agreement. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Under Delaware law and our certificate of incorporation, the proposal to adopt the merger agreement must be adopted by the affirmative vot of the holders of a majority of the votes represented by all of the outstanding shares of common stock and cumulative preferred stock, 5% series, voting together as a single class, with each share of common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to one-tenth of a vote.

Abstentions and broker non-votes will have the same effect as a vote against the proposal to adopt the merger agreement.

Some of our major stockholders (including some of our directors) holding 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special

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meeting have entered into a voting agreement with Thames Water Holdings obligating those stockholders to vote their shares in favor of the transaction. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal to adopt the merger agreement. If our directors and officers and the other major stockholders party to the voting agreement vote their shares for the proposal to adopt the merger agreement, 28.6% of the voting power of our outstanding common stock and cumulative preferred stock, 5% series will have voted for the proposal to adopt the merger agreement. This means that holders of only an additional 21.5% of the voting power of all shares entitled to vote at the meeting would need to

vote for the proposal to adopt the merger agreement in order for it to be adopted. Votes will be tabulated by our transfer agent, Equiserve Trust Company, N.A.

Voting and Revocation of Proxies

Stockholders of record may submit proxies by mail, by Internet, or by telephone. Stockholders who wish to submit a proxy by mail should mark, date, sign and return the proxy card in the envelope furnished. Stockholders who wish to submit a proxy by Internet may do so by going to the website, *www.voteproxy.com*. Stockholders who wish to submit a proxy by telephone may do so by calling 1-800-PROXIES. Telephone and Internet proxy submission procedures are designed to verify stockholders through use of a control number that is provided on each proxy card. Stockholders who hold shares beneficially through a nominee (such as a bank or broker) may be able to submit a proxy by telephone or the Internet if those services are offered by the nominee.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting. Where a specification is indicated by the proxy, it will be voted in accordance with the specification. Where no specification is indicated, the proxy will be voted "for" the proposal to adopt the merger agreement and in the discretion of the persons named in the proxy wit respect to any other business that may properly come before the meeting or any adjournment of the meeting. Our board of directors is not currently aware of any business to be brought before the special meeting other than that described in this proxy statement.

Please do not send in your stock certificates with your proxy card. If the merger is completed, a separate letter of transmittal will be mailed to you which will enable you to receive the merger consideration.

Until your proxy is exercised at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by delivering written notification to American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043;
- by delivering a proxy of a later date by mail, Internet or telephone in the manner described herein;
- by attending the special meeting and voting in person. Your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting; or
- if you have instructed a broker or bank to vote your shares, by following the directions received from your broker or bank to change those instructions.

Solicitation of Proxies

We will bear the expenses in connection with the solicitation of proxies. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of common stock held of record by such persons, and we

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may reimburse them for their reasonable transaction and clerical expenses. Solicitation of proxies will be made principally by mail. Proxies may also be solicited in person, or by telephone, facsimile, telegram or other means of communication, by our officers and regular employees. These people will receive no additional compensation for these services, but will be reimbursed for any transaction expenses incurred by them in connection with these services. We have retained Georgeson Shareholder Communications Inc., a proxy solicitation firm, for assistance in connection with the solicitation of proxies for the special meeting at an anticipated cost of approximately $10,000 plus reimbursement of reasonable out-of-pocket expenses.

Questions and Additional Information

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Georgeson Shareholder Communications Inc. at 17 State Street, 10th Floor, Ne York, New York 10004, or by telephone at 800-223-2064 or our General Counsel and Secretary at our executive offices at 1025 Laurel Oak

Road, Voorhees, New Jersey 08043, or by telephone at 856-346-8223.

THE MERGER

Background

American Water Works has over the years implemented a growth strategy by participating in the increasing trend toward consolidation in th water industry in the United States. This strategy has helped make American Water Works the largest and most geographically diverse investor-owned water utility business in the United States. American Water Works has also been aware of the increasing trends of privatization of global water industry assets and multi-national acquisition and ownership of water utilities.

American Water Works first learned of RWE's interest in a possible transaction on May 21, 2001, when William Alexander, the Chief Executive Officer of Thames Water Plc (a subsidiary of Thames Water Holdings), contacted J. James Barr, President and Chief Executive Officer of American Water Works. This initial contact was followed by a meeting on May 25, 2001 between Mr. Barr, Ellen C. Wolf, Vice President and Chief Financial Officer of American Water Works, Mr. Alexander and Christopher Bunker, Chief Financial Officer of Thames Water Plc. At that meeting, Messrs. Alexander and Bunker discussed with Mr. Barr and Ms. Wolf the potential acquisition of American Water Works by RWE through Thames Water Holdings. During these discussions, Mr. Alexander indicated that RWE was considering a proposed cash price of $41.00 per share of American Water Works common stock. Mr. Barr stated that American Water Works would consider the offer and respond to RWE.

On June 7, 2001, the American Water Works board of directors held a special meeting to receive management's report concerning RWE's proposal at which its legal advisors, Simpson Thacher & Bartlett, were present. Representatives of Simpson Thacher & Bartlett advised the members of the American Water Works board of directors regarding their fiduciary duties in connection with their consideration of the transaction proposed by RWE. American Water Works' senior management then made various presentations concerning RWE's proposal. At that meeting, the American Water Works board of directors was of the view that RWE's $41.00 proposal was not attractive, given American Water Works' business strategies and growth prospects. The American Water Works board of directors considered the strategic alternatives available to American Water Works and authorized Mr. Barr to engage in further exploratory discussions with RWE to determine if RWE would be willing to offer a higher price. Mr. Barr informed the board of directors that American Water Works intended to retain Goldman, Sachs & Co. as financial advisor to American Water Works in connection with RWE's proposal. Subsequently, American Water Works executed an engagement letter with Goldman Sachs, dated as of June 14, 2001, to act as its financial advisor in connection with a potential transaction with RWE.

On June 8, 2001, Mr. Barr contacted Mr. Alexander by telephone and indicated that the American Water Works board of directors was not interested in a proposal for an acquisition at $41.00 per share and that any offer must reflect American Water Works' full value as the leading publicly owned water and water services company in the United States. On June 11, 2001, Mr. Alexander contacted Mr. Barr to indicate that RWE would be willing to consider an increase in the price offered if RWE were permitted to conduct a due diligence investigation to better understand American Water Works' performance and prospects.

On June 26, 2001, RWE, Thames Water Plc and American Water Works entered into a confidentiality agreement. Thereafter, management of American Water Works and its legal and financial advisors met with management of Thames Water Plc and its legal and financial advisors to provide limited additional information about American Water Works. On July 11, 2001, Mr. Alexander informed Mr. Barr by telephone and in writing that RWE was pleased with what it had learned about American Water Works to date and had increased its offer to $45.00 per share of American Water Works common stock. Mr. Alexander also added that the offer was subject to completion of satisfactory due diligence, approval by the supervisory board of RWE, as well as negotiation of a mutually acceptable merger agreement and stockholder voting agreement.

On July 12, 2001, the American Water Works board of directors held a special meeting to consider RWE's revised proposal at which representatives of Simpson Thacher & Bartlett were present. At this meeting, Mr. Barr advised the American Water Works board of directors of the progress of negotiations and the board determined that it would hold another meeting on July 16, 2001 to further consider the proposal. At the July 16th meeting, representatives of Goldman Sachs reviewed with the American Water Works board of directors various topics relatin to American Water Works and the revised RWE proposal. Each of Goldman Sachs and management also discussed with the American Water Works board of directors other strategic options available to American Water Works as an independent company or in other business

combinations, including the assessment by Goldman Sachs of the likelihood that (based on knowledge of the industry but without having made specific inquiries) other companies would be interested in making an offer to acquire or merge with American Water Works. After lengthy discussion, the American Water Works board of directors authorized management to hold further discussions with RWE and to allow RWE to proceed with additional financial and legal due diligence to determine if it would be willing to offer a higher price. The board of directors also discussed at length several transaction terms that would be important in evaluating any final proposal, including fiduciary termination rights, regulatory matters, employee and retiree benefits and covenants governing the conduct of business between signing and closing.

On July 17, 2001, Mr. Barr contacted Mr. Alexander and stated that he was not prepared to recommend the $45.00 offer to the American Water Works board of directors but that American Water Works would be willing to provide additional financial and legal due diligence materials to RWE to allow RWE to determine if it would be willing to offer a higher price for American Water Works' common stock. Mr. Alexander responded that although he believed RWE had already made its best offer, he would instruct RWE representatives to continue due diligence and would discuss internally whether RWE would reconsider its offer. On July 18, 2001, Ms. Wolf had a conference call with Mr. Bunker to discuss detailed arrangements for further due diligence. During the first two weeks of August, members of American Water Works management met with representatives of RWE as part of RWE's additional legal and financial due diligence.

On August 8, 2001, Mr. Barr had breakfast with Mr. Alexander to discuss the progress of negotiations. Mr. Barr reiterated to Mr. Alexander that he was not prepared to recommend the $45.00 offer to the board and that any offer to acquire American Water Works must address certain contractual areas of importance to American Water Works.

On Friday, August 10, 2001, Ms. Wolf and Daniel Kelleher, Senior Vice President of the American Water Works Service Company, met with Mr. Bunker and Jim McGivern, Managing Director, International Business Development of Thames Water Plc, to discuss the operating covenants of a potential merger agreement. The next day, Cravath, Swaine & Moore, legal advisors to RWE, distributed a draft merger agreement and a draft stockholder voting agreement. On August 13, 2001, Mr. Barr called Mr. Alexander to indicate that substantial issues had been raised by the draft merger agreement and that American Water Works would respond with an alternative draft merger agreement that included terms acceptable to American Water Works. American Water Works' legal advisors did this and on August 17, 2001, RWE responded with a revised draft merger agreement, and representatives of the parties commenced negotiations of the merger agreement.

On Sunday, August 19, 2001, Mr. Barr met with Mr. Alexander for breakfast to discuss the progress of negotiations. During that conversation, Mr. Alexander reiterated his strong belief in the transaction and presented RWE's final proposal which included a price of $46.00 per share of American Water Works common stock. That conversation was followed by a written proposal from Mr. Alexander on behalf of RWE confirming the $46.00 per share proposal. Mr. Alexander also indicated that RWE was fully prepared to resolve all remaining contract issues. Mr. Alexander

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indicated that he would seek RWE's supervisory board approval on Wednesday, August 22, 2001 and Mr. Barr indicated that he would present RWE's proposal to the American Water Works board of directors that same day.

Between the afternoon of Sunday, August 19, 2001, and the afternoon of Tuesday, August 21, 2001, members of American Water Works' management and representatives of Simpson Thacher & Bartlett met with members of RWE's management and representatives of Cravath, Swaine & Moore to continue negotiating the merger agreement. On the afternoon of Tuesday, August 21, 2001, Mr. Barr called Mr. Alexander to express concern regarding the progress of negotiations. Mr. Alexander assured Mr. Barr that RWE was committed to the transaction on terms acceptable to American Water Works' management. On Tuesday evening, representatives of the management and legal advisors of American Water Works met with representatives of the management and legal advisors of RWE at the offices of Simpson Thacher & Bartlett t continue to negotiate the merger agreement.

Discussions between the advisors of American Water Works and RWE continued throughout the evening of Tuesday, August 21, 2001 and the morning of Wednesday, August 22, 2001 but did not result in a mutually acceptable merger agreement. Representatives of RWE informed representatives of American Water Works that the RWE supervisory board had approved the transaction generally at a meeting held in Germany on the morning of August 22, 2001. During the afternoon of that day, the American Water Works board of directors met to discuss the progress of negotiations. The board of directors was advised of events since the last board meeting on July 12, 2001. Mr. Barr indicated that the parties had not reached a mutually acceptable merger agreement and that he could not recommend that the board of directors approve RWE's proposal at that time. The American Water Works board of directors discussed the matters raised by Mr. Barr, concurred with his recommendations and did not take any further action at this meeting. After the meeting, Mr. Barr called Mr. Alexander to indicate that the American Water Works board of directors had discussed but not approved the transaction.

On Friday, August 24, 2001, Mr. Alexander delivered a letter to Mr. Barr expressing his commitment to the transaction and interest in scheduling a meeting with Mr. Barr.

On Monday, August 27, 2001, Dr. Dietmar Kuhnt, the President and Chief Executive of RWE, delivered a letter to Mr. Barr and Marilyn Ware, Chairman of the American Water Works board of directors, expressing his continued commitment to the transaction. Mr. Barr responded in writing to Dr. Kuhnt expressing his disappointment in the negotiations to date.

Between August 27, 2001 and September 4, 2001, advisors of American Water Works and advisors of RWE continued to discuss the terms of a potential transaction in an effort to overcome any remaining differences between the parties. On September 4, 2001, Mr. Alexander telephoned Mr. Barr to indicate RWE's continuing interest in reaching an agreement with American Water Works. Mr. Barr indicated that he would discuss RWE's interest at a regular American Water Works board meeting scheduled for September 6, 2001.

On September 6, 2001, the American Water Works board of directors held a regularly scheduled meeting at which it discussed the proposed transaction with RWE and the strategic options available to American Water Works. At this meeting, the American Water Works board of directors discussed the probability of receiving offers to acquire American Water Works from other suitable buyers at a price higher than that offered by RWE and various strategies for continuing to negotiate with RWE.

On September 7, 2001, Mr. Barr indicated to Mr. Alexander that American Water Works would deliver a revised draft merger agreement to RWE, and they decided to arrange a meeting between representatives of each company for September 10, 2001. Later that day American Water Works' management delivered a revised draft merger agreement to RWE.

On September 10, 2001, Mr. Barr and Ms. Wolf met with Mr. Alexander, Mr. McGivern, Mr. Bunker and Dr. Richard Klein, a member of the executive board of RWE, to discuss the proposed merger agreement. Following that meeting, Mr. Barr and Mr. Alexander directed their respective management and advisor teams to continue to negotiate the merger agreement. Negotiations were interrupted on the morning of September 11, 2001 when the terrorist attacks occurred in New York and Washington, D.C., but continued later that week after management of American Water Works and RWE determined to proceed with the negotiations.

On Sunday, September 16, 2001, the American Water Works board of directors held a special meeting to consider the RWE proposal with representatives of both Simpson Thacher & Bartlett and Goldman Sachs present. The American Water Works board of directors was advised of events relating to the transaction since the board meeting on August 22, 2001. A representative of Simpson Thacher & Bartlett advised the American Water Works board of directors of their legal duties in connection with considering the proposed transaction. A representative of Goldman Sachs then reviewed with the American Water Works board of directors Goldman Sachs' financial analyses with respect to the proposed transaction. Following this presentation, Goldman Sachs orally delivered its opinion to the board of directors of American Water Works, which was subsequently confirmed in writing, to the effect that, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders. In addition, at this meeting, a representative of Simpson Thacher & Bartlett reviewed with the board of directors the terms of the merger agreement (including changes made since the August 22nd meeting of the board of directors) and the voting agreement. Mr. Barr recommended approval of the transaction to the board of directors based on the terms and conditions of the draft agreements. After extensive discussion and deliberation and based on the factors described below, the American Water Works board of directors unanimously determined that the merger agreement, the merger and the transactions contemplated thereby were fair to and in the best interests of American Water Works and its stockholders, approved and declared advisable the merger agreement and resolved to recommend that the American Water Works stockholders vote to adopt the merger agreement.

Following the special meeting of the American Water Works board of directors, the merger agreement was executed by American Water Works, RWE and other parties thereto, and the voting agreement was executed by Thames Water Holdings and the stockholders party thereto. Prior to the opening of business on Monday, September 17, 2001, American Water Works issued a press release publicly announcing that it ha entered into the merger agreement.

Reasons for the Merger

In reaching its decision to approve the merger agreement and to recommend that the American Water Works stockholders adopt the merger agreement, the American Water Works board of directors consulted with management and its legal and financial advisors. The American Wate Works board of directors considered a number of factors, including, without limitation, the following:

1. the current and historical market prices of American Water Works common stock relative to the merger consideration, and the fact that the $46.00 per share merger consideration represented a 37.2% premium over the average closing price of American Water Works common stock over the 30 trading days prior to September 10, 2001;

2. the fact that the merger consideration is all cash, which provides certainty of value to holders of American Water Works common stock compared to a transaction in which stockholders would receive stock;

3. the view of management that the trading value for shares of American Water Works common stock was not likely to exceed the merger price in the near term if American Water Works remained independent;

4. the potential stockholder value that could be expected to be generated from the other strategic options available to American Water Works, including (a) remaining independent and continuing to implement its growth strategy or (b) pursuing other strategic alternatives, as wel as the risks and uncertainties associated with those alternatives;

5. the financial presentation of Goldman Sachs on September 16, 2001 and the opinion of Goldman Sachs delivered on September 16, 2001 to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 per share in cash to be received by holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders;

6. discussions with American Water Works' management and Goldman Sachs regarding the potential transaction with RWE and the business, financial condition, competitive position, business strategy, strategic options and prospects of American Water Works (as well as the risks involved in achieving these prospects), the nature of the water and waste water services industry in which American Water Works competes, and current industry, economic and market conditions, both on an historical and on a prospective basis;

7. the terms of the merger agreement, as reviewed by the American Water Works board of directors with American Water Works' legal advisors, including:

- the agreements by RWE with respect to obtaining regulatory approvals as more fully described under "The Merger Agreement—Efforts to Complete The Merger";
- sufficient operating flexibility for American Water Works to conduct its business in the ordinary course between signing and closing;
- the absence of a financing condition;
- a termination fee due to American Water Works if the merger agreement is terminated and RWE is in breach of certain of its covenants or representations and warranties as more fully described under "The Merger Agreement—Termination of the Merger Agreement"; and
- American Water Works' ability to furnish information to and conduct negotiations with a third party, terminate the merger agreement, and enter into an agreement relating to a superior proposal under certain circumstances, as more fully described under "The Merger Agreement—No Solicitation of Other Offers";

8. management's assessment, after its review and discussion with Goldman Sachs of the credit ratings and divestiture plans of RWE, that RWE has the financial capability to consummate the merger;

9. the American Water Works board of directors' determination, based on the fact that no other offers to acquire American Water Works were made after initial press reports on and after August 22, 2001 that RWE was considering an acquisition of American Water Works and after discussing with its advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with RWE;

10. in the view of the American Water Works board of directors, based upon the advice of management after consultation with its legal counsel, that the regulatory approvals necessary to consummate the merger could be obtained. In forming such belief, the American Water Works board of directors and management recognized that regulatory agencies will consider whether RWE, Thames Water Holdings and

Thames Water Plc are financially, technologically and managerially suitable to control American Water Works and its applicable subsidiaries and the ability of the American Water Works subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. The board's and management's belief was, consequently, based in substantial part upon its perception that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their declared commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Water Works subsidiaries to continue as well-run, customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations, including mitigation against the frequency and size of future rate increases for American Water Works;

11. that American Water Works will no longer exist as an independent company and its stockholders will no longer participate in the growth of American Water Works or the pursuit of its stand-alone business plan and the other factors set forth in our certificate of incorporation;

12. that, under the terms of the merger agreement, American Water Works cannot solicit other acquisition proposals and must pay to RWE a termination fee if American Water Works terminates the merger agreement under certain circumstances, which may deter others from proposing an alterative transaction that may be more advantageous to American Water Works stockholders; and

13. the fact that gains from an all-cash transaction would be taxable to American Water Works stockholders for U.S. federal income tax purposes.

During its consideration of the transaction with RWE, the American Water Works board of directors were also aware that some of the directors and executive officers of American Water Works may have interests in the merger that are different from or in addition to those of American Water Works stockholders generally, as described under "The Merger—Interests of Directors and Executive Officers in the Merger."

This discussion of the information and factors considered and given weight by the American Water Works board of directors is not intended to be exhaustive, but is believed to address the material information and factors considered by the board of directors. In view of the number and variety of these factors, the American Water Works board of directors did not find it practicable to make specific assessments of, or otherwise assign relative weights to, the specific factors and analyses considered in reaching its determination. The determination to approve the merger agreement was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the American Water Works board of directors may have given different weights to different factors.

Opinion of Financial Advisor

On September 16, 2001, Goldman Sachs delivered its oral opinion, which was subsequently confirmed in writing, to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders.

The full text of the written opinion of Goldman Sachs, dated September 16, 2001, which sets forth assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex B and is incorporated herein by reference. Goldman Sachs provided its opinion for the information and assistance of the American Water Works board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. We urge you to read the opinion in its entirety.

In connection with its opinion, Goldman Sachs reviewed, among other things:

- the merger agreement;
- the annual reports to stockholders and annual reports on Form 10-K of American Water Works for the three years ended December 31, 2000;
- selected interim reports to stockholders and quarterly reports on Form 10-Q of American Water Works;
-

selected other communications from American Water Works to its stockholders; and

- selected internal financial analyses and forecasts for American Water Works prepared by its management.

Goldman Sachs also held discussions with members of the senior management of American Water Works regarding their assessment of the past and current business operations, financial condition and future prospects of their company. In addition, Goldman Sachs:

- reviewed the reported price and trading activity for shares of common stock of American Water Works;
- compared certain financial and stock market information for American Water Works with similar information for certain other companies the securities of which are publicly traded; and
- reviewed the financial terms of certain recent business combinations in the water utility industry specifically and in other industries generally and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering its opinion. In addition, Goldman Sachs did not make a independent evaluation or appraisal of the assets and liabilities of American Water Works or any of its subsidiaries. No evaluation or appraisal of the assets or liabilities of American Water Works or any of its subsidiaries was furnished to Goldman Sachs.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with providing its written opinion to th American Water Works board of directors. This summary does not purport to be a complete description of the analyses performed by Goldman Sachs. In arriving at its opinion, Goldman Sachs considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it.

The following summaries of financial analyses include information presented in tabular format. You should read these tables together with the text of each summary.

Historical Stock Trading and Performance Analysis

Using the most recent publicly available information, Goldman Sachs reviewed the historical daily closing prices and trading volumes for shares of American Water Works common stock for the five-year period from September 10, 1996 to September 10, 2001, for the three-year period from September 10, 1998 to September 10, 2001, for the one-year period from September 8, 2000 to September 10, 2001, for the six-month period from March 9, 2001 to September 10, 2001, for the three-month period from June 8, 2001 to September 10, 2001, for the 20-day period from August 22, 2001 to September 10, 2001 and for the one-day period of September 10, 2001. The results of these analyses are set forth below:

Time Period*	Average Price
Five Year	$ 26.66
Three Year	$ 27.88
One Year	$ 28.87
Six Months	$ 31.49
Three Months	$ 32.18
Twenty Days	$ 34.03
One Day	$ 34.12

* Based upon periods ending September 10, 2001.

Goldman Sachs also reviewed ratios of daily closing prices for American Water Works common stock to projected current year earnings per

share estimates for the five-year period from September 10, 1996 to September 10, 2001 using median earnings per share, or EPS, estimates from Institutional Brokers Estimate System, or IBES, an independent data service that compiles earnings estimates of institutional securities analysts. The analysis indicated a range of price to projected current year earnings ratio multiples of 11.2x to 21.8x over such 5year period, with an average multiple of 17.1x and a September 10, 2001 price to projected current year earnings ratio multiple of 19.0x.

U.S. Water Utilities Common Stock Comparison

Goldman Sachs reviewed and compared selected financial information and multiples for American Water Works to corresponding financial information and multiples for the following U.S. public water utility companies:

- Philadelphia Suburban Corporation;
- California Water Service Group;
- American States Water Company;
- SJW Corp.;
- Connecticut Water Service, Inc.;
- Middlesex Water Company; and
- Southwest Water Company.

Goldman Sachs calculated the multiples and other financial information for American Water Works at (1) the transaction price and (2) the closing price for shares of American Water Works common stock on the NYSE on September 10, 2001. The multiples and other financial information for the selected companies calculated by Goldman Sachs were based on the closing prices on September 10, 2001 for shares of the selected companies' common stock. The multiples and other financial information for American Water Works and the selected companies calculated by Goldman Sachs were based on the most recent publicly available information for American Water Works and the selected companies. The price to earnings figures and the five-year EPS growth figures for American Water Works and the selected companies were based upon the latest available median IBES estimates. All latest twelve months, or LTM, figures are as of June 30, 2001. Goldman Sachs' analysis of the selected companies compared the following to the results for American Water:

- share price as a percentage of the 52-week high share price;
- the equity market capitalization, based on diluted shares outstanding;
- the enterprise value;
- the enterprise value as a multiple of LTM sales, earnings before interest, taxes, depreciation and amortization, or EBITDA, and earnings before interest and taxes, or EBIT;
- the ratio of price to estimated earnings for 2001 and 2002;
- the ratio of total market capitalization to book value as of June 30, 2001;
- the five-year EPS annual growth rate for the fiscal years 1996 through 2000;
- the estimated five-year EPS annual growth rate for the fiscal years 2001 through 2006;
- the annual dividend yield based upon the latest four quarters' figures;
- the LTM EBITDA and EBIT margins; and

the enterprise value and LTM EBITDA per customer.

The results of these analyses with respect to American Water Works, are summarized as follows:

	Transaction Price	Closing Price On September 10, 2001
Share price as a percentage of 52-week high share price	130%	96%
Equity market capitalization (in millions)	$ 4,611	$ 3,415
Enterprise value (in millions)	$ 7,575	$ 6,379
Enterprise value as a multiple of LTM Sales	5.5x	4.7x
Enterprise value as a multiple of LTM EBITDA	11.9x	10.0x
Enterprise value as a multiple of LTM EBIT	16.4x	13.8x
Price to estimated earnings ratio for 2001	25.6x	19.0x
Price to estimated earnings ratio for 2002	24.2x	18.0x
Total market capitalization to book value as of June 30, 2001	2.7x	2.0x
Annual EPS growth for 1996-2000	6.3%	6.3%
Five year estimated annual EPS growth rate for 2001-2006	6.0%	6.0%
Annual dividend yield	2.8%	2.8%
LTM EBITDA margins	NM	46.8%
LTM EBIT margins	34.0%	34.0%
Enterprise value per customer	$ 2,935	$ 2,472
LTM EBITDA per customer	$ 247	$ 247

The results of the analysis with respect to the selected U.S. water utility companies is as follows:

	High	Median	Mean	Low
Share price as a percentage of 52-week high share price	97%	87%	87%	70%
Equity market capitalization (in millions)	NA	NA	NA	NA
Enterprise value (in millions)	NA	NA	NA	NA
Enterprise value as a multiple of LTM Sales	7.6x	2.9x	4.1x	1.2x
Enterprise value as a multiple of LTM EBITDA	14.3x	10.1x	11.0x	8.4x
Enterprise value as a multiple of LTM EBIT	20.2x	15.1x	15.1x	11.2x
Price to estimated earnings ratio for 2001	25.6x	20.2x	20.6x	15.1x
Price to estimated earnings ratio for 2002	25.0x	18.2x	19.2x	14.3x
Total market capitalization to book value as of June 30, 2001	3.6x	2.4x	2.4x	1.7x
Annual EPS growth for 1996-2000	9.7%	3.1%	2.8%	(4.5)%
Five year estimated annual EPS growth rate	8.0%	4.0%	4.4%	3.0%
Annual dividend yield	4.7%	3.7%	3.5%	1.7%
LTM EBITDA margins	59.2%	32.7%	36.0%	12.0%
LTM EBIT margins	47.7%	23.3%	26.9%	8.0%
Enterprise value per customer	$ 4,591	$ 1,555	$ 2,150	$ 770
LTM EBITDA per customer	$ 357	$ 185	$ 194	$ 54

Selected U.S. Water Utility Transactions

Goldman Sachs analyzed information relating to the following twelve announced transactions in the water utility industry since 1998:

Acquirer	Target
Kelda Group	American Water Works New England Assets
City of Indianapolis	IWC Resources
Nuon NV	Utilities, Inc.
Truckee Meadows Water	Sierra Pacific Water Assets
Thames Water Plc	E'Town Corp.

American Water Works	SJW Corp.
American Water Works	Citizens Water Resources
Suez Lyonnaise des Eaux	United Water Resources
Kelda Group	Aquarion Co.
California Water Service Group	Dominguez Services
American Water Works	National Enterprises
Philadelphia Suburban Corporation	Consumers Water Company

Goldman Sachs compared the following information relating to each of the selected transactions to the contemplated transaction:

- the premium of the transaction price to (1) the target's stock price on the day prior to the announcement of the particular transaction, (2) the target's stock price average for the 30 days prior to the announcement of the transaction and (3) the all-time high target's stock price prior to the announcement of the particular transaction;
- the transaction price as a multiple of the target's LTM sales, EBITDA, EBIT and net income;
- the transaction price as a multiple of the target's price to earnings, or P/E, ratio (based on the transaction price and the target's current year median IBES EPS estimates and forward year median IBES EPS estimates);

- ratio of the target's market capitalization (based upon the transaction price) to the target's book value; and
- the target's enterprise value per target customer.

The results of this analysis were as follows:

	Selected U.S. Water Utility Transactions				
	High	**Mean**	**Median**	**Low**	**Proposed Transaction**
Premium of transaction price to target's stock price on day prior to announcement	32.5%	23.7%	23.4%	12.7%	34.8%
Premium of transaction price to 30 day average target's stock price prior to announcement	52.7%	45.8%	45.7%	38.8%	37.2%
Premium of transaction price to target's stock price all time high prior to announcement	20.5%	9.6%	8.2%	5.5%	29.5%
Transaction price as a multiple of target's LTM sales	6.2x	5.0x	5.0x	2.5x	5.5x
Transaction price as a multiple of target's LTM EBITDA	15.9x	12.7x	12.3x	10.2x	11.9x
Transaction price as a multiple of target's LTM EBIT	24.8x	17.7x	17.2x	13.6x	16.4x
Transaction price as a multiple of target's LTM net income	34.1x	26.7x	25.7x	20.3x	28.4x
Transaction price as a multiple of P/E for current year EPS	27.7x	25.3x	25.5x	21.8x	25.6x
Transaction price as a multiple of P/E for forward year EPS	26.3x	24.1x	24.5x	20.6x	24.2x
Market capitalization to book value	3.3x	2.8x	2.9x	2.4x	2.7x
Enterprise value per customer	$ 4,861	$ 3,027	$ 2,738	$ 1,681	$ 2,935

Discounted Cash Flow Analysis

Goldman Sachs performed a discounted cash flow analysis of American Water Works using American Water Works management projections and information regarding after-tax investments provided by American Water Works. Goldman Sachs calculated a range of implied net present values per share of American Water Works common stock based on (1) the discounted present value of the five year (2001-2006) stream of projected free cash flows of American Water Works, plus (2) the discounted present value of the terminal value of American Water Works in 2006, assuming an EBITDA exit multiple range between 9.0x to 11.0x, minus (3) American Water Works' net debt as of June 30, 2001, plus (4) the after-tax value of American Water Works' investments. The stream of projected free cash flows was discounted back to July 1, 2001 using a range of discount rates representing an estimated range of the weighted average cost of capital for American Water Works The range of discount rates utilized by Goldman Sachs in its analysis was 6.0% to8.0%. The result of this calculation was divided by the number of fully diluted shares of American Water Works common stock outstanding as of September 10, 2001. The results of this analysis yielded implied net present values per share of American Water Works common stock ranging from $36.73 to $55.43.

Future Stock Price and Dividends Analysis

Goldman Sachs calculated the present value of implied future stock prices and dividends received for shares of American Water Works common stock based upon American Water Works management estimates of future earnings and dividends. Goldman Sachs initially calculated the implied value of

future stock prices for shares of American Water Works common stock using price to earnings multiples ranging from 14x to 22x for the years 2002 to 2005. Goldman Sachs then calculated the discounted present value of these implied future stock prices and dividends received based on an assumed discount rate of 8%. The results of this analysis yielded present values of future stock prices and dividends received ranging from $25 to $40 in the case of future stock prices and dividends for 2002, $27 to $41 for 2003, $28 to $43 for 2004 and $29 to $44 for 2005, in each case discounted back to July 1, 2001 and rounded to the nearest dollar. The 8% discount rate utilized by Goldman Sachs is consistent with the cost of equity assumption used to generate the lower end of the range of weighted average cost of capital used in the discounted cash flow analysis described above. A higher assumed discount rate than the 8% assumed by Goldman Sachs would have yielded lower present values of future stock prices and dividends received for shares of American Water Works common stock.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all the analyses. No company or transaction used in the above analyses as a comparison is directly comparable to American Water Works, RWE o the proposed merger.

The analyses were prepared solely for purposes of Goldman Sachs' providing its opinion to the American Water Works board of directors as to the fairness from a financial point of view of the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement. These analyses do not purport to be appraisals or to reflec the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of American Water Works, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Goldman Sachs' opinion to the American Water Works board of directors was one of many factors taken into consideration by the board of directors in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs.

Goldman Sachs, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. Goldman Sachs is familiar with American Water Works having provided certain investment banking services to American Water Works from time to time, including having acted as its financial advisor in connection with its recently completed acquisition of Azurix North America Corp. and Azurix Industrials Corp., and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the merger agreement.

Goldman Sachs has also provided certain investment banking services to RWE from time to time, including having acted as:

- financial advisor to Hochtief AG, a company in which RWE owns an approximately 62% equity interest, in connection with its acquisition of Turner Corporation in September 1999;

- financial advisor to RWE in connection with its acquisition of a minority interest in Lahmeyer AG in February 2000;
- financial advisor to RWE in connection with its acquisition of VEW AG in November 2000; and

- agent to Thames Water Plc, a wholly owned subsidiary of RWE, in connection with its public offering of JPY 2,000,000,000 aggregate principal amount of Floating Rate Notes due January 28, 2002 in July 2000.

Goldman Sachs may also provide investment banking services to RWE, Thames Water Holdings and Thames Water Plc in the future. American Water Works selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger.

Goldman Sachs provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of American Water Works and RWE for its own account and for the accounts of customers.

Pursuant to a letter agreement, dated June 14, 2001, American Water engaged Goldman Sachs to act as its financial advisor in connection with the proposed merger. Pursuant to the terms of this engagement letter, American Water Works has agreed to pay Goldman Sachs a customary fee, a portion of which was paid upon announcement of the transaction and a portion of which will be paid upon consummation of the transaction.

American Water Works has agreed to reimburse Goldman Sachs for its reasonable out-of-pocket expenses, including reasonable attorneys' fees, and to indemnify Goldman Sachs against certain liabilities, including certain liabilities under the federal securities laws.

Regulatory Approvals

Utilities Regulation

American Water Works and its subsidiaries have a business presence in 28 states and Canada and are regulated by state agencies in 21 of those states. Under applicable state laws, the merger may not be consummated until it is approved by certain of those state regulatory agencies in accordance with their respective state laws. We currently anticipate regulatory review in more than half of the states in which we are regulated and have undertaken a definitive review to determine which states will need to review the transaction. We estimate that this regulatory review will take at least a year to complete. The merger agreement may be terminated by either American Water Works or RWE if the required regulatory approvals are not obtained by September 16, 2003, subject to a 60 day extension for any regulatory waiting period that has not yet expired by September 16, 2003, if all other conditions are satisfied.

We believe that regulatory agencies with jurisdiction over the transaction will consider whether it is in the public interest, whether RWE, Thames Water Holdings and Thames Water Plc are financially, technologically and managerially suitable to control the American Water Works subsidiaries that are regulated by the particular agency and the ability of those subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. We believe that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Wate Works subsidiaries to continue as well-run customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations. We therefore expect that all state regulatory approvals necessary to consummate the transaction will be obtained. It is a condition to the closing of the merger that all such required state regulatory approvals be obtained, and that these regulatory approvals not impose terms or conditions which would reasonably be expected to have a material adverse effect on us or on us and Thames Water Holdings U.S. subsidiaries, taken as a whole. While we do not anticipate any such terms or conditions, we cannot assure you that this condition will be met.

Antitrust Regulation

Under the HSR Act and the rules promulgated thereunder by the FTC, the merger may not be completed until we and RWE file a notification and report form under the HSR Act and the applicable waiting period has expired or been terminated. We expect to file notification and report forms under the HSR Act with the FTC and the Antitrust Division of the Department of Justice during the spring of 2002. It is a condition to the closing of the merger that the waiting period under the HSR Act with respect to the merger expire, or the FTC and the Antitrust Division grant early termination of the waiting period under the HSR Act. At any time before or after completion of the merger, notwithstanding whether early termination of the waiting period under the HSR Act has been granted, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of American Water Works or RWE. At any time before or after the completion of the merger, and notwithstanding whether early termination of the waiting period under the HSR Act has been granted, any state could take such action under the antitrust laws as it deems necessary or desirable in the public interest. Such action could include seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of American Water Works or RWE. Private parties may also seek to take legal action under the antitrust laws under certain circumstances.

While there can be no assurance that the merger will not be challenged by a governmental authority or private party on antitrust grounds, we and RWE believe that the merger can be effected in compliance with federal and state antitrust laws.

Financing of the Merger

RWE has informed American Water Works that it estimates that approximately $4.75 billion will be required to complete the purchase of shares of our common stock, restricted stock and options pursuant to the merger and pay its related fees and expenses. RWE expects this amount to be funded through an issuance of debt securities and internally available funds. The merger is not conditioned on any financing arrangements.

Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders

The following is a summary of United States federal income tax consequences of the merger to stockholders whose shares of our common stock are converted into the right to receive cash under the merger. The discussion is for general information only and does not purport to consider all aspects of United States federal income taxation that might be relevant to our stockholders. The discussion is based on current law which is subject to change possibly with retroactive effect. The discussion applies only to stockholders who hold shares of our common stock as capital assets, and may not apply to shares of our common stock received in connection with the exercise of employee stock options or otherwise as compensation, or to certain types of stockholders (such as insurance companies, tax-exempt organizations, financial institutions and broker-dealers) who may be subject to special rules. This discussion does not discuss the tax consequences to any stockholder who, for United States federal income tax purposes, is a non-resident alien individual, foreign corporation, foreign partnership or foreign estate or trust, and does not address any aspect of state, local or foreign tax laws.

The receipt of cash for shares of our common stock in the merger will be a taxable transaction for United States federal income tax purposes. In general, a stockholder who surrenders shares of our common stock for cash in the merger will recognize capital gain or loss for United State federal income tax purposes equal to the difference, if any, between the amount of cash received and the stockholder's adjusted tax basis in the shares of our common stock surrendered. Gain or loss will be determined separately for each block of shares (i.e., shares acquired at the same cost in a single transaction) surrendered for cash pursuant to the merger. Such gain or loss will be long-term capital gain or loss provided that a stockholder's holding period for such shares is more than 12 months at the time of the consummation of the merger. Capital gains of individual derived in respect of capital

assets held for more than one year are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses.

Backup withholding will apply to all cash payments to which a holder of shares or other payee is entitled pursuant to the merger agreement, unless the stockholder or other payee provides a taxpayer identification number (social security number, in the case of individuals, or employer identification number, in the case of other stockholders), certifies that such number is correct, and otherwise complies with such backup withholding tax rules. Each of our stockholders and, if applicable, each other payee, should complete and sign the Substitute Form W-9 included as part of the letter of transmittal to be returned to the paying agent, in order to provide the information and certification necessary to avoid backup withholding tax, unless an exemption applies and is established in a manner satisfactory to the paying agent.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the IRS.

The United States federal income tax consequences set forth above are for general information purposes only and are not intended to constitute a complete description of all tax consequences relating to the merger. Because individual circumstances may differ, each

stockholder should consult the stockholder's tax advisor regarding the applicability of the rules discussed above to the stockholder and the particular tax effects to the stockholder of the merger, including the application of state, local and foreign tax laws.

Interests of Directors and Executive Officers in the Merger

Members of our board of directors and our executive officers have various interests in the merger described in this section that may be in addition to, or different from, the interests of our stockholders generally. The members of American Water Works board of directors were aware of these interests and considered them at the time they approved the merger agreement. You should keep this in mind when considering the recommendation of our board of directors for the proposal to adopt the merger agreement.

Stock Options

The merger agreement provides that as of the effective time of the merger, all outstanding unvested employee stock options for American Water Works common stock will become exercisable. The merger agreement provides that, for each share covered by outstanding stock options at the time of the merger, the holders of the options will have the right to receive a cash payment. The amount of this payment will equal the excess, if any, of the merger consideration of $46.00 in cash per share of American Water Works common stock over the per share exercise price of the options, reduced by applicable withholding taxes.

Our executive officers currently hold a total of approximately 395,000 options, approximately 101,000 of which are currently vested and 294,000 of which are currently unvested. The aggregate spread that the executive officers would be entitled to receive for all of their options as of the date of this proxy statement is approximately $8.9 million. One of our executive officers is a director. None of our other directors hold options.

Supplemental Executive Retirement Plan and Supplemental Retirement Plan

Six of our executive officers participate in either our supplemental executive retirement plan, or SERP, or our Supplemental Retirement Plan or SRP. SERP and SRP benefits are paid in addition to benefits payable under other retirement programs.

Benefits under the SERP are provided to certain executives and are intended to (1) provide the additional retirement benefits that would be payable under our qualified defined benefit pension plan if

federal tax law did not restrict such benefits and (2) compute the benefits payable on the basis of the highest average remuneration during 36 consecutive months rather than 60 consecutive months of employment.

The SRP is also designed to provide benefits to certain key associates designated by our board of directors, equal to those that would be provided under our qualified defined benefit pension plan's benefit formula if it were unaffected by the federal tax law restrictions on benefits, and provides additional years of service to those covered associates hired in mid-career.

The SERP and the SRP both contain change in control provisions that provide that upon termination of a participant's employment with us, the participant will receive a lump sum payment equal to the present value (based on the assumptions used to calculate benefits under our qualified defined benefit pension plan) of each of their respective accrued benefits under the SERP or the SRP, as applicable.

If we were to complete the merger and immediately thereafter terminate our executive officers involuntarily, their annual SERP or SRP benefits that would be payable after giving effect to the SERP's or SRP's change in control provisions, as applicable, would equal, in the aggregate, approximately $10 million.

Change in Control Agreements

On January 1, 2000, each of our executive officers entered into a change in control agreement with us. The agreements provide that, if within three years after the merger, an executive's employment terminates without cause (as defined in the agreements) or for good reason (as defined in the agreements), the executive will receive certain severance benefits. The benefits include a lump sum cash payment equal to a multiple (3, 2 or 1.5 times depending on the level of senior management) of the sum of salary and target bonus; pro rata target bonus for the year of termination; accelerated vesting of supplemental retirement benefits, stock options and restricted or deferred stock awards; continued welfare benefits for 36, 24 or 18 months (depending on the level of senior management); and 36, 24 or 18 months (depending on the level of senior management) of additional age and service credit for purposes of calculating supplemental retirement benefits and retiree medical benefits. Mr. Barr is entitled to three times salary and bonus and 36 months welfare benefits and service credit. Messrs. Kelleher and Pohl and Ms. Wolf

are entitled to two times salary and bonus and 24 months welfare benefits and service credits. Messrs. Sievers and Harnett are entitled to 1.5 times salary and bonus and 18 months welfare benefits and service credits. The agreements also provide a tax grossup feature so that such officers will be made whole for any excise taxes imposed on such payments.

Executive and Director Deferred Compensation Plans

We maintain a deferred compensation plan for our non-employee directors and a deferred compensation plan for our executive officers and key employees. The deferred compensation plans are unfunded. The directors deferred compensation plan accounts are payable in a lump sum or in up to ten annual installments at the director's prior election. The executive deferred compensation plan accounts are payable in a lump sum or in such number of installments as the executive may previously elect. Both deferred compensation plans contain a change in control provision that the participants may elect to receive payment of his or her account within one year after the merger, subject to a 5% early withdrawal penalty.

Retention Bonus Program

Our board of directors recently approved a retention bonus program, under which, after the merger, our executive officers and other key employees will be eligible to receive retention bonuses equal to a multiple of their current base salary (2, 1.50, 1.25 or .75, depending upon the level of the employee). Messrs. Barr, Kelleher and Pohl and Ms. Wolf will receive two times their respective base

salaries, and Messrs. Sievers and Hartnett will receive 1.5 times their respective base salaries. The bonus amounts will be payable as follows: (1) 75% of the bonus amount will be paid on the date of the merger, so long as the employee continues to be employed on such date and (2) the remaining 25% will be paid upon the earlier to occur of a specified date (without regard to whether or not the merger actually occurs) and six months after the date of the merger, so long as the employee continues to be employed on such date. The 25% of the bonus amount is also subject to accelerated payment upon a termination of employment by us without cause or by the employee for good reason after the merger. The aggregate amount of all retention bonus payments, including those made to non-executive officers, is not expected to exceed $10 million.

In addition, we have established a discretionary bonus pool equal to $5 million, which will be allocated and paid to employees as determined by the compensation committee of our board of directors, based on our chief executive officer's recommendations.

Indemnification and Insurance

The merger agreement provides that, for six years after the merger, the surviving corporation's certificate of incorporation will contain certain agreed provisions with respect to indemnification, expense advancement and exculpation of our current and former directors and officers, and the surviving corporation's by-laws will contain the provisions with respect to such matters as set forth in our current by-laws. The merger agreement also requires the surviving corporation to maintain in effect the current directors' and officers' liability insurance or substantially similar insurance. This insurance must cover those persons who were covered on the date of the merger agreement by our directors' and officers' liability insurance policy, for a period of at least six years. However, if the annual premium for the policy exceeds 200% of the annual premium paid by us for the year from July 21, 2001 through July 21, 2002, then the surviving corporation in the merger is required only to get the best coverage available for an annual premium equal to 200% of the annual premium paid by us for the year from July 21, 2001 through July 21, 2002. The merger agreement also requires RWE and Thames Water Holdings to indemnify and hold harmless any of our former or current officers or directors against any losses in connection with any threatened or actual action, suit, or proceeding, based in whole or in part on, or arising in whole or in part out of, the fact that the person is or was our officer or director.

Positions with Surviving Corporation

Upon completion of the merger, J. James Barr, our President and Chief Executive Officer and a member of our board of directors, will become President and Chief Executive Officer of RWE's combined water operations in North and South America and be elected a director of Thames Water Plc. In addition, upon completion of the merger, Marilyn Ware, chairman of our board of directors, will be elected a member of the Thames International Advisory Council.

THE MERGER AGREEMENT

This section of the proxy statement describes the material provisions of the merger agreement but does not purport to describe all of the terms of the merger agreement. The following summary is qualified in its entirety by reference to the complete text of the merger agreement, which is attached as Annex A to this proxy statement and incorporated into this proxy statement by reference. We urge you to read the full text of the merger agreement because it is the legal document that governs the merger.

The Merger

The merger agreement provides for the merger of Apollo with and into American Water Works upon the terms, and subject to the conditions of the merger agreement. As the surviving corporation, we will survive the merger and continue to exist as a wholly owned indirect subsidiary of RWE. The merger will be effective at the time we file a certificate of merger with the Secretary of State of the State of Delaware (or at a later time, if agreed upon by the parties and specified in the certificate of merger). We expect to complete the merger as promptly as practicable after we receive stockholder approval and required regulatory approvals of the merger.

We or Thames Water Holdings may terminate the merger agreement prior to the completion of the merger in some circumstances, whether before or after the adoption of the merger agreement by stockholders. Additional details on termination of the merger agreement are described in "—Termination of the Merger Agreement."

Merger Consideration

Each share of our common stock issued and outstanding immediately before the merger (other than treasury shares, dissenting shares and shares held by Thames Water Holdings or Apollo) will automatically be canceled and will cease to exist and will be converted into the right to receive $46.00 in cash, without interest. When this merger consideration is distributed, holders of our common stock will also receive any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is consummated. After the merger is effective, each holder of a certificate representing any of these shares of our common stock will no longer have any rights with respect to the shares, except for the right to receive the merger consideration or, if a holder exercises appraisal rights, the right to receive payment of the judicially determined fair value of its shares upon compliance with the requirements of Delaware law. Each share of our common stock held by us as treasury shares or held by Thames Water Holdings or Apollo at the time of the merger will be canceled without any payment.

Directors and Officers

Upon completion of the merger, J. James Barr will be elected as a director of Thames Water Plc and Marilyn Ware will be elected as a member of the Thames International Advisory Council. The officers of American Water Works at the time the merger is completed will remain the officers of the surviving corporation after the merger. All American Water Works officers will hold their positions until their successors are duly elected and qualified or until the earlier of their resignation or removal.

Treatment of Stock Options and Other Stock-Based Rights

The merger agreement provides that, upon completion of the merger (1) each option to purchase shares of our common stock outstanding immediately prior to the completion of the merger, whether vested or unvested, will be converted into the right to receive $46.00 minus the exercise price per share of the stock option multiplied by the number of shares of common stock subject to the stock option (2) all other rights to receive our common stock, whether vested or unvested, will be converted into the

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right to receive an amount of cash equal to the number of shares of common stock subject to the stock right outstanding immediately prior to the completion of the merger multiplied by $46.00; and (3) our board of directors will make any other changes to the company stock plans as we and Thames Water Holdings agree are appropriate to give effect to the merger. All amounts payable are subject to applicable withholding taxes.

Payment for the Shares

Before the merger, Thames Water Holdings will designate a paying agent reasonably acceptable to us to make payment of the merger consideration as contemplated by the merger agreement. Immediately following the completion of the merger, Thames Water Holdings will, or will cause Apollo to, deposit in trust with the paying agent cash in an aggregate amount equal to the merger consideration for all stockholders plus any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is completed.

At the close of business on the day of the completion of the merger, we will close our stock ledger. After that time, the surviving corporation will not transfer common stock on its stock transfer books.

As soon as reasonably practicable after the completion of the merger, the paying agent will send you a letter of transmittal and instructions advising you how to surrender your certificates in exchange for the merger consideration. The paying agent will promptly pay you your merge consideration, together with any dividends to which you are entitled, after you have (1) surrendered your certificates to the paying agent and (2) provided to the paying agent any other items specified by the letter of transmittal. Interest will not be paid or accrue in respect of cash payments. The surviving corporation will reduce the amount of any merger consideration paid to you by any applicable withholding taxes. **You should not forward your stock certificates to the paying agent without a letter of transmittal, and you should not return your stock certificates with the enclosed proxy.**

If the paying agent is to pay some or all of your merger consideration to a person other than you, you must have your certificates properly endorsed or otherwise in proper form for transfer, and you must pay any transfer or other taxes payable by reason of the transfer or establish to the surviving corporation's satisfaction that the taxes have been paid or are not required to be paid.

The transmittal instructions will tell you what to do if you have lost your certificate, or if it has been stolen or destroyed. You will have to provide an affidavit to that fact and, if required by the paying agent, RWE or the surviving corporation, post a bond in an amount that the paying agent, RWE or the surviving corporation, as the case may be, reasonably directs as indemnity against any claim that may be made against those parties in respect of the certificate.

Redemption of our Preferred and Preference Stock

The merger agreement provides that, on or prior to the completion of the merger, we will redeem each issued and outstanding share of our cumulative preferred stock, 5% series and 5% cumulative preference stock in accordance with the terms and conditions provided in our certificate of incorporation.

Representations and Warranties

In the merger agreement, American Water Works, RWE, Thames Water Holdings and Apollo each made representations and warranties relating to, among other things:

- corporate organization and existence;

- corporate power and authority to enter into and perform its obligations under, and enforceability of, the merger agreement;
- required consents and approvals of governmental entities;
- the absence of conflicts with or defaults under organizational documents, debt instruments, other contracts and applicable laws and judgments;
- regulation as a public utility holding company or public utility;
- broker's fees; and
- information supplied for inclusion in this proxy statement.

In the merger agreement, RWE, Thames Water Holdings and Apollo also made representations and warranties relating to the availability of the funds necessary to complete its obligations under the merger agreement, the interim operations of Apollo and their ownership of our common stock.

We also made representations and warranties relating to, among other things:

- subsidiaries;
- capital structure;
- documents filed with the Securities and Exchange Commission;
- absence of specified changes or events since December 31, 2000;
- legal proceedings and regulatory actions;
- compliance with applicable laws;
- environmental matters;
- compliance with the Employee Retirement Income Securities Act and other employee benefit matters;
- tax matters;
- inapplicability of state takeover statutes;
- stockholder voting requirements;
- title to properties;
- receipt of Goldman Sachs' fairness opinion to our board of directors; and
- material contracts.

Covenants; Conduct of Business Pending the Merger

With limited exceptions we agreed in the merger agreement that, until the completion of the merger, we and each of our subsidiaries will:

- carry on our respective businesses in the ordinary course consistent with past practice;
- use commercially reasonable efforts to preserve our material assets and technology, preserve our business and regulatory relationships and maintain our material franchises, rights and permits necessary to conduct our business; and
- use commercially reasonable efforts to comply with all applicable laws.

We have also agreed that, until completion of the merger, except as expressly contemplated or permitted by the merger agreement or consented to in writing by Thames Water Holdings, which consent will not be unreasonably withheld, we will not, and will not permit any of our subsidiaries to:

- declare, set aside or pay dividends, or make other distributions, except (i) dividends by any of our wholly owned subsidiaries, (ii) regular quarterly cash dividends with respect to our common stock, not to exceed an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in accordance with our past dividend policy, (iii) a pro rata "stub period" dividend based on the number of days elapsed between the most recent dividend record date and the effective date of the merger (iv) regular cash dividends with respect to the cumulative preferred stock, 5% series and 5% cumulative preference stock in accordance with our past dividend policy and (v) cash dividends with respect to the preferred stock of any of our subsidiaries or cash dividends with respect to the non-preferred capital stock of any non-wholly owned subsidiaries in the ordinary course of business consistent with such subsidiary's past practice;

- purchase, redeem or otherwise acquire any shares of our respective capital stock or any other equity interests, except for (i) the redemption of the outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock, (ii) purchases, redemptions or other acquisitions required or permitted by the terms of any of our preferred stock or that of our subsidiaries, (iii) the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors' plans and the dividend reinvestment provisions of our dividend reinvestment and stock purchase plan, (iv) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of any of our subsidiaries or (v) purchases of shares of capital stock of any of our wholly owned subsidiaries;

- split, combine or reclassify any capital stock or other equity interests or issue any other securities in respect of, in lieu of or in substitution for such shares or interests;

- issue, deliver, sell, pledge or otherwise encumber any shares of our capital stock or other equity interests or grant any options, warrants, calls or rights to acquire any such shares or interests, other than (i) upon the exercise of stock options or other rights to purchase common stock in effect as of the date of the merger agreement, (ii) the delivery or sale of shares held as treasury stock as of the date of the merger agreement, or thereafter purchased on the open market to fund benefits under employee benefit plans, (iii) issuances by any of our subsidiaries of shares of capital stock to us or any of our wholly owned subsidiaries, (iv) issuances of our common stock pursuant to our rights agreement, (v) issuances of our common stock pursuant to our dividend reinvestment and stock purchase plan or (vi) issuances of our common stock which are necessary in our reasonable judgment, after consultation with Thames Water Holdings, in order to maintain our credit ratings and that of our subsidiaries;

- amend our respective certificates of incorporation or by-laws, except as required by applicable law or by the rules of the New York Stock Exchange;

- acquire or agree to acquire any corporation, any assets constituting a business, any other business entity or other assets that are material, other than (i) any business which is regulated by a state regulatory body or owned or operated by a municipality or local governmental entity, provided that all such acquisitions shall not involve aggregate payments (including debt assumption) of more than $300,000,000, (ii) any business in or related to the water services or wastewater services industry or any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a state regulatory body or owned or operated by a municipality

or local governmental entity, provided that all such acquisitions shall not involve aggregate payments (including debt assumption) of more than $100,000,000, or (iii) assets constituting a business the acquisition of which does not require consent or approval under the merger agreement;

- sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any real

property, or any other material interests in properties or assets, other than (i) sales in which the fair market value of all such properties and assets does not exceed $100,000,000, (ii) sales to a governmental entity required by threat of condemnation or similar proceedings, conducted in a manner consistent with past practice, (iii) sales of securities at arm's-length which are held as passive minority investments or (iv) grants of easements, rights of way and liens in the ordinary course of business or in connection with our secured indebtedness or that of any of our subsidiaries, in each case consistent with past practice;

- incur or guarantee any indebtedness or issue or sell any debt securities or options, warrants, calls or other rights to acquire any our debt securities or the debt securities of any of our subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the above, except for (i) short-term indebtedness in the ordinary course of business consistent with past practice, (ii) long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of the merger agreement (with certain exclusions), does not exceed 110% of the aggregate amount of all long-term indebtedness contemplated to be outstanding as of the end of such fiscal year by our business plan for the five-year period ending on December 31, 2005, (iii) arrangements to finance acquisitions permitted by the merger agreement or to fund capital expenditures permitted by the merger agreement, (iv) any guarantees, bid bonds, performance bonds, surety bonds, payment bonds, letters of credit and "keep well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between us and our subsidiaries or in support of our indebtedness or other obligations, of our subsidiaries or among our subsidiaries; or (v) indebtedness in an amount equal to (1) the cost of our common stock purchased to fund or provide benefits under employee benefit plans, plus (2) the amount of cash proceeds that we would otherwise expect to receive from the sale of common stock under the dividend reinvestment and stock purchase plan for so long as such plan is indefinitely suspended pursuant to the merger agreement;

- make any material loans, advances or capital contributions to, or investments in, any other person, other than any of our subsidiaries, other than (i) investments made in joint ventures permitted by the merger agreement, (ii) loans, advances, capital contributions and investments made in connection with actions permitted by the merger agreement or (iii) in the ordinary course of business;

- incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in our five-year capital plan, other than (i) capital expenditures required by changes in or newly promulgated applicable laws or judgments or applicable standards or policies of any governmental entity, (ii) capital expenditures funded by customer advances or contributions in aid of construction, (iii) capital expenditures incremental to our five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates, (iv) capital expenditures related to the operation of any business acquired through an acquisition permitted by the merger agreement, (v) capital expenditures to the extent covered by insurance or as reasonably required

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in our judgment following a catastrophic event or (vi) capital expenditures in connection with performance by us or one of our subsidiaries under any contract to the extent our or our subsidiary's obligations in connection with any such capital expenditure are non-recourse to us or our subsidiary and funded by the United States government;

- except as required by applicable law or any judgment (i) pay, discharge, settle or satisfy any material claims (including claims o stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice, (B) as required by their terms as in effect on September 16, 2001, or on the date of acquisition of the person subject thereto or (C) incurred since September 16, 2001, in the ordinary course of business consistent with past practice, (ii) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (iii) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respect to which consent is required under, any material confidentiality, standstill or similar agreement to which we or any of our subsidiaries is a party;

- take any action to fund or in any other way secure the payment of compensation or benefits under any benefit plan or other contract, accelerate the vesting or payment of any compensation or benefit under any benefit plan or other contract, grant any

compensation, benefits, severance or termination pay or increases under any benefit plan or establish, adopt, enter into, amend or terminate any benefit plan, except as required to implement grants or increases permitted by the merger agreement, except (i) as required to comply with applicable law or any judgment, any collective bargaining agreement or any provision of our benefit plans or other contract, (ii) in the ordinary course of conducting our or any of our subsidiaries' respective businesses consistent with past practice, (iii) as would, in our discretion, be commercially reasonable in order to retain our employees and employees of our subsidiaries or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by us and/or our subsidiaries or (v) as would not, individually or in the aggregate, materially increase our and our subsidiaries' annual expense for compensation and benefits provided or to be provided to our respective employees;

- enter into any material contract other than (i) any contract related to our business regulated by public utility commissions as entered into in the ordinary course of business consistent with past practice, (ii) any contract related to the water services or wastewater services industry; provided that the average aggregate annual revenues to be received by us and our subsidiaries ove the first three years of such contract, together with the total average aggregate annual revenues to be received by us and our subsidiaries over the first three years of all such other contracts entered into during the twelvemonth period beginning the date of the merger agreement or during any subsequent twelvemonth period shall not exceed $60 million per year; provided, further that (A) the average annual amounts of any payments to be made to us during the first three years of such contract in respect of any capital expenditures permitted by the merger agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" contract, payments in respect of the "design-build" portion of such contract to the extent that those payments are (x) guaranteed by a non-affiliate which we reasonably determine is sufficiently creditworthy or (y) passed through to third parties who perform the "design-build" portion of such contract) during the first three years of such contract shall not count against such $60 million per year limit or (iii) any contract providing for any transaction otherwise permitted by the merger agreement;

- renew any material contract unless such renewal (i) shall not modify the terms of such contract, taken as a whole, in any materia adverse respect or (ii) is on terms that are reasonably agreed to by us in carrying on our business in the ordinary course;

- modify, amend, waive or terminate any material contract other than in the ordinary course of business or the contracts filed with the SEC, in either case without consulting with Thames Water Holdings in good faith in advance; or

- authorize, or commit, resolve or agree to take any action described above.

In addition to the foregoing, if we request the consent of Thames Water Holdings to enter into a contract or make an acquisition not otherwise permitted by the merger agreement, Thames Water Holdings will promptly inform us whether RWE or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition or contract and, if they inform us that RWE or any of its subsidiaries is participating or intends to participate in the bidding for the acquisition or contract or do in fact participate, then we will not be subject to the restrictions of the merger agreement with respect to that acquisition or contract. For the purposes of this procedure, unless Thames Water Holdings has given us written notice to the contrary, we may presume that RWE or one of its subsidiaries is participating in any competitive bidding process for an acquisition or contract which has been marketed broadly to major participants in the water services or wastewater services industries and we will not be required to request the consent of Thames Water Holdings or otherwise be restricted by the merger agreement with respect to that acquisition or contract.

We have agreed to consult with Thames Water Holdings and provide reasonable documentation prior to taking certain of the actions permitted by the merger agreement during the period prior to completion of the merger.

Efforts to Complete the Merger

Subject to the terms and conditions set forth in the merger agreement, each of the parties to the merger agreement has agreed to use its reasonable best efforts to take, or cause to be taken, as promptly as reasonably practicable, all actions that are necessary, proper and advisable to achieve the completion of the merger, including (i) the taking of all acts necessary to satisfy the conditions necessary for the completion of the merger, (ii) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from governmental entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain that approval or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain the approval or waiver from,

or to avoid an action or proceeding by, any governmental entity and (iii) the obtaining of all necessary consents, approvals or waivers from third parties. To that effect, RWE and Thames Water Holdings, on the one hand, and we, on the other hand, have agreed to cooperate to develop a mutually acceptable plan to obtain the required regulatory approvals as expeditiously as reasonably practicable and to provide each other with assistance, information and cooperation as reasonably requested in that regard.

We, RWE and Thames Water Holdings have each agreed not to take any action that would reasonably be expected to materially impede or delay obtaining required regulatory approvals or otherwise materially impede or delay the completion of the merger.

In addition, subject to certain exceptions, RWE and Thames Water Holdings have agreed that, prior to the completion of the merger and except as we may consent to (which consent will not be unreasonably withheld or delayed), they will not and will cause their subsidiaries not to (i) acquire any U.S. water services or wastewater services business that is regulated by a public utility commission or similar regulatory body (other than any acquisition which does not involve aggregate payments (including debt assumption) by RWE, Thames Water Holdings or their subsidiaries in excess of

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$20 million), (ii) acquire any business that would cause RWE, Thames Water Holdings or any of their subsidiaries to be required to register as a holding company under the Public Utility Holding Company Act of 1935, which we refer to in this proxy statement as the Holding Company Act, (iii) acquire any business that would subject RWE, Thames Water Holdings, Apollo or any of their subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business, (iv) acquire any business that would, upon the consummation of that acquisition, subject RWE, Thames Water Holdings or any of their subsidiaries to regulation under the Holding Company Act in a manner other than that described in clauses (ii) and (iii) above or (v) acquire any business that is a U.S. gas or electric utility, if in the case of clause (iv) or this clause (v), that business is subject to regulation as a gas or electric utility by any public utility commission in any material state. RWE and Thames Water Holdings have also agreed not to acquire shares of our common stock before the approval by our stockholders of the merger agreement and not to acquire more than 4.9% of our common stock at any time prior to the completion of the merger.

Conditions to the Merger

Conditions to Each Party's Obligations

Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

- we must obtain the adoption of the merger agreement by the affirmative vote of the holders of a majority of the votes represented by all the outstanding shares of our common stock and our cumulative preferred stock, 5% series, voting together as a single class, with each share of our common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to 1/10th of a vote;

- the waiting period applicable to the completion of the merger under the Hart-Scott-Rodino Antitrust Improvements Act shall have expired or been terminated;

- any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation the failure of which to obtain or comply with would reasonably be expected to have a material adverse effect on us, shall have been obtained or shall have terminated or expired;

- there must not be in effect any temporary restraining order, preliminary or permanent injunction or other order or decree issued by a court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the completion of the merger;

- all required regulatory approvals under the laws and judgments of any state public utility commission, state public service commission or similar state regulatory body must have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied;

all material required regulatory approvals under the laws and judgments of any public health departments, environmental protection agencies or of any federal or state regulatory body having jurisdiction over similar matters shall have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied; and

- the redemption of our outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock must be completed.

Conditions to RWE's, Thames Water Holdings' and Apollo's Obligations

The obligation of RWE, Thames Water Holdings and Apollo to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- our representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to have a material adverse effect on us;
- we must have performed in all material respects all obligations that we are required to perform under the merger agreement prio to the closing date;
- no material adverse effect on us shall have occurred and there must be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect on us; and
- the required regulatory approvals for the merger and other regulatory approvals obtained between the date of the merger agreement and the closing date in connection with acquisitions by us must not impose any terms or conditions that would reasonably be expected to have a material adverse effect either on us or on Thames Water Holdings' U.S. subsidiaries and us, taken as a whole.

Conditions to American Water Works' Obligations

Our obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- RWE's, Thames Water Holdings' and Apollo's representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to impair in any material respect the ability of RWE, Thames Water Holdings or Apollo to perform its obligations under the merger agreement or prevent or materially delay the completion of the merger; and
- RWE, Thames Water Holdings and Apollo must have performed in all material respects all obligations that each of them are required to perform under the merger agreement prior to the closing date.

No Solicitation of Other Offers

The merger agreement provides that neither we nor our representatives will:

- solicit, initiate or encourage, or take any action knowingly to facilitate the submission of, any takeover proposal, as described below; or
- except as provided below, provide any nonpublic information relating to us to any person relating to a takeover proposal, or engage in any discussions or negotiations concerning a takeover proposal.

We may, however, at any time prior to the adoption of the merger agreement by our stockholders, in response to a takeover proposal that our board of directors determines in good faith could reasonably be expected to lead to a superior proposal, as described below:

- provide information regarding us to the person making that takeover proposal pursuant to a customary confidentiality agreemen that does not contain any prohibition on making an unsolicited takeover proposal (so long as such information is concurrently provided to Thames Water Holdings); and

- participate in discussions or negotiations with the person making that takeover proposal regarding that takeover proposal.

In addition, we have agreed that neither our board of directors nor any of its committees will:

- withdraw, or modify in a manner adverse to Thames Water Holdings or Apollo, recommendation with respect to, the merger agreement or publicly propose to do so, or recommend, or propose publicly to recommend, the approval of any takeover proposal, unless our board of directors determines in good faith, after consulting with legal counsel, that such action is necessary for our board of directors to comply with its fiduciary duties to our stockholders under applicable law and our certificate of incorporation;
- adopt or approve, or publicly propose to adopt or approve, any takeover proposal, or withdraw its approval of the merger;
- cause or permit us to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement constituting or related to a takeover proposal; or
- agree or resolve to take any of the foregoing actions.

Our board of directors may, however, at any time prior to the special meeting, terminate the merger agreement in response to a superior proposal and concurrently or promptly thereafter enter into an agreement with respect to that superior proposal if:

- it delivers written notice to Thames Water Holdings five days prior to terminating the merger agreement, advising Thames Water Holdings that it has received a superior proposal, specifying the terms and conditions of, and the identity of the person making, the superior proposal, and that it intends to accept the superior proposal and exercise its right to terminate the merger agreement; and
- prior to or concurrently with the termination, we pay to Thames Water Holdings the $138 million termination fee.

We have agreed to cease any discussion or negotiations with any third parties conducted on or before the date of the merger agreement with a view toward a takeover proposal, and to notify Thames Water Holdings of any takeover proposal and keep Thames Water Holdings informed of the status of such takeover proposal.

Nothing described above limits our ability to take actions to comply with certain rules under the Securities Exchange Act of 1934, or make any disclosure to our stockholders if, in the good faith judgment of our board of directors, after consultation with outside counsel, such failure to disclose would be inconsistent with applicable law.

For purposes of the merger agreement, the term "takeover proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to:

- a merger, consolidation or any similar transaction involving us or any of our significant subsidiaries;
- a purchase, other acquisition or assumption of assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of us and our subsidiaries, taken as a whole;

- a purchase or other acquisition of our voting securities that, if completed, would result in any person beneficially owning securities representing 20% or more of our total equity or voting interests, or that of our subsidiaries, if such subsidiaries held the assets or businesses referred to in the previous bullet point; or
- any substantially similar transaction.

The merger agreement defines the term "superior proposal" to mean:

- any bona fide written offer by a third party that if consummated would result in the third party acquiring, directly or indirectly, 50% or more of the voting power of our common stock or 50% of our and our subsidiaries' combined assets or a direct merger between such third party and us; and
- the consideration offered for which consists of cash and/or securities which our board of directors determines in its good faith judgment (after consultation with a recognized financial advisor) to be more favorable from a financial point of view to our stockholders, taking into account any counterproposals that Thames Water Holdings may make in response to a superior proposal or otherwise.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after stockholder approval has been obtained:

1. by mutual written consent of American Water Works, Thames Water Holdings and Apollo;
2. by either American Water Works or Thames Water Holdings, if:
   - the merger is not completed on or before March 16, 2003, except that
     (i) this right to terminate will not be available to any party whose failure to comply with the merger agreement has been the primary reason the merger has not been completed by that date;
     (ii) if all conditions are satisfied or are capable of being satisfied other than obtaining the required regulatory approvals, the termination date will be extended to September 16, 2003, and the date will be further extended up to an additional 60 days for any waiting period in respect of a regulatory approval that has not yet expired if all other conditions are satisfied or are capable of being satisfied; and
     (iii) the date will be extended to September 16, 2003, if all other conditions are satisfied other than the consummation of the stock redemption and American Water Works has mailed the notice of redemption;
   - any order, injunction or other legal restraint or prohibition that prevents the completion of the merger is in effect and has become final and nonappealable; or
   - our stockholders do not approve the merger agreement at the special meeting; or
3. by Thames Water Holdings if:
   - our board of directors withdraws or modifies in a manner adverse to RWE its recommendation of the merger agreement or recommends to our stockholders any takeover proposal by a third party; or
   - we have breached any of our representations or warranties, other than any failures of our representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse

effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

4. by us if:

- Thames Water Holdings has breached any of its representations or warranties, other than any failures of its representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or

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materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

- prior to obtaining stockholder approval, our board of directors authorizes us to enter into an agreement with respect to a takeover proposal from a third party concurrently with such termination, provided that we have complied with the provisions of the merger agreement described above under "—No Solicitation of Other Offers," including the payment to Thames Water Holdings of the $138 million termination fee described below.

Termination Fees

We must pay to Thames Water Holdings a termination fee of $138 million if the merger agreement is terminated under any of the following circumstances:

- either party terminates pursuant to the first or third bullet points under paragraph (2) above under "—Termination of the Merger Agreement", a takeover proposal shall have been made to us or any person has publicly announced an intention to make a takeover proposal prior to such termination and, within 12 months after such termination, we enter into a definitive agreement to consummate or do consummate a takeover proposal which results in a change in control; or
- we terminate pursuant to the second bullet point under paragraph (4) above under "—Termination of the Merger Agreement"; or
- Thames Water Holdings terminates pursuant to the first bullet point under paragraph (3) above under "—Termination of the Merger Agreement."

Thames Water Holdings must pay to us a termination fee of $138 million if the merger agreement is terminated under any of the following circumstances:

- by either party pursuant to any of the first or second bullet points under paragraph (2), the second bullet point under paragraph (3), the first bullet point under paragraph (4) and, under certain circumstances, the second bullet point under paragraph (4), in each case above under "—Termination of the Merger Agreement," and at such time the closing conditions relating to the absence of any legal restraint preventing the closing or the receipt of all required regulatory approvals have not been satisfied; and
- any of the following are true:
  - RWE's, Thames Water Holdings' and Apollo's representations regarding regulation as a public utility are not true such that one of them or their subsidiaries is required to register as a holding company under the Holding Company Act or is subject to regulation as a public utility holding company in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business;
  - RWE or Thames Water Holdings has breached its covenant not to (x) acquire any U.S. water services or wastewater services business that is regulated by a public utility commission or similar regulatory body (other than any acquisition which does not involve aggregate payments (including debt assumption) by RWE, Thames Water Holdings or their subsidiaries in excess of $20 million), (y) acquire any business that would cause RWE, Thames Water Holdings or any of their subsidiaries to be required to register as a holding company under the Holding Company Act or (z) acquire any

business that would subject RWE, Thames Water Holdings, Apollo or any of their subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business; or

- one of RWE's, Thames Water Holdings' and Apollo's representations regarding regulation as a public utility (other than as discussed above) is no longer true or RWE or Thames

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Water Holdings has breached its covenant (x)(i) not to acquire any business that would, upon the consummation of that acquisition, subject RWE, Thames Water Holdings or any of their subsidiaries to regulation under the Holding Company Act in a manner other than that described above or (ii) acquire any business that is a U.S. gas or electric utility, if that business is subject to regulation as a gas or electric utility by any public utility commission in any material state or (y) not to take any action which would materially impede or delay obtaining any required regulatory approvals or (z) to use reasonable best efforts to obtain required regulatory approvals and, in each case, that failure to be true or breach was the primary cause of the failure to satisfy certain conditions to closing relating to regulatory approvals and other regulatory matters.

In addition, if the merger agreement is terminated by Thames Water Holdings pursuant to the second bullet point under paragraph (3) above under "—Termination of the Merger Agreement", or by us pursuant to the first bullet point under paragraph (4) above under "—Termination of the Merger Agreement" (subject to certain exceptions) then the non-terminating party must pay to the terminating party its documented out-of-pocket expenses and fees incurred in connection with the merger, which expenses and fees may not exceed $20 million.

Employee Benefits

RWE has agreed to honor and cause the surviving company to honor all employee benefit plans and collective bargaining agreements that have been disclosed by us. In addition, subject to applicable law and any collective bargaining agreements, RWE has agreed to (i) for 12 months after the merger, maintain our employee benefit plans and programs (other than any equity or equity based plans) in accordance wit their terms as in effect prior to the merger, without adverse amendment, and (ii) for 18 months after the merger to provide, or cause the surviving entity to provide, to our employees compensation (including base pay and annual and long term incentive opportunities, and including the value of any equity-based compensation) and employee benefits that are no less favorable in the aggregate than those provided to our employees prior to the merger.

RWE has also agreed that, subject to applicable law and any collective bargaining agreements, it will, or will cause the surviving company to, provide lifetime medical and life insurance benefits at the same level as, and at the same cost (if any) as, in effect immediately prior to the date of the merger, to (i) all covered current retirees (as of the date of the merger) and (ii) all covered employees of our company and its subsidiaries who, as of the date of the merger, have satisfied all applicable eligibility requirements for purposes of our retiree medical plan as currently in effect, at such time after the merger as the employees retire. RWE has also agreed to allow our current, nonunion employees to participate in any employer stock ownership plan it maintains for its employees in the United States.

Prior to the merger, we have agreed to provide RWE commercially reasonable access to our employees for purposes of implementing the merger agreement. On September 17, 2001, we suspended indefinitely our dividend reinvestment and stock purchase plan and caused all amounts not yet applied as of such date to be returned to the employees.

Amendment, Extension and Waiver

The parties may amend the merger agreement at any time before completion of the merger. However, after adoption of the merger agreemen by our stockholders, no amendment may be made which by law requires further approval by our stockholders, unless we obtain that further approval. All amendments to the merger agreement must be in writing signed by us, RWE, Thames Water Holdings and Apollo.

At any time before the completion of the merger, each of the parties to the merger agreement may, by written instrument:

- extend the time for the performance of any of the obligations or other acts of the other parties;

- waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or
- waive compliance with any of the agreements or conditions contained in the merger agreement.

However, after adoption of the merger agreement by our stockholders, no waiver may be made which by law requires further approval by our stockholders, unless we obtain that further approval.

