



AMERICAN WATER WORKS COMPANY, INC.

AUDIT COMMITTEE

OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE OF THE COMMITTEE

- A. The Audit Committee of the Board of Directors of American Water Works Company, Inc. (the “Committee”) represents and assists the Board in fulfilling its responsibility to oversee:
- (i) the adequacy and effectiveness of the Company’s system of internal controls;
 - (ii) the quality and integrity of the Company’s financial statements;
 - (iii) the Company’s compliance with legal and regulatory requirements;
 - (iv) the Company’s independent auditor’s qualifications and independence; and
 - (v) the performance of the Company’s internal audit function and the independent auditor.
- B. The Committee has sole authority and responsibility to appoint, compensate, retain, terminate and oversee, the Company’s independent auditor. The Company’s independent auditor shall report directly to the Committee.
- C. The Committee promulgates and oversees the enforcement of the Company’s Code of Ethics.
- D. The Committee is also responsible for its report that the rules of the U.S. Securities and Exchange Commission (the “SEC”) require be included in the Company’s annual proxy statement or annual report.

II. ROLES OF THE COMMITTEE AND OTHERS

The Committee recognizes the separate roles of management, the independent auditor and the Committee. Management is responsible for the Corporation’s internal controls and the financial reporting process. The independent auditor is responsible for performing an independent audit of the Company’s consolidated financial statements and for issuing a report on these financial statements and on management’s assessment of internal controls. The Committee represents and assists the Board of Directors in fulfilling its oversight responsibility regarding the Company’s internal



AMERICAN WATER

controls, financial reporting and independent auditing processes as set forth in this charter. In connection with its responsibility, the Committee may consider and rely upon reports and work from persons and organizations inside and outside of the Company when the Committee reasonably believes that the reports and work merit confidence.

III. STRUCTURE AND OPERATIONS

Composition and Qualifications

The Committee consists of at least three members of the Board of Directors. On or before the date the Company lists any of its securities on the New York Stock Exchange, Inc. (the “Listing Date”), at least one member of the Committee shall be independent. On or before the 90th day from the Listing Date at least a majority of the members of the Committee shall be independent, and on or before the first anniversary of the Listing Date, each member of the Committee shall be independent. In each case the Board of Directors shall determine “independence” in accordance with the rules of the New York Stock Exchange and the Corporate Governance Guidelines.

Appointment and Removal

The members of the Committee shall be appointed by the Board of Directors from among its members, considering the recommendations of the Nominating/Corporate Governance Committee. Because of the Committee’s demanding responsibilities, and the time commitment attendant to membership on the Committee, each prospective Committee member, prior to being nominated, is encouraged to evaluate carefully the existing demands on his or her time as well as his or her financial literacy before accepting any nomination.

Each member of the Committee shall serve until such member’s successor is duly elected and qualified or until such member’s earlier death, resignation or removal. The actual number of members shall be determined from time to time by resolution of the Board of Directors.

Each member of the Committee shall be financially literate or become financially literate within a reasonable period of time after appointment to the Committee. No member of the Committee may serve on more than two other public company audit committees unless the Board of Directors determines (after consultation with the Nominating/Corporate Governance Committee) that such simultaneous service would not impair the ability of the member to serve effectively on the Committee and such determination is disclosed in the Company’s annual proxy statement. In addition, at least one member of the Committee shall be a “financial expert” as defined by the SEC.

Chairman/Secretary



AMERICAN WATER

The Board of Directors shall designate a chairman of the Committee from among its members, considering the recommendations of the Nominating/Corporate Governance Committee. The Committee chairman will preside at, and prepare an agenda for each Committee meeting. The Committee chairman shall appoint a secretary (who need not be a member of the Committee) to take written minutes of the meetings. In the absence of the chairman during any Committee meeting, the Committee may designate a chairman pro tempore.

IV. MEETINGS

The Committee shall meet at least once in each fiscal quarter, or more frequently as circumstances require. As part of its goal to foster open communication, the Committee shall periodically (and in any event not less than quarterly) meet separately with management and with each of Vice President-Internal Audit, the General Counsel, the Chief Compliance Officer and the independent auditor to discuss any matters that the Committee or each of these persons believe would be appropriate to discuss privately. The Committee may also meet separately with such other persons as it deems appropriate in the circumstances.

The Chairman of the Board or any member of the Committee may call meetings of the Committee. All meetings of the Committee may be held telephonically. At least two members constitute a quorum and a quorum is required for the transaction of all business. Notice of a meeting of the Committee may be made by any reasonable means, including via e-mail. Notice of a meeting shall be given to each member of the Committee (and to each member of the Board of Directors) at least seven days in advance of such meeting unless notice is waived by all members of the Committee. The Committee shall act only on the affirmative vote of a majority of the members at a meeting or by unanimous written consent.

