



WE CARE
CORPORATE RESPONSIBILITY REPORT 2015-2016



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This is American Water's fourth biennial Corporate Responsibility Report. It was published in October 2017, and covers our corporate responsibility performance for the 2015 and 2016 fiscal years, which ran from January 1 to December 31.

The data contained was generated using systems audited by our internal staff. The report has been created in reference to Global Reporting Initiative G4 guidelines.

Preparing this report is a valuable opportunity for us to assess and improve upon our corporate responsibility progress and performance. To continue to do so, we welcome your feedback.

Performance highlights 2015–2016

<p>Top quartile  in the water industry for customer satisfaction (based on survey results of 12 water utility companies, including American Water)</p>	<p>We have partnered with local environmental groups on 89 stewardship projects  in 11 states from 2015–2016</p>	<p>GHG intensity reduction of 9.4% since 2014 </p>
<p>On average, more than 60,000  hours of safety training are given annually to American Water employees</p>	<p>\$1.5bn capital investment in total infrastructure in 2016,  to build a more resilient system for our customers</p>	<p>Awards and recognition President's Award:  Recognized by:  for our water quality and sustainability  America's top green companies</p>
<p>More than \$19.6m  in savings realized through more than 249 completed process excellence initiatives in 2015 and 2016</p>	<p>Drinking water compliance was 21 times  better than the industry average for drinking water quality in 2016</p>	<p>AWK members of  2017 Constituent MSCI Global Sustainability Indexes  </p>

MESSAGE FROM OUR PRESIDENT AND CEO

I am very pleased to present to you American Water's biennial Corporate Responsibility Report for 2015–2016, outlining not just our corporate responsibility performance across the business, but also the ways in which our people are showing leadership in water quality, tackling emerging contaminants and investing in infrastructure.

The cycle of our success

We believe that engaged employees, working safely and efficiently, coupled with smart investments lead to highly satisfied customers. When our customers trust in us to provide them with safe, clean, reliable and affordable water services, then regulators have confidence that we are running our business effectively and that results in constructive and reasonable regulatory outcomes. This, in turn, delivers sustainable performance and financial results. It is our success cycle, and it must start with our focus on employees, customers and the communities we are privileged to serve.

Safety

Paramount to all of this are safety and environmental stewardship. Our people always work safely and watch out for one another. Our goal is that every single employee goes home to his or her family each day in the same shape in which they came to work. In 2016, we saw 23 percent fewer injuries on the job than we did in the prior year, but we won't be satisfied until there are none. And of course, this safety mind-set also extends to the safety of our customers and their communities.

Our people

What motivates the people of American Water is more than the pursuit of a financial goal. It arises from a deep personal commitment to our customers and our environment. It comes from the knowledge that what we deliver is critical for life – for our health, our economy, our standard of living, our very existence. Our folks don't consider what they do to be a job, they consider it a calling.

Last year, we accomplished record levels in safety, capital investment, operations and management (O&M) efficiency and regulated acquisitions. At the same time, we hit new highs in community giving to United Way and dozens of other health, education and human services organizations. We were also a leader in global clean water efforts through "Water for People."

Our employees are Little League coaches, emergency medical technicians (EMTs), volunteer firefighters and environmental leaders. And every September we encourage our people to spend a full day volunteering in their local communities as part of our companywide AmeriCANS in Action! Month of Service. In 2016, they responded at a record level, with nearly 2,300 employees contributing more than 4,000 hours to 116 different projects.



“We believe that engaged employees, working safely and efficiently, coupled with smart investments lead to highly satisfied customers.”

Susan Story,
President and Chief Executive Officer,
American Water

Highly satisfied customers

When it comes to customer service, we aren't satisfied with just comparing ourselves to other water utilities. In a time when our customers can make a purchase in the morning and expect to have it on their doorstep in the afternoon, we have to keep pace with companies that offer the best customer experience. The typical utility is a company that people have to choose; our goal is to be the one they want to choose.

Like safety, there will be no finish line for us when it comes to customer satisfaction. There is no reason people should expect less of their utility than they do other service providers. We want to continually set a new bar for performance.