Amendment to Rights Agreement

In accordance with the merger agreement, as of September 16, 2001, we amended the rights agreement, dated as of February 18, 1999, as amended by the first amendment to the rights agreement, dated as of June 1, 2000, between us and Fleet National Bank, as rights agent, to provide that none of the approval, execution, delivery or performance of the merger agreement or the voting agreement or the completion of th transactions contemplated thereby will cause the rights under the rights agreement to be adjusted or become exercisable. The amendment also provides that none of the merger, the merger agreement or the voting agreement will cause Thames Water Holdings or any of its affiliates or associates to become an "acquiring person" under the rights agreement. In addition, the amendment amends the rights agreement to provide tha (1) a "shares acquisition date" will not be deemed to occur as a result of the public announcement, approval, execution, delivery or performanc of the merger agreement or the voting agreement, or the completion of the transactions contemplated thereby and (2) neither a "triggering event" nor a "distribution date" will be deemed to occur as a result of the approval, execution, delivery or performance of the merger agreemen or the voting agreement, or the completion of the transactions contemplated thereby. The amendment also provides that the rights will terminate immediately prior to the completion of the merger.

Voting Agreement

A voting agreement has been entered into between Thames Water Holdings and some of the stockholders of American Water Works obligating those stockholders to vote their shares in favor of the transaction and against any takeover proposal (as defined in the merger agreement). The stockholders that are party to the voting agreement own or control 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special meeting. Up to approximately 5% of the shares subject to the voting agreement may be sold without restriction before the special meeting of stockholders. The voting agreement will terminate if the American Water Works board of directors exercises its right to terminate the merger agreement and accept a superior proposal (as defined in the merger agreement) and in other limited circumstances. See "—Termination of the Merger Agreement."

APPRAISAL RIGHTS

If the merger is consummated, holders of shares of American Water Works common stock are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law, provided that they comply with the conditions established by Section 262.

Section 262 is reprinted in its entirety as Annex C to this Proxy Statement. The following discussion is not a complete statement of the law relating to appraisal rights and is qualified in its entirety by reference to Annex C. This discussion and Annex C should be reviewed carefully by any holder who wishes to exercise statutory appraisal rights or who wishes to preserve the right to do so, as failure to comply with the statutory procedures will result in the loss of appraisal rights.

A record holder of shares of American Water Works common stock who does not vote in favor of the merger agreement, who makes the demand described below with respect to such shares in a timely fashion, who continuously is the record holder of such shares through the effective time of the merger and who otherwise complies with the statutory requirements of Section 262 will be entitled to an appraisal by the Delaware Court of Chancery of the fair value of his or her shares of American Water Works common stock. All references in this summary of appraisal rights to a "stockholder" or "holders of shares of American Water Works common stock" are to the record holder or holders of shares of American Water Works common stock. Except as set forth herein, stockholders of American Water Works will not be entitled to appraisal rights in connection with the merger.

Under Section 262, where a merger is to be submitted for approval at a meeting of stockholders, as in the case of the special meeting, not less than 20 days prior to the meeting the corporation must notify each of the holders of its stock who is entitled to appraisal rights that appraisal rights are available and include in the notice a copy of Section 262. This proxy statement constitutes that notice to you, and a copy of Section 262 is attached to this proxy statement as Annex C.

Holders of shares of American Water Works common stock who desire to exercise their appraisal rights must not vote in favor of the merger and must deliver a separate written demand for appraisal to American Water Works prior to the vote by the stockholders of American Water Works on the merger. A demand for appraisal must be executed by or on behalf of the stockholder of record and must reasonably inform American Water Works of the identity of the stockholder of record and that the stockholder intends to demand appraisal of his or her shares. A proxy or vote against the merger will not by itself constitute that demand. The written demand for appraisal must be in addition to and separate from any proxy or vote. Any stockholder making such a demand must thereafter continue to hold his or her shares of record until the effective time of the merger to be eligible for appraisal rights. Within ten days after the effective time of the merger, American Water Works must provide notice of the effective time to all stockholders who have complied with Section 262.

A stockholder who elects to exercise appraisal rights should mail or deliver his or her written demand to: American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, New Jersey 08043, Attention: W. Timothy Pohl.

A person having a beneficial interest in shares of American Water Works common stock that are held of record in the name of another person, such as a broker, fiduciary, depositary or other nominee, must act promptly to cause the record holder to follow the steps summarized in this proxy statement properly and in a timely manner to perfect appraisal rights. If the shares of American Water Works common stock are owned of record by a person other than the beneficial owner, including a broker, fiduciary (such as a trustee, guardian or custodian), depositary or other nominee, the demand for appraisal must be executed by or for the record owner. If the shares of American Water Works common stoc are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand must be executed by or for all joint owners. An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner and expressly disclose the fact that, in exercising the

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demand, such person is acting as agent for the record owner. If a stockholder holds shares of American Water Works common stock through a broker who in turn holds the shares through a central securities depository nominee such as Cede & Co., a demand for appraisal of such shares must be made by or on behalf of the depository nominee and must identify the depository nominee as record holder.

A record holder, such as a broker, fiduciary, depositary or other nominee, who holds shares of American Water Works common stock as a nominee for others, may exercise appraisal rights with respect to the shares held for all or less than all beneficial owners of shares as to which such person is the record owner. In such case, the written demand must set forth the number of shares covered by the demand. Where the number of shares is not expressly stated, the demand will be presumed to cover all shares of American Water Works common stock outstanding in the name of the record owner.

Within 120 days after the effective time of the merger, either American Water Works or any stockholder who has complied with the provisions of Section 262 may file a petition in the Delaware Court, with a copy served on American Water Works in the case of a petition filed by a stockholder, demanding a determination of the fair value of the shares of all stockholders who have properly demanded appraisal rights. There is no present intent on the part of American Water Works to file an appraisal petition and stockholders seeking to exercise appraisal rights should not assume that American Water Works will file a petition for appraisal. Accordingly, holders of American Water Works common stock who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner set forth in Section 262. Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 to that point in time will be entitled, upon written request, to receive from American Water Works a statement setting forth the aggregate number of shares of American Water Works common stock not voted in favor of the merger agreement and with respect to which demands for appraisal were received by American Water Works and the number of holders of the shares. This statement must be mailed (a) within 10 days after the written request has been received by American Water Works or (b) within 10 days after the expiration of the period for the delivery of demands as described above, whichever is later.

If a petition for an appraisal is timely filed, at the hearing on the petition, the Delaware Court will determine which stockholders are entitled to appraisal rights. The Delaware Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with this requirement, the Delaware Court may dismiss the proceedings as to that stockholder. Where proceedings are not dismissed, the Delaware Court will appraise the shares of American Water Works common stock owned by stockholders who have perfected their appraisal rights, determining the fair value of their shares exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value.

Although American Water Works believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the court and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Moreover, American Water Works does not anticipate offering more than the merger consideration to any stockholder exercising appraisal rights and reserves the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the "fair value" of a share of American Water Works common stock is less than the merger consideration. In

determining "fair value," the Delaware Court is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.* the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered and that "[f]air price obviously requires consideration of all relevant factors

involving the value of a company." The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that this exclusion is a "narrow exclusion [that] does not encompass known elements of value," but rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

The cost of the appraisal proceeding may be determined by the Delaware Court and taxed against the parties as the Delaware Court deems equitable in the circumstances. However, costs do not include attorneys' and expert witness fees. Each dissenting stockholder is responsible for his or her attorneys' and expert witness expenses, although, upon application of a stockholder party to the appraisal proceeding, the Delaware Court may order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all shares of stock entitled to appraisal.

Any holder of shares of American Water Works common stock who has duly demanded appraisal in compliance with Section 262 will not, after the effective time of the merger, be entitled to vote the shares subject to the demand or to receive payment of dividends or other distributions on the shares, except for dividends or distributions payable to stockholders of record at a date prior to the effective time of the merger.

At any time within 60 days after the effective time of the merger, any stockholder will have the right to withdraw a demand for appraisal and to accept the terms offered in the merger; after this period, the stockholder may withdraw the demand only with the consent of American Wate Works. If no petition for appraisal is filed with the Delaware Court within 120 days after the effective time of the merger, stockholders' rights to appraisal will cease, and all holders of shares of American Water Works common stock will be entitled to receive the consideration offered pursuant to the merger agreement. Because American Water Works has no obligation to file a petition for appraisal, and has no present intention to do so, any holder of shares of American Water Works common stock who desires a petition to be filed is advised to file it on a timely basis. Any stockholder may withdraw his or her demand for appraisal by delivering to American Water Works a written withdrawal of his or her demand for appraisal and acceptance of the merger consideration, except that (a) any attempt to withdraw made more than 60 days after the effective time of the merger will require written approval of American Water Works and (b) no appraisal proceeding in the Delaware Court shall be dismissed as to any stockholder without the approval of the Delaware Court, and approval may be conditioned upon any terms the Delaware Court deems just.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of November 7, 2001 with respect to beneficial ownership of our common stock by:

- our directors;
- our six most highly compensated executive officers; and
- all directors and executive officers of American Water Works as a group.

If a director or executive officer owns less than one percent of our common stock, no percentage is shown under the heading "Percent of Class." Information for the table was obtained from the directors and executive officers. For purposes of the table, a person is a "beneficial

owner" of our common stock if that person, directly or indirectly, has or shares with others (a) the power to vote or direct the voting of the common stock or (b) investment power with respect to the common stock, which includes the power to dispose or direct the disposition of the common stock.

	Amount and Nature of Beneficial Ownership					
Name of Individual or Number of Persons in Group	Sole Voting or Investment Power(1)	Shared Voting or Investment Power(2)	Acquirable Within 60 Days(3)	Shares Owned by Spouse and Children(2)	Total	Percent of Class
William O. Albertini	13,818				13,818	*
J. James Barr	743,916		47,734	1,018	792,668	*
Rhoda W. Cobb	6,000	2,230,568		1,500	2,238,068	2.2%
Elizabeth H. Gemmill	47,309	2,029,234			2,076,543	2.1%
Ray J. Groves	4,317				4,317	*
Henry G. Hager	8,000			15,548	23,548	*
Frederick S. Kirkpatrick	10,000	4,769,720			4,779,720	4.8%
Gerald C. Smith	43,199		19,975	71	63,245	*
Anthony P. Terracciano	64,000				64,000	*
Nancy Ware Wainwright.	6,824	2,047,891			2,054,715	2.1%
Marilyn Ware	4,914,260	4,873,645			9,787,905	9.8%
Paul W. Ware	17,090	810,491			827,581	*
Ross A. Webber	3,945			200	4,145	*
William S. White	10,000	7,750,795			7,760,795	7.8%
Horace Wilkins, Jr	1,931				1,931	*
Joseph F. Hartnett, Jr	9,930		8,817		18,747	*
Daniel L. Kelleher	22,257		15,667		37,924	*
W. Timothy Pohl	22,190				22,190	*
Robert D. Sievers	9,464		8,817		18,281	*
Ellen C. Wolf	1,434		20,217	200	21,851	*
All directors and executive officers as a group (20 persons)	5,959,884	17,064,680	121,227	18,537	23,164,328(4)	23%(4)

*

Represents holdings of less than one percent.

(1)

Includes shares of American Water Works' common stock credited through September 2001 to the accounts of the executive officers pursuant to American Water Works' Employees' Stock Ownership Plan and Savings Plan for Employees.

(2)

Cobb Foundation, a charitable trust of which Rhoda W. Cobb is a trustee, owns 350,000 shares of American Water Works' common stock. Catlin Foundation, a charitable trust of which Nancy Ware

Wainwright is a trustee, owns 167,323 shares of American Water Works' common stock. Oxford Foundation, Inc., a nonprofit corporation of which Marilyn Ware and Paul W. Ware are directors, owns 797,376 shares of American Water Works' common stock. Warwick Foundation, a charitable foundation of which Elizabeth H. Gemmill is the Managing Trustee, owns 615,000 shares of American Water Works' common stock and 200 shares of American Water Works' cumulative preferred stock, 5% series.

Frederick S. Kirkpatrick and William S. White are trustees of a trust which owns 4,769,720 shares of American Water Works' common stock the beneficiaries of which are relatives of Mr. White.

Rhoda W. Cobb and Nancy Ware Wainright are trustees of the Rhoda C. Ware Revocable Trust. This trust owns 1,451,996 shares of American Water Works' common stock, the beneficiaries of which are Rhoda C. Ware and others. Ware Family Investments, LTD. owns 428,572 shares of American Water Works' common stock. Rhoda W. Cobb and Nancy Ware Wainwright are trustees of the general partner of

this limited partnership.

As the trustees or directors of these entities have voting and investment power, the shares of American Water Works' common stock held by such entities are shown opposite the name of the director or executive officer, but such shares are reported only once in the total for directors and executive officers as a group. The directors deny beneficial ownership of such shares.

The directors and executive officers deny beneficial ownership of shares owned by their spouses and minor children.

(3) Reflects the number of shares that could be purchased by the exercise of options within 60 days of November 7, 2001.

(4) Shares are reported only once in the total for directors and executive officers as a group.

None of the directors or executive officers has any material interest in any other stock of American Water Works or its subsidiaries.

Based upon information available to American Water Works as of November 7, 2001, the following persons beneficially own more than 5% of American Water Works' common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership: Sole Voting or Investment Power	Amount and Nature of Beneficial Ownership: Shared Voting or Investment Power	Percent of Class
The Bessemer Group, Incorporated 100 Woodbridge Center Drive Woodbridge, NJ 07095	7,021,454	100	7.0%
RWE Aktiengesellschaft(1) Thames Water Aqua Holdings GmbH Opernplatz 1, D-45128 Essen, Germany	0	25,989,476	26.0%

(1) According to the Schedule 13D jointly filed by RWE and Thames Water Holdings on September 25, 2001, each of them is deemed to have shared voting power over 24,186,876 shares of our common stock and shared dispositive power over 22,934,944 shares of our common stock, in each case pursuant to the voting agreement entered into in connection with the merger agreement between Thames Water Holdings and certain of our stockholders. See "The Merger Agreement—Voting Agreement." On November 6, 2001, the holders of an additional 1,802,600 shares of American Water Works common stock executed a joinder agreement agreeing to be bound by the voting agreement with respect to those shares.

Based upon filings with the Securities and Exchange Commission, as of November 7, 2001, there are no persons who own beneficially more than 5% of the outstanding shares of our cumulative preferred stock, 5% series.

OTHER MATTERS

Other Matters for Action at the Special Meeting

Our board of directors is not aware of any matters to be presented for action at the special meeting other than those described in this proxy statement. If other matters should properly come before the special meeting, we intend that the holders of proxies solicited by this proxy statement will vote on those matters in their discretion.

Proposals by Holders of Shares of Common Stock

Following the merger, we will not be a publicly held company. We do not anticipate that the merger will be completed prior to our regular annual meeting of stockholders in 2002, scheduled to be held in early May 2002. Under the rules of the Securities and Exchange Commission, we must have received proposals of stockholders intended to be presented at and included in the proxy statement for the annual meeting of stockholders in 2002 by November 28, 2001.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. These statements may be made directly in this proxy statement referring to us, and they may also be made a part of this proxy statement by reference to other documents filed by us with the Securities and Exchange Commission, which is known as "incorporation by reference."

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "objective," "strategy," "goal" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the acquisition of us by RWE, identify forward-looking statements. Our forward-looking statements are based on our management's current views about future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following risks related to our business and the merger, among others, could cause or contribute to actual results differing materially from those described in the forward-looking statements:

- success of pending applications for rate increases;
- inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions and divestitures;
- weather conditions that tend to extremes of temperature or duration;
- availability, terms and development of capital;
- business abilities and judgment of personnel;
- changes in, or the failure to comply with, governmental regulations, particularly those affecting the environment and water quality;
- competition;
- success of operating initiatives, advertising and promotional efforts;
- existence of adverse publicity or litigation;
- changes in business strategy or plans;
- quality of management;
- general economic, business and financial market conditions;
- the identity or involvement in the merger of RWE;
- the ability to satisfy the conditions to closing set forth in the definitive merger agreement; and
- other factors described in our filings with the SEC.

We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this proxy statement or the date of the documents incorporated by reference in this proxy statement. Except as required by law, we are under no obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forwardlooking statements, please see the quarterly reports on Form 10-Q and the annual reports on Form 10-K that American Water Works has filed with the Securities and Exchange Commission as described under "Where You Can Find More Information."

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's public reference rooms in Washington, D. C., New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's website at *http://www.sec.gov*. Copies of documents filed by us with the Securities and Exchange Commission are also available at the offices of The New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Statements contained in this proxy statement, or in any document incorporated in this proxy statement by reference regarding the contents of any contract or other document, are not necessarily complete and each such statement is qualified in its entirety by reference to such contract or other document filed as an exhibit with the Securities and Exchange Commission.

The Securities and Exchange Commission allows us to "incorporate by reference," into this proxy statement documents we file with the Securities and Exchange Commission. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the Securities and Exchange Commission will update and supersede that information. We incorporate by reference the documents listed below and any documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement and before the date of the special meeting:

American Water Works Filings	**Periods:**
Annual Report on Form 10-K	Year ended December 31, 2000
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2001 and June 30, 2001
Current Reports on Form 8-K	Filed August 7, 2001, August 30, 2001, September 17, 2001, October 30, 2001, November 7, 2001 and November 8, 2001
American Water Works' proxy statement for its 2001 annual meeting of stockholders	Filed March 25, 2001

You may request a copy of the documents incorporated by reference into this proxy statement by writing to, telephoning or emailing us.

Requests for documents should be directed to:

W. Timothy Pohl
American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, New Jersey 08043
Telephone: (856) 346-8223
E-mail address: wpohl@amwater.com

If you would like to request documents from us, please do so at least five business days before the date of the special meeting in order to receive timely delivery of such documents prior to the special meeting.

This proxy statement does not constitute the solicitation of a proxy in any jurisdiction to or from any person to whom or from whom it is unlawful to make such proxy solicitation in such jurisdiction. You should rely only on the information contained or incorporated by reference in this proxy statement to vote your shares at the special meeting. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated • , 2001. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to

stockholders does not create any implication to the contrary.

Annex

AGREEMENT AND PLAN OF MERGER

Among

RWE AKTIENGESELLSCHAFT,

THAMES WATER AQUA HOLDINGS GMBH,

APOLLO ACQUISITION COMPANY

And

AMERICAN WATER WORKS COMPANY, INC.

Dated as of September 16, 2001

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EXHIBIT A Certificate of Incorporation

AGREEMENT AND PLAN OF MERGER dated as of September 16, 2001, by and among RWE AKTIENGESELLSCHAFT, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), THAMES WATER AQUA HOLDINGS GMBH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), APOLLO ACQUISITION COMPANY, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and AMERICAN WATER WORKS COMPANY, INC., a Delaware corporation (the "Company").

. WHEREAS the Board of Directors of each of the Company and Sub has approved and declared advisable, the Supervisory Board of Guarantor has approved and deemed advisable, and the Managing Directors of Parent have approved and declared advisable, this Agreement and the merger of Sub with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of Common Stock, par value $1.25 per share, of the Company (the "Company Common Stock") not owned by Parent, Sub or the Company, other than the Appraisal Shares (as defined in Section 2.01(d)), will be converted into the right to receive $46.00 in cash;

WHEREAS simultaneously with the execution and delivery of this Agreement, Parent and certain stockholders of the Company (the "Specified Company Stockholders") are entering into a voting agreement (the "Company Voting Agreement") pursuant to which the Specified Company Stockholders are agreeing to take certain actions in furtherance of the Merger; and

WHEREAS Guarantor, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

The Merger

SECTION 1.01 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), Sub shall be merged with and into the Company at the Effective Time (as defined in Section 1.03). At the Effective Time, the separate corporate existence of Sub shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of Sub in accordance with the DGCL.

SECTION 1.02 *Closing.* Upon the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the "Closing") shall take place at 11:00 a.m., New York time, on the second business day after the satisfaction or waiver of the conditions set forth in Article VI (other than those that by their terms cannot be satisfied until the time of the Closing), at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York 10019, or at such other time, date or place agreed to in writing by Parent and the Company; *provided, however,* that if all the conditions set forth in Article VI shall not have been satisfied or waived on such second business day, then the Closing shall take place on the first business day on which all such conditions shall have been satisfied or waived. The date on which the Closing occurs is referred to in this Agreement as the "Closing Date."

SECTION 1.03 *Effective Time.* Upon the terms and subject to the conditions set forth in this Agreement, as soon as practicable on or after the Closing Date, a certificate of merger or other appropriate documents (in any such case, the "Certificate of Merger") shall be duly prepared and executed by the parties in accordance with the relevant provisions of the DGCL and filed with the

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Secretary of State of the State of Delaware. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such subsequent time or date as Parent and the Company shall agree and specify in the Certificate of Merger. The time at which the Merger becomes effective is referred to in this Agreement as the "Effective Time."

SECTION 1.04 *Effects of the Merger.* The Merger shall have the effects set forth in Section 259 of the DGCL.

SECTION 1.05 *Certificate of Incorporation and By-laws.* (a) The Restated Certificate of Incorporation of the Company shall be amended at the Effective Time to read in the form of Exhibit A and, as so amended, such Restated Certificate of Incorporation shall be the Restated Certificate of Incorporation of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

(b) The By-laws of Sub as in effect immediately prior to the Effective Time shall be the By-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

SECTION 1.06 *Directors.* (a) The directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

(b) Guarantor shall take all necessary action to cause J. James Barr to be elected as a director, as of the Effective Time, of Thames Water Plc ("Thames").

(c) Guarantor shall take all necessary action to cause Marilyn Ware to be elected as a member, as of the Effective Time, of the Thames Water International Advisory Council.

SECTION 1.07 *Officers.* The officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE II

Conversion of Securities

SECTION 2.01 *Conversion of Capital Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of capital stock of the Company or Sub: (a)*Capital Stock of Sub.* Each issued and outstanding share of common stock of Sub shall be converted into and become one fully paid and nonassessable share of common stock, per value $1.00 per share, of the Surviving Corporation.

(b) *Cancelation of Treasury Stock and Parent-Owned Stock.* Each share of Company Common Stock that is owned by the Company, as treasury stock, or by Parent or Sub immediately prior to the Effective Time shall automatically be canceled and shall cease to exist and no consideration shall be delivered or deliverable in exchange therefor.

(c) *Conversion of Company Common Stock.* Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled in accordance with Section 2.01(b) and the Appraisal Shares) shall be converted into the right to receive $46.00 in cash without interest (the "Merger Consideration"). At the Effective Time all such shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of a certificate that immediately prior to the Effective Time represented any such shares (a "Certificate") shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any dividends declared and unpaid thereon payable to holders of record thereof as of a record date preceding the Effective Time. Following the Effective Time, upon surrender of Certificates in

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accordance with Section 2.02, the Surviving Corporation shall pay to the holders of Certificates as of the Effective Time any unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C).

(d) *Appraisal Rights.* Notwithstanding anything in this Agreement to the contrary, shares (the "Appraisal Shares") of Company Common Stock issued and outstanding immediately prior to the Effective Time that are held by any holder who is entitled to demand and properly demands appraisal of such shares pursuant to, and who complies in all respects with, the provisions of Section 262 of the DGCL ("Section 262") shall not be converted into the right to receive the Merger Consideration as provided in Section 2.01(c), but instead such holder shall be entitled to payment of the fair value of such shares in accordance with the provisions of Section 262. At the Effective Time, all Appraisal Shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of Appraisal Shares shall cease to have any rights with respect thereto, except the right to receive the fair value of such shares in accordance with the provisions of Section 262. Notwithstanding the foregoing, if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under Section 262 or a court of competent jurisdiction shall determine that such holder is not entitled to the relief provided by Section 262, then the right of such holder to be paid the fair value of such holder's Appraisal Shares under Section 262 shall cease and each such Appraisal Share shall be deemed to have been converted at the Effective Time into, and shall have become, the right to receive the Merger Consideration as provided in Section 2.01(c). The Company shall serve prompt notice to Parent of any demands for appraisal of any shares of Company Common Stock, and Parent shall have the right to participate in and direct all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands, or agree to do any of the foregoing.

SECTION 2.02 *Exchange of Certificates.* (a) *Paying Agent.* Prior to the Effective Time, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the payment of the Merger Consideration upon surrender of Certificates (the "Paying Agent"). Parent shall take all steps necessary to enable, and shall cause, the Surviving Corporation to provide to the Paying Agent immediately following the Effective Time all the cash necessary to pay for the shares of Company Common Stock converted into the right to receive the Merger Consideration pursuant to Section 2.01(c), plus any amounts payable in respect of unpaid dividends declared in respect of the Company

Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C) (such cash being hereinafter referred to as the "Exchange Fund").

(b) *Exchange Procedure.* As soon as reasonably practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a Certificate (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates held by such person shall pass, only upon proper delivery of the Certificates to the Paying Agent and shall be in customary form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancelation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash payable in respect of the shares formerly represented by such Certificate pursuant to Section 2.01(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the stock transfer books of the Company, the proper amount of cash may be paid in exchange therefor to a person other than the person in whose name the Certificate so

surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer, and the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. No interest shall be paid or shall accrue on the cash payable upon surrender of any Certificate.

(c) *No Further Ownership Rights in Company Common Stock.* All cash paid upon the surrender of a Certificate in accordance with the terms of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock formerly represented by such Certificate. At the close of business on the day on which the Effective Time occurs the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock that were outstanding, immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Paying Agent for transfer or any other reason, they shall be canceled and exchanged as provided in this Article II.

(d) *Termination of Exchange Fund.* Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock for one year after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II, shall thereafter look only to the Surviving Corporation for payment of its claim for Merger Consideration.

(e) *No Liability.* None of Parent, the Surviving Corporation or the Paying Agent shall be liable to any person in respect of any cash delivered to a public official pursuant to any applicable abandoned property, escheat, or similar law. If any Certificates shall not have been surrendered prior to three years after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration would otherwise escheat to or became the property of any Governmental Entity (as defined in Section 3.01(d))), any such Merger Consideration in respect thereof shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(f) *Investment of Exchange Fund.* The Paying Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis; *provided, however,* that such investments shall be in (i) obligations of or guaranteed by the United States of America and backed by the full faith and credit of the United States of America (ii) commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively (iii) certificates of deposit maturing not more than 180 days after the date of purchase issued by a bank organized under the laws of the United States or any state thereof having a combined capital and surplus of at least $500,000,000 or (iv) a money market fund having assets of at least $3,000,000,000. Any interest and other income resulting from such investments shall be paid to Parent.

(g) *Lost Certificates.* If any Certificate shall have been lost, stolen, defaced or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, defaced or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent shall pay in respect of such lost, stolen, defaced or destroyed Certificate the Merger Consideration.

(h) *Withholding Rights.* Parent, the Surviving Corporation or the Paying Agent shall be entitled to deduct and withhold any applicable taxes from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock.

SECTION 2.03 *Redemption of Preferred Stock and Preference Stock.* On or prior to the date on which the Effective Time occurs, but in an

event prior to the Effective Time, the Company shall

redeem (the "Stock Redemption") (i) each issued and outstanding share of its Cumulative Preferred Stock, 5% Series, par value $25.00 per share (the "Company 5% Cumulative Preferred Stock"), for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 6 ("Section 6") of Division A of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 6) and (ii) each issued and outstanding share of its 5% Cumulative Preference Stock, par value $25.00 per share (the "Company 5% Cumulative Preference Stock" and, together with the Company 5% Cumulative Preferred Stock and the Company Common Stock, the "Company Capital Stock"), for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 5 ("Section 5") of Division B of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 5) (the redemption price for the Company 5% Cumulative Preferred Stock and the Company 5% Cumulative Preference Stock being referred to as the "Redemption Price").

ARTICLE III

Representations and Warranties

SECTION 3.01 *Representations and Warranties of the Company* The Company represents and warrants to Parent and Sub as follows: (a) *Organization, Standing and Power*. Each of the Company and each of its subsidiaries (as defined in Section 8.03) (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has all requisite corporate power and authority to carry on its business as now being conducted and (iii) except as set forth in Section 3.01(a) of the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), is duly qualified or licensed to do business and is in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to have a material adverse effect (as defined in Section 8.03). The Company has made available to Parent and its representatives true and complete copies of (A) the Restated Certificate of Incorporation and By-laws of the Company by reference to the Filed SEC Documents (as defined in Section 3.01(e)), in each case as amended to the date of this Agreement and (B) the minutes of all meetings of the stockholders, the Board of Directors and each committee of the Board of Directors of the Company since June 1, 1998.

(b) *Subsidiaries*. Section 3.01(b)(i) of the Company Disclosure Schedule contains a true and complete list of each Significant Subsidiary (as defined in Section 8.03) of the Company as of the date of this Agreement, including its jurisdiction of organization, the Company's interest therein and a brief description of the principal line or lines of business conducted by each such Significant Subsidiary. Except as set forth in Section 3.01(b)(i) of the Company Disclosure Schedule, all the issued and outstanding shares of capital stock of, or other equity or voting interests in, each subsidiary of the Company as of the date of this Agreement are owned by the Company, by another wholly owned subsidiary of the Company or by the Company and another wholly owned subsidiary of the Company, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens"), and are duly authorized, validly issued, fully paid and nonassessable. Except for the capital stock of, or other equity or voting interests in, its subsidiaries and as set forth in Section 3.01(b)(ii) of the Company Disclosure Schedule, as of the date of this Agreement, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interests in, any corporation, partnership, joint venture, association, limited liability company or other entity.

(c) *Capital Structure*. The authorized capital stock of the Company consists of (i) 300,000,000 shares of Company Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value $25.00 per share (the "Company Cumulative Preferred Stock"), of which 101,777 shares have been designated as Company 5% Cumulative Preferred Stock, (iii) 750,000 shares of Cumulative Preference Stock, par value $25.00 per share (the "Company Cumulative Preference Stock"), of which 365,158 shares have been designated as Company 5% Cumulative Preference Stock and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value $35.00 per share (the "Company Cumulative Preferential Stock"). As of the close of business on September 10, 2001, (1) 99,817,628 shares of Company Common Stock (excluding shares held by the Company as treasury shares) were issued and outstanding, (2) 63,693 shares of Company Common Stock were held by the Company as treasury shares, (3) 2,232,100 shares of Company Common Stock were reserved for issuance pursuant to the Company's 2000 Stock Award and Incentive Plan and the Company's LongTerm Performance-Based Incentive Plan (such plans, collectively, the "Company Stock Plans"), of which 905,751 shares were subject to outstanding Company Stock Options (as defined below), (4) the following number of shares of Company Common Stock were reserved (or registered with the SEC (as defined in Section 3.01(d)) for issuance

pursuant to each of the following Company Benefit Plans (as defined below): 876,125 shares under the Savings Plan For Employees of American Water Works Company, Inc. and its Designated Subsidiaries, 942,157 shares under the Employees' Stock Ownership Plan of American Water Works Company, Inc. and its Designated Subsidiaries, 50,000 shares under the Company's Deferred Compensation Plan, 10,000 shares under the Company's Director Deferred Compensation Plan and 1,755,049 shares under the Company's Dividend Reinvestment and Stock Purchase Plan (collectively, the "Other Company Stock Plans"), (5) 80,865,863 shares of Company Common Stock were reserved for issuance in connection with the rights (the "Company Rights") issued pursuant to the Rights Agreement dated as of February 18, 1999, as amended as of June 1, 2000 (as amended from time to time (the "Company Rights Agreement")), between the Company and BankBoston N.A. (presently known as Fleet National Bank), as Rights Agent, (6) 101,777 shares of Company 5% Cumulative Preferred Stock were issued and outstanding, (7) 365,158 shares of Company 5% Cumulative Preference Stock were issued and outstanding, (8) no shares of Company Cumulative Preferred Stock (other than the Company 5% Cumulative Preferred Stock) were issued and outstanding, (9) no shares of Company Cumulative Preference Stock (other than the Company 5% Cumulative Preference Stock) were issued and outstanding and (10) no shares of Company Cumulative Preferential Stock were issued and outstanding. There are no outstanding stock appreciation rights or other rights that are linked to the price of Company Common Stock granted under any Company Stock Plan whether or not granted in tandem with a related Company Stock Option (as defined below). No shares of Company Capital Stock are owned by any subsidiary of the Company. As of the close of business on September 10, 2001, there were outstanding options to purchase Company Common Stock granted under the Company Stock Plans (collectively, the "Company Stock Options") to purchase 905,751 shares of Company Common Stock with exercise prices on a per share basis lower than the Merger Consideration, and the weighted average exercise price of such Company Stock Options was equal to $23.65. Except as set forth above, as of the close of business on September 10, 2001, no shares of capital stock of, or other equity or voting interests in, the Company, or options, warrants or other rights to acquire any such stock or securities, were issued, reserved for issuance or outstanding. During the period from September 10, 2001 to the date of this Agreement, (x) there have been no issuances by the Company of shares of capital stock of, or other equity or voting interests in, the Company other than issuances of shares of Company Common Stock pursuant to the exercise of Company Stock Options outstanding on such date in accordance with their terms as in effect on the date of this Agreement and (y) there have been no issuances by the Company of options, warrants or other rights to acquire shares of capital stock or other equity or voting interests from the Company. All outstanding shares of capital stock of the Company are, and all shares that may be issued pursuant to the Company Stock Plans and Other Company Stock Plans will be, when issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. There

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are no bonds, debentures, notes or other indebtedness of the Company or any of its subsidiaries, and, except as set forth above, no securities or other instruments or obligations of the Company or any of its subsidiaries the value of which is in any way based upon or derived from any capital or voting stock of the Company, having in any such case at any time (whether actual or contingent) the right to vote (or convertible into or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company or any of its subsidiaries may vote. Except as set forth above and except as specifically permitted under Section 4.01(a) (including as set forth in Section 4.01(a)(ii) of the Company Disclosure Schedule), there are no Contracts (as defined in Section 3.01(d)) of any kind to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound obligating the Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of, or other equity or voting interests in, or securities convertible into, or exchangeable or exercisable for, shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries or obligating the Company or any of its subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right or Contract. Except for the Stock Redemption and the redemption terms of any preferred stock of any of the Company's subsidiaries and as permitted by Section 4.01(a)(i)(y), there are not any outstanding contractual obligations of the Company or any of its subsidiaries to (I) repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries as of the date of this Agreement or (II) vote or dispose of any shares of the capital stock of, or other equity or voting interests in, any of the Company's subsidiaries as of the date of this Agreement. The copy of the Company Rights Agreement on file with the SEC (as defined in Section 3.01(d)) as an exhibit to the Form 8-A Registration Statement of the Company filed with the SEC on March 1, 1999, as amended by the amendment thereto on file with the SEC as an exhibit to the Form 8A Registration Statement of the Company filed on June 1, 2000, is complete and correct.

(d) *Authority; Noncontravention.* (i) The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Stockholder Approval (as defined in Section 3.01(n)) and the Company Required Consents (as defined below), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby subject, in the case of the consummation of the Merger, to obtaining the Stockholder Approval (assuming consummation of the Stock Redemption). This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. The Board of Directors of the Company, at a meeting duly called and held at which all directors of the Company were present, duly and unanimously adopted resolutions (A) approving the Stock Redemption and the Company Voting Agreement and approving and declaring advisable this Agreement, the Merger and the other transactions contemplated hereby, (B) directing that this Agreement be submitted to a vote at a meeting of the Company's stockholders and (C) recommending that the Company's stockholders adopt this Agreement. In its determination of whether the Merger is in the best interests of the Company's stockholders, the Board of Directors of the Company has complied with the

provisions of Article Tenth of the Restated Certificate of Incorporation of the Company. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, o both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of the Company or any of its subsidiaries under, or give rise to any increased, additional, accelerated or

guaranteed rights or entitlements under, any provision of (x) the Restated Certificate of Incorporation or By-laws of the Company or the certificate of incorporation or by-laws (or similar organizational documents) of any of its subsidiaries, (y) subject to obtaining the third party consents set forth in Section 3.01(d) of the Company Disclosure Schedule, any loan or credit agreement, bond, debenture, note, mortgage, indenture, guarantee, lease or other contract, agreement, instrument, arrangement or understanding, whether oral or written (each, including all amendments thereto, a "Contract"), to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject or (z) subject to obtaining the Company Required Consents and the receipt of the Stockholder Approval and the other matters referred to in the following sentence, any (A) statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective properties or assets ("Applicable Law"), (B) judgment, order or decree applicable to the Company or any of its subsidiaries or their respective properties or assets ("Judgment"), or (C) Permit (as defined in Section 3.01(h)) other than, in the case of clauses (y) and (z), any suc conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that individually or in the aggregate would not reasonably be expected to have a material adverse effect. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any domestic or foreign (whether national, federal, state, provincial, local or otherwise) government or any court, administrative agency or commission or other governmental or regulatory authority or agency (including a state public utility commission, state public service commission or similar state regulatory body (each, a "PUC")) (each a "Governmental Entity"), is required by or with respect to the Company or any of its subsidiaries in connection with (I) the execution and delivery of this Agreement by the Company (II) the execution and delivery of the Company Voting Agreement or (III) the consummation of the transactions contemplated hereby and thereby or compliance with the provisions hereof and thereof, except for (1) the filing of a premerger notification and report form by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws or regulations of Canada or the Investment Canada Act, if applicable (2) the filing with the Securities and Exchange Commission (the "SEC") of a proxy statement relating to the adoption by the Company's stockholders of this Agreement (as amended or supplemented from time to time, the "Proxy Statement") and such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company or any of its subsidiaries is qualified to do business, (4) any filings required under the rules and regulations of the New York Stock Exchange ("NYSE"), (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any state departments of public health or departments of health or similar state regulatory bodies or of any federal or state regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (collectively, "Health Agencies"), (7) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any non-U.S. Governmental Entity due solely to the identity or involvement of Guarantor, Parent, Sub or any of their respective subsidiaries and (8) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not reasonably be expected to have a material adverse effect. Consents, approvals, orders, authorizations registrations, declarations, filings and notices (x) described (i) in the foregoing clause (5) that are required to be obtained or made by the Company or any of its subsidiaries and (ii) in the foregoing clause (6) the

failure of which to obtain or make would reasonably be expected to have a material adverse effect or (y) of any Governmental Entity that would not be required to be obtained or made by the Company or any of its subsidiaries but for an acquisition of a business or asset by the Company or any of its subsidiaries that is consummated after the date of this Agreement the failure of which to obtain or make would reasonably be expected to have a material adverse effect are hereinafter referred to as the "Company Required Consents."

(ii) The Company and the Board of Directors of the Company have taken all action necessary to (A) render the Company Rights inapplicable to the execution, delivery and performance of this Agreement and the Company Voting Agreement and to the consummation of the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) and (B) ensure that (x) neither Parent nor any of its affiliates or associates is or will become an "Acquiring Person" (as defined in the Company Rights

Agreement) by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason o the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b), (y) neither a "Distribution Date" nor a "Triggering Event" (each as defined in the Company Rights Agreement) shall occur by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b) and (z) except as set forth in Section 3.01(d) (ii) of the Company Disclosure Schedule, the Company Rights shall terminate or be redeemed prior to the Effective Time.

(e) *SEC Documents*. The Company has filed with the SEC all forms, reports, schedules, statements and other documents required to be filed with the SEC by the Company since January 1, 2000 (together with all information incorporated therein by reference, the "SEC Documents"). Except as set forth in Section 3.01(e) of the Company Disclosure Schedule, no subsidiary of the Company is required to file any form, report, schedule, statement or other document with the SEC. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents at the time they were filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any SEC Document filed and publicly available prior to the date of this Agreement (a "Filed SEC Document") has been revised or superseded by a later filed Filed SEC Document, none of the SEC Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including the related notes) included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal, recurring year-end audit adjustments).

(f) *Absence of Certain Changes or Events*. Since December 31, 2000, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course consistent with past practice and other than as set forth in the Filed SEC Documents, there has not been (i) prior to the date of this Agreement, any state of facts, change, development, effect, condition or occurrence that

individually or in the aggregate constitutes, has had, or would reasonably be expected to have, a material adverse effect, (ii) prior to the date of this Agreement, any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of the Company's or any of its subsidiaries' capital stock or other equity or voting interests, except for dividends by a wholly owned subsidiary of the Company to its shareholders and except for the regular quarterly cash dividend with respect to (w) preferred stock of the Company's subsidiaries, in accordance with the terms thereof, (x) the Company Common Stock in the amount of $0.235 per share, in accordance with the Company's past dividend policy, (y) the Company 5% Cumulative Preferred Stock in the amount of $0.3125 per share, in accordance with the terms thereof, and (z) the Company 5% Cumulative Preference Stock in the amount of $0.3125 per share, in accordance with the terms thereof, (iii) prior to the date of this Agreement, any purchase, redemption or other acquisition of any shares of capital stock of, or other equity or voting interests in, the Company or any options, warrants, calls or rights to acquire such shares or other interests, (iv) prior to the date of this Agreement, any split, combination or reclassification of any of the Company's capital stock or other equity or voting interests o any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of, or other equity or voting interests in, the Company, (v) prior to the date of this Agreement, any material unfunded liability incurred as a result of any entry by the Company or any of its subsidiaries into, or any amendment of, any Company Benefit Plan (as defined in Section 3.01(k)), (vi) prior to the date of this Agreement, any change in financial or tax accounting methods, principles or practices by the Company or any of its subsidiaries, except insofar as may have been required by a change in GAAP or Applicable Law, (vii) except as set forth in Section 3.01(f) (vii) of the Company Disclosure Schedule, prior to the date of this Agreement, any material election with respect to taxes by the Company or any of its subsidiaries or any settlement or compromise of any material tax liability or refund or (viii) prior to the date of this Agreement, any revaluation by the Company or any of its subsidiaries of any of the material assets of the Company or any of its subsidiaries.

(g) *Litigation*. Except as set forth in the Filed SEC Documents and except as set forth in Section 3.01(g) of the Company Disclosure Schedule, there is no suit, claim, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective assets that individually or in the aggregate would reasonably be expected to have a material adverse effect, nor is there any Judgment of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of the Company, investigation, notice of violation, order of forfeiture or complaint by any Governmental Entity against, the Company or any of its subsidiaries that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(h) *Compliance with Laws*. Except as set forth in Section 3.01(h) of the Company Disclosure Schedule, and except with respect to Environmental Laws (as defined in Section 3.01(j)), the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and taxes

which are the subject of Sections 3.01(j), 3.01(k) and 3.01(l), respectively, or as set forth in the Filed SEC Documents, the Company and its subsidiaries are in compliance with all Applicable Laws and Judgments of any Governmental Entity applicable to their businesses or operations, except for instances of noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries has received, since January 1, 2001, a written notice or other written communication alleging a possible violation by the Company or any of its subsidiaries of any Applicable Law or Judgment of any Governmental Entity applicable to its businesses or operations, except for written notices or other written communications alleging possible violations that individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries have in effect all material permits, licenses, variances, exemptions, authorizations, franchises, orders and approvals of all Governmental Entities (collectively, "Permits"), necessary or advisable for them to own, lease or operate their properties and assets and to

carry on their businesses as now conducted, except for those which the failure to obtain individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries is in violation of, default (with or without notice or lapse of time or both) under, or event giving to any other person any right of termination, amendment or cancelation of, with or without notice or lapse of time or both, any Permit of the Company or any of its subsidiaries, except for any such violations, defaults or events that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(i) [Intentionally omitted].

(j) *Environmental Matters*. Except as disclosed in the SEC Documents and as set forth in Section 3.01(j) of the Company Disclosure Schedule, and except for such matters that individually or in the aggregate would not reasonably be expected to have a material adverse effect: (i) each of the Company and its subsidiaries possesses all Environmental Permits (as defined below) necessary to conduct its businesses and operations; (ii) each of the Company and its subsidiaries is in compliance with all applicable Environmental Laws and all applicable Environmental Permits, and none of the Company or its subsidiaries has received any written communication from any Governmental Entity o other person that alleges that the Company or any of its subsidiaries has violated or is liable under any Environmental Law or Environmental Permit; (iii) there are no Environmental Claims (as defined below) pending or, to the knowledge of the Company, threatened in writing (A) against the Company or any of its subsidiaries or (B) against any person whose liability for any such Environmental Claim the Company o any of its subsidiaries has retained or assumed, either contractually or by operation of law; and (iv) to the knowledge of the Company, there have been no Releases (as defined below) of any Hazardous Materials (as defined below) that would reasonably be expected to form the basis of any Environmental Claim or any liability under any Environmental Law or Environmental Permit.

For the purposes of this Agreement: (A) "Environmental Claims" means any and all administrative, regulatory or judicial actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any Governmental Entity or other person alleging liability arising out of, based on or related to (x) the presence, Release or threatened Release of, or exposure to, any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its subsidiaries, or (y) any other circumstances forming the basis of any violation or alleged violation of any Environmental Law or Environmenta Permit; (B) "Environmental Laws" means all laws, rules, regulations, orders, decrees, common law, judgments or binding agreements issued, promulgated or entered into by or with any Governmental Entity relating to pollution or protection of the environment (including ambient air, surface water, groundwater, soils or subsurface strata) or to health and safety as affected by the exposure to Hazardous Materials, including laws and regulations relating to the presence of, exposure to, Release of or threatened Release of Hazardous Materials or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, recycling, transport, handling of, or the arrangement for such activities with respect to, Hazardous Materials; (C) "Environmental Permits" means all permits, licenses, certificates, registrations, waivers, exemptions and other authorizations required under applicable Environmental Laws; (D) "Hazardous Materials" means all hazardous, toxic, explosive or radioactive substances, wastes or other pollutants, including (x) petroleum, petroleum distillates and all other hydrocarbons, asbestos or asbestos-containing material, and (y) all other substances or wastes of any nature prohibited, limited or regulated as harmful to or polluting of or in order to protect the environment; and (E) "Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

(k) *ERISA Compliance*. (i) Section 3.01(k)(i) of the Company Disclosure Schedule contains a true and complete list of any benefit, employment, personal services, collective bargaining, compensation,

change in control, severance, time-off or perquisite agreement, plan, policy or other similar arrangement, (A) covering one or more current or former employees or directors of, or current or former independent contractors with respect to, the Company or any of its subsidiaries (each, a

"Participant"), and maintained by the Company and/or one or more of its subsidiaries or (B) with respect to which the Company and/or any of its subsidiaries has or would reasonably be expected to have any liability (collectively, "Company Benefit Plans"). The Company has provided or made available to Parent true and complete copies of (1) each Company Benefit Plan (or, in the case of any unwritten Company Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 required to be filed with the United States Internal Revenue Service (the "IRS") with respect to each Company Benefit Plan (if any such report was required), (3) the most recent summary plan description for each Company Benefit Plan for which such summary plan description is required and (4) each trust agreement and group annuity contract relating to any Company Benefit Plan; *provided* that any of the foregoing not provided to Parent as of the date of this Agreement shall be delivered to Parent promptly but in no event later than 30 days following the date of this Agreement. Each Company Benefit Plan has been administered in accordance with its terms, except where the failure so to be administered individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries and all the Company Benefit Plans are in compliance with all applicable provisions of ERISA and the Code, except for instances of possible noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Except as set forth in Section 3.01(k)(i) of the Company Disclosure Schedule, all Company Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received favorable determination letters from the IRS to the effect that such Company Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked nor, to the knowledge of the Company, has revocation been threatened, and nothing has occurred since the date of such letter that would reasonably be expected to adversely affect its qualification. There is not pending or, to the knowledge of the Company, threatened any litigation relating to the Company Benefit Plans that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(ii) Neither the Company nor any of its subsidiaries, nor any Company Benefit Plan which is subject to ERISA, has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility that could subject the Company, any of its subsidiaries or any officer of the Company or any of its subsidiaries to the tax or penalty on prohibited transactions imposed by such Section 4975 or to any liability under Section 502(i) or 502(1) of ERISA, except for any such tax, penalty or liability that individually or in the aggregate would not reasonably be expected to have a material adverse effect. All contributions and premiums required to be made under the terms of any Company Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Filed SEC Documents, except as, individually or in the aggregate, would reasonably be expected to have a material adverse effect.

(iii) Except as, individually or in the aggregate, would not reasonably be expected to have a material adverse effect, the deduction of any amount payable pursuant to the terms of the Company Benefit Plans would not reasonably be expected to be subject to disallowance under Section 162(m) (before giving effect to Section 162(m)(4)(F)) of the Code for taxable years of the Company ending prior to the date hereof.

(iv) Section 3.01(k)(iv) of the Company Disclosure Schedule contains a list of all Company Benefit Plans which, as a consequence of the consummation of the Merger, are reasonably expected to (x) entitle any Participant to severance pay and/or (y) accelerate the time of payment or vesting or trigger any payment or funding (whether through a grantor trust or otherwise) of

compensation or benefits under, increase the amount payable or trigger any other material obligation.

(v) The Company has provided to Parent a true and complete copy of the Report (as hereinafter defined) given to the compensation committee of the board of directors of the Company containing the estimates of any payments and/or benefits that would reasonably be expected to be received (whether in cash or property or the vesting of property) as a result of the Merger or any other transaction contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) by any Participant who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) (each, a "Primary Company Executive") under any Company Benefit Plan (including any additional payment from the Company or any of its subsidiaries or any other person in the event that the excise tax under Section 4999 of the Code is imposed on such individual) that would reasonably be expected to be paid to the Primary Company Executives as a result of the Merger and the other transactions contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) under all Company Benefit Plans and (y) the "base amount" (as defined in Section 280G(b)(3) of the Code) for each Primary Company Executive, all as calculated and set forth in the report (dated August 1, 2001) prepared by the compensation consultant retained by the Company (the "Report"). To the knowledge of the Company, the information provided to the compensation consultant that prepared the Report is accurate in all material respects.

(l) *Taxes.* (i) Except as would not, individually or in the aggregate with respect to clause (i), (ii), (iii) or (iv), reasonably be expected to have a material adverse effect: (i) Each of the Company and each of its subsidiaries has filed (or caused to be filed) all tax returns required to be file by it and all such returns are true, complete and correct, or requests for extensions to file such tax returns have been timely filed, granted and have not expired. Each of the Company and each of its subsidiaries has paid (or caused to be paid) all taxes shown as due on such tax returns, and the most recent financial statements contained in the Filed SEC Documents reflect an adequate reserve (in addition to any reserve for

deferred taxes established to reflect timing differences between book and tax income) of tax for all taxes payable by each of the Company and each of its subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements.

(ii) Except as set forth in Section 3.01(l)(ii) of the Company Disclosure Schedule, no tax return of the Company or any of its subsidiaries is under audit or examination by any taxing authority, and no written notice of such an audit or examination has been received by the Company or any of its subsidiaries. There is no deficiency, refund litigation, written proposed adjustment or matter in controversy with respect to any taxes due and owing by the Company or any of its subsidiaries. Each deficiency resulting from any completed audit or examination relating to taxes by any taxing authority has been timely paid, except for such deficiencies being contested in good faith and for which adequate reserves are reflected on the books of the Company. The United States Federal income tax returns of the Company and each of its subsidiaries consolidated in such tax returns have been either examined by and settled with the IRS or closed by virtue of the applicable statute of limitations and no requests for waivers of the time to assess any such taxes are pending.

(iii) No liens for taxes (other than for current taxes not yet due and payable or for taxes being contested in good faith and for which adequate reserves are reflected on the books of the Company) exist with respect to any assets or properties of the Company or any of its subsidiaries. Neither the Company nor any of its subsidiaries is bound by any agreement with respect to the allocation, indemnification or sharing of taxes.

(iv) Neither the Company nor any of its subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" i a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the two years prior to the date of this Agreement or (y) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(v) As used in this Agreement, (A) "taxes" shall include (1) all forms of taxation, whenever created or imposed, and whether domestic or foreign, and whether imposed by a national, federal, state, provincial, local or other Governmental Entity, including all interest, penalties and additions imposed with respect to such amounts, (2) liability for the payment of any amounts of the type described in clause (1) as a result of being a member of an affiliated, consolidated, combined or unitary group and (3) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amount described in clause (1) or (2) and (B) "tax returns" shall mean al domestic or foreign (whether national, federal, state, provincial, local or otherwise) returns, declarations, statements, reports, schedules, forms and information returns relating to taxes and any amended tax return.

(m) *State Takeover Statutes*. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), the approval by the Board of Directors of the Company of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) constitutes approval of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) for purposes of Section 203 of the DGCL and such approval represents the only action necessary to ensure that the restrictions contained in Section 203(a) of the DGCL do not and will not apply to the performance of this Agreement, to the consummation of the Merger in accordance with the provisions of this Agreement or any acquisition of Company Common Stock contemplated by Section 4.03(b) or to the Company Voting Agreement. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), no other state takeover or similar statute or regulation (excluding, for the avoidance of doubt, any Applicable Law which requires the Company Required Consents or the Parent Required Consents to be obtained) is applicable to this Agreement, the Company Voting Agreement or the Merger or any acquisition of Company Common Stock contemplated by Section 4.03 (b).

(n) *Voting Requirements*. The affirmative vote at the Stockholders Meeting (as defined in Section 5.01(b)) or any adjournment or postponement thereof of the holders of a majority of the votes represented by all the outstanding shares of Company Common Stock and Company 5% Cumulative Preferred Stock, voting together as a single class, with each share of Company Common Stock entitled to one vote and each share of Company 5% Cumulative Preferred Stock entitled to 1/10th of a vote, in favor of adopting this Agreement (the "Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve or adopt this Agreement or the Merger. The affirmative vote of the holders of the Company Capital Stock is not necessary to approve any other action required to be taken by this Agreement or the Company Voting Agreement (other than the consummation of the Merger).

(o) *Regulation as a Utility*. Except as set forth in Section 3.01(o) of the Company Disclosure Schedule, the Company is not subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC. Section 3.01(o) of the Company Disclosure Schedule contains a true and complete list of each subsidiary of the Company that is subject to regulation as a public utility or public service company (or similar designation) by any PUC, including the name of each such jurisdiction in which such subsidiary is subject to such regulation. None of the Company or any of its subsidiaries is a "public utility company" or a "holding company" within the meaning of Section 2(a)(5) or 2(a)(7), respectively, of the Public Utility Holding Company

Act of 1935 (the "Holding Company Act") or a "subsidiary company" or an "affiliate" (within the meaning of Section 2(a)(8) or 2(a)(11), respectively, of the Holding Company Act) of any holding company which is required to register as a holding company under the Holding Company Act. All filings required to be made by the Company or any of its subsidiaries since January 1, 2000, under any Applicable Laws or Judgments relating to the regulation of public utilities or public service companies (or similarly designated companies), have been filed with the appropriate PUC, Health Agency or other appropriate Governmental Entity, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of all Applicable Laws or Judgments, except for such filings or such failures to comply that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(p) *Title to Properties.* (i) Each of the Company and each of its subsidiaries owns or has valid and enforceable right to use under existing franchises, water rights, easements or licenses, or valid and enforceable leasehold interests in, all of its properties, rights and assets necessary for the conduct of its respective business and operations as currently conducted, except where the failure to have such title, rights or interests individually or in the aggregate would not reasonably be expected to have a material adverse effect. All such properties, rights and assets, other than properties, rights and assets in which the Company or any of its subsidiaries has a leasehold interest, are free and clear of all Liens, except for Liens relating to secured indebtedness or that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(q) *Brokers.* No broker, investment banker, financial advisor or other person, other than Goldman, Sachs & Co., the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or any of its subsidiaries.

(r) *Opinion of Financial Advisor.* The Company has received the written opinion of Goldman, Sachs & Co. to the effect that, as of the date o this Agreement, the Merger Consideration is fair to the Company's stockholders from a financial point of view.

(s) *Contracts.* All material Contracts to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject that are required to be filed as an exhibit to any Filed SEC Document have been filed as an exhibit to such Filed SEC Document (such filed Contracts, the "Filed Contracts"). All the Filed Contracts are valid and in full force and effect, except to the extent they have previously expired or terminated in accordance with their terms or they expire or terminate in compliance with the provisions of Section 4.01(a)(x)(C) and except for any invalidity or failure to be in full force and effect which would not reasonably be expected to have a material adverse effect. None of the Company or any of its subsidiaries is in violation of or default (with or without notice or lapse of time or both) under, or has waived or failed to enforce any rights or benefits under, any Filed Contract, except for violations, defaults, waivers or failures to enforce rights or benefits that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(t) *Information Supplied.* None of the information included or incorporated by reference in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation or warranty is made by the Company with respect to statements made in the Proxy Statement based on information supplied by Guarantor, Parent or Sub specifically for inclusion or incorporation by reference therein.

The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.02 *Representations and Warranties of Guarantor, Parent and Sub.* Guarantor, Parent and Sub jointly and severally represent and warrant to the Company as follows:

(a) *Organization.* Each of Guarantor and Parent is a company duly organized and validly existing under the laws of the Federal Republic of Germany. Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Guarantor, Parent and Sub (i) has all requisite corporate power and authority to carry on its business as now being conducted and (ii) is duly qualified or licensed to do business and is, if applicable, in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so

qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. Guarantor owns 100% of the outstanding capital stock of Parent and, indirectly through Parent, 100% of the outstanding capital stock of Sub.

(b) *Authority; Noncontravention.* Guarantor, Parent and Sub have the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Parent Required Consents (as defined below), to consummate the transactions contemplated hereby and Parent has the requisite corporate power and authority to execute and deliver the Company Voting Agreement and to consummate the transactions contemplated thereby. The execution and delivery of this Agreement by Guarantor, Parent and Sub, the execution and delivery of the Company Voting Agreement by Parent and the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby have been duly authorized by all necessary company or corporate action, as applicable, on the part of Guarantor, Parent and Sub and no other corporate proceedings on the part of Guarantor, Parent or Sub are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Guarantor, Parent and Sub and the Company Voting Agreement has been duly executed and delivered by Parent and each of this Agreement and the Company Voting Agreement constitutes the valid and binding obligation of Guarantor, Parent and Sub, as applicable, enforceable against Guarantor, Parent and Sub, as applicable, in accordance with their terms. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions of this Agreement and the Company Voting Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in termination, cancelation or acceleration of any obligation to or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Guarantor, Parent or Sub under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the Certificate of Incorporation or By-laws of Sub or equivalent organizational documents of Guarantor or Parent, (ii) any Contract applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets or (iii) subject to obtaining the Parent Required Consents and other matters referred to in the following sentence, any (A) Applicable Law or (B) Judgment, in each case applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. No consent, approval, order, or authorization of, registration, declaration, or filing with, or notice to any Governmental Entity is required by, or with respect to, Guarantor, Parent, or Sub, or their respective subsidiaries, in connection with the execution and delivery of this Agreement and the Company Voting Agreement, or the consummation by

Guarantor, Parent and Sub of the transactions contemplated hereby and thereby, or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for (1) the filing of a premerger notification and report form under the HSR Act and the receipt, termination, or expiration, as applicable of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws and regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with, or furnishing to, the SEC of such reports under the Exchange Act as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, (4) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under the Applicable Laws and Judgments of any Health Agency, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any Governmental Entity due solely to any acquisition of any business or person by the Company or any of its subsidiaries following the date of this Agreement and (7) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of whic to be obtained or made individually, or in the aggregate, would not impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices described (i) in the foregoing clause (4) that are required to be obtained or made by Guarantor, Parent or Sub or any of their respective subsidiaries and (ii) in the foregoing clause (5) the failure of which to obtain or make would impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement, are hereinafter referred to as the "Parent Required Consents." No consent, approval, order, authorization, registration, declaration, filing or notice, the failure of which to obtain or make would prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement with any non-U.S. Governmental Entity, is required to be made or obtained by Guarantor, Parent or Sub or any of their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or th consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for such consents, approvals, orders, authorizations, registrations, declarations, filings or notices (x) required as a result of a change in Applicable Law after the date of this Agreement or (y) required to be obtained from or made to any Governmental Entity due solely to any acquisition of a business or person by the Company or any of its subsidiaries following the date of this Agreement. To the knowledge of Guarantor and Parent, as of the date of this Agreement, there exists no state of facts, condition, event or circumstance which would materially adversely affect Parent's ability to obtain the Parent Required Consents in a reasonably timely manner.

(c) *Interim Operations of Sub.* Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has engaged in no business other than in connection with the transactions contemplated by this Agreement.

(d) *Regulation as a Utility.* Except as set forth in Section 3.02(d) of the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the"Parent Disclosure Schedule") or as permitted in accordance with Section 4.03(a)(a), neither Guarantor, Parent, Sub nor any of their respective subsidiaries (i) is a "public utility company" or a "holding company" or a

"subsidiary company" of any holding company which is required to register as a holding company under the Holding Company Act, in each case as defined in the Holding Company Act, or (ii) is otherwise subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC; provided, however, the foregoing representation shall not be deemed to be breached as a result of (x) after the date hereof, any of Guarantor, Parent or Sub or any of their respective subsidiaries entering into any operation and maintenance or concession contract that would not be prohibited under Section 4.03(a)(b) or (y) changes in Applicable Law after the date of this Agreement.

(e) *Capital Resources.* On or prior to the Closing Date, Parent will have sufficient cash to pay the Merger Consideration and any other amounts payable under Section 2.02.

(f) *Brokers.* No broker, investment banker, financial advisor or other person, other than Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, the fees and expenses of which will be paid by or on behalf of Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Guarantor, Parent, Sub or any of their subsidiaries.

(g) *Information Supplied.* None of the information supplied or to be supplied by Guarantor, Parent or Sub specifically for inclusion in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) *Ownership of Company Stock.* As of the date of this Agreement, neither Guarantor, Parent nor Sub nor any of their respective subsidiaries "beneficially owns" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock.

ARTICLE IV

Covenants Relating to Conduct of Business

SECTION 4.01 *Conduct of Business.* (a) *Conduct of Business by the Company.* During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement, the Company shall, and shall cause each of its subsidiaries to, carry on their respective businesses in the ordinary course consistent with past practice and use their commercially reasonable efforts to comply with all Applicable Laws and, to the extent consistent therewith, use their commercially reasonable efforts to preserve their material assets and technology, preserve their relationships with PUCs, Health Agencies, customers, suppliers and others having business dealings with them and maintain their material franchises, rights and Permits necessary to the conduct of their business. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not unreasonably be withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01 (b)) or as specifically contemplated by this Agreement or as set forth in Section 4.01(a) of the Company Disclosure Schedule, the Company shall not, and shall not permit any of its subsidiaries to:

(i) (x) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock or other equity or voting interests except for:

(A)

dividends by a direct or indirect wholly owned subsidiary of the Company to its shareholders;

(B)

regular quarterly cash dividends with respect to the Company Common Stock, not in excess of an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in each case with usual declaration, record and payment dates and in accordance with the Company's past dividend policy;

(C)

if the Effective Time occurs other than on a record date for quarterly cash dividends with respect to the Company Common Stock, a "stub period" dividend equal to an amount not to exceed 25% of the amount of the cash dividend per share permitted to be paid pursuant to the immediately preceding clause (B) during such fiscal year in which the Effective Time occurs multiplied by a fraction, the numerator of which is the number of days between the immediately preceding record date and the Effective Time and the denominator of which is the number of days between such record date and the next regularly scheduled record date;

(D)

regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preferred Stock in accordance with the terms thereof as in effect on the date of this Agreement;

(E)

regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preference Stock in accordance with the terms thereof as in effect on the date of this Agreement; or

(F)

(x) cash dividends with respect to any outstanding shares of preferred stock of any of the Company's subsidiaries or (y) cash dividends with respect to any outstanding shares of non-preferred capital stock of any of the Company's non-wholly owned subsidiaries; provided, however, that in the case of subsidiaries owned as of the date of this Agreement, such dividends shall be paid only in the ordinary course of business consistent with such subsidiary's past practice; or

(y) purchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or its subsidiaries or any options, warrants, calls or rights to acquire any such shares or other interests, except (A) for the Stock Redemption, (B) purchases, redemptions or other acquisitions as required by the respective terms of any preferred stock of the Company or as required or permitted by the respective terms of any preferred stock of any of the Company's subsidiaries, (C) for the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors plans and the dividend reinvestment provisions of the Company's Dividend Reinvestment and Stock Purchase Plan, (D) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of a subsidiary of the Company not held by the Company or its subsidiaries or (E) the purchases of shares of capital stock of a wholly owned subsidiary of the Company by the Company or a wholly owned subsidiary of the Company; or

(z) split, combine or reclassify any of its capital stock or other equity or voting interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity or voting interests;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other equity or voting interests or any securities convertible into, or exchangeable for, or any options,

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warrants, calls or rights to acquire, any such shares, interests or securities or any stock appreciation rights or other rights that are linked to the price of Company Common Stock other than:

(A)

the issuance of shares of Company Common Stock (and associated Company Rights) upon the exercise of Company Stock Options and settlement of all other rights to purchase or receive Company Common Stock (collectively, the "Company Stock Issuance Rights") in accordance with the terms of such Company Stock Options and Company Stock Issuance Rights as in effect on the date of this Agreement;

(B)

the delivery or sale of shares of Company Common Stock held as treasury stock of the Company as of the date hereof or

thereafter purchased on the open market by the Company or one of its subsidiaries as permitted by, and for the purposes set forth in, Section 4.01(a)(i)(y)(C);

(C) the issuance of shares of capital stock to the Company or a wholly owned subsidiary of the Company by a subsidiary of the Company;

(D) the issuance of shares of Company Common Stock pursuant to the Company Rights Agreement pursuant to the terms thereof as in effect on the date hereof;

(E) to the extent permitted by Section 5.09(i), the issuance of shares of Company Common Stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan; or

(F) issuances of shares of Company Common Stock which are necessary, in the reasonable judgment of the Company, in order to maintain the credit ratings of the Company or its subsidiaries;*provided* that any such issuance of shares shall be permitted only if prior to such issuance the Company shall have consulted with Parent, and the Company and Parent shall have been unable to agree on a mutually acceptable alternative basis to maintain the credit rating of the Company o its subsidiary, as the case may be;

(iii) amend its certificate of incorporation or by-laws (or similar organizational documents) except as may be required by Applicable Law or by the rules and regulations of the New York Stock Exchange; or

(iv) (A) directly or indirectly acquire or agree to acquire, whether by merging or consolidating with, or by purchasing assets of, or by any other manner, any assets constituting a business or any corporation, partnership, joint venture, association, limited liability company or other entity or division thereof, other than:

(x) the acquisition of any business which is regulated by a PUC or owned or operated by a municipality or local Governmental Entity; *provided,* that all such acquisitions permitted by this clause (x) shall not involve aggregate payments (including debt assumption) by the Company and its subsidiaries of more than $300,000,000; or

(y) the acquisition of any business in or related to (1) the water services or wastewater services industry or (2) any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a PUC or owned or operated by a municipality or local Governmental Entity; *provided* that all such acquisitions permitted by this clause (y) shall not involve aggregate payments (including debt assumption) by the Company or any of its subsidiaries of more than $100,000,000;

provided that, if the Company or any of its subsidiaries requests the consent of Parent for any acquisition not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition and, if Parent informs the Company that Guarantor or one of its

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subsidiaries is participating or intends to participate in the bidding for such acquisition or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this Section 4.01(a)(iv) with respect to such acquisition (*provided further* that, for the purposes of this Section 4.01(a)(iv), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for an acquisition which (i) is not prohibited by Section 4.03 and (ii) has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this Section 4.01(a)(iv) with respect to any such acquisition); or

(B) any other assets that are material (unless such assets are acquired in the ordinary course of business), other than assets constituting a business the acquisition of which does not require consent or approval under Section 4.01(a)(iv)(A);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the

Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any acquisition which requires approval of the Company's Board of Directors; or

(v) directly or indirectly sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any real property, or any other properties or assets or any interest therein that are material, individually or in the aggregate, other than:

(A)

sales of real property or other properties or assets, provided that the fair market value of all such properties and assets does not exceed $100,000,000;

(B)

the sale of any property or asset that the Company or one of its subsidiaries is legally required, or under bona fide threat of condemnation or similar proceedings, to sell to any Governmental Entity so long as the Company sells such property or asset to such Governmental Entity in a manner consistent with past practice;

(C)

the sale of shares of capital stock or other securities which are held as passive minority investments so long as such sale is made in an arm's-length transaction; or

(D)

the grant of easements, rights of way and Liens in the ordinary course of business consistent with past practice, or in connection with secured indebtedness of the Company or any of its subsidiaries permitted by Section 4.01(a)(vi) and consistent with past practice;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any sale, lease, license, sale/leaseback, mortgage, encumbrance or other disposition which requires approval of the Company's Board of Directors; or

(vi) (x) incur any indebtedness or guarantee any indebtedness of another person or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company or any of its subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing (excluding for purpose of clarification, advances received as contemplated by Section 4.01(a)(vii)(B)), except for:

(A)

the incurrence of short-term indebtedness in the ordinary course of business consistent with past practice;

(B)

the incurrence of long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of this Agreement (excluding, without duplication, long-term indebtedness otherwise permitted under this Section 4.01(a)(vi)(x), but including long-term indebtedness incurred to fund capital expenditures permitted by Section 4.01(a)(vii) to the extent the incurrence of such indebtedness is included in the Company's business plan described below), does not exceed 110% of the aggregate amount of all long-term indebtedness contemplated to be outstanding as of the end of such fiscal year by the Company's business plan for the five-year period ending on December 31, 2005, a true and complete copy of which has been provided to Parent prior to the date of this Agreement;

(C)

(1) the incurrence of indebtedness or guarantees of indebtedness to finance acquisitions and the incurrence or assumption of indebtedness of the entities acquired in such acquisitions, in either case in connection with acquisitions permitted by Section 4.01(a)(iv), or (2) the incurrence of indebtedness or guarantees of indebtedness to fund capital expenditures permitted by Section 4.01(a)(vii);

(D)

the incurrence of any guarantees, bid bonds, performance bonds, surety bonds, payment bonds, letters of credit and "kee

well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between the Company and its subsidiaries or in support of the indebtedness or other obligations of the Company the Company's subsidiaries or among the Company's subsidiaries; or

(E) the incurrence of indebtedness in an amount equal to (1) the cost of Company Common Stock purchased for issuance pursuant to Section 4.01(a)(ii)(B), plus (2) the amount of cash proceeds that would otherwise be expected to be received by the Company from the sale of Company Common Stock under the Company's Dividend Reinvestment and Stock Purchase Plan after the date, and for so long as, such plan is indefinitely suspended pursuant to Section 5.09(i); or

(y) make any material loans, advances or capital contributions to, or investments in, any other person, other than the Company or any direct or indirect subsidiary of the Company other than (A) investments made in joint ventures formed for purposes permitted pursuant to Section 4.01(a)(iv), (B) loans, advances, capital contributions and investments made in connection with actions permitted pursuant to Sections 4.01(a)(iv), (v), (vi)(x), (vii) or (x) or (C) in the ordinary course of business;

it being understood and agreed that the Company and its subsidiaries shall consult with Parent (i) on the Company's and its subsidiaries' credit ratings and (ii) prior to incurring any material long-term indebtedness (other than issuances of tax-free long-term indebtedness) of the Company or any of its subsidiaries; or

(vii) incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in the Company's five-year capital plan, a true and complete copy of which has been provided to Parent prior to the date of this Agreement, other than:

(A) capital expenditures required by changes in or newly promulgated Applicable Laws or Judgments or applicable standard or policies of any Governmental Entity after the date of this Agreement;

(B) capital expenditures funded by customer advances or contributions in aid of construction;

(C) capital expenditures incremental to the Company's five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates;

(D) capital expenditures related to the operation of any business acquired through an acquisition permitted by Section 4.01(a)(iv);

(E) capital expenditures to the extent covered by insurance or as reasonably required in the Company's judgment following a catastrophic event; or

(F) capital expenditures in connection with performance by the Company or one of its subsidiaries under any Contract to the extent the Company's or such subsidiary's obligations in connection with any such capital expenditure are non-recourse to the Company or such subsidiary and funded by the United States government;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any capital expenditure which requires approval of the Company's Board of Directors; or

(viii) except as required by Applicable Law or any Judgment (x) pay, discharge, settle or satisfy any material claims (including claims of stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice,

(B) as required by their terms as in effect on the date of this Agreement or on the date of acquisition of the person subject thereto or (C) incurred since the date of this Agreement in the ordinary course of business consistent with past practice, (y) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (z) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respec to which its consent is required under, any material confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(ix) except (i) as required to comply with Applicable Law or any Judgment, any Collective Bargaining Agreement or any provision of any Company Benefit Plan or other Contract as in effect on the date of this Agreement, (ii) in the ordinary course of the Company or its subsidiarie conducting their respective businesses consistent with past practice, (iii) as would, in the discretion of the Company, be commercially reasonable in order to retain Company Employees (as defined in Section 5.09(a)) or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by the Company and/or its subsidiaries or (v) as would not, individually or in the aggregate, materially increase the Company's and its subsidiaries' annual expense for compensation and benefits provided or to be provided to the Company Employees:

(A)

take any action to fund or in any other way secure the payment of compensation or benefits under any Company Benefit Plan or other Contract;

(B)

take any action to accelerate the vesting or payment of any compensation or benefit under any Company Benefit Plan or other Contract;

(C)

grant any compensation, benefits, severance or termination pay or increases therein to any Participant; or

(D)

establish, adopt, enter into, amend or terminate any Company Benefit Plan, except as required to implement grants or increases permitted under Section 4.01(a)(ix)(C); or

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(x) (A) enter into any material Contract other than:

(1)

any Contract related to the Company's PUC-regulated business entered into in the ordinary course of business consistent with past practice;

(2)

any Contract related to the water services or wastewater services industry;*provided* that the average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of such Contract, together with the total average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of all such other Contracts entered into pursuant to this clause (2) during the twelve month period beginning on the date of this Agreement or during any subsequent twelvemonth period shall not exceed $60 million per year (excluding any consumer price index or other similar adjustments and without regard to any extension thereof);*provided, further* that (A) the average annual amounts of any payments to be made to the Company during the first three years of such Contract in respect of any capital expenditures permitted by Section 4.01(a)(vii)(F) of this Agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" Contract, payments in respect of the "design-build" portion of such Contract to the extent that those payments are (x) guaranteed by a nonaffiliate of the Company which the Company reasonably determines is sufficiently creditworthy or (y) passed through to third parties who perform the "design-build" portion of such Contract) during the first three years of such Contract shall not count against such $60 million per year limit; or

(3)

any Contract providing for any transaction otherwise permitted by this Section 4.01(a);

provided that if the Company or any of its subsidiaries requests the consent of Parent to enter into any Contract not otherwise permitted by this

clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such Contract and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such Contract or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this clause (A) with respect to such Contract (*provided further* that, for the purposes of this clause (A), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for a Contract which has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this clause (A) with respect to any such Contract);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any material Contract which requires the approval of the Company's Board of Directors;

(B) renew any material Contract unless such renewal (i) shall not modify the terms of such Contract, taken as a whole, in any material adverse respect or (ii) is on terms that are reasonably agreed to by the Company in carrying on its business in the ordinary course; or

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(C) modify, amend, waive or terminate (x) any material Contract other than in the ordinary course of business or (y) the Filed Contracts, in either case without consulting with Parent in good faith in advance; or

(xi) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(b) *Administration of Consents.* Any request for a consent of Parent under Section 4.01(a), and any correspondence between the parties with respect to those consents (including the granting or refusal to grant any such consent) and any consultation required under Section 4.01(a) shall be made solely by and between the person identified in Section 4.01(b) of the Company Disclosure Schedule, on behalf of the Company and its subsidiaries, and the person identified in Section 4.01(b) of the Parent Disclosure Schedule, on behalf of Guarantor, Parent and their respective subsidiaries.

(c) *Control of the Company's Business.* It is understood and agreed that Guarantor, Parent, Sub and their affiliates do not have the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

(d) *Certain Tax Matters.* Except as set forth in Section 4.01(d) of the Company Disclosure Schedule, during the period from the date of this Agreement to the Effective Time, the Company shall, and shall cause each of its subsidiaries to, (i) not make any material tax election without Parent's consent and (ii) to the extent permitted by the applicable agreement, cause all existing tax sharing agreements to be terminated as of the Closing Date.

(e) *Utility Filings.* The Company shall, and shall cause each of its subsidiaries to, timely file in the ordinary course of business consistent with past practice all rate applications and all other material filings required to be made with PUCs. Except for filings in the ordinary course of business consistent with past practice that individually or in the aggregate would not reasonably be expected to have a material adverse effect, the Company shall, and shall cause each of its subsidiaries to, consult with Parent reasonably in advance of making any filing to implement any changes in any of its or any of its subsidiaries' rates or surcharges for water service, standards of service or accounting.