Subject to the last sentence of this paragraph, all independent directors who are not members of the Committee may attend meetings of the Committee but not vote. Additionally, the Committee may invite to its meetings any director, management and such other persons, as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons (other than a member of the Committee) it deems appropriate in order to carry out its responsibilities.

V. RESPONSIBILITIES AND DUTIES

The Company's management is responsible for preparing the Company's financial statements. The Committee, in carrying out its oversight responsibilities, does not provide any expert or special assurance as to the Company's financial statements, or any professional certification as to the independent auditor's work, or with respect to auditor independence. Each member of the Committee shall be entitled to rely on the integrity of people and organizations from whom the Committee receives information and the accuracy of such information, including representations by management and



AMERICAN WATER

the independent auditor regarding non-audit services provided by the independent auditor.

The following are the recurring functions of the Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions.

The Committee shall:

Matters Concerning Independent Auditor

1. appoint the independent auditor to audit the consolidated financial statements of the Company and its subsidiaries for the next following year, approve their engagement fees and terms; and recommend ratification of their appointment by the Company's shareholders;
2. have the authority to terminate the engagement of the independent auditor and appoint a new independent auditor at any time, even after ratification by shareholders;
3. approve in advance all audit and permissible non-audit services to be provided by the independent auditor to the Company in accordance with the Committee's policies and procedures, and regularly review (a) the adequacy of those policies and procedures for pre-approving the use of the independent auditor for audit and non-audit services with a view to maintaining auditor independence and (b) the fees paid to the independent auditor for pre-approved audit and non-audit services;
4. regularly review with the independent auditor (a) the arrangements for and the scope of the independent auditor's audit of the Company's consolidated financial statements; (b) the results of the audit by the Company's independent auditor of the Company's consolidated financial statements; (c) any audit problems or difficulties encountered by the independent auditor and management's response (including any restrictions on access, any accounting adjustments noted or proposed but disregarded as immaterial or for other reasons, any communications with the independent auditor's national office and any management or internal control letters proposed to be but never issued by the independent auditor to the Company); (d) adjustments or estimates discussed or proposed by the independent auditor at their close-out meeting with management (e) any significant deficiency or material weakness in the design or operation of the Company's internal accounting controls identified by the independent auditor and any resulting recommendations; (f) all critical accounting policies and practices used by the Company; (g) all alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such



AMERICAN WATER

- alternative treatments and disclosures, and the treatment preferred by the independent auditor and (h) other material written communications between the independent auditor and members of management;
5. review and have ultimate authority to resolve any disagreement between management and the independent auditor regarding financial reporting;
 6. review, at least annually, a report by the independent auditor describing (a) its internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; (c) whether all relationships between the independent auditor and the Company are consistent with the Company's Corporate Governance Guidelines; and (d) any review of the independent auditor performed by the Public Company Accounting Oversight Board; the Committee shall also discuss this report with the independent auditor to assess issues concerning the independent auditor's qualifications, performance, or independence;
 7. evaluate the qualifications, performance, and independence of the independent auditor, including the performance of the lead audit partner and present conclusions to the Board of Directors;
 8. monitor regular rotation of audit partners by the independent auditor as required by law and consider regular rotation of the independent audit firm itself;
 9. review and consider with the independent auditor prior to the Company's filing of the related annual or quarterly financial statements with the SEC, the matters required to be discussed by all relevant Statements of Auditing Standards, including deficiencies in internal controls, fraud, illegal acts, management judgments and estimates, audit adjustments, audit difficulties, and the independent auditor's judgments about the quality of the Company's accounting practices;
 10. set and maintain clear hiring policies for employees and former employees of the independent auditor (including a prohibition, as required by Section 10A(l) of the Exchange Act, against the Company's chief executive officer, controller, chief financial officer, chief accounting officer (or any person serving in an equivalent position) having worked on the Company's audit as an employee of the Company's independent auditor during the one year period preceding the date of the initiation of the audit);

Accounting Standards

11. review major issues regarding accounting principles and financial statement presentations, including any changes to the Company's auditing and accounting principles and practices based on advice of the independent auditor or members of management;



AMERICAN WATER

12. review the effect of regulatory or accounting initiatives, as well as off-balance sheet transactions, on the financial statements of the Company;

Disclosure

13. discuss with management and the independent auditor the Company's audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
14. review and discuss the Company's SEC filings with management and, to the extent that such filings contain financial information, with the Company's independent auditor, such review and discussion to occur before any such filing, but, in the case of filings on Form 8-K, only to the extent practical in the circumstances before the filing is made;
15. discuss routinely, the Company's earnings press releases, as well as financial information and earnings guidance, if any, provided to analysts and rating agencies;
16. be responsible for any report or other disclosure by the Committee required to be included in any proxy statement for the election of the Company's directors under the rules of the SEC;