Four fundamental challenges

We continue to see a heightened awareness of water quality issues in our industry – from the lead tragedy in Flint, Michigan, to the disruptive algae blooms in Florida's Lake Okeechobee. Lead and emerging contaminations continue to highlight the great need in the industry for significant investment in infrastructure. However, we believe there are four fundamental challenges facing the water and wastewater industry: water supply, water infrastructure, water quality and customer connectedness. We must meet all of these challenges to deliver water and wastewater services that are clean, safe, affordable and reliable.

To help us do this, we will invest almost \$6 billion over the next five years in our pipes, plants and pumps. This commitment is critical to maintaining the service that our customers deserve, and is the reason we consistently achieve exceptional water quality results – in fact, compared to the Environmental Protection Agency's (EPA's) drinking water quality database, our water systems were 21 times better than the industry average in 2016.

Driving efficiency and performance

A big part of our customers' trust also lies in what they pay for reliable service. We drive efficiency through value engineering, supply chain and technology, and for every \$1 we save through greater efficiency, we can invest \$7 of capital without increasing our customers' bills.

We also look to innovation. For example, we are using technology coupled with analytics to identify water losses and stop the little leaks before they become costly and damaging.

If we get all this right – engaging our people to delight our customers and provide a foundation for constructive regulation – the financial results and sustainability will follow.

**The typical utility
is a company that
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SUSTAINABLE STRATEGY AND VALUES

American Water's purpose is to keep life flowing.

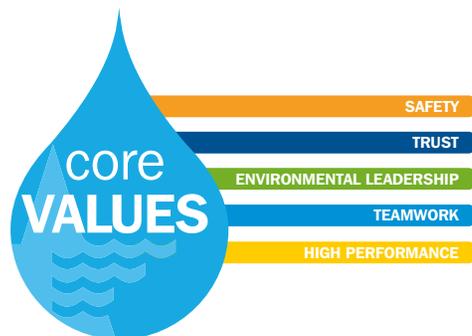
We keep life flowing

We understand the vital role of clean water in the lives of our customers. It is necessary for their health and wellbeing, and our job is to provide this essential and critical service for a lifetime. We work hard to deliver clean water that is also safe, reliable and affordable, because our customers, our employees, our partners, and the people and institutions who invest in us deserve nothing less.

And we believe the only way to do business is to do it responsibly – that's how we deliver value to our customers, build strong communities, use innovations to inspire and lead our industry, and support our dedicated people in furthering their skills and expertise.

Our values

Our core values are the principles by which **everyone at American Water** works and lives. They help us in the decisions we make every day. They also help us explain what the company is about and what it represents to our stakeholders. Our people live by this set of values, and they form the cornerstones of our business culture.



Safety

Safety is more than just a priority, strategy or goal for American Water. Those things can change over time. Our values don't change, and neither will our commitment to the safety of our people, our customers and everyone connected to our business.



Trust

Trust is a very special kind of feeling, and it has to be earned. Our customers put their trust in us every day, and everyone at American Water trusts that the person working next to them will do his or her job in the right way, and be there when needed.



Teamwork

We promote and support a diverse culture at American Water, and we work together to meet common goals. We hold each other accountable and challenge each other to reach the best decisions, to ensure we meet our commitments to the communities we serve.



Environmental leadership

We are responsible for the sustainability of critical water and wastewater services, but clean water doesn't happen without environmental leadership. At American Water, we all play a role, from ensuring water quality at our plants to using less paper or conserving energy.



High performance

Consistent high performance is the key to being the best water and wastewater utility in the country and, when it comes to complying with strict federal regulations for delivering clean, quality drinking water, American Water consistently scores among the highest of all water providers.

OUR STRATEGY

Our purpose and values drive our company strategy, providing us with the “why” and the “how.” We have developed our **strategy wheel** to illustrate “what” we must do to achieve our vision. It features five key focus areas for our business, each with its own performance aspirations and goals, designed to deliver continuous improvement in each area.

Our customers are at the center of everything we do.

The water, wastewater and recycled water services we provide are critical to our customers’ daily lives. From optimizing our systems and maintaining the highest levels of water quality, to measuring customer satisfaction with water pressure, clarity, taste and odor, our teams work around the clock to meet our customers’ needs.