SECTION 4.02 *No Solicitation.* (a) From and after the date hereof, the Company agrees (i) that it and its subsidiaries shall not, nor shall it or its subsidiaries authorize or knowingly permit any director, officer or employee of the Company or any of its subsidiaries or any investment banker, attorney, accountant or other advisor or representative of the Company or any of its subsidiaries (collectively, the "Representatives") to directly or indirectly, solicit, initiate or encourage, or take any other action knowingly to facilitate, any Takeover Proposal (as defined below) or engage in any discussions or negotiations regarding, or provide any nonpublic information or data to make or implement, any Takeover Proposal, in each case other than a Takeover Proposal made by Parent; (ii) that it shall immediately cease and cause to be terminated any existing discussions or negotiations with any third persons conducted heretofore with a view to formulating a Takeover Proposal; and (iii) that it shall immediately notify Parent of the receipt of any Takeover Proposal and that it shall keep Parent informed of the status of such Takeover Proposal; *provided, however,* that, at any time prior to obtaining the Stockholder Approval, the Company may, in response to a bona fide Takeover Proposal that the Board of Directors of the Company determines in good faith could reasonably be expected to lead to a Superior Proposal (as defined below) and which Takeover Proposal did not result from a breach of this Section 4.02, (x) furnish information with respec to the Company and its subsidiaries to the person making such Takeover Proposal (and its representatives) pursuant to a customary confidentiality agreement (except that such confidentiality agreement shall not prohibit such person from making an unsolicited Takeover Proposal), provided that all such information is provided on a prior or substantially concurrent basis to Parent, and (y) participate in discussions

or negotiations with the person making such Takeover Proposal (and its representatives) regarding such Takeover Proposal.

The term "Takeover Proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to, any direct or indirect acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (A) assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of the Company an its subsidiaries, taken as a whole, or (B) 20% or more of the outstanding shares of Company Capital Stock or capital stock of, or other equity or voting interests in, any of the Company's subsidiaries directly or indirectly holding the assets or businesses referred to in clause (A) above.

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw (or modify in a manner adverse to Parent or Sub) or propose publicly to withdraw (or modify in a manner adverse to Parent or Sub) the recommendation or declaration of advisability by such Board of Directors of the Company or any such committee of this Agreement or the Merger, or recommend, or propose publicly to recommend, the approval or adoption of any Takeover Proposal (other than a Takeover Proposal made by Parent) (each such action being referred to herein as an "Adverse Recommendation Change"), unless the Board of Directors of the Company determines in good faith, based on such matters as it deems appropriate, after consulting with legal counsel, that such action is necessary for the Board of Directors of the Company to comply with its fiduciary duties to the Company's stockholders under applicable law and the Company's certificate of incorporation, (ii) adopt or approve, or publicly propose to adopt or approve, any Takeover Proposal (other than a Takeover Proposal made by Parent), or withdraw its approval of the Merger, (iii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement (each, an "Acquisition Agreement") constituting or related to any Takeover Proposal (other than a confidentiality agreement referred to in Section 4.02(a)) or (iv) agree or resolve to take any of the actions prohibited by clauses (i), (ii) or (iii) of this sentence. Notwithstanding anything in this Agreement to the contrary, at any time prior to obtaining the Stockholder Approval, the Board of Directors of the Company may, in response to a Superior Proposal (as defined below) that did not result from a breach of Section 4.02(a), cause the Company to terminate this Agreement pursuant to Section 7.01(f) and concurrently or promptly thereafter enter into an Acquisition Agreement*provided, however,* that the Company shall not terminate this Agreement pursuant to Section 7.01(f), unless the Company shall have complied with all the provisions of this Section 4.02 (except for any failure to comply that would not adversely affect the rights of Parent under this Section 4.02), including the notification provisions in this Section 4.02, and with all applicable requirements of Section 5.06(b) (including the payment of the Termination Fee (as defined in Section 5.06(b)) prior to or concurrently with such termination); and*provided further, however,* that the Company shall not exercise its right to terminate this Agreement pursuant to Section 7.01(f) until the fifth business day following Parent's receipt of written notice (a "Notice of Superior Proposal") from the Company advising Parent that the Board of Directors of the Company has received a Superior Proposal specifying the terms and conditions of the Superior Proposal, identifying the person making such Superior Proposal and stating that the Board of Directors of the Company intends to exercise its right to terminate this Agreement pursuant to Section 7.01(f) (it being understood and agreed that, prior to any such termination taking effect, any amendment to the price or any other material term of a Superior Proposal shall require a new Notice of Superior Proposal and a new five business day period).

The term "Superior Proposal" means any bona fide written offer made by a third party in respect of (i) a transaction that if consummated would result in such third party acquiring, directly or indirectly, 50% or more of the voting power of the Company Common Stock or 50% or more of the assets of the Company and its subsidiaries, taken as a whole, or (ii) a direct merger between such third party and the Company, in either case providing for consideration to the Company's stockholders consisting of cash and/or securities (it being understood that securities retained by the Company's

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stockholders be included for purposes of this determination), which transaction the Board of Directors of the Company determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) (taking into account the person making the offer the consideration offered, the likelihood of consummation (including the legal, financial and regulatory aspects of the offer) as well as any other factors deemed relevant by the Board of Directors of the Company) to be more favorable from a financial point of view to the stockholders of the Company, taking into account any changes to the terms of this Agreement offered by Parent in response to such Superior Proposal or otherwise.

(c) Nothing contained in this Section 4.02 or elsewhere in this Agreement shall prohibit the Company from (i) taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to the Company's stockholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure to make such disclosure would be inconsistent with applicable law;*provided, however,* that in no event shall the Company or its Board of Directors or any committee thereof take, agree or resolve to take any action prohibited by Section 4.02(b)(i) (subject to the last clause of Section 4.02(b)(i)) or Section 4.02(b)(ii).

SECTION 4.03 *Certain Conduct of the Parties.* (a) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by the Company (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if Parent has not received written notice otherwise from the Company within eight business days after requesting such consent of the Company), Guarantor and Parent shall not, and shall cause their subsidiaries not to, directly or indirectly (a) acquire or agree to acquire or, except as required by Applicable Law, the rules and regulations of the Frankfurt Stock Exchange or, with respect to any disclosure by any subsidiary, the rules and regulations of the principal stock exchange on which such subsidiary's securities are listed, publicly disclose any acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (i) any United States water services or wastewater services business that is regulated by a PUC or is owned or operated by a municipality or local Governmental Entity (other than any such acquisition which does not involve aggregate payments (including debt assumption) by Guarantor, Parent or their subsidiaries in excess of $20 million) or (ii) (A) any business that would, upon the consummation of such acquisition, (x) cause Guarantor, Parent or any of their respective subsidiaries to be required to register as a holding company under the Holding Company Act or (y) subject Guarantor, Parent, Sub or any of their respective subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or (B) any business (x) that would, upon the consummation of such acquisition, subject Guarantor, Parent or any of their respective subsidiaries to regulation under the Holding Company Act in a manner other than that described in clause (A) above or (y) that is a United States gas or electric utility, if in the case of clause (B), such business is subject to regulation as a gas or electric utility (or similar designation) by a PUC in any state which the parties agree is material or (b) take any other action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger. In the event that Guarantor or Parent shall seek the consent of the Company to make an acquisition of the type described in Section 4.03(a)(a)(ii)(B), the sole basis on which the Company may withhold its consent shall be a determination by the Company that such acquisition would reasonably be expected to (x) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding

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Company Act), 6.01(d) or 6.02(d) or (y) otherwise materially impede or delay the consummation of the Merger.

(b) Prior to the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire "beneficial ownership" (as such term is defined for purposes of Section 13(d) of the Exchange Act) of any shares of Company Commo Stock. After the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire shares of Company Common Stock if such acquisition would result in Guarantor, Parent and their subsidiaries acquiring "beneficial ownership" (as so defined) of more than 4.9% of the shares of Company Common Stock outstanding at the time of such acquisition.

(c) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shal not be unreasonably withheld or delayed and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within eight business days after requesting such consent of Parent), the Company shall not, and shall cause its subsidiaries not to, directly or indirectly, take any action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger.

ARTICLE V

Additional Agreements

SECTION 5.01 *Preparation of the Proxy Statement; Stockholders Meeting.* (a) As promptly as reasonably practicable following the date of this Agreement, the Company shall prepare and file with the SEC the Proxy Statement in preliminary form and the Company shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto and to cause the Proxy Statemen to be mailed to the Company's stockholders as promptly as practicable following the date of this Agreement. The Company shall promptly notify Parent upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Proxy Statement and shall provide Parent with copies of all correspondence between the Company and its representatives, on the one hand, and the SEC and its staff, on the other hand. Parent shall promptly provide any information or responses to comments, or othe assistance, reasonably requested in connection with the foregoing. Prior to filing or mailing the Proxy Statement (or any amendment or supplement thereto) or responding to any comments of the SEC with respect thereto, the Company (i) shall provide Parent an opportunity to review and comment on such document or response and (ii) shall give reasonable consideration to all comments proposed by Parent.

(b) The Company shall, as promptly as reasonably practicable following the date of this Agreement, establish a record date for, duly call, give notice of, convene and hold a meeting of its stockholders (the "Stockholders Meeting") for the purpose of obtaining the Stockholder

Approval, regardless of whether an Adverse Recommendation Change has occurred at any time after the date of this Agreement. The Company shall, through its Board of Directors, recommend to its stockholders that they adopt this Agreement, and shall include such recommendation in the Proxy Statement, in each case subject to its rights under Section 4.02(b)(i). Without limiting the generality of the foregoing, the Company agrees that its obligations pursuant to this Section 5.01(b) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company or any other person of any Takeover Proposal.

SECTION 5.02 *Access to Information; Confidentiality; Transition Planning.* (a) The Company shall, and shall cause each of its subsidiarie to, afford to Parent, and to Parent's officers, employees,

investment bankers, attorneys, accountants and other advisors and representatives, reasonable access at reasonable times and during normal business hours during the period prior to the Effective Time or the termination of this Agreement, in a manner which does not unreasonably interfere with the business and operations of the Company, to all their respective properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records and, during such period, the Company shall, and shall cause each of its subsidiaries to, make available to Parent on a prompt basis (a) access to each material report, schedule, form, statement and other document filed or received by it during such period to or from any PUC or pursuant to the requirements of applicable securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request; provided that such right of access shall not include sampling, testing or Phase II environmental site assessment activities. For the purposes of this Section 5.02, all communications, including requests for information or access, pursuant to this Section 5.02, shall only be made by and between a representative of each of Parent, on the one hand, and of the Company, on the other hand, which representative (a) shall initially be Jim McGivern for Parent and Ellen Wolf for the Company and (b) may be replaced with a substitute representative by either party from time to time upon reasonable written notice to the other party. The Company will promptly advise Parent of any material developments in its business. Notwithstanding the foregoing, (i) the Company and its subsidiaries shall not be required to provide any information to the extent that the Company or any of its subsidiaries is legally obligated to keep such information confidential or otherwise not to provide such information or to the extent that such access would constitute a waiver of the attorney-client privilege and (ii) the Company shall provide access to those properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records described above of its subsidiaries that are not wholly-owned subsidiaries only to the extent that the Company has or is reasonably able to obtain such access. Parent will hold, and will direct its officers, employees, investment bankers, attorneys, accountants and other advisors and representatives to hold, any and all information received from the Company, directly or indirectly, in confidence in accordance with the Confidentiality Agreement dated June 26, 2001, among Guarantor, Thames and the Company (as it may be amended from time to time, the "Confidentiality Agreement").

(b) The Company and Parent shall, and shall cause each of their respective subsidiaries to, reasonably cooperate to obtain an orderly transition and integration process in connection with the Merger in order to minimize the disruption to, and preserve the value of, the business of the Surviving Corporation and its subsidiaries during the period from and after the Effective Time. The Company and Parent agree that such cooperation shall include the development as soon as reasonably practicable following the date hereof of a mutually acceptable integration plan on a business-by-business and region-by-region basis with reasonable provisions for visitation by employees.

SECTION 5.03 *Reasonable Best Efforts; Notification.* Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper and advisable to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement, including using its reasonable best efforts to accomplish the following as promptly as reasonably practicable following the date of this Agreement: (a) the taking of all acts necessary to cause the conditions precedent set forth in Article VI to be satisfied, (b) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or to avoid an action or proceeding by, any Governmental Entity and (c) the obtaining of all necessary consents, approvals or waivers from

third parties. In connection with and without limiting the foregoing, the Company shall, if any state takeover statute or similar statute or regulation is or becomes applicable to this Agreement, the Company Voting Agreement, the Merger or any of the other transactions contemplated hereby or thereby, use its reasonable best efforts to allow the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement to be consummated as promptly as practicable on the terms contemplated by this Agreement and the Company Voting Agreement and otherwise to minimize the effect of such statute or regulation on this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The Company, Guarantor and Parent shall provide such

assistance, information and cooperation to each other as is reasonably requested in connection with the foregoing and, in connection therewith, shall notify the other person promptly following the receipt of any comments from any Governmental Entity and of any request by any Governmental Entity for amendments, supplements or additional information in respect of any registration, declaration or filing with such Governmental Entity and shall supply the other person with copies of all correspondence between such person or any of its representatives, on the one hand, and any Governmental Entity, on the other hand. In addition, the Company, Guarantor and Parent shall cooperate to promptly develop a mutually acceptable plan to obtain the Company Required Consents and the Parent Required Consents as expeditiously as reasonably practicable and without undue expense. To the extent that either party or any of its subsidiaries is required to make any registration, declaration or filing with any PUC in connection with obtaining the Company Required Consents or the Parent Required Consents, such party shall use its reasonable best efforts to (i) provide the other party an opportunity to review and comment on such registration, declaration or filing reasonably in advance of making any such registration, declaration or filing, (ii) give reasonable consideration to all comments proposed by the other party and (iii) if applicable, coordinate the submission of such registration, declaration or filing with the other party. Neither the Company nor any of its subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Company Required Consents without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed). None of Guarantor, Parent, Sub or any of their respective subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Parent Required Consents without the prior written consent of the Company (which consent shall not be unreasonably withheld or delayed).

SECTION 5.04 *Company Stock Options.* (a) As soon as practicable following the date of this Agreement, the Company shall ensure that th Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall adopt such resolutions or take such other actions (if any) as may be required to provide that:

(i) each Company Stock Option outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to (A) the excess, if any, of (1) the Merger Consideration over (2) the exercise price per share of Company Common Stock subject to such Company Stock Option, multiplied by (B) the number of shares of Company Common Stock for which such Company Stock Option shall not theretofore have been exercised;

(ii) each Company Stock Issuance Right outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to the product of (A) the Merger Consideration and (B) the number of shares of Company Common Stock subject to such Company Stock Issuance Right; and

(iii) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

(b) All amounts payable pursuant to Section 5.04(a) shall be subject to any required withholding of taxes or proof of eligibility of exemption therefrom, and shall be paid as soon as practicable following the Effective Time, without interest.

(c) The Company shall take all actions determined to be necessary to effectuate the provisions of this Section 5.04 as mutually agreed by Parent and the Company. Prior to the Effective Time, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall take or cause to be taken such actions as are required to cause (i) the Company Stock Plans to terminate as of the Effective Time and (ii) the provisions in any other Company Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest on or following the Effective Time in respect of any capital stock of the Company to be deleted as of the Effective Time.

SECTION 5.05 *Indemnification, Exculpation and Insurance.* (a) To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Guarantor and Parent shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer or director of the Company or any of its subsidiaries (each an "Indemnified Party" and, collectively, the "Indemnifie Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director or officer of the Company or any of its subsidiaries ("Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based in whole or in part on or arise in whole or in part out of or pertain to this Agreement or the transactions contemplated hereby. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), Guarantor and Parent shall pay or cause to be paid the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred; *provided, however,* that Guarantor and Parent shall not be liable for any settlement effected without its written prior consent (which consent shall not be unreasonably withheld or delayed). In the event any Indemnified Party is required to bring any action against Guarantor or Parent to enforce rights or to collect money due under this Agreement and such action results in a final, non-appealable judgment in favor of such Indemnified Party, Guarantor and Parent shall

reimburse such Indemnified Party for all of its reasonable expenses in bringing and pursuing such action. Each Indemnified Party shall be entitled to the advancement of expenses to the full extent contemplated in this Section 5.05(a) in connection with any such action*provided, however,* that any person to whom expenses are advanced provides an undertaking, if and to the extent required by the DGCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) For six years after the Effective Time, Guarantor and Parent shall maintain in effect (i) the Company's current directors' and officers' liability insurance covering each person currently covered by the Company's directors' and officers' liability insurance policy for acts or omissions occurring prior to the Effective Time on terms with respect to such coverage and amounts no less favorable in the aggregate to such directors and officers than those of such policy as in effect on the date of this Agreement;*provided* that Guarantor or Parent may substitute therefor policies of a reputable insurance company the terms of which, including coverage and amount, are no less favorable in the aggregate to such directors and officers than the insurance coverage otherwise required under this Section 5.05(b);*provided however,* that in no event shall Guarantor and Parent be required to pay aggregate annual premiums for insurance under this Section 5.05(b) in excess of 200% of the amount of the aggregate

premiums paid by the Company for the year from July 22, 2001 through July 22, 2002 for such purpose (which premiums for the year from July 22, 2001 through July 22, 2002 are hereby represented and warranted by the Company to be $327,500),*provided* that Guarantor and Parent shall nevertheless be obligated to provide a policy with the best coverage available as may be obtained for such 200% amount and (ii) in the Restated Certificate of Incorporation and By-Laws of the Surviving Corporation the provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers or directors contained in the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company.

(c) In the event that Guarantor or Parent or any of their successors or assigns (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all its properties and assets to any person, then, and in each such case, Guarantor and Parent shall cause proper provision to be made so that the successors and assigns of Guarantor or Parent, as the case may be, assume the obligations set forth in this Section 5.05.

(d) To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the directors and officers of the Company and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in, with respect to the Company, the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company, or, with respect to the Company's subsidiaries, their respective certificates of incorporation and by-laws (or similar organizational documents) in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time;*provided, however,* that in the event any claim or claims are asserted or made within such six-year period, all such rights to indemnification in respect of such claim or claims shall continue until the final disposition thereof.

(e) The provisions of this Section 5.05 are intended to be for the benefit of, and will be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

SECTION 5.06 *Fees and Expenses.* (a) Except as provided below, all fees and expenses incurred in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) In the event that (i) (A) a Takeover Proposal shall have been made to the Company or its stockholders or any person has publicly announced an intention (which has not been withdrawn) to make a Takeover Proposal, (B) thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 7.01(b)(i) (but only if the Stockholders Meeting has not been held by the date that is five business days prior to the date of such termination due to a breach of Section 5.01 by the Company) or 7.01(b)(iii) and (C) within 12 months after such termination, the Company or any of its subsidiaries enters into a definitive agreement to consummate, or consummates, any Takeover Proposal (solely for purposes of this Section 5.06(b)(i)(C), the term "Takeover Proposal" shall have the meaning set forth in the definition of Takeover Proposal contained in Section 4.02(a) except that all references to 20% shall be deemed references to 50%), (ii) this Agreement is terminated by the Company pursuant to Section 7.01(f) or (iii) this Agreement is terminated by Parent pursuant to Section 7.01(c), then the Company shall pay Parent a fee equal to $138 million (the "Termination Fee") by wire transfer of same day funds to an account in the United States designated by Parent (x) in the case of a termination by the Company pursuant to Section 7.01(f), concurrently with such termination, (y) in the case of a termination by Parent pursuant to Section 7.01(c), within two business days after such termination and (z) in the case of a payment as a result of any event referred to in Section 5.06(b)(i)(C), upon the first to occur of such events. The Company acknowledges that the agreements contained in this Section 5.06(b) are an integral part of the transactions contemplated by

this Agreement, and that, without these agreements, Parent would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amounts due pursuant to this Section 5.06(b), and, in order to obtain such payment, Parent commences a suit that results in a final, non-appealable judgment against the Company for the amounts set forth in this Section 5.06(b), the Company shall pay to Parent interest on the amounts set forth in this Section 5.06(b) from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit.

(c) If this Agreement is terminated (i) by the Company pursuant to Section 7.01(e) (other than on account of a breach of Section 3.02(d), Section 4.03 or Section 5.03) or (ii) by Parent pursuant to Section 7.01(d), then the non-terminating party shall promptly (but not later than five business days after receipt of notice of the amount due from the other party) pay to the terminating party an amount equal to all documented out-of-pocket expenses and fees incurred by such terminating party or its affiliates (including fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors) arising out of, in connection with or related to the Merger or the other transactions contemplated by this Agreement ("Out-of-Pocket Expenses") not to exceed $20 million in the aggregate; provided, however, that if this Agreement is terminated under the circumstances described in clauses (i) or (ii) above by a party as a result of a willful breach by the non terminating party, the terminating party may pursue any remedies available to it at law or in equity and such party's Out-of-Pocket Expenses shall not be limited to $20 million.

SECTION 5.07 *[Intentionally omitted].*

SECTION 5.08 *Collective Bargaining Agreements.* From and after the Effective Time, Parent shall cause the Surviving Corporation and its subsidiaries to honor and continue to be bound by the terms of all collective bargaining agreements to which the Company or any of its subsidiaries is a party (the "Collective Bargaining Agreements").

SECTION 5.09 *Benefits Matters.* (a) For purposes hereof, "Company Employees" shall mean those individuals who are employees of the Company and its subsidiaries (including those employees who are on vacation, leave of absence, disability or maternity leave) as of the Effective Time.

(b) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, give the Company Employees full credit, for all purposes, under any employee benefit plans or arrangements maintained by Parent's (or one of its subsidiaries') water business in the United States, the Surviving Corporation and their respective subsidiaries, and in which Company Employees may become eligible to participate for the Company Employees' service with the Company and its subsidiaries to the same extent recognized by the Company and its subsidiaries immediately prior to the Effective Time, except for purposes of benefit accrual under defined benefit pension plans in which the Company Employees do not participate immediately prior to the Effective Time, so long as credit for past service under any such pension plan is also not given to other employees employed in Parent's (or one of its subsidiaries') water businesses in the United States or to the extent giving such credit would result in a duplication of benefits (including in respect of benefit accrual under defined benefit pension plans) for the same period of service.

(c) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Company Employees and, to the extent applicable, any retired employee constituting a member of the Retiree Group (as defined below) (any such employee a "Retired Employee") under any welfare benefit plans in which such employees may be eligible to participate after the Effective Time to the extent waived under the applicable Company Benefit Plan immediately

prior to the Effective Time and (ii) provide each Company Employee (and each Retired Employee) with credit for any copayments and deductibles paid prior to the Effective Time in the calendar year in which the Effective Time occurs (or, if later, the year in which such Company Employee (and each Retired Employee) commences participation) in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans in which such Company Employee (and each Retired Employee) is eligible to participate after the Effective Time.

(d) Parent agrees to honor, and shall cause the Surviving Corporation to honor, the Company Benefit Plans disclosed in the Filed SEC Documents or Section 3.01(k)(i) of the Company Disclosure Schedule in accordance with their current terms. Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, for a period of 18 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, provide to the Company Employees compensation (including base pay and annual and long term incentive opportunities) and employee benefits (including health, welfare, pension, vacation, savings and severance) that are no less favorable in the aggregate than those provided to the Company Employees immediately prior to the Effective Time; provided, that for a period

of 12 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, maintain the Company Benefit Plans in accordance with their terms as in effect immediately prior to the Effective Time (other than equity or equity-based plans) without any adverse amendment thereto or termination thereof (except as required by Applicable Law and Judgments or any Collective Bargaining Agreement). Notwithstanding the foregoing, following the Effective Time, there shall be no obligation to provide Company Employees with awards of capital stock of any entity or awards of options or other rights of any kind to acquire capital stock of any entity); *provided*, however, that the value of any equity-based compensation provided to Company Employees immediately prior to the Effective Time shall be taken into account in determining whether compensation and benefits provided during the 18 months after the Effective Time are no less favorable in the aggregate than those provided to Company Employees immediately prior to the Effective Time.

(e) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, or shall cause the Surviving Corporation to, provide to the Retiree Group (as defined below), without adverse amendment, the postretirement medical and life insurance benefits as in effect immediately prior to the Closing Date (at the same levels, and at the same cost (if any), as in effect immediately prior to the Closing Date), provided to Company Employees who are not covered by a Collective Bargaining Agreement and their dependents as set forth in the retiree medical plan listed in Section 3.01(k)(i) of the Company Disclosure Schedule (the "Retiree Medical Plan"). The "Retiree Group" means each Company Employee who is not (or was not while employed) covered by a Collective Bargaining Agreement and who, as of the Closing Date, (i) is either retired under the terms of the Retiree Medical Plan as in effect on the date hereof or (ii) has satisfied all applicable eligibility requirements (under the terms of the Retiree Medical Plan as in effect on the date hereof) necessary to commence receiving benefits if his or her employment were terminated at the Effective Time.

(f) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, in the event and to the extent that Guarantor or one of its subsidiaries maintains a qualified employer stock ownership plan for the benefit of employees employed in Parent's or one of its subsidiaries' (or one of their respective successors') water business in the United States (a "Guarantor ESOP"), Guarantor shall allow all current non-union Company Employees to participate in such Guarantor ESOP as soon as practicable after the Effective Time.

(g) Between the date of this Agreement and the Closing Date, the Company shall provide Parent commercially reasonable access to the Company Employees for purposes of implementing this Agreement.

(h) The Company shall use its reasonable best efforts to cause the Board of Directors of the Company not to exercise any discretion it possesses solely in respect of the transactions contemplated by this Agreement, to expressly set the date when a "change in control" occurs for the purposes of any applicable individual agreement covering a Participant (other than to deem such "change in control" to occur no earlier tha the Effective Time).

(i) The Company shall take all action necessary (i) to provide that the component of the Company's Dividend Reinvestment and Stock Purchase Plan permitting independent monthly purchases of Company Common Stock (other than purchases of Company Common Stock funded solely by reinvestment of Company dividends) (the "DRSPP Stock Purchase Component") shall be indefinitely suspended as promptly as reasonably practicable following the date of this Agreement (but in no event later than immediately following the second stock purchase effected following the date of this Agreement under the DRSPP Stock Purchase Component) and (ii) to cause all amounts not yet applied as of the date of termination of the DRSPP Stock Purchase Component to purchase Company Common Stock under the DRSPP Stock Purchase Component to be returned as promptly as practicable following such suspension.

SECTION 5.10 *Public Announcements.* Subject to each party's disclosure obligations imposed by law or any applicable securities exchange, and except with respect to any Adverse Recommendation Change, Parent and Sub, on the one hand, and the Company, on the other hand, shall, to the extent reasonably practicable, consult and cooperate with each other before issuing, and give each other a reasonable opportunity to review and comment upon, any press release or other public statements (other than routine employee communications) with respect to this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.11 *Rights Agreement.* The Board of Directors of the Company shall take all action necessary in order to render the Company Rights inapplicable to the Merger, the Company Voting Agreement and the performance of this Agreement.

SECTION 5.12 *Stockholder Litigation.* The Company agrees that it shall not settle or offer to settle any litigation commenced prior to or after the date hereof against the Company or any of its directors by any stockholder of the Company relating to this Agreement, the Company Voting Agreement, the Merger, any other transaction contemplated hereby or thereby, without the prior written consent of Parent (not to be unreasonably withheld or delayed).

SECTION 5.13 *Director Resignations.* On the Closing Date, the Company shall cause to be delivered to Parent duly executed resignations,

effective as of the Effective Time, of each member of the Board of Directors of the Company and shall take such other action as is necessary to accomplish the foregoing.

ARTICLE VI

Conditions Precedent

SECTION 6.01 *Conditions to Each Party's Obligation to Effect the Merger.* The obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Stockholder Approval.* The Stockholder Approval shall have been obtained.

(b) *Antitrust.* Any waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired and any other required approval or waiting period under any other similar competition, merger control, antitrust or

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similar law or regulation or the Investment Canada Act, if applicable, the failure of which to obtain or comply with which would be reasonably expected to have a material adverse effect, shall have been obtained or terminated or shall have expired.

(c) *No Injunctions or Legal Restraints.* No temporary restraining order, preliminary or permanent injunction or other order o decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the consummation of the Merger shall be in effect (collectively, "Legal Restraints").

(d) *Required Consents.* The Company Required Consents and the Parent Required Consents shall have been obtained prior to the Effective Time and shall have become Final Orders. Any reference in this Agreement to the "obtaining" of any such Company Required Consents or Parent Required Consents shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law. A "Final Order" for purposes of this Agreement means action by the relevant regulatory authority (i) which has not been reversed, stayed, enjoined, set aside, annulled or suspended and (ii) with respect to which any waiting period prescribed by Applicable Law or Judgment before the Merger and the other transactions contemplated hereby may be consummated has expired, and as to which all conditions to be satisfied before the consummation of such transactions prescribed by Applicable Law or Judgment have been satisfied.

(e) *Stock Redemption.* The Stock Redemption shall have been consummated.

SECTION 6.02 *Conditions to Obligations of Guarantor, Parent and Sub.* The obligations of Guarantor, Parent and Sub to effect the Merge are further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of the Company contained herein shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of the Company shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) *Performance of Obligations of the Company.* The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect.

(c) *Material Adverse Effect.* No material adverse effect shall have occurred and there shall be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect.

(d) *Required Consents.* The Final Orders relating to the Company Required Consents and the Parent Required Consents,

together with any consents, approvals, orders, authorizations and declarations that shall have been obtained following the date of this Agreement and prior to the Effective Time in connection with any acquisition of any business or person by the Company or any of its subsidiaries, shall not individually or in the aggregate impose any terms or conditions, excluding any terms and conditions that may be imposed with

respect to the acquisitions contemplated by the agreements dated as of October 15, 1999 between the Company and certain of its subsidiaries on one hand, and Citizens Communications Company ("Citizens") and certain of its subsidiaries, on the other hand, to acquire certain water and wastewater assets of those Citizens subsidiaries, to the extent reflected or referred to in the Propose Decision of ALJ McVicar dated as of September 6, 2001 and excluding any terms and conditions that may be imposed to the extent attributable to any acquisition of any business or person by Guarantor or any of its subsidiaries with respect to which an acquisition agreement is entered into or that is publicly announced or consummated after the date of this Agreement, that would reasonably be expected to have a material adverse effect, or a material adverse effect on the combined business, assets, properties, condition (financial or otherwise) or results of operations of the Company and Thames Water Holdings, Inc. and thei respective subsidiaries taken as a whole.

SECTION 6.03 *Conditions to Obligation of the Company.* The obligation of the Company to effect the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Guarantor, Parent and Sub contained herein shall be true and correct, as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially delay the consummation of any of the transactions contemplated by this Agreement. Th Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of Guarantor, Parent and Sub shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) *Performance of Obligations of Parent and Sub.* Guarantor, Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect.

SECTION 6.04 *Frustration of Closing Conditions.* None of the Company, Guarantor, Parent or Sub may rely on the failure of any condition set forth in Section 6.01, 6.02 or 6.03, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 5.03.

ARTICLE VII

Termination, Amendment and Waiver

SECTION 7.01 *Termination.* This Agreement may be terminated, and the Merger contemplated hereby may be abandoned, at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained:

(a) by mutual written consent of Parent, Sub and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated by March 16, 2003;*provided, however,* (A) that the right to terminate this

Agreement pursuant to this Section 7.01(b)(i) shall not be available to any party whose breach of this Agreement has been the primary reason the Merger has not been consummated by such date, (B) that neither Parent nor the Company may terminate pursuant to this clause (b)(i) if on such date all conditions in Article VI shall have been satisfied or be capable of being satisfied other than the condition set forth in Section 6.01(e), and the Company shall have mailed a notice of redemption to effect the Stock Redemption, and (C) that if on such date a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied but all other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, then such date shall be extended to September 16, 2003; and *provided, further,* that if on such date (or such extended date pursuant to the immediately preceding proviso, as applicable), a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied solely because the period described in clause (ii) of the definition of Final Order set forth in Section 6.01(d) shall not have expired, but all of the other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, such date shall be extended to the date of expiration of such period (up to a maximum of 60 days for such extension);

(ii) if any Legal Restraint of the type referred to in Section 6.01(c) shall be in effect and shall have become final and nonappealable (provided that the party seeking to terminate this Agreement pursuant to this Section 7.01(b)(ii) shall have used its reasonable best efforts to resist, resolve or lift, as applicable, such Legal Restraint); or

(iii) if, upon a vote at a duly held meeting to obtain the Stockholder Approval, the Stockholder Approval shall not have been obtained;

(c) by Parent in the event an Adverse Recommendation Change has occurred;

(d) by Parent if the Company shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (A) would give rise to the failure of a condition set forth in Section 6.02(a) or 6.02(b), and (B) has not been cured by the Company within twenty business days after its receipt of written notice thereof from Parent;

(e) by the Company if Parent shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Section 6.03(a) or 6.03(b), and (ii) has not been cured by Paren within twenty business days after its receipt of written notice thereof from the Company; or

(f) by the Company in accordance with the terms and subject to the conditions of Section 4.02(b).

Notwithstanding the foregoing, in no event shall Parent terminate this Agreement unless prior to the date of such termination Parent shall have complied with Section 7.03 (including paying to the Company the Reverse Fee) if applicable.

SECTION 7.02 *Effect of Termination.* In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company, other than the provisions of the last sentence of Section 5.02(a), Section 5.06, this Section 7.02, Section 7.03 and Article VIII; *provided, however,* that no such termination shall relieve any party hereto from any liability or damages resulting from a wilful breach by a party of any of its representations, warranties or covenants set forth in this Agreement.

SECTION 7.03 *Certain Breaches.* If (a) this Agreement is terminated by either party pursuant to Section 7.01 (other than (w) the termination of this Agreement by either Parent or the Company pursuant to Section 7.01(a) or (b)(iii), (x) the termination of this Agreement by Parent pursuant to Section 7.01(c) or (y) the termination of this Agreement by the Company pursuant to Section 7.01(f)) at a time when any of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) have not been satisfied and (b) at the time of such termination either (i) Section 3.02(d)(i) is not true and correct such that Guarantor, Parent, Sub or any of their respective subsidiaries (A) would be required to register as a holding company under the Holding Company Act or (B) would be subject to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or Guarantor or Parent is in breach of Section 4.03(a)(a)(i) or 4.03(a)(a)(ii)(A) or (ii) Section 3.02(d)(i) (other than as set forth above) or 3.02(d)(ii) is not true and correct or Guarantor or Parent is in breach of Section 4.03(a)(a)(ii)(B), 4.03(a)(b)(i), 5.03(a) (to the extent relating to Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d)) or 5.03(b) (to the extent relating to the Company Required Consents and the Parent Required Consents) and, in the case of clause (ii), such failure to be true and correct or such breach is the primary cause of the failure of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.0 (d) or 6.02(d) to be satisfied, then Parent shall pay the Company an amount equal to $138 million (the "Reverse Fee") by wire transfer of same day funds in U.S. dollars to an account in the United States designated by the Company within two business days after (or, in the case of a termination by Parent, concurrently with) such termination. Guarantor and Parent acknowledge that the agreements contained in this Section 7.03 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company would not enter into this Agreement; accordingly, if Parent fails promptly to pay the amounts due pursuant to this Section 7.03, and, in order to obtain

such payment, the Company commences a suit that results in a final, nonappealable judgment against Guarantor or Parent for the amounts set forth in this Section 7.03, Parent and Guarantor shall pay to the Company interest on the amounts set forth in this Section 7.03 from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Ban in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit. The parties acknowledge and agree that, notwithstanding any other provision in this Agreement to the contrary, the Company's sole and exclusive remedy with respect to any and all claims based on or with respect to any failure of Section 3.02(d) to be true and correct or any breach of Section 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above), in circumstances where the Company is entitled to payment of the Reverse Fee (other than any claims resulting from a willful breach by Guarantor or Parent or any of their respective subsidiaries of Section 3.02(d), 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above)) shall be the payment of the Reverse Fee pursuant to this Section 7.03.

SECTION 7.04 *Amendment.* This Agreement may be amended by the parties hereto at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained; *provided, however,* that after the Stockholder Approval has been obtained, there shall be made no amendment that by law requires further approval by stockholders of the parties without the further approval of such stockholders. Thi Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

SECTION 7.05 *Extension; Waiver.* At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) waive compliance with any of the agreements or conditions contained herein *provided, however,* that after the Stockholder Approval has been obtained, there shall be made no waiver that by law requires further approval by stockholders of the parties without the further

approval of such stockholders. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure or delay by any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights nor shall any single or partial exercise by any party to this Agreement of any of its rights under this Agreement preclude any other or further exercise of such rights or any other rights under this Agreement.

ARTICLE VIII

General Provisions

SECTION 8.01 *Nonsurvival of Representations and Warranties.* None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

SECTION 8.02 *Notices.* All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally or one business day after being sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Guarantor, Parent or Sub, to:

Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB
United Kingdom

Attention: Bill Alexander
Janet Ravenscroft

with a copy to:

RWE Aktiengesellschaft
Opernplatz 1, 45128
Essen, Germany

Attention: General Counsel

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019

Attention: Peter S. Wilson, Esq.
Mark I. Greene, Esq.

if to the Company, to:

American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Attention: W. Timothy Pohl

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with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017

Attention: Caroline B. Gottschalk, Esq.
Peter S. Malloy, Esq.

SECTION 8.03 *Definitions.* For purposes of this Agreement:

(a) an "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person;

(b) "knowledge of the Company" means the actual knowledge of those individuals set forth in Section 8.03(b) of the Company Disclosure Schedule;

(c) "knowledge of Guarantor and Parent" means the actual knowledge of those individuals set forth in Section 8.03(c) of the Parent Disclosure Schedule;

(d) "material adverse effect" means any material adverse change or effect (i) on the business, assets, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, or (ii) which would reasonably be expected directly or indirectly, to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated by this Agreement, except in the case of either (i) or (ii) for any change or effect (w) set forth in Section 8.03(d) of the Company Disclosure Schedule, (x) relating to financial markets or the economy in general, (y) affecting the water services or wastewater services industries generally and not specifically relating to the Company or its subsidiaries, or (z) to the extent attributable to or resulting from the public announcement of the transactions contemplated by this Agreement or the identity of Guarantor or Parent or their subsidiaries as the acquiring person in the Merger including any loss of customers or employees or condemnation proceedings resulting therefrom;

(e) "person" means an individual, corporation, partnership, joint venture, association, trust, limited liability company, Governmental Entity, unincorporated organization or other entity;

(f) a "Significant Subsidiary" of any person means any subsidiary of such person that constitutes a significant subsidiary within the meaning of Rule 1-02 of Regulation S-X of the SEC;

(g) a "subsidiary" of any person means another person (i) of which 50% or more of the capital stock, voting securities, other voting ownership or voting partnership interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such voting interests, 50% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person or (ii) of which such first person is a general partner; and

(h) a "wholly owned subsidiary" of any person means a subsidiary of which 99% or more of the common equity securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such equity securities having such voting power, 99% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person.

SECTION 8.04 *Interpretation.* When a reference is made in this Agreement to a Section, Subsection or Schedule, such reference shall be to a Section or Subsection of, or a Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this

Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term "or" is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Any agreement or instrument defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement or instrument as from time to time amended, modified or supplemented. References to a person are also to its permitted successors and assigns.

SECTION 8.05 *Guarantee.* In connection with the Merger and the other transactions contemplated by this Agreement, Guarantor hereby irrevocably, absolutely and unconditionally guarantees the due, punctual and complete performance and payment (and not merely collection) in full of all obligations and liabilities of Parent, Sub and the Surviving Corporation under this Agreement, and of any other person to whom any of their obligations shall be assigned in accordance with Section 8.09, as and when due and payable or required to be performed pursuant to an provisions of this Agreement, subject to the terms and conditions thereof (the "Guaranteed Obligations") and agrees that the Company shall be entitled to enforce directly against Guarantor any of the Guaranteed Obligations. To the fullest extent permitted by Applicable Law, Guarantor waives presentment to, demand of payment from and protest to any other person of any of the Guaranteed Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. The obligations of Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations, or otherwise. Notwithstanding any of the foregoing, nothing herein shall be deemed to waive or limit Guarantor's ability to assert any claims, defenses or other rights that Parent or Sub may have under this Agreement.

SECTION 8.06 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 8.07 *Entire Agreement; No Third-Party Beneficiaries.* This Agreement, together with the Company Disclosure Schedules, the Parent Disclosure Schedules and the Exhibits (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, (other than the Confidentiality Agreement), among the parties with respect to the subject matter hereof and thereof and (b) except for the provisions of Section 5.05, are not intended to confer upon any person other than the parties hereto and thereto (and their respective successors and assigns) any rights or remedies.

SECTION 8.08 *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 8.09 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated, in whole or in part (except by operation of law), by any of the parties hereto without the prior written consent of the other parties hereto, and any attempt to make any such assignment without such consent shall be null and void. Notwithstanding the foregoing, Parent or Sub may assign, in its sole discretion, any of or all its respective rights, interests and obligations under this Agreement to Guarantor or to any direct or indirect wholly owned subsidiary of Guarantor with written notice to the Company and upon taking of any actions required by the DGCL with respect thereto (including amending this Agreement if necessary), provided that the

Company agrees to provide reasonable assistance to Parent with any such actions and agrees to execute any such amendments to this Agreement, but no such assignment shall relieve Parent or Sub of any of their respective obligations hereunder; *provided, however,* that Parent and such substitute subsidiary shall represent and warrant to the Company, on the day such substitution is to be effective, the representations and warranties set forth in Section 3.02; *provided, further,* that no action shall be taken that would require the Company to amend or supplement in any material respect the Proxy Statement at any time after the Proxy Statement has first been mailed to the Company's stockholders or materially delay or impede the consummation of the Merger. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8.10 *Enforcement.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in any Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State of Delaware or of any Delaware state court in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of Delaware or a Delaware state court. By the execution and delivery of this Agreement, each of Guarantor and Parent appoints CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, as its agent upon which process may be served in any such legal action or proceeding. Service of process upon such agent, together with notice of such service given to Guarantor or Parent in the manner specified in Section 8.02 shall be deemed in every respect effective service of process upon Guarantor or Parent in any legal action or proceeding.

SECTION 8.11 *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

SECTION 8.12 *Waiver of Jury Trial.* Each party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, Guarantor, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RWE AKTIENGESELLSCHAFT,

By: /s/ RICHARD KLEIN

Name: Richard Klein
Title: Member of the Executive Board

By: /s/ WILLIAM JOHN ALEXANDER

Name: William John Alexander
Title: Chief Executive

THAMES WATER AQUA HOLDINGS GMBH,

By: /s/ RICHARD KLEIN

Name: Richard Klein
Title: Member of the Executive Board

By: /s/ WILLIAM JOHN ALEXANDER

Name: William John Alexander

Title: Chief Executive

APOLLO ACQUISITION COMPANY,

By: /s/ JIM MCGIVERN

Name: Jim McGivern
Title: Managing Director International Business Development

AMERICAN WATER WORKS COMPANY, INC.,

By: /s/ J. JAMES BARR

Name: J. James Barr
Title: President and Chief Executive

ANNEX

PERSONAL AND CONFIDENTIAL

September 16, 2001

Board of Directors
American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Ladies and Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the holders of the outstanding shares of Common Stock, par value $1.25 per share (the "Shares"), of American Water Works Company, Inc. (the "Company") of the $46.00 per Share in cash to be received by such holders pursuant to the Agreement and Plan of Merger, dated as of September 16, 2001, by and among RWE Aktiengesellschaft ("Parent"), Thames Water Aqua Holdings GmbH ("Buyer"), a wholly-owned subsidiary of Parent, Apollo Acquisition Company, a wholly-owned subsidiary of Buyer, and the Company (the "Agreement").

Goldman, Sachs & Co., as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We are familiar with the Company having provided certain investment banking services to the Company from time to time, including having acted as its financial advisor in connection with its pending acquisition of Azurix North America Corp. and Azurix Industrials Corp. and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Agreement. We also have provided certain investment banking services to Parent from time to time, including having acted as financial advisor to Hochtief AG, a company in which Parent owns an approximately 62% equity interest, in connection with its acquisition of Turner Corporation in September 1999, having acted as financial advisor to Parent in connection with its acquisition of a minority interest in Lahmeyer AG in February 2000, having acted as financial advisor to Parent in connection with its acquisition of VEW AG in November 2000 and having acted as agent to Thames Water plc, a wholly-owned subsidiary of Parent, in connection with its public offering of JPY 2,000,000,000 aggregate principal amount of Floating Rate Notes due January 28, 2002 in July 2000. We also may provide investment banking services to Parent and its subsidiaries in the future. Dr. Paul Achleitner, a former Managing Director of Goldman, Sachs & Co., is a member of the supervisory board of Parent. Goldman, Sachs & Co. provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company or Parent for its own account and for the accounts of customers.

In connection with this opinion, we have reviewed, among other things, the Agreement; Annual Reports to Stockholders and Annual Reports on Form 10-K of the Company for the three years ended December 31, 2000; certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company; certain other communications from the Company to its stockholders; and certain internal financial analyses and forecasts for the Company prepared by its management. We also have held discussions with members of the senior management of the Company regarding their assessment of the past and current business operations, financial condition and future prospects of the Company. In

addition, we have reviewed the reported price and trading activity for the Shares, compared certain financial and stock market information for the Company with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent

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business combinations in the water utility industry specifically and in other industries generally and performed such other studies and analyses as we considered appropriate.

We have relied upon the accuracy and completeness of all of the financial, accounting and other information discussed with or reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities of the Company or any of its subsidiaries and we have not been furnished with any such evaluation or appraisal. We were not requested to solicit, and did not solicit, interest from other parties with respect to an acquisition of or other business combination with the Company. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the transaction contemplated by the Agreement and such opinion does not constitute a recommendation as to how any holder of Shares should vote with respect to such transaction.

Based upon and subject to the foregoing and based upon such other matters as we consider relevant, it is our opinion that as of the date hereof the $46.00 per Share in cash to be received by the holders of Shares pursuant to the Agreement is fair from a financial point of view to such holders.

Very truly yours,

Annex

DELAWARE GENERAL CORPORATION LAW

Section 262. Appraisal Rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to §251(g) of this title), § 252, § 254, § 257, §258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of§ 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a, b and c of this paragraph.

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(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under §253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsections (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, then, either a constituent corporation before the effective date of the merger or consolidation, or the surviving or resulting corporation within ten days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give

either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the valu of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the

Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation t the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation is a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in

connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on th stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

DIRECTIONS TO THE AMERICAN WATER WORKS COMPANY, INC. SPECIAL MEETING TO BE HELD AT THE MANSION ON MAIN STREET

From Philadelphia/Center City: 30 minutes. Take Ben Franklin Bridge to Route 70 East. Follow Route 70 East to Route 73 South. Follow 73 South to Evesham Road. Turn right on Evesham Road. Follow 1½ miles, turn left into Main Street Complex. Entrance is on left.

From Philadelphia International Airport: 40 minutes. Take Walt Whitman Bridge to 42 South to 295 North. Follow to Exit 32 (Haddonfield, Voorhees, Gibbsboro). Turn right on Route 561. Follow 2 miles to Evesham Road. Turn left onto Evesham Road (Mobil Station on left). Follow 2 miles, turn right into Main Street Complex. Entrance is on left.

From Northeast Philadelphia: 30 minutes. Take Tacony Palmyra Bridge to Route 73 South. Follow 73 South to Evesham Road. Turn right on Evesham Road. Follow 1½ miles, turn left into Main Street Complex. Entrance is on left.

From Northern New Jersey/New York area: 1 hour and 15 minutes. Take New Jersey Turnpike South to Exit 4. Follow to Route 73 South. Follow 73 South to Evesham Road. Turn right on Evesham Road. Follow 1½ miles, turn left into Main Street Complex. Entrance is on left.

From Delaware/Baltimore area: 60 minutes. Delaware Memorial Bridge to 295 North. Follow to Exit 32 (Haddonfield, Voorhees, Gibbsboro). Turn right on Route 561. Follow 2 miles to Evesham Road. Turn left onto Evesham Road (Mobil Station on left). Follow 2 miles, turn right into Main Street Complex. Entrance is on left.

From Atlantic City: 50 minutes. Take Atlantic City Expressway to Route 73 North Exit (Tacony Palmyra Bridge). Proceed on Route 73 North, around Berlin Circle, go 2 miles. Turn left on Kresson Road. Follow to second light, Evesham Road. Turn left on Evesham Road and left into Main Street Complex. Entrance is on left.

DETACH HERE

PROXY
AMERICAN WATER WORKS COMPANY, INC.
This Proxy is solicited by the Board of Directors of the Company for the Special Meeting of Stockholders on January • , 2002

The undersigned, hereby revoking any contrary proxy previously given, hereby appoints J. James Barr and Marilyn Ware, and each of them, attorneys and proxies, with full power of substitution and revocation, to vote all of the shares of the undersigned in American Water Works

Company, Inc. (the "Company") entitled to vote at the special meeting of stockholders of the Company on January • , 2002, and at any adjournment or postponement thereof, as indicated on the reverse side and in accordance with the judgment of said attorneys and proxies on any other business which may come before the meeting or any such adjournment or postponement. Except as otherwise indicated on the revers side, the undersigned authorizes the proxies appointed hereby to vote all shares of stock of the Company standing in the name of the undersigned stockholder.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL 1 WITH THE DISCRETIONARY AUTHORITY DESCRIBED ABOVE.

SEE REVERSE SIDE **CONTINUED AND TO BE SIGNED ON REVERSE SIDE** **SEE REVERSE SIDE**

C/O EquiServe, P.O. Box 9398
Boston, MA

Submit your proxy by Internet

It is fast, convenient, and immediate:
Call Toll-Free on a Touch-Tone Telephone
1-877-PRX-VOTE (1-877-779-8683)

Follow these four easy steps.

1. Read the accompanying Proxy Statement and Proxy Card.
2. Call the toll-free number 1-877-PRX-VOTE (1-877-779-8683). For stockholders residing outside the United States, call 1-201-536-8073 on a touch-tone telephone for a collect call.
3. Enter your 14-digit Control Number located on your Proxy Card above your name.
4. Follow the recorded instructions.

Your vote is important!
Call 1-877-PRX-VOTE anytime

Submit your proxy by Telephone

It is fast, convenient, and your vote is immediately confirmed and posted. 1-877-PRX-VOTE (1-877-779-8683)

Follow these four easy steps.

1. Read the accompanying Proxy Statement and Proxy Card.
2. Go the Website http://www.eproxyvote.com/awk
3. Enter your 14-digit Control Number located on your Proxy Card above your name.
4. Follow the instructions provided.

Your vote is important!
Go to http://www.eproxyvote.com/awk anytime

Do not return your Proxy Card if you are submitting a proxy by Telephone or Internet

Please note that all proxies submitted via the Telephone or Internet must be submitted prior to 5:00 p.m. EDST, January • ,2002

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ADOPTION OF THE AGREEMENT AND PLAN OF MERGER

/x/ Please mark your vote as in this example.

1.

Proposal to adopt the Agreement and Plan of Merger, dated as of September 16, 2001, among American Water Works Company, Inc., RWE Aktiengesellschaft, Thames Water Aqua Holdings GmbH and Apollo Acquisition Company, as the merger agreement may be amended from time to time.

FOR / / AGAINST / / ABSTAIN / /

The Board of Directors recommends a vote "FOR" the proposal.

MARK HERE FOR ADDRESS CHANGE AND NOTE TO LEFT / /

Please return your signed proxy at once in the enclosed envelopes, which requires no postage if mailed in the United States, even though you expect to attend the meeting in person.

Please date and sign below. If a joint account, each owner should sign. When signing in a representative capacity, please give title. Please sign here exactly as name is printed hereon.

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant /x/
Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement
/ / **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
/x/ Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Rule 14a-12

AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AMERICAN WATER WORKS COMPANY, INC.
1025 Laurel Oak Road

Voorhees, New Jersey 08043

Dear Fellow Stockholder:

As you may know, on September 16, 2001, we entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. A special meeting of stockholders of American Water Works will be held on Thursday, January 17, 2002 a 9:30 a.m. local time, to consider a proposal to adopt the merger agreement so that the merger can occur. The meeting will be held at the Pennsylvania Convention Center, West Concourse, 12th and Arch Streets, Philadelphia, Pennsylvania. Notice of the special meeting is enclosed.

Upon completion of the merger, you will be entitled to receive $46.00 in cash for each share of common stock that you own. This price represents a 37.2% premium over the average closing price per share over the 30 trading days prior to September 10, 2001, and a 29.5% premium over the highest closing share price our stock ever obtained prior to the public announcement of the merger agreement. The receipt of cash in exchange for your shares of common stock in the merger will constitute a taxable transaction for U.S. federal income tax purposes.

This proxy statement gives you detailed information about the special meeting and the merger and includes the merger agreement as Annex A. We encourage you to read the proxy statement and the merger agreement carefully.

Our board of directors has, by a unanimous vote, approved the merger agreement and determined that the merger agreement and the merger are fair to and in the best interests of American Water Works and our stockholders. In connection with its evaluation of the merger, the board o directors considered a number of factors, including the written opinion of Goldman, Sachs & Co., delivered on September 16, 2001 to the board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share to be received by holders of American Water Works common stock pursuant to the merger agreement, was fair from a financial point of view to those holders. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. The written opinion of Goldman Sachs is attached as Annex B to the enclosed proxy statement, and you should read it in its entirety.

Your vote is important. We cannot complete the merger unless holders of a majority of the voting power of our outstanding common stock (which is entitled to one vote per share) and cumulative preferred stock, 5% series (which is entitled to onetenth of a vote per share), voting together as a single class, vote to adopt the merger agreement. Our board of directors recommends that you vote **"for"**the proposal to adopt th merger agreement. **The failure of any stockholder to vote on the merger will have the same effect as a vote against the merger.**

Stockholders owning or controlling a total of 25,989,476 shares of common stock as of the date of the merger agreement, which represents approximately 26% of all outstanding votes, have entered into a voting agreement in which they agreed to vote in favor of adopting the merger agreement. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal

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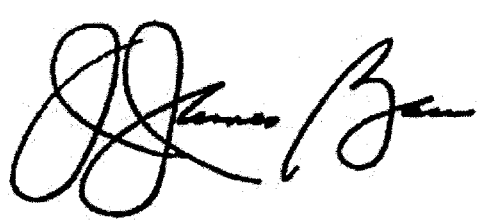
to adopt the merger agreement. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or Internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so.

The board of directors and management of American Water Works appreciate your continuing interest and support of our company, and we hope you will support this exciting transaction.

Sincerely,



Marilyn Ware
Chairman of the Board of Directors

J. James Barr
Chief Executive Officer and President

American Water Works Company, Inc.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD JANUARY 17, 2002

TO THE HOLDERS OF:

COMMON STOCK
CUMULATIVE PREFERRED STOCK, 5% SERIES
5% CUMULATIVE PREFERENCE STOCK

We are pleased to notify you of and invite you to a special meeting of stockholders. At the meeting, holders of common stock and cumulative preferred stock, 5% series will be asked:

- to vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 16, 2001, among American Water Works, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned of RWE, and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Thames Water Holdings; and

- to consider any other matters that are properly brought before the special meeting or any adjournments or postponements of the special meeting.

Only holders of record of common stock and cumulative preferred stock, 5% series at the close of business on December 4, 2001 may vote a the special meeting.

We urge you to read the accompanying proxy statement carefully as it sets forth details of the proposed merger and other important information related to the merger.

Under Delaware law, holders of our common stock who do not vote in favor of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and they comply with the Delaware law procedures explained in the accompanying proxy statement.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or Internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so.

By Order of the Board of Directors,

W. Timothy Pohl
General Counsel and Secretary

Voorhees, New Jersey
December 5, 2001

Please note that only stockholders of American Water Works as of the record date, December 4, 2001, or their authorized representatives, may attend the special meeting. If you plan to attend the meeting in person, please be sure to bring photo identification with you. Additionally, if you hold your stock through a broker or bank, please be sure to bring proof of your beneficial ownership as o the record date, such as a letter or account statement from your broker or bank.

AMERICAN WATER WORKS COMPANY, INC.

1025 Laurel Oak Road
Voorhees, New Jersey 08043
856-346-8200

PROXY STATEMENT
FOR THE SPECIAL MEETING OF STOCKHOLDERS
January 17, 2002

This proxy statement is being furnished to our stockholders in connection with the solicitation of proxies by our board of directors to be used at a special meeting of our stockholders to be held at the Pennsylvania Convention Center, West Concourse, 12th and Arch Streets, Philadelphia, Pennsylvania, on Thursday, January 17, 2002, at 9:30 a.m., local time, and any adjournments or postponements thereof.

At the special meeting, the stockholders will be asked to consider and vote upon a proposal to adopt the agreement and plan of merger dated as of September 16, 2001, among American Water Works, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of RWE, and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Thames Wate Holdings. In the merger, Apollo will merge into American Water Works with American Water Works continuing as the surviving corporation and an indirect wholly owned subsidiary of RWE.

Subject to the terms and conditions of the merger agreement, upon consummation of the merger each issued and outstanding share of our common stock, other than shares held by stockholders who validly exercise appraisal rights (as discussed in this proxy statement), will automatically be canceled and cease to exist and will be converted into the right to receive a per share amount equal to $46.00 in cash, without interest. Prior to the merger and as a condition to completing the merger, we will redeem (1) each issued and outstanding share of our cumulative preferred stock, 5% series for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon to the redemption date and (2) each issued and outstanding share of our 5% cumulative preference stock for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon to the redemption date.

Upon the consummation of the merger, stockholders of American Water Works will have no further interest in the surviving corporation. A copy of the merger agreement is attached to this proxy statement as Annex A.

In connection with the proposed merger, appraisal rights will be available to those holders of the common stock of American Water Works who do not vote in favor of adoption of the merger agreement and who otherwise comply with the requirements of Section 262 of the Delaware General Corporation Law, a copy of which is included as Annex C to this proxy statement. You should read the section entitled "Appraisal Rights" in this proxy statement for a discussion of the procedures to be followed in asserting appraisal rights under Section 262 in connection with the proposed merger and the full text of Section 262, which is included as Annex C to this proxy statement.

AMERICAN WATER WORKS' BOARD OF DIRECTORS, AFTER CAREFUL CONSIDERATION, HAS APPROVED AND DECLARED ADVISABLE THE MERGER AGREEMENT, HAS DETERMINED THAT THE MERGER IS FAIR TO, AND IN THE BEST INTERESTS OF, AMERICAN WATER WORKS AND ITS STOCKHOLDERS, AND RECOMMENDS THAT THE STOCKHOLDERS VOTE "**FOR**" ADOPTION OF THE MERGER AGREEMENT AT THE SPECIAL MEETING.

Our board of directors has fixed the close of business on December 4, 2001 as the record date for the special meeting and only holders of record of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote 100,014,382 shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

This proxy statement is dated December 5, 2001 and is first being mailed on or about December 7, 2001.

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SUMMARY TERM SHEET

This summary term sheet highlights important information in this proxy statement and does not contain all of the information that is important to you. You should carefully read this entire proxy statement and the other documents we refer you to for a more complete understanding of the matters being considered at the special meeting. In addition, we incorporate by reference important business and financial information about American Water Works into this proxy statement. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in the section entitled "Where You Can Find More Information."

The Proposed Transaction

- In the merger, a wholly owned indirect subsidiary of RWE will merge into American Water Works with American Water Works continuing as the surviving corporation. American Water Works will become the Americas division of RWE's water business and it will operate under the name American Water Works.

- Upon consummation of the merger each issued and outstanding share of our common stock, other than shares held by stockholders who validly exercise appraisal rights (as discussed in this proxy statement), will automatically be canceled and cease to exist and will be converted into the right to receive a per share amount equal to $46.00 in cash, without interest.

- As a result of the merger, we will cease to be an independent, publicly traded company and will become an indirect, wholly owned subsidiary of RWE.

The Companies (see page 10)

American Water Works

American Water Works is the largest publicly traded enterprise devoted exclusively to the water and wastewater business in the United States. On November 7, 2001, we completed the acquisition of Azurix North America Corp. and Azurix Industrials Corp., which expanded our presence into the southeastern and northwestern United States and three Canadian provinces. American Water Works and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and Canada. In addition, we have received the necessary approvals from the states of Arizona, Illinois, Indiana, Ohio and Pennsylvania for our purchase of the water and wastewater assets of Citizens Communications Company, a multi utility holding company. The California Public Utility Commission approved our acquisition of Citizens' water and wastewater assets in that state in September 2001, but that approval is still subject to appeal. On August 30, 2001, we announced an agreement to sell our New England operations to Kelda Group Plc for approximately $118 million in cash plus the assumption of approximately $115 million in debt.

RWE

RWE is a global multi-utility company that does business, through its subsidiaries and affiliates, in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling.

Thames Water Holdings

Thames Water Aqua Holdings GmbH, which we will refer to in this proxy statement as Thames Water Holdings, is the holding company for all of RWE's global water business. In 2000, RWE acquired Thames Water Plc, the leading supplier of water and wastewater service in the United Kingdom.

Thames Water Plc is a subsidiary of Thames Water Holdings and, after the merger, American Water Works will be a subsidiary of Thames Water Holdings as well.

Apollo Acquisition Company

Apollo Acquisition Company, which we will refer to in this proxy statement as Apollo, is a Delaware corporation formed solely for the purpose of merging into American Water Works and has not conducted any unrelated activities since its organization. Apollo is a wholly owned subsidiary of Thames Water Holdings.

What You Will Be Entitled to Receive Upon Completion of the Merger (see page 31)

Upon completion of the merger, you will be entitled to receive $46.00 in cash, without interest, for each share of common stock that you own, plus any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is completed. Prior to the merger and as a condition to completing the merger, we will redeem (1) each issued and outstanding share of our cumulative preferred stock, 5% series for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon to the redemption date and (2) each issued and outstanding share of our 5% cumulative preference stock for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon to the redemption date.

After we complete the merger, Thames Water Holdings or one of its wholly owned subsidiaries will be the sole stockholder of American Water Works.

The Special Meeting (see page 11)

Date, Time and Place of the Special Meeting

The special meeting is scheduled to be held as follows:

Date:	January 17, 2002
Time:	9:30 a.m., local time
Place:	Pennsylvania Convention Center, West Concourse, 12th and Arch Streets,

Proposal to be Considered at the Special Meeting

At the special meeting, you will be asked to vote on a proposal to adopt the merger agreement. A copy of the merger agreement is attached as Annex A to this proxy statement.

Record Date

Our board of directors has fixed the close of business on December 4, 2001 as the record date for the special meeting and only holders of record of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote 100,014,382 shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

Voting Rights; Vote Required for Adoption

Each share of common stock entitles its holder to one vote on all matters properly coming before the special meeting and each share of cumulative preferred stock, 5% series entitles its holder to one-tenth of a vote on all matters properly coming before the special meeting. The presence in person

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or representation by proxy of stockholders entitled to cast a majority of the votes of all outstanding shares entitled to vote on the proposal to adopt the merger agreement, considered together, shall constitute a quorum for the purpose of considering that proposal.

If you hold your shares in an account with a broker or bank, you must instruct the broker or bank on how to vote your shares. If an executed proxy card returned by a broker or bank holding shares indicates that the broker or bank does not have authority to vote on the proposal to adopt the merger agreement, the shares will be considered present at the meeting for purposes of determining the presence of a quorum, but will not be voted on the proposal to adopt the merger agreement. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Under Delaware law and our certificate of incorporation, the proposal to adopt the merger agreement must be adopted by the affirmative vot of the holders of a majority of the votes represented by all of the outstanding shares of common stock and cumulative preferred stock, 5% series, voting together as a single class, with each share of common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to one-tenth of a vote. **Abstentions and broker non-votes will have the same effect as a vote against the proposal to adopt the merger agreement.**

Some of our major stockholders (including some of our directors) holding, at the time of the signing of the merger agreement, 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special meeting have entered into a voting agreement with Thames Water Holdings obligating those stockholders to vote their shares in favor of the transaction. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal to adopt the merger agreement. If our directors and officers and the other major stockholders party to the voting agreement vote their shares for the proposal to adopt the merger agreement, approximately 28.6% of the voting power of ou outstanding common stock and cumulative preferred stock, 5% series will have voted for the proposal to adopt the merger agreement. This means that holders of only an additional 21.5% of the voting power of all shares entitled to vote at the meeting would need to vote for the proposal to adopt the merger agreement in order for it to be adopted.

Voting and Revocation of Proxies

After carefully reading and considering the information contained in this proxy statement, you should complete, date and sign your proxy card and mail it in the enclosed return envelope as soon as possible so that your shares are represented at the special meeting. You can also vote in person at the meeting, but we encourage you to submit your proxy now in any event. You can also submit your proxy by telephone by calling the number on your proxy card or over the Internet by going to the web site designated on your proxy card. Unless you specify to the contrary on your proxy card, all of your shares represented by valid proxies will be voted "for" the proposal to adopt the merger agreement.

Please do not send in your stock certificates with your proxy card. After the merger is completed, a separate letter of transmittal will be mailed to you which will enable you to receive the merger consideration.

Until exercised at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by delivering written notification to American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043;
- by delivering a proxy of a later date by mail, Internet or telephone in the manner described in this proxy statement;
- by attending the special meeting and voting in person. Your attendance at the meeting will not, by itself, revoke your proxy—you must vote in person at the meeting; or
- if you have instructed a broker or bank to vote your shares, by following the directions received from your broker or bank to change those instructions.

Questions and Additional Information

For additional information regarding the procedure for delivering your proxy see "The Special Meeting—Voting and Revocation of Proxies" and "The Special Meeting—Solicitation of Proxies."

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Georgeson Shareholder Communications Inc. at 111 Commerce Road, Carlstadt New Jersey 07072, or by telephone at 1-866-324-8874 or American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, or by telephone at 856-346-8223.

Recommendations of Our Board of Directors (see page 17)

After careful consideration, our board of directors unanimously:

- determined that the merger agreement, the merger and the transactions contemplated thereby are fair to, and in the best interests of, American Water Works and its stockholders;
- approved and declared advisable the merger agreement; and
- recommended that our stockholders vote to adopt the merger agreement.

Our board of directors recommends that you vote **"for"** the proposal to adopt the merger agreement at the special meeting.

Opinion of Financial Advisor (see page 19)

On September 16, 2001, Goldman Sachs delivered its oral opinion, which was subsequently confirmed in writing as of September 16, 2001, to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders.

The full text of the written opinion of Goldman Sachs, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the American Water Works board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. We urge you to read the opinion in its entirety.

Interests of Directors and Executive Officers in the Merger (see page 28)

In considering the recommendation of our board of directors to vote for the proposal to adopt the merger agreement so that the merger can occur, you should be aware that some of our executive officers and members of our board of directors have interests in the merger that may be in addition to or different from the interests of our stockholders generally. The members of the American Water Works board of directors were aware of these interests and considered them at the time they approved the merger. These interests include the following:

- Stock options held by our officers and directors will be treated in the same manner as stock options held by other American Water Works employees. Upon the consummation of the merger, all unvested options for common stock and other stockbased rights issued under our stock incentive plans will vest and become exercisable. Also, at the time of the merger, RWE

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will cash out all the options to purchase common stock at a price equal to the excess, or the spread, of the $46.00 in cash per share merger consideration over the per share exercise price of each option.

- Each of our executive officers has entered into a change in control agreement with us. These agreements provide that, if within three years after the merger, the officer's employment terminates without cause (as defined in the agreements) or for good reaso (as defined in the agreements), the officer will receive certain severance benefits.

- After the merger, J. James Barr, President and Chief Executive Officer, Ellen C. Wolf, Vice President and Chief Financial Officer, Daniel L. Kelleher, Senior Vice President of our American Water Works Service Company subsidiary, W. Timothy Pohl, General Counsel and Secretary, Joseph F. Hartnett, Jr., Treasurer, and Robert D. Sievers, Comptroller (the "executive officers"), each will be entitled to receive, upon termination of their employment with American Water Works, a lump sum payment equal to the present value of each of their respective accrued benefits under either the Supplemental Executive Retirement Plan or the Supplemental Retirement Plan, as applicable.

- Each of our executives and non-employee directors may elect to receive payment of his or her account under our Executive and Director Deferred Compensation Plans (subject to a 5% early withdrawal penalty) within one year after the merger.

- After the merger, each of our executive officers and other key employees will be eligible to receive retention bonuses equal to a multiple of their current base salary (2, 1.50, 1.25 or .75, depending upon the level of the employee), with (1) 75% of the bonus amount payable on the date of the merger, so long as the employee continues to be employed on such date, and (2) the remaining 25% payable upon the earlier to occur of a specified date (without regard to whether or not the merger actually occurs) or six months after the date of the merger (assuming the employee continues to be employed on such date). The 25% of the bonus amount is also subject to accelerated payment upon a termination of employment by us without cause or by the employee for good reason after the merger.

- Upon completion of the merger, J. James Barr, our President and Chief Executive Officer and a member of our board of directors, will become President and Chief Executive Officer of RWE's combined water operations in North and South America and be elected a director of Thames Water Plc. In addition, upon completion of the merger, Marilyn Ware, chairman of our board of directors, will be elected a member of the Thames International Advisory Council.

Material U.S. Federal Income Tax Consequences (see page 27)

The receipt of $46.00 in cash for each share of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, each of our stockholders generally will realize taxable gain or loss as a result of the merger measured by the difference, if any, between $46.00 per share and the adjusted tax basis in that share owned by the stockholder. For additional information regarding material U.S. federal income tax consequences of the merger to our stockholders, see "The Merger--Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders."

Regulatory Approvals (see page 26)

Utilities Regulation

American Water Works and its subsidiaries have a business presence in 28 states and Canada and are regulated by state agencies in 21 of those states. Under applicable state laws, the merger may not be consummated until it is approved by certain of those state regulatory agencies in accordance with their respective laws. We currently anticipate regulatory review in Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Pennsylvania, Virginia and West Virginia. Approval in Connecticut and New Hampshire will not be required if the sale of our properties in those states to Kelda Group Plc is completed prior to the completion of the merger. We believe that we will only be required to file advisory letters in Hawaii, Iowa, Missouri, Tennessee and Texas. We estimate that it will take at least a year to complete the required regulatory reviews and obtain the required regulatory approvals. The merger agreement may be terminated by either American Water Works or RWE if the required regulatory approvals are not obtained by September 16, 2003, subject t a 60 day extension for any regulatory waiting period that has not yet expired by September 16, 2003, if all other conditions are satisfied.

We believe that regulatory agencies with jurisdiction over the transaction will consider whether it is in the public interest, whether RWE, Thames Water Holdings and Thames Water Plc are financially, technologically and managerially suitable to control the American Water Works subsidiaries that are regulated by the particular agency and the ability of those subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. We believe that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Wate Works subsidiaries to continue as well-run, customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations. We therefore expect all state regulatory approvals necessary to consummate the transaction will be obtained. It is a condition to the closing of the merger that all such required state regulatory approvals be obtained and that these regulatory approvals not impose terms or conditions which would reasonably be expected to have a material adverse effect on us or on us and Thames Water Holdings' U.S. subsidiaries, taken as a whole. While we do not anticipate any such terms or conditions, we cannot assure you that this condition will be met.

Antitrust Regulation

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder by the Federal Trade Commission, the merger may not be completed until notifications have been given and certain information has been furnished to the FTC and the Antitrust Division of the Department of Justice and the applicable waiting period has expired or been terminated. We expect to file notification and report forms under the HSR Act with the FTC and the Antitrust Division during the spring of 2002. It is a condition to the closing of the merger that the waiting period under the HSR Act with respect to the merger expire, or the FTC and the Antitrust Division grant early termination of the waiting period under the HSR Act.

The Merger Agreement (see page 31)

Conditions to the Merger (see page 38)

Conditions to Each Party's Obligations. Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

- we must obtain the adoption of the merger agreement by the affirmative vote of the holders of a majority of the votes represented by all the outstanding shares of our common stock and our cumulative preferred stock, 5% series, voting together as a single class, with each share of our

common stock entitled to one vote and each share of cumulative preferred stock, 5% series, entitled to 1/10th of a vote;

- the waiting period applicable to the completion of the merger under the Hart-Scott-Rodino Antitrust Improvements Act shall have expired or been terminated;

any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation, the failure of which to obtain or comply with would reasonably be expected to have a material adverse effect on us, shall have been obtained or terminated or shall have expired;

- there must not be in effect any temporary restraining order, preliminary or permanent injunction or other order or decree issued by a court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the completion of the merger;
- all required regulatory approvals under the laws and judgments of any state public utility commission, state public service commission or similar state regulatory body must have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied;
- all material required regulatory approvals under the laws and judgments of any public health departments, environmental protection agencies or of any federal or state regulatory body having jurisdiction over similar matters shall have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied; and
- the redemption of our outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock, must be completed.

Conditions to RWE's, Thames Water Holdings' and Apollo's Obligations. The obligation of RWE, Thames Water Holdings and Apollo to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- our representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to have a material adverse effect on us;
- we must have performed in all material respects all obligations that we are required to perform under the merger agreement prio to the closing date;
- no material adverse effect on us shall have occurred and there must be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect on us; and
- the required regulatory approvals for the merger and other regulatory approvals obtained between the date of the merger agreement and the closing date in connection with acquisitions by us must not impose any terms or conditions that would reasonably be expected to have a material adverse effect on us or on Thames Water Holdings' U.S. subsidiaries and us, taken as a whole.

Conditions to American Water Works' Obligations. Our obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- RWE, Thames Water Holdings and Apollo's representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to impair in any material respect the ability of RWE, Thames Water Holdings or Apollo to perform

its obligations under the merger agreement or prevent or materially delay the completion of the merger; and

- RWE, Thames Water Holdings and Apollo must have performed in all material respects all obligations that each of them are required to perform under the merger agreement prior to the closing date.

Termination of the Merger Agreement (see page 41)

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after stockholder approval has been obtained:

- by mutual written consent of American Water Works, Thames Water Holdings and Apollo;
- by either American Water Works or Thames Water Holdings, if:
  - the merger is not completed on or before March 16, 2003, except that:
    (i) this right to terminate will not be available to any party whose failure to comply with the merger agreement has been the primary reason the merger has not been completed by that date;
    (ii) the date will be extended to September 16, 2003, if all conditions are satisfied other than obtaining the required regulatory approvals, and the date will be further extended up to an additional 60 days for any waiting period in respect of a regulatory approval that has not yet expired if all other conditions are satisfied; and
    (iii) neither party may terminate if all other conditions are satisfied other than the consummation of the redemption of our cumulative preferred stock, 5% series and 5% cumulative preference stock and American Water Works has mailed the notices of redemption;
  - any order, injunction or other legal restraint or prohibition that prevents the completion of the merger is in effect and has become final and nonappealable; or
  - our stockholders do not approve the merger agreement at the special meeting;
- by Thames Water Holdings if:
  - our board of directors withdraws or modifies in a manner adverse to RWE its recommendation for approval of the merger agreement or recommends to our stockholders any takeover proposal by a third party; or
  - we have breached any of our representations or warranties, other than any failures of our representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or
- by us if:
  - Thames Water Holdings has breached any of its representations or warranties, other than any failures of its representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or
  - prior to obtaining stockholder approval, our board of directors authorizes us to enter into an agreement with respect to a takeover proposal from a third party concurrently with such termination, provided that we have complied with the provisions of the merger agreement described below under "The Merger Agreement—No Solicitation of Other Offers," including the payment to Thames Water Holdings of the $138 million termination fee described below.

Termination Fees (see page 42)

The merger agreement provides that upon termination in specified circumstances we must pay to Thames Water Holdings a termination fee of $138 million. In addition, upon termination in certain other specified circumstances, Thames Water Holdings must pay to us a termination fee of $138 million. See "The Merger Agreement—Termination Fees."

Appraisal Rights (see page 45)

Stockholders who do not wish to accept the $46.00 per share cash consideration payable pursuant to the merger may seek, under Delaware law, judicial appraisal of the fair value of their shares by the Delaware Court of Chancery. This value could be more or less than or the same as the merger consideration of $46.00 in cash per share. This right of appraisal is subject to a number of restrictions and technical requirements. Generally, in order to exercise appraisal rights, among other things:

- you must not vote in favor of the proposal to adopt the merger agreement;
- you must make a written demand on us for appraisal in compliance with Delaware law before the vote on the proposal to adopt the merger agreement at the special meeting; and
- you must hold your shares of record continuously from the time of making a written demand for appraisal until the effective time of the merger.

Merely voting against the merger agreement will not preserve your right of appraisal under Delaware law. Also, because a submitted proxy not marked "against" or "abstain" will be voted for the proposal to adopt the merger agreement, the submission of a proxy not marked "against" or "abstain" will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to enable you to assert appraisal rights. If you or your nominee fails to follow all of the steps required by the statute, you will lose your right of appraisal.