Code of Ethics and Related Matters

17. establish, maintain and periodically review the Committee's policies and procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting and other controls, auditing matters and suspected infractions of the Code of Ethics, including procedures for the confidential, anonymous submission by employees of the Company, of concerns regarding questionable accounting, auditing matters or infractions of the Code of Ethics;
18. annually consider the adequacy of the Code of Ethics of the Company, and recommend to the Board of Directors, as conditions require, that it make amendments to the Code of Ethics;
19. review quarterly with the Chairman of management's Ethics Committee, the General Counsel and the Chief Compliance Officer matters reported to management's Ethics Committee, and annually review the organization, structure and function of management's Ethics Committee;
20. Consider any matters arising under the Company's policy on related Party Transactions and any reports thereon by management;

Internal Audit

21. review with members of management, the independent auditor and the internal auditors, at least annually, the activities, budget, staffing, and structure of the internal auditing function of the Company and its subsidiaries, including their



AMERICAN WATER

evaluations of the performance of that function and any recommendations with respect to improving the performance of or strengthening of that function;

22. review the reports of any internal auditor with respect to any financial safeguard problem that has not resulted in corrective action or has not otherwise been resolved to the internal auditor's satisfaction;

Other Members of Management

23. review periodically with the Company's General Counsel any legal matter that could have a significant impact on the Company's financial statements;
24. review annually the legal compliance function generally and any other matters of concern to the Committee;
25. Review of information and technology systems matters and proposed or needed system changes;
26. Security management update: consider current security management practices and proposals;
27. Military compliance review: review status of compliance with governmental regulation governing military O&M contracts;
28. Review pension contribution and investment performance and receive report of Retirement/Benefits Committee;

Risk and Control Environment

29. discuss routinely the Company's policies with respect to risk assessment and risk management, the Company's major financial risk exposures and the steps management has taken to monitor and control these exposures;

Other Matters

30. until such time as the Board of Directors appoints a Finance Committee, the Audit Committee shall review and make recommendations to the Board of Directors with respect to the Company's capital structure, dividend payments and oversight of the performance of the Company's financial investments, if any;
31. review and make recommendations to the Board of Directors concerning, or approve, the Company's policies and procedures with respect to expense accounts and perquisites of directors and executive management;
32. review management's succession planning for financial and accounting personnel; and
33. Review annual business plan;

Reports

34. report regularly to the Board of Directors (i) the matters discussed at regular or special meetings of the Committee, (ii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Committee may deem appropriate, such reports



AMERICAN WATER

to the Board of Directors may take the form of an oral report by the Committee chairman or any other member of the Committee designated by the Committee to make such a report.

VI. ANNUAL PERFORMANCE EVALUATION

The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

VII. RESOURCES AND AUTHORITY OF THE COMMITTEE

The Committee shall be given full access to the Company's internal audit department, Board of Directors, members of management, employees and independent auditor as necessary to carry out these responsibilities, without having to seek Board approval.

The Committee shall have the authority to request any employee of the Company, the Company's outside counsel and the independent auditor attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee, without having to seek Board approval.

The Committee has exclusive authority with respect to the retention of the independent auditor described in Section IV of this charter. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. The Committee also has the authority to (i) retain outside advisors, including legal counsel, auditors, or other experts, as it deems appropriate in its sole discretion, (ii) approve the fees and expenses of such advisors and (iii) incur such other ordinary administrative expenses as are necessary or appropriate in carrying out its duties.

VIII. INTERNAL AUDIT FUNCTION

The Committee shall ensure the Company maintains an internal audit function. The Vice President of Internal Audit shall report directly to the Chair of the Audit Committee and administratively to the Company's Chief Financial Officer and dotted-line to the Chief Executive Officer.

IX. COMPENSATION

No member of the Committee may receive, directly or indirectly, any compensation from the Company other than (i) fees paid to directors for service on the Board of Directors



AMERICAN WATER

(including customary perquisites and other benefits that all directors receive), (ii) additional fees paid to directors for service on a committee of the Board of Directors or as the chairman of any committee (including the Committee) and (iii) a pension or other deferred compensation for prior service that is not contingent on future service on the Board of Directors.

X. DISCLOSURE OF CHARTER

This Charter shall be made available on the Company's website.

XI. DATE OF ADOPTION

This Charter was adopted by the Board of Directors effective February 23, 2007, and amended on June 16, 2008.



AMERICAN WATER

XII. LEGAL STANDARD

Nothing contained in this Charter is intended to create, or should be construed as creating, any responsibility or liability of the members of the Committee, except to the extent otherwise provided under the applicable laws of Delaware which shall set the legal standard for the conduct of the members of the Committee.

XIII. COMPLIANCE

The Committee, as a whole, and each of the individual members of the Committee shall be in compliance with the provisions of this Charter, to the extent practical, upon their adoption and, in any case, within 30 days of the date upon which the Company's securities are registered under the Securities Exchange Act of 1934, as amended.