Annex C to this proxy statement contains the relevant provisions of the Delaware statute relating to your right of appraisal.

THE COMPANIES

American Water Works Company, Inc.

American Water Works is the largest publicly traded enterprise devoted exclusively to the water and wastewater business in the United States. The core business of American Water Works is the ownership of common stock of utility companies providing water and wastewater services. American Water Works refers to the combination of it and its utility subsidiaries as the "American Water System." The American Water System has functioned for over 50 years. Each subsidiary operates independently, yet shares in the benefits of size and identity afforded by the American Water System. In addition to its utility subsidiaries, some of American Water Works' subsidiaries engage in nonregulated businesses. For example, American Water Services, Inc. is focused on the growing contract operations segment of the water and wastewater market, and American Water Resources is a subsidiary formed to invest in water and wastewaterrelated products and services.

On November 7, 2001, we completed the acquisition of Azurix North America Corp. and Azurix Industrials Corp., which expanded our presence into the southeastern and northwestern United States and three Canadian provinces. American Water Works and its subsidiaries now have approximately 6,300 employees and provide water, wastewater and other water resource management services to a population of approximately twelve million in 28 states and Canada. In addition, we have received the necessary approvals from the states of Arizona, Illinois, Indiana, Ohio and Pennsylvania for our purchase of the water and wastewater assets of Citizens Communications Company, a multi utility holding company. The California Public Utility Commission approved our acquisition of Citizens' water and wastewater assets in that state in September 2001, but that approval is still subject to appeal. On August 30, 2001, we announced an agreement to sell our New England operations to Kelda Group Plc for $118 million in cash plus the assumption of $115 million in debt.

Each utility subsidiary is subject to the rules of both federal and state environmental protection agencies, particularly with respect to the quality of water distributed. In addition, with one exception, the utility subsidiaries function under economic regulations prescribed by state regulatory commissions.

The executive offices of American Water Works are located at 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, New Jersey 08043, telephone 856-346-8200.

RWE Aktiengesellschaft

RWE is a global multi-utility company that does business, through its subsidiaries and affiliates, in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling. RWE's worldwide water activities are managed through RWE's wholly owned subsidiary, Thames Water Holdings. RWE, which was founded in 1898, is a company organized under the laws of the Federal Republic of Germany. RWE's executive offices are located at Opernplatz 1, 45128 Essen, Germany, telephone 49-201-1200.

Thames Water Aqua Holdings GmbH

Thames Water Holdings is a wholly owned subsidiary of RWE. Thames Water Holdings is the holding company for all of RWE's global water business. In 2000, RWE acquired Thames Water Plc, the leading supplier of water and wastewater services in the United Kingdom. Thames Water Plc is a subsidiary of Thames Water Holdings and, after the merger, American Water Works will be a subsidiary of Thames Water Holdings as well. Thames Water Holdings is a company organized under the laws of the Federal Republic of Germany. Its executive offices are located at Opernplatz 1, 45128 Essen, Germany, telephone 49-201-1200.

Apollo Acquisition Company

Apollo Acquisition Company is a Delaware corporation formed solely for the purpose of merging into American Water Works and has not conducted any unrelated activities since its organization. Apollo is a wholly owned subsidiary of Thames Water Holdings. The executive offices of Apollo are located at Clearwater Court, Vastern Road, Reading RG1 8DB, United Kingdom, telephone 44-118-373-8420.

THE SPECIAL MEETING

This proxy statement is furnished in connection with the solicitation of proxies by our board of directors in connection with a special meetin of our stockholders.

Date, Time and Place of the Special Meeting

The special meeting is scheduled to be held as follows:

Date: January 17, 2002

Time: 9:30 a.m., local time

Place: Pennsylvania Convention Center, West Concourse, 12th and Arch Streets, Philadelphia, Pennsylvania

Proposal to be Considered at the Special Meeting

At the special meeting, you will consider and vote upon a proposal to adopt an agreement and plan of merger, dated as of September 16, 2001, among American Water Works, RWE, Thames Water Holdings and Apollo. A copy of the merger agreement is attached as Annex A to this proxy statement.

Record Date

Our board of directors has fixed the close of business on December 4, 2001 as the record date for the special meeting and only holders of record of common stock and cumulative preferred stock, 5% series on the record date are entitled to vote at the special meeting. On the record date, there were outstanding and entitled to vote 100,014,382 shares of common stock (one vote per share) and 101,777 shares of cumulative preferred stock, 5% series (one-tenth of a vote per share).

Voting Rights; Vote Required for Adoption

Each share of common stock entitles its holder to one vote on all matters properly coming before the special meeting and each share of cumulative preferred stock, 5% series entitles its holder to one-tenth of a vote on all matters properly coming before the special meeting. The presence in person or representation by proxy of stockholders entitled to cast a majority of the votes of all outstanding shares entitled to vote on the proposal to adopt the merger agreement, considered together, shall constitute a quorum for the purpose of considering that proposal.

If you hold your shares in an account with a broker or bank, you must instruct the broker or bank on how to vote your shares. If an executed proxy card returned by a broker or bank holding shares indicates that the broker or bank does not have authority to vote on the proposal to adopt the merger agreement, the shares will be considered present at the meeting for purposes of determining the presence of a quorum, but will not be voted on the proposal to adopt the merger agreement. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Under Delaware law and our certificate of incorporation, the proposal to adopt the merger agreement must be adopted by the affirmative vot of the holders of a majority of the votes represented by all of the outstanding shares of common stock and cumulative preferred stock, 5% series, voting together as a single class, with each share of common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to one-tenth of a vote.

Abstentions and broker non-votes will have the same effect as a vote against the proposal to adopt the merger agreement.

Some of our major stockholders (including some of our directors) holding 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special meeting have entered into a voting agreement with Thames Water Holdings obligating those stockholders to vote their shares in favor of the transaction. In addition, each of our directors and executive officers (including some who have entered into the voting agreement) has indicated that he or she intends to vote his or her own shares in favor of the proposal to adopt the merger agreement. If our directors and officers and the other major stockholders party to the voting agreement vote their shares for the proposal to adopt the merger agreement, 28.6% of the voting power of our outstanding common stock and cumulative preferred stock, 5% series will have voted for the proposal to adopt the merger agreement. This means that holders of only an additional 21.5% of the voting power of all shares entitled to vote at the meeting would need to vote for the proposal to adopt the merger agreement in order for it to be adopted. Votes will be tabulated by our transfer agent, Equiserve Trust Company, N.A.

Voting and Revocation of Proxies

Stockholders of record may submit proxies by mail, by Internet, or by telephone. Stockholders who wish to submit a proxy by mail should mark, date, sign and return the proxy card in the envelope furnished. Stockholders of record who wish to submit a proxy by Internet may do so by going to the website, *www.eproxyvote.com/awk*. Stockholders of record who wish to submit a proxy by telephone may do so by calling 1-877-PRX-VOTE (1-877-779-8683). Telephone and Internet proxy submission procedures are designed to verify stockholders through use of a voter control number that is provided on each proxy card. Stockholders who hold shares beneficially through a nominee (such as a bank or broker) may be able to submit a proxy by telephone or the Internet if those services are offered by the nominee. If you hold your shares through a nominee, please check the proxy card provided by your nominee to determine whether telephone and/or Internet voting are available to you.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting. Where a specification is indicated by the proxy, it will be voted in accordance with the specification. Where no specification is indicated, the proxy will be voted "for" the proposal to adopt the merger agreement and in the discretion of the persons named in the proxy wit respect to any other business that may properly come before the meeting or any adjournment of the meeting. Our board of directors is not currently aware of any business to be brought before the special meeting other than that described in this proxy statement.

Please do not send in your stock certificates with your proxy card. If the merger is completed, a separate letter of transmittal will be mailed to you which will enable you to receive the merger consideration.

Until your proxy is exercised at the special meeting, you can revoke your proxy and change your vote in any of the following ways:

- by delivering written notification to American Water Works' General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043;

- by delivering a proxy of a later date by mail, Internet or telephone in the manner described herein;

- by attending the special meeting and voting in person. Your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting; or

- if you have instructed a broker or bank to vote your shares, by following the directions received from your broker or bank to change those instructions.

Solicitation of Proxies

We will bear the expenses in connection with the solicitation of proxies. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of common stock held of record by such persons, and we may reimburse them for their reasonable transaction and clerical expenses. Solicitation of proxies will be made principally by mail. Proxies may also be solicited in person, or by telephone, facsimile, telegram or other means of communication, by our officers and regular employees. These people will receive no additional compensation for these services, but will be reimbursed for any transaction expenses incurred by them in connection with these services. We have retained Georgeson Shareholder Communications Inc., a proxy solicitation firm, for assistance in connection with the solicitation of proxies for the special meeting at an anticipated cost of approximately $10,000 plus reimbursement of reasonable out-of-pocket expenses.

Questions and Additional Information

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Georgeson Shareholder Communications Inc. at 111 Commerce Road, Carlstadt New Jersey 07072, or by telephone at 1-866-324-8874 or our General Counsel and Secretary at our executive offices at 1025 Laurel Oak Road, Voorhees, New Jersey 08043, or by telephone at 856-346-8223.

THE MERGER

Background

American Water Works has over the years implemented a growth strategy by participating in the increasing trend toward consolidation in th water industry in the United States. This strategy has helped make American Water Works the largest and most geographically diverse investor-owned water utility business in the United States. American Water Works has also been aware of the increasing trends of privatization of global water industry assets and multi-national acquisition and ownership of water utilities.

American Water Works first learned of RWE's interest in a possible transaction on May 21, 2001, when William Alexander, the Chief Executive Officer of Thames Water Plc (a subsidiary of Thames Water Holdings), contacted J. James Barr, President and Chief Executive Officer of American Water Works. This initial contact was followed by a meeting on May 25, 2001 between Mr. Barr, Ellen C. Wolf, Vice President and Chief Financial Officer of American Water Works, Mr. Alexander and Christopher Bunker, Chief Financial Officer of Thames Water Plc. At that meeting, Messrs. Alexander and Bunker discussed with Mr. Barr and Ms. Wolf the potential acquisition of American Water Works by RWE through Thames Water Holdings. During these discussions, Mr. Alexander indicated that RWE was considering a proposed cash price of $41.00 per share of American Water Works common stock. Mr. Barr stated that American Water Works would consider the offer and respond to RWE.

On June 7, 2001, the American Water Works board of directors held a special meeting to receive management's report concerning RWE's proposal at which its legal advisors, Simpson Thacher & Bartlett, were present. Representatives of Simpson Thacher & Bartlett advised the members of the American Water Works board of directors regarding their fiduciary duties in connection with their consideration of the transaction proposed by RWE. American Water Works' senior management then made various presentations concerning RWE's proposal. At that meeting, the American Water Works board of directors was of the view that RWE's $41.00 proposal was not attractive, given American Water Works' business strategies and growth prospects. The American Water Works board of directors considered the strategic alternatives available to American Water Works and authorized Mr. Barr to engage in further exploratory discussions with RWE to determine if RWE

would be willing to offer a higher price. Mr. Barr informed the board of directors that American Water Works intended to retain Goldman, Sachs & Co. as financial advisor to American Water Works in connection with RWE's proposal. Subsequently, American Water Works executed an engagement letter with Goldman Sachs, dated as of June 14, 2001, to act as its financial advisor in connection with a potential transaction with RWE.

On June 8, 2001, Mr. Barr contacted Mr. Alexander by telephone and indicated that the American Water Works board of directors was not interested in a proposal for an acquisition at $41.00 per share and that any offer must reflect American Water Works' full value as the leading publicly owned water and water services company in the United States. On June 11, 2001, Mr. Alexander contacted Mr. Barr to indicate that RWE would be willing to consider an increase in the price offered if RWE were permitted to conduct a due diligence investigation to better understand American Water Works' performance and prospects.

On June 26, 2001, RWE, Thames Water Plc and American Water Works entered into a confidentiality agreement. Thereafter, management of American Water Works and its legal and financial advisors met with management of Thames Water Plc and its legal and financial advisors to provide limited additional information about American Water Works. On July 11, 2001, Mr. Alexander informed Mr. Barr by telephone and in writing that RWE was pleased with what it had learned about American Water Works to date and had increased its offer to $45.00 per share of American Water Works common stock. Mr. Alexander also added that the offer was subject to completion of satisfactory due diligence, approval by the supervisory board of RWE, as well as negotiation of a mutually acceptable merger agreement and stockholder voting agreement.

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On July 12, 2001, the American Water Works board of directors held a special meeting to consider RWE's revised proposal at which representatives of Simpson Thacher & Bartlett were present. At this meeting, Mr. Barr advised the American Water Works board of directors of the progress of negotiations and the board determined that it would hold another meeting on July 16, 2001 to further consider the proposal. At the July 16th meeting, representatives of Goldman Sachs reviewed with the American Water Works board of directors various topics relatin to American Water Works and the revised RWE proposal. Each of Goldman Sachs and management also discussed with the American Water Works board of directors other strategic options available to American Water Works as an independent company or in other business combinations, including the assessment by Goldman Sachs of the likelihood that (based on knowledge of the industry but without having made specific inquiries) other companies would be interested in making an offer to acquire or merge with American Water Works. After lengthy discussion, the American Water Works board of directors authorized management to hold further discussions with RWE and to allow RWE to proceed with additional financial and legal due diligence to determine if it would be willing to offer a higher price. The board of directors also discussed at length several transaction terms that would be important in evaluating any final proposal, including fiduciary termination rights, regulatory matters, employee and retiree benefits and covenants governing the conduct of business between signing and closing.

On July 17, 2001, Mr. Barr contacted Mr. Alexander and stated that he was not prepared to recommend the $45.00 offer to the American Water Works board of directors but that American Water Works would be willing to provide additional financial and legal due diligence materials to RWE to allow RWE to determine if it would be willing to offer a higher price for American Water Works' common stock. Mr. Alexander responded that although he believed RWE had already made its best offer, he would instruct RWE representatives to continue due diligence and would discuss internally whether RWE would reconsider its offer. On July 18, 2001, Ms. Wolf had a conference call with Mr. Bunker to discuss detailed arrangements for further due diligence. During the first two weeks of August, members of American Water Works management met with representatives of RWE as part of RWE's additional legal and financial due diligence.

On August 8, 2001, Mr. Barr had breakfast with Mr. Alexander to discuss the progress of negotiations. Mr. Barr reiterated to Mr. Alexander that he was not prepared to recommend the $45.00 offer to the board and that any offer to acquire American Water Works must address certain contractual areas of importance to American Water Works.

On Friday, August 10, 2001, Ms. Wolf and Daniel Kelleher, Senior Vice President of the American Water Works Service Company, met with Mr. Bunker and Jim McGivern, Managing Director, International Business Development of Thames Water Plc, to discuss the operating covenants of a potential merger agreement. The next day, Cravath, Swaine & Moore, legal advisors to RWE, distributed a draft merger agreement and a draft stockholder voting agreement. On August 13, 2001, Mr. Barr called Mr. Alexander to indicate that substantial issues had been raised by the draft merger agreement and that American Water Works would respond with an alternative draft merger agreement that included terms acceptable to American Water Works. American Water Works' legal advisors did this and on August 17, 2001, RWE responded with a revised draft merger agreement, and representatives of the parties commenced negotiations of the merger agreement.

On Sunday, August 19, 2001, Mr. Barr met with Mr. Alexander for breakfast to discuss the progress of negotiations. During that conversation, Mr. Alexander reiterated his strong belief in the transaction and presented RWE's final proposal which included a price of $46.00 per share of American Water Works common stock. That conversation was followed by a written proposal from Mr. Alexander on behalf of RWE confirming the $46.00 per share proposal. Mr. Alexander also indicated that RWE was fully prepared to resolve all remaining contract issues. Mr. Alexander

indicated that he would seek RWE's supervisory board approval on Wednesday, August 22, 2001 and Mr. Barr indicated that he would present RWE's proposal to the American Water Works board of directors that same day.

Between the afternoon of Sunday, August 19, 2001, and the afternoon of Tuesday, August 21, 2001, members of American Water Works' management and representatives of Simpson Thacher & Bartlett met with members of RWE's management and representatives of Cravath, Swaine & Moore to continue negotiating the merger agreement. On the afternoon of Tuesday, August 21, 2001, Mr. Barr called Mr. Alexander to express concern regarding the progress of negotiations. Mr. Alexander assured Mr. Barr that RWE was committed to the transaction on terms acceptable to American Water Works' management. On Tuesday evening, representatives of the management and legal advisors of American Water Works met with representatives of the management and legal advisors of RWE at the offices of Simpson Thacher & Bartlett t continue to negotiate the merger agreement.

Discussions between the advisors of American Water Works and RWE continued throughout the evening of Tuesday, August 21, 2001 and the morning of Wednesday, August 22, 2001 but did not result in a mutually acceptable merger agreement. Representatives of RWE informed representatives of American Water Works that the RWE supervisory board had approved the transaction generally at a meeting held in Germany on the morning of August 22, 2001. During the afternoon of that day, the American Water Works board of directors met to discuss the progress of negotiations. The board of directors was advised of events since the last board meeting on July 12, 2001. Mr. Barr indicated that the parties had not reached a mutually acceptable merger agreement and that he could not recommend that the board of directors approve RWE's proposal at that time. The American Water Works board of directors discussed the matters raised by Mr. Barr, concurred with his recommendations and did not take any further action at this meeting. After the meeting, Mr. Barr called Mr. Alexander to indicate that the American Water Works board of directors had discussed but not approved the transaction.

On Friday, August 24, 2001, Mr. Alexander delivered a letter to Mr. Barr expressing his commitment to the transaction and interest in scheduling a meeting with Mr. Barr.

On Monday, August 27, 2001, Dr. Dietmar Kuhnt, the President and Chief Executive of RWE, delivered a letter to Mr. Barr and Marilyn Ware, Chairman of the American Water Works board of directors, expressing his continued commitment to the transaction. Mr. Barr responded in writing to Dr. Kuhnt expressing his disappointment in the negotiations to date.

Between August 27, 2001 and September 4, 2001, advisors of American Water Works and advisors of RWE continued to discuss the terms of a potential transaction in an effort to overcome any remaining differences between the parties. On September 4, 2001, Mr. Alexander telephoned Mr. Barr to indicate RWE's continuing interest in reaching an agreement with American Water Works. Mr. Barr indicated that he would discuss RWE's interest at a regular American Water Works' board meeting scheduled for September 6, 2001.

On September 6, 2001, the American Water Works board of directors held a regularly scheduled meeting at which it discussed the proposed transaction with RWE and the strategic options available to American Water Works. At this meeting, the American Water Works board of directors discussed the probability of receiving offers to acquire American Water Works from other suitable buyers at a price higher than that offered by RWE and various strategies for continuing to negotiate with RWE.

On September 7, 2001, Mr. Barr indicated to Mr. Alexander that American Water Works would deliver a revised draft merger agreement to RWE, and they decided to arrange a meeting between representatives of each company for September 10, 2001. Later that day American Water Works' management delivered a revised draft merger agreement to RWE.

On September 10, 2001, Mr. Barr and Ms. Wolf met with Mr. Alexander, Mr. McGivern, Mr. Bunker and Dr. Richard Klein, a member of the executive board of RWE, to discuss the proposed merger agreement. Following that meeting, Mr. Barr and Mr. Alexander directed their respective management and advisor teams to continue to negotiate the merger agreement. Negotiations were interrupted on the morning of September 11, 2001 when the terrorist attacks occurred in New York and Washington, D.C., but continued later that week after management of American Water Works and RWE determined to proceed with the negotiations.

On Sunday, September 16, 2001, the American Water Works board of directors held a special meeting to consider the RWE proposal with representatives of both Simpson Thacher & Bartlett and Goldman Sachs present. The American Water Works board of directors was advised of events relating to the transaction since the board meeting on August 22, 2001. A representative of Simpson Thacher & Bartlett advised the American Water Works board of directors of their legal duties in connection with considering the proposed transaction. A representative of Goldman Sachs then reviewed with the American Water Works board of directors Goldman Sachs' financial analyses with respect to the

proposed transaction. Following this presentation, Goldman Sachs orally delivered its opinion to the board of directors of American Water Works, which was subsequently confirmed in writing, to the effect that, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders. In addition, at this meeting, a representative of Simpson Thacher & Bartlett reviewed with the board of directors the terms of the merger agreement (including changes made since the August 22nd meeting of the board of directors) and the voting agreement. Mr. Barr recommended approval of the transaction to the board of directors based on the terms and conditions of the draft agreements. After extensive discussion and deliberation and based on the factors described below, the American Water Works board of directors unanimously determined that the merger agreement, the merger and the transactions contemplated thereby were fair to and in the best interests of American Water Works and its stockholders, approved and declared advisable the merger agreement and resolved to recommend that the American Water Works stockholders vote to adopt the merger agreement.

Following the special meeting of the American Water Works board of directors, the merger agreement was executed by American Water Works, RWE and other parties thereto, and the voting agreement was executed by Thames Water Holdings and the stockholders party thereto. Prior to the opening of business on Monday, September 17, 2001, American Water Works issued a press release publicly announcing that it ha entered into the merger agreement.

Reasons for the Merger

In reaching its decision to approve the merger agreement and to recommend that the American Water Works stockholders adopt the merger agreement, the American Water Works board of directors consulted with management and its legal and financial advisors. The American Wate Works board of directors considered a number of factors, including, without limitation, the following:

1. the current and historical market prices of American Water Works common stock relative to the merger consideration, and the fact that the $46.00 per share merger consideration represented a 37.2% premium over the average closing price of American Water Works common stock over the 30 trading days prior to September 10, 2001;

2. the fact that the merger consideration is all cash, which provides certainty of value to holders of American Water Works common stock compared to a transaction in which stockholders would receive stock;

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3. the view of management that the trading value for shares of American Water Works common stock was not likely to exceed the merger price in the near term if American Water Works remained independent;

4. the potential stockholder value that could be expected to be generated from the other strategic options available to American Water Works, including (a) remaining independent and continuing to implement its growth strategy or (b) pursuing other strategic alternatives, as wel as the risks and uncertainties associated with those alternatives;

5. the financial presentation of Goldman Sachs on September 16, 2001 and the opinion of Goldman Sachs delivered on September 16, 2001 to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 per share in cash to be received by holders of American Water Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders;

6. discussions with American Water Works' management and Goldman Sachs regarding the potential transaction with RWE and the business, financial condition, competitive position, business strategy, strategic options and prospects of American Water Works (as well as the risks involved in achieving these prospects), the nature of the water and waste water services industry in which American Water Works competes, and current industry, economic and market conditions, both on an historical and on a prospective basis;

7. the terms of the merger agreement, as reviewed by the American Water Works board of directors with American Water Works' legal advisors, including:

- the agreements by RWE with respect to obtaining regulatory approvals as more fully described under "The Merger Agreement—Efforts to Complete The Merger";

- sufficient operating flexibility for American Water Works to conduct its business in the ordinary course between signing and closing;

- the absence of a financing condition;

- a termination fee due to American Water Works if the merger agreement is terminated and RWE is in breach of certain of its covenants or representations and warranties as more fully described under "The Merger Agreement—Termination of the Merger Agreement"; and

- American Water Works' ability to furnish information to and conduct negotiations with a third party, terminate the merger agreement, and enter into an agreement relating to a superior proposal under certain circumstances, as more fully described under "The Merger Agreement—No Solicitation of Other Offers";

8. management's assessment, after its review and discussion with Goldman Sachs of the credit ratings and divestiture plans of RWE, that RWE has the financial capability to consummate the merger;

9. the American Water Works board of directors' determination, based on the fact that no other offers to acquire American Water Works were made after initial press reports on and after August 22, 2001 that RWE was considering an acquisition of American Water Works and after discussing with its advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with RWE;

10. in the view of the American Water Works board of directors, based upon the advice of management after consultation with its legal counsel, that the regulatory approvals necessary to consummate the merger could be obtained. In forming such belief, the American Water Works board of directors and management recognized that regulatory agencies will consider whether RWE, Thames Water Holdings and Thames Water Plc are financially, technologically and managerially suitable to control American Water Works and its applicable subsidiaries and the ability of the American Water Works subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. The board's and management's belief was, consequently, based in substantial part upon its perception that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their declared commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Water Works subsidiaries to continue as well-run, customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations, including mitigation against the frequency and size of future rate increases for American Water Works;

11. that American Water Works will no longer exist as an independent company and its stockholders will no longer participate in the growth of American Water Works or the pursuit of its stand-alone business plan and the other factors set forth in the American Water Works certificate of incorporation;

12. that, under the terms of the merger agreement, American Water Works cannot solicit other acquisition proposals and must pay to RWE a termination fee if American Water Works terminates the merger agreement under certain circumstances, which may deter others from proposing an alterative transaction that may be more advantageous to American Water Works stockholders; and

13. the fact that gains from an all-cash transaction would be taxable to American Water Works stockholders for U.S. federal income tax purposes.

During its consideration of the transaction with RWE, the American Water Works board of directors were also aware that some of the directors and executive officers of American Water Works may have interests in the merger that are different from or in addition to those of American Water Works stockholders generally, as described under "The Merger—Interests of Directors and Executive Officers in the Merger."

This discussion of the information and factors considered and given weight by the American Water Works board of directors is not intended to be exhaustive, but is believed to address the material information and factors considered by the board of directors. In view of the number and variety of these factors, the American Water Works board of directors did not find it practicable to make specific assessments of, or otherwise assign relative weights to, the specific factors and analyses considered in reaching its determination. The determination to approve the merger agreement was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the American Water Works board of directors may have given different weights to different factors.

Opinion of Financial Advisor

On September 16, 2001, Goldman Sachs delivered its oral opinion, which was subsequently confirmed in writing, to the American Water Works board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of September 16, 2001, the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water

Works common stock pursuant to the merger agreement was fair from a financial point of view to those holders.

The full text of the written opinion of Goldman Sachs, dated September 16, 2001, which sets forth assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion, is attached as Annex B and is incorporated herein by reference. Goldman Sachs provided its opinion for the information and assistance of the American Water Works board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of American Water Works common stock or cumulative preferred stock, 5% series should vote with respect to the merger. We urge you to read the opinion in its entirety.

In connection with its opinion, Goldman Sachs reviewed, among other things:

- the merger agreement;
- the annual reports to stockholders and annual reports on Form 10-K of American Water Works for the three years ended December 31, 2000;
- selected interim reports to stockholders and quarterly reports on Form 10-Q of American Water Works;
- selected other communications from American Water Works to its stockholders; and
- selected internal financial analyses and forecasts for American Water Works prepared by its management.

Goldman Sachs also held discussions with members of the senior management of American Water Works regarding their assessment of the past and current business operations, financial condition and future prospects of their company. In addition, Goldman Sachs:

- reviewed the reported price and trading activity for shares of common stock of American Water Works;
- compared certain financial and stock market information for American Water Works with similar information for certain other companies the securities of which are publicly traded; and
- reviewed the financial terms of certain recent business combinations in the water utility industry specifically and in other industries generally and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering its opinion. In addition, Goldman Sachs did not make a independent evaluation or appraisal of the assets and liabilities of American Water Works or any of its subsidiaries. No evaluation or appraisal of the assets or liabilities of American Water Works or any of its subsidiaries was furnished to Goldman Sachs.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with providing its written opinion to th American Water Works board of directors. This summary does not purport to be a complete description of the analyses performed by Goldman

Sachs. In arriving at its opinion, Goldman Sachs considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it.

The following summaries of financial analyses include information presented in tabular format. You should read these tables together with the text of each summary.

Historical Stock Trading and Performance Analysis

Using the most recent publicly available information, Goldman Sachs reviewed the historical daily closing prices and trading volumes for shares of American Water Works common stock for the five-year period from September 10, 1996 to September 10, 2001, for the three-year period from September 10, 1998 to September 10, 2001, for the one-year period from September 8, 2000 to September 10, 2001, for the six-month period from March 9, 2001 to September 10, 2001, for the three-month period from June 8, 2001 to September 10, 2001, for the 20-day period from August 22, 2001 to September 10, 2001 and for the one-day period of September 10, 2001. The results of these analyses are set forth below:

Time Period*	Average Price
Five Year	$ 26.66
Three Year	$ 27.88
One Year	$ 28.87
Six Months	$ 31.49
Three Months	$ 32.18
Twenty Days	$ 34.03
One Day	$ 34.12

* Based upon periods ending September 10, 2001.

Goldman Sachs also reviewed ratios of daily closing prices for American Water Works common stock to projected current year earnings per share estimates for the five-year period from September 10, 1996 to September 10, 2001 using median earnings per share, or EPS, estimates from Institutional Brokers Estimate System, or IBES, an independent data service that compiles earnings estimates of institutional securities analysts. The analysis indicated a range of price to projected current year earnings ratio multiples of 11.2x to 21.8x over such 5-year period, with an average multiple of 17.1x and a September 10, 2001 price to projected current year earnings ratio multiple of 19.0x.

U.S. Water Utilities Common Stock Comparison

Goldman Sachs reviewed and compared selected financial information and multiples for American Water Works to corresponding financial information and multiples for the following U.S. public water utility companies:

- Philadelphia Suburban Corporation;
- California Water Service Group;
- American States Water Company;
- SJW Corp.;
- Connecticut Water Service, Inc.;
- Middlesex Water Company; and
- Southwest Water Company.

Goldman Sachs calculated the multiples and other financial information for American Water Works at (1) the transaction price and (2) the closing price for shares of American Water Works common stock on the NYSE on September 10, 2001. The multiples and other financial information for the selected companies calculated by Goldman Sachs were based on the closing prices on September 10, 2001 for shares of the selected companies' common stock. The multiples and other financial information for American Water Works and the selected companies calculated by Goldman Sachs were based on the most recent publicly available information for American Water Works and the selected companies. The price to earnings figures and the five-year EPS growth figures for American Water Works and the selected companies were based upon the latest available median IBES estimates. All latest twelve months, or LTM, figures are as of June 30, 2001. Goldman Sachs' analysis of the selected companies compared the following to the results for American Water Works:

- share price as a percentage of the 52-week high share price;
- the equity market capitalization, based on diluted shares outstanding;
- the enterprise value;
- the enterprise value as a multiple of LTM sales, earnings before interest, taxes, depreciation and amortization, or EBITDA, and earnings before interest and taxes, or EBIT;
- the ratio of price to estimated earnings for 2001 and 2002;
- the ratio of total market capitalization to book value as of June 30, 2001;
- the five-year EPS annual growth rate for the fiscal years 1996 through 2000;
- the estimated five-year EPS annual growth rate for the fiscal years 2001 through 2006;
- the annual dividend yield based upon the latest four quarters' figures;
- the LTM EBITDA and EBIT margins; and
- the enterprise value and LTM EBITDA per customer.

The results of these analyses with respect to American Water Works are summarized as follows:

	Transaction Price	Closing Price On September 10, 2001
Share price as a percentage of 52-week high share price	130%	96%
Equity market capitalization (in millions)	$ 4,611	$ 3,415
Enterprise value (in millions)	$ 7,575	$ 6,379
Enterprise value as a multiple of LTM Sales	5.5x	4.7x
Enterprise value as a multiple of LTM EBITDA	11.9x	10.0x
Enterprise value as a multiple of LTM EBIT	16.4x	13.8x
Price to estimated earnings ratio for 2001	25.6x	19.0x
Price to estimated earnings ratio for 2002	24.2x	18.0x
Total market capitalization to book value as of June 30, 2001	2.7x	2.0x
Annual EPS growth for 1996-2000	6.3%	6.3%
Five year estimated annual EPS growth rate for 2001-2006	6.0%	6.0%
Annual dividend yield	2.8%	2.8%
LTM EBITDA margins	NM	46.8%
LTM EBIT margins	34.0%	34.0%
Enterprise value per customer	$ 2,935	$ 2,472
LTM EBITDA per customer	$ 247	$ 247

The results of the analysis with respect to the selected U.S. water utility companies is as follows:

	High	Median	Mean	Low
Share price as a percentage of 52-week high share price	97%	87%	87%	70%
Equity market capitalization (in millions)	NA	NA	NA	NA
Enterprise value (in millions)	NA	NA	NA	NA
Enterprise value as a multiple of LTM Sales	7.6x	2.9x	4.1x	1.2x
Enterprise value as a multiple of LTM EBITDA	14.3x	10.1x	11.0x	8.4x
Enterprise value as a multiple of LTM EBIT	20.2x	15.1x	15.1x	11.2x
Price to estimated earnings ratio for 2001	25.6x	20.2x	20.6x	15.1x
Price to estimated earnings ratio for 2002	25.0x	18.2x	19.2x	14.3x
Total market capitalization to book value as of June 30, 2001	3.6x	2.4x	2.4x	1.7x
Annual EPS growth for 1996-2000	9.7%	3.1%	2.8%	(4.5)%
Five year estimated annual EPS growth rate	8.0%	4.0%	4.4%	3.0%
Annual dividend yield	4.7%	3.7%	3.5%	1.7%
LTM EBITDA margins	59.2%	32.7%	36.0%	12.0%
LTM EBIT margins	47.7%	23.3%	26.9%	8.0%
Enterprise value per customer	$ 4,591	$ 1,555	$ 2,150	$ 770
LTM EBITDA per customer	$ 357	$ 185	$ 194	$ 54

Selected U.S. Water Utility Transactions

Goldman Sachs analyzed information relating to the following twelve announced transactions in the water utility industry since 1998:

Acquirer	Target
Kelda Group	American Water Works New England Assets
City of Indianapolis	IWC Resources
Nuon NV	Utilities, Inc.
Truckee Meadows Water	Sierra Pacific Water Assets
Thames Water Plc	E'Town Corp.
American Water Works	SJW Corp.
American Water Works	Citizens Water Resources
Suez Lyonnaise des Eaux	United Water Resources
Kelda Group	Aquarion Co.
California Water Service Group	Dominguez Services
American Water Works	National Enterprises
Philadelphia Suburban Corporation	Consumers Water Company

Goldman Sachs compared the following information relating to each of the selected transactions to the contemplated transaction:

- the premium of the transaction price to (1) the target's stock price on the day prior to the announcement of the particular transaction, (2) the target's stock price average for the 30 days prior to the announcement of the transaction and (3) the target's all-time high stock price prior to the announcement of the particular transaction;
- the transaction price as a multiple of the target's LTM sales, EBITDA, EBIT and net income;
- the transaction price as a multiple of the target's price to earnings, or P/E, ratio (based on the transaction price and the target's current year median IBES EPS estimates and forward year median IBES EPS estimates);

- ratio of the target's market capitalization (based upon the transaction price) to the target's book value; and
- the target's enterprise value per target customer.

The results of this analysis were as follows:

	Selected U.S. Water Utility Transactions				
	High	Mean	Median	Low	Proposed Transaction
Premium of transaction price to target's stock price on day prior to announcement	32.5%	23.7%	23.4%	12.7%	34.8%
Premium of transaction price to 30 day average target's stock price prior to announcement	52.7%	45.8%	45.7%	38.8%	37.2%
Premium of transaction price to target's stock price all time high prior to announcement	20.5%	9.6%	8.2%	5.5%	29.5%
Transaction price as a multiple of target's LTM sales	6.2x	5.0x	5.0x	2.5x	5.5x
Transaction price as a multiple of target's LTM EBITDA	15.9x	12.7x	12.3x	10.2x	11.9x
Transaction price as a multiple of target's LTM EBIT	24.8x	17.7x	17.2x	13.6x	16.4x
Transaction price as a multiple of target's LTM net income	34.1x	26.7x	25.7x	20.3x	28.4x
Transaction price as a multiple of P/E for current year EPS	27.7x	25.3x	25.5x	21.8x	25.6x
Transaction price as a multiple of P/E for forward year EPS	26.3x	24.1x	24.5x	20.6x	24.2x
Market capitalization to book value	3.3x	2.8x	2.9x	2.4x	2.7x
Enterprise value per customer	$ 4,861	$ 3,027	$ 2,738	$ 1,681	$ 2,935

Discounted Cash Flow Analysis

Goldman Sachs performed a discounted cash flow analysis of American Water Works using American Water Works management projections and information regarding after-tax investments provided by American Water Works. Goldman Sachs calculated a range of implied net present values per share of American Water Works common stock based on (1) the discounted present value of the five year (2001-2006) stream of projected free cash flows of American Water Works, plus (2) the discounted present value of the terminal value of American Water Works in 2006, assuming an EBITDA exit multiple range between 9.0x to 11.0x, minus (3) American Water Works' net debt as of June 30, 2001, plus (4) the after-tax value of American Water Works' investments. The stream of projected free cash flows was discounted back to July 1, 2001 using a range of discount rates representing an estimatedrange of the weighted average cost of capital for American Water Works. The range of discount rates utilized by Goldman Sachs in its analysis was 6.0% to 8.0%. The result of this calculation was divided by the number of fully diluted shares of American Water Works common stock outstanding as of September 10, 2001. The results of this analysis yielded implied net present values per share of American Water Works common stock ranging from $36.73 to $55.43.

Future Stock Price and Dividends Analysis

Goldman Sachs calculated the present value of implied future stock prices and dividends received for shares of American Water Works common stock based upon American Water Works management estimates of future earnings and dividends. Goldman Sachs initially calculated the implied value of

future stock prices for shares of American Water Works common stock using price to earnings multiples ranging from 14x to 22x for the years 2002 to 2005. Goldman Sachs then calculated the discounted present value of these implied future stock prices and dividends received based on an assumed discount rate of 8%. The results of this analysis yielded present values of future stock prices and dividends received ranging from $25 to $40 in the case of future stock prices and dividends for 2002, $27 to $41 for 2003, $28 to $43 for 2004 and $29 to $44 for 2005, in each case discounted back to July 1, 2001 and rounded to the nearest dollar. The 8% discount rate utilized by Goldman Sachs is consistent with the cost of equity assumption used to generate the lower end of the range of weighted average cost of capital used in the discounted cash flow analysis described above. A higher assumed discount rate than the 8% assumed by Goldman Sachs would have yielded lower present values of future stock prices and dividends received for shares of American Water Works common stock.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete

view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all the analyses. No company or transaction used in the above analyses as a comparison is directly comparable to American Water Works, RWE o the proposed merger.

The analyses were prepared solely for purposes of Goldman Sachs' providing its opinion to the American Water Works board of directors as to the fairness from a financial point of view of the $46.00 in cash per share of American Water Works common stock to be received by the holders of American Water Works common stock pursuant to the merger agreement. These analyses do not purport to be appraisals or to reflec the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of American Water Works, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Goldman Sachs' opinion to the American Water Works board of directors was one of many factors taken into consideration by the board of directors in making its determination to approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by Goldman Sachs.

Goldman Sachs, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. Goldman Sachs is familiar with American Water Works, having provided certain investment banking services to American Water Works from time to time, including having acted as its financial advisor in connection with its recently completed acquisition of Azurix North America Corp. and Azurix Industrials Corp., and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the merger agreement.

Goldman Sachs has also provided certain investment banking services to RWE from time to time, including having acted as:

- financial advisor to Hochtief AG, a company in which RWE owns an approximately 62% equity interest, in connection with its acquisition of Turner Corporation in September 1999;
- financial advisor to RWE in connection with its acquisition of a minority interest in Lahmeyer AG in February 2000;
- financial advisor to RWE in connection with its acquisition of VEW AG in November 2000; and

- agent to Thames Water Plc, a wholly owned subsidiary of RWE, in connection with its public offering of JPY 2,000,000,000 aggregate principal amount of Floating Rate Notes due January 28, 2002 in July 2000.

Goldman Sachs may also provide investment banking services to RWE, Thames Water Holdings and Thames Water Plc in the future. American Water Works selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger.

Goldman Sachs provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of American Water Works and RWE for its own account and for the accounts of customers.

Pursuant to a letter agreement, dated June 14, 2001, American Water engaged Goldman Sachs to act as its financial advisor in connection with the proposed merger. Pursuant to the terms of this engagement letter, American Water Works has agreed to pay Goldman Sachs a customary fee, a portion of which was paid upon announcement of the transaction and a portion of which will be paid upon consummation of the transaction.

American Water Works has agreed to reimburse Goldman Sachs for its reasonable out-of-pocket expenses, including reasonable attorneys' fees, and to indemnify Goldman Sachs against certain liabilities, including certain liabilities under the federal securities laws.

Regulatory Approvals

Utilities Regulation

American Water Works and its subsidiaries have a business presence in 28 states and Canada and are regulated by state agencies in 21 of those states. Under applicable state laws, the merger may not be consummated until it is approved by certain of those state regulatory agencies in accordance with their respective state laws. We currently anticipate regulatory review in Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Pennsylvania, Virginia and West Virginia. Approval in Connecticut and New Hampshire will not be required if the sale of our properties in those states to Kelda Group Plc is completed prior to the completion of the merger. We believe that we will only be required to file advisory letters in Hawaii, Iowa, Missouri, Tennessee and Texas. W estimate that this regulatory review will take at least a year to complete. The merger agreement may be terminated by either American Water Works or RWE if the required regulatory approvals are not obtained by September 16, 2003, subject to a 60 day extension for any regulatory waiting period that has not yet expired by September 16, 2003, if all other conditions are satisfied.

We believe that regulatory agencies with jurisdiction over the transaction will consider whether it is in the public interest, whether RWE, Thames Water Holdings and Thames Water Plc are financially, technologically and managerially suitable to control the American Water Works subsidiaries that are regulated by the particular agency and the ability of those subsidiaries to continue to provide safe, adequate and reliable service to the public through their plant, equipment and manner of operation. We believe that the large size, accompanying financial resources and technical expertise of RWE, Thames Water Holdings and Thames Water Plc, as well as their commitment to customer service, effective employee relations, strong community service and safe environmental practices, will be found adequate to permit the American Wate Works subsidiaries to continue as well-run customer-oriented water utilities and for the merger to result in benefits to their current and future customers, employees and operations. We therefore expect that all state regulatory approvals necessary to consummate the transaction will be obtained. It is a condition to the closing of the merger that all such required state regulatory approvals be obtained, and that these regulatory approvals not impose terms or conditions which would reasonably be expected to have a material adverse effect on us or on us and Thames Water Holdings' U.S. subsidiaries, taken as a whole. While we do not anticipate any such terms or conditions, we cannot assure you that this condition will be met.

Antitrust Regulation

Under the HSR Act and the rules promulgated thereunder by the FTC, the merger may not be completed until we and RWE file a notificatio and report form under the HSR Act and the applicable waiting period has expired or been terminated. We expect to file notification and report forms under the HSR Act with the FTC and the Antitrust Division of the Department of Justice during the spring of 2002. It is a condition to the closing of the merger that the waiting period under the HSR Act with respect to the merger expire, or the FTC and the Antitrust Division grant early termination of the waiting period under the HSR Act. At any time before or after completion of the merger, notwithstanding whether early termination of the waiting period under the HSR Act has been granted, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of American Water Works or RWE. At any time before or after the completion of the merger, and notwithstanding whether early termination of the waiting period under the HSR Act has been granted, any state could take such action under the antitrust laws as it deems necessary or desirable in the public interest. Such action could include seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of American Water Works or RWE. Private parties may also seek to take legal action under the antitrust laws under certain circumstances.

While there can be no assurance that the merger will not be challenged by a governmental authority or private party on antitrust grounds, we and RWE believe that the merger can be effected in compliance with federal and state antitrust laws.

Financing of the Merger

RWE has informed American Water Works that it estimates that approximately $4.75 billion will be required to complete the purchase of shares of our common stock, restricted stock and options pursuant to the merger and to pay its related fees and expenses. RWE expects this amount to be funded through an issuance of debt securities and internally available funds. The merger is not conditioned on any financing arrangements.

Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders

The following is a summary of United States federal income tax consequences of the merger to stockholders whose shares of our common stock are converted into the right to receive cash under the merger. The discussion is for general information only and does not purport to consider all aspects of United States federal income taxation that might be relevant to our stockholders. The discussion is based on current law which is subject to change possibly with retroactive effect. The discussion applies only to stockholders who hold shares of our common stock as capital assets, and may not apply to shares of our common stock received in connection with the exercise of employee stock options or

otherwise as compensation, or to certain types of stockholders (such as insurance companies, tax-exempt organizations, financial institutions and broker-dealers) who may be subject to special rules. This discussion does not discuss the tax consequences to any stockholder who, for United States federal income tax purposes, is a non-resident alien individual, foreign corporation, foreign partnership or foreign estate or trust, and does not address any aspect of state, local or foreign tax laws.

The receipt of cash for shares of our common stock in the merger will be a taxable transaction for United States federal income tax purposes. In general, a stockholder who surrenders shares of our common stock for cash in the merger will recognize capital gain or loss for United State federal income tax purposes equal to the difference, if any, between the amount of cash received and the stockholder's adjusted tax basis in the shares of our common stock surrendered. Gain or loss will be determined separately for each block of shares (*i.e.*, shares acquired at the same cost in a single transaction) surrendered for cash pursuant to the merger. Such gain or loss will be longterm capital gain or loss provided that a stockholder's holding period for such shares is more than 12 months at the time of the consummation of the merger. Capital gains of individual derived in respect of capital

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assets held for more than one year are eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses.

Backup withholding will apply to all cash payments to which a holder of shares or other payee is entitled pursuant to the merger agreement, unless the stockholder or other payee provides a taxpayer identification number (social security number, in the case of individuals, or employer identification number, in the case of other stockholders), certifies that such number is correct, and otherwise complies with such backup withholding tax rules. Each of our stockholders and, if applicable, each other payee, should complete and sign the Substitute Form W9 included as part of the letter of transmittal to be returned to the paying agent, in order to provide the information and certification necessary to avoid backup withholding tax, unless an exemption applies and is established in a manner satisfactory to the paying agent.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the IRS.

The United States federal income tax consequences set forth above are for general information purposes only and are not intended constitute a complete description of all tax consequences relating to the merger. Because individual circumstances may differ, each stockholder should consult the stockholder's tax advisor regarding the applicability of the rules discussed above to the stockholder and the particular tax effects to the stockholder of the merger, including the application of state, local and foreign tax laws.

Interests of Directors and Executive Officers in the Merger

Members of our board of directors and our executive officers have various interests in the merger described in this section that may be in addition to, or different from, the interests of our stockholders generally. The members of American Water Works' board of directors were aware of these interests and considered them at the time they approved the merger agreement. You should keep this in mind when considering the recommendation of our board of directors for the proposal to adopt the merger agreement.

Stock Options

The merger agreement provides that as of the effective time of the merger, all outstanding unvested employee stock options for American Water Works common stock will become exercisable. The merger agreement provides that, for each share covered by outstanding stock options at the time of the merger, the holders of the options will have the right to receive a cash payment. The amount of this payment will equal the excess, if any, of the merger consideration of $46.00 in cash per share of American Water Works common stock over the per share exercise price of the options, reduced by applicable withholding taxes.

Our executive officers currently hold a total of approximately 395,000 options, approximately 101,000 of which are currently vested and 294,000 of which are currently unvested. The aggregate spread that the executive officers would be entitled to receive for all of their options as of the date of this proxy statement is approximately $8.9 million. One of our executive officers is a director. None of our other directors hold options.

Supplemental Executive Retirement Plan and Supplemental Retirement Plan

Six of our executive officers participate in either our supplemental executive retirement plan, or SERP, or our Supplemental Retirement Plan or SRP. SERP and SRP benefits are paid in addition to benefits payable under other retirement programs.

Benefits under the SERP are provided to certain executives and are intended to (1) provide the additional retirement benefits that would be

payable under our qualified defined benefit pension plan if

federal tax law did not restrict such benefits and (2) compute the benefits payable on the basis of the highest average remuneration during 36 consecutive months rather than 60 consecutive months of employment.

The SRP is also designed to provide benefits to certain key associates designated by our board of directors, equal to those that would be provided under our qualified defined benefit pension plan's benefit formula if it were unaffected by the federal tax law restrictions on benefits, and provides additional years of service to those covered associates hired in mid-career.

The SERP and the SRP both contain change in control provisions that provide that upon termination of a participant's employment with us, the participant will receive a lump sum payment equal to the present value (based on the assumptions used to calculate benefits under our qualified defined benefit pension plan) of each of their respective accrued benefits under the SERP or the SRP, as applicable.

If we were to complete the merger and immediately thereafter terminate our executive officers involuntarily, their annual SERP or SRP benefits that would be payable after giving effect to the SERP's or SRP's change in control provisions, as applicable, would equal, in the aggregate, approximately $10 million.

Change in Control Agreements

On January 1, 2000, each of our executive officers entered into a change in control agreement with us. The agreements provide that, if within three years after the merger, an executive's employment terminates without cause (as defined in the agreements) or for good reason (as defined in the agreements), the executive will receive certain severance benefits. The benefits include a lump sum cash payment equal to a multiple (3, 2 or 1.5 times depending on the level of senior management) of the sum of salary and target bonus; pro rata target bonus for the year of termination; accelerated vesting of supplemental retirement benefits, stock options and restricted or deferred stock awards; continued welfare benefits for 36, 24 or 18 months (depending on the level of senior management); and 36, 24 or 18 months (depending on the level of senior management) of additional age and service credit for purposes of calculating supplemental retirement benefits and retiree medical benefits. Mr. Barr is entitled to three times salary and bonus and 36 months welfare benefits and service credit. Messrs. Kelleher and Pohl and Ms. Wolf are entitled to two times salary and bonus and 24 months welfare benefits and service credits. Messrs. Sievers and Harnett are entitled to 1.5 times salary and bonus and 18 months welfare benefits and service credits. The agreements also provide a tax grossup feature so that such officers will be made whole for any excise taxes imposed on such payments.

Executive and Director Deferred Compensation Plans

We maintain a deferred compensation plan for our non-employee directors and a deferred compensation plan for our executive officers and key employees. The deferred compensation plans are unfunded. The directors deferred compensation plan accounts are payable in a lump sum or in up to ten annual installments at the director's prior election. The executive deferred compensation plan accounts are payable in a lump sum or in such number of installments as the executive may previously elect. Both deferred compensation plans contain a change in control provision that the participants may elect to receive payment of his or her account within one year after the merger, subject to a 5% early withdrawal penalty.

Retention Bonus Program

Our board of directors recently approved a retention bonus program, under which, after the merger, our executive officers and other key employees will be eligible to receive retention bonuses equal to a multiple of their current base salary (2, 1.50, 1.25 or .75, depending upon the level of the employee). Messrs. Barr, Kelleher and Pohl and Ms. Wolf will receive two times their respective base

salaries, and Messrs. Sievers and Hartnett will receive 1.5 times their respective base salaries. The bonus amounts will be payable as follows: (1) 75% of the bonus amount will be paid on the date of the merger, so long as the employee continues to be employed on such date and (2) the remaining 25% will be paid upon the earlier to occur of a specified date (without regard to whether or not the merger actually occurs) and six months after the date of the merger, so long as the employee continues to be employed on such date. The 25% of the bonus amount is also subject to accelerated payment upon a termination of employment by us without cause or by the employee for good reason after the merger. The aggregate amount of all retention bonus payments, including those made to non-executive officers, is not expected to exceed $10 million.

In addition, we have established a discretionary bonus pool equal to $5 million, which may be allocated and paid to employees as determine by the compensation committee of our board of directors, based on our chief executive officer's recommendations.

Indemnification and Insurance

The merger agreement provides that, for six years after the merger, the surviving corporation's certificate of incorporation will contain certain agreed provisions with respect to indemnification, expense advancement and exculpation of our current and former directors and officers, and the surviving corporation's by-laws will contain the provisions with respect to such matters as set forth in our current by-laws. The merger agreement also requires the surviving corporation to maintain in effect the current directors' and officers' liability insurance or substantially similar insurance. This insurance must cover those persons who were covered on the date of the merger agreement by our directors' and officers' liability insurance policy, for a period of at least six years. However, if the annual premium for the policy exceeds 200% of the annual premium paid by us for the year from July 21, 2001 through July 21, 2002, then the surviving corporation in the merger is required only to get the best coverage available for an annual premium equal to 200% of the annual premium paid by us for the year from July 21, 2001 through July 21, 2002. The merger agreement also requires RWE and Thames Water Holdings to indemnify and hold harmless any of our former or current officers or directors against any losses in connection with any threatened or actual action, suit, or proceeding, based in whole or in part on, or arising in whole or in part out of, the fact that the person is or was our officer or director.

Positions with Surviving Corporation

Upon completion of the merger, J. James Barr, our President and Chief Executive Officer and a member of our board of directors, will become President and Chief Executive Officer of RWE's combined water operations in North and South America and be elected a director of Thames Water Plc. In addition, upon completion of the merger, Marilyn Ware, chairman of our board of directors, will be elected a member of the Thames International Advisory Council.

THE MERGER AGREEMENT

This section of the proxy statement describes the material provisions of the merger agreement but does not purport to describe all of the terms of the merger agreement. The following summary is qualified in its entirety by reference to the complete text of the merger agreement, which is attached as Annex A to this proxy statement and incorporated into this proxy statement by reference. We urge you to read the full text of the merger agreement because it is the legal document that governs the merger.

The Merger

The merger agreement provides for the merger of Apollo with and into American Water Works upon the terms, and subject to the conditions of the merger agreement. As the surviving corporation, we will survive the merger and continue to exist as a wholly owned indirect subsidiary of RWE. The merger will be effective at the time we file a certificate of merger with the Secretary of State of the State of Delaware (or at a later time, if agreed upon by the parties and specified in the certificate of merger). We expect to complete the merger as promptly as practicable after we receive stockholder approval and required regulatory approvals of the merger.

We or Thames Water Holdings may terminate the merger agreement prior to the completion of the merger in some circumstances, whether before or after the adoption of the merger agreement by stockholders. Additional details on termination of the merger agreement are described in "—Termination of the Merger Agreement."

Merger Consideration

Each share of our common stock issued and outstanding immediately before the merger (other than treasury shares, dissenting shares and shares held by Thames Water Holdings or Apollo) will automatically be canceled and will cease to exist and will be converted into the right to receive $46.00 in cash, without interest. When this merger consideration is distributed, holders of our common stock will also receive any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is consummated. After the merger is effective, each holder of a certificate representing any of these shares of our common stock will no longer have any rights with respect to the shares, except for the right to receive the merger consideration or, if a holder exercises appraisal rights, the right to receive payment of the judicially determined fair value of its shares upon compliance with the requirements of Delaware law. Each share of our common stock held by us as treasury shares or held by Thames Water Holdings or Apollo at the time of the merger will be canceled without any payment.

Directors and Officers

Upon completion of the merger, J. James Barr will be elected as a director of Thames Water Plc and Marilyn Ware will be elected as a member of the Thames International Advisory Council. The officers of American Water Works at the time the merger is completed will remain the officers of the surviving corporation after the merger. All American Water Works officers will hold their positions until their successors are duly elected and qualified or until the earlier of their resignation or removal.

Treatment of Stock Options and Other Stock-Based Rights

The merger agreement provides that, upon completion of the merger (1) each option to purchase shares of our common stock outstanding immediately prior to the completion of the merger, whether vested or unvested, will be converted into the right to receive $46.00 minus the exercise price per share of the stock option multiplied by the number of shares of common stock subject to the stock option (2) all other rights to receive our common stock, whether vested or unvested, will be converted into the

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right to receive an amount of cash equal to the number of shares of common stock subject to the stock right outstanding immediately prior to the completion of the merger multiplied by $46.00; and (3) our board of directors will make any other changes to the company stock plans as we and Thames Water Holdings agree are appropriate to give effect to the merger. All amounts payable are subject to applicable withholding taxes.

Payment for the Shares

Before the merger, Thames Water Holdings will designate a paying agent reasonably acceptable to us to make payment of the merger consideration as contemplated by the merger agreement. Immediately following the completion of the merger, Thames Water Holdings will, or will cause Apollo to, deposit in trust with the paying agent cash in an aggregate amount equal to the merger consideration for all stockholders plus any declared but unpaid dividends, including a "stub period" dividend for the period between the immediately prior dividend record date and the date on which the merger is completed.

At the close of business on the day of the completion of the merger, we will close our stock ledger. After that time, the surviving corporation will not transfer common stock on its stock transfer books.

As soon as reasonably practicable after the completion of the merger, the paying agent will send you a letter of transmittal and instructions advising you how to surrender your certificates in exchange for the merger consideration. The paying agent will promptly pay you your merge consideration, together with any dividends to which you are entitled, after you have (1) surrendered your certificates to the paying agent and (2) provided to the paying agent any other items specified by the letter of transmittal. Interest will not be paid or accrue in respect of cash payments. The surviving corporation will reduce the amount of any merger consideration paid to you by any applicable withholding taxes. **You should not forward your stock certificates to the paying agent without a letter of transmittal, and you should not return your stock certificates with the enclosed proxy.**

If the paying agent is to pay some or all of your merger consideration to a person other than you, you must have your certificates properly endorsed or otherwise in proper form for transfer, and you must pay any transfer or other taxes payable by reason of the transfer or establish to the surviving corporation's satisfaction that the taxes have been paid or are not required to be paid.

The transmittal instructions will tell you what to do if you have lost your certificate, or if it has been stolen or destroyed. You will have to provide an affidavit to that fact and, if required by the paying agent, RWE or the surviving corporation, post a bond in an amount that the paying agent, RWE or the surviving corporation, as the case may be, reasonably directs as indemnity against any claim that may be made against those parties in respect of the certificate.

Redemption of our Preferred and Preference Stock

The merger agreement provides that, on or prior to the completion of the merger, we will redeem each issued and outstanding share of our cumulative preferred stock, 5% series and 5% cumulative preference stock in accordance with the terms and conditions provided in our certificate of incorporation.

Representations and Warranties

In the merger agreement, American Water Works, RWE, Thames Water Holdings and Apollo each made representations and warranties

relating to, among other things:

- corporate organization and existence;

- corporate power and authority to enter into and perform its obligations under, and enforceability of, the merger agreement;
- required consents and approvals of governmental entities;
- the absence of conflicts with or defaults under organizational documents, debt instruments, other contracts and applicable laws and judgments;
- regulation as a public utility holding company or public utility;
- broker's fees; and
- information supplied for inclusion in this proxy statement.

In the merger agreement, RWE, Thames Water Holdings and Apollo also made representations and warranties relating to the availability of the funds necessary to complete its obligations under the merger agreement, the interim operations of Apollo and their ownership of our common stock.

We also made representations and warranties relating to, among other things:

- subsidiaries;
- capital structure;
- documents filed with the Securities and Exchange Commission;
- absence of specified changes or events since December 31, 2000;
- legal proceedings and regulatory actions;
- compliance with applicable laws;
- environmental matters;
- compliance with the Employee Retirement Income Securities Act and other employee benefit matters;
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- tax matters;
- inapplicability of state takeover statutes;
- stockholder voting requirements;
- title to properties;
- receipt of Goldman Sachs' fairness opinion to our board of directors; and
- material contracts.

Covenants; Conduct of Business Pending the Merger

With limited exceptions we agreed in the merger agreement that, until the completion of the merger, we and each of our subsidiaries will:

- carry on our respective businesses in the ordinary course consistent with past practice;
- use commercially reasonable efforts to preserve our material assets and technology, preserve our business and regulatory relationships and maintain our material franchises, rights and permits necessary to conduct our business; and
- use commercially reasonable efforts to comply with all applicable laws.

We have also agreed that, until completion of the merger, except as expressly contemplated or permitted by the merger agreement or consented to in writing by Thames Water Holdings, which consent will not be unreasonably withheld, we will not, and will not permit any of our subsidiaries to:

- declare, set aside or pay dividends, or make other distributions, except (i) dividends by any of our wholly owned subsidiaries, (ii) regular quarterly cash dividends with respect to our common stock, not to exceed an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in accordance with our past dividend policy, (iii) a pro rata "stub period" dividend based on the number of days elapsed between the most recent dividend record date and the effective date of the merger (iv) regular cash dividends with respect to the cumulative preferred stock, 5% series and 5% cumulative preference stock in accordance with our past dividend policy or (v) cash dividends with respect to the preferred stock of any of our subsidiaries or cash dividends with respect to the non-preferred capital stock of any non-wholly owned subsidiaries in the ordinary course of business consistent with such subsidiary's past practice;
- purchase, redeem or otherwise acquire any shares of our respective capital stock or any other equity interests, except for (i) the redemption of the outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock, (ii) purchases, redemptions or other acquisitions required or permitted by the terms of any of our preferred stock or that of our subsidiaries, (iii) the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors' plans and the dividend reinvestment provisions of our dividend reinvestment and stock purchase plan, (iv) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of any of our subsidiaries or (v) purchases of shares of capital stock of any of our wholly owned subsidiaries;
- split, combine or reclassify any capital stock or other equity interests or issue any other securities in respect of, in lieu of or in

substitution for such shares or interests;

- issue, deliver, sell, pledge or otherwise encumber any shares of our capital stock or other equity interests or grant any options, warrants, calls or rights to acquire any such shares or interests, other than (i) upon the exercise of stock options or other rights to purchase common stock in effect as of the date of the merger agreement, (ii) the delivery or sale of shares held as treasury stock as of the date of the merger agreement, or thereafter purchased on the open market to fund benefits under employee benefit plans, (iii) issuances by any of our subsidiaries of shares of capital stock to us or any of our wholly owned subsidiaries, (iv) issuances of our common stock pursuant to our rights agreement, (v) issuances of our common stock pursuant to our dividend reinvestment and stock purchase plan or (vi) issuances of our common stock which are necessary in our reasonable judgment, after consultation with Thames Water Holdings, in order to maintain our credit ratings and that of our subsidiaries;

- amend our respective certificates of incorporation or by-laws, except as required by applicable law or by the rules of the New York Stock Exchange;

- acquire or agree to acquire any corporation, any assets constituting a business, any other business entity or other assets that are material, other than (i) any business which is regulated by a state regulatory body or owned or operated by a municipality or local governmental entity, provided that all such acquisitions shall not involve aggregate payments (including debt assumption) of more than $300,000,000, (ii) any business in or related to the water services or wastewater services industry or any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a state regulatory body or owned or operated by a municipality

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or local governmental entity, provided that all such acquisitions shall not involve aggregate payments (including debt assumption) of more than $100,000,000, or (iii) assets constituting a business the acquisition of which does not require consent or approval under the merger agreement;

- sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any lien or otherwise dispose of any real property, or any other material interests in properties or assets, other than (i) sales in which the fair market value of all such properties and assets does not exceed $100,000,000, (ii) sales to a governmental entity required by threat of condemnation or similar proceedings, conducted in a manner consistent with past practice, (iii) sales of securities at arm's-length which are held as passive minority investments or (iv) grants of easements, rights of way and liens in the ordinary course of business or in connection with our secured indebtedness or that of any of our subsidiaries, in each case consistent with past practice;

- incur or guarantee any indebtedness or issue or sell any debt securities or options, warrants, calls or other rights to acquire any our debt securities or the debt securities of any of our subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the above, except for (i) short-term indebtedness in the ordinary course of business consistent with past practice, (ii) long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of the merger agreement (with certain exclusions), does not exceed 110% of the aggregate amount of all long-term indebtedness contemplated to be outstanding as of the end of such fiscal year by our business plan for the five-year period ending on December 31, 2005, (iii) arrangements to finance acquisitions permitted by the merger agreement or to fund capital expenditures permitted by the merger agreement, (iv) any guarantees, bid bonds, performance bonds, surety bonds, payment bonds, letters of credit and "keep well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between us and our subsidiaries or in support of our indebtedness or other obligations, of our subsidiaries or among our subsidiaries; or (v) indebtedness in an amount equal to (1) the cost of our common stock purchased to fund or provide benefits under employee benefit plans, plus (2) the amount of cash proceeds that we would otherwise expect to receive from the sale of common stock under the dividend reinvestment and stock purchase plan for so long as such plan is indefinitely suspended pursuant to the merger agreement;

- make any material loans, advances or capital contributions to, or investments in, any other person, other than any of our subsidiaries, other than (i) investments made in joint ventures permitted by the merger agreement, (ii) loans, advances, capital

contributions and investments made in connection with actions permitted by the merger agreement or (iii) in the ordinary course of business;

- incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in our five-year capital plan, other than (i) capital expenditures required by changes in or newly promulgated applicable laws or judgments or applicable standards or policies of any governmental entity, (ii) capital expenditures funded by customer advances or contributions in aid of construction, (iii) capital expenditures incremental to our five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates, (iv) capital expenditures related to the operation of any business acquired through an acquisition permitted by the merger agreement, (v) capital expenditures to the extent covered by insurance or as reasonably required

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in our judgment following a catastrophic event or (vi) capital expenditures in connection with performance by us or one of our subsidiaries under any contract to the extent our or our subsidiary's obligations in connection with any such capital expenditure are non-recourse to us or our subsidiary and funded by the United States government;

- except as required by applicable law or any judgment (i) pay, discharge, settle or satisfy any material claims (including claims o stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice, (B) as required by their terms as in effect on September 16, 2001, or on the date of acquisition of the person subject thereto or (C) incurred since September 16, 2001, in the ordinary course of business consistent with past practice, (ii) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (iii) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respect to which consent is required under, any material confidentiality, standstill or similar agreement to which we or any of our subsidiaries is a party;

- take any action to fund or in any other way secure the payment of compensation or benefits under any benefit plan or other contract, accelerate the vesting or payment of any compensation or benefit under any benefit plan or other contract, grant any compensation, benefits, severance or termination pay or increases under any benefit plan or establish, adopt, enter into, amend or terminate any benefit plan, except as required to implement grants or increases permitted by the merger agreement, except (i) as required to comply with applicable law or any judgment, any collective bargaining agreement or any provision of our benefit plans or other contract, (ii) in the ordinary course of conducting our or any of our subsidiaries' respective businesses consistent with past practice, (iii) as would, in our discretion, be commercially reasonable in order to retain our employees and employees of our subsidiaries or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by us and/or our subsidiaries or (v) as would not, individually or in the aggregate, materially increase our and our subsidiaries' annual expense for compensation and benefits provided or to be provided to our respective employees;

- enter into any material contract other than (i) any contract related to our business regulated by public utility commissions as entered into in the ordinary course of business consistent with past practice, (ii) any contract related to the water services or wastewater services industry; provided that the average aggregate annual revenues to be received by us and our subsidiaries ove the first three years of such contract, together with the total average aggregate annual revenues to be received by us and our subsidiaries over the first three years of all such other contracts entered into during the twelve-month period beginning the date of the merger agreement or during any subsequent twelve-month period shall not exceed $60 million per year; provided, further that (A) the average annual amounts of any payments to be made to us during the first three years of such contract in respect of any capital expenditures permitted by the merger agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" contract, payments in respect of the "design-build" portion of such contract to the extent that those payments are (x) guaranteed by a non-affiliate which we reasonably determine is sufficiently creditworthy or (y) passed through to third parties who perform the "design-build" portion of such contract) during the first three years of such contract shall not count against such $60 million per year limit or (iii) any contract providing for any transaction otherwise permitted by the merger agreement;

- renew any material contract unless such renewal (i) shall not modify the terms of such contract, taken as a whole, in any materia adverse respect or (ii) is on terms that are reasonably agreed to by us in carrying on our business in the ordinary course;

- modify, amend, waive or terminate any material contract other than in the ordinary course of business or the contracts filed with the SEC, in either case without consulting with Thames Water Holdings in good faith in advance; or

- authorize, or commit, resolve or agree to take any action described above.

In addition to the foregoing, if we request the consent of Thames Water Holdings to enter into a contract or to make an acquisition not otherwise permitted by the merger agreement, Thames Water Holdings will promptly inform us whether RWE or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition or contract and, if they inform us that RWE or any of its subsidiaries is participating or intends to participate in the bidding for the acquisition or contract or if they do in fact participate, then we will not be subject to the restrictions of the merger agreement with respect to that acquisition or contract. For the purposes of this procedure, unless Thames Water Holdings has given us written notice to the contrary, we may presume that RWE or one of its subsidiaries is participating in any competitive bidding process for an acquisition or contract which has been marketed broadly to major participants in the water services or wastewater services industries and we will not be required to request the consent of Thames Water Holdings or otherwise be restricted by the merger agreement with respect to that acquisition or contract.

We have agreed to consult with Thames Water Holdings and provide reasonable documentation prior to taking certain of the actions permitted by the merger agreement during the period prior to completion of the merger.

Efforts to Complete the Merger

Subject to the terms and conditions set forth in the merger agreement, each of the parties to the merger agreement has agreed to use its reasonable best efforts to take, or cause to be taken, as promptly as reasonably practicable, all actions that are necessary, proper and advisable to achieve the completion of the merger, including (i) the taking of all acts necessary to satisfy the conditions necessary for the completion of the merger, (ii) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from governmental entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain that approval or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain the approval or waiver from, or to avoid an action or proceeding by, any governmental entity and (iii) the obtaining of all necessary consents, approvals or waivers from third parties. To that effect, RWE and Thames Water Holdings, on the one hand, and we, on the other hand, have agreed to cooperate to develop a mutually acceptable plan to obtain the required regulatory approvals as expeditiously as reasonably practicable and to provide each other with assistance, information and cooperation as reasonably requested in that regard.

We, RWE and Thames Water Holdings have each agreed not to take any action that would reasonably be expected to materially impede or delay obtaining the required regulatory approvals or otherwise materially impede or delay the completion of the merger.

In addition, subject to certain exceptions, RWE and Thames Water Holdings have agreed that, prior to the completion of the merger and except as we may consent to (which consent will not be unreasonably withheld or delayed), they will not and will cause their subsidiaries not to (i) acquire any U.S. water services or wastewater services business that is regulated by a public utility commission or similar regulatory body (other than any acquisition which does not involve aggregate payments (including debt assumption) by RWE, Thames Water Holdings or their subsidiaries in excess of

$20 million), (ii) acquire any business that would cause RWE, Thames Water Holdings or any of their subsidiaries to be required to register as a holding company under the Public Utility Holding Company Act of 1935, which we refer to in this proxy statement as the Holding Company Act, (iii) acquire any business that would subject RWE, Thames Water Holdings, Apollo or any of their subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business, (iv) acquire any business that would, upon the consummation of that acquisition, subject RWE, Thames Water Holdings or any of their subsidiaries to regulation under the Holding Company Act in a manner other than that described in clauses (ii) and (iii) above or (v) acquire any business that is a U.S. gas or electric utility, if in the case of clause (iv) or this clause (v), that business is subject to regulation as a gas or electric utility by any public utility commission in any material state. RWE and Thames Water Holdings have also agreed not to acquire shares of our common stock before the approval by our stockholders of the merger agreement and not to acquire more than 4.9% of our

common stock at any time prior to the completion of the merger.

Conditions to the Merger

Conditions to Each Party's Obligations

Each party's obligation to complete the merger is subject to the satisfaction or waiver of the following conditions:

- we must obtain the adoption of the merger agreement by the affirmative vote of the holders of a majority of the votes represented by all the outstanding shares of our common stock and our cumulative preferred stock, 5% series, voting together as a single class, with each share of our common stock entitled to one vote and each share of cumulative preferred stock, 5% series entitled to 1/10th of a vote;

- the waiting period applicable to the completion of the merger under the Hart-Scott-Rodino Antitrust Improvements Act shall have expired or been terminated;

- any other required approval or waiting period under any other similar competition, merger control, antitrust or similar law or regulation the failure of which to obtain or comply with would reasonably be expected to have a material adverse effect on us, shall have been obtained or shall have terminated or expired;

- there must not be in effect any temporary restraining order, preliminary or permanent injunction or other order or decree issued by a court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the completion of the merger;

- all required regulatory approvals under the laws and judgments of any state public utility commission, state public service commission or similar state regulatory body must have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied;

- all material required regulatory approvals under the laws and judgments of any public health departments, environmental protection agencies or of any federal or state regulatory body having jurisdiction over similar matters shall have been obtained and must not have been reversed, enjoined or suspended and any waiting periods or conditions thereto must be expired or satisfied; and

- the redemption of our outstanding cumulative preferred stock, 5% series and 5% cumulative preference stock must be completed.

Conditions to RWE's, Thames Water Holdings' and Apollo's Obligations

The obligation of RWE, Thames Water Holdings and Apollo to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- our representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to have a material adverse effect on us;

- we must have performed in all material respects all obligations that we are required to perform under the merger agreement prio to the closing date;

no material adverse effect on us shall have occurred and there must be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect on us; and

- the required regulatory approvals for the merger and other regulatory approvals obtained between the date of the merger agreement and the closing date in connection with acquisitions by us must not impose any terms or conditions that would reasonably be expected to have a material adverse effect either on us or on Thames Water Holdings' U.S. subsidiaries and us, taken as a whole.

Conditions to American Water Works' Obligations

Our obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- RWE's, Thames Water Holdings' and Apollo's representations and warranties must be true and correct as of the date of the merger agreement and as of the closing date, except representations and warranties that speak as of an earlier date, which must be true and correct as of that earlier date, other than any failure to be true and correct that would not reasonably be expected to impair in any material respect the ability of RWE, Thames Water Holdings or Apollo to perform its obligations under the merger agreement or prevent or materially delay the completion of the merger; and
- RWE, Thames Water Holdings and Apollo must have performed in all material respects all obligations that each of them are required to perform under the merger agreement prior to the closing date.

No Solicitation of Other Offers

The merger agreement provides that neither we nor our representatives will:

- solicit, initiate or encourage, or take any action knowingly to facilitate the submission of, any takeover proposal, as described below; or
- except as provided below, provide any nonpublic information relating to us to any person relating to a takeover proposal, or engage in any discussions or negotiations concerning a takeover proposal.

We may, however, at any time prior to the adoption of the merger agreement by our stockholders, in response to a takeover proposal that our board of directors determines in good faith could reasonably be expected to lead to a superior proposal, as described below:

- provide information regarding us to the person making that takeover proposal pursuant to a customary confidentiality agreemen that does not contain any prohibition on making an unsolicited takeover proposal (so long as such information is concurrently provided to Thames Water Holdings); and

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- participate in discussions or negotiations with the person making that takeover proposal regarding that takeover proposal.

In addition, we have agreed that neither our board of directors nor any of its committees will:

- withdraw, or modify in a manner adverse to Thames Water Holdings or Apollo, recommendation with respect to, the merger agreement or publicly propose to do so, or recommend, or propose publicly to recommend, the approval of any takeover proposal, unless our board of directors determines in good faith, after consulting with legal counsel, that such action is necessary for our board of directors to comply with its fiduciary duties to our stockholders under applicable law and our certificate of incorporation;
- adopt or approve, or publicly propose to adopt or approve, any takeover proposal, or withdraw its approval of the merger;

- cause or permit us to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement constituting or related to a takeover proposal; or
- agree or resolve to take any of the foregoing actions.

Our board of directors may, however, at any time prior to the special meeting, terminate the merger agreement in response to a superior proposal and concurrently or promptly thereafter enter into an agreement with respect to that superior proposal if:

- it delivers written notice to Thames Water Holdings five days prior to terminating the merger agreement, advising Thames Water Holdings that it has received a superior proposal, specifying the terms and conditions of, and the identity of the person making, the superior proposal, and that it intends to accept the superior proposal and exercise its right to terminate the merger agreement; and
- prior to or concurrently with the termination, we pay to Thames Water Holdings the $138 million termination fee.

We have agreed to cease any discussion or negotiations with any third parties conducted on or before the date of the merger agreement with a view toward a takeover proposal, and to notify Thames Water Holdings of any takeover proposal and keep Thames Water Holdings informed of the status of such takeover proposal.

Nothing described above limits our ability to take actions to comply with certain rules under the Securities Exchange Act of 1934, or make any disclosure to our stockholders if, in the good faith judgment of our board of directors, after consultation with outside counsel, such failure to disclose would be inconsistent with applicable law.

For purposes of the merger agreement, the term "takeover proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to:

- a merger, consolidation or any similar transaction involving us or any of our significant subsidiaries;
- a purchase, other acquisition or assumption of assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of us and our subsidiaries, taken as a whole;
- a purchase or other acquisition of our voting securities that, if completed, would result in any person beneficially owning securities representing 20% or more of our total equity or voting interests, or that of our subsidiaries, if such subsidiaries held the assets or businesses referred to in the previous bullet point; or
- any substantially similar transaction.

The merger agreement defines the term "superior proposal" to mean:

- any bona fide written offer by a third party that if consummated would result in the third party acquiring, directly or indirectly, 50% or more of the voting power of our common stock or 50% of our and our subsidiaries' combined assets or a direct merger between such third party and us; and
- the consideration offered for which consists of cash and/or securities which our board of directors determines in its good faith judgment (after consultation with a recognized financial advisor) to be more favorable from a financial point of view to our stockholders, taking into account any counterproposals that Thames Water Holdings may make in response to a superior proposal or otherwise.

Termination of the Merger Agreement

The merger agreement may be terminated at any time prior to the completion of the merger, whether before or after stockholder approval has

been obtained:

1. by mutual written consent of American Water Works, Thames Water Holdings and Apollo;

2. by either American Water Works or Thames Water Holdings, if:

- the merger is not completed on or before March 16, 2003, except that
  - (i) this right to terminate will not be available to any party whose failure to comply with the merger agreement has been the primary reason the merger has not been completed by that date;
  - (ii) if all conditions are satisfied or are capable of being satisfied other than obtaining the required regulatory approvals, the termination date will be extended to September 16, 2003, and the date will be further extended up to an additional 60 days for any waiting period in respect of a regulatory approval that has not yet expired if all other conditions are satisfied or are capable of being satisfied; and
  - (iii) the date will be extended to September 16, 2003, if all other conditions are satisfied other than the consummation of the stock redemption and American Water Works has mailed the notice of redemption;

- any order, injunction or other legal restraint or prohibition that prevents the completion of the merger is in effect and has become final and nonappealable; or

- our stockholders do not approve the merger agreement at the special meeting;

3. by Thames Water Holdings if:

- our board of directors withdraws or modifies in a manner adverse to RWE its recommendation of the merger agreement or recommends to our stockholders any takeover proposal by a third party; or

- we have breached any of our representations or warranties, other than any failures of our representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

4. by us if:

- Thames Water Holdings has breached any of its representations or warranties, other than any failures of its representations and warranties to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect, or

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- materially breached any covenants in the merger agreement and the breach is not cured within 20 business days after written notice of the breach is delivered; or

- prior to obtaining stockholder approval, our board of directors authorizes us to enter into an agreement with respect to a takeover proposal from a third party concurrently with such termination, provided that we have complied with the provisions of the merger agreement described above under "—No Solicitation of Other Offers," including the payment to Thames Water Holdings of the $138 million termination fee described below.

Termination Fees

We must pay to Thames Water Holdings a termination fee of $138 million if the merger agreement is terminated under any of the following circumstances:

- either party terminates pursuant to the first or third bullet points under paragraph (2) above under "—Termination of the Merger Agreement", a takeover proposal shall have been made to us or any person has publicly announced an intention to make a takeover proposal prior to such termination and, within 12 months after such termination, we enter into a definitive agreement to consummate or do consummate a takeover proposal which results in a change in control;

- we terminate pursuant to the second bullet point under paragraph (4) above under "—Termination of the Merger Agreement"; or

- Thames Water Holdings terminates pursuant to the first bullet point under paragraph (3) above under "—Termination of the Merger Agreement."

Thames Water Holdings must pay to us a termination fee of $138 million if the merger agreement is terminated under any of the following circumstances:

- by either party pursuant to any of the first or second bullet points under paragraph (2), the second bullet point under paragraph (3), the first bullet point under paragraph (4) and, under certain circumstances, the second bullet point under paragraph (4), in each case above under "—Termination of the Merger Agreement," and at such time the closing conditions relating to the absence of any legal restraint preventing the closing or the receipt of all required regulatory approvals have not been satisfied; and

- any of the following are true:

  - RWE's, Thames Water Holdings' and Apollo's representations regarding regulation as a public utility are not true such that one of them or their subsidiaries is required to register as a holding company under the Holding Company Act or is subject to regulation as a public utility holding company in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business;

  - RWE or Thames Water Holdings has breached its covenant not to (x) acquire any U.S. water services or wastewater services business that is regulated by a public utility commission or similar regulatory body (other than any acquisition which does not involve aggregate payments (including debt assumption) by RWE, Thames Water Holdings or their subsidiaries in excess of $20 million), (y) acquire any business that would cause RWE, Thames Water Holdings or any of their subsidiaries to be required to register as a holding company under the Holding Company Act or (z) acquire any business that would subject RWE, Thames Water Holdings, Apollo or any of their subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business; or

  - one of RWE's, Thames Water Holdings' and Apollo's representations regarding regulation as a public utility (other than as discussed above) is no longer true or RWE or Thames

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Water Holdings has breached its covenant (x)(i) not to acquire any business that would, upon the consummation of that acquisition, subject RWE, Thames Water Holdings or any of their subsidiaries to regulation under the Holding Company Act in a manner other than that described above or (ii) acquire any business that is a U.S. gas or electric utility, if that business is subject to regulation as a gas or electric utility by any public utility commission in any material state or (y) not to take any action which would materially impede or delay obtaining any required regulatory approvals or (z) to use reasonable best efforts to obtain required regulatory approvals and, in each case, that failure to be true or breach was the primary cause of the failure to satisfy certain conditions to closing relating to regulatory approvals and other regulatory matters.

In addition, if the merger agreement is terminated by Thames Water Holdings pursuant to the second bullet point under paragraph (3) above under "—Termination of the Merger Agreement", or by us pursuant to the first bullet point under paragraph (4) above under "—Termination of the Merger Agreement" (subject to certain exceptions) then the non-terminating party must pay to the terminating party its documented out-of-pocket expenses and fees incurred in connection with the merger, which expenses and fees may not exceed $20 million.

Employee Benefits

RWE has agreed to honor and cause the surviving company to honor all employee benefit plans and collective bargaining agreements that

have been disclosed by us. In addition, subject to applicable law and any collective bargaining agreements, RWE has agreed to (i) for 12 months after the merger, maintain our employee benefit plans and programs (other than any equity or equity based plans) in accordance wit their terms as in effect prior to the merger, without adverse amendment, and (ii) for 18 months after the merger to provide, or cause the surviving entity to provide, to our employees compensation (including base pay and annual and long term incentive opportunities, and including the value of any equity-based compensation) and employee benefits that are no less favorable in the aggregate than those provided to our employees prior to the merger.

RWE has also agreed that, subject to applicable law and any collective bargaining agreements, it will, or will cause the surviving company to, provide lifetime medical and life insurance benefits at the same level as, and at the same cost (if any) as, in effect immediately prior to the date of the merger, to (i) all covered current retirees (as of the date of the merger) and (ii) all covered employees of our company and its subsidiaries who, as of the date of the merger, have satisfied all applicable eligibility requirements for purposes of our retiree medical plan as currently in effect, at such time after the merger as the employees retire. RWE has also agreed to allow our current, nonunion employees to participate in any employer stock ownership plan it maintains for its employees in the United States.

Prior to the merger, we have agreed to provide RWE commercially reasonable access to our employees for purposes of implementing the merger agreement. On September 17, 2001, we suspended indefinitely our dividend reinvestment and stock purchase plan.

Amendment, Extension and Waiver

The parties may amend the merger agreement at any time before completion of the merger. However, after adoption of the merger agreemen by our stockholders, no amendment may be made which by law requires further approval by our stockholders, unless we obtain that further approval. All amendments to the merger agreement must be in writing signed by us, RWE, Thames Water Holdings and Apollo.

At any time before the completion of the merger, each of the parties to the merger agreement may, by written instrument:

- extend the time for the performance of any of the obligations or other acts of the other parties;

- waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or
- waive compliance with any of the agreements or conditions contained in the merger agreement.

However, after adoption of the merger agreement by our stockholders, no waiver may be made which by law requires further approval by our stockholders, unless we obtain that further approval.

Amendment to Rights Agreement

In accordance with the merger agreement, as of September 16, 2001, we amended the rights agreement, dated as of February 18, 1999, as amended by the first amendment to the rights agreement, dated as of June 1, 2000, between us and Fleet National Bank, as rights agent, to provide that none of the approval, execution, delivery or performance of the merger agreement or the voting agreement or the completion of th transactions contemplated thereby will cause the rights under the rights agreement to be adjusted or become exercisable. The amendment also provides that none of the merger, the merger agreement or the voting agreement will cause Thames Water Holdings or any of its affiliates or associates to become an "acquiring person" under the rights agreement. In addition, the amendment amends the rights agreement to provide tha (1) a "shares acquisition date" will not be deemed to occur as a result of the public announcement, approval, execution, delivery or performanc of the merger agreement or the voting agreement, or the completion of the transactions contemplated thereby and (2) neither a "triggering event" nor a "distribution date" will be deemed to occur as a result of the approval, execution, delivery or performance of the merger agreemen or the voting agreement, or the completion of the transactions contemplated thereby. The amendment also provides that the rights will terminate immediately prior to the completion of the merger.

Voting Agreement

On September 16, 2001, Thames Water Holdings and some of the stockholders of American Water Works entered into a voting agreement obligating those stockholders to vote their shares in favor of the merger and against any takeover proposal (as defined in the merger agreement). On November 6, 2001, additional holders of shares of American Water Works common stock executed a joinder agreement

agreeing to be bound by the voting agreement. The stockholders that are party to the voting agreement owned or controlled, at the time of the signing of the voting agreement, 25,989,476 shares of our common stock representing approximately 26% of the total votes entitled to be cast at the special meeting. Up to approximately 5% of the shares subject to the voting agreement may be sold without restriction before the special meeting of stockholders. The voting agreement will terminate if the American Water Works board of directors exercises its right to terminate the merger agreement and accept a superior proposal (as defined in the merger agreement) and in other limited circumstances. See "— Termination of the Merger Agreement."

APPRAISAL RIGHTS

If the merger is consummated, holders of shares of American Water Works common stock are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law, provided that they comply with the conditions established by Section 262.

Section 262 is reprinted in its entirety as Annex C to this Proxy Statement. The following discussion is not a complete statement of the law relating to appraisal rights and is qualified in its entirety by reference to Annex C. This discussion and Annex C should be reviewed carefully by any holder who wishes to exercise statutory appraisal rights or who wishes to preserve the right to do so, as failure to comply with the statutory procedures will result in the loss of appraisal rights.

A record holder of shares of American Water Works common stock who does not vote in favor of the merger agreement, who makes the demand described below with respect to such shares in a timely fashion, who continuously is the record holder of such shares through the effective time of the merger and who otherwise complies with the statutory requirements of Section 262 will be entitled to an appraisal by the Delaware Court of Chancery of the fair value of his or her shares of American Water Works common stock. All references in this summary of appraisal rights to a "stockholder" or "holders of shares of American Water Works common stock" are to the record holder or holders of shares of American Water Works common stock. Except as set forth herein, stockholders of American Water Works will not be entitled to appraisal rights in connection with the merger.

Under Section 262, where a merger is to be submitted for approval at a meeting of stockholders, as in the case of the special meeting, not less than 20 days prior to the meeting the corporation must notify each of the holders of its stock who is entitled to appraisal rights that appraisal rights are available and include in the notice a copy of Section 262. This proxy statement constitutes that notice to you, and a copy of Section 262 is attached to this proxy statement as Annex C.

Holders of shares of American Water Works common stock who desire to exercise their appraisal rights must not vote in favor of the merger and must deliver a separate written demand for appraisal to American Water Works prior to the vote by the stockholders of American Water Works on the merger. A demand for appraisal must be executed by or on behalf of the stockholder of record and must reasonably inform American Water Works of the identity of the stockholder of record and that the stockholder intends to demand appraisal of his or her shares. A proxy or vote against the merger will not by itself constitute that demand. The written demand for appraisal must be in addition to and separate from any proxy or vote. Any stockholder making such a demand must thereafter continue to hold his or her shares of record until the effective time of the merger to be eligible for appraisal rights. Within ten days after the effective time of the merger, American Water Works must provide notice of the effective time to all stockholders who have complied with Section 262.

A stockholder who elects to exercise appraisal rights should mail or deliver his or her written demand to: American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, New Jersey 08043, Attention: W. Timothy Pohl.

A person having a beneficial interest in shares of American Water Works common stock that are held of record in the name of another person, such as a broker, fiduciary, depositary or other nominee, must act promptly to cause the record holder to follow the steps summarized in this proxy statement properly and in a timely manner to perfect appraisal rights. If the shares of American Water Works common stock are owned of record by a person other than the beneficial owner, including a broker, fiduciary (such as a trustee, guardian or custodian), depositary or other nominee, the demand for appraisal must be executed by or for the record owner. If the shares of American Water Works common stoc are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand must be executed by or for all joint owners. An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner and expressly disclose the fact that, in exercising the

demand, such person is acting as agent for the record owner. If a stockholder holds shares of American Water Works common stock through a

broker who in turn holds the shares through a central securities depository nominee such as Cede & Co., a demand for appraisal of such shares must be made by or on behalf of the depository nominee and must identify the depository nominee as record holder.

A record holder, such as a broker, fiduciary, depositary or other nominee, who holds shares of American Water Works common stock as a nominee for others, may exercise appraisal rights with respect to the shares held for all or less than all beneficial owners of shares as to which such person is the record owner. In such case, the written demand must set forth the number of shares covered by the demand. Where the number of shares is not expressly stated, the demand will be presumed to cover all shares of American Water Works common stock outstanding in the name of the record owner.

Within 120 days after the effective time of the merger, either American Water Works or any stockholder who has complied with the provisions of Section 262 may file a petition in the Delaware Court, with a copy served on American Water Works in the case of a petition filed by a stockholder, demanding a determination of the fair value of the shares of all stockholders who have properly demanded appraisal rights. There is no present intent on the part of American Water Works to file an appraisal petition and stockholders seeking to exercise appraisal rights should not assume that American Water Works will file a petition for appraisal. Accordingly, holders of American Water Works common stock who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner set forth in Section 262. Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 to that point in time will be entitled, upon written request, to receive from American Water Works a statement setting forth the aggregate number of shares of American Water Works common stock not voted in favor of the merger agreement and with respect to which demands for appraisal were received by American Water Works and the number of holders of the shares. This statement must be mailed (a) within 10 days after the written request has been received by American Water Works or (b) within 10 days after the expiration of the period for the delivery of demands as described above, whichever is later.

If a petition for an appraisal is timely filed, at the hearing on the petition, the Delaware Court will determine which stockholders are entitled to appraisal rights. The Delaware Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with this requirement, the Delaware Court may dismiss the proceedings as to that stockholder. Where proceedings are not dismissed, the Delaware Court will appraise the shares of American Water Works common stock owned by stockholders who have perfected their appraisal rights, determining the fair value of their shares exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value.

Although American Water Works believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the court and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Moreover, American Water Works does not anticipate offering more than the merger consideration to any stockholder exercising appraisal rights and reserves the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the "fair value" of a share of American Water Works common stock is less than the merger consideration. In determining "fair value," the Delaware Court is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.* the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered and that "[f]air price obviously requires consideration of all relevant factors

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involving the value of a company." The Delaware Supreme Court has stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that this exclusion is a "narrow exclusion [that] does not encompass known elements of value," but rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

The cost of the appraisal proceeding may be determined by the Delaware Court and taxed against the parties as the Delaware Court deems equitable in the circumstances. However, costs do not include attorneys' and expert witness fees. Each dissenting stockholder is responsible for his or her attorneys' and expert witness expenses, although, upon application of a stockholder party to the appraisal proceeding, the Delaware Court may order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all shares of stock entitled to appraisal.

Any holder of shares of American Water Works common stock who has duly demanded appraisal in compliance with Section 262 will not,

after the effective time of the merger, be entitled to vote the shares subject to the demand or to receive payment of dividends or other distributions on the shares, except for dividends or distributions payable to stockholders of record at a date prior to the effective time of the merger.

At any time within 60 days after the effective time of the merger, any stockholder will have the right to withdraw a demand for appraisal and to accept the terms offered in the merger; after this period, the stockholder may withdraw the demand only with the consent of American Wate Works. If no petition for appraisal is filed with the Delaware Court within 120 days after the effective time of the merger, stockholders' rights to appraisal will cease, and all holders of shares of American Water Works common stock will be entitled to receive the consideration offered pursuant to the merger agreement. Because American Water Works has no obligation to file a petition for appraisal, and has no present intention to do so, any holder of shares of American Water Works common stock who desires a petition to be filed is advised to file it on a timely basis. Any stockholder may withdraw his or her demand for appraisal by delivering to American Water Works a written withdrawal of his or her demand for appraisal and acceptance of the merger consideration, except that (a) any attempt to withdraw made more than 60 days after the effective time of the merger will require written approval of American Water Works and (b) no appraisal proceeding in the Delaware Court shall be dismissed as to any stockholder without the approval of the Delaware Court, and approval may be conditioned upon any terms the Delaware Court deems just.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of October 31, 2001 with respect to beneficial ownership of our common stock by:

- our directors;
- our six most highly compensated executive officers; and
- all directors and executive officers of American Water Works as a group.

If a director or executive officer owns less than one percent of our common stock, no percentage is shown under the heading "Percent of Class." Information for the table was obtained from the directors and executive officers. For purposes of the table, a person is a "beneficial owner" of our common stock if that person, directly or indirectly, has or shares with others (a) the power to vote or direct the voting of the common stock or (b) investment power with respect to the common stock, which includes the power to dispose or direct the disposition of the common stock.

	Amount and Nature of Beneficial Ownership					
Name of Individual or Number of Persons in Group	Sole Voting or Investment Power(1)	Shared Voting or Investment Power(2)	Acquirable Within 60 Days(3)	Shares Owned by Spouse and Children(2)	Total	Percent of Class
William O. Albertini	13,818				13,818	*
J. James Barr	743,916		47,734	1,018	792,668	*
Rhoda W. Cobb	6,000	2,230,568		1,500	2,238,068	2.2%
Elizabeth H. Gemmill	47,309	2,029,234			2,076,543	2.1%
Ray J. Groves	4,317				4,317	*
Henry G. Hager	8,000			15,548	23,548	*
Frederick S. Kirkpatrick	10,000	4,769,720			4,779,720	4.8%
Gerald C. Smith	43,199		19,975	71	63,245	*
Anthony P. Terracciano	64,000				64,000	*
Nancy Ware Wainwright.	6,824	2,047,891			2,054,715	2.1%
Marilyn Ware	4,914,260	4,873,645			9,787,905	9.8%
Paul W. Ware	17,090	810,491			827,581	*
Ross A. Webber	3,945			200	4,145	*
William S. White	10,000	7,750,795			7,760,795	7.8%
Horace Wilkins, Jr	1,931				1,931	*

Joseph F. Hartnett, Jr	9,930		8,817		18,747	*
Daniel L. Kelleher	22,257		15,667		37,924	*
W. Timothy Pohl	22,190				22,190	*
Robert D. Sievers	9,464		8,817		18,281	*
Ellen C. Wolf	1,434		20,217	200	21,851	*
All directors and executive officers as a group (20 persons)	5,959,884	17,064,680	121,227	18,537	23,164,328(4)	23%(4)

*

Represents holdings of less than one percent.

(1)

Includes shares of American Water Works' common stock credited through September 2001 to the accounts of the executive officers pursuant to American Water Works' Employees' Stock Ownership Plan and Savings Plan for Employees.

(2)

Cobb Foundation, a charitable trust of which Rhoda W. Cobb is a trustee, owns 350,000 shares of American Water Works' common stock. Catlin Foundation, a charitable trust of which Nancy Ware

Wainwright is a trustee, owns 167,323 shares of American Water Works' common stock. Oxford Foundation, Inc., a nonprofit corporation of which Marilyn Ware and Paul W. Ware are directors, owns 797,376 shares of American Water Works' common stock. Warwick Foundation, a charitable foundation of which Elizabeth H. Gemmill is the Managing Trustee, owns 615,000 shares of American Water Works' common stock and 200 shares of American Water Works' cumulative preferred stock, 5% series.

Frederick S. Kirkpatrick and William S. White are trustees of a trust which owns 4,769,720 shares of American Water Works' common stock the beneficiaries of which are relatives of Mr. White.

Rhoda W. Cobb and Nancy Ware Wainright are trustees of the Rhoda C. Ware Revocable Trust. This trust owns 1,451,996 shares of American Water Works' common stock, the beneficiaries of which are Rhoda C. Ware and others. Ware Family Investments, LTD. owns 428,572 shares of American Water Works' common stock. Rhoda W. Cobb and Nancy Ware Wainwright are trustees of the general partner of this limited partnership.

As the trustees or directors of these entities have voting and investment power, the shares of American Water Works' common stock held by such entities are shown opposite the name of the director or executive officer, but such shares are reported only once in the total for directors and executive officers as a group. The directors deny beneficial ownership of such shares.

The directors and executive officers deny beneficial ownership of shares owned by their spouses and minor children.

(3)

Reflects the number of shares that could be purchased by the exercise of options within 60 days of October 31, 2001.

(4)

Shares are reported only once in the total for directors and executive officers as a group.

None of the directors or executive officers has any material interest in any other stock of American Water Works or its subsidiaries.

Based upon information available to American Water Works, as of October 31, 2001, the following persons beneficially own more than 5% of American Water Works' common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership: Sole Voting or Investment Power	Amount and Nature of Beneficial Ownership: Shared Voting or Investment Power	Percent of Class

The Bessemer Group, Incorporated 100 Woodbridge Center Drive Woodbridge, NJ 07095	7,021,454	100	7.0%
RWE Aktiengesellschaft(1) Thames Water Aqua Holdings GmbH Opernplatz 1, D-45128 Essen, Germany	0	25,989,476	26.0%

(1) According to the Schedule 13D jointly filed by RWE and Thames Water Holdings on September 25, 2001, as amended by Amendment No. 1 dated November 13, 2001, each of them is deemed to have shared voting power over 25,989,476 shares of our common stock and shared dispositive power over 24,647,414 shares of our common stock, in each case pursuant to the voting agreement entered into in connection with the merger agreement between Thames Water Holdings and certain of our stockholders. See "The Merger Agreement—Voting Agreement."

Based upon filings with the Securities and Exchange Commission, as of October 31, 2001, there are no persons who own beneficially more than 5% of the outstanding shares of our cumulative preferred stock, 5% series.

OTHER MATTERS

Other Matters for Action at the Special Meeting

Our board of directors is not aware of any matters to be presented for action at the special meeting other than those described in this proxy statement. If other matters should properly come before the special meeting, we intend that the holders of proxies solicited by this proxy statement will vote on those matters in their discretion.

Proposals by Holders of Shares of Common Stock

Following the merger, we will not be a publicly held company. We do not anticipate that the merger will be completed prior to our regular annual meeting of stockholders in 2002, scheduled to be held in early May 2002. Under the rules of the Securities and Exchange Commission, we must have received proposals of stockholders intended to be presented at and included in the proxy statement for the annual meeting of stockholders in 2002 by November 28, 2001.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. These statements may be made directly in this proxy statement referring to us, and they may also be made a part of this proxy statement by reference to other documents filed by us with the Securities and Exchange Commission, which is known as "incorporation by reference."

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "objective," "strategy," "goal" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the acquisition of us by RWE, identify forward-looking statements. Our forward-looking statements are based on our management's current views about future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following risks related to our business and the merger, among others, could cause or contribute to actual results differing materially from those described in the forward-looking statements:

- success of pending applications for rate increases;

- inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions and divestitures;
- weather conditions that tend to extremes of temperature or duration;
- availability, terms and development of capital;
- business abilities and judgment of personnel;
- changes in, or the failure to comply with, governmental regulations, particularly those affecting the environment and water quality;
- competition;
- success of operating initiatives, advertising and promotional efforts;
- existence of adverse publicity or litigation;
- changes in business strategy or plans;
- quality of management;
- general economic, business and financial market conditions;
- the identity or involvement in the merger of RWE;
- the ability to satisfy the conditions to closing set forth in the definitive merger agreement; and
- other factors described in our filings with the SEC.

We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this proxy statement or the date of the documents incorporated by reference in this proxy statement. Except as required by law, we are under no obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forwardlooking statements, please see the quarterly reports on Form 10-Q and the annual reports on Form 10-K that American Water Works has filed with the Securities and Exchange Commission as described under "Where You Can Find More Information."

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's public reference rooms in Washington, D. C., New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's website at *http://www.sec.gov*. Copies of documents filed by us with the Securities and Exchange Commission are also available at the offices of The New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Statements contained in this proxy statement, or in any document incorporated in this proxy statement by reference regarding the contents of any contract or other document, are not necessarily complete and each such statement is qualified in its entirety by reference to such contract or other document filed as an exhibit with the Securities and Exchange Commission.

The Securities and Exchange Commission allows us to "incorporate by reference," into this proxy statement documents we file with the Securities and Exchange Commission. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the Securities and Exchange Commission will update and supersede that information. We incorporate by reference the documents listed below and any documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement and before the date of the special meeting:

American Water Works Filings	**Periods:**
Annual Report on Form 10-K	Year ended December 31, 2000
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2001, June 30, 2001 and September 30, 2001
Current Reports on Form 8-K	Filed August 7, 2001, August 30, 2001, September 17, 2001, October 30, 2001, November 7, 2001 and November 8, 2001
American Water Works' proxy statement for its 2001 annual meeting of stockholders	Filed March 25, 2001

You may request a copy of the documents incorporated by reference into this proxy statement by writing to, telephoning or emailing us.

Requests for documents should be directed to:

W. Timothy Pohl
American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, New Jersey 08043
Telephone: (856) 346-8223
E-mail address: wpohl@amwater.com

If you would like to request documents from us, please do so at least five business days before the date of the special meeting in order to receive timely delivery of such documents prior to the special meeting.

This proxy statement does not constitute the solicitation of a proxy in any jurisdiction to or from any person to whom or from whom it is unlawful to make such proxy solicitation in such jurisdiction. You should rely only on the information contained or incorporated by reference in this proxy statement to vote your shares at the special meeting. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated December 5, 2001. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to stockholders does not create any implication to the contrary.

Annex

AGREEMENT AND PLAN OF MERGER

Among

RWE AKTIENGESELLSCHAFT,

THAMES WATER AQUA HOLDINGS GMBH,

APOLLO ACQUISITION COMPANY

And

AMERICAN WATER WORKS COMPANY, INC.

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EXHIBIT A Certificate of Incorporation

AGREEMENT AND PLAN OF MERGER dated as of September 16, 2001, by and among RWE AKTIENGESELLSCHAFT, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), THAMES WATER AQUA HOLDINGS GMBH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), APOLLO ACQUISITION COMPANY, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), and AMERICAN WATER WORKS COMPANY, INC., a Delaware corporation (the "Company").

WHEREAS the Board of Directors of each of the Company and Sub has approved and declared advisable, the Supervisory Board of Guarantor has approved and deemed advisable, and the Managing Directors of Parent have approved and declared advisable, this Agreement and the merger of Sub with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of Common Stock, par value $1.25 per share, of the Company (the "Company Common Stock") not owned by Parent, Sub or the Company, other than the Appraisal Shares (as defined in Section 2.01(d)), will be converted into the right to receive $46.00 in cash;

WHEREAS simultaneously with the execution and delivery of this Agreement, Parent and certain stockholders of the Company (the "Specified Company Stockholders") are entering into a voting agreement (the "Company Voting Agreement") pursuant to which the Specified Company Stockholders are agreeing to take certain actions in furtherance of the Merger; and

WHEREAS Guarantor, Parent, Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

The Merger

SECTION 1.01 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware General Corporation Law (the "DGCL"), Sub shall be merged with and into the Company at the Effective Time (as defined in Section 1.03). A

the Effective Time, the separate corporate existence of Sub shall cease and the Company shall continue as the surviving corporation (the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of Sub in accordance with the DGCL.

SECTION 1.02 *Closing.* Upon the terms and subject to the conditions set forth in this Agreement, the closing of the Merger (the "Closing") shall take place at 11:00 a.m., New York time, on the second business day after the satisfaction or waiver of the conditions set forth in Article VI (other than those that by their terms cannot be satisfied until the time of the Closing), at the offices of Cravath, Swaine & Moore, 825 Eighth Avenue, New York, New York 10019, or at such other time, date or place agreed to in writing by Parent and the Company; *provided, however,* that if all the conditions set forth in Article VI shall not have been satisfied or waived on such second business day, then the Closing shall take place on the first business day on which all such conditions shall have been satisfied or waived. The date on which the Closing occurs is referred to in this Agreement as the "Closing Date."

SECTION 1.03 *Effective Time.* Upon the terms and subject to the conditions set forth in this Agreement, as soon as practicable on or after the Closing Date, a certificate of merger or other appropriate documents (in any such case, the "Certificate of Merger") shall be duly prepared and executed by the parties in accordance with the relevant provisions of the DGCL and filed with the

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Secretary of State of the State of Delaware. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such subsequent time or date as Parent and the Company shall agree and specify in the Certificate of Merger. The time at which the Merger becomes effective is referred to in this Agreement as the "Effective Time."

SECTION 1.04 *Effects of the Merger.* The Merger shall have the effects set forth in Section 259 of the DGCL.

SECTION 1.05 *Certificate of Incorporation and By-laws.* (a) The Restated Certificate of Incorporation of the Company shall be amended a the Effective Time to read in the form of Exhibit A and, as so amended, such Restated Certificate of Incorporation shall be the Restated Certificate of Incorporation of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

(b) The By-laws of Sub as in effect immediately prior to the Effective Time shall be the By-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law.

SECTION 1.06 *Directors.* (a) The directors of Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

(b) Guarantor shall take all necessary action to cause J. James Barr to be elected as a director, as of the Effective Time, of Thames Water Plc ("Thames").

(c) Guarantor shall take all necessary action to cause Marilyn Ware to be elected as a member, as of the Effective Time, of the Thames Water International Advisory Council.

SECTION 1.07 *Officers.* The officers of the Company immediately prior to the Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE II

Conversion of Securities

SECTION 2.01 *Conversion of Capital Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of capital stock of the Company or Sub: (a)*Capital Stock of Sub.* Each issued and outstanding share of common stock of Sub shall be converted into and become one fully paid and nonassessable share of common stock, per value $1.00 per share, of the Surviving Corporation.

(b) *Cancelation of Treasury Stock and Parent-Owned Stock.* Each share of Company Common Stock that is owned by the Company, as treasury stock, or by Parent or Sub immediately prior to the Effective Time shall automatically be canceled and shall cease to exist and no consideration shall be delivered or deliverable in exchange therefor.

(c) *Conversion of Company Common Stock.* Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled in accordance with Section 2.01(b) and the Appraisal Shares) shall be converted into the right to receive $46.00 in cash without interest (the "Merger Consideration"). At the Effective Time all such shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of a certificate that immediately prior to the Effective Time represented any such shares (a "Certificate") shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any dividends declared and unpaid thereon payable to holders of record thereof as of a record date preceding the Effective Time. Following the Effective Time, upon surrender of Certificates in

accordance with Section 2.02, the Surviving Corporation shall pay to the holders of Certificates as of the Effective Time any unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C).

(d) *Appraisal Rights.* Notwithstanding anything in this Agreement to the contrary, shares (the "Appraisal Shares") of Company Common Stock issued and outstanding immediately prior to the Effective Time that are held by any holder who is entitled to demand and properly demands appraisal of such shares pursuant to, and who complies in all respects with, the provisions of Section 262 of the DGCL ("Section 262") shall not be converted into the right to receive the Merger Consideration as provided in Section 2.01(c), but instead such holder shall be entitled to payment of the fair value of such shares in accordance with the provisions of Section 262. At the Effective Time, all Appraisal Shares shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and each holder of Appraisal Shares shall cease to have any rights with respect thereto, except the right to receive the fair value of such shares in accordance with the provisions of Section 262. Notwithstanding the foregoing, if any such holder shall fail to perfect or otherwise shall waive, withdraw or lose the right to appraisal under Section 262 or a court of competent jurisdiction shall determine that such holder is not entitled to the relief provided by Section 262, then the right of such holder to be paid the fair value of such holder's Appraisal Shares under Section 262 shall cease and each such Appraisal Share shall be deemed to have been converted at the Effective Time into, and shall have become, the right to receive the Merger Consideration as provided in Section 2.01(c). The Company shall serve prompt notice to Parent of any demands for appraisal of any shares of Company Common Stock, and Parent shall have the right to participate in and direct all negotiations and proceedings with respect to such demands. Prior to the Effective Time, the Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands, or agree to do any of the foregoing.

SECTION 2.02 *Exchange of Certificates.* (a) *Paying Agent.* Prior to the Effective Time, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the payment of the Merger Consideration upon surrender of Certificates (the "Paying Agent"). Parent shall take all steps necessary to enable, and shall cause, the Surviving Corporation to provide to the Paying Agent immediately following the Effective Time all the cash necessary to pay for the shares of Company Common Stock converted into the right to receive the Merger Consideration pursuant to Section 2.01(c), plus any amounts payable in respect of unpaid dividends declared in respect of the Company Common Stock with a record date prior to the Effective Time and which remain unpaid at the Effective Time, including the "stub period" dividend referred to in Section 4.01(a)(i)(x)(C) (such cash being hereinafter referred to as the "Exchange Fund").

(b) *Exchange Procedure.* As soon as reasonably practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a Certificate (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates held by such person shall pass, only upon proper delivery of the Certificates to the Paying Agent and shall be in customary form and have such other provisions as Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancelation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the amount of cash payable in respect of the shares formerly represented by such Certificate pursuant to Section 2.01(c), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock that is not registered in the stock transfer books of the Company, the proper amount of cash may be paid in exchange therefor to a person other than the person in whose name the Certificate so

surrendered is registered, if such Certificate shall be properly endorsed or otherwise be in proper form for transfer, and the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the satisfaction of Parent that such tax has been paid or is not applicable. No interest shall be paid or shall accrue on the cash payable upon surrender of any Certificate.

(c) *No Further Ownership Rights in Company Common Stock.* All cash paid upon the surrender of a Certificate in accordance with the terms

of this Article II shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock formerly represented by such Certificate. At the close of business on the day on which the Effective Time occurs the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock that were outstanding, immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Paying Agent for transfer or any other reason, they shall be canceled and exchanged as provided in this Article II.

(d) *Termination of Exchange Fund.* Any portion of the Exchange Fund that remains undistributed to the holders of Company Common Stock for one year after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holder of Company Common Stock who has not theretofore complied with this Article II, shall thereafter look only to the Surviving Corporation for payment of its claim for Merger Consideration.

(e) *No Liability.* None of Parent, the Surviving Corporation or the Paying Agent shall be liable to any person in respect of any cash delivered to a public official pursuant to any applicable abandoned property, escheat, or similar law. If any Certificates shall not have been surrendered prior to three years after the Effective Time (or immediately prior to such earlier date on which any Merger Consideration would otherwise escheat to or became the property of any Governmental Entity (as defined in Section 3.01(d))), any such Merger Consideration in respect thereof shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(f) *Investment of Exchange Fund.* The Paying Agent shall invest any cash included in the Exchange Fund, as directed by Parent, on a daily basis; *provided, however,* that such investments shall be in (i) obligations of or guaranteed by the United States of America and backed by the full faith and credit of the United States of America (ii) commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively (iii) certificates of deposit maturing not more than 180 days after the date of purchase issued by a bank organized under the laws of the United States or any state thereof having a combined capital and surplus of at least $500,000,000 or (iv) a money market fund having assets of at least $3,000,000,000. Any interest and other income resulting from such investments shall be paid to Parent.

(g) *Lost Certificates.* If any Certificate shall have been lost, stolen, defaced or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, defaced or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent shall pay in respect of such lost, stolen, defaced or destroyed Certificate the Merger Consideration.

(h) *Withholding Rights.* Parent, the Surviving Corporation or the Paying Agent shall be entitled to deduct and withhold any applicable taxes from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock.

SECTION 2.03 *Redemption of Preferred Stock and Preference Stock.* On or prior to the date on which the Effective Time occurs, but in an event prior to the Effective Time, the Company shall

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redeem (the "Stock Redemption") (i) each issued and outstanding share of its Cumulative Preferred Stock, 5% Series, par value $25.00 per share (the "Company 5% Cumulative Preferred Stock"), for a redemption price of $25.25 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 6 ("Section 6") of Division A of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 6) and (ii) each issued and outstanding share of its 5% Cumulative Preference Stock, par value $25.00 per share (the "Company 5% Cumulative Preference Stock" and, together with the Company 5% Cumulative Preferred Stock and the Company Common Stock, the "Company Capital Stock"), for a redemption price of $25.00 per share plus an amount equal to full cumulative dividends thereon (as defined in Section 5 ("Section 5") of Division B of Article Fourth of the Restated Certificate of Incorporation of the Company, as amended to the date of this Agreement) to the redemption date (as defined in Section 5) (the redemption price for the Company 5% Cumulative Preferred Stock and the Company 5% Cumulative Preference Stock being referred to as the "Redemption Price").

ARTICLE III

Representations and Warranties

SECTION 3.01 *Representations and Warranties of the Company* The Company represents and warrants to Parent and Sub as follows: (a) *Organization, Standing and Power.* Each of the Company and each of its subsidiaries (as defined in Section 8.03) (i) is duly organized, validly

existing and in good standing under the laws of the jurisdiction of its organization, (ii) has all requisite corporate power and authority to carry on its business as now being conducted and (iii) except as set forth in Section 3.01(a) of the disclosure schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), is duly qualified or licensed to do business and is in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to have a material adverse effect (as defined in Section 8.03). The Company has made available to Parent and its representatives true and complete copies of (A) the Restated Certificate of Incorporation and By-laws of the Company by reference to the Filed SEC Documents (as defined in Section 3.01(e)), in each case as amended to the date of this Agreement and (B) the minutes of all meetings of the stockholders, the Board of Directors and each committee of the Board of Directors of the Company since June 1, 1998.

(b) *Subsidiaries.* Section 3.01(b)(i) of the Company Disclosure Schedule contains a true and complete list of each Significant Subsidiary (as defined in Section 8.03) of the Company as of the date of this Agreement, including its jurisdiction of organization, the Company's interest therein and a brief description of the principal line or lines of business conducted by each such Significant Subsidiary. Except as set forth in Section 3.01(b)(i) of the Company Disclosure Schedule, all the issued and outstanding shares of capital stock of, or other equity or voting interests in, each subsidiary of the Company as of the date of this Agreement are owned by the Company, by another wholly owned subsidiary of the Company or by the Company and another wholly owned subsidiary of the Company, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens"), and are duly authorized, validly issued, fully paid and nonassessable. Except for the capital stock of, or other equity or voting interests in, its subsidiaries and as set forth in Section 3.01(b)(ii) of the Company Disclosure Schedule, as of the date of this Agreement, the Company does not own, directly or indirectly, any capital stock of, or other equity or voting interests in, any corporation, partnership, joint venture, association, limited liability company or other entity.

(c) *Capital Structure.* The authorized capital stock of the Company consists of (i) 300,000,000 shares of Company Common Stock, (ii) 1,770,000 shares of Cumulative Preferred Stock, par value $25.00 per share (the "Company Cumulative Preferred Stock"), of which 101,777 shares have been designated as Company 5% Cumulative Preferred Stock, (iii) 750,000 shares of Cumulative Preference Stock, par value $25.00 per share (the "Company Cumulative Preference Stock"), of which 365,158 shares have been designated as Company 5% Cumulative Preference Stock and (iv) 3,000,000 shares of Cumulative Preferential Stock, par value $35.00 per share (the "Company Cumulative Preferential Stock"). As of the close of business on September 10, 2001, (1) 99,817,628 shares of Company Common Stock (excluding shares held by the Company as treasury shares) were issued and outstanding, (2) 63,693 shares of Company Common Stock were held by the Company as treasury shares, (3) 2,232,100 shares of Company Common Stock were reserved for issuance pursuant to the Company's 2000 Stock Award and Incentive Plan and the Company's LongTerm Performance-Based Incentive Plan (such plans, collectively, the "Company Stock Plans"), of which 905,751 shares were subject to outstanding Company Stock Options (as defined below), (4) the following number of shares of Company Common Stock were reserved (or registered with the SEC (as defined in Section 3.01(d)) for issuance pursuant to each of the following Company Benefit Plans (as defined below): 876,125 shares under the Savings Plan For Employees of American Water Works Company, Inc. and its Designated Subsidiaries, 942,157 shares under the Employees' Stock Ownership Plan of American Water Works Company, Inc. and its Designated Subsidiaries, 50,000 shares under the Company's Deferred Compensation Plan, 10,000 shares under the Company's Director Deferred Compensation Plan and 1,755,049 shares under the Company's Dividend Reinvestment and Stock Purchase Plan (collectively, the "Other Company Stock Plans"), (5) 80,865,863 shares of Company Common Stock were reserved for issuance in connection with the rights (the "Company Rights") issued pursuant to the Rights Agreement dated as of February 18, 1999, as amended as of June 1, 2000 (as amended from time to time (the "Company Rights Agreement")), between the Company and BankBoston N.A. (presently known as Fleet National Bank), as Rights Agent, (6) 101,777 shares of Company 5% Cumulative Preferred Stock were issued and outstanding, (7) 365,158 shares of Company 5% Cumulative Preference Stock were issued and outstanding, (8) no shares of Company Cumulative Preferred Stock (other than the Company 5% Cumulative Preferred Stock) were issued and outstanding, (9) no shares of Company Cumulative Preference Stock (other than the Company 5% Cumulative Preference Stock) were issued and outstanding and (10) no shares of Company Cumulative Preferential Stock were issued and outstanding. There are no outstanding stock appreciation rights or other rights that are linked to the price of Company Common Stock granted under any Company Stock Plan whether or not granted in tandem with a related Company Stock Option (as defined below). No shares of Company Capital Stock are owned by any subsidiary of the Company. As of the close of business on September 10, 2001, there were outstanding options to purchase Company Common Stock granted under the Company Stock Plans (collectively, the "Company Stock Options") to purchase 905,751 shares of Company Common Stock with exercise prices on a per share basis lower than the Merger Consideration, and the weighted average exercise price of such Company Stock Options was equal to $23.65. Except as set forth above, as of the close of business on September 10, 2001, no shares of capital stock of, or other equity or voting interests in, the Company, or options, warrants or other rights to acquire any such stock or securities, were issued, reserved for issuance or outstanding. During the period from September 10, 2001 to the date of this Agreement, (x) there have been no issuances by the Company of shares of capital stock of, or other equity or voting interests in, the Company other than issuances of shares of Company Common Stock pursuant to the exercise of Company Stock Options outstanding on such date in accordance with their terms as in effect on the date of this Agreement and (y) there have been no issuances by the Company of options, warrants or other rights to acquire shares of capital stock or other equity or voting interests from the Company. All outstanding shares of capital stock of the Company are, and all shares that may be issued pursuant to the Company Stock Plans and Other Company Stock Plans will be, when issued in accordance with the terms thereof, duly authorized, validly

issued, fully paid and nonassessable and not subject to preemptive rights. There

are no bonds, debentures, notes or other indebtedness of the Company or any of its subsidiaries, and, except as set forth above, no securities or other instruments or obligations of the Company or any of its subsidiaries the value of which is in any way based upon or derived from any capital or voting stock of the Company, having in any such case at any time (whether actual or contingent) the right to vote (or convertible into or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company or any of its subsidiaries may vote. Except as set forth above and except as specifically permitted under Section 4.01(a) (including as set forth in Section 4.01(a)(ii) of the Company Disclosure Schedule), there are no Contracts (as defined in Section 3.01(d)) of any kind to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound obligating the Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of, or other equity or voting interests in, or securities convertible into, or exchangeable or exercisable for, shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries or obligating the Company or any of its subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right or Contract. Except for the Stock Redemption and the redemption terms of any preferred stock of any of the Company's subsidiaries and as permitted by Section 4.01(a)(i)(y), there are not any outstanding contractual obligations of the Company or any of its subsidiaries to (I) repurchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or any of its subsidiaries as of the date of this Agreement or (II) vote or dispose of any shares of the capital stock of, or other equity or voting interests in, any of the Company's subsidiaries as of the date of this Agreement. The copy of the Company Rights Agreement on file with the SEC (as defined in Section 3.01(d)) as an exhibit to the Form 8-A Registration Statement of the Company filed with the SEC on March 1, 1999, as amended by the amendment thereto on file with the SEC as an exhibit to the Form 8A Registration Statement of the Company filed on June 1, 2000, is complete and correct.

(d) *Authority; Noncontravention.* (i) The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Stockholder Approval (as defined in Section 3.01(n)) and the Company Required Consents (as defined below), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby subject, in the case of the consummation of the Merger, to obtaining the Stockholder Approval (assuming consummation of the Stock Redemption). This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. The Board of Directors of the Company, at a meeting duly called and held at which all directors of the Company were present, duly and unanimously adopted resolutions (A) approving the Stock Redemption and the Company Voting Agreement and approving and declaring advisable this Agreement, the Merger and the other transactions contemplated hereby, (B) directing that this Agreement be submitted to a vote at a meeting of the Company's stockholders and (C) recommending that the Company's stockholders adopt this Agreement. In its determination of whether the Merger is in the best interests of the Company's stockholders, the Board of Directors of the Company has complied with the provisions of Article Tenth of the Restated Certificate of Incorporation of the Company. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, o both) under, or give rise to a right of, or result in, termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any Lien in or upon any of the properties or assets of the Company or any of its subsidiaries under, or give rise to any increased, additional, accelerated or

guaranteed rights or entitlements under, any provision of (x) the Restated Certificate of Incorporation or By-laws of the Company or the certificate of incorporation or by-laws (or similar organizational documents) of any of its subsidiaries, (y) subject to obtaining the third party consents set forth in Section 3.01(d) of the Company Disclosure Schedule, any loan or credit agreement, bond, debenture, note, mortgage, indenture, guarantee, lease or other contract, agreement, instrument, arrangement or understanding, whether oral or written (each, including all amendments thereto, a "Contract"), to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject or (z) subject to obtaining the Company Required Consents and the receipt of the Stockholder Approval and the other matters referred to in the following sentence, any (A) statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective properties or assets ("Applicable Law"), (B) judgment, order or decree applicable to the Company or any of its subsidiaries or their respective properties or assets ("Judgment"), or (C) Permit (as defined in Section 3.01(h)) other than, in the case of clauses (y) and (z), any suc conflicts, violations, breaches, defaults, rights, losses, Liens or entitlements that individually or in the aggregate would not reasonably be expected to have a material adverse effect. No consent, approval, order or authorization of, registration, declaration or filing with, or notice to, any domestic or foreign (whether national, federal, state, provincial, local or otherwise) government or any court, administrative agency or commission or other governmental or regulatory authority or agency (including a state public utility commission, state public service

commission or similar state regulatory body (each, a "PUC")) (each a "Governmental Entity"), is required by or with respect to the Company or any of its subsidiaries in connection with (I) the execution and delivery of this Agreement by the Company (II) the execution and delivery of the Company Voting Agreement or (III) the consummation of the transactions contemplated hereby and thereby or compliance with the provisions hereof and thereof, except for (1) the filing of a premerger notification and report form by the Company under the HartScott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the receipt, termination or expiration, as applicable, of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws or regulations of Canada or the Investment Canada Act, if applicable (2) the filing with the Securities and Exchange Commission (the "SEC") of a proxy statement relating to the adoption by the Company's stockholders of this Agreement (as amended or supplemented from time to time, the "Proxy Statement") and such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company or any of its subsidiaries is qualified to do business, (4) any filings required under the rules and regulations of the New York Stock Exchange ("NYSE"), (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any state departments of public health or departments of health or similar state regulatory bodies or of any federal or state regulatory body having jurisdiction over environmental protection or environmental conservation or similar matters (collectively, "Health Agencies"), (7) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any nonU.S. Governmental Entity due solely to the identity or involvement of Guarantor, Parent, Sub or any of their respective subsidiaries and (8) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of which to be obtained or made individually or in the aggregate would not reasonably be expected to have a material adverse effect. Consents, approvals, orders, authorizations registrations, declarations, filings and notices (x) described (i) in the foregoing clause (5) that are required to be obtained or made by the Company or any of its subsidiaries and (ii) in the foregoing clause (6) the

failure of which to obtain or make would reasonably be expected to have a material adverse effect or (y) of any Governmental Entity that would not be required to be obtained or made by the Company or any of its subsidiaries but for an acquisition of a business or asset by the Company or any of its subsidiaries that is consummated after the date of this Agreement the failure of which to obtain or make would reasonably be expected to have a material adverse effect are hereinafter referred to as the "Company Required Consents."

(ii) The Company and the Board of Directors of the Company have taken all action necessary to (A) render the Company Rights inapplicable to the execution, delivery and performance of this Agreement and the Company Voting Agreement and to the consummation of the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) and (B) ensure that (x) neither Parent nor any of its affiliates or associates is or will become an "Acquiring Person" (as defined in the Company Rights Agreement) by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason o the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b), (y) neither a "Distribution Date" nor a "Triggering Event" (each as defined in the Company Rights Agreement) shall occur by reason of the execution, delivery and performance of this Agreement or the Company Voting Agreement or by reason of the consummation of the Merger or any acquisition of Company Common Stock contemplated by Section 4.03(b) and (z) except as set forth in Section 3.01(d) (ii) of the Company Disclosure Schedule, the Company Rights shall terminate or be redeemed prior to the Effective Time.

(e) *SEC Documents*. The Company has filed with the SEC all forms, reports, schedules, statements and other documents required to be filed with the SEC by the Company since January 1, 2000 (together with all information incorporated therein by reference, the "SEC Documents"). Except as set forth in Section 3.01(e) of the Company Disclosure Schedule, no subsidiary of the Company is required to file any form, report, schedule, statement or other document with the SEC. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act of 1933 (the "Securities Act") or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and none of the SEC Documents at the time they were filed contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any SEC Document filed and publicly available prior to the date of this Agreement (a "Filed SEC Document") has been revised or superseded by a later filed Filed SEC Document, none of the SEC Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including the related notes) included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal, recurring year-end audit adjustments).

(f) *Absence of Certain Changes or Events.* Since December 31, 2000, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course consistent with past practice and other than as set forth in the Filed SEC Documents, there has not been (i) prior to the date of this Agreement, any state of facts, change, development, effect, condition or occurrence that

individually or in the aggregate constitutes, has had, or would reasonably be expected to have, a material adverse effect, (ii) prior to the date of this Agreement, any declaration, setting aside or payment of any dividend on, or other distribution (whether in cash, stock or property) in respect of, any of the Company's or any of its subsidiaries' capital stock or other equity or voting interests, except for dividends by a wholly owned subsidiary of the Company to its shareholders and except for the regular quarterly cash dividend with respect to (w) preferred stock of the Company's subsidiaries, in accordance with the terms thereof, (x) the Company Common Stock in the amount of $0.235 per share, in accordance with the Company's past dividend policy, (y) the Company 5% Cumulative Preferred Stock in the amount of $0.3125 per share, in accordance with the terms thereof, and (z) the Company 5% Cumulative Preference Stock in the amount of $0.3125 per share, in accordance with the terms thereof, (iii) prior to the date of this Agreement, any purchase, redemption or other acquisition of any shares of capital stock of, or other equity or voting interests in, the Company or any options, warrants, calls or rights to acquire such shares or other interests, (iv) prior to the date of this Agreement, any split, combination or reclassification of any of the Company's capital stock or other equity or voting interests o any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of, or other equity or voting interests in, the Company, (v) prior to the date of this Agreement, any material unfunded liability incurred as a result of any entry by the Company or any of its subsidiaries into, or any amendment of, any Company Benefit Plan (as defined in Section 3.01(k)), (vi) prior to the date of this Agreement, any change in financial or tax accounting methods, principles or practices by the Company or any of its subsidiaries, except insofar as may have been required by a change in GAAP or Applicable Law, (vii) except as set forth in Section 3.01(f) (vii) of the Company Disclosure Schedule, prior to the date of this Agreement, any material election with respect to taxes by the Company or any of its subsidiaries or any settlement or compromise of any material tax liability or refund or (viii) prior to the date of this Agreement, any revaluation by the Company or any of its subsidiaries of any of the material assets of the Company or any of its subsidiaries.

(g) *Litigation.* Except as set forth in the Filed SEC Documents and except as set forth in Section 3.01(g) of the Company Disclosure Schedule, there is no suit, claim, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries or any of their respective assets that individually or in the aggregate would reasonably be expected to have a material adverse effect, nor is there any Judgment of any Governmental Entity or arbitrator outstanding against, or, to the knowledge of the Company, investigation, notice of violation, order of forfeiture or complaint by any Governmental Entity against, the Company or any of its subsidiaries that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(h) *Compliance with Laws.* Except as set forth in Section 3.01(h) of the Company Disclosure Schedule, and except with respect to Environmental Laws (as defined in Section 3.01(j)), the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and taxes which are the subject of Sections 3.01(j), 3.01(k) and 3.01(l), respectively, or as set forth in the Filed SEC Documents, the Company and its subsidiaries are in compliance with all Applicable Laws and Judgments of any Governmental Entity applicable to their businesses or operations, except for instances of noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries has received, since January 1, 2001, a written notice or other written communication alleging a possible violation by the Company or any of its subsidiaries of any Applicable Law or Judgment of any Governmental Entity applicable to its businesses or operations, except for written notices or other written communications alleging possible violations that individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries have in effect all material permits, licenses, variances, exemptions, authorizations, franchises, orders and approvals of all Governmental Entities (collectively, "Permits"), necessary or advisable for them to own, lease or operate their properties and assets and to

carry on their businesses as now conducted, except for those which the failure to obtain individually or in the aggregate would not reasonably be expected to have a material adverse effect. Neither the Company nor any of its subsidiaries is in violation of, default (with or without notice or lapse of time or both) under, or event giving to any other person any right of termination, amendment or cancelation of, with or without notice or lapse of time or both, any Permit of the Company or any of its subsidiaries, except for any such violations, defaults or events that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(i) [Intentionally omitted].

(j) *Environmental Matters.* Except as disclosed in the SEC Documents and as set forth in Section 3.01(j) of the Company Disclosure Schedule, and except for such matters that individually or in the aggregate would not reasonably be expected to have a material adverse effect: (i) each of the Company and its subsidiaries possesses all Environmental Permits (as defined below) necessary to conduct its businesses and

operations; (ii) each of the Company and its subsidiaries is in compliance with all applicable Environmental Laws and all applicable Environmental Permits, and none of the Company or its subsidiaries has received any written communication from any Governmental Entity o other person that alleges that the Company or any of its subsidiaries has violated or is liable under any Environmental Law or Environmental Permit; (iii) there are no Environmental Claims (as defined below) pending or, to the knowledge of the Company, threatened in writing (A) against the Company or any of its subsidiaries or (B) against any person whose liability for any such Environmental Claim the Company o any of its subsidiaries has retained or assumed, either contractually or by operation of law; and (iv) to the knowledge of the Company, there have been no Releases (as defined below) of any Hazardous Materials (as defined below) that would reasonably be expected to form the basis of any Environmental Claim or any liability under any Environmental Law or Environmental Permit.

For the purposes of this Agreement: (A) "Environmental Claims" means any and all administrative, regulatory or judicial actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any Governmental Entity or other person alleging liability arising out of, based on or related to (x) the presence, Release or threatened Release of, or exposure to, any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its subsidiaries, or (y) any other circumstances forming the basis of any violation or alleged violation of any Environmental Law or Environmenta Permit; (B) "Environmental Laws" means all laws, rules, regulations, orders, decrees, common law, judgments or binding agreements issued, promulgated or entered into by or with any Governmental Entity relating to pollution or protection of the environment (including ambient air, surface water, groundwater, soils or subsurface strata) or to health and safety as affected by the exposure to Hazardous Materials, including laws and regulations relating to the presence of, exposure to, Release of or threatened Release of Hazardous Materials or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, recycling, transport, handling of, or the arrangement for such activities with respect to, Hazardous Materials; (C) "Environmental Permits" means all permits, licenses, certificates, registrations, waivers, exemptions and other authorizations required under applicable Environmental Laws; (D) "Hazardous Materials" means all hazardous, toxic, explosive or radioactive substances, wastes or other pollutants, including (x) petroleum, petroleum distillates and all other hydrocarbons, asbestos or asbestos-containing material, and (y) all other substances or wastes of any nature prohibited, limited or regulated as harmful to or polluting of or in order to protect the environment; and (E) "Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

(k) *ERISA Compliance.* (i) Section 3.01(k)(i) of the Company Disclosure Schedule contains a true and complete list of any benefit, employment, personal services, collective bargaining, compensation,

change in control, severance, time-off or perquisite agreement, plan, policy or other similar arrangement, (A) covering one or more current or former employees or directors of, or current or former independent contractors with respect to, the Company or any of its subsidiaries (each, a "Participant"), and maintained by the Company and/or one or more of its subsidiaries or (B) with respect to which the Company and/or any of its subsidiaries has or would reasonably be expected to have any liability (collectively, "Company Benefit Plans"). The Company has provided or made available to Parent true and complete copies of (1) each Company Benefit Plan (or, in the case of any unwritten Company Benefit Plans, descriptions thereof), (2) the most recent annual report on Form 5500 required to be filed with the United States Internal Revenue Service (the "IRS") with respect to each Company Benefit Plan (if any such report was required), (3) the most recent summary plan description for each Company Benefit Plan for which such summary plan description is required and (4) each trust agreement and group annuity contract relating to any Company Benefit Plan; *provided* that any of the foregoing not provided to Parent as of the date of this Agreement shall be delivered to Parent promptly but in no event later than 30 days following the date of this Agreement. Each Company Benefit Plan has been administered in accordance with its terms, except where the failure so to be administered individually or in the aggregate would not reasonably be expected to have a material adverse effect. The Company and its subsidiaries and all the Company Benefit Plans are in compliance with all applicable provisions of ERISA and the Code, except for instances of possible noncompliance that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Except as set forth in Section 3.01(k)(i) of the Company Disclosure Schedule, all Company Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received favorable determination letters from the IRS to the effect that such Company Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination letter has been revoked nor, to the knowledge of the Company, has revocation been threatened, and nothing has occurred since the date of such letter that would reasonably be expected to adversely affect its qualification. There is not pending or, to the knowledge of the Company, threatened any litigation relating to the Company Benefit Plans that individually or in the aggregate would reasonably be expected to have a material adverse effect.

(ii) Neither the Company nor any of its subsidiaries, nor any Company Benefit Plan which is subject to ERISA, has engaged in a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) or any other breach of fiduciary responsibility that could subject the Company, any of its subsidiaries or any officer of the Company or any of its subsidiaries to the tax or penalty on prohibited transactions imposed by such Section 4975 or to any liability under Section 502(i) or 502(1) of ERISA, except for any such tax, penalty or liability that individually or in the aggregate would not reasonably be expected to have a material adverse effect. All contributions and premiums required to be made under the terms of any Company Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Filed SEC Documents, except as, individually or in the aggregate, would reasonably be expected to have a material adverse effect.

(iii) Except as, individually or in the aggregate, would not reasonably be expected to have a material adverse effect, the deduction of any amount payable pursuant to the terms of the Company Benefit Plans would not reasonably be expected to be subject to disallowance under Section 162(m) (before giving effect to Section 162(m)(4)(F)) of the Code for taxable years of the Company ending prior to the date hereof.

(iv) Section 3.01(k)(iv) of the Company Disclosure Schedule contains a list of all Company Benefit Plans which, as a consequence of the consummation of the Merger, are reasonably expected to (x) entitle any Participant to severance pay and/or (y) accelerate the time of payment or vesting or trigger any payment or funding (whether through a grantor trust or otherwise) of

compensation or benefits under, increase the amount payable or trigger any other material obligation.

(v) The Company has provided to Parent a true and complete copy of the Report (as hereinafter defined) given to the compensation committee of the board of directors of the Company containing the estimates of any payments and/or benefits that would reasonably be expected to be received (whether in cash or property or the vesting of property) as a result of the Merger or any other transaction contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) by any Participant who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) (each, a "Primary Company Executive") under any Company Benefit Plan (including any additional payment from the Company or any of its subsidiaries or any other person in the event that the excise tax under Section 4999 of the Code is imposed on such individual) that would reasonably be expected to be paid to the Primary Company Executives as a result of the Merger and the other transactions contemplated by this Agreement (including as a result of termination of employment on or following the Effective Time) under all Company Benefit Plans and (y) the "base amount" (as defined in Section 280G(b)(3) of the Code) for each Primary Company Executive, all as calculated and set forth in the report (dated August 1, 2001) prepared by the compensation consultant retained by the Company (the "Report"). To the knowledge of the Company, the information provided to the compensation consultant that prepared the Report is accurate in all material respects.

(l) *Taxes.* (i) Except as would not, individually or in the aggregate with respect to clause (i), (ii), (iii) or (iv), reasonably be expected to have a material adverse effect: (i) Each of the Company and each of its subsidiaries has filed (or caused to be filed) all tax returns required to be file by it and all such returns are true, complete and correct, or requests for extensions to file such tax returns have been timely filed, granted and have not expired. Each of the Company and each of its subsidiaries has paid (or caused to be paid) all taxes shown as due on such tax returns, and the most recent financial statements contained in the Filed SEC Documents reflect an adequate reserve (in addition to any reserve for deferred taxes established to reflect timing differences between book and tax income) of tax for all taxes payable by each of the Company and each of its subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements.

(ii) Except as set forth in Section 3.01(l)(ii) of the Company Disclosure Schedule, no tax return of the Company or any of its subsidiaries is under audit or examination by any taxing authority, and no written notice of such an audit or examination has been received by the Company or any of its subsidiaries. There is no deficiency, refund litigation, written proposed adjustment or matter in controversy with respect to any taxes due and owing by the Company or any of its subsidiaries. Each deficiency resulting from any completed audit or examination relating to taxes by any taxing authority has been timely paid, except for such deficiencies being contested in good faith and for which adequate reserves are reflected on the books of the Company. The United States Federal income tax returns of the Company and each of its subsidiaries consolidated in such tax returns have been either examined by and settled with the IRS or closed by virtue of the applicable statute of limitations and no requests for waivers of the time to assess any such taxes are pending.

(iii) No liens for taxes (other than for current taxes not yet due and payable or for taxes being contested in good faith and for which adequate reserves are reflected on the books of the Company) exist with respect to any assets or properties of the Company or any of its subsidiaries. Neither the Company nor any of its subsidiaries is bound by any agreement with respect to the allocation, indemnification or sharing of taxes.

(iv) Neither the Company nor any of its subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" i a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (x) in the two years prior to the date of this Agreement or (y) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(v) As used in this Agreement, (A) "taxes" shall include (1) all forms of taxation, whenever created or imposed, and whether domestic or foreign, and whether imposed by a national, federal, state, provincial, local or other Governmental Entity, including all interest, penalties and additions imposed with respect to such amounts, (2) liability for the payment of any amounts of the type described in clause (1) as a result of being a member of an affiliated, consolidated, combined or unitary group and (3) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amount described in clause (1) or (2) and (B) "tax returns" shall mean al domestic or foreign (whether national, federal, state, provincial, local or otherwise) returns, declarations, statements, reports, schedules, forms and information returns relating to taxes and any amended tax return.

(m) *State Takeover Statutes*. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), the approval by the Board of Directors of the Company of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) constitutes approval of this Agreement, the Company Voting Agreement and the Merger and any acquisition of Company Common Stock contemplated by Section 4.03(b) for purposes of Section 203 of the DGCL and such approval represents the only action necessary to ensure that the restrictions contained in Section 203(a) of the DGCL do not and will not apply to the performance of this Agreement, to the consummation of the Merger in accordance with the provisions of this Agreement or any acquisition of Company Common Stock contemplated by Section 4.03(b) or to the Company Voting Agreement. Assuming the accuracy of the representations and warranties set forth in Section 3.02(h), no other state takeover or similar statute or regulation (excluding, for the avoidance of doubt, any Applicable Law which requires the Company Required Consents or the Parent Required Consents to be obtained) is applicable to this Agreement, the Company Voting Agreement or the Merger or any acquisition of Company Common Stock contemplated by Section 4.03 (b).

(n) *Voting Requirements*. The affirmative vote at the Stockholders Meeting (as defined in Section 5.01(b)) or any adjournment or postponement thereof of the holders of a majority of the votes represented by all the outstanding shares of Company Common Stock and Company 5% Cumulative Preferred Stock, voting together as a single class, with each share of Company Common Stock entitled to one vote and each share of Company 5% Cumulative Preferred Stock entitled to 1/10th of a vote, in favor of adopting this Agreement (the "Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve or adopt this Agreement or the Merger. The affirmative vote of the holders of the Company Capital Stock is not necessary to approve any other action required to be taken by this Agreement or the Company Voting Agreement (other than the consummation of the Merger).

(o) *Regulation as a Utility*. Except as set forth in Section 3.01(o) of the Company Disclosure Schedule, the Company is not subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC. Section 3.01(o) of the Company Disclosure Schedule contains a true and complete list of each subsidiary of the Company that is subject to regulation as a public utility or public service company (or similar designation) by any PUC, including the name of each such jurisdiction in which such subsidiary is subject to such regulation. None of the Company or any of its subsidiaries is a "public utility company" or a "holding company" within the meaning of Section 2(a)(5) or 2(a)(7), respectively, of the Public Utility Holding Company

Act of 1935 (the "Holding Company Act") or a "subsidiary company" or an "affiliate" (within the meaning of Section 2(a)(8) or 2(a)(11), respectively, of the Holding Company Act) of any holding company which is required to register as a holding company under the Holding Company Act. All filings required to be made by the Company or any of its subsidiaries since January 1, 2000, under any Applicable Laws or Judgments relating to the regulation of public utilities or public service companies (or similarly designated companies), have been filed with the appropriate PUC, Health Agency or other appropriate Governmental Entity, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of all Applicable Laws or Judgments, except for such filings or such failures to comply that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(p) *Title to Properties*. (i) Each of the Company and each of its subsidiaries owns or has valid and enforceable right to use under existing franchises, water rights, easements or licenses, or valid and enforceable leasehold interests in, all of its properties, rights and assets necessary for the conduct of its respective business and operations as currently conducted, except where the failure to have such title, rights or interests individually or in the aggregate would not reasonably be expected to have a material adverse effect. All such properties, rights and assets, other than properties, rights and assets in which the Company or any of its subsidiaries has a leasehold interest, are free and clear of all Liens, except for Liens relating to secured indebtedness or that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(q) *Brokers*. No broker, investment banker, financial advisor or other person, other than Goldman, Sachs & Co., the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company or any of its subsidiaries.

(r) *Opinion of Financial Advisor.* The Company has received the written opinion of Goldman, Sachs & Co. to the effect that, as of the date o this Agreement, the Merger Consideration is fair to the Company's stockholders from a financial point of view.

(s) *Contracts.* All material Contracts to which the Company or any of its subsidiaries is a party or any of their respective properties or assets is subject that are required to be filed as an exhibit to any Filed SEC Document have been filed as an exhibit to such Filed SEC Document (such filed Contracts, the "Filed Contracts"). All the Filed Contracts are valid and in full force and effect, except to the extent they have previously expired or terminated in accordance with their terms or they expire or terminate in compliance with the provisions of Section 4.01(a (x)(C) and except for any invalidity or failure to be in full force and effect which would not reasonably be expected to have a material adverse effect. None of the Company or any of its subsidiaries is in violation of or default (with or without notice or lapse of time or both) under, or has waived or failed to enforce any rights or benefits under, any Filed Contract, except for violations, defaults, waivers or failures to enforce rights or benefits that individually or in the aggregate would not reasonably be expected to have a material adverse effect.

(t) *Information Supplied.* None of the information included or incorporated by reference in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation or warranty is made by the Company with respect to statements made in the Proxy Statement based on information supplied by Guarantor, Parent or Sub specifically for inclusion or incorporation by reference therein.

The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.02 *Representations and Warranties of Guarantor, Parent and Sub.* Guarantor, Parent and Sub jointly and severally represent and warrant to the Company as follows:

(a) *Organization.* Each of Guarantor and Parent is a company duly organized and validly existing under the laws of the Federal Republic of Germany. Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Guarantor, Parent and Sub (i) has all requisite corporate power and authority to carry on its business as now being conducted and (ii) is duly qualified or licensed to do business and is, if applicable, in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, other than where the failure to be so qualified or licensed or in good standing individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. Guarantor owns 100% of the outstanding capital stock of Parent and, indirectly through Parent, 100% of the outstanding capital stock of Sub.

(b) *Authority; Noncontravention.* Guarantor, Parent and Sub have the requisite corporate power and authority to execute and deliver this Agreement and, subject to the Parent Required Consents (as defined below), to consummate the transactions contemplated hereby and Parent has the requisite corporate power and authority to execute and deliver the Company Voting Agreement and to consummate the transactions contemplated thereby. The execution and delivery of this Agreement by Guarantor, Parent and Sub, the execution and delivery of the Company Voting Agreement by Parent and the consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby have been duly authorized by all necessary company or corporate action, as applicable, on the part of Guarantor, Parent and Sub and no other corporate proceedings on the part of Guarantor, Parent or Sub are necessary to approve this Agreement or the Company Voting Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Guarantor, Parent and Sub and the Company Voting Agreement has been duly executed and delivered by Parent and each of this Agreement and the Company Voting Agreement constitutes the valid and binding obligation of Guarantor, Parent and Sub, as applicable, enforceable against Guarantor, Parent and Sub, as applicable, in accordance with their terms. The execution and delivery of this Agreement and the Company Voting Agreement and the consummation of the transactions contemplated hereby and thereby and compliance with the provisions of this Agreement and the Company Voting Agreement do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in termination, cancelation or acceleration of any obligation to or loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Guarantor, Parent or Sub under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the Certificate of Incorporation or By-laws of Sub or equivalent organizational documents of Guarantor or Parent, (ii) any Contract applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets or (iii) subject to obtaining the Parent Required Consents and other matters referred to in the following sentence, any (A) Applicable Law or (B) Judgment, in each case applicable to Guarantor, Parent, Sub or their respective subsidiaries or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not reasonably be expected to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated hereby. No consent, approval, order, or authorization of, registration, declaration, or filing with, or notice to any Governmental Entity is required by, or with respect to, Guarantor, Parent, or Sub, or their respective subsidiaries, in connection with the execution and delivery of this Agreement and the Company Voting Agreement, or the consummation by

Guarantor, Parent and Sub of the transactions contemplated hereby and thereby, or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for (1) the filing of a premerger notification and report form under the HSR Act and the receipt, termination, or expiration, as applicable of such other approvals or waiting periods required under any other applicable competition, merger control, antitrust or similar law or regulation, including, if the Company has completed its acquisition of Azurix North America Corp. and Azurix Industrials Corp. prior to the Closing, the competition, merger control, antitrust or similar laws and regulations of Canada or the Investment Canada Act, if applicable, (2) the filing with, or furnishing to, the SEC of such reports under the Exchange Act as may be required in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby, (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, (4) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under Applicable Laws and Judgments of any PUC, (5) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required under the Applicable Laws and Judgments of any Health Agency, (6) such consents, approvals, orders, authorizations, registrations, declarations, filings and notices required to be obtained from or made to any Governmental Entity due solely to any acquisition of any business or person by the Company or any of its subsidiaries following the date of this Agreement and (7) such other consents, approvals, orders, authorizations, registrations, declarations, filings and notices the failure of whic to be obtained or made individually, or in the aggregate, would not impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement. Consents, approvals, orders, authorizations, registrations, declarations, filings and notices described (i) in the foregoing clause (4) that are required to be obtained or made by Guarantor, Parent or Sub or any of their respective subsidiaries and (ii) in the foregoing clause (5) the failure of which to obtain or make would impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under this Agreement or prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement, are hereinafter referred to as the "Parent Required Consents." No consent, approval, order, authorization, registration, declaration, filing or notice, the failure of which to obtain or make would prevent or materially impede or delay the consummation of the transactions contemplated by this Agreement with any non-U.S. Governmental Entity, is required to be made or obtained by Guarantor, Parent or Sub or any of their respective subsidiaries in connection with the execution and delivery of this Agreement and the Company Voting Agreement or th consummation by Guarantor, Parent and Sub of the transactions contemplated hereby and thereby or the compliance with the provisions of this Agreement and the Company Voting Agreement, except for such consents, approvals, orders, authorizations, registrations, declarations, filings or notices (x) required as a result of a change in Applicable Law after the date of this Agreement or (y) required to be obtained from or made to any Governmental Entity due solely to any acquisition of a business or person by the Company or any of its subsidiaries following the date of this Agreement. To the knowledge of Guarantor and Parent, as of the date of this Agreement, there exists no state of facts, condition, event or circumstance which would materially adversely affect Parent's ability to obtain the Parent Required Consents in a reasonably timely manner.

(c) *Interim Operations of Sub.* Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has engaged in no business other than in connection with the transactions contemplated by this Agreement.

(d) *Regulation as a Utility.* Except as set forth in Section 3.02(d) of the disclosure schedule delivered by Parent to the Company prior to the execution of this Agreement (the"Parent Disclosure Schedule") or as permitted in accordance with Section 4.03(a)(a), neither Guarantor, Parent, Sub nor any of their respective subsidiaries (i) is a "public utility company" or a "holding company" or a

"subsidiary company" of any holding company which is required to register as a holding company under the Holding Company Act, in each case as defined in the Holding Company Act, or (ii) is otherwise subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by any PUC; provided, however, the foregoing representation shall not be deemed to be breached as a result of (x) after the date hereof, any of Guarantor, Parent or Sub or any of their respective subsidiaries entering into any operation and maintenance or concession contract that would not be prohibited under Section 4.03(a)(b) or (y) changes in Applicable Law after the date of this Agreement.

(e) *Capital Resources.* On or prior to the Closing Date, Parent will have sufficient cash to pay the Merger Consideration and any other amounts payable under Section 2.02.

(f) *Brokers.* No broker, investment banker, financial advisor or other person, other than Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, the fees and expenses of which will be paid by or on behalf of Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Guarantor, Parent, Sub or any of their subsidiaries.

(g) *Information Supplied.* None of the information supplied or to be supplied by Guarantor, Parent or Sub specifically for inclusion in the Proxy Statement will, at the date the Proxy Statement is filed with the SEC or mailed to the Company's stockholders or at the time of the Stockholders Meeting, or at the time of any amendment or supplement thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) *Ownership of Company Stock.* As of the date of this Agreement, neither Guarantor, Parent nor Sub nor any of their respective subsidiaries "beneficially owns" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock.

ARTICLE IV

Covenants Relating to Conduct of Business

SECTION 4.01 *Conduct of Business.* (a) *Conduct of Business by the Company.* During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not be unreasonably withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01(b)) or as specifically contemplated by this Agreement, the Company shall, and shall cause each of its subsidiaries to, carry on their respective businesses in the ordinary course consistent with past practice and use their commercially reasonable efforts to comply with all Applicable Laws and, to the extent consistent therewith, use their commercially reasonable efforts to preserve their material assets and technology, preserve their relationships with PUCs, Health Agencies, customers, suppliers and others having business dealings with them and maintain their material franchises, rights and Permits necessary to the conduct of their business. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shall not unreasonably be withheld or delayed; and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within five business days after requesting such consent of Parent as provided in Section 4.01 (b)) or as specifically contemplated by this Agreement or as set forth in Section 4.01(a) of the Company Disclosure Schedule, the Company shall not, and shall not permit any of its subsidiaries to:

(i) (x) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock or other equity or voting interests except for:

(A) dividends by a direct or indirect wholly owned subsidiary of the Company to its shareholders;

(B) regular quarterly cash dividends with respect to the Company Common Stock, not in excess of an annual rate of $0.94 per share in 2001, $0.98 per share in 2002 and $1.02 per share in 2003, in each case with usual declaration, record and payment dates and in accordance with the Company's past dividend policy;

(C) if the Effective Time occurs other than on a record date for quarterly cash dividends with respect to the Company Common Stock, a "stub period" dividend equal to an amount not to exceed 25% of the amount of the cash dividend per share permitted to be paid pursuant to the immediately preceding clause (B) during such fiscal year in which the Effective Time occurs multiplied by a fraction, the numerator of which is the number of days between the immediately preceding record date and the Effective Time and the denominator of which is the number of days between such record date and the next regularly scheduled record date;

(D) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preferred Stock in accordance with the terms thereof as in effect on the date of this Agreement;

(E) regular cash dividends with respect to outstanding shares of Company 5% Cumulative Preference Stock in accordance with the terms thereof as in effect on the date of this Agreement; or

(F)

(x) cash dividends with respect to any outstanding shares of preferred stock of any of the Company's subsidiaries or (y) cash dividends with respect to any outstanding shares of non-preferred capital stock of any of the Company's non-wholly owned subsidiaries; provided, however, that in the case of subsidiaries owned as of the date of this Agreement, such dividends shall be paid only in the ordinary course of business consistent withsuch subsidiary's past practice; or

(y) purchase, redeem or otherwise acquire any shares of capital stock of, or other equity or voting interests in, the Company or its subsidiaries or any options, warrants, calls or rights to acquire any such shares or other interests, except (A) for the Stock Redemption, (B) purchases, redemptions or other acquisitions as required by the respective terms of any preferred stock of the Company or as required or permitted by the respective terms of any preferred stock of any of the Company's subsidiaries, (C) for the purpose of funding or providing benefits under employee benefit plans, stock option and other incentive compensation plans, directors plans and the dividend reinvestment provisions of the Company's Dividend Reinvestment and Stock Purchase Plan, (D) purchases, redemptions or other acquisitions in the ordinary course of business consistent with past practice of any voting stock of a subsidiary of the Company not held by the Company or its subsidiaries or (E) the purchases of shares of capital stock of a wholly owned subsidiary of the Company by the Company or a wholly owned subsidiary of the Company; or

(z) split, combine or reclassify any of its capital stock or other equity or voting interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity or voting interests;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other equity or voting interests or any securities convertible into, or exchangeable for, or any options,

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warrants, calls or rights to acquire, any such shares, interests or securities or any stock appreciation rights or other rights that are linked to the price of Company Common Stock other than:

(A) the issuance of shares of Company Common Stock (and associated Company Rights) upon the exercise of Company Stock Options and settlement of all other rights to purchase or receive Company Common Stock (collectively, the "Company Stock Issuance Rights") in accordance with the terms of such Company Stock Options and Company Stock Issuance Rights as in effect on the date of this Agreement;

(B) the delivery or sale of shares of Company Common Stock held as treasury stock of the Company as of the date hereof or thereafter purchased on the open market by the Company or one of its subsidiaries as permitted by, and for the purposes set forth in, Section 4.01(a)(i)(y)(C);

(C) the issuance of shares of capital stock to the Company or a wholly owned subsidiary of the Company by a subsidiary of the Company;

(D) the issuance of shares of Company Common Stock pursuant to the Company Rights Agreement pursuant to the terms thereof as in effect on the date hereof;

(E) to the extent permitted by Section 5.09(i), the issuance of shares of Company Common Stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan; or

(F) issuances of shares of Company Common Stock which are necessary, in the reasonable judgment of the Company, in order to maintain the credit ratings of the Company or its subsidiaries;*provided* that any such issuance of shares shall be permitted only if prior to such issuance the Company shall have consulted with Parent, and the Company and Parent shall have been unable to agree on a mutually acceptable alternative basis to maintain the credit rating of the Company o its subsidiary, as the case may be;

(iii) amend its certificate of incorporation or by-laws (or similar organizational documents) except as may be required by Applicable Law or by the rules and regulations of the New York Stock Exchange; or

(iv) (A) directly or indirectly acquire or agree to acquire, whether by merging or consolidating with, or by purchasing assets of, or by any other manner, any assets constituting a business or any corporation, partnership, joint venture, association, limited liability company or other entity or division thereof, other than:

(x) the acquisition of any business which is regulated by a PUC or owned or operated by a municipality or local Governmental Entity; *provided,* that all such acquisitions permitted by this clause (x) shall not involve aggregate payments (including debt assumption) by the Company and its subsidiaries of more than $300,000,000; or

(y) the acquisition of any business in or related to (1) the water services or wastewater services industry or (2) any line of business conducted by Azurix North America Corp. or Azurix Industrials Corp. on or prior to the date of consummation of the acquisition of such entities which is not regulated by a PUC or owned or operated by a municipality or local Governmental Entity; *provided* that all such acquisitions permitted by this clause (y) shall not involve aggregate payments (including debt assumption) by the Company or any of its subsidiaries of more than $100,000,000;

provided that, if the Company or any of its subsidiaries requests the consent of Parent for any acquisition not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such acquisition and, if Parent informs the Company that Guarantor or one of its

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subsidiaries is participating or intends to participate in the bidding for such acquisition or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this Section 4.01(a)(iv) with respect to such acquisition (*provided further* that, for the purposes of this Section 4.01(a)(iv), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for an acquisition which (i) is not prohibited by Section 4.03 and (ii) has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this Section 4.01(a)(iv) with respect to any such acquisition); or

(B) any other assets that are material (unless such assets are acquired in the ordinary course of business), other than assets constituting a business the acquisition of which does not require consent or approval under Section 4.01(a)(iv)(A);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any acquisition which requires approval of the Company's Board of Directors; or

(v) directly or indirectly sell, lease, license, sell and leaseback, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any real property, or any other properties or assets or any interest therein that are material, individually or in the aggregate, other than:

(A) sales of real property or other properties or assets, provided that the fair market value of all such properties and assets does not exceed $100,000,000;

(B) the sale of any property or asset that the Company or one of its subsidiaries is legally required, or under bona fide threat of condemnation or similar proceedings, to sell to any Governmental Entity so long as the Company sells such property or asset to such Governmental Entity in a manner consistent with past practice;

(C) the sale of shares of capital stock or other securities which are held as passive minority investments so long as such sale is made in an arm's-length transaction; or

(D) the grant of easements, rights of way and Liens in the ordinary course of business consistent with past practice, or in connection with secured indebtedness of the Company or any of its subsidiaries permitted by Section 4.01(a)(vi) and consistent with past practice;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any sale, lease, license, sale/leaseback, mortgage, encumbrance or other disposition which requires approval of the Company's Board of Directors; or

(vi) (x) incur any indebtedness or guarantee any indebtedness of another person or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company or any of its subsidiaries, enter into any interest rate protection agreement or other hedging arrangement, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing (excluding for purpose of clarification, advances received as contemplated by Section 4.01(a)(vii)(B)), except for:

(A)

the incurrence of short-term indebtedness in the ordinary course of business consistent with past practice;

(B)

the incurrence of long-term indebtedness and interest rate protection and other hedging arrangements in respect of such long-term indebtedness so long as the aggregate amount of such long-term indebtedness outstanding as of the end of each fiscal year ended after the date of this Agreement (excluding, without duplication, longterm indebtedness otherwise permitted under this Section 4.01(a)(vi)(x), but including long-term indebtedness incurred to fund capital expenditures permitted by Section 4.01(a)(vii) to the extent the incurrence of such indebtedness is included in the Company's business plan described below), does not exceed 110% of the aggregate amount of all longterm indebtedness contemplated to be outstanding as of the end of such fiscal year by the Company's business plan for the fiveyear period ending on December 31, 2005, a true and complete copy of which has been provided to Parent prior to the date of this Agreement;

(C)

(1) the incurrence of indebtedness or guarantees of indebtedness to finance acquisitions and the incurrence or assumption of indebtedness of the entities acquired in such acquisitions, in either case in connection with acquisitions permitted by Section 4.01(a)(iv), or (2) the incurrence of indebtedness or guarantees of indebtedness to fund capital expenditures permitted by Section 4.01(a)(vii);

(D)

the incurrence of any guarantees, bid bonds, performance bonds, surety bonds, payment bonds, letters of credit and "kee well" agreements and other similar arrangements entered into in the ordinary course of business consistent with past practice between the Company and its subsidiaries or in support of the indebtedness or other obligations of the Company the Company's subsidiaries or among the Company's subsidiaries; or

(E)

the incurrence of indebtedness in an amount equal to (1) the cost of Company Common Stock purchased for issuance pursuant to Section 4.01(a)(ii)(B), plus (2) the amount of cash proceeds that would otherwise be expected to be received by the Company from the sale of Company Common Stock under the Company's Dividend Reinvestment and Stock Purchase Plan after the date, and for so long as, such plan is indefinitely suspended pursuant to Section 5.09(i); or

(y)

make any material loans, advances or capital contributions to, or investments in, any other person, other than the Company or any direct or indirect subsidiary of the Company other than (A) investments made in joint ventures formed for purposes permitted pursuant to Section 4.01(a)(iv), (B) loans, advances, capital contributions and investments made in connection with actions permitted pursuant to Sections 4.01(a)(iv), (v), (vi)(x), (vii) or (x) or (C) in the ordinary course of business;

it being understood and agreed that the Company and its subsidiaries shall consult with Parent (i) on the Company's and its subsidiaries' credit ratings and (ii) prior to incurring any material long-term indebtedness (other than issuances of tax-free long-term indebtedness) of the Company or any of its subsidiaries; or

(vii) incur or commit to incur any capital expenditures in excess of 120% of the amount budgeted in the Company's fiveyear capital plan, a true and complete copy of which has been provided to Parent prior to the date of this Agreement, other than:

(A)

capital expenditures required by changes in or newly promulgated Applicable Laws or Judgments or applicable standard or policies of any Governmental Entity after the date of this Agreement;

(B)

capital expenditures funded by customer advances or contributions in aid of construction;

(C)

capital expenditures incremental to the Company's five-year capital plan as may be required to serve customers who generate sufficient revenues to fully fund the cost of such capital expenditures without adversely affecting customer rates;

(D)

capital expenditures related to the operation of any business acquired through an acquisition permitted by Section 4.01(a)(iv);

(E)

capital expenditures to the extent covered by insurance or as reasonably required in the Company's judgment following a catastrophic event; or

(F)

capital expenditures in connection with performance by the Company or one of its subsidiaries under any Contract to the extent the Company's or such subsidiary's obligations in connection with any such capital expenditure are nonrecourse to the Company or such subsidiary and funded by the United States government;

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any capital expenditure which requires approval of the Company's Board of Directors; or

(viii) except as required by Applicable Law or any Judgment (x) pay, discharge, settle or satisfy any material claims (including claims of stockholders), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction of claims, liabilities or obligations (A) in the ordinary course of business consistent with past practice, (B) as required by their terms as in effect on the date of this Agreement or on the date of acquisition of the person subject thereto or (C) incurred since the date of this Agreement in the ordinary course of business consistent with past practice, (y) waive, release, grant or transfer any right of material value, other than in the ordinary course of business consistent with past practice or (z) waive any material benefits of, or agree to modify in any materially adverse respect, or fail to enforce in any material respect, or consent to any material matter with respec to which its consent is required under, any material confidentiality, standstill or similar agreement to which the Company or any of its subsidiaries is a party;

(ix) except (i) as required to comply with Applicable Law or any Judgment, any Collective Bargaining Agreement or any provision of any Company Benefit Plan or other Contract as in effect on the date of this Agreement, (ii) in the ordinary course of the Company or its subsidiarie conducting their respective businesses consistent with past practice, (iii) as would, in the discretion of the Company, be commercially reasonable in order to retain Company Employees (as defined in Section 5.09(a)) or to hire (or promote) or replace new executives, (iv) as is or would be required to give effect to acquisition agreements entered into by the Company and/or its subsidiaries or (v) as would not, individually or in the aggregate, materially increase the Company's and its subsidiaries' annual expense for compensation and benefits provided or to be provided to the Company Employees:

(A)

take any action to fund or in any other way secure the payment of compensation or benefits under any Company Benefit Plan or other Contract;

(B)

take any action to accelerate the vesting or payment of any compensation or benefit under any Company Benefit Plan or other Contract;

(C)

grant any compensation, benefits, severance or termination pay or increases therein to any Participant; or

(D)

establish, adopt, enter into, amend or terminate any Company Benefit Plan, except as required to implement grants or increases permitted under Section 4.01(a)(ix)(C); or

(x) (A) enter into any material Contract other than:

(1)

any Contract related to the Company's PUC-regulated business entered into in the ordinary course of business consistent with past practice;

(2)

any Contract related to the water services or wastewater services industry;*provided* that the average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of such Contract, together with the total average aggregate annual revenues to be received by the Company and its subsidiaries over the first three years of all such other Contracts entered into pursuant to this clause (2) during the twelve month period beginning on the date of this Agreement or during any subsequent twelvemonth period shall not exceed $60 million per year (excluding any consumer price index or other similar adjustments and without regard to any extension thereof);*provided, further* that (A) the average annual amounts of any payments to be made to the Company during the first three years of such Contract in respect of any capital expenditures permitted by Section 4.01(a)(vii)(F) of this Agreement and other recovered costs of capital in respect thereof shall not count against such $60 million per year limit and (B) the average annual amounts of any associated recovery of capital improvement costs (and, in the case of any "design-build-operate" Contract, payments in respect of the "design-build" portion of such Contract to the extent that those payments are (x) guaranteed by a nonaffiliate of the Company which the Company reasonably determines is sufficiently creditworthy or (y) passed through to third parties who perform the "design-build" portion of such Contract) during the first three years of such Contract shall not count against such $60 million per year limit; or

(3)

any Contract providing for any transaction otherwise permitted by this Section 4.01(a);

provided that if the Company or any of its subsidiaries requests the consent of Parent to enter into any Contract not otherwise permitted by this clause (A) then Parent shall promptly inform the Company whether Guarantor or any of its subsidiaries is participating or intends to participate in the bidding for such Contract and, if Parent informs the Company that Guarantor or one of its subsidiaries is participating or intends to participate in the bidding for such Contract or if Guarantor or one of its subsidiaries does in fact so participate, then the Company shall not be subject to the provisions of this clause (A) with respect to such Contract (*provided further* that, for the purposes of this clause (A), the Company may presume (absent written notice to the contrary from Parent) that Guarantor or one of its subsidiaries is participating in any competitive bidding process for a Contract which has been marketed broadly to major participants in the water services or wastewater services industries and shall not be required to request the consent of Parent or otherwise be subject to the provisions of this clause (A) with respect to any such Contract);

it being understood and agreed that the Company and its subsidiaries shall, reasonably in advance of the applicable meeting of the Company's Board of Directors, provide Parent with reasonable documentation describing, and consult with Parent with respect to, any material Contract which requires the approval of the Company's Board of Directors;

(B) renew any material Contract unless such renewal (i) shall not modify the terms of such Contract, taken as a whole, in any material adverse respect or (ii) is on terms that are reasonably agreed to by the Company in carrying on its business in the ordinary course; or

(C) modify, amend, waive or terminate (x) any material Contract other than in the ordinary course of business or (y) the Filed Contracts, in either case without consulting with Parent in good faith in advance; or

(xi) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(b) *Administration of Consents.* Any request for a consent of Parent under Section 4.01(a), and any correspondence between the parties with respect to those consents (including the granting or refusal to grant any such consent) and any consultation required under Section 4.01(a) shall be made solely by and between the person identified in Section 4.01(b) of the Company Disclosure Schedule, on behalf of the Company and its subsidiaries, and the person identified in Section 4.01(b) of the Parent Disclosure Schedule, on behalf of Guarantor, Parent and their respective subsidiaries.

(c) *Control of the Company's Business.* It is understood and agreed that Guarantor, Parent, Sub and their affiliates do not have the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, the Company shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

(d) *Certain Tax Matters.* Except as set forth in Section 4.01(d) of the Company Disclosure Schedule, during the period from the date of this Agreement to the Effective Time, the Company shall, and shall cause each of its subsidiaries to, (i) not make any material tax election without Parent's consent and (ii) to the extent permitted by the applicable agreement, cause all existing tax sharing agreements to be terminated as of the Closing Date.

(e) *Utility Filings.* The Company shall, and shall cause each of its subsidiaries to, timely file in the ordinary course of business consistent with past practice all rate applications and all other material filings required to be made with PUCs. Except for filings in the ordinary course of business consistent with past practice that individually or in the aggregate would not reasonably be expected to have a material adverse effect, the Company shall, and shall cause each of its subsidiaries to, consult with Parent reasonably in advance of making any filing to implement any changes in any of its or any of its subsidiaries' rates or surcharges for water service, standards of service or accounting.

SECTION 4.02 *No Solicitation.* (a) From and after the date hereof, the Company agrees (i) that it and its subsidiaries shall not, nor shall it or its subsidiaries authorize or knowingly permit any director, officer or employee of the Company or any of its subsidiaries or any investment banker, attorney, accountant or other advisor or representative of the Company or any of its subsidiaries (collectively, the "Representatives") to directly or indirectly, solicit, initiate or encourage, or take any other action knowingly to facilitate, any Takeover Proposal (as defined below) or engage in any discussions or negotiations regarding, or provide any nonpublic information or data to make or implement, any Takeover Proposal, in each case other than a Takeover Proposal made by Parent; (ii) that it shall immediately cease and cause to be terminated any existing discussions or negotiations with any third persons conducted heretofore with a view to formulating a Takeover Proposal; and (iii) that it shall immediately notify Parent of the receipt of any Takeover Proposal and that it shall keep Parent informed of the status of such Takeover Proposal; *provided, however,* that, at any time prior to obtaining the Stockholder Approval, the Company may, in response to a bona fide Takeover Proposal that the Board of Directors of the Company determines in good faith could reasonably be expected to lead to a Superior Proposal (as defined below) and which Takeover Proposal did not result from a breach of this Section 4.02, (x) furnish information with respec to the Company and its subsidiaries to the person making such Takeover Proposal (and its representatives) pursuant to a customary confidentiality agreement (except that such confidentiality agreement shall not prohibit such person from making an unsolicited Takeover Proposal), provided that all such information is provided on a prior or substantially concurrent basis to Parent, and (y) participate in discussions or negotiations with the person making such Takeover Proposal (and its representatives) regarding such Takeover Proposal.

The term "Takeover Proposal" means any inquiry, proposal or offer from any person relating to, or that is reasonably likely to lead to, any direct or indirect acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (A) assets or businesses that constitute or represent 20% or more of the total revenue, operating income, EBITDA or assets of the Company an its subsidiaries, taken as a whole, or (B) 20% or more of the outstanding shares of Company Capital Stock or capital stock of, or other equity or voting interests in, any of the Company's subsidiaries directly or indirectly holding the assets or businesses referred to in clause (A) above.

(b) Neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw (or modify in a manner adverse to Parent or Sub) or propose publicly to withdraw (or modify in a manner adverse to Parent or Sub) the recommendation or declaration of advisability by such Board of Directors of the Company or any such committee of this Agreement or the Merger, or recommend, or propose publicly to recommend, the approval or adoption of any Takeover Proposal (other than a Takeover Proposal made by Parent) (each such action being referred to herein as an "Adverse Recommendation Change"), unless the Board of Directors of the Company determines in good faith, based on such matters as it deems appropriate, after consulting with legal counsel, that such action is necessary for the Board of Directors of the Company to comply with its fiduciary duties to the Company's stockholders under applicable law and the Company's certificate of incorporation, (ii) adopt or approve, or publicly propose to adopt or approve, any Takeover Proposal (other than a Takeover Proposal made by Parent), or withdraw its approval of the Merger, (iii) cause or permit the Company to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, joint venture agreement, partnership agreement or other agreement (each, an "Acquisition Agreement") constituting or related to any Takeover Proposal (other than a confidentiality agreement referred to in Section 4.02(a)) or (iv) agree or resolve to take any of the actions prohibited by clauses (i), (ii) or (iii) of this sentence. Notwithstanding

anything in this Agreement to the contrary, at any time prior to obtaining the Stockholder Approval, the Board of Directors of the Company may, in response to a Superior Proposal (as defined below) that did not result from a breach of Section 4.02(a), cause the Company to terminate this Agreement pursuant to Section 7.01(f) and concurrently or promptly thereafter enter into an Acquisition Agreement*provided, however,* that the Company shall not terminate this Agreement pursuant to Section 7.01(f), unless the Company shall have complied with all the provisions of this Section 4.02 (except for any failure to comply that would not adversely affect the rights of Parent under this Section 4.02), including the notification provisions in this Section 4.02, and with all applicable requirements of Section 5.06(b) (including the payment of the Termination Fee (as defined in Section 5.06(b)) prior to or concurrently with such termination); and*provided further, however,* that the Company shall not exercise its right to terminate this Agreement pursuant to Section 7.01(f) until the fifth business day following Parent's receipt of written notice (a "Notice of Superior Proposal") from the Company advising Parent that the Board of Directors of the Company has received a Superior Proposal specifying the terms and conditions of the Superior Proposal, identifying the person making such Superior Proposal and stating that the Board of Directors of the Company intends to exercise its right to terminate this Agreement pursuant to Section 7.01(f) (it being understood and agreed that, prior to any such termination taking effect, any amendment to the price or any other material term of a Superior Proposal shall require a new Notice of Superior Proposal and a new five business day period).

The term "Superior Proposal" means any bona fide written offer made by a third party in respect of (i) a transaction that if consummated would result in such third party acquiring, directly or indirectly, 50% or more of the voting power of the Company Common Stock or 50% or more of the assets of the Company and its subsidiaries, taken as a whole, or (ii) a direct merger between such third party and the Company, in either case providing for consideration to the Company's stockholders consisting of cash and/or securities (it being understood that securities retained by the Company's

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stockholders be included for purposes of this determination), which transaction the Board of Directors of the Company determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) (taking into account the person making the offer the consideration offered, the likelihood of consummation (including the legal, financial and regulatory aspects of the offer) as well as any other factors deemed relevant by the Board of Directors of the Company) to be more favorable from a financial point of view to the stockholders of the Company, taking into account any changes to the terms of this Agreement offered by Parent in response to such Superior Proposal or otherwise.

(c) Nothing contained in this Section 4.02 or elsewhere in this Agreement shall prohibit the Company from (i) taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or (ii) making any disclosure to the Company's stockholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure to make such disclosure would be inconsistent with applicable law;*provided, however,* that in no event shall the Company or its Board of Directors or any committee thereof take, agree or resolve to take any action prohibited by Section 4.02(b)(i) (subject to the last clause of Section 4.02(b)(i)) or Section 4.02(b)(ii).

SECTION 4.03 *Certain Conduct of the Parties.* (a) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by the Company (which consent shall not be unreasonably withheld or delayed and which consent shall be deemed given if Parent has not received written notice otherwise from the Company within eight business days after requesting such consent of the Company), Guarantor and Parent shall not, and shall cause their subsidiaries not to, directly or indirectly (a) acquire or agree to acquire or, except as required by Applicable Law, the rules and regulations of the Frankfurt Stock Exchange or, with respect to any disclosure by any subsidiary, the rules and regulations of the principal stock exchange on which such subsidiary's securities are listed, publicly disclose any acquisition, in one transaction or a series of transactions, including by way of any merger, consolidation, tender offer, exchange offer, binding share exchange, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction, of (i) any United States water services or wastewater services business that is regulated by a PUC or is owned or operated by a municipality or local Governmental Entity (other than any such acquisition which does not involve aggregate payments (including debt assumption) by Guarantor, Parent or their subsidiaries in excess of $20 million) or (ii) (A) any business that would, upon the consummation of such acquisition, (x) cause Guarantor, Parent or any of their respective subsidiaries to be required to register as a holding company under the Holding Company Act or (y) subject Guarantor, Parent, Sub or any of their respective subsidiaries to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or (B) any business (x) that would, upon the consummation of such acquisition, subject Guarantor, Parent or any of their respective subsidiaries to regulation under the Holding Company Act in a manner other than that described in clause (A) above or (y) that is a United States gas or electric utility, if in the case of clause (B), such business is subject to regulation as a gas or electric utility (or similar designation) by a PUC in any state which the parties agree is material or (b) take any other action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger. In the event that Guarantor or Parent shall seek the consent of the Company to make an acquisition of the type described in Section 4.03(a)(a)(ii)(B), the sole basis on which the Company may withhold its consent shall be a determination by the Company that such acquisition would reasonably be expected to (x) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding

Company Act), 6.01(d) or 6.02(d) or (y) otherwise materially impede or delay the consummation of the Merger.

(b) Prior to the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire "beneficial ownership" (as such term is defined for purposes of Section 13(d) of the Exchange Act) of any shares of Company Commo Stock. After the obtaining of the Stockholder Approval, Guarantor and Parent shall not, and shall cause their respective subsidiaries not to, acquire shares of Company Common Stock if such acquisition would result in Guarantor, Parent and their subsidiaries acquiring "beneficial ownership" (as so defined) of more than 4.9% of the shares of Company Common Stock outstanding at the time of such acquisition.

(c) During the period from the date of this Agreement to the Effective Time, except as consented to in writing by Parent (which consent shal not be unreasonably withheld or delayed and which consent shall be deemed given if the Company has not received written notice otherwise from Parent within eight business days after requesting such consent of Parent), the Company shall not, and shall cause its subsidiaries not to, directly or indirectly, take any action that would reasonably be expected to (i) materially impede or delay obtaining any Parent Required Consent or Company Required Consent or the satisfaction of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) or (ii) otherwise materially impede or delay the consummation of the Merger.

ARTICLE V

Additional Agreements

SECTION 5.01 *Preparation of the Proxy Statement; Stockholders Meeting.* (a) As promptly as reasonably practicable following the date of this Agreement, the Company shall prepare and file with the SEC the Proxy Statement in preliminary form and the Company shall use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect thereto and to cause the Proxy Statemen to be mailed to the Company's stockholders as promptly as practicable following the date of this Agreement. The Company shall promptly notify Parent upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Proxy Statement and shall provide Parent with copies of all correspondence between the Company and its representatives, on the one hand, and the SEC and its staff, on the other hand. Parent shall promptly provide any information or responses to comments, or othe assistance, reasonably requested in connection with the foregoing. Prior to filing or mailing the Proxy Statement (or any amendment or supplement thereto) or responding to any comments of the SEC with respect thereto, the Company (i) shall provide Parent an opportunity to review and comment on such document or response and (ii) shall give reasonable consideration to all comments proposed by Parent.

(b) The Company shall, as promptly as reasonably practicable following the date of this Agreement, establish a record date for, duly call, give notice of, convene and hold a meeting of its stockholders (the "Stockholders Meeting") for the purpose of obtaining the Stockholder Approval, regardless of whether an Adverse Recommendation Change has occurred at any time after the date of this Agreement. The Company shall, through its Board of Directors, recommend to its stockholders that they adopt this Agreement, and shall include such recommendation in the Proxy Statement, in each case subject to its rights under Section 4.02(b)(i). Without limiting the generality of the foregoing, the Company agrees that its obligations pursuant to this Section 5.01(b) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company or any other person of any Takeover Proposal.

SECTION 5.02 *Access to Information; Confidentiality; Transition Planning.* (a) The Company shall, and shall cause each of its subsidiarie to, afford to Parent, and to Parent's officers, employees,

investment bankers, attorneys, accountants and other advisors and representatives, reasonable access at reasonable times and during normal business hours during the period prior to the Effective Time or the termination of this Agreement, in a manner which does not unreasonably interfere with the business and operations of the Company, to all their respective properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records and, during such period, the Company shall, and shall cause each of its subsidiaries to, make available to Parent on a prompt basis (a) access to each material report, schedule, form, statement and other document filed or received by it during such period to or from any PUC or pursuant to the requirements of applicable securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request; provided that such right of access shall not include sampling, testing or Phase II environmental site assessment activities. For the purposes of this Section 5.02, all communications, including requests for information or access, pursuant to this Section 5.02, shall only be made by and between a representative of each of Parent, on the one hand, and of the Company, on the other hand, which representative (a) shall initially be Jim McGivern for Parent and Ellen Wolf for the Company and (b) may be replaced with a substitute representative by either party from time to

time upon reasonable written notice to the other party. The Company will promptly advise Parent of any material developments in its business. Notwithstanding the foregoing, (i) the Company and its subsidiaries shall not be required to provide any information to the extent that the Company or any of its subsidiaries is legally obligated to keep such information confidential or otherwise not to provide such information or to the extent that such access would constitute a waiver of the attorney-client privilege and (ii) the Company shall provide access to those properties, assets, books, contracts, commitments, directors, officers, employees, attorneys, accountants, auditors, other advisors and representatives and records described above of its subsidiaries that are not wholly-owned subsidiaries only to the extent that the Company has or is reasonably able to obtain such access. Parent will hold, and will direct its officers, employees, investment bankers, attorneys, accountants and other advisors and representatives to hold, any and all information received from the Company, directly or indirectly, in confidence in accordance with the Confidentiality Agreement dated June 26, 2001, among Guarantor, Thames and the Company (as it may be amended from time to time, the "Confidentiality Agreement").

(b) The Company and Parent shall, and shall cause each of their respective subsidiaries to, reasonably cooperate to obtain an orderly transition and integration process in connection with the Merger in order to minimize the disruption to, and preserve the value of, the business of the Surviving Corporation and its subsidiaries during the period from and after the Effective Time. The Company and Parent agree that such cooperation shall include the development as soon as reasonably practicable following the date hereof of a mutually acceptable integration plan on a business-by-business and region-by-region basis with reasonable provisions for visitation by employees.

SECTION 5.03 *Reasonable Best Efforts; Notification.* Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use its reasonable best efforts to take, or cause to be taken, all actions that are necessary, proper and advisable to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement, including using its reasonable best efforts to accomplish the following as promptly as reasonably practicable following the date of this Agreement: (a) the taking of all acts necessary to cause the conditions precedent set forth in Article VI to be satisfied, (b) the obtaining of all necessary actions or nonactions, waivers, consents, approvals, orders and authorizations from Governmental Entities and the making of all necessary registrations, declarations and filings and the taking of all steps as may be necessary to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or, to the extent any approval or waiver cannot be obtained, to avoid the need to obtain an approval (including the Company Required Consents and the Parent Required Consents) or waiver from, or to avoid an action or proceeding by, any Governmental Entity and (c) the obtaining of all necessary consents, approvals or waivers from

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third parties. In connection with and without limiting the foregoing, the Company shall, if any state takeover statute or similar statute or regulation is or becomes applicable to this Agreement, the Company Voting Agreement, the Merger or any of the other transactions contemplated hereby or thereby, use its reasonable best efforts to allow the Merger and the other transactions contemplated by this Agreement and the Company Voting Agreement to be consummated as promptly as practicable on the terms contemplated by this Agreement and the Company Voting Agreement and otherwise to minimize the effect of such statute or regulation on this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The Company, Guarantor and Parent shall provide such assistance, information and cooperation to each other as is reasonably requested in connection with the foregoing and, in connection therewith, shall notify the other person promptly following the receipt of any comments from any Governmental Entity and of any request by any Governmental Entity for amendments, supplements or additional information in respect of any registration, declaration or filing with such Governmental Entity and shall supply the other person with copies of all correspondence between such person or any of its representatives, on the one hand, and any Governmental Entity, on the other hand. In addition, the Company, Guarantor and Parent shall cooperate to promptly develop a mutually acceptable plan to obtain the Company Required Consents and the Parent Required Consents as expeditiously as reasonably practicable and without undue expense. To the extent that either party or any of its subsidiaries is required to make any registration, declaration or filing with any PUC in connection with obtaining the Company Required Consents or the Parent Required Consents, such party shall use its reasonable best efforts to (i) provide the other party an opportunity to review and comment on such registration, declaration or filing reasonably in advance of making any such registration, declaration or filing, (ii) give reasonable consideration to all comments proposed by the other party and (iii) if applicable, coordinate the submission of such registration, declaration or filing with the other party. Neither the Company nor any of its subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Company Required Consents without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed). None of Guarantor, Parent, Sub or any of their respective subsidiaries shall enter into or agree to any terms or conditions in connection with obtaining the Parent Required Consents without the prior written consent of the Company (which consent shall not be unreasonably withheld or delayed).

SECTION 5.04 *Company Stock Options.* (a) As soon as practicable following the date of this Agreement, the Company shall ensure that th Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall adopt such resolutions or take such other actions (if any) as may be required to provide that:

(i) each Company Stock Option outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to (A) the excess, if any, of (1) the Merger Consideration over (2) the exercise price per share of Company Common Stock subject to such Company Stock Option, multiplied by (B) the number of shares of Company Common Stock for which such Company Stock Option shall not theretofore have been exercised;

(ii) each Company Stock Issuance Right outstanding immediately prior to the Effective Time (whether vested or unvested) shall be converted at the Effective Time into the right to receive an amount of cash equal to the product of (A) the Merger Consideration and (B) the number of shares of Company Common Stock subject to such Company Stock Issuance Right; and

(iii) make such other changes to the Company Stock Plans as the Company and Parent may agree are appropriate to give effect to the Merger.

(b) All amounts payable pursuant to Section 5.04(a) shall be subject to any required withholding of taxes or proof of eligibility of exemption therefrom, and shall be paid as soon as practicable following the Effective Time, without interest.

(c) The Company shall take all actions determined to be necessary to effectuate the provisions of this Section 5.04 as mutually agreed by Parent and the Company. Prior to the Effective Time, the Company shall ensure that the Board of Directors of the Company (or, if appropriate, any committee administering the Company Stock Plans) shall take or cause to be taken such actions as are required to cause (i) the Company Stock Plans to terminate as of the Effective Time and (ii) the provisions in any other Company Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest on or following the Effective Time in respect of any capital stock of the Company to be deleted as of the Effective Time.

SECTION 5.05 *Indemnification, Exculpation and Insurance.* (a) To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Guarantor and Parent shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, an officer or director of the Company or any of its subsidiaries (each an "Indemnified Party" and, collectively, the "Indemnifie Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director or officer of the Company or any of its subsidiaries ("Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based in whole or in part on or arise in whole or in part out of or pertain to this Agreement or the transactions contemplated hereby. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), Guarantor and Parent shall pay or cause to be paid the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Parent, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred; *provided, however,* that Guarantor and Parent shall not be liable for any settlement effected without its written prior consent (which consent shall not be unreasonably withheld or delayed). In the event any Indemnified Party is required to bring any action against Guarantor or Parent to enforce rights or to collect money due under this Agreement and such action results in a final, non-appealable judgment in favor of such Indemnified Party, Guarantor and Parent shall reimburse such Indemnified Party for all of its reasonable expenses in bringing and pursuing such action. Each Indemnified Party shall be entitled to the advancement of expenses to the full extent contemplated in this Section 5.05(a) in connection with any such action*provided, however,* that any person to whom expenses are advanced provides an undertaking, if and to the extent required by the DGCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) For six years after the Effective Time, Guarantor and Parent shall maintain in effect (i) the Company's current directors' and officers' liability insurance covering each person currently covered by the Company's directors' and officers' liability insurance policy for acts or omissions occurring prior to the Effective Time on terms with respect to such coverage and amounts no less favorable in the aggregate to such directors and officers than those of such policy as in effect on the date of this Agreement;*provided* that Guarantor or Parent may substitute therefor policies of a reputable insurance company the terms of which, including coverage and amount, are no less favorable in the aggregate to such directors and officers than the insurance coverage otherwise required under this Section 5.05(b);*provided however,* that in no event shall Guarantor and Parent be required to pay aggregate annual premiums for insurance under this Section 5.05(b) in excess of 200% of the amount of the aggregate

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premiums paid by the Company for the year from July 22, 2001 through July 22, 2002 for such purpose (which premiums for the year from July 22, 2001 through July 22, 2002 are hereby represented and warranted by the Company to be $327,500),*provided* that Guarantor and Parent shall nevertheless be obligated to provide a policy with the best coverage available as may be obtained for such 200% amount and (ii) in the Restated Certificate of Incorporation and By-Laws of the Surviving Corporation the provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers or directors contained in the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company.

(c) In the event that Guarantor or Parent or any of their successors or assigns (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all its properties and assets to any person, then, and in each such case, Guarantor and Parent shall cause proper provision to be made so that the successors and assigns of Guarantor or Parent, as the case may be, assume the obligations set forth in this Section 5.05.

(d) To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the directors and officers of the Company and its subsidiaries with respect to their activities as such prior to the Effective Time, as provided in, with respect to the Company, the Restated Certificate of Incorporation attached as Exhibit A and the current By-Laws of the Company, or, with respect to the Company's subsidiaries, their respective certificates of incorporation and by-laws (or similar organizational documents) in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time;*provided, however,* that in the event any claim or claims are asserted or made within such six-year period, all such rights to indemnification in respect of such claim or claims shall continue until the final disposition thereof.

(e) The provisions of this Section 5.05 are intended to be for the benefit of, and will be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

SECTION 5.06 *Fees and Expenses.* (a) Except as provided below, all fees and expenses incurred in connection with this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated.

(b) In the event that (i) (A) a Takeover Proposal shall have been made to the Company or its stockholders or any person has publicly announced an intention (which has not been withdrawn) to make a Takeover Proposal, (B) thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 7.01(b)(i) (but only if the Stockholders Meeting has not been held by the date that is five business days prior to the date of such termination due to a breach of Section 5.01 by the Company) or 7.01(b)(iii) and (C) within 12 months after such termination, the Company or any of its subsidiaries enters into a definitive agreement to consummate, or consummates, any Takeover Proposal (solely for purposes of this Section 5.06(b)(i)(C), the term "Takeover Proposal" shall have the meaning set forth in the definition of Takeover Proposal contained in Section 4.02(a) except that all references to 20% shall be deemed references to 50%), (ii) this Agreement is terminated by the Company pursuant to Section 7.01(f) or (iii) this Agreement is terminated by Parent pursuant to Section 7.01(c), then the Company shall pay Parent a fee equal to $138 million (the "Termination Fee") by wire transfer of same day funds to an account in the United States designated by Parent (x) in the case of a termination by the Company pursuant to Section 7.01(f), concurrently with such termination, (y) in the case of a termination by Parent pursuant to Section 7.01(c), within two business days after such termination and (z) in the case of a payment as a result of any event referred to in Section 5.06(b)(i)(C), upon the first to occur of such events. The Company acknowledges that the agreements contained in this Section 5.06(b) are an integral part of the transactions contemplated by

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this Agreement, and that, without these agreements, Parent would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amounts due pursuant to this Section 5.06(b), and, in order to obtain such payment, Parent commences a suit that results in a final, non-appealable judgment against the Company for the amounts set forth in this Section 5.06(b), the Company shall pay to Parent interest on the amounts set forth in this Section 5.06(b) from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit.

(c) If this Agreement is terminated (i) by the Company pursuant to Section 7.01(e) (other than on account of a breach of Section 3.02(d), Section 4.03 or Section 5.03) or (ii) by Parent pursuant to Section 7.01(d), then the non-terminating party shall promptly (but not later than five business days after receipt of notice of the amount due from the other party) pay to the terminating party an amount equal to all documented out-of-pocket expenses and fees incurred by such terminating party or its affiliates (including fees and expenses payable to all legal, accounting, financial, public relations and other professional advisors) arising out of, in connection with or related to the Merger or the other transactions contemplated by this Agreement ("Out-of-Pocket Expenses") not to exceed $20 million in the aggregate; provided, however, that if this Agreement is terminated under the circumstances described in clauses (i) or (ii) above by a party as a result of a willful breach by the non terminating party, the terminating party may pursue any remedies available to it at law or in equity and such party's Out-of-Pocket Expenses shall not be limited to $20 million.

SECTION 5.07 *[Intentionally omitted].*

SECTION 5.08 *Collective Bargaining Agreements.* From and after the Effective Time, Parent shall cause the Surviving Corporation and its subsidiaries to honor and continue to be bound by the terms of all collective bargaining agreements to which the Company or any of its subsidiaries is a party (the "Collective Bargaining Agreements").

SECTION 5.09 *Benefits Matters.* (a) For purposes hereof, "Company Employees" shall mean those individuals who are employees of the Company and its subsidiaries (including those employees who are on vacation, leave of absence, disability or maternity leave) as of the Effective Time.

(b) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, give the Company Employees full credit, for all purposes, under any employee benefit plans or arrangements maintained by Parent's (or one of its subsidiaries') water business in the United States, the Surviving Corporation and their respective subsidiaries, and in which Company Employees may become eligible to participate for the Company Employees' service with the Company and its subsidiaries to the same extent recognized by the Company and its subsidiaries immediately prior to the Effective Time, except for purposes of benefit accrual under defined benefit pension plans in which the Company Employees do not participate immediately prior to the Effective Time, so long as credit for past service under any such pension plan is also not given to other employees employed in Parent's (or one of its subsidiaries') water businesses in the United States or to the extent giving such credit would result in a duplication of benefits (including in respect of benefit accrual under defined benefit pension plans) for the same period of service.

(c) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, and shall cause the Surviving Corporation to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Company Employees and, to the extent applicable, any retired employee constituting a member of the Retiree Group (as defined below) (any such employee a "Retired Employee") under any welfare benefit plans in which such employees may be eligible to participate after the Effective Time to the extent waived under the applicable Company Benefit Plan immediately

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prior to the Effective Time and (ii) provide each Company Employee (and each Retired Employee) with credit for any copayments and deductibles paid prior to the Effective Time in the calendar year in which the Effective Time occurs (or, if later, the year in which such Company Employee (and each Retired Employee) commences participation) in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans in which such Company Employee (and each Retired Employee) is eligible to participate after the Effective Time.

(d) Parent agrees to honor, and shall cause the Surviving Corporation to honor, the Company Benefit Plans disclosed in the Filed SEC Documents or Section 3.01(k)(i) of the Company Disclosure Schedule in accordance with their current terms. Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, for a period of 18 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, provide to the Company Employees compensation (including base pay and annual and long term incentive opportunities) and employee benefits (including health, welfare, pension, vacation, savings and severance) that are no less favorable in the aggregate than those provided to the Company Employees immediately prior to the Effective Time; provided, that for a period of 12 months immediately following the Effective Time, Parent shall, or shall cause the Surviving Corporation to, maintain the Company Benefit Plans in accordance with their terms as in effect immediately prior to the Effective Time (other than equity or equity-based plans) without any adverse amendment thereto or termination thereof (except as required by Applicable Law and Judgments or any Collective Bargaining Agreement). Notwithstanding the foregoing, following the Effective Time, there shall be no obligation to provide Company Employees with awards of capital stock of any entity or awards of options or other rights of any kind to acquire capital stock of any entity); *provided*, however, that the value of any equity-based compensation provided to Company Employees immediately prior to the Effective Time shall be taken into account in determining whether compensation and benefits provided during the 18 months after the Effective Time are no less favorable in the aggregate than those provided to Company Employees immediately prior to the Effective Time.

(e) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, Parent shall, or shall cause the Surviving Corporation to, provide to the Retiree Group (as defined below), without adverse amendment, the postretirement medical and life insurance benefits as in effect immediately prior to the Closing Date (at the same levels, and at the same cost (if any), as in effect immediately prior to the Closing Date), provided to Company Employees who are not covered by a Collective Bargaining Agreement and their dependents as set forth in the retiree medical plan listed in Section 3.01(k)(i) of the Company Disclosure Schedule (the "Retiree Medical Plan"). The "Retiree Group" means each Company Employee who is not (or was not while employed) covered by a Collective Bargaining Agreement and who, as of the Closing Date, (i) is either retired under the terms of the Retiree Medical Plan as in effect on the date hereof or (ii) has satisfied all applicable eligibility requirements (under the terms of the Retiree Medical Plan as in effect on the date hereof) necessary to commence receiving benefits if his or her employment were terminated at the Effective Time.

(f) Subject to Applicable Law and Judgments and obligations under Collective Bargaining Agreements, in the event and to the extent that Guarantor or one of its subsidiaries maintains a qualified employer stock ownership plan for the benefit of employees employed in Parent's or one of its subsidiaries' (or one of their respective successors') water business in the United States (a "Guarantor ESOP"), Guarantor shall allow all current non-union Company Employees to participate in such Guarantor ESOP as soon as practicable after the Effective Time.

(g) Between the date of this Agreement and the Closing Date, the Company shall provide Parent commercially reasonable access to the Company Employees for purposes of implementing this Agreement.

(h) The Company shall use its reasonable best efforts to cause the Board of Directors of the Company not to exercise any discretion it possesses solely in respect of the transactions contemplated by this Agreement, to expressly set the date when a "change in control" occurs for the purposes of any applicable individual agreement covering a Participant (other than to deem such "change in control" to occur no earlier tha the Effective Time).

(i) The Company shall take all action necessary (i) to provide that the component of the Company's Dividend Reinvestment and Stock Purchase Plan permitting independent monthly purchases of Company Common Stock (other than purchases of Company Common Stock funded solely by reinvestment of Company dividends) (the "DRSPP Stock Purchase Component") shall be indefinitely suspended as promptly as reasonably practicable following the date of this Agreement (but in no event later than immediately following the second stock purchase effected following the date of this Agreement under the DRSPP Stock Purchase Component) and (ii) to cause all amounts not yet applied as of the date of termination of the DRSPP Stock Purchase Component to purchase Company Common Stock under the DRSPP Stock Purchase Component to be returned as promptly as practicable following such suspension.

SECTION 5.10 *Public Announcements.* Subject to each party's disclosure obligations imposed by law or any applicable securities exchange, and except with respect to any Adverse Recommendation Change, Parent and Sub, on the one hand, and the Company, on the other hand, shall, to the extent reasonably practicable, consult and cooperate with each other before issuing, and give each other a reasonable opportunity to review and comment upon, any press release or other public statements (other than routine employee communications) with respect to this Agreement, the Company Voting Agreement, the Merger and the other transactions contemplated hereby and thereby. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.11 *Rights Agreement.* The Board of Directors of the Company shall take all action necessary in order to render the Company Rights inapplicable to the Merger, the Company Voting Agreement and the performance of this Agreement.

SECTION 5.12 *Stockholder Litigation.* The Company agrees that it shall not settle or offer to settle any litigation commenced prior to or after the date hereof against the Company or any of its directors by any stockholder of the Company relating to this Agreement, the Company Voting Agreement, the Merger, any other transaction contemplated hereby or thereby, without the prior written consent of Parent (not to be unreasonably withheld or delayed).

SECTION 5.13 *Director Resignations.* On the Closing Date, the Company shall cause to be delivered to Parent duly executed resignations, effective as of the Effective Time, of each member of the Board of Directors of the Company and shall take such other action as is necessary to accomplish the foregoing.

ARTICLE VI

Conditions Precedent

SECTION 6.01 *Conditions to Each Party's Obligation to Effect the Merger.* The obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Stockholder Approval.* The Stockholder Approval shall have been obtained.

(b) *Antitrust.* Any waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired and any other required approval or waiting period under any other similar competition, merger control, antitrust or

similar law or regulation or the Investment Canada Act, if applicable, the failure of which to obtain or comply with which would be reasonably expected to have a material adverse effect, shall have been obtained or terminated or shall have expired.

(c) *No Injunctions or Legal Restraints.* No temporary restraining order, preliminary or permanent injunction or other order o decree issued by any court of competent jurisdiction or other legal restraint or prohibition that has the effect of preventing the

consummation of the Merger shall be in effect (collectively, "Legal Restraints").

(d) *Required Consents.* The Company Required Consents and the Parent Required Consents shall have been obtained prior to the Effective Time and shall have become Final Orders. Any reference in this Agreement to the "obtaining" of any such Company Required Consents or Parent Required Consents shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law. A "Final Order" for purposes of this Agreement means action by the relevant regulatory authority (i) which has not been reversed, stayed, enjoined, set aside, annulled or suspended and (ii) with respect to which any waiting period prescribed by Applicable Law or Judgment before the Merger and the other transactions contemplated hereby may be consummated has expired, and as to which all conditions to be satisfied before the consummation of such transactions prescribed by Applicable Law or Judgment have been satisfied.

(e) *Stock Redemption.* The Stock Redemption shall have been consummated.

SECTION 6.02 *Conditions to Obligations of Guarantor, Parent and Sub.* The obligations of Guarantor, Parent and Sub to effect the Merge are further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of the Company contained herein shall be true and correct as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a material adverse effect. Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of the Company shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) *Performance of Obligations of the Company.* The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by the chief financial officer of the Company to such effect.

(c) *Material Adverse Effect.* No material adverse effect shall have occurred and there shall be no state of facts, change, development, effect, condition or occurrence that would reasonably be expected to have a material adverse effect.

(d) *Required Consents.* The Final Orders relating to the Company Required Consents and the Parent Required Consents, together with any consents, approvals, orders, authorizations and declarations that shall have been obtained following the date of this Agreement and prior to the Effective Time in connection with any acquisition of any business or person by the Company or any of its subsidiaries, shall not individually or in the aggregate impose any terms or conditions, excluding any terms and conditions that may be imposed with

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respect to the acquisitions contemplated by the agreements dated as of October 15, 1999 between the Company and certain of its subsidiaries on one hand, and Citizens Communications Company ("Citizens") and certain of its subsidiaries, on the other hand, to acquire certain water and wastewater assets of those Citizens subsidiaries, to the extent reflected or referred to in the Propose Decision of ALJ McVicar dated as of September 6, 2001 and excluding any terms and conditions that may be imposed to the extent attributable to any acquisition of any business or person by Guarantor or any of its subsidiaries with respect to which an acquisition agreement is entered into or that is publicly announced or consummated after the date of this Agreement, that would reasonably be expected to have a material adverse effect, or a material adverse effect on the combined business, assets, properties, condition (financial or otherwise) or results of operations of the Company and Thames Water Holdings, Inc. and thei respective subsidiaries taken as a whole.

SECTION 6.03 *Conditions to Obligation of the Company.* The obligation of the Company to effect the Merger is further subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Guarantor, Parent and Sub contained herein shall be true and correct, as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of a specified date will be determined as of such date), other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to impair in any material respect the ability of Guarantor, Parent or Sub to perform its obligations under

this Agreement or prevent or materially delay the consummation of any of the transactions contemplated by this Agreement. Th Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect. For the purposes of determining the satisfaction of this condition, the representations and warranties of Guarantor, Parent and Sub shall be deemed not qualified by any references therein to materiality generally or to a material adverse effect.

(b) *Performance of Obligations of Parent and Sub.* Guarantor, Parent and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Guarantor and Parent by a senior officer of each of Guarantor and Parent to such effect.

SECTION 6.04 *Frustration of Closing Conditions.* None of the Company, Guarantor, Parent or Sub may rely on the failure of any condition set forth in Section 6.01, 6.02 or 6.03, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 5.03.

ARTICLE VII

Termination, Amendment and Waiver

SECTION 7.01 *Termination.* This Agreement may be terminated, and the Merger contemplated hereby may be abandoned, at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained:

(a) by mutual written consent of Parent, Sub and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated by March 16, 2003;*provided, however,* (A) that the right to terminate this Agreement pursuant to this Section 7.01(b)(i) shall not be available to any party whose breach of this Agreement has been the primary reason the Merger has not been consummated by such date, (B) that neither Parent nor the Company may terminate pursuant to this clause (b)(i) if on such date all conditions in Article VI shall have been satisfied or be capable of being satisfied other than the condition set forth in Section 6.01(e), and the Company shall have mailed a notice of redemption to effect the Stock Redemption, and (C) that if on such date a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied but all other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, then such date shall be extended to September 16, 2003; and *provided, further,* that if on such date (or such extended date pursuant to the immediately preceding proviso, as applicable), a condition set forth in Section 6.01(d) or 6.02(d) shall not have been satisfied solely because the period described in clause (ii) of the definition of Final Order set forth in Section 6.01(d) shall not have expired, but all of the other conditions set forth in Article VI shall have been satisfied or be capable of being satisfied, such date shall be extended to the date of expiration of such period (up to a maximum of 60 days for such extension);

(ii) if any Legal Restraint of the type referred to in Section 6.01(c) shall be in effect and shall have become final and nonappealable (provided that the party seeking to terminate this Agreement pursuant to this Section 7.01(b)(ii) shall have used its reasonable best efforts to resist, resolve or lift, as applicable, such Legal Restraint); or

(iii) if, upon a vote at a duly held meeting to obtain the Stockholder Approval, the Stockholder Approval shall not have been obtained;

(c) by Parent in the event an Adverse Recommendation Change has occurred;

(d) by Parent if the Company shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (A) would give rise to the failure of a condition set forth in Section 6.02(a) or 6.02(b), and (B) has not been cured by the Company within twenty business days after its receipt of written notice thereof from Parent;

(e) by the Company if Parent shall have breached any of its representations, warranties or covenants contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Section 6.03(a) or 6.03(b), and (ii) has not been cured by Paren

within twenty business days after its receipt of written notice thereof from the Company; or

(f) by the Company in accordance with the terms and subject to the conditions of Section 4.02(b).

Notwithstanding the foregoing, in no event shall Parent terminate this Agreement unless prior to the date of such termination Parent shall have complied with Section 7.03 (including paying to the Company the Reverse Fee) if applicable.

SECTION 7.02 *Effect of Termination.* In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.01, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Sub or the Company, other than the provisions of the last sentence of Section 5.02(a), Section 5.06, this Section 7.02, Section 7.03 and Article VIII; *provided, however,* that no such termination shall relieve any party hereto from any liability or damages resulting from a wilful breach by a party of any of its representations, warranties or covenants set forth in this Agreement.

SECTION 7.03 *Certain Breaches.* If (a) this Agreement is terminated by either party pursuant to Section 7.01 (other than (w) the termination of this Agreement by either Parent or the Company pursuant to Section 7.01(a) or (b)(iii), (x) the termination of this Agreement by Parent pursuant to Section 7.01(c) or (y) the termination of this Agreement by the Company pursuant to Section 7.01(f)) at a time when any of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d) have not been satisfied and (b) at the time of such termination either (i) Section 3.02(d)(i) is not true and correct such that Guarantor, Parent, Sub or any of their respective subsidiaries (A) would be required to register as a holding company under the Holding Company Act or (B) would be subject to regulation under the Holding Company Act in a manner that would raise substantive questions with respect to the ownership by any of them of any water or wastewater business or Guarantor or Parent is in breach of Section 4.03(a)(a)(i) or 4.03(a)(a)(ii)(A) or (ii) Section 3.02(d)(i) (other than as set forth above) or 3.02(d)(ii) is not true and correct or Guarantor or Parent is in breach of Section 4.03(a)(a)(ii)(B), 4.03(a)(b)(i), 5.03(a) (to the extent relating to Section 6.01(c) (to the extent relating to the Holding Company Act), 6.01(d) or 6.02(d)) or 5.03(b) (to the extent relating to the Company Required Consents and the Parent Required Consents) and, in the case of clause (ii), such failure to be true and correct or such breach is the primary cause of the failure of the conditions set forth in Section 6.01(c) (to the extent relating to the Holding Company Act), 6.0 (d) or 6.02(d) to be satisfied, then Parent shall pay the Company an amount equal to $138 million (the "Reverse Fee") by wire transfer of same day funds in U.S. dollars to an account in the United States designated by the Company within two business days after (or, in the case of a termination by Parent, concurrently with) such termination. Guarantor and Parent acknowledge that the agreements contained in this Section 7.03 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company would not enter into this Agreement; accordingly, if Parent fails promptly to pay the amounts due pursuant to this Section 7.03, and, in order to obtain such payment, the Company commences a suit that results in a final, nonappealable judgment against Guarantor or Parent for the amounts set forth in this Section 7.03, Parent and Guarantor shall pay to the Company interest on the amounts set forth in this Section 7.03 from and including the date payment of such amount was due to but excluding the date of actual payment at the prime rate of The Chase Manhattan Ban in effect on the date such payment was required to be made, together with reasonable legal fees and expenses incurred in connection with such suit. The parties acknowledge and agree that, notwithstanding any other provision in this Agreement to the contrary, the Company's sole and exclusive remedy with respect to any and all claims based on or with respect to any failure of Section 3.02(d) to be true and correct or any breach of Section 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above), in circumstances where the Company is entitled to payment of the Reverse Fee (other than any claims resulting from a willful breach by Guarantor or Parent or any of their respective subsidiaries of Section 3.02(d), 4.03(a)(a), 4.03(a)(b)(i), 5.03(a) (to the extent set forth above) or 5.03(b) (to the extent set forth above)) shall be the payment of the Reverse Fee pursuant to this Section 7.03.

SECTION 7.04 *Amendment.* This Agreement may be amended by the parties hereto at any time prior to the Effective Time, whether before or after the Stockholder Approval has been obtained; *provided, however,* that after the Stockholder Approval has been obtained, there shall be made no amendment that by law requires further approval by stockholders of the parties without the further approval of such stockholders. Thi Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

SECTION 7.05 *Extension; Waiver.* At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (c) waive compliance with any of the agreements or conditions contained herein; *provided, however,* that after the Stockholder Approval has been obtained, there shall be made no waiver that by law requires further approval by stockholders of the parties without the further

approval of such stockholders. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an

instrument in writing signed on behalf of such party. The failure or delay by any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights nor shall any single or partial exercise by any party to this Agreement of any of its rights under this Agreement preclude any other or further exercise of such rights or any other rights under this Agreement.

ARTICLE VIII

General Provisions

SECTION 8.01 *Nonsurvival of Representations and Warranties.* None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.01 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

SECTION 8.02 *Notices.* All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be deemed given if delivered personally or one business day after being sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Guarantor, Parent or Sub, to:

Thames Water Plc
Clearwater Court
Vastern Road
Reading RG1 8DB
United Kingdom

Attention: Bill Alexander
Janet Ravenscroft

with a copy to:

RWE Aktiengesellschaft
Opernplatz 1, 45128
Essen, Germany

Attention: General Counsel

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019

Attention: Peter S. Wilson, Esq.
Mark I. Greene, Esq.

if to the Company, to:

American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Attention: W. Timothy Pohl

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017

Attention: Caroline B. Gottschalk, Esq.
Peter S. Malloy, Esq.

SECTION 8.03 *Definitions.* For purposes of this Agreement:

(a) an "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person;

(b) "knowledge of the Company" means the actual knowledge of those individuals set forth in Section 8.03(b) of the Company Disclosure Schedule;

(c) "knowledge of Guarantor and Parent" means the actual knowledge of those individuals set forth in Section 8.03(c) of the Parent Disclosure Schedule;

(d) "material adverse effect" means any material adverse change or effect (i) on the business, assets, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, or (ii) which would reasonably be expected directly or indirectly, to prevent or materially impede or delay the consummation of the Merger or the other transactions contemplated by this Agreement, except in the case of either (i) or (ii) for any change or effect (w) set forth in Section 8.03(d) of the Company Disclosure Schedule, (x) relating to financial markets or the economy in general, (y) affecting the water services or wastewater services industries generally and not specifically relating to the Company or its subsidiaries, or (z) to the extent attributable to or resulting from the public announcement of the transactions contemplated by this Agreement or the identity of Guarantor or Parent or their subsidiaries as the acquiring person in the Merger including any loss of customers or employees or condemnation proceedings resulting therefrom;

(e) "person" means an individual, corporation, partnership, joint venture, association, trust, limited liability company, Governmental Entity, unincorporated organization or other entity;

(f) a "Significant Subsidiary" of any person means any subsidiary of such person that constitutes a significant subsidiary within the meaning of Rule 1-02 of Regulation S-X of the SEC;

(g) a "subsidiary" of any person means another person (i) of which 50% or more of the capital stock, voting securities, other voting ownership or voting partnership interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such voting interests, 50% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person or (ii) of which such first person is a general partner; and

(h) a "wholly owned subsidiary" of any person means a subsidiary of which 99% or more of the common equity securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or other entity (or, if there are no such equity securities having such voting power, 99% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person.

SECTION 8.04 *Interpretation.* When a reference is made in this Agreement to a Section, Subsection or Schedule, such reference shall be to a Section or Subsection of, or a Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this

Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term "or" is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. Any agreement or instrument defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement or instrument as from time to time amended, modified or supplemented. References to a person are also to its permitted successors and assigns.

SECTION 8.05 *Guarantee.* In connection with the Merger and the other transactions contemplated by this Agreement, Guarantor hereby irrevocably, absolutely and unconditionally guarantees the due, punctual and complete performance and payment (and not merely collection) in

full of all obligations and liabilities of Parent, Sub and the Surviving Corporation under this Agreement, and of any other person to whom any of their obligations shall be assigned in accordance with Section 8.09, as and when due and payable or required to be performed pursuant to an provisions of this Agreement, subject to the terms and conditions thereof (the "Guaranteed Obligations") and agrees that the Company shall be entitled to enforce directly against Guarantor any of the Guaranteed Obligations. To the fullest extent permitted by Applicable Law, Guarantor waives presentment to, demand of payment from and protest to any other person of any of the Guaranteed Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. The obligations of Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations, or otherwise. Notwithstanding any of the foregoing, nothing herein shall be deemed to waive or limit Guarantor's ability to assert any claims, defenses or other rights that Parent or Sub may have under this Agreement.

SECTION 8.06 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

SECTION 8.07 *Entire Agreement; No Third-Party Beneficiaries.* This Agreement, together with the Company Disclosure Schedules, the Parent Disclosure Schedules and the Exhibits (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, (other than the Confidentiality Agreement), among the parties with respect to the subject matter hereof and thereof and (b) except for the provisions of Section 5.05, are not intended to confer upon any person other than the parties hereto and thereto (and their respective successors and assigns) any rights or remedies.

SECTION 8.08 *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 8.09 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned or delegated, in whole or in part (except by operation of law), by any of the parties hereto without the prior written consent of the other parties hereto, and any attempt to make any such assignment without such consent shall be null and void. Notwithstanding the foregoing, Parent or Sub may assign, in its sole discretion, any of or all its respective rights, interests and obligations under this Agreement to Guarantor or to any direct or indirect wholly owned subsidiary of Guarantor with written notice to the Company and upon taking of any actions required by the DGCL with respect thereto (including amending this Agreement if necessary), provided that the

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Company agrees to provide reasonable assistance to Parent with any such actions and agrees to execute any such amendments to this Agreement, but no such assignment shall relieve Parent or Sub of any of their respective obligations hereunder; *provided, however,* that Parent and such substitute subsidiary shall represent and warrant to the Company, on the day such substitution is to be effective, the representations and warranties set forth in Section 3.02; *provided, further,* that no action shall be taken that would require the Company to amend or supplement in any material respect the Proxy Statement at any time after the Proxy Statement has first been mailed to the Company's stockholders or materially delay or impede the consummation of the Merger. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by, the parties hereto and their respective successors and assigns.

SECTION 8.10 *Enforcement.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in any Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any court of the United States located in the State of Delaware or of any Delaware state court in the event any dispute arises out of this Agreement or the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or the transactions contemplated by this Agreement in any court other than a court of the United States located in the State of Delaware or a Delaware state court. By the execution and delivery of this Agreement, each of Guarantor and Parent appoints CT Corporation System, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, as its agent upon which process may be served in any such legal action or proceeding. Service of process upon such agent, together with notice of such service given to Guarantor or Parent in the manner specified in Section 8.02 shall be deemed in every respect effective service of process upon Guarantor or Parent in any legal action or proceeding.

SECTION 8.11 *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that

transactions contemplated hereby are fulfilled to the extent possible.

SECTION 8.12 *Waiver of Jury Trial.* Each party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, Guarantor, Parent, Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RWE AKTIENGESELLSCHAFT,

By: /s/ RICHARD KLEIN

Name: Richard Klein
Title: Member of the Executive Board

By: /s/ WILLIAM JOHN ALEXANDER

Name: William John Alexander
Title: Attorney-in-fact

THAMES WATER AQUA HOLDINGS GMBH,

By: /s/ RICHARD KLEIN

Name: Richard Klein
Title: Member of the Executive Board

By: /s/ WILLIAM JOHN ALEXANDER

Name: William John Alexander
Title: Attorney-in-fact

APOLLO ACQUISITION COMPANY,

By: /s/ JIM MCGIVERN

Name: Jim McGivern
Title: Managing Director International Business Development

AMERICAN WATER WORKS COMPANY, INC.,

By: /s/ J. JAMES BARR

Name: J. James Barr
Title: President and Chief Executive

Annex

Goldman, Sachs & Co. | 85 Broad Street | New York, New York 10004
Tel: 212-902-1000

Goldman Sachs

PERSONAL AND CONFIDENTIAL

September 16, 2001

Board of Directors
American Water Works Company, Inc.
1025 Laurel Oak Road
Voorhees, NJ 08043

Ladies and Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the holders of the outstanding shares of Common Stock, par value $1.25 per share (the "Shares"), of American Water Works Company, Inc. (the "Company") of the $46.00 per Share in cash to be received by such holders pursuant to the Agreement and Plan of Merger, dated as of September 16, 2001, by and among RWE Aktiengesellschaft ("Parent"), Thames Water Aqua Holdings GmbH ("Buyer"), a wholly-owned subsidiary of Parent, Apollo Acquisition Company, a wholly-owned subsidiary of Buyer, and the Company (the "Agreement").

Goldman, Sachs & Co., as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We are familiar with the Company having provided certain investment banking services to the Company from time to time, including having acted as its financial advisor in connection with its pending acquisition of Azurix North America Corp. and Azurix Industrials Corp. and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Agreement. We also have provided certain investment banking services to Parent from time to time, including having acted as financial advisor to Hochtief AG, a company in which Parent owns an approximately 62% equity interest, in connection with its acquisition of Turner Corporation in September 1999, having acted as financial advisor to Parent in connection with its acquisition of a minority interest in Lahmeyer AG in February 2000, having acted as financial advisor to Parent in connection with its acquisition of VEW AG in November 2000 and having acted as agent to Thames Water plc, a wholly-owned subsidiary of Parent, in connection with its public offering of JPY 2,000,000,000 aggregate principal amount of Floating Rate Notes due January 28, 2002 in July 2000. We also may provide investment banking services to Parent and its subsidiaries in the future. Dr. Paul Achleitner, a former Managing Director of Goldman, Sachs & Co., is a member of the supervisory board of Parent. Goldman, Sachs & Co. provides a full range of financial advisory and securities services and, in the course of its normal

trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company or Parent for it own account and for the accounts of customers.

In connection with this opinion, we have reviewed, among other things, the Agreement; Annual Reports to Stockholders and Annual Reports on Form 10-K of the Company for the three years ended December 31, 2000; certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company; certain other communications from the Company to its stockholders; and certain internal financial analyses and forecasts for the Company prepared by its management. We also have held discussions with members of the senior management of the Company regarding their assessment of the past and current business operations, financial condition and future prospects of the Company. In addition, we have reviewed the reported price and trading activity for the Shares, compared certain financial and stock market information for the Company with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of

certain recent business combinations in the water utility industry specifically and in other industries generally and performed such other studies and analyses as we considered appropriate.

We have relied upon the accuracy and completeness of all of the financial, accounting and other information discussed with or reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. In addition, we have not made an independent evaluation or appraisal of the assets and liabilities of the Company or any of its subsidiaries and we have not been furnished with any such evaluation or appraisal. We were not requested to solicit, and did not solicit, interest from other parties with respect to an acquisition of or other business combination with the Company. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the transaction contemplated by the Agreement and such opinion does not constitute a recommendation as to how any holder of Shares should vote with respect to such transaction.

Based upon and subject to the foregoing and based upon such other matters as we consider relevant, it is our opinion that as of the date hereof the $46.00 per Share in cash to be received by the holders of Shares pursuant to the Agreement is fair from a financial point of view to such holders.

Very truly yours,

/s/ GOLDMAN, SACHS & CO.

(GOLDMAN, SACHS & CO.)

Annex

DELAWARE GENERAL CORPORATION LAW

Section 262. Appraisal Rights.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to §251(g) of this title), § 252, § 254, § 257, §258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of§ 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in

respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a, b and c of this paragraph.

---

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under §253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsections (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, then, either a constituent corporation before the effective date of the merger or consolidation, or the surviving or resulting corporation within ten days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give

either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the valu of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the

Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation t the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation is a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in

connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on th stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

1210-SPS-01

DIRECTIONS TO THE AMERICAN WATER WORKS COMPANY, INC. SPECIAL MEETING TO BE HELD AT THE PENNSYLVANIA CONVENTION CENTER

From the Northern and Western Philadelphia Suburbs

Take I-76 East to Exit 38/I-676 East. Follow the signs for Central Philadelphia. Exit I-676 East at Broad Street/Rt. 611. This exit brings you to 15th and Vine Streets. Follow Vine Street to 12th Street and make a right on 12th Street. The entrance to the Convention Center is located two blocks ahead at the corner of 12th and Arch Streets.

From I-95 South

Take I-95 South to Exit 17 Central Philadelphia/I-676. Stay in the left lane of this exit. Follow signs for I-676 West to the 1st exit (Broad Street). This exit brings you to 15th and Vine Streets. Go straight ahead to 12th and Vine Streets. Make a right onto 12th Street. The entrance to the Convention Center is located two blocks ahead at the corner of 12th and Arch Streets.

From I-95 North (Philadelphia International Airport, Baltimore, Washington and Delaware)

Take I-95 North to Exit 17 Central Philadelphia/I-676. Stay in the left lane of this exit. Follow signs for I-676 West to the 1st exit (Broad Street). This exit brings you to 15th and Vine Streets. Go straight ahead to 12th and Vine Streets. Make a right onto 12th Street. The entrance to the Convention Center is located two blocks ahead at the corner of 12th and Arch Streets.

From New Jersey and Atlantic City Area

Take Atlantic City Expressway to 42 North. Follow 42 North to Rt. 676 to the Benjamin Franklin Bridge, crossing into Philadelphia. Follow the signs for local traffic (this is Vine Street). Go approximately six blocks, make a left turn onto 12th Street. The entrance to the Convention Center is located two blocks ahead at the corner of 12th and Arch Streets.

From New Jersey Turnpike (New York)

Take the NJ Turnpike to Exit 4 (Philadelphia/Camden Exit). Take Rt. 73 North and follow it to Rt. 38 West. Take Rt. 38 West following the signs to the Benjamin Franklin Bridge (the Bridge is Rt. 30 West), crossing into Philadelphia. Follow the signs for local traffic (this is Vine Street). Go approximately six blocks, make a left turn onto 12th Street. The entrance to the Convention Center is located two blocks ahead at the corner of 12th and Arch Streets.

PROXY
AMERICAN WATER WORKS COMPANY, INC.
This Proxy is solicited by the Board of Directors of the Company
for the Special Meeting of Stockholders on January 17, 2002

The undersigned, hereby revoking any contrary proxy previously given, hereby appoints J. James Barr and Marilyn Ware, and each of them, attorneys and proxies, with full power of substitution and revocation, to vote all of the shares of the undersigned in American Water Works Company, Inc. (the "Company") entitled to vote at the special meeting of stockholders of the Company on January 17, 2002, and at any adjournment or postponement thereof, as indicated on the reverse side and in accordance with the judgment of said attorneys and proxies on any other business which may come before the meeting or any such adjournment or postponement. Except as otherwise indicated on the revers side, the undersigned authorizes the proxies appointed hereby to vote all shares of stock of the Company standing in the name of the undersigned stockholder.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE PROPOSAL WITH THE DISCRETIONARY AUTHORITY DESCRIBED ABOVE.

SEE REVERSE SIDE **CONTINUED AND TO BE SIGNED ON REVERSE SIDE** **SEE REVERSE SIDE**

c/o EquiServe, P.O. Box 9398,
Boston, MA 02205-9398

Vote by Telephone

It's fast, convenient, and immediate!
Call Toll-Free on a Touch-Tone Phone
1-877-PRX-VOTE (1-877-779-8683).
Follow these four easy steps:

1. Read the accompanying Proxy Statement and Proxy Card.

2. Call the toll-free number 1-877-PRX-VOTE (1-877-779-8683).

3. Enter your 14-digit Voter Control Number located on your Proxy Card above your name.

4. Follow the recorded instructions.

Your vote is important!
Call 1-877-PRX-VOTE anytime!

Vote by Internet

Its fast, convenient, and your vote is immediately confirmed and posted.

Follow these four easy steps:

1. Read the accompanying Proxy Statement and Proxy Card.

2. Go to the Website http://www.eproxyvote.com/awk

3. Enter your 14-digit Voter Control Number located on your Proxy Card above your name.

4. Follow the instructions provided.

Your vote is important!
Go to http://www.eproxyvote.com/awk anytime!

Do not return your Proxy Card if you are voting by Telephone or Internet

Please note that all votes cast via the Telephone or Internet must be cast prior to 5:00 p.m. EST, January 16, 2002.

DETACH HERE

Please mark
votes as in
this example.

X

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ADOPTION OF THE AGREEMENT AND PLAN OF MERGER.

	FOR	AGAINST	ABSTAIN
Proposal to adopt the Agreement and Plan of Merger, dated as of September 16, 2001, among American Water Works Company, Inc., RWE Aktiengesellschaft, Thames Water Aqua Holdings GmbH and Apollo Acquisition Company.			

The Board of Directors recommends a vote "FOR" the proposal.

MARK HERE FOR ADDRESS CHANGE AND NOTE TO LEFT

Please return your signed proxy at once in the enclosed envelope, which requires no postage if mailed in the United States, even if you expect to attend the meeting in person.

Please date and sign below. If a joint account, each owner should sign. When signing in a representative capacity, please give title. Please sign here exactly as name is printed hereon.

Signature Date: _____ Signature Date: _____

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DELAWARE GENERAL CORPORATION LAW

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]
Check the appropriate box:

[_] Preliminary Proxy Statement
[_] **Confidential. For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
[_] Definitive Proxy Statement
[_] Definitive Additional Materials

[X] Soliciting Material Pursuant to Rule 14a-12

AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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[X] No fee required.
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RWE Acquisition

Update #9

November 30, 2001

This is an update on the RWE/Thames acquisition for American Water Associates. Frequent updates will be distributed in the coming weeks via email. They are then archived, along with other important materials, in the "RWE Acquisition Update" database on Lotus Notes.

Frequently Asked Questions

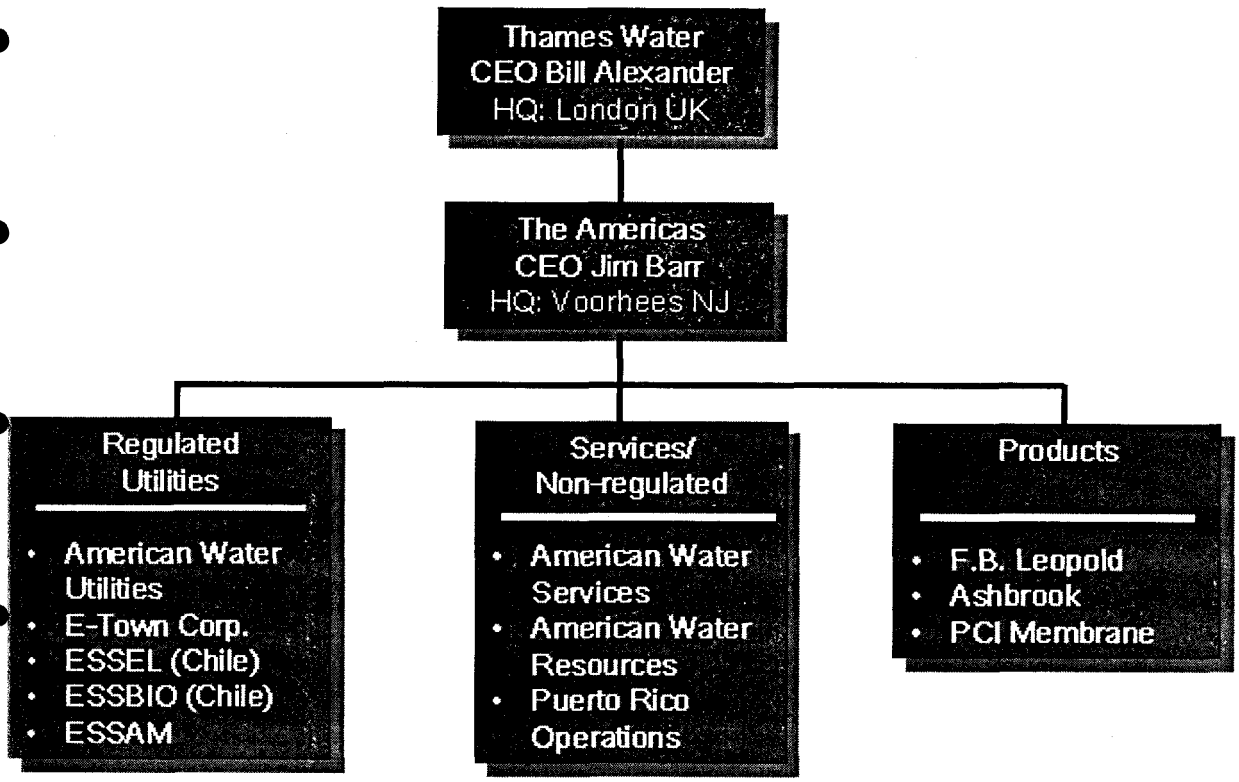
Has the date and location of the special shareholder's meeting been set?
Yes. The meeting will be held on January 17, 2002 at the Philadelphia Convention Center. Shareholders who own American Water Works common stock and cumulative preferred stock 5% series by the close of business December 4, 2001 will be eligible to vote at the special meeting.

The proxy statement, which describes the details of the transaction, is expected to be mailed to shareholders on December 7, 2001. It will also be filed with the U.S. Securities and Exchange Commission at that time.

How about the regulatory filings with the various state commissions? Do we have a timetable yet?
We expect to begin those filings in early December and to complete them by the end of the month.

Continued . . .

We know that plans call for the American Water team to head up the Thames Water business in North and South America once the transaction is complete. Any idea of what the organization could look like?
Here is an early look at what The Americas Region can be expected to look like:



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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant [X]
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Check the appropriate box:

[_] Preliminary Proxy Statement
[_] Confidential. For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[_] Definitive Proxy Statement
[_] Definitive Additional Materials

[X] Soliciting Material Pursuant to Rule 14a-12

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[Logo] RWE Acquisition Update #7

November 12, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

In this "Update," we take a look at Jim McGivern, Thames Water's Managing Director of the Americas Region. Jim's involvement with the acquisition began early in the year. Shortly after the agreement was reached in September, he took up office in the Voorhees Corporate Headquarters and has been leading the RWE/Thames side of the transition planning from there ever since.

[Photo of Jim McGivern]

Q: What is your role on the transition team?

I am working with Ellen Wolf to ensure that we receive regulatory approval in the states where it is required, in a way that is aligned with the objectives of both American Water Works and RWE/Thames. I am also managing with Ellen the transition planning process in anticipation of American Water becoming part of the RWE family of companies.

Q: What sort of things can we expect to see during the transition?

I think associates will see more and more evidence of how compatible the three

companies are. This transaction is very much based on leveraging the resources that RWE has to accelerate American Water's current path of growth. Once the transaction is complete, we'll combine the best of American Water and Thames Water technology to come up with something that is better than the sum of the parts. Our goal is that any changes will only be for the positive, made around new opportunities we see in merging our great companies together, to make us more competitive and more technologically innovative. As part of a new family, we can be leaders in consolidating the U.S. water industry in a more accelerated fashion.

Q: You currently have operations in the U.S. in Stamford, Houston, Pittsburgh and E-town. What is Thames' history of operating in the U.S.?

We have been in the U.S. for a decade. In the early `90s, Thames purchased Leopold, a water filtration and purification company in Pittsburgh, and Ashbrook, a wastewater products and services company in Houston. Both companies are leaders in their fields. Last November, the purchase of E-Town was completed. That was our first foray into the US water services market and an important step in our growth strategy. American Water Works is the icing on the cake.

Q: What have you learned about the U.S. water system from your experience with E-Town in New Jersey?

We have learned a great deal. First of all, the business drivers are different. Unlike in the UK, the water business in the U.S. is significantly affected by the weather. Being in E-Town has also allowed Thames to understand how the U.S. regulatory system works, how to get fair treatment,

and the general philosophy of U.S. rate-of-return regulation. It also has given us a better understanding of the demographics and the cultural framework of a U.S. business. We have learned a lot about what's important to U.S. employees including how patriotic Americans are and how they identify strongly with their country and their state.

Q: RWE acquired Thames a year ago, so you have been in the same situation as American Water employees. How did that go for you?

RWE purchased Thames for very much the same reason it is buying American Water Works - to promote growth and opportunity. RWE is an honorable organization in which people are sincere, and all of the promises they made regarding opportunities for Thames employees have been realized. It has been a fantastic company to work in.

RWE employees are excellent, capable people and the Thames employees have worked well with them. Any fears that Thames employees may have had at the time of the acquisition announcement have gone away. It's been a very good story.

Q: What have you noticed so far about the cultural similarities and differences between American Water and Thames?

In general, there is a surprising amount of cultural alignment. We're all water folks, we understand the water business, yet the similarities do surprise me at times. The key similarities are the customer focus - the concept that it's the customer that makes or breaks this business. The customer service ethic is paramount in both businesses and it's everyone's responsibility.

Both Thames and American Water also have a strong culture of performance management, which is driven from the top. Everyone's role within the organization is understood. In addition, both companies put emphasis on the individual. Respect for the individual, empowering the individual to make decisions, and giving the individual the tools to do the job is a strong cultural commonality that I see. In addition, the underlying values of American Water and Thames are similar -- the basic business values of professionalism, honesty, and favoring long-term solutions. It's not surprising that when you look at two of the top water companies in the world, that they should have similar values; the reasons they're both successful are fairly similar.

The differences relate mostly to the influence of legal and geographical requirements on your organizational structures. The geography of the United States, and its regulatory system, promote an organizational style of greater regional autonomy and independence, while Thames is a more integrated organization. Both of the organizations have evolved to respond to their environments in an optimal way.

Q: What is Thames' approach to local community support and local management?

Thames seeks to educate communities about what we do and how they can get the best service from us. In turn, we look to our communities for feedback so that we can deliver continual improvement.

Our managers and employees live in the communities in which they serve. We want to promote a high level of integration between our customers, our communities and our management so that there's a seamless web between them. This creates the benefit of customers seeing what we're doing in a positive light. We want to ensure sustainability for our product and our company, so

we are committed to being actively involved in the economic prosperity of the community at all levels as responsible corporate citizens.

Q: Has Thames operated differently in the U.S. since September 11?

We have always emphasized security. We have taken stock of our security and perhaps further refined it, but we have found that we are doing the right things, so overall, the tragic events of that date have not made a significant difference in our operations.

Q: Have you operated in other countries that have faced terrorist or wartime threats?

Yes. Of the 19 countries in which we operate, some of the areas that have been on high alert include the UK, Indonesia, Turkey and the Middle East.

Q: What do you enjoy most about this industry?

I came to the water industry and Thames in 1989 after a legal career in the UK and Australia. I was attracted to the inherent essential need for the service and the importance of ensuring quality water. It's a good business to be in; we are providing a service that improves people's lives. That appeals to me.

From a UK perspective, I was also attracted to it because it was a new industry having been recently privatized. Traditionally, water had been in the domain of the government. Then in 1989, there was a total change. The government decided that water and wastewater should be in the domain of the private sector, and that caught my imagination as the birth of a new industry.

It was quite an exciting time to join and I was compelled by that story.

Q: What do you like about living in the United States?

The openness here is very refreshing. People are generally friendly and easy to get to know, which is unusual in large cities. I would also say that the education system here is excellent. And I enjoy the great restaurants in Philadelphia as well as the climate.

Q: What do you like to do when you are not at the office?

I enjoy reading history and philosophy - I just finished reading "Humboldt's Gift" by Saul Bellow - and I'm an avid cinema, opera, music and theatergoer. I also enjoy spending time with my two young children, playing golf and going to the gym.

* * *

[Logo] RWE Acquisition Update #8

November 14, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

Thames Water released this announcement earlier in the week. We thought American Water associates would be interested in this latest strategic accomplishment by our future partner.

THAMES WATER ANNOUNCES NEW CHILEAN CONCESSION

Thames Water, the water business of RWE, was awarded the concession of the fourth largest water and wastewater company in Chile, Empresa de Servicios Sanitarios del Maule S.A. (ESSAM).

Located in central part of Chile, ESSAM serves a population of more than 160,000 and in the year 2000 generated revenues of the equivalent of US$21.4 million.

The 30-year concession has been purchased from the Chilean government for US$171 million and will complement Thames Water's other interests in the country. ESSAM is strategically positioned between ESSEL in Rancagua and ESSBIO in Concepcion.

Under the concession agreement, Thames Water will provide the water needs of the concession area, including water production, distribution, collection, wastewater treatment and industrial effluent treatment. The company is expected to invest approximately US$100 million over the first five years of the contract and a significant part of the capital expense will be for wastewater treatment plants.

Bill Alexander, Thames Water's Chief Executive, said: "This is another welcome success for Thames Water in Chile, building upon our ambition to become the global water partner of choice in the country.

The acquisitions of ESSEL and ESSBIO last year have provided a sound platform for growth and offer great opportunities to increase customer value through

synergies with ESSAM.

"I am delighted that Thames Water has rapidly established an excellent reputation for partnership in Chile and I look forward to extending our world class water service to our new customers."

Thames Water is the world's third largest water company, serving over 43 million customers in 44 countries across the globe.

* * *

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
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Filed by the Registrant |X|
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Check the appropriate box:

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|_| Definitive Additional Materials

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[Logo] RWE Acquisition Update #6

November 1, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

Frequently Asked Questions

Tell me one more time what changes have been made to the ESOP plan?

Only one thing has changed so far: You can no longer invest your ESOP dividends in the dividend reinvestment and stock purchase plan. This plan was suspended effective September 17, the first business day after the acquisition agreement was reached. Beginning with the November 15, 2001 dividend you will receive your dividends in cash. But you can still contribute to your ESOP account and the Company will continue to match your contributions. However, once the RWE/Thames transaction is complete, American Water stock will no longer be traded and the ESOP program, as it is constructed today, will no longer exist.

Why was the dividend reinvestment and stock purchase plan suspended?

In the agreement, RWE will pay $46 a share for all the American Water common stock outstanding at the time of the signing. If the dividend reinvestment and stock purchase plans were not suspended, the number of outstanding shares

would continue to increase, changing the value of the deal.

Of the 23 states where we serve customers, which ones will have to approve the RWE acquisition before it can be completed?

At this time we believe the transaction will have to be approved by at least 14 states: Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Virginia and West Virginia. In addition, the states of Hawaii, Iowa, Missouri, Tennessee and Texas will have to be formally notified of the transaction. No action is required at all in the states of Georgia, Indiana, Massachusetts and Michigan.

Continued . . .

When will we start the regulatory filings process?

We plan to begin filing applications early in December and expect to complete all of the filings by year's end. The regulatory team, made up of representatives from American Water and Thames, will then respond to comments from the commissions as soon as we receive them.

Does the transaction require any Federal approvals?

Under the rules of the Hart-Scott-Rodino Antitrust Improvements Act, the acquisition cannot be completed until the Federal Trade Commission and the Antitrust Division of the Department of Justice have been notified of the transaction, and a waiting period has expired or been terminated. We expect to file this notification sometime after the shareholder vote.

Has a date been set for the special shareholder meeting and vote?

Not yet. Before the date can be set, a proxy statement must be completed, filed and approved by the US Securities and Exchange Commission. That document is still being prepared by representatives of American Water, and is being reviewed by RWE and Thames. It is expected that the proxy statement will be filed within the next six weeks, which would enable us to have the special shareholder meeting in January.

Can anyone still buy American Water Works stock on the open market?

Yes. Anyone can buy our common stock until the day the transaction closes.

My neighbors are saying we shouldn't be selling control of our water supply to an international company. Are they right?

During these emotional times for our country, it is not unusual to hear such concerns. But the fact is, the control of our water supplies has never been determined by who owns the water company's stock. Our country's water supplies are controlled by various governmental organizations including the state public utility commissions, river basin authorities and state environmental protection agencies. That's the way it's been and that's the way it's going to be -- no matter who owns American Water Works. Besides, while RWE is headquartered in Germany, it's hardly new to this country. The company and its affiliates employ more than 16,500 people in the U.S. - roughly 10 percent of

RWE's global workforce.

* * *

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AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
/X/ No fee required.
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1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

Analyst conference call, Monday Oct 29, 2001.

American Water Works

Moderator: Jim Harrison
October 29, 2001
1:00 p.m. MT

Operator: Ladies and gentlemen thank you for standing by. Welcome to the American Water Works Company, Inc. third quarter results conference call. At this time, all participants are in a listen-only mode. Later we will conduct question and answer session. At that time, if you have a question, you will need to press the one followed by the four on your telephone. As a reminder this conference is being recorded Monday, October 29, 2001. A Post View replay of this conference will be available beginning today at 4:00 pm eastern and running through November 5. To access the Post View replay, you will need to dial 800/633-8284 and enter reservation number 19805637. I would now like to turn the conference over to Jim Harrison, Vice-President of Investor Relations. Please go ahead, sir.

Jim Harrison: Good afternoon. Thank you for participating in this conference call to review our financial results for the third quarter and to those of you listening to the webcast, welcome. I'm Jim Harrison, Vice-President of Investor Relations. Joining me today is Ellen Wolf, our Chief Financial Officer. After I complete some preliminary matters, Ellen will conduct the remainder of the call. Those of you participating on the call should have received a copy of the press release and the financial information. Anyone who did not, you can call Kim Oliver at 480/614-3002, and she will fax it to you. The information can also be found on our

website www.amwater.com. Participants or those listening to the call are asked to be aware that forward looking statements made during the call are based on current information and expectations. Those statements are subject to risk and uncertainty that may cause the actual results to differ. It's for that reason, we advise that reference be made to the disclosure language located at the bottom of the press release for an explanation of some of the factors that could impact forward looking statements. With those preliminary matters completed, I'll turn the call over to Ellen.

Ellen Wolf: Thank you Jim. As noted in our press release, net income from operations for the third quarter was $62.6 million or 63 cents a share excluding one-time amounts that I'll talk about in a minute. These third quarter results exceeded the 51 cents per share earned in the third quarter of 2000 where we had experienced cooler temperatures and more frequent rainfall than is normal for that time of the year. Water sales throughout most of our service areas returned to more historical levels except for our southeast region which continued to experience frequent rainfalls during the third quarter. Total gallons sold for the regulated operations were 102 billion for the third quarter versus 99.5 billion for the same time last year. Our third quarter results were also impacted by some one-time transactions which are shown on the income statement. There are two items. First, expenses incurred to negotiate our agreement with RWE for their purchase of all of the company's common stock resulted in a 10 cents per-share charge. These expenses were offset by a three cent per-share net gain on a sale which occurred at the end of September of our water assets serving the city of Salisbury, Massachusetts.

Now to talk about the individual components. On revenues. As we had mentioned in our release, revenues for the quarter increased $31 million to reach $395 million. This represents an 8.5 percent improvement above the $364 million realized during the third quarter last year. Factors contributing to this improvement were improved sales, continued customer growth, and rate increases. The addition of more than 40,000 customers since September 30, 2000 resulted in 2.5 billion gallons of additional sales representing an increase of 2.5 percent gallons. This improvement accounted for almost $10 million of the revenue improvement. Revenues from rate increases accounted for the remaining $21 million of that increase. Ten rate increases were implemented between September 30, 2000 and September 30, 2001. The two most significant rate increases were for approximately $12 million, which was authorized in Missouri, and $5 million, which was authorized in Illinois.

On the expense side, an increase of $12.5 million or 8.1 percent in operation and maintenance expenses for the third quarter of this year over the third quarter last year was primarily driven by the results of a $5 million increase in our production costs such as power, purchased water, and chemicals. However, on a per-customer O&M expense basis for the 12 months ended September 30, 2001 we were only up 3.5 percent from per customer O&M for that 12 months ended. Operating margins of 33.5 percent in 2001 were virtually unchanged from the 33.4 percent in 2000. We are making significant progress with the completion of our

projects to consolidate customer service and financial functions of the company. Our national call center became operational last quarter and now provides customer service to about half of the total customer base for American Water Works. The scheduled completion date for that project is the end of 2002. Last month, the beginning of September, we began operations of our shared services center that completes many of the financial functions of the company such as payroll, vendor reimbursement, accounting, and rate case preparation on a consolidated basis. That project will be completed by the end of this year.

As noted during our discussion of increased revenues, rate increases provided a significant contribution to improved quarterly results. Four additional rate increase requests are pending, which if approved as filed, will produce 55 million in additional revenue. A $39 million request by our Pennsylvania subsidiary and a $13 million request by our Indiana subsidiary account for more than 95 percent of the outstanding requests. Decisions on these requests are anticipated in January 2002 for Pennsylvania and July 2002 for Indiana.

In a moment, I'll provide some updated information on the Citizens, Azurix North America, and RWE acquisitions. First I'd like to take a moment to provide additional details regarding our other growth projects. The addition of more than 40,000 customers to our regulated subsidiaries that was mentioned earlier during the revenue increase discussion resulted from the completion and integration of eight different acquisitions since September 30, 2000, and internal growth from projects to extend existing distribution systems. This type of growth will continue as consolidation of the water industry occurs. We also have 23 acquisitions in various states of completion other than the acquisition of the water and wastewater assets owned by Citizens. These acquisitions will add another 40,000-plus customers to our regulated customer base and approximately $6.5 million in additional annual revenue.

An update on our contract management business. In September, we completed the acquisition of the remaining interests of our partnership in a joint venture with Environmental Management Corporation. The joint venture provided operating services for municipally owned water and wastewater systems in the Midwest under long-term contracts. Sole ownership of this joint venture continues to strengthen our credentials as an operator of water and wastewater systems. As discussed in the press release, we are moving forward with completion of the Citizens transaction and anticipate closing on that transaction prior to the end of this year. However, procedural delays due to appeals filed with the California Public Utility Commission have delayed closing again at least until the end of this year.

We continue to move forward in our acquisition with the Azurix North America and anticipate the closing of that transaction in November. As it relates to approvals for the RWE agreement, we've identified 14 states that we believe require approval. These states are Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Virginia and West Virginia. We also will need approval in Connecticut

and New Hampshire for our transaction with Kelda Group and our sale of the New England properties to that organization. In five other states, we will be filing advisory letters. These states are Hawaii, Iowa, Missouri, Tennessee, and Texas.

That concludes my prepared remarks at this point. Operator, you can now open the call for any questions.

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the one followed by the four on your telephone. You will hear a three-tone prompt acknowledging your request. If your question has been answered and you wish to withdraw your polling request, you may do so by pressing the one followed by the three. If you are using a speakerphone, please pick up the handset before entering your request. Once again, if you do have a question, please press the one followed by the four at this time. Once again if you do have a question, please press the one followed by the four. Sean Dany with Gruss Asset Management, please go ahead.

Sean Dany: Yes. Could you please give us a brief picture of what the response has been to the RWE transaction since you guys announced it - I mean from the states?

E. Wolf: We've not met with any of the states individually. I can talk to you about our shareholders who are very pleased with the transaction. In terms of the individual states, we'll be doing our filings over the next month or so. We'll have a better idea at that point.

S. Dany: Are there any states which you expect to represent sort of the gating approval - that have longer approval processes than other states?

E. Wolf: There are some states--each state has a different timeframe in which they must rule or approve the transaction. Some states have absolutely no time limits and other states have a two-month period and some states have a year to look at the transaction. We've looked at all of those historically. There is not one that I would say could delay us beyond any others. California, as you know, we're heading into our second year with that approval and it did take close to two years to get that approval. That was a more complex transaction, the Citizens - at the time, it was combined with San Jose-was more complex that what we're dealing with here, which is a straight acquisition of the parent company.

S. Dany: OK. Great. Thank you.

Operator: The next question comes from Michael Herzog with Davidson Kempner. Please go ahead.

Michael Herzog: Hi. Just building on that, could you give us a little bit more flavor for where you think the important filings are going to be required now? I understand that it is 14 states that we need filings in. Just an overview of how the process is going to go.

E. Wolf: I wish I could give you a cookie cutter answer for all of the states but there isn't one. Different states have different requirements. The way the process we're working on now is

that we'll file the applications starting in December. We will file in all 14 states, and then in terms of response to inquiries or questions that they have, we will do and respond to those as soon as we receive the individual comments from the staff and the Commission.

M. Herzog: Do we know, for instance, whether we definitely have to file with California?

E. Wolf: Yes we do.

M. Herzog: We definitely do?

E. Wolf: Yes.

M. Herzog: OK.

E. Wolf: In the list of 14 states I mentioned, those are states we have to file in. California is one. New Jersey is another. Pennsylvania--if I look at our major states, it's Pennsylvania, New Jersey, West Virginia, Illinois, California of the larger states.

M. Herzog: OK, and the feedback to date?

E. Wolf: We've not had discussions with the Commissioners or the staff. We will do that as allowed to by the individual state rules when we file the applications.

M. Herzog: OK. Thank you.

Operator: The next question comes from Robert Miller Bakewell with Merrill Lynch. Please go ahead.

Robert Bakewell: Some more background to the 3.5 percent increase in O&M expenses per customer. To what extent do you see that as a run rate going forward? Or do you believe that with the accounting center being fully operational at the end of the year in the customer services area that there will actually be some reductions in the run rate going forward?

E. Wolf: I would expect that our run rate going forward would decrease starting towards the end of 2002 as we complete all of these consolidations.

RM Bakewell: Thank you.

Operator: If there are any additional questions, please press the one followed by the four at this time. The next question comes from Jakob Holm with Bay Isle Financial. Please go ahead.

Jakob Holm: Good afternoon everyone. I was wondering with the 14 states where you must file for approval, if the approval process runs into rough water in any one of those, can RWE walk away from the transaction at this point?

E. Wolf: The transaction, if you--it is available for you to look at the agreement. It is filed with the SEC if you would like to do that. It has several clauses dealing with materiality and material adverse effect. It is our intent as well as RWE's and Thames' to get this transaction completed, and that is the goal that we've set for ourselves.

J. Holm: OK. Thank you.

Operator: The next question comes from Christian Correa with Lehman Brothers. Please go ahead.

Christian Correa: Could you repeat the list of states in which you're required to file and the states in which you've made advisory filings.

E. Wolf: Did I read that too fast?

C.Correa: It was pretty quick.

E. Wolf: It is available. We will have it up for you to look at. Here it is: Arizona, California, Connecticut, Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Virginia, and West Virginia. Connecticut and New Hampshire. That is our interpretation at the moment. There are advisory letters that we are filing in Hawaii, Iowa, Missouri, Tennessee, and Texas.

C. Correa: Great. Thank you.

E. Wolf: You're welcome.

Operator: Once again, if you do have a question, please press the one followed by the four at this time. I am showing no additional questions. Please continue with your presentation or any closing comments.

E. Wolf: I'd like to thank each of you for joining us on our quarterly call. If you have any questions, feel free to direct them to myself or Jim Harrison. Thank you.

Operator: Ladies and gentlemen, that does conclude your conference for today. A Post View replay of this conference will be available beginning today at 4:00 pm eastern and running through November 5th. To access the Post View replay you will need to dial 800/633-8284 and enter reservation number 19805637. You may all disconnect. Thank you for participating.

* * *

American Water Works Company, Inc. (the "Company"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger, dated as of September 16, 2001, pursuant to which Sub will be merged with and into the Company with the Company surviving the merger (the "Merger"). In connection with the Merger, the Company will be filing a proxy statement with the Securities and Exchange Commission (the "SEC"). SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE BECAUSE IT CONTAINS IMPORTANT INFORMATION REGARDING THE MERGER. Investors and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed by the Company with the SEC in connection with the Merger at the SEC's web site at www.sec.gov. Security holders of the Company may also obtain for free a copy of the proxy statement and other documents filed with the SEC by the Company in connection with the Merger by contacting Nancy A. Macenko, Vice President External Affairs, at (856) 566-4026.

The Company and its subsidiaries and their respective directors and executive officers may be deemed to be participants in the solicitation of

proxies from the Company's stockholders in favor of the Merger. These directors include the following: Marilyn Ware, Gerald C. Smith, J. James Barr, Henry G. Hager, Ross A. Webber, Frederick S. Kirkpatrick, Paul W. Ware, Nancy Ware Wainwright, Ray J. Groves, Elizabeth H. Gemmill, William S. White, Anthony P. Terracciano, William O. Albertini, Rhoda W. Cobb and Horace Wilkins, Jr. and these officers include Joseph F. Hartnett, Jr., Daniel L. Kelleher, W. Timothy Pohl, Robert D. Sievers, Ellen C. Wolf, Nancy A. Macenko and James E. Harrison. Collectively, as of March 5, 2001, the directors and executive officers of the Company may be deemed to beneficially own approximately 21.9% of the outstanding shares of the Company's common stock and under 5% of the outstanding shares of the Company's Cumulative Preferred Stock, 5% Series. Stockholders of the Company may obtain additional information regarding the interests of the participants by reading the proxy statement when it becomes available.

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

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Form 8-K for AMERICAN WATER WORKS CO INC filed on Oct 30 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 29, 2001

AMERICAN WATER WORKS COMPANY, INC.
(Exact Name of registrant specified in its charter)

Delaware	0001-03437	51-0063696
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1025 Laurel Oak Road, P.O. Box 1770
Voorhees, NJ 08043
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (856) 346-8200

Item 5. Other Events

On October 29, 2001, the Registrant issued a press release announcing earnings for the quarter ended September 30, 2001. The press release is attached as an exhibit and incorporated by reference herein.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not Applicable.

(b) Not Applicable.

(c) Exhibits.

The exhibit listed below and in the accompanying Exhibit Index is filed as part of this Current Report on Form 8-K.

EXHIBIT NO.	TITLE
99.1	Press Release, dated as of October 29, 2001, of American Water Works.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: October 30, 2001

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated as of October 29, 2001, of American Water Works.

Exhibit 99.1

Press Release

VOORHEES, N.J., October 29, 2001

American Water Works Company, Inc. Announces Earnings for the Third Quarter 2001

American Water Works Company, Inc. (NYSE:AWK) today announced earnings per share were 63 cents and net income to common stock was $62.6 million for the quarter ended September 30, 2001 prior to one-time transactions.

This represents a 24% increase in earnings per share above the 51 cents per

share reported for the third quarter last year. A ten-cents per share charge resulted from expenses incurred for the RWE/AG transaction announced September 17, 2001 and a three-cent per share net gain was recorded for the sale of water assets serving the city of Salisbury, Massachusetts.

After these one-time transactions, per share earnings were 56 cents and net income to common stock was $55.6 million.

``Increased revenues from more than 40,000 new customers, authorized increases in rates charged for service, and modest weather pattern improvements were contributing factors to the improvement in results from on-going operations,'' said Ellen Wolf the company's chief financial officer. Cooler temperatures and frequent rainfall negatively impacted the company's revenues during the third quarter last year. ``Even though we did not return to historical sales levels in all states during the quarter, our geographical diversity helped to mitigate this year's weather impacts,'' added Ms. Wolf.

Compared with revenues for the third quarter last year, revenues increased $31 million, or 8.5 % to $395 million.

Total operation and maintenance (O&M) expenses increased 8.1% compared to O&M expenses for the third quarter last year. However, as a result of continued growth, per customer O&M expenses on a twelve-month basis were up only 3.5% from per customer expense levels one year ago. Operating margins for comparative twelve-month periods were unchanged.

Depreciation expense increased 12.4% as a result of capital investments that increased net utility plant more than $244 million.

Approval of the company's purchase of the water and wastewater assets of Citizens Communication Company in California was received from the California Public Utilities Commission in September. The company now has approval from state regulatory agencies in all six states covered by the purchase agreement and pending resolution of appeals from the California decision, anticipates completing that transaction by the end of this year.

Closing on the acquisition of Azurix-North America is anticipated in November.

The company stated that approval of the agreement with RWE/AG will be required in fourteen states and filings of the agreement must be made in five other states. It is anticipated that those filings will be made by the end of this year.

As announced earlier this month, a conference call with analysts regarding this earnings announcement will be available today on the company's website (http://www.amwater.com) at 3:00 PM (EST).

With annual revenues of $1.4 billion, American Water Works Company, Inc. is the nation's largest publicly traded enterprise devoted exclusively to water and wastewater business opportunities.

For the three month, nine month and twelve month periods ended September 30, American Water Works Company, Inc., reports unaudited consolidated operating results as follows:
(In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000

Operating revenues	$ 394,956	$ 364,125	$ 1,075,261	$ 1,018,293
Operating expenses				
Operation and maintenance	166,890	154,400	478,189	453,028
Depreciation and amortization	46,819	41,648	136,248	122,061
General taxes	33,049	31,942	98,825	96,610
	246,758	227,990	713,262	671,699
Operating income	148,198	136,135	361,999	346,594
RWE/AG acquisition expense	(9,860)		(9,860)	
Gain from sale of operating system	4,820		4,820	
Other income (deductions), net	(45,409)	(51,916)	(138,735)	(142,662)
Income before income taxes	97,749	84,219	218,224	203,932
Income taxes	41,972	33,488	89,605	80,979
Net income	55,777	50,731	128,619	122,953
Dividends on preferred stock	146	996	438	2,988
Net income to common stock	55,631	49,735	128,181	119,965
Other comprehensive income, net	(13,285)	(23,856)	(19,794)	(47,062)
Comprehensive income	$ 42,346	$ 25,879	$ 108,387	$ 72,903
Net income to common stock	$ 55,631	$ 49,735	$ 128,181	$ 119,965
One-time transactions, net of tax	6,930		6,930	
Net income to common stock - excluding one-time transactions	$ 62,561	$ 49,735	$ 135,111	$ 119,965
Average shares of basic common stock outstanding	99,723	98,139	99,287	97,944

Basic and diluted earnings per common share on average shares outstanding	$ 0.56	$ 0.51	$ 1.29	$ 1.22
Basic and diluted earnings per common share on average shares outstanding excluding one-time transactions	$ 0.63	$ 0.51	$ 1.36	$ 1.22
Other information Water sales (billions of gallons)	102.0	99.5	260.7	258.0
Utility customers (as of September 30)	2,624	2,583	2,624	2,583

	Twelve months ended September 30,	
	2001	2000
Operating revenues	$ 1,407,558	$ 1,329,181
Operating expenses		
Operation and maintenance	628,466	597,673
Depreciation and amortization	180,075	161,852
General taxes	127,434	126,037
	935,975	885,562
Operating income	471,583	443,619
WE/AG acquisition expense	(9,860)	
Gain from sale of operating system	4,820	
Other income (deductions), net	(185,884)	(187,286)
Income before income taxes	280,659	256,333
Income taxes	113,932	100,822
Net income	166,727	155,511
Dividends on preferred stock	1,150	3,984
Net income to common stock	165,577	151,527
Other comprehensive income, net	(39,890)	(32,813)
Comprehensive income	$ 125,687	$ 118,714

Net income to common stock	$ 165,577	$ 151,527
One-time transactions, net of tax	6,930	
Net income to common stock - excluding one-time transactions	$ 172,507	$ 151,527
Average shares of basic common stock outstanding	99,091	97,612
Basic and diluted earnings per common share on average shares outstanding	$ 1.67	$ 1.55
Basic and diluted earnings per common share on average shares outstanding excluding one-time transactions	$ 1.74	$ 1.55
Other information		
Water sales (billions of gallons)	344.7	343.0
Utility customers (as of September 30)	2,624	2,583

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

Contact:
American Water Works Company, Inc.
James E. Harrison, 856/346-8207
Nancy A. Macenko, 856/566-4026

* * *

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials

[X] Soliciting Material Pursuant to Section 240.14a-12

Filing by:

AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Voorhees, N.J., October 29, 2001

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This represents a 24% increase in earnings per share above the 51 cents per share reported for the third quarter last year. A ten-cents per share charge resulted from expenses incurred for the RWE/AG transaction announced September 17, 2001 and a three-cent per share net gain was recorded for the sale of water assets serving the city of Salisbury, Massachusetts.

After these one-time transactions, per share earnings were 56 cents and net income to common stock was $55.6 million.

``Increased revenues from more than 40,000 new customers, authorized increases in rates charged for service, and modest weather pattern improvements were contributing factors to the improvement in results from on-going operations,'' said Ellen Wolf the company's chief financial officer. Cooler temperatures and frequent rainfall negatively impacted the company's revenues during the third quarter last year. ``Even though we did not return to historical sales levels in all states during the quarter, our geographical diversity helped to mitigate this year's weather impacts,'' added Ms. Wolf.

Compared with revenues for the third quarter last year, revenues increased $31 million, or 8.5 % to $395 million.

Total operation and maintenance (O&M) expenses increased 8.1% compared to O&M expenses for the third quarter last year. However, as a result of continued growth, per customer O&M expenses on a twelve-month basis were up only 3.5 % from per customer expense levels one year ago. Operating margins for comparative twelve-month periods were unchanged.

Depreciation expense increased 12.4% as a result of capital investments that increased net utility plant more than $244 million.

Approval of the company's purchase of the water and wastewater assets of Citizens Communication Company in California was received from the California Public Utilities Commission in September. The company now has approval from state regulatory agencies in all six states covered by the purchase agreement and pending resolution of appeals from the California decision, anticipates completing that transaction by the end of this year.

Closing on the acquisition of Azurix-North America is anticipated in November.

The company stated that approval of the agreement with RWE/AG will be required in fourteen states and filings of the agreement must be made in five other states. It is anticipated that those filings will be made by the end of this year.

As announced earlier this month, a conference call with analysts regarding this earnings announcement will be available today on the company's website (http://www.amwater.com) at 3:00 PM (EST).

2

With annual revenues of $1.4 billion, American Water Works Company, Inc. is the nation's largest publicly traded enterprise devoted exclusively to water and wastewater business opportunities.

For the three month, nine month and twelve month periods ended September 30, American Water Works Company, Inc., reports unaudited consolidated operating results as follows: (In thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Operating revenues	$ 394,956	$ 364,125	$ 1,075,261	$ 1,018,293
Operating expenses				
Operation and maintenance	166,890	154,400	478,189	453,028
Depreciation and amortization	46,819	41,648	136,248	122,061
General taxes	33,049	31,942	98,825	96,610
	246,758	227,990	713,262	671,699

3

Operating income	148,198	136,135	361,999	346,594
RWE/AG acquisition expense	(9,860)		(9,860)	
Gain from sale of operating system	4,820		4,820	
Other income				

(deductions), net	(45,409)	(51,916)	(138,735)	(142,662)
Income before income taxes	97,749	84,219	218,224	203,932
Income taxes	41,972	33,488	89,605	80,979
Net income	55,777	50,731	128,619	122,953
Dividends on preferred stock	146	996	438	2,988
Net income to common stock	55,631	49,735	128,181	119,965
Other comprehensive income, net	(13,285)	(23,856)	(19,794)	(47,062)
Comprehensive income	$ 42,346	$ 25,879	$ 108,387	$ 72,903
Net income to common stock	$ 55,631	$ 49,735	$ 128,181	$ 119,965
One-time transactions, net of tax	6,930		6,930	
Net income to common stock - excluding one-time transactions	$ 62,561	$ 49,735	$ 135,111	$ 119,965
Average shares of basic common stock outstanding	99,723	98,139	99,287	97,944
Basic and diluted earnings per common share on average shares outstanding	$ 0.56	$ 0.51	$ 1.29	$ 1.22
Basic and diluted earnings per common share on average shares outstanding excluding one-time transactions	$ 0.63	$ 0.51	$ 1.36	$ 1.22
Other				

information				
Water sales (billions of gallons)	102.0	99.5	260.7	258.0
Utility customers (as of September 30)	2,624	2,583	2,624	2,583

	Twelve months ended September 30,	
	2001	2000
Operating revenues	$ 1,407,558	$ 1,329,181
Operating expenses		
Operation and maintenance	628,466	597,673
Depreciation and amortization	180,075	161,852
General taxes	127,434	126,037
	935,975	885,562
Operating income	471,583	443,619
NE/AG acquisition expense	(9,860)	
Gain from sale of operating system	4,820	
Other income (deductions), net	(185,884)	(187,286)
Income before income taxes	280,659	256,333
Income taxes	113,932	100,822
Net income	166,727	155,511
Dividends on preferred stock	1,150	3,984
Net income to common stock	165,577	151,527
Other comprehensive income, net	(39,890)	(32,813)
Comprehensive income	$ 125,687	$ 118,714
Net income to common stock	$ 165,577	$ 151,527
One-time transactions, net of tax	6,930	
Net income to common stock - excluding one-time transactions	$ 172,507	$ 151,527
Average shares of basic common stock outstanding	99,091	97,612
Basic and diluted earnings per common share on average shares outstanding	$ 1.67	$ 1.55
Basic and diluted earnings per common share on average shares outstanding excluding one-time transactions	$ 1.74	$ 1.55

	==========	==========
Other information		
Water sales (billions of gallons)	344.7	343.0
Utility customers (as of September 30)	2,624	2,583

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

Contact:
American Water Works Company, Inc.
James E. Harrison, 856/346-8207
Nancy A. Macenko, 856/566-4026

* * *

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RWE Acquisition
Update #5

October 24, 2001

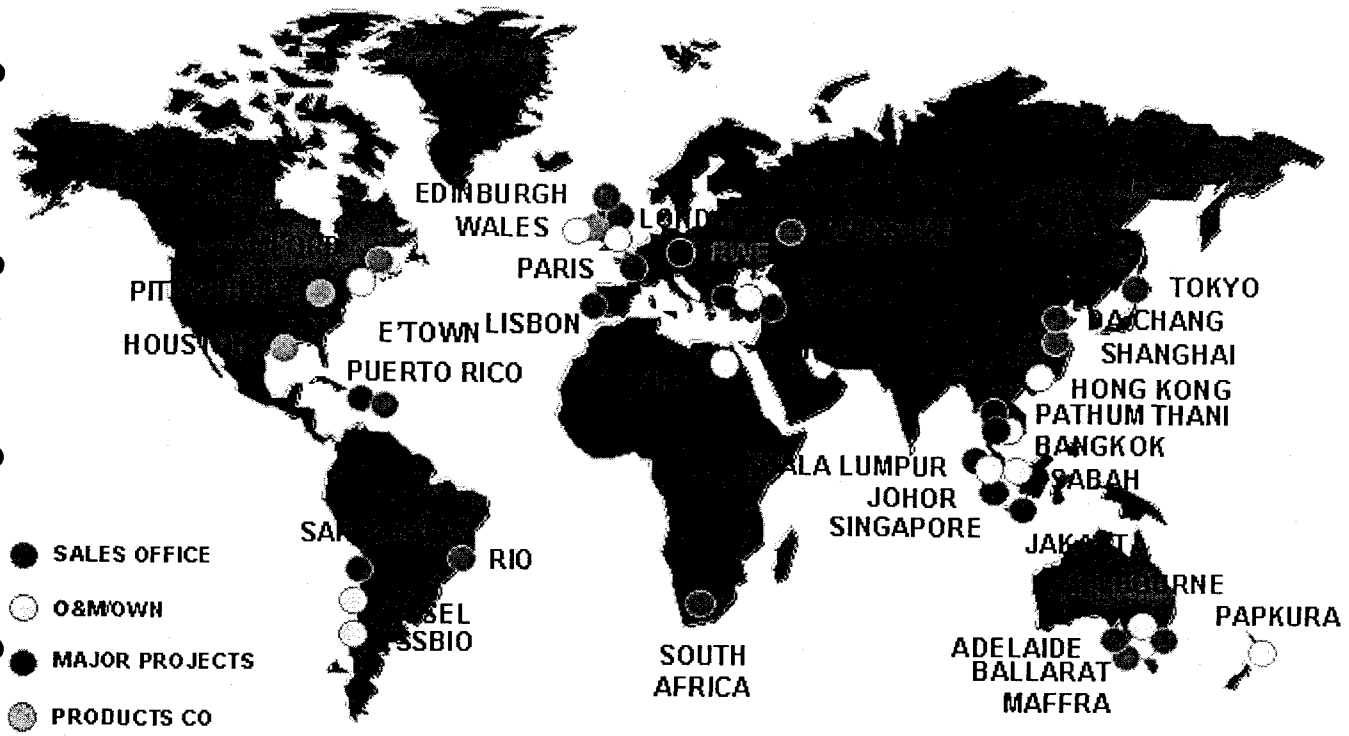
This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

In this *Update* we continue to focus on our acquisition partner Thames Water - specifically where the company conducts business around the world, as well as in the United States.

This first map illustrates the company's key operations worldwide. Major projects, which are designated by a red dot, include the largest privately financed water project in the world (Ismit, Turkey) and the largest concession in the world (Jakarta, Indonesia).

In Chile, the Thames company ESSBIO is the second largest water company in the country. It serves Chile's second largest city, Concepcion, and its surrounding region. ESSEL, another Thames business, is a fast growing water company located in Rancagua, just south of Santiago.

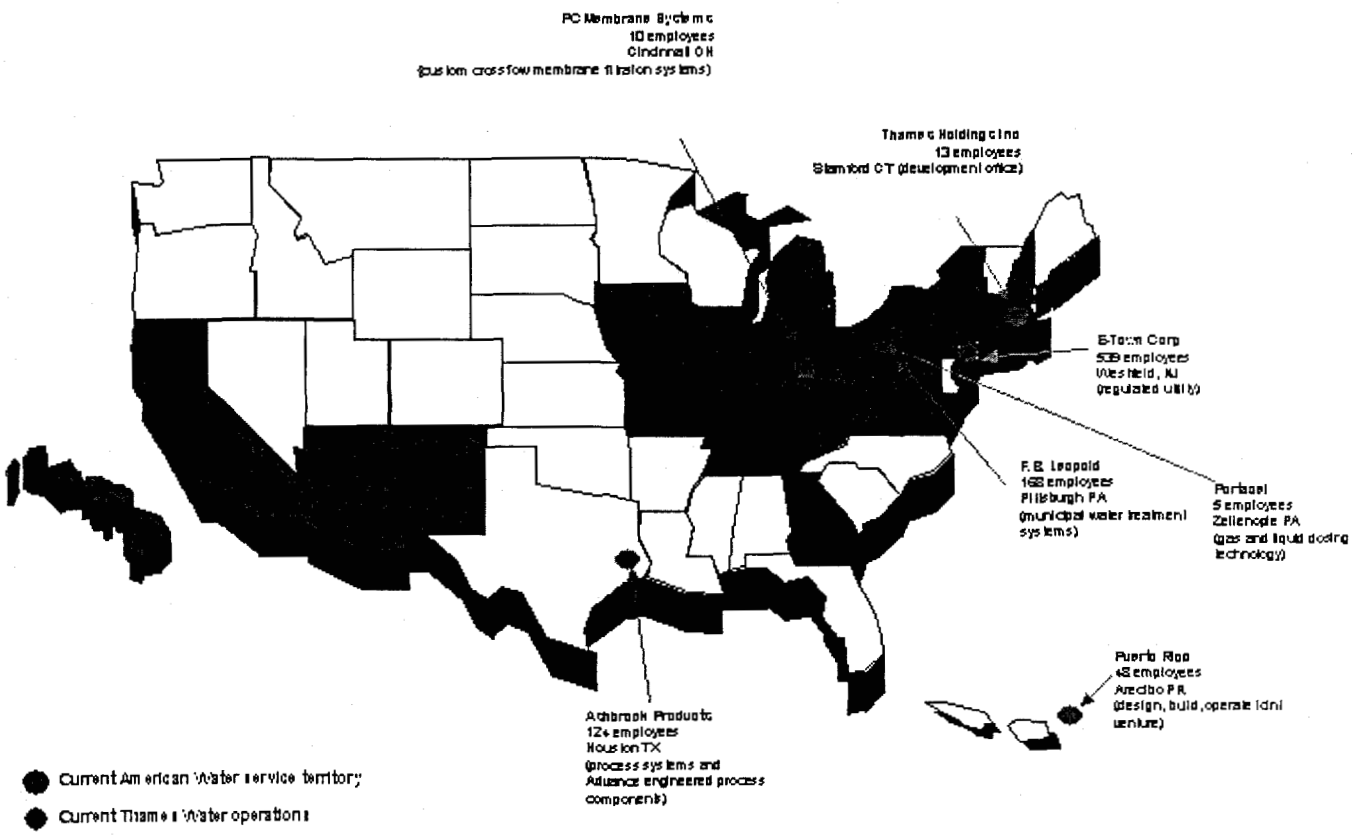
Thames Water Global Presence



Continued...

The Thames Water Operations in the United States

This map shows the current service territory of American Water, and the Thames operations in the US. In all, there are more than 900 Thames employees associated with seven businesses that, together, generate annual revenues of approximately $250 million.



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[Logo] RWE Acquisition Update #4

October 19, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

Frequently over the past few weeks, we've been asked about the culture of Thames Water - how they go about doing their jobs and what's really important to them. Time and again, members of the American Water team have remarked that the Thames people as "water people, just like us." The most vivid examples of our similarity can be found in the operating principles Thames has in place to guide them. See for yourself in these values and attributes from Thames Water.

Thames Water Beliefs

- Thames Water is more than just a water company. What we do makes a different to the quality of people's lives around the world.
- Working in partnership with RWE gives us the opportunity to achieve our

vision quicker
- We need to think, feel and act like global leaders while providing locally tailored solutions
- The way we do things is as important as what we do
- We will be the water partner to the world

Thames Water Goals

- We will be the number one or number two water services provider in every country in which we operate
- We will increase the added-value per customer wherever we operate
- We will set the standards against which others are measured
- We will be the fastest growing division of RWE

Continued . . . .

Thames Water Strategic Priorities

- Accelerating growth
- Consistently outperforming expectations
- Getting more from our assets and capabilities
- Contributing to our communities
- Growing our people

Thames Values

- Success
  - We exceed expectations
  - We enjoy what we do
  - We celebrate achievement
  - We learn from our mistakes
  - We believe in commercial success
- Responsiveness
  - We satisfy our customers
  - We encourage flexibility
  - We listen, think and act
- Professionalism
  - We are trustworthy and reliable
  - We deliver to high standards
  - We take responsibility
- Honesty and integrity
  - We encourage frankness
  - We build trust in each other
  - We welcome views and respond openly
  - We are visible and approachable
- Respect for others
  - We value the abilities and opinions of others
  - We work constructively with all of our partners
  - We are committed to working as a team
- Challenge and innovation
  - We aim to set the pace
  - We challenge the status quo

o We think ahead, anticipate needs and find solutions

* * *

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American Water Works Position Paper
Significance of Consolidation and the Proposed RWE Acquisition

Background

Reliable water service, which is essential to community health, safety and economic prosperity, requires:

- Access to massive amounts of new capital for investment
- Unique professional and technical talent, and
- Sophisticated regional planning, investment and operations for the long term.

Large financial investments are constantly required to fund community development and to address environmental regulation, the demands of technology, and the need to upgrade and replace the aging infrastructure in our communities. At the same time, customers are using less water.

In other words, the amount of investment for each customer has increased while water use by each customer is dropping. As a result, professional water systems must constantly look for ways to operate most cost effectively.

The Trend Toward Consolidation

The United States has about 54,000 water systems which has resulted in a significant amount of fragmentation. The large number of systems, most of which serve fewer than 5,000 customers, makes the water utility industry ripe for consolidation. It's one of the most significant initiatives in the search for cost efficiency and operational expertise.

Consolidation creates size and stability that increases the capacity to attract capital at a lower cost. It also enhances regional planning and expands a company's capability to attract and retain professional and technical talent.

Consolidation and American Water Works

At American Water Works, we have been able to enhance our ability to address water resource issues across the United States through a series of consolidations. This started with the coming together of more than 100 small water companies in the late 19th and early 20th centuries, and has continued right up through today. We invest capital and combine resources to ensure reliable water services in 1,300 communities throughout 23 states. These actions have resulted in enhanced service to consumers at a lower cost than otherwise possible.

Continued . . .

Continuing Consolidation

American Water, a New Jersey-based company, owns water systems in states stretching from New England to Hawaii. This cross-country reach, which has been achieved through consolidation, has not interfered with, disrupted, or otherwise compromised the regulation or control of the water resources in local communities. To the contrary, there is clear evidence that water system consolidation has enhanced essential long-term policy planning and implementation in the communities we serve.

The proposed acquisition of American Water by RWE is the next logical step in our company's focus on consolidation. It is perfectly consistent with our financial and operational strategies that have proven the value of consolidation in the past. Once the transaction is complete, American Water will join with Thames Water, an RWE company that operates water and wastewater systems in London and in several other major markets worldwide.

Our relationship with RWE/Thames will present enhanced access to capital at lower long-term costs than would be available to American Water independently. It will also significantly expand our access to technical and professional resources to address complex operational, environmental and engineering issues associated with delivering reliable water services. This will be accomplished under the same local, regional and state regulatory oversight that is in place today.

Underpinnings of Agreement

American Water carefully considered the acquisition proposal from RWE from three critical perspectives:

- The investor
- The customers and community
- The employees of the company

In each case we concluded that this transaction will enhance and improve what we do, and it will allow us to continue to deliver the essential public service that water represents, at a lower cost than otherwise possible.

* * *

American Water Works Company, Inc. (the "Company"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic

of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger, dated as of September 16, 2001, pursuant to which Sub will be merged with and into the Company with the Company surviving the merger (the "Merger"). In connection with the Merger, the Company will be filing a proxy statement with the Securities and Exchange Commission (the "SEC"). SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE BECAUSE IT CONTAINS IMPORTANT INFORMATION REGARDING THE MERGER. Investors and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed by the Company with the SEC in connection with the Merger at the SEC's web site at www.sec.gov. Security holders of the Company may also obtain for free a copy of the proxy statement and other documents filed with the SEC by the Company in connection with the Merger by contacting Nancy A. Macenko, Vice President External Affairs, at (856) 566-4026.

The Company and its subsidiaries and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the Company's stockholders

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in favor of the Merger. These directors include the following: Marilyn Ware, Gerald C. Smith, J. James Barr, Henry G. Hager, Ross A. Webber, Frederick S. Kirkpatrick, Paul W. Ware, Nancy Ware Wainwright, Ray J. Groves, Elizabeth H. Gemmill, William S. White, Anthony P. Terracciano, William O. Albertini, Rhoda W. Cobb and Horace Wilkins, Jr. and these officers include Joseph F. Hartnett, Jr., Daniel L. Kelleher, W. Timothy Pohl, Robert D. Sievers, Ellen C. Wolf, Nancy A. Macenko and James E. Harrison. Collectively, as of March 5, 2001, the directors and executive officers of the Company may be deemed to beneficially own approximately 21.9% of the outstanding shares of the Company's common stock and under 5% of the outstanding shares of the Company's Cumulative Preferred Stock, 5% Series. Stockholders of the Company may obtain additional information regarding the interests of the participants by reading the proxy statement when it becomes available.

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Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]

Check the appropriate box:

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[_] Definitive Proxy Statement
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[Logo] RWE Acquisition Update #3

October 8, 2001

This is an update on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

Last week, RWE President and Chief Executive Officer Dr. Dietmar Kuhnt, and Chief Financial Officer Klaus Sturany visited the Voorhees headquarters. During their short stay they met with members of the senior management team to talk about RWE's business, their perspectives on the proposed acquisition and on recent events in the US. Here is an excerpt of Dr. Kuhnt's remarks:

On the transaction

I can't tell you how excited I am for RWE and Thames Water to begin a partnership with American Water Works... We are confident this partnership will create new growth opportunities for everyone who is connected to American Water Works. As part of RWE, our combined company will have greater access to capital. This, in turn, will create new possibilities to enhance growth throughout the United States and in the rest of North and South America, the region for which you -- the American Water Works team -- will be responsible once the transaction closes.

Beyond ensuring that the newly combined company has access to growth

capital, its success will be determined by the degree to which American Water Works, Thames Water and RWE exchange operating and management best practices. For such a healthy exchange of ideas and know-how within our family of companies will be one of the most important ways we will set ourselves apart from the competition on a global and local scale.

Although the close of the transaction is still far off, I'd like to extend to you an early welcome to the RWE family of companies. We are fully aware of the heritage we will be inheriting from American Water Works, and are committed to maintaining the company's legacy as we continue to enable its growth, and together build the world leader in water.

Continued . . .

RWE Acquisition Update #3 - page 2

RWE's Presence in the US

RWE...has a history of operating in the United States. In addition to Thames Water's E-Town's business, the RWE Group has a number of other subsidiaries and affiliations here. These include companies such as Pittsburgh-based CONSOL Energy, a company that holds a leading position in the global coal market...CONSOL is a multi-fuel provider and also operates mines in Pennsylvania, Ohio, Virginia, West Virginia, Kentucky, Illinois and Utah, and currently produces approximately 7% of the total annual output of the U.S. hard coal market.

Other RWE businesses with major operations in the U.S. are the construction companies Turner Corporation of Dallas and Kitchell Corporation of Phoenix, and Heidelberger, which is the market leader in the United States for web-fed offset presses. Heidelberger has substantial operations in the U.S., principally in New Hampshire.

During the fiscal year just ended...approximately 20% of the RWE Group's $57 billion in sales were generated in North America. North America accounts for about half of the sales we generate outside of Germany.

On the events of September 11

On behalf of the more than 170,000 employees of the RWE family worldwide, let me take a moment to again express our profound sadness and outrage regarding the terrorist attack on the United States that took place three weeks ago. Our prayers are with the victims of these shameful attacks, their families and the countless rescue workers and volunteers who have worked at great peril in the hopes of saving even one life and helping to restore and rebuild New York and Washington.

It has been said by others, but it bears repeating here: All of us around the world have been Americans throughout these past few weeks. And that rings true especially for RWE. For RWE and its affiliates employ more than 16,500 people in the United States, or about 10% of the Group's entire work force. In light of our company's presence in the U.S., and our general commitment to being a true part of the communities in which we operate, we have donated $2 million dollars to support the recovery efforts in New York and Washington. We are currently in contact with the honorable Daniel Coats, the US Ambassador to Germany on where the donation would best be served.

* * *

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[The following is a form of letter to be distributed by subsidiaries of American Water Works to local political and community leaders.]

[Logo]

Dear [name],

I understand your constituents have some questions about recent news on the proposed acquisition of American Water Works -- the parent company [name subsidiary] -- by the German firm RWE. I'm pleased you've made us aware of these questions and I welcome this opportunity to give you more information.

Here are the facts:

- On September 16, 2001 American Water Works agreed to be acquired by RWE AG, a diversified energy and water services company based in Essen, Germany.
- Under the terms of the agreement, RWE will acquire all of American Water Works common stock for $46 per share in cash.
- Once the transaction is complete, American Water will join with Thames Water - an RWE company and one of the largest water suppliers in the world.

What does this mean for [subsidiary name] customers? [subsidiary name] will still be their water company. The people of [subsidiary name] will still be their neighbors. The trucks that come down their street to look after their service will still say [subsidiary name] on the side, and they'll still send their water bills to the same [subsidiary name] office.

But in the long run, our customers can expect to benefit from the economies

that typically come from joining together strong companies. Once the transaction is complete, this partnership will bring [subsidiary name] customers global experience in areas such as water quality, research and technology - as well as a world of new ideas on how to serve customers. That also means in the future, [subsidiary name] customers can expect rate increases that are likely to be lower than they would have otherwise been.

There's one more important point I'd like to make. During these emotional times for our country, I know there has been some concern over the thought that a foreign company could control our water supplies. The fact is, the control of our water supplies has never been determined by who owns the water company's stock. Our water is controlled by various governmental organizations including the state public utility commissions, river basin authorities and state environmental protection agencies. That's the way it's been and that's the way it's going to be -- no matter who owns American Water Works.

Continued . . .

Besides, while RWE is headquartered in Germany, it's hardly new to this country. The company and its affiliates employ more than 16,500 people in the U.S. - roughly 10% of RWE's global workforce. They are part of a number of organizations including the Thames Water business in Westfield, NJ, and Pittsburgh-based Consol Energy - a multi-fuel provider that operates mines in Pennsylvania, Ohio, Virginia, West Virginia, Kentucky, Illinois and Utah. Other RWE businesses in the US include Turner Construction Corporation of Dallas and Kitchell Corporation of Phoenix.

I hope these facts about this proposed transaction will help you respond to your constituents. If I can be of further help to you or them, please let me know.

Regards,

* * *

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[The following is an excerpt from Illinois-American & Iowa-American Water Companies' internal newsletter dated Friday, September 28, 2001:]

[Logo]

Jim Barr Holds Open Forum

American Water's Jim Barr, Ellen Wolf and Nancy Macenko were in Champaign Wednesday for a meeting with managers of Illinois-American, Iowa-American, Indiana-American and Missouri-American.

Representing Illinois-American were: Terry Gloriod, Doug Mitchem, Fred Ruckman, Gary Mendenhall, Terry Mackin, Karen Cooper, David Baker, Kevin Hillen, Randy West, Mike Lawhon, Barry Suits and Connie Reese.

Representing Iowa-American were Brock Earnhardt and Charlie Jones.

As part of a "cascading" communications program, attendees are being asked to share and communicate their insights from the meeting to their associates.

Some highlights of Wednesday's meeting:

- Barr, Wolf and Macenko were in Charleston, West Virginia on Tuesday and Hershey, PA on Thursday. They are in Haddon Heights, NJ, today to hold similar meetings with management associates.

- Barr said American Water Works was not for sale. The company was not being marketed. He was first approached by RWE AG by phone in May when he was attending the annual Business Forum in Annapolis, MD. The first meeting between American Water and RWE AG was the Friday before Memorial Day (May 25).

- Barr and Wolf were in New York City on Sept. 10. They flew home that evening. Barr remembers looking at the World Trade Center as he left the city, not knowing the tragedy that would happen the next morning.

- Barr said there were three key factors that had to be answered before he would seriously consider discussing a sale: 1) The full value of the company; 2) A continued commitment to customers and communities served; 3) A commitment to the people of American Water.

- Barr believes there will be four key factors that will be discussed intensely during the regulatory process: 1) Foreign ownership; 2) Premium recovery; 3) Communities involvement-customer service; 4) People - what happens to them? "I believe we can answer those concerns relatively easy," said Barr. "I can assure you there will not be a rate increase associated with this acquisition."

- Barr said he and Voorhees staff would work hard to keep everyone informed during the approval and transition process. "No question should go unanswered," he said. He mentioned a newsletter would be sent to all associates. The first issue was received via e-mail Thursday.

[Logo]

RWE Acquisition Update #2

October 2, 2001

This is one in a series of updates on the RWE/Thames acquisition for Associates of American Water. Frequent updates will be distributed in the coming weeks via email. They will then be archived, along with other materials, in the "RWE Acquisition Update" database on Lotus Notes.

Answers to Frequently Asked Questions:

We've heard so many times over the years that the Company was not for sale. How could this be true in light of the agreement with RWE?

The fact is, our Company has not been for sale. Even when representatives of RWE first approached us at the end of May 2001, we were not looking for a buyer. However, the officers and directors of the Company have an obligation to act in the best interests of our shareholders. RWE came to us with an attractive offer and our Board of Directors unanimously agreed to recommend the transaction to our shareholders.

If the initial contact was made in May, why did it take until September 16 to arrive at an agreement?

The Company insisted that three equally key elements be addressed before any agreement could be reached. First, the full value of the company had to be acknowledged; second the contributions of American Water Associates and retirees had to be recognized and third, there had to be a continued commitment to our customers and the communities we serve. Various aspects of those elements and other important terms, had to be thoroughly explored and detailed before an agreement could be reached.

What are the most common questions that we have been asked about this transaction?

The questions fall into four areas: Proposed foreign ownership; the recovery of the purchase price; commitment to the community and customer service; and staffing levels upon the completion of the transaction. In the coming days, as responses are developed, we will pass them along to you.

Continued . . .

When will the offer be presented to shareholders?

Before the shareholders can meet to vote on the transaction, a proxy statement and other related documents need to be prepared and distributed to all shareholders. The proxy statement will explain the terms of the merger agreement that the shareholders are being asked to approve. That process is expected to take several months to complete. That means the special meeting of the shareholders on the transaction will probably not be held until early 2002.

What if another company comes along with a better offer. Could we accept it?

The agreement permits the Board of Directors to accept a better agreement, as part of its fiduciary duties, anytime before the shareholder vote is taken. There would be a substantial fee payable by the company associated with such a decision, but it is permitted.

Will the Unions continue to exist after the transaction closes?

Yes. The Unions and all collective bargaining agreements will be recognized and honored by RWE.

Once the transaction is complete, will my years of service be carried forward?

Yes, your years of service will continue unchanged.

* * *

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

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Item 1: Analyst conference call, Monday, Sep 17, 2001.

AMERICAN WATER WORKS

Moderator: Jim Harrison
September 17, 2001
2:00 p.m. EDT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the American Water Works Company's Special Announcement conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. At that time if you have a question, you will need to press the one followed by the four on your telephone. As a reminder, this conference is being recorded Monday, September 17, 2001. A Post View replay of this conference will be available at 2:00 Mountain Time on today, September 17, through 2:00 Mountain Time on September 25th.

To access the Post View replay, you will dial 800 633 8284, and enter reservation number 19729996 followed by the "pound" sign. I would now like to turn the conference over to Mr. Jim

Harrison, Vice President of Investor Relations. Please go ahead.

Jim Harrison: Good afternoon everyone and welcome to our conference call to discuss today's announcement of the execution of an agreement for the purchase of all the common stock of American Water Works by RWE AG. If anyone listening to this call did not receive a copy of the press release, in addition there is a copy at our website, but if you didn't receive a copy, you can call Kim Oliver at 480 614 3002. We'd also like to remind everyone that forward-looking statements made during this call are based on current information and expectations and are subject to risks and uncertainties that could cause actual results to differ.

It is for that reason that we ask all participants and listeners to refer to the disclosure statement located in the lower portion of our press release that discusses some of the factors that may influence future financial results. With that, I'll turn the call over to Ellen Wolf, our Company's Chief Financial Officer.

Ellen Wolf: Thank you Jim. I would first like to start this call, as we have all of the meetings held through this Company over the past week, with a moment of silence in recognition of the lives that were lost and the impact on the families and friends of those individuals throughout the United States.

[A moment of Respectful Silence is observed].

Thank you for joining the call and thank you for the moment of silence. I do not have, for this call, a prepared script or text. I want to go through a few basic facts and then I am prepared to open up for any questions that you may have as relating to the transaction and the issues that I can clarify for you.

As you know, announced this morning, American Water has agreed to be purchased by RWE, for $46 per share. That amount represents a premium of 36.5% to the last 30 trading days prior to September 10th, 2001 and an approximately 30% premium over--for our all-time closing price. What does that translate into, how you often look at deals in our industry? If you look at it in terms of a multiple of EBITDA, it is 12 times our EBITDA for the year ended 2000, and 11.7 for our last 12 months. In terms of EBIT, again it is 16.4 times for our year ended 2000 and 16.2 for the last 12 months. In terms of a multiple of EPS, again it is 28 times for the year 2000 and about 28.4 times for our last 12 months. And finally, as a multiple of book, it's approximately 2.7 times our book as of the end of 6-30-'01. In all of these cases, we are at or above the average for similar transactions in this industry.

Other items to note, of which I believe you would have a concern as it relates to this transaction, we will continue to pay our dividend out to our shareholders. In the agreement, we will be increasing that dividend at what we have in the past of about 4 cents per share. For those of you

who would like to see the document itself, it has been filed today as part of our 8K filing with the SEC, and will be available for your review.

In terms of regulatory approvals, we will be going to get our, before the FTC, the Hart Scott Rodino filing will be done. Then, in terms of the number of states requiring regulatory review, we believe that at least half of the states we are currently doing business in, will require that review. However, since this is the first time we've ever done this, we are reviewing all 22 states in which we are regulated to determine the appropriate review required in those states.

That is the basis and I would now like to open up the lines for any questions that you have.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the one followed by the four on your telephone. You will hear a three-tone prompt acknowledging your request. If your question has been answered and you wish to withdraw your polling request, you may do so by pressing the one followed by the three. If you are on a speakerphone, please pick up your handset before entering your request. One moment, please, for the first question.

Tom Hamlin, with First Union Securities, please go ahead.

Tom Hamlin: Good afternoon, Ellen.

E. Wolf: Good afternoon, Tom.

T. Hamlin: On regulatory approval and the structure of the transaction, is the deal contingent on receiving all necessary state regulatory approvals? And, which teams will be going for those approvals? Will it be an American Water Works team? Or, will it be an RWE team?

E. Wolf: We will work side by side with RWE in obtaining and actually through Thames Water, and obtaining the required regulatory reviews. We will both be in there together. That's because we are both equally committed to the transaction. I'm sorry, I forgot the first half, Tom.

T. Hamlin: In terms of impediments to closing the deal, does it require that you get all necessary--what is the regulatory clause, I guess, in the deal?

E. Wolf: Again, you're welcome to look at the agreement. But it requires approval in all of the material states that we do business in. I think some of those states are fairly obvious, Pennsylvania being one. Also, there's New Jersey, Illinois, the list does go on for a little bit. Again, it's the material states that make a difference to this transaction.

T. Hamlin: And is there a time limit?

E. Wolf: The agreement has two dates. One is an 18-month date. However, if the only thing left open at that 18 months is regulatory approval, the agreement automatically extends to 24 months. And then there is another, I believe, 60 days if the only thing we're waiting for after the 24 months is the final order. It is at the option for both of us to extend it beyond that time, if we so choose.

T. Hamlin: OK, thank you.

Operator: Your next question comes from Debra Coy from Schwab Capital Markets. Please go ahead.

DebraCoy: Thanks. Ellen, just to clarify that, is California a material state?

E. Wolf: At this point, it depends on whether Citizens goes forward or not. We're pushing to make sure Citizens does close, and at this point we're researching as to whether or not we will need regulatory approval in California.

D. Coy: OK. And, what sort of breakup restrictions or fees--in prior merger agreement that you've had, there's been an out for either party, in case of an adverse regulatory decision. Is that the case here as well?

E. Wolf: There are a number of outs in the transaction. First and foremost is an out for a superior offer. Attached to that, however, is a 3% termination fee. So, if we should terminate the deal for a superior offer, there is a 3% fee penalty.

D. Coy: OK.

E. Wolf: If we do not get material approval, then the deal itself would terminate, yes.

D. Coy: But not for so-called adverse regulatory decisions, in other words one that weren't an outright disapproval, but ones that were onerous?

E. Wolf: Yeah. Debra, this will be a legal interpretation, which I really would like to stay away from. There is a material adverse effect clause, and that individual state's material, if it is a significant decision, would have to be put in context of all of the decisions we get from the states and its impact on that material adverse clause.

D. Coy: OK. Material adverse in terms of the overall company, I think I understand.

E. Wolf: It's not a state by state [unintelligible].

D. Coy: I understand. And then, just to clarify a couple of things on a go forward basis, you said that this, on an evaluation basis, is above average for similar transactions? RWE said this morning said that it was below average.

E. Wolf: Yeah. I saw that. We will gladly supply the numbers that

we've used, but they did use it on an EBITDA multiple. I have the average for the industry at about equal to our last 12 months. So, I don't have it the same as they do.

D. Coy: Well, they obviously have different reasons for saying so.

E. Wolf: Yeah, obviously different goals. We're using the same basis that we have always used in comparing these transactions. They are somewhat new to the US industry, so they may be using different ones.

D. Coy: OK, sure. And then also, in terms of understanding what the company's strategy going forward is, I understand that Jim is staying on to run the Americas for them. And they have spoken about their support for the management team. Can you say at this point, whether the AWK management team, in other words, you know, you and the other managers are planning to stay on, or have any sort of contracts?

E. Wolf: We are all, in our hearts, planning to stay on. There have been no discussions with anyone, either from RWE or Thames, about that. But it is our goal to continue to be committed to this industry and the success of this company.

D. Coy: But there are no contracts?

E. Wolf: There are no contracts.

D. Coy: OK, and then just one other thing to clarify; they have spoken of a 10% EBITDA growth target. That is certainly above your historic average. And in fact, most of your EBITDA, not most of, but the reason your EBITDA growth has been as high as it has been is more because of D&A growth, rather than EBIT growth, at least towards the 10% level. And what I'm trying to understand, I guess, is how you feel that this combination changes the strategy or the prospects of the company going forward?

E. Wolf: Debra, first off, the 10% is their number and I'm not privy at this time as to how they derived that 10%. We can give you a contact eventually, at the company if you would like, at their company, to discuss it. Our strategy will not change, going forward. If anything, we believe it will become more aggressive and will make us a stronger player in the market. But, we will continue to do our acquisition and our acquisition strategy.

We will continue to put emphasis on the O&M business and the unregulated. And, with this Thames does bring three product companies here in the US, which will also be added to our suite of services to be provided as a full-water resource manager.

D. Coy: OK, so the Thames North America will be merged within AWK?

E. Wolf: That's correct.

D. Coy: OK. All right, thank you.

Operator: Tim Winter, from AG Edwards, please go ahead.

Tim Winter: Good afternoon Ellen and Jim. Could you talk a little bit about the process that went through here? Did you talk to other potential bidders? Was this an auction? Did you contact them? Or did they contact you?

E. Wolf: This was not an auction, and this was an unsolicited offer, which we received. I guess the first contact was probably last May. There have been discussions on and off throughout, but no, this was not an auction. As I said, this was an offer that came in, that was evaluated extremely carefully by our board, from several angles. And they felt comfortable that this was a very good offer for our shareholders.

T. Winter: OK. So, did you talk to any other potential bidders?

E. Wolf: No, Tim. We did not.

T. Winter: OK, thank you.

Operator: Stefan Mykytiuk, with Barron Capital, please go ahead.

Stefan Mykytiuk: Yeah, good afternoon. Congratulations. I have just a quick question; I missed the first couple of minutes. But, what's the status of the California Commission, with respect to the Citizens deal?

E. Wolf: The commission had originally scheduled to hear the Citizens transaction--well, let me do two things. First, I don't know if you're aware that the ALJ has recommended to the commission approval of our transaction, in form and substance as we submitted it. That was on the agenda for the 6th of September. It was bumped to their next meeting, which is now September 20th, and it will be on that agenda. I cannot tell you whether or not it will be bumped to the next meeting. We'll just have to wait and see. We won't know that until the 20th.

S. Mykytiuk: OK, but you'll continue. As you said, you're continuing to push, to try to get this done?

E. Wolf: That is correct.

S. Mykytiuk: OK, and this RWE buying--agreeing doesn't throw any wrench in that plan?

E. Wolf: We do not think it should throw any wrench. The benefits to the ratepayer, the customer, are still exactly the same.

S. Mykytiuk: OK, terrific. Thank you.

Operator: Bill Hizar, from Edward Jones, please go ahead.

Jim Krekler: Good afternoon. Actually, it's Jim Krekler with Bill in St. Louis. Jim and Ellen, congratulations. It's a great deal for shareholders. Particularly, we want to commend you on being able to announce it today. I'm sure you went through a lot of concern about how and when to announce it. We think this

shows a lot of confidence in the industry and confidence in the capital markets, certainly on a day like today. So, congratulations on that as well.

I guess our question is this. I know we have a lot of individual investors that are interested in purchasing RWE, potentially, in the future. Is there any consideration on the part of that company to potentially list their shares on the New York Stock Exchange in the future?

E. Wolf: I would have to refer you to them for an answer to that question. I don't know, and that's really up to them to answer. I do want to go back to your statement at the beginning, to tell you it was a very difficult decision to make the announcement today. There was a lot of soul-searching and thought that went into it. But we also thought that it was a good time to tell the world that there is still belief in this US market.

I'm sorry. Did you have another question?

J. Krekler: No. Thanks, Ellen.

Operator: Ladies and gentlemen, if there are any additional questions, please press the one followed by the four at this time.

Once again, if there are any additional questions, please press the one followed by the four.

Once again, if you do have any questions, please press the one followed by the four.

Joe Coyle, from Edward Jones, please go ahead.

Joe Coyle: Yeah, hi guys. I'm glad to hear the announcement. One question is, and I don't think we covered it, what kind of a timeline are we looking at getting this done? I know you mentioned 18 months. Is that kind of where you estimate how long this will take?

E. Wolf: We would like to think we could do it within a year, but we have given ourselves the 18 to 24 months, which is in the agreement. As I said, many of the states we're looking at, really for the first time, in terms of this type of acquisition. We've got a team that we'll have in place shortly, ready to go full force at getting approvals.

J. Coyle: OK. Thanks.

Operator: Your next question comes from Ira Gorsky, from CIBC World Markets. Please go ahead.

Ira Gorsky: Hi. Do you expect any Canadian approvals required?

E. Wolf: No, we do not.

I. Gorsky: OK, thank you.

Operator: Linda Dewine, from Fitch Incorporated, please go ahead.

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Linda Dewine: Hello. I have a quick question today. What I want to find out, beyond the financial market exchange that will occur here, what's the operational benefit for the American Water Companies?

E. Wolf: Operationally, what we will have as well now is expertise. It is access to expertise and a different way of doing things, different processes. We'll be able to compare best practices, back and forth, to see what is better for our customer, our ratepayer. And also, like us, they have labs and knowledge and knowledge, expertise along those lines as well.

L. Dewine: Thank you.

Operator: Once again ladies and gentlemen, if you do have any questions, please press the one followed by the four.

At this time, I'm showing no additional questions. Please continue with your presentation or any closing remarks that you may have.

E. Wolf: OK. Once again, I would thank you all for joining us. If you have any additional questions, feel free to call, and get in contact with Jim Harrison, who will gladly answer them, or myself. Thank you.

Operator: A Post View replay of this conference will be available at 2:00 Mountain Time today, September 17th, through 2:00 Mountain Time on September 25th. To access the Post View replay, you will dial 800 633 8284, and enter reservation number 19729996, followed by the "pound" sign.

Ladies and gentlemen, that does conclude your conference for today. You may all disconnect, and thank you for participating.

* * *

American Water Works Company, Inc. (the "Company"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger, dated as of September 16, 2001, pursuant to which Sub will be merged with and into the Company with the Company surviving the merger (the "Merger"). In connection with the Merger, the Company will be filing a proxy statement with the Securities and Exchange Commission (the "SEC"). SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE BECAUSE IT CONTAINS IMPORTANT INFORMATION REGARDING THE MERGER. Investors and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed by the Company with the SEC in connection with the Merger at the SEC's web site at

www.sec.gov. Security holders of the Company may also obtain for free a copy of the proxy statement and other documents filed with the SEC by the Company in connection with the Merger by contacting Nancy A. Macenko, Vice President External Affairs, at (856) 566-4026.

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Thames Water

American Water Works Company, Inc.

17 September 2001

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This presentation contains certain "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are naturally subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein. The forward-looking statements contained herein include statements about the future financial and operating results, plans, strategies, objectives, expectations, intentions, adequacy of resources and other aspects of the business of RWE AG, Thames Water and American Water Works Company, Inc. and the benefits of the pending merger between RWE and American Water Works. The following factors, among others, could cause actual results to differ materially from those described herein: risks and uncertainties relating to the success of pending applications for rate increases, changes in, or the failure to comply with, laws or regulations, particularly those affecting the environment and water quality, changing governmental policies and regulatory actions with respect to allowed rates of return, industry and rate structure, acquisition, disposal, depreciation and amortization of assets and facilities, operation and construction of plant facilities, success of operating initiatives, general economic, political and business conditions, advertising and promotional efforts, existence of adverse publicity, changes in tax rates or policies or in rates of inflation or in accounting standards, unanticipated delays or changes in costs for capital projects, unanticipated changes in operating expenses and capital expenditures, availability, terms and development of capital, competition for new development opportunities, changes in business strategy or plans, quality of management, legal and administrative proceedings (whether civil, such as environmental, or criminal) and settlements, the unpredictability of weather, failure to obtain certain regulatory approvals, actions of the US, foreign and local governments, failure of the requisite number of American Water Works shareholders to approve the proposed transaction, the inability to successfully integrate the businesses of RWE and American Water Works, the costs related to the merger, potential or actual litigation challenging the proposed transaction, and other economic, business, competitive and/or regulatory factors affecting businesses generally. Readers are referred to RWE's and American Water Works' most recent reports filed with or furnished to the Securities and Exchange Commission. Neither RWE nor American Water Works is under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

In connection with the merger, American Water Works will be filing a proxy statement with the U.S. Securities and Exchange Commission. Investors and security holders are urged to read the proxy statement regarding the proposed transaction when it becomes available because it will contain important information. Investors and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed or furnished by American Water Works with the SEC at the SEC's web site at www.sec.gov. The proxy statement and other documents filed or furnished by American Water Works may also be obtained for free by directing a request to American Water Works at +1 (856) 346 8200.

Investors may obtain a detailed list of names, affiliations and interests of participants in the solicitation of proxies of American Water Works shareholders to approve the merger at the following address: American Water Works Company, Inc., 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, NJ 08043 USA.

Today's Presenters

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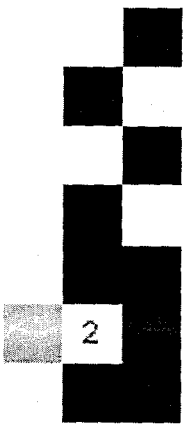
Multi Utilities.

Thames Water

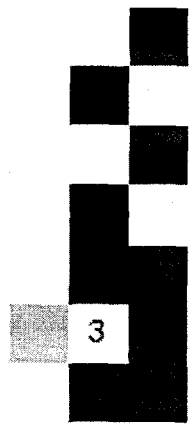
Dr. Klaus Sturany
Chief Financial Officer
RWE AG

Chris Bunker
Group Finance Director
Thames Water



Agenda

■ Transaction Terms and Highlights	Klaus Sturany
■ Thames Water - A Year of Success and Transformation	Chris Bunker
■ Overview of American Water Works	Chris Bunker
■ Surging Forward	Klaus Sturany
■ Financials, Structure and Process	Klaus Sturany



Transaction Terms and Highlights

RWE
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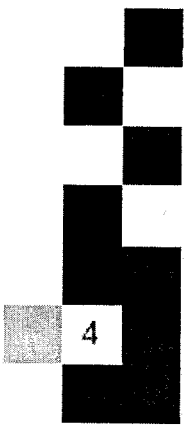
Thames Water

American Water Works Company, Inc.



Delivering Strategy and Creating Value

- Water is core to the RWE multi-utility strategy
- The US water market - the world's largest - presents excellent growth opportunities
- American Water is the clear leader and premier company in the US water market
- Acquisition enhances RWE's global footprint and positions us as the No. 1 US water company and a stronger No. 3 worldwide
- Transaction will be value enhancing

The Combination of American Water with Thames will Deliver Faster Growth and Incremental Value to the RWE Group

Transaction Highlights

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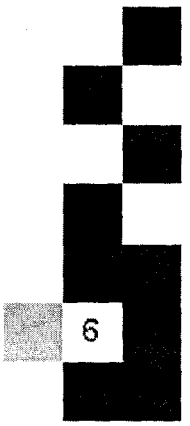
- Price per American Water common share: $46.00
- Total transaction value:
  $4.6 bn Equity
  $3.0 bn Debt(1) & Preferred Stock

  $7.6 bn Enterprise value
- Premium to 30-day average price(2): 36.5%
- Enterprise value/LTM EBITDA: 11.9x
- Price/LTM Earnings: 28.9x
- Target obtaining shareholder approval by end 2001
- Expect to close the transaction within 18 - 24 months

(1) Net debt as of 30 June 2001, excluding pending acquisitions of Citizens and Azurix North America and pending sale of water companies in 4 New England states
(2) Based on the 30 trading days to 10 September 2001



Financial Impact

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- The deal meets all of RWE's acquisition financial criteria
  - IRR of approximately 7% after tax - above the cost of capital
  - EPS accretive in the first full year (pre-goodwill)
- ROCE will be in excess of the pre-tax water business WACC in the second full year of consolidation

This Transaction Creates Value for RWE Shareholders

Thames Water - A Year of Success and Transformation

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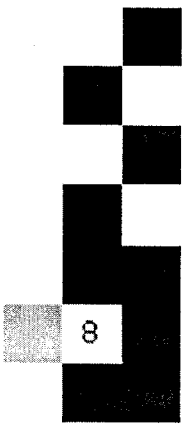
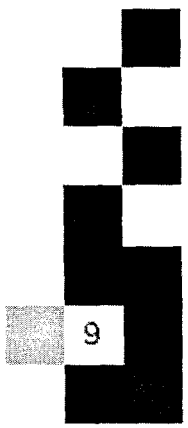
Thames Water

American Water Works Company, Inc.

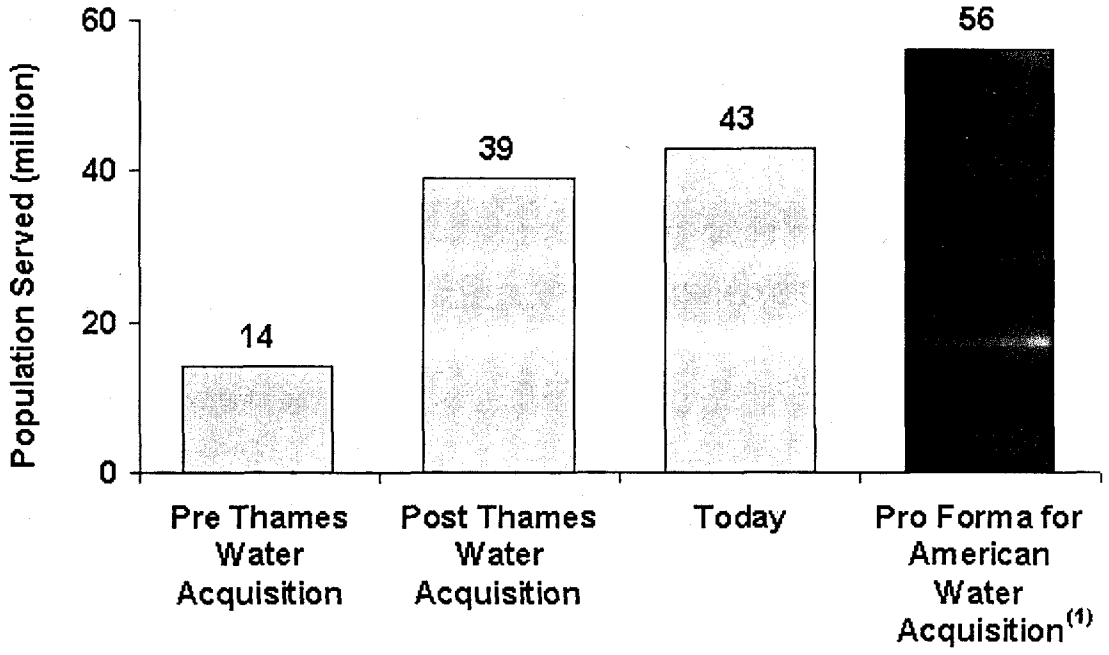


A Year of Success and Transformation

- Continued cost leadership in the UK
- Significant achievements:
  - Welsh Water customer services contract
  - Largest water project in Asia in 2001 - West Bangkok, Thailand
  - Holding in Izmit increased to a majority stake
  - Zagreb sewage treatment BOT
  - Majority in ESSBIO (Chile) acquired
  - Presence in growing Chinese market expanded



Reaching New Customers

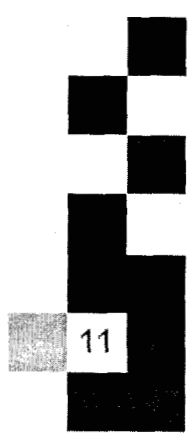


Source: RWE
(1) Including pending acquisitions of Citizens (1 million) and Azurix North America (2 million)

Water Business: Successful Financial Performance

Preliminary Figures 2000/2001 (7½ months incl. in RWE Group)	
Sales	€1,690 million
EBITDA	€821 million
Operating Result	€563 million

- Significant contribution to the RWE Group core business[1] on a 12 month pro forma basis
  - 24% of EBITDA
  - 28% of operating result



Source: RWE
(1) Excludes: Hochtief, Heidelberger Druck, RWE-DEA downstream oil business and chemicals

Overview of American Water

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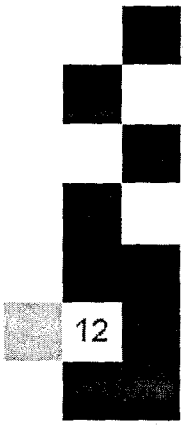
Thames Water

American Water Works Company, Inc.



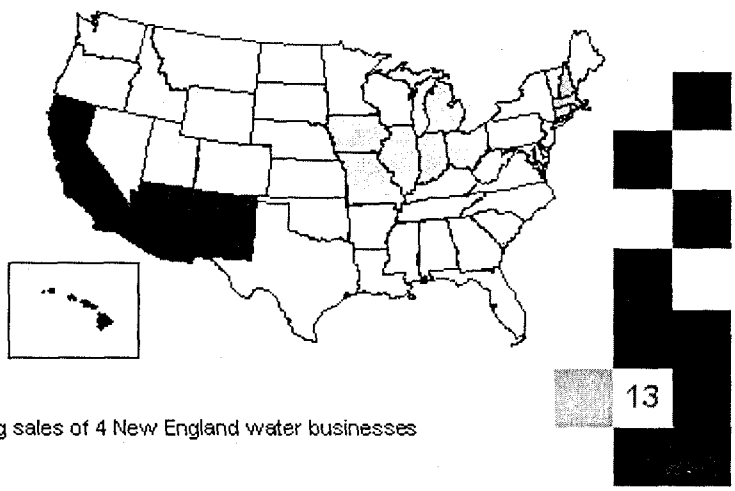
American Water at a Glance

- The largest and most geographically diverse water service provider in the US
- Presence in 23 States providing over 10 million people with water and wastewater services

Population Served

Geographic Region	Actual 2000 (%)	Including Pending Acquisitions[1] (%)
Mid-Atlantic	40%	37%
Midwest	38%	37%
South	15%	13%
West	5%	11%
New England	2%	2%

Service Territory[1]



Source: American Water Works
(1) Pro forma for pending acquisition of Citizens, excludes pending sales of 4 New England water businesses

Leading Market Positions

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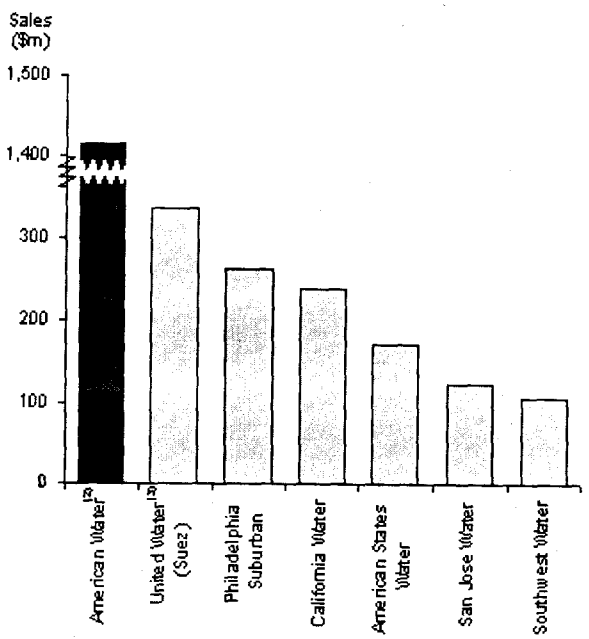
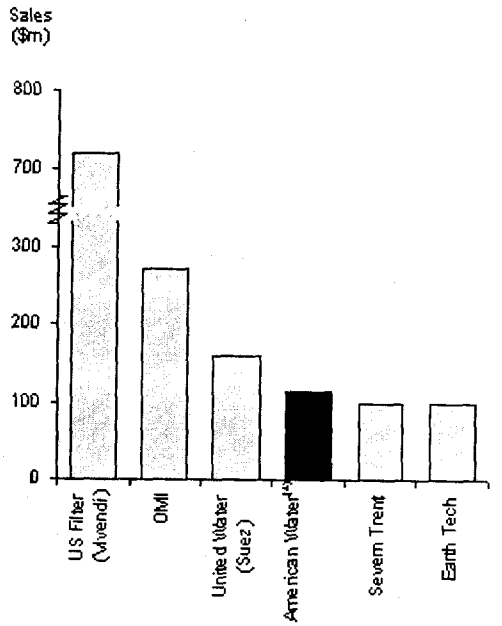
Regulated US Water Market(1)

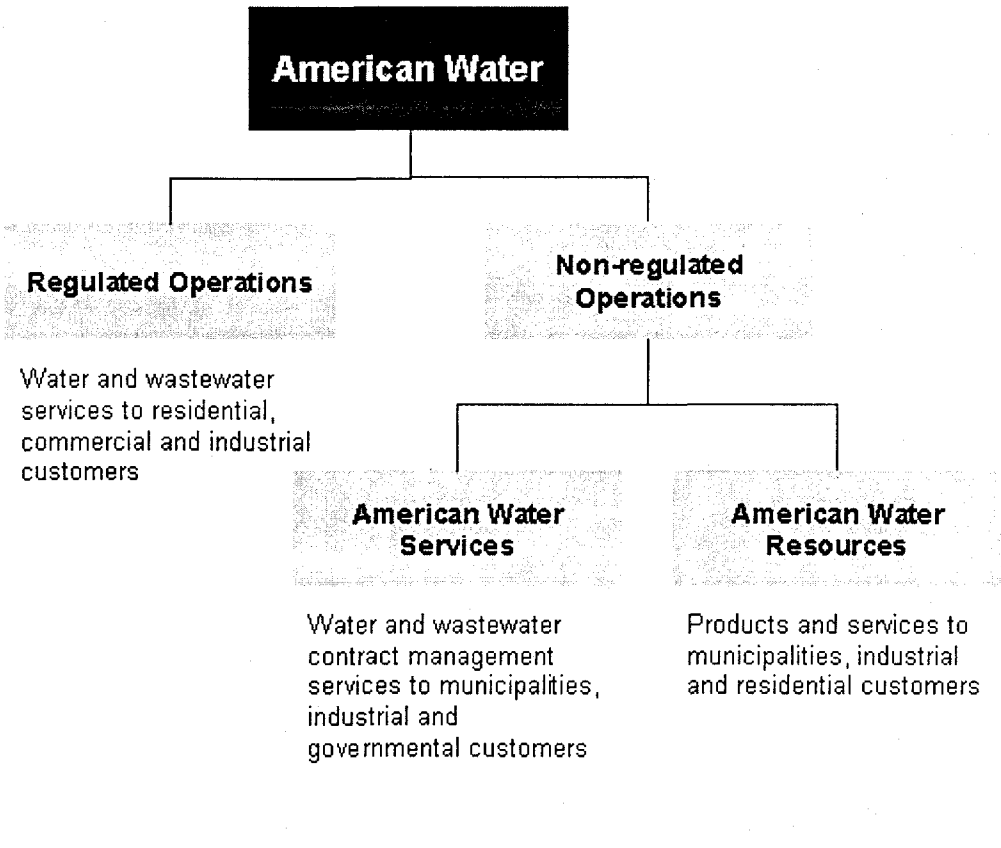


Non-Regulated US Water Market



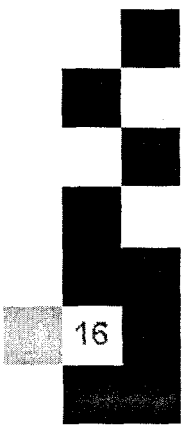
Source: Company Form 10-Ks, Public Works Financing, March 2001
(1) No information available for Vivendi Environnement
(2) Includes Citizens
(3) 1999 revenues
(4) Includes Azurix North America

Transition From a Regulated Water Business to a Full Service Water Resource Manager



Major Strengths

- Unrivalled geographic and regulatory diversity in the US with a largely residential customer base
- Strong relationships with communities and regulators across service territories
- Strong platform for growth with 4 development areas
  - External growth in the regulated business (strategic and consolidating acquisitions)
  - Incremental growth in the regulated business (expansion of rate base)
  - New growth through the unregulated O&M business (total water management)
  - Offer new products and services to existing customers



Successful US Water Market Consolidator

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Tuck-in Acquisitions

	Completed Acquisitions	Cost ($m)	Population Served[1] (000s)
1998	22	47	110
1999	21	12	50
2000	12	52	150
2001/Pending	25	70	144

Major Acquisitions

	Cost ($m)	Population Served[1] (000s)
1995 - Pennsylvania Gas & Water	409	500
1999 - National Enterprises Inc.	700	2,000
Pending - Citizens Water Resources	835	1,000
Pending - Azurix North America	142	2,000

Source: American Water Works, SEC Filings
(1) Based on number of customers multiplied by 4

American Water's Summary Financial Profile[1]

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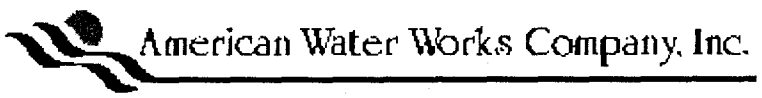
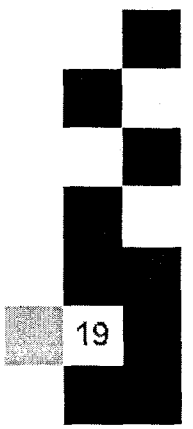
Key figures ($ million)	1996	1997	1998	1999	2000	LTM	CAGR 1996-2000
Total Revenues	1,062	1,131	1,200	1,261	1,351	1,377	6.2%
EBITDA	NA	502	545	571	622	634	7.4%[2]
EBIT	NA	381	406	420	456	460	6.2%[2]
EPS[3] ($/share)	1.26	1.42	1.54	1.53	1.61	1.63	6.3%

Source: American Water Works Form 10-K, net of extraordinary gains and losses
(1) Figures are restated to reflect merger with NEI
(2) EBITDA & EBIT CAGRs are for 1997 to 2000
(3) EPS based on average shares outstanding, excluding one-time after tax merger cost of $12.9m ($0.13 per share) in 1999 and $0.4m in 1998

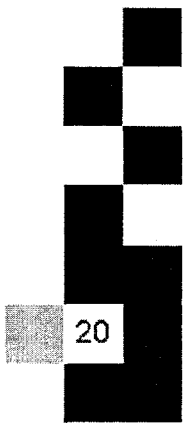
Surging Forward





Accelerating Growth

- Premier US water company with long-term expansion potential
- Strong American Water management team will lead development of our Americas water business
  - Will leverage local regulatory experience and operational expertise
  - Excellent cultural and operational fit with Thames Water
- RWE provides American Water with strong balance sheet and access to capital to pursue growth opportunities
  - Core water business
  - Strong acquisition pipeline
  - O&M



The Core Water Opportunity

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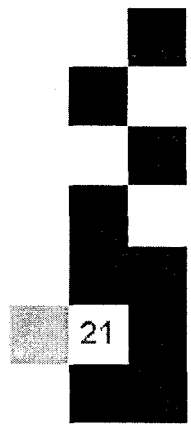
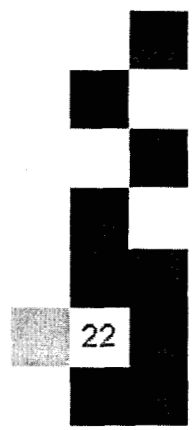
- Stable regulatory fundamentals - rate of return regulation
- Consistent long term growth of regulatory asset base: 11% p.a. over the last 10 years
- Exchange of world-wide best practice operational skills to enhance returns
- Significant scope for profitable investment
  - Growing population
  - Rising environmental and water quality standards
  - Ageing infrastructure



Source: American Water Works

Strong Acquisition Pipeline

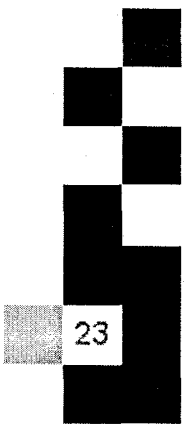
- Overall US market remains highly fragmented and "local"
- Privatisation and consolidation are long term trends
  - Over 54,000 Community Water Systems
  - 85% of the water systems serve 3,300 or fewer clients
- Between 1998 and 2000 American Water successfully completed 55 acquisitions
  - Large "footprint" deals
  - Small "consolidating" acquisitions
- RWE is supportive of American Water's growth strategy



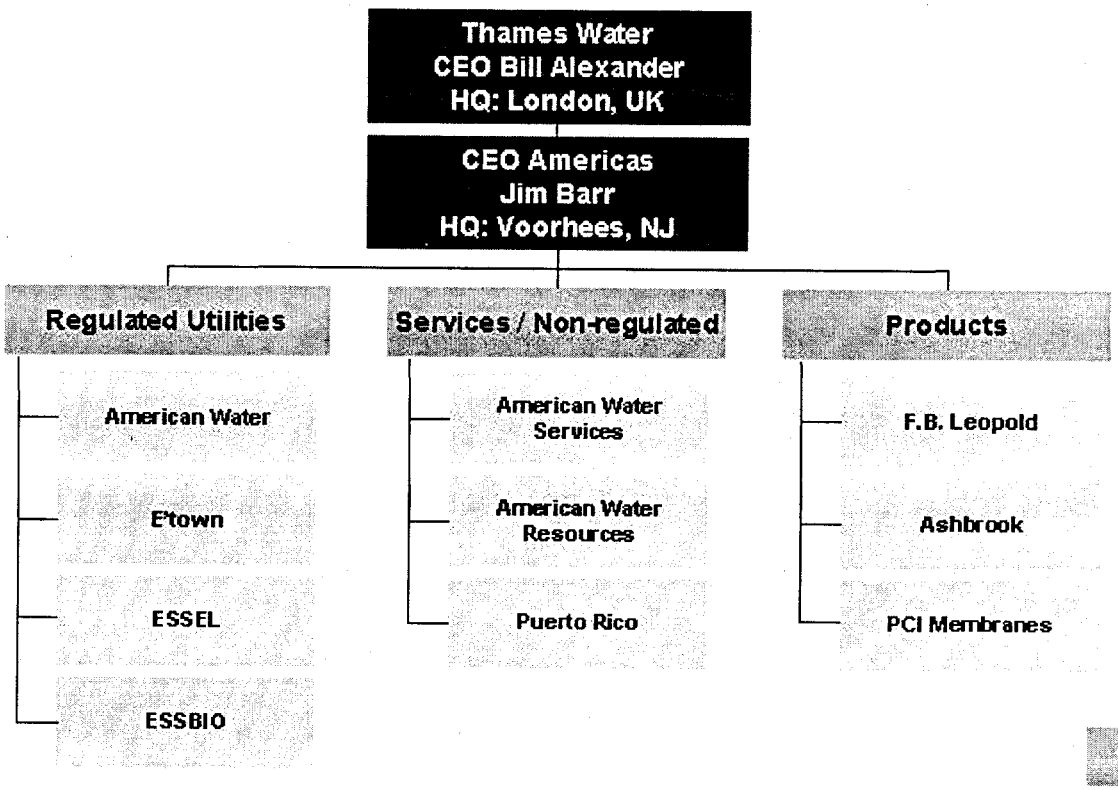
The O&M Market Opportunity is Huge

- Municipal O&M market estimated to be $1 billion, growing at 16% p.a.
- American Water is well positioned to participate in the municipal market and has recently agreed to acquire Azurix North America
  - Together, American Water (including Azurix North America) and Thames Water will be No. 4 in the municipal O&M market with a 10% market share
- Significant opportunity to grow this market position
  - Complementary skills (e.g. Thames Water's big city heritage)
  - National coverage (e.g. military bases, multi-site customers)
  - Wastewater outsourcing market remains an opportunity
- We expect the O&M business and other non-regulated activities to contribute up to 20% of American Water's revenue by 2005

Source: Public Works Financing, March 2001



American Water's Management will run Thames Water's Integrated Water Business in the Americas



Financials, Structure and Process

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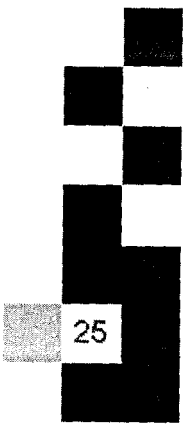
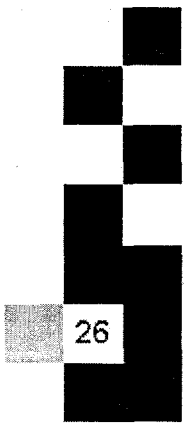
Thames Water

American Water Works Company, Inc.



Financial Impact: Creating Shareholder Value

- Transaction will be value enhancing in the second year of consolidation (ROCE > pre-tax water business WACC)
- IRR of approximately 7% post tax, in excess of Group and Water WACC
- Acquisition of American Water is EPS accretive on a pre-goodwill basis in the first full year
- We expect American Water's EBITDA to grow by 10% p.a. through 2005 (excl. larger acquisitions)
- All cash deal 100% debt financed
- RWE's balance sheet efficiency further improved



Comparable Public Company Transactions

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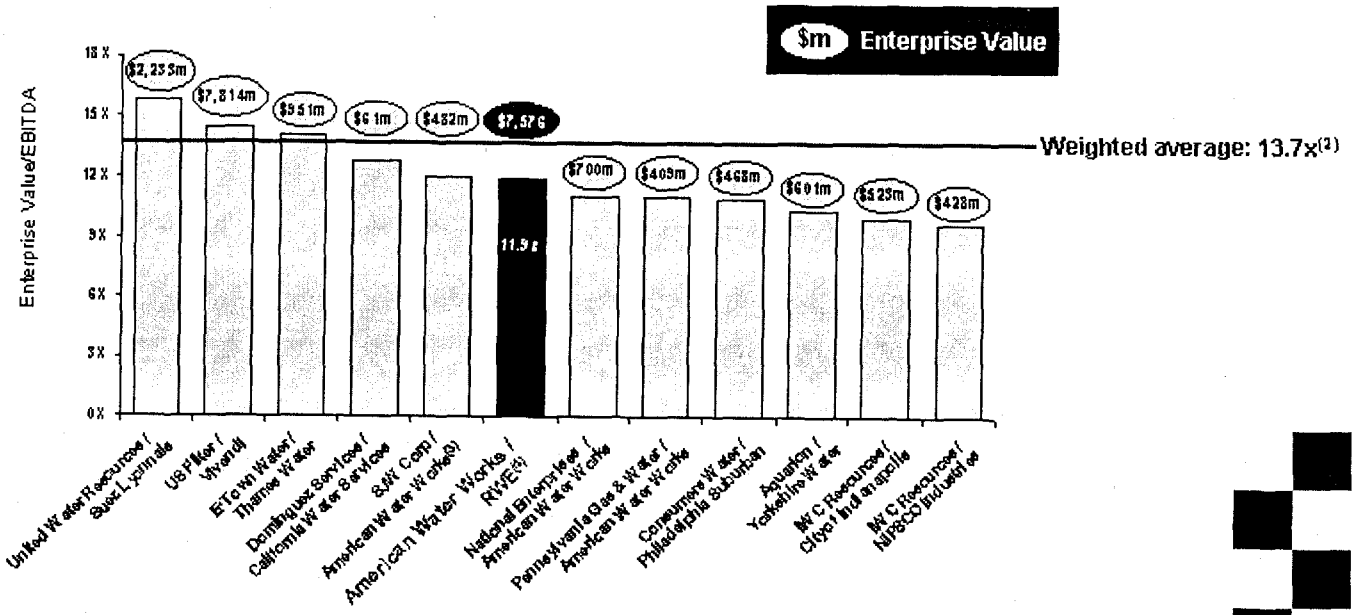
Enterprise Value/EBITDA(1)



Acquisition of US Market Leader at an Acceptable Price

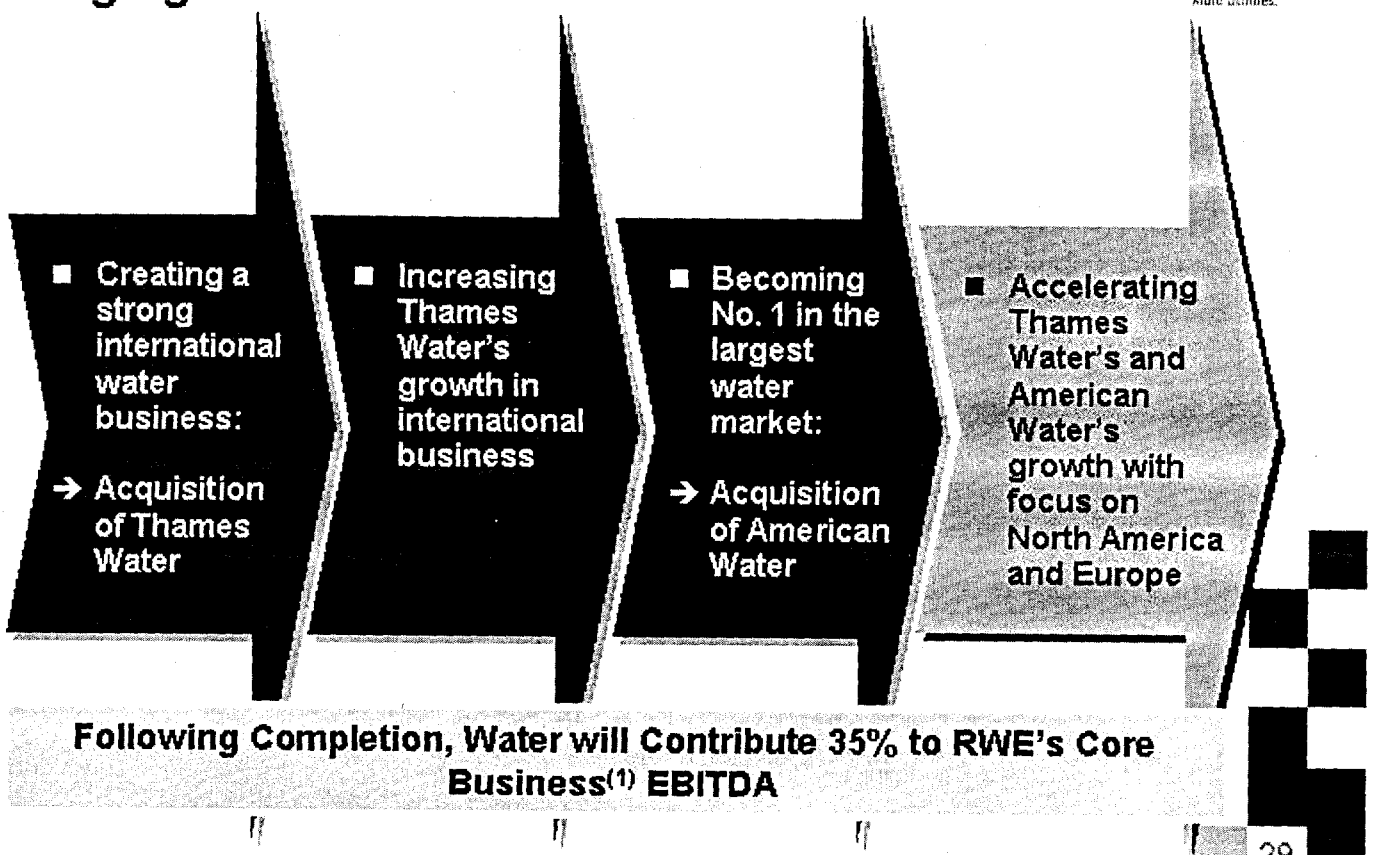
(1) Based on LTM results
(2) Excludes American Water Works / RWE
(3) Terminated
(4) Does not include pending acquisitions of Citizens and Azurix North America or sale of 4 New England water businesses

Structure

- Transaction will be implemented through a one-step merger
- Conditional on obtaining
  - American Water shareholder approval (expected by end 2001)
  - All necessary regulatory approvals
- Shareholders representing 24% of American Water common shares have entered into binding agreements to support the merger
- Arrangements in place to
  - Jointly obtain regulatory approvals
  - Ensure smooth transition

We expect to close the transaction within 18 - 24 months

Surging Forward



Following Completion, Water will Contribute 35% to RWE's Core Business(1) EBITDA

29

(1) Excludes Hochtief, Heidelberger Druck and RWE-DEA downstream oil business and chemicals

Backup Charts

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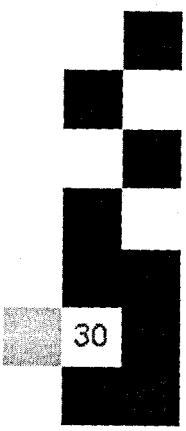
Thames Water

American Water Works Company, Inc.



The US Water Market: Highly Fragmented Structure with Strong Consolidation Trends

	Size of Operation (Population Served)	Number of Service Providers	Estimated Population Served (m)
Very Large	>100,000	1%	114
Large	10,001 - 100,000	6%	98
Medium	3,301 - 10,000	8%	26
Small	501 - 3,300	26%	21
Very Small	<500	59%	5
Total		100% (54,000)	264

Source: American Water Works

O&M: Strong Growth Expected

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Annual % Growth Prospects for Water Outsourcing Markets

	Municipal O&M	Industrial O&M
US	15-20	15-20
UK	2-3	>5
France	2-3	>5
Rest of Europe	5-10	>5
Asia	>10	5-10
Rest of World	>10	5-10

Source: Public Works Financing, March 2001

Pending Acquisitions & Divestitures

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	Citizens Water Resources[1]	Azurix North America[1]	New England Businesses[1][3]
Sales ($m)	$105	$157	$47
EBITDA ($m)	NA[2]	NA[2]	NA[2]
Operating Income ($m)	27	NA[2]	NA[2]
Population Served (000s)	1,000	2,000	177
Transaction Value ($m)	835	142	233
Description	Regulated water and wastewater services	Non-regulated operations and maintenance services	Regulated water services

Source: SEC Filings
(1) FY 2000
(2) Public information not available
(3) Includes all operations in Massachusetts, Connecticut, New Hampshire and certain businesses in New York

SEC Filing

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Form DFAN14A for AMERICAN WATER WORKS CO INC filed on Sep 17 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION
(RULE 14A-101)
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant [ ]
Filed by a Party other than the Registrant [X]

Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials
[X] Soliciting Material Under Rule 14a-12

[ ] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

AMERICAN WATER WORKS COMPANY, INC.
(Name of Registrant as Specified in Its Charter)

RWE AKTIENGESELLSCHAFT
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PRESS RELEASE

[RWE Logo]
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RWE ANNOUNCES THE ACQUISITION OF AMERICAN WATER WORKS

- THAMES WATER, RWE'S WATER BUSINESS, TO GAIN LEADING POSITION IN THE US WATER MARKET
- TRANSACTION TO STRENGTHEN POSITION OF GLOBAL WATER BUSINESS, PROVIDING GREATER BALANCE TO RWE'S CORE UTILITY PORTFOLIO

Essen, September 17, 2001

Essen-based RWE AG (DAX: RWE) has agreed to acquire all the outstanding ordinary shares of the US water services company American Water Works Company, Inc., based in Voorhees, New Jersey. RWE will pay $46.00 in cash per American Water share, or a 36.5% premium to the average closing price of American Water shares over the 30 trading days ended 10 September 2001. The proposed transaction has a total equity value of $4.6 billion, and an enterprise value of $7.6 billion including the assumption of approximately $3.0 billion in debt.

American Water Works Company, Inc. (NYSE: AWK) is the largest publicly traded water services company in the United States. Currently operating in 23 states, the company generated revenues of $1.4 billion in 2000. It has approximately 5,000 employees.

Upon completion of the transaction, American Water will be combined with the US operations of Thames Water, RWE's London-based international water services business. American Water will manage the joint operations in North and South

America. American Water's CEO, J. James Barr, will report directly to Bill Alexander, CEO of Thames Water.

Commenting on the announcement, Dr. Dietmar Kuhnt, President and CEO of RWE, said, "We are extremely pleased to have reached this agreement with American Water, the largest and most geographically diversified water services company in the US. In addition to providing us with a top

RWE AG, Konzernkommunikation, Opernplatz 1, 45128 Essen, PO Box 103061, 45030 Essen
Tel.: +49(0)201/12-1 51 20 or -1 50 95, Fax: +49(0)201/12-1 52 52 or 1 50 94;
E-Mail: presse@rwe.com

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position in the US, the acquisition of American Water will further establish RWE as a global leader in the provision of water services. The development of RWE's world-class water business in turn will provide greater balance to our core utility portfolio and allow us to deliver enhanced growth and shareholder value."

Thames Water, the RWE Group water business, is the world's third largest water company. Thames Water entered the US water market in 2000 through the acquisition of Westfield, New Jersey-based E'Town Corporation. Upon completion of the American Water transaction, including two significant pending acquisitions by American Water, Thames Water will have a presence in more than 44 countries on six continents, serving a population of approximately 56 million people, up from 43 million today.

Bill Alexander, CEO of Thames Water, said, "American Water provides RWE and Thames Water with a highly respected management team and a strong platform for developing our water business in North and South America, which are among the world's largest and fastest-growing markets. Together, we will strengthen our ability to serve the interests of our customers and employees. RWE and Thames Water, like American Water, are strongly committed to preserving the environment, participating in local activities, and otherwise adding value to the communities in which they operate."

On behalf of the American Water's Board of Directors, Chairman Marilyn Ware commented that, "Our Company's heritage and expertise are consistent with those of RWE and Thames Water. This transaction pairs us with strong international partners and positions us perfectly to continue the momentum we've created toward becoming the water resources manager of choice in the US"

American Water Works President and Chief Executive Officer J. James Barr described the transaction "a compelling combination of companies that will create a powerful new force in the world water market and deliver value for our customers, our shareholders, our associates, and the communities we serve. Over the years, through multiple consolidations, we have been able to enhance our ability to address water resource issues throughout the US. Joining forces with

PRESS RELEASE

[RWE Logo]
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Thames Water and RWE is the next logical step in a growth strategy based on delivery of vital community services," Barr said.

Commenting on the tragic events of September 11th, RWE's Dr. Kuhnt said, "The RWE family around the world mourns the loss of innocent life suffered in America last week. With more than 16,000 of our employees based in the United States, we share America's horror, grief and outrage. Rather than delay, we are making this announcement today because we believe it is more important than ever to show the world that we are investing in America. We believe in the courage and resiliency of its people and remain ever confident in its future."

The transaction has been approved unanimously by the Board of Directors of American Water and the Management and Supervisory Boards of RWE. In addition, shareholders representing 24% of American Water shares have entered into binding agreements to support the merger. The transaction, which is subject to the approval of the majority of American Water's shareholders and utility regulatory commissions in many of the 22 states in which American Water conducts its regulated business, is targeted for completion within 18 to 24 months. The transaction is expected to be EPS accretive on a pre-goodwill basis in the first full year following completion. In addition, the return on capital employed in the second full year of consolidation is expected to be above the pre-tax cost of capital.

A joint team will be formed immediately to ensure that all necessary approval requirements are fulfilled as efficiently as possible.

Merrill Lynch and Morgan Stanley served as financial advisors to RWE and Goldman Sachs served as financial advisor to American Water.

For further information on this transaction visit http://www.rwe.com.

ABOUT RWE

RWE is a leading international multi-utility company. Its core businesses are electricity, natural gas, water, waste management and utility-related services. In financial year 2000/2001, the RWE

PRESS RELEASE

[RWE Logo]
RWE
One Group
Multi Utilities

Group's 172,000 employees worldwide generated sales of approximately [Euro] 62 billion. The Group has 12 major operating subsidiaries. More

information on RWE can be found at http://www.rwe.com.

ABOUT THAMES WATER

With more than 14,000 employees in 44 countries, Thames Water provides water and wastewater services to approximately 43 million customers, ranking it as the third-largest water company worldwide. The London-based company has led all of the international water services activities of the RWE Group since November 2000. In the UK, the company is the leading supplier of water and wastewater services. Thames Water also delivers water services to customers through international operations in North and South America, Asia-Pacific, Eastern Europe and the Mediterranean. In the United States, Thames Water operates Westfield, NJ based water company E'Town Corporation, which supplies fresh water to approximately 1 million people in New Jersey. More information on Thames Water can be found at http://www.thames-water.com.

ABOUT AMERICAN WATER

With annual revenues of $1.4 billion, American Water is the largest publicly traded water and wastewater enterprise in the United States. Its 5,000 employees provide water, wastewater and other water resource management services to more than 10 million people in more than 1,300 communities throughout the US. More information on American Water can be found at http://www.amwater.com.

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PRESS RELEASE

[RWE Logo]
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Investors and security holders are urged to read the proxy statement regarding the proposed transaction when it becomes available because it will contain important information. The proxy statement will be filed with the U.S. Securities and Exchange Commission by American Water Works and security holders may obtain a free copy of the proxy statement when it becomes

available and other documents filed or furnished by American Water with the SEC at the SEC's web site at www.sec.gov. The proxy statement and other documents filed or furnished by American Water Works may also be obtained for free by directing a request to American Water at +1 (856) 346 8200.

Investors may obtain a detailed list of names, affiliations and interests of participants in the solicitation of proxies of American Water shareholders to approve the merger at the following address: American Water Works Company, Inc.; 1025 Laurel Oak Road; P.O. Box 1770; Voorhees, NJ 08043 USA.

Caution Concerning Forwarding-Looking Statements: This press release contains certain "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are naturally subject to uncertainty and changes in circumstances. Actual results may vary materially from the expectations contained herein. The forward-looking statements contained herein include statements about the merger between RWE and American Water Works. The following factors, among others, could cause actual results to differ materially from those described herein: failure to obtain certain regulatory approvals; actions of the U.S., state and local governments; failure of the requisite number of American Water Works' shareholders to approve the proposed transaction; the inability to successfully integrate the businesses of RWE and American Water; the costs related to the merger; the inability to achieve cost-cutting synergies resulting from the merger; changing consumer or marketplace trends; the general economic environment; potential or actual litigation challenging the proposed transaction; and other economic, business, competitive and/or regulatory factors affecting businesses generally. More detailed information about those factors is set forth in filings made by American Water Works with the SEC. Neither RWE nor American Water Works is under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

NOTICE IN ACCORDANCE WITH SEC. 15 OF THE SECURITIES TRADING ACT OF RWE AG, ESSEN

- THE SENDER IS SOLELY RESPONSIBLE FOR THE CONTENTS OF THIS NOTICE -

Essen, September 17, 2001
RWE AG ANNOUNCES ACQUISITION OF AMERICAN WATER WORKS COMPANY, INC.

Essen-based RWE AG has agreed to acquire all the outstanding ordinary shares of the US water service company American Water Works Company, Inc., based in Voorhees/New Jersey. RWE will offer $46 in cash per American Water Works Company share, or a premium of 36.5% on the average closing share price over the 30 trading days ended September 10, 2001. The proposed transaction has a total equity value of $4.6 billion. Including the assumption of approx. $3.0 billion in debt this results in an enterprise value of $7.6 billion for the transaction.

American Water Works is the largest US water service company listed on the New York Stock Exchange. The company operates in 23 states. In the last 12 months, American Water Works' 5,000 employees generated $1.4 billion in sales and EBITDA amounting to $634 million. The transaction value is thus 11.9 times EBITDA, which is lower than the average multiple for comparable US water transactions. In the second year of consolidation, the return on

capital employed will exceed the costs of capital. RWE's earnings per share before goodwill amortization will rise as early as the first year.

Upon completion of the transaction, American Water Works will be combined with the US operations of Thames Water, RWE's London-based international water service business and will manage the joint operations in the North and South America. American Water Works CEO, Jim Barr, will report directly to Bill Alexander, CEO of Thames Water.

The transaction has been approved by the Supervisory Board of RWE AG and the Board of American Water Works. In addition, shareholders representing 24% of Apollo shares are in support of the transaction. It is still subject to approval from the majority of American Water Works' shareholders and clearance from the antitrust authorities. The individual state regulatory commissions are targeted for completion within 18 to 24 months.

Explanatory text

This transaction will enable RWE to further strengthen its worldwide water business, the core division overseen by Thames Water. With the acquisition of American Water Works, the number of customers served in 44 countries on all six continents would rise from 43 million to approximately 56 million. This includes the acquisitions of Citizens Water Resources and Azurix North America initiated by American Water Works. American Water Works provides a strong platform for the further development of RWE's water business in North and South America. The acquisition of American Water Works makes RWE and Thames Water the leaders in the US, the world's largest and fastest growing water market.

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Form DEFM14A for AMERICAN WATER WORKS CO INC filed on Sep 17 2001

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Definitive Proxy Statement
[ ] Definitive Additional Materials

[X] Soliciting Material Pursuant to Section 240.14a-12

Filing by:

AMERICAN WATER WORKS COMPANY, INC.

(Name of each Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction

computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

_____

4) Proposed maximum aggregate value of transaction:

_____

5) Total fee paid:

_____

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount previously paid:

_____

2) Form, Schedule or Registration Statement No.:

_____

3) Filing Party:

_____

4) Date Filed:

_____

Item 1: Press Release dated as of September 17, 2001

Immediate Release

American Water Works to be Acquired by RWE in $4.6 Billion Cash Transaction;

Compelling Combination of Companies to Produce Powerful New Force in World Water Marketplace

Voorhees, NJ -- (September 17, 2001) - American Water Works Company, Inc. (NYSE: AWK), the largest publicly traded water services company in the United States, and RWE AG, a leading international provider of electricity, gas, water and wastewater management services, today announced that they have entered into a definitive agreement under which RWE will purchase all the outstanding shares of American Water at a price of US$46 per share in cash.

RWE's all-cash proposal represents a premium of 36.5% to the average closing price of American Water shares over the 30 trading days ended September 10, 2001, and a 29.5% premium above the all-time high closing price of $35.52. The proposed transaction has a total value of approximately US$7.6 billion, including the assumption of approximately US$3.0 billion in debt American Water had outstanding as of June 30, 2001.

Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water, RWE's London-based international water services business. American Water will manage the joint operations in North and South America. American Water's CEO, Jim Barr, will report directly to Bill Alexander, CEO of Thames Water.

Continued . . .

The transaction is expected to take more than a year to complete, following approval by American Water's shareholders and appropriate state regulatory agencies. It is expected to have no effect on the Company's previously announced plans to acquire Azurix North America as well as the water and wastewater assets of Citizens Communications, or to sell its Salisbury, MA operations and divest its New England operations to Aquarion.

Commenting on the transaction, Dr. Dietmar Kuhnt, President and Chief Executive Officer of RWE, stated: "We are extremely pleased to have reached this agreement with American Water Works, the largest and most geographically diversified water services company in the US. In addition to providing us with a top position in the U.S., the acquisition of American Water will further establish RWE as a global leader in the provision of water services. The development of RWE's world-class water business, in turn, will provide greater balance to our core utility portfolio and allow us to deliver enhanced growth and shareholder value."

Bill Alexander, Chief Executive Officer of Thames Water, said, "American Water provides RWE and Thames Water with a highly respected management team and a strong platform for developing our water business in

North, Central and South America, which are among the world's largest and fastest-growing markets. Together, we will strengthen our ability to serve the interests of our customers and employees. RWE and Thames, like American Water, are strongly committed to preserving the environment, participating in local activities, and otherwise adding value to the communities in which we operate."

On behalf of the American Water Works Board of Directors, Chairman Marilyn Ware commented that, "our professional heritage and expertise are consistent with those of RWE and Thames Water. This transaction pairs us with strong international partners and positions us perfectly to continue the momentum we've created toward becoming the water resources manager of choice in the U.S."

American Water Works President and Chief Executive Officer J. James Barr, who will lead the integrated water services operations for the Americas, described the transaction "a compelling combination of companies that will create a powerful new force in the world water market and deliver value for our customers, our shareholders, our associates, and the communities we serve.

Continued . . .

Over the years, through multiple consolidations, we have been able to enhance our ability to address water resource issues throughout the U.S. Joining forces with Thames Water and RWE is the next logical step in a growth strategy based on the delivery of vital community services," Barr said.

Commenting on the tragic events of September 11th, RWE's Dr. Kuhnt said, "The RWE family around the world mourns the loss of innocent life suffered in America last week. With more than 16,000 of our employees based in the United States, we share America's horror, grief and outrage. Rather than delay, we are making this announcement today because we believe it is more important than ever to show the world that we are investing in America. We believe in the courage and resiliency of its people and remain ever confident in its future."

Merrill Lynch and Morgan Stanley served as financial advisors to RWE and Goldman Sachs & Co. served as financial advisor to American Water.

About RWE

RWE is a leading international multi-utility company. Its core businesses are electricity, natural gas, water, waste management and services. In financial year 2000/2001, the RWE Group's 172,000 employees worldwide generated sales of approximately US$57 billion. The Group has 12 major operating subsidiaries. More information on RWE can be found at www.RWE.com.

About Thames Water

With more than 14,000 employees in 44 countries, Thames Water provides water and wastewater services to approximately 43 million customers, ranking it as the third-largest water company worldwide. The London-based company has led all of the international water services activities of the RWE Group since

November 2000. In the UK, the company is the leading supplier of water and wastewater services. Thames Water also delivers water services to customers through international operations in North and South America, Asia-Pacific, Eastern Europe and the Mediterranean. In the United States, Thames Water operates Westfield, NJ based water company E-Town Corporation, which supplies fresh water to approximately 1 million people in New Jersey. More information on Thames Water can be found at www.thames-water.com.

Continued . . .

About American Water Works

With annual revenues of $1.4 billion, American Water Works Company is the nation's largest publicly traded enterprise devoted exclusively to the water and wastewater business. Its 5,000 associates provide water, wastewater and other water resource management services to more than 10 million people in 1,300 communities throughout the U.S. More information can be found on the Web at www.amwater.com and a conference call with analysts about this annoucement will be available on that website at 2:00 p.m. (EDT) today.

Editors please note: Summary fact sheet attached.

Investors and security holders are urged to read the proxy statement regarding the proposed transaction when it becomes available because it will contain important information. The proxy statement will be filed with the U.S. Securities and Exchange Commission by American Water Works and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed or furnished by American Water with the SEC at the SEC's web site at www.sec.gov. The proxy statement and other documents filed or furnished by American Water Works may also be obtained for free by directing a request to American Water at (856) 346-8200.

Investors may obtain a detailed list of names, affiliations and interests of participants in the solicitation of proxies of American Water shareholders to approve the merger at the following address: American Water Works Company, Inc; 1025 Laurel Oak Road; P.O. Box 1770; Voorhees, NJ 08043.

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business

strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

Continued . . .

Fast Facts	[American Water Works Company Logo]	[Thames Water Logo]	[RWE Logo]
Headquarters	Voorhees, NJ	London, U.K.	Essen, Germany
CEO	Jim Barr	Bill Alexander	Dietmar Kuhnt
Businesses	Water, wastewater services	Water, wastewater services, other water-related products and services	Primarily energy and utilities (electricity, gas, waste and recycling, water and wastewater services)
Business presence	1,300 communities in 23 states	United Kingdom, Australia, Chile, China, Indonesia, Malaysia, Puerto Rico, Thailand, Turkey, Eastern Europe, United States	Worldwide
Market leadership position	Nation's largest publicly-traded water services company	World's 3rd largest water services provider #1 supplier of water and wastewater services in the U.K. and Germany	78th largest corporation on "Fortune Global 500" list (acquired Thames Water in November 2000) Germany's 5th largest industrial corporation Electricity supplier: #1 in Germany #3 in Europe Gas supplier: #2 in Germany

Waste & recycling:
#1 in Germany
#3 in Europe

Fast Facts	[American Water Works Company Logo]	[Thames Water Logo]	[RWE Logo]
People served	10 million	43 million	n/a
Employees	5,000	17,000 (800 in U.S.)	172,000
Market Cap	$3.5 billion	n/a	$21 billion
Revenues	$1.4 billion	n/a	$44 billion (fiscal year 2000)
Net income	$157.4 million	n/a	$1.1 billion
Shareholders	43,577	n/a	194,000
Stock exchange	New York	n/a	Germany, Switzerland
Common shares	99.6 million	n/a	531 million
Key Business Goals	o Shareholder value o Customer service o Expansion o Technological superiority	o Expansion o Customer service o Technological superiority	o Shareholder value o Customer service o Expansion o Technological superiority
Core commitments	o Customers o Investors o Associates o Environment o Community	o Customers o Investors o Employees o Environment o Community	o Customers o Investors o Employees o Environment o Community

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Item 2: Shareholder Q&A

American Water Works: RWE Acquisition
Shareholder Q&A

When will I get my $46 per share?

You will receive $46 per share shortly after the acquisition is complete. We expect it to take more than a year to close the transaction.

When will shareholders get to vote on the agreement?

A proxy statement and documents to be filed with the Securities and Exchange Commission (SEC) will be completed during the fourth quarter. At the time of the filing, a package of materials will be mailed to all shareholders of record. This package will contain a proxy card and instructions for a mail-in, telephonic and internet vote, and will also set a date, time and place for a shareholders' meeting.

Will I still be able to exercise the provisions of the shareholder rights plan?

Those rights applied in the event an acquisition of the company was attempted in a manner that excluded involvement of the company's Board of Directors in determining the company's value. This acquisition agreement was the result of negotiation and it has the approval of the Board of Directors. Therefore, we have provided that it will be excluded from the provisions of the shareholder rights plan that would result in the right to purchase additional shares.

What will happen to American Water Works stock if the transaction is not completed?

First, both companies are firmly committed to completing this transaction. However, until the closing date, as well as in the event that the transaction is not completed, American Water Works stock will remain publicly traded.

Can I still participate in the company's Dividend Reinvestment and Optional Stock Purchase plan?

No. That plan was suspended when the agreement was executed. Optional payments received by September 17, 2001 will be invested on that investment date. During the suspension of the plan, all cash dividends declared by the Company will be paid to plan participants and no further optional purchase payments will be accepted.

Continued . . .

Shareholder Q&A, page 2

Do I have to accept the $46 per share if I disagree that is a fair price?

No. Shareholders who vote against the adoption of the agreement and disagree with the per-share offer price may exercise their appraisal rights and seek a determination by the Delaware Court of Chancery as to the fair value of those shares. However, once having advised the company of their election to pursue this approach, the shareholder is entitled only to the per-share determination made by the court and is no longer entitled to the $46 per-share offer price.

Will the company's outstanding preferred stock also be redeemed at closing, and if so, at what price?

Before the transaction closes, the American Water Works 5% preferred stock issue will be redeemed for $25 per share, and the American Water Works 5% preference stock issue will be redeemed for $25.25 per share. Preferred stock of the company's subsidiaries will remain outstanding.

Will American Water Works suspend dividend payments, conduct a stock split, or otherwise change historical practices regarding its distribution of earnings while this transaction is being completed?

No. Provisions in the agreement allow the company to continue its past practices for payment of dividends and to grow those payments up to four cents per year during the time period anticipated for completion of the transaction. The agreement also allows for a "pro rata" stub period dividend, if the transaction does not close on a dividend record date.

Can stock be purchased in either Thames Water or RWE?

Common stock of Thames Water cannot be purchased since it is a subsidiary of RWE and is not publicly traded. Common stock of RWE is traded on European markets.

Will shareholders be routinely advised about the status of the transaction and regulatory approval process?

Yes. As a publicly traded company, American Water Works will continue to file financial statements and other documents required by the SEC and the New York

Stock Exchange (NYSE). In addition to these public documents, news releases and other information will be made available about material events regarding the completion of this transaction.

Continued . . .

Shareholder Q&A, page 3

What impact will the acquisition costs have on the earnings of American Water Works while the transaction is pending?

Costs incurred by American Water Works are not anticipated to have a significant impact on earnings during the period required to complete the transaction.

Will American Water's financial information continue to be made available to shareholders and the public?

Yes. Until the transaction closes, American Water Works will continue to file and make available public information required by the SEC and the NYSE. We will continue to conduct our business and our public information programs consistent with our past practices.

Why has American Water Works decided to sell the company?

For several years, American Water Works has pointed out the need to consolidate the water industry. This transaction advances that goal. Additionally, the transaction will reward shareholders for their investment and support of this company over the years. The transaction will also reward customers with expanded quality service through the worldwide experience of the larger organization. Associates who built this company, as well as those who continue to invest their professional expertise each day to deliver quality service, benefit by joining an organization with significant capital resources and international opportunities.

##

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental

regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

Item 3: Financial Analyst Q&A

American Water Works: RWE Acquisition
Financial Analysts Q&A

How is the transaction structured?

American Water's common stock that is outstanding at the date of closing will be purchased for $46 per share. At June 30, 2001 the Company had 99,256,000 shares outstanding. American Water Works preferred stock will be redeemed and RWE will assume American Water's outstanding debt at closing. As of June 30, 2001, American Water Works had $2.9 billion in outstanding debt and preferred stock. That, combined with the value of common equity at $46 per share, results in an enterprise value for the transaction of $7.5 billion.

Why did American Water agree to this transaction?

Consolidation will define our future, as it has shaped our past. We have built the largest water company in the United States through a series of consolidations. These started with the coming together of more than 100 small water companies in the late 19th and early 20th centuries, and have continued right up through today, with our pending acquisitions of Azurix North America and the water and wastewater assets of Citizens Communications.

As Jim Barr noted in the Company's annual report, the fundamental trend in our industry toward consolidation is unstoppable - in the United States and internationally. This is because it's essential to access the capital that ensures our consumers receive reliable service, at the most affordable rates, now and in the future.

This is particularly important in a business like water services, which delivers a vital community service that is capital intensive, technologically demanding, and requires continual investment in a massive, aging and expanding infrastructure.

How do you believe this deal will change the US regulated water industry?

Consolidation within the water industry is crucial regardless of whether the assets are owned by municipalities or private investors. American Water Works was built on that business model. American Water Works knows that regulated water service provides the best long-term alternative for customers and we will continue to pursue that business model. Thames Water is experienced in

providing service to a significant number of people through regulated businesses. Under their guidance, pursuit of business opportunities that advance industry consolidation will continue. At the same time, American Water Works' goal of expanding service under non-regulated agreements will be enhanced.

Continued . . .

Analysts Q&A page 2

Why did you agree to RWE buy-out offer without putting the company on the auction block?

American Water Works did not initiate the discussions for the acquisition. However, once it agreed to begin negotiations, the Company concentrated on achieving the best possible outcome for its investors, customers and the associates who built the organization. We believe the transaction we have announced accomplishes this objective.

How long will it take to complete the transaction?

In addition to shareholder approvals, we anticipate regulatory review in more than half of the states in which we operate, and estimate at least a year will be required to complete that process.

What states will need to review this transaction?

At the present time, a final determination is under review.

Do you anticipate difficulties with the approval process in California?

If approval is required in the state of California, we are confident the Public Utility Commission will recognize the benefit to ratepayers.

Is there a termination date in the agreement?

The agreement allows for termination after 18 months, unless the only remaining conditions are receipt of regulatory approvals, in which case it will be extended for an additional 6 months, plus 60 days if necessary to satisfy waiting periods.

Where can I get a copy of the agreement?

The agreement has been filed with the SEC and is available through EDGAR.

Is there a termination fee in the agreement?

Yes. The agreement calls for a 3% termination fee for both the buyer and

seller under certain very well defined circumstances.

What are the multiples for this transaction?

The per-share price represents a 35% premium above the latest closing share price of $34.12, and a 29% premium above the all-time high closing price of $35.60. The enterprise value of $7.5 billion represents a multiple of 12 times EBITDA, 16.4 times EBIT and 28 times EPS for the year 2000. The equity value, based upon the per-share offer price and the number of outstanding shares at June 30, 2001, represents a multiple of 2.7 times above the book value of that equity on that date.

Continued . . .

Analysts Q&A page 3

Will there be any impact on earnings between the date of the agreement to the date of closing?

Transaction costs will be expensed as required by proper accounting and will impact earnings. However, provisions in the agreement allow American Water Works to continue paying a dividend and to grow that dividend as much as four cents per year. Therefore, shareholders will not be harmed by these charges to earnings. Other provisions in the agreement compensate American Water Works for these expenses if certain events occur and the transaction is not closed.

Is there likelihood that this transaction will not be completed due to regulatory complications?

While both companies are extremely committed to completion of this transaction, it is impossible to predict the outcome of any part of the approval process, and we will not speculate.

Where can information be found about RWE or Thames?

Both companies have Web sites, and RWE's common stock is publicly traded in Europe. On the Internet, their sites are www.rwe.com and www.thames-water.com.

Will financial information continue to be available, conference calls conducted and questions answered by AWK while the merger transaction proceeds?

As long as the common stock of American Water Works remains publicly traded, the company will comply with SEC and NYSE regulations regarding the filing of financial information. It will conduct conference calls regarding that information and respond to requests for information consistent with SEC and NYSE regulations as has been past practice.

##

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statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; the ability to satisfy the conditions to closing set forth in the definitive agreement; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly

update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

* * *

American Water Works Company, Inc. (the "Company"), RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub") have entered into an Agreement and Plan of Merger, dated as of September 16, 2001, pursuant to which Sub will be merged with and into the Company with the Company surviving the merger (the "Merger"). In connection with the Merger, the Company will be filing a proxy statement with the Securities and Exchange Commission (the "SEC"). SECURITY HOLDERS OF THE COMPANY ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE BECAUSE IT CONTAINS IMPORTANT INFORMATION REGARDING THE MERGER. Investors and security holders may obtain a free copy of the proxy statement when it becomes available and other documents filed by the Company with the SEC in connection with the Merger at the SEC's web site at www.sec.gov. Security holders of the Company may also obtain for free a copy of the proxy statement and other documents filed with the SEC by the Company in connection with the Merger by contacting Nancy Macenko, Vice President External Affairs, at (856) 566-4026.

The Company and its subsidiaries and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the Company's stockholders in favor of the Merger. These directors include the following: Marilyn Ware, Gerald C. Smith, J. James Barr, Henry G. Hager, Ross A. Webber, Frederick S. Kirkpatrick, Paul W. Ware, Nancy Ware Wainwright, Ray J. Groves, Elizabeth H. Gemmill, William S. White, Anthony P. Terracciano, William O. Albertini, Rhoda W. Cobb and Horace Wilkins, Jr. and these officers include Joseph F. Hartnett, Jr., Daniel L. Kelleher, W. Timothy Pohl, Robert D. Sievers, Ellen C. Wolf, Nancy A. Macenko and James E. Harrison. Collectively, as of March 5, 2001, the

directors and executive officers of the Company may be deemed to beneficially own approximately 21.9% of the outstanding shares of the Company's common stock and under 5% of the outstanding shares of the Company's Cumulative Preferred Stock, 5% Series. Stockholders of the Company may obtain additional information regarding the interests of the participants by reading the proxy statement when it becomes available.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: September 17, 2001

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SEC Filing

Form 3 for AMERICAN WATER WORKS CO INC filed on Sep 25 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 3

INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or
Section 30(f) of the Investment Company Act of 1940

(Type or Print Responses)

1. Name and Address of Reporting Person*

RWE AKTIENGESELLSCHAFT

(Last) (First) (Middle)

Opernplatz 1, D-45128

(Street)

Essen, GERMANY

(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)

09/16/01

3. IRS or Social Security of Reporting Person (Voluntary)

4. Issuer Name and Ticker or Trading Symbol

AMERICAN WATER WORKS COMPANY, INC. (NYSE: AWK)

5. Relationship of Reporting Person to Issuer
(Check all applicable)

[ ] Director [X] 10% Owner
[ ] Officer (give title below) [ ] Other (specify below)

6. If Amendment, Date of Original (Month/Day/Year)

7. Individual or Joint/Group Filing (Check Applicable Line)

[ ] Form filed by One Reporting Person

[X] Form filed by More than One Reporting Person

Table I -- Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Owners (Instr. 5)
Common Stock, par value $1.25 per share ("Common Stock")	0	See Explanation of Responses below	See Explanation of Responses below

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.
*If the form is filed by more than one reporting person, see Instruction 5(b)(v).

FORM 3 (continued)

Table II -- Derivative Securities Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)		4. Conversion or	5. Ownership Form of Derivative Security: Direct	6. Natu
		Amount			

1. Title of Derivative Security (Instr. 4)	Date Exercisable	Expiration Date	Title	or Number of Shares	Exercise Price of Derivative Security	(D) or Indirect (I) (Instr. 5)	Indi Bene Owne (Ins

Explanation of Responses:

(1) By virtue of the Voting Agreement dated as of September 16, 2001, among Thames Water Aqua Holdings GmbH ("Parent") and the stockholders of American Water Works Company, Inc. that are parties thereto (the "Voting Agreement"), Parent may be deemed a beneficial owner pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Act"), of the 24,186,876 shares of Common Stock subject to the Voting Agreement as of September 16, 2001. By virtue of Parent being a wholly-owned subsidiary of RWE Aktiengesellschaft ("RWE"), RWE may be deemed a beneficial owner pursuant to Section 13(d) of the Act of any shares Parent may be deemed to beneficially own. Pursuant to Rule 16a-1(a)(4) under the Act, RWE and Parent hereby state that this Initial Statement of Benefical Ownership of Securities on Form 3 shall not be deemed an admission that either RWE or Parent is, for purposes of Section 16 of the Act or otherwise, the beneficial owner of any equity securities of American Water Works Company, Inc. Neither RWE nor Parent has any pecuniary interest in such shares of Common Stock.

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations.

See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

/s/ Georg Lambertz — September 25, 2001

Name: Georg Lambertz — Date
Title: Senior Vice President Finance

/s/ Georg Muller — September 25, 2001

Name: Georg Muller — Date
Title: General Counsel

**Signature of Reporting Person

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.

JOINT FILER INFORMATION

Title of Security:	Common Stock, par value $1.25 per share
Issuer Name and Ticker Symbol:	American Water Works Company, Inc. (NYSE: AWK)

Designated Filer: RWE Aktiengesellschaft

Date of Event Requiring Statement: 09/16/01

Other Joint Filer: Thames Water Aqua Holdings GmbH
Opernplatz 1, D-45128
Essen, GERMANY

Signature of Reporting Person

/s/ Dr. Richard R. Klein — September 25, 2001

Name: Dr. Richard R. Klein — Date
Title: Managing Director

/s/ Dr. Klaus Sturany — September 25, 2001

Name: Dr. Klaus Sturany — Date
Title: Managing Director

Page 3

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Form 4 for AMERICAN WATER WORKS CO INC filed on Nov 13 2001

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 4

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or
Section 30(f) of the Investment Company Act of 1940

[ ] Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

---

1. Name and Address of Reporting Person*

RWE AKTIENGESELLSCHAFT

(Last) (First) (Middle)

Opernplatz 1, D-45129

(Street)

Essen Germany

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol

AMERICAN WATER WORKS COMPANY, INC. (NYSE: AWK)

3. I.R.S. Identification Number of Reporting Person, if an Entity (voluntary)

4. Statement for Month/Year

11/01

5. If Amendment, Date of Original (Month/Year)

---

6. Relationship of Reporting Person to Issuer
(Check all applicable)

[ ] Director [x] 10% Owner
[ ] Officer (give title below) [ ] Other (specify below)

---

7. Individual or Joint/Group Filing (Check applicable line)

[_] Form filed by One Reporting Person
[X] Form filed by More than One Reporting Person

Table I -- Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (mm/dd/yy)	3. Transaction Code (Instr. 8) Code	V	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) Amount	(A) or (D)	Price	5 A S B O c (a
Common Stock, par value $1.25 per share (Common Stock)	11/06/01	J (see Explanation of Responses below)		1,802,600	A	See Explanation of Responses below	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

* If the Form is filed by more than one Reporting Person, see Instruction 4(b)(v).

Table II -- Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	4. Transaction Code (Instr. 8) Code V	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) (A)	(D)	6. Date Exercisable and Expiration Date (Month/Day/Year) Date Exercisable	Expiration Date	7. Title and Amount of Underlying Securities (Instr. 3 and 4) Title	Amount or Number of Shares

Explanation of Responses:

(1) Thames Water Aqua Holdings GmbH ("Parent") and the stockholders of American Water Works Company, Inc. ("AWW") that are parties thereto (the "Stockholders") entered into a Voting Agreement dated as of September 16, 2001 (the "Voting Agreement"). The Stockholders were required to enter into the Voting Agreement in order to induce Parent to enter into the Agreement and Plan of Merger dated as of September 16, 2001, among RWE Aktiengesellschaft ("RWE"), Parent, Apollo Acquisition Company ("Sub") and AWW providing for the merger of Sub with and into AWW, with AWW surviving the Merger as a wholly owned subsidiary of Parent. Parent and the stockholders of AWW that are parties thereto (the "Additional Stockholders") entered into a Joinder Agreement dated as of November 6, 2001 whereby the Additional Stockholders have agreed to be bound by all the provisions of the Voting Agreement, as Stockholders thereunder. By virtue of the Voting Agreement, Parent may be deemed a beneficial owner pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Act"), of the 25,989,476 shares of Common Stock subject to the Voting Agreement as of November 6, 2001. By virtue of Parent being a wholly-owned subsidiary of RWE Aktiengesellschaft ("RWE"), RWE may be deemed a beneficial owner pursuant to Section 13(d) of the Act of any shares Parent may be deemed to beneficially own. Pursuant to Rule 16a-1(a)(4) under the Act, RWE and Parent hereby state that this Statement of Changes in Beneficial Ownership on Form 4 shall not be deemed an admission that either RWE or Parent is, for purposes of Section 16 of the Act or otherwise, the beneficial owner of any equity securities of American Water Works Company, Inc. Neither RWE nor Parent has any pecuniary interest in such shares of Common Stock.

** Intentional misstatments or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If

space is insufficient, see Instruction 6 for procedure.

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By /s/ Dr. Georg Muller — 11/12/2001

Name: Dr. Georg Muller — Date
Title: General Counsel
**Signature of Reporting Person

By /s/ Dr. Heinz-Jurgen Telkamp — 11/12/2001

Name: Dr. Heinz-Jurgen Telkamp — Date
Title: Vice President Accounting
**Signature of Reporting Person

JOINT FILER INFORMATION

Title of Security:	Common Stock, par value $1.25 per share
Issuer Name and Ticker Symbol:	American Water Works Company, Inc. (NYSE: AWK)
Designated Filer:	RWE Aktiengesellschaft
Date of Event Requiring Statement:	11/06/01
Other Joint Filer:	Thames Water Aqua Holdings GmbH Opernplatz 1, D-45128 Essen, GERMANY

Signature of Reporting Person

/s/ Dr. Richard R. Klein — 11/12/2001

Name: Dr. Richard R. Klein — Date
Title: Managing Director

/s/ Dr. Klaus Sturany — 11/12/2001

Name: Dr. Klaus Sturany — Date
Title: Managing Director

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-A

Amendment No. 2

For Registration of Certain Classes of Securities
Pursuant to Section 12(b) or (g) of the
Securities Exchange Act of 1934

American Water Works Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware	51-0063696
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
1025 Laurel Oak Road, P.O. Box 1770, Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class to be registered
Common Stock Purchase Rights	New York Stock Exchange

If this Form relates to the registration of a class of securities pursuant to Section 12(b) of the Exchange Act and is effective pursuant to General Instruction A.(c), check the following box. [X]

If this Form relates to the registration of a class of securities pursuant to Section 12(g) of the Exchange Act and is effective pursuant to General Instruction A.(d), check the following box. [ ]

Securities Act registration statement file number to which this

form relates: _____ (if applicable)

Securities to be registered pursuant to Section 12(g) of the Act: None

---

(Title of class)

(Title of class)

Item 1. Description of Registrant's Securities to be Registered.

On September 16, 2001, American Water Works Company, Inc., a Delaware corporation (the "Company"), executed Amendment No. 2 (the "Rights Amendment") to the Rights Agreement dated as of February 18, 1999, as amended as of June 1, 2000 (the "Rights Agreement"), between the Company and Fleet National Bank (formerly known as BankBoston N.A.), a national banking association, as Rights Agent (the "Rights Agent"). The Rights Amendment provides that the execution, delivery and performance of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of September 16, 2001, by and among the Company, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("RWE"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany ("Thames"), and Apollo Acquisition Company, a Delaware corporation ("Sub"), will not cause RWE, Thames, Sub or any of their affiliates or associates to become an "Acquiring Person" (as defined in the Rights Agreement) nor give rise to a "Distribution Date," "Shares Acquisition Date" or "Triggering Event" (as each such term is defined in the Rights Agreement).

The Rights Amendment is attached as Exhibit 4.3 hereto and is incorporated by reference herein, and the foregoing description of the Rights Amendment is qualified in its entirety by reference to the Rights Amendment.

Item 2. Exhibits.

4.1 Rights Agreement, dated as of February 18, 1999, by and between American Water Works Company, Inc. and BankBoston N.A. (Incorporated by reference to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1999).

4.2 First Amendment to the Rights Agreement, dated June 1, 2000 (Incorporated by reference to the Company's Amendment No. 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on June 1, 2000).

4.3 Second Amendment to the Rights Agreement, dated as of September 16, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

Date: September 17, 2001

EXHIBIT INDEX

Exhibit Number	Description
4.1	Rights Agreement, dated as of February 18, 1999, by and between American Water Works Company, Inc. and BankBoston N.A. (Incorporated by reference to the Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1999).
4.2	First Amendment to the Rights Agreement, dated June 1, 2000 (Incorporated by reference to the Company's Amendment No. 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on June 1, 2000).
4.3	Second Amendment to the Rights Agreement, dated as of September 16, 2001.

Exhibit 4.3

SECOND AMENDMENT TO THE
RIGHTS AGREEMENT

THIS SECOND AMENDMENT TO THE RIGHTS AGREEMENT (this "Amendment"), dated as of September 16, 2001, is made by and between American Water Works Company, Inc., a Delaware corporation (the "Company"), and Fleet National Bank (formerly known as BankBoston N.A.), a national banking association, as Rights Agent (the "Rights Agent"). The Company and the Rights Agent may be individually referred to herein as a "Party" and, collectively, as the

"Parties".

Background

A. The Parties entered into a Rights Agreement, dated as of February 18, 1999, as amended by the First Amendment to the Rights Agreement, dated as of June 1, 2000 (the "Agreement"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Agreement.

B. The Company, RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor ("Parent"), and Apollo Acquisition Company, a Delaware corporation and a wholly owned subsidiary of Parent ("Sub"), are entering into an Agreement and Plan of Merger, dated as of the date hereof (as amended or supplemented from time to time, the "Merger Agreement"), pursuant to which Sub shall be merged with and into the Company with the Company surviving the merger.

C. Parent and certain stockholders of the Company, in connection with the Merger Agreement are entering into that certain Voting Agreement, dated as of the date hereof (as amended or supplemented from time to time, the "Voting Agreement").

D. The Board of Directors of the Company has determined that an amendment to the Rights Agreement as set forth herein is advisable and in the best interests of the Company and its stockholders.

E. Pursuant to Section 27 of the Agreement, the Company has directed the Rights Agent to join this Amendment.

Terms

In consideration of the mutual covenants contained herein and in the Agreement and intending to be legally bound hereby, the Parties agree as follow:

1. Amendment of Section 1(a). The definition of "Acquiring Person" in Section 1(a) of the Agreement is hereby amended by adding the following at the end thereof:

> "(D) none of RWE Aktiengesellschaft, a company organized under the laws of the Federal Republic of Germany ("Guarantor"), Thames Water Aqua Holdings GmbH, a company organized under the laws of the Federal Republic of Germany and a wholly owned subsidiary of Guarantor and Apollo Acquisition Company, a Delaware corporation, and a wholly owned subsidiary of Parent ("Sub" and collectively with Guarantor and Parent, "Acquiror") nor any of their respective Affiliates or Associates shall be deemed to be an Acquiring Person solely by reason of the approval, execution, delivery and performance of the Agreement and Plan of Merger, dated as of September 16, 2001, by and among the Company, Guarantor, Parent and Sub (as amended or supplemented from time to time, the "Merger Agreement"), or the Voting Agreement, dated as of September 16, 2001 by and among Parent and certain stockholders of the Company party thereto as of such date and the Willard M. Ware Q-Tip Trust and the Willard M. Ware Residual Trust at such time as they may become parties thereto (the "Voting Agreement") or the consummation of any

other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement)."

2. Amendment to Section 1(p). The definition of "Shares Acquisition Date" in Section 1(p) of the Agreement is amended by inserting the following sentence at the end thereof:

"Notwithstanding anything in this Agreement to the contrary, a Shares Acquisition Date shall not be deemed to have occurred solely as the result of the public announcement, approval, execution, delivery and performance of the Merger Agreement or the Voting Agreement or the consummation of any other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement)."

3. Amendment to Section 1(r). The definition of "Triggering Event" in Section 1(r) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(r) "Triggering Event" shall mean any Section 11(a)(ii) Event or Section 13 Event, provided that none of the approval, execution, delivery and performance of the Merger Agreement or the Voting Agreement or the consummation of any other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement) shall be deemed to be a Triggering Event."

4. Amendment to Section 3(a). Section 3(a) of the Agreement is hereby amended by inserting the following sentence immediately after the last sentence thereof:

"Notwithstanding anything in this Agreement to the contrary, a Distribution Date shall not be deemed to have occurred solely by reason of the approval, execution, delivery and performance of the Merger Agreement or the Voting Agreement or the consummation of any other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement)."

5. Amendment to Section 11(a)(ii). Section 11(a)(ii) of the Agreement is hereby amended by adding the following sentence at the end thereof:

"Notwithstanding anything in this Agreement to the contrary, none of the approval, execution, delivery and performance of the Merger Agreement or the Voting Agreement or the consummation of any other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement) shall cause the Rights to be adjusted or become exercisable in accordance with this Section 11(a)(ii)."

6. Amendment to Section 13. The following Section 13(d) is hereby added after Section (c):

"(d) Notwithstanding anything contained in this Agreement to the contrary, in no event shall the provisions of this Section

13 apply to the approval, execution, delivery and performance of the Merger Agreement or the Voting Agreement or the consummation of any other transaction to be effected thereby (including any acquisition of Company Common Stock contemplated by Section 4.03(b) of the Merger Agreement)."

7. Additional Amendment. The following Section 35 is hereby added after Section 34:

"Section 35. Notwithstanding anything contained in this Agreement to the contrary, this Agreement and the Rights shall terminate and be of no further force and effect immediately prior to the Effective Time (as defined in the Merger Agreement)."

8. Other Provisions Unaffected. This Amendment shall be deemed to be in full force and effect immediately prior to the execution and delivery of the Merger Agreement and the Voting Agreement. Except as expressly modified herein, all arrangements, agreements, terms, conditions and provisions of the Agreement remain in full force and effect, and this Amendment and the Agreement, as hereby modified, shall constitute one and the same instrument.

9. Miscellaneous.

a. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

b. Governing Law. This Amendment, the Agreement, each Right and each Right Certificate issued hereunder or thereunder shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed and in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

c. Further Assurances. Each Party shall cooperate and take such action as may be reasonably requested by another Party in order to carry out the provisions and purposes of this Amendment, the Agreement, generally, and the transactions contemplated hereunder and/or thereunder.

d. Descriptive Headings. Descriptive headings of the several Sections of this Amendment and the Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof or thereof.

e. Entire Agreement. This Amendment and the Agreement, and all of the provisions hereof and /or thereof, shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns and executors, administrators and heirs. This Amendment, together with the Agreement, sets forth the entire agreement and understanding among the Parties as to the subject matter hereof and merges with and supercedes all prior discussions and understandings of any and every nature among them.

IN WITNESS WHEREOF, the Parties have executed this Second Amendment to the Rights Agreement as the date first set forth above.

Attest:

By: /s/ W. Timothy Pohl

Name: W. Timothy Pohl
Title: General Counsel and Secretary

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ J. James Barr

Name: J. James Barr
Title: President and Chief Executive Officer

Attest:

By: /s/ Erika Illingworth

Name: Erika Illingworth
Title: Account Manager

FLEET NATIONAL BANK

By: /s/ Joshua P. McGinn

Name: Joshua P. McGinn
Title: Senior Account Manager

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