Safety is the number one focus for American Water.

We want every employee to choose safety on every job, every day, and for our customers to feel safe in the knowledge that their water is of the highest quality. It is important that every single employee goes home to his or her family each night in the same shape in which he or she came to work.

Ensuring our people feel valued, included and accountable.

Our people bear a huge responsibility – they serve our customers every day. We are working together to create an environment where every employee can live up to his or her fullest potential and feel confident that what they do directly contributes to providing our customers and communities a life-sustaining service.

Growth continues to be a critical strategy for our company.

When companies grow, they are able to invest more in creating stable jobs, training, benefits and much-needed infrastructure: in the short or long term. Our investment generates opportunities to acquire systems to provide safe, clean, reliable services. It also ensures the owners of our company – our shareholders – continue to invest in American Water.

Technology and operational efficiency are the keys to continuous improvement.

The investments we make in our technology and operational efficiency strategy help to ensure that our people can continually find better ways to do business and provide the best services at an affordable cost for our customers.



ENGAGING OUR STAKEHOLDERS

Our teams engage with a wide variety of stakeholders to listen and respond to stakeholder views or concerns. American Water's stakeholders fall into the following broad categories:

Stakeholder group	How we engage
Communities and community advocates	Community members, leaders and public officials; public meetings and open houses, local events, volunteering, speaker opportunities
Customers	Customer Service Center, customer satisfaction and service quality surveys, social media, focus groups, open houses, plant tours
Employees	Staff meetings, employee survey, focus groups, internal communications, face-to-face meetings with leadership teams
Environmental non-governmental organizations (NGOs)	Comprehensive Planning Study program, issue engagement, partnerships
Government leaders, EPA and state authorities	Facility tours, meetings, office visits
Media	Open houses, facility tours, editorial meetings, press releases and conferences
Regulators	Meetings, association conferences, plant and facility tours
Socially responsible investors (SRIs)	Earnings process which includes quarterly calls, investor meetings, investor tours, office visits, presentations, surveys, annual report, conferences
Suppliers	Strategic sourcing program and prequalification questionnaires, knowledge sharing through trade bodies and councils

Through the engagement process, we monitor and assess key issues or concerns that may impact our business. This provides us with a listening post to help identify and minimize potential risks, and alert us to new opportunities. The outputs help shape business strategy to determine content for our reporting.

Recognition for our environmental, social and governance practices

American Water issued its first biennial Corporate Responsibility Report in 2011, becoming the first large water services company to measure its performance against the Global Reporting Index. Our sustainability practices have supported our inclusion in the Dow Jones Sustainability North America Index in 2012, 2013 and 2015. We have

also maintained our position in the Euronext Vigeo® US 50 index, which includes the 50 most "advanced companies" in the U.S. region, i.e., those companies achieving the best environmental, social and governance performances, based on a review of up to 330 indicators. (The Euronext exchange is a major stock exchange in the European Union, with 1,300 listed companies and a \$4 trillion market cap.)

Working with stakeholders

Stakeholder engagement is helping American Water to:

- **Innovate and develop new operational approaches**
- **Identify emerging issues that will influence organizational performance**
- **Improve our understanding of societal perspectives on sustainability issues**
- **Seek solutions and reconcile issues**
- **Establish credibility and reaffirm our role as a partner in solutions**
- **Access outside expertise and advice, thereby promoting organizational learning**
- **Improve community relations and promote a positive public image**
- **Avoid conflict and maintain our license to operate, expand and innovate**

Participation in external groups

American Water is a member of numerous organizations at a local, state and national level, including:

- **The National Association of Water Companies**
- **American Water Works Association**
- **Water Research Foundation**
- **Water Environment & Reuse Foundation (WE&RF)**
- **Bipartisan Policy Center**
- **US Water Alliance**
- **Water Innovations Alliance Foundation**
- **Value of Water Campaign**
- **Mayors Water Council**
- **Alliance to Save Energy**
- **BlueGreen Alliance**

In some cases, such as large capital projects or in areas of water scarcity, we develop formal plans for engagement and communication with customers, regulators, NGOs, state environmental commissions and other external groups.

S A F E T Y

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Strong safety performance is simply “how we work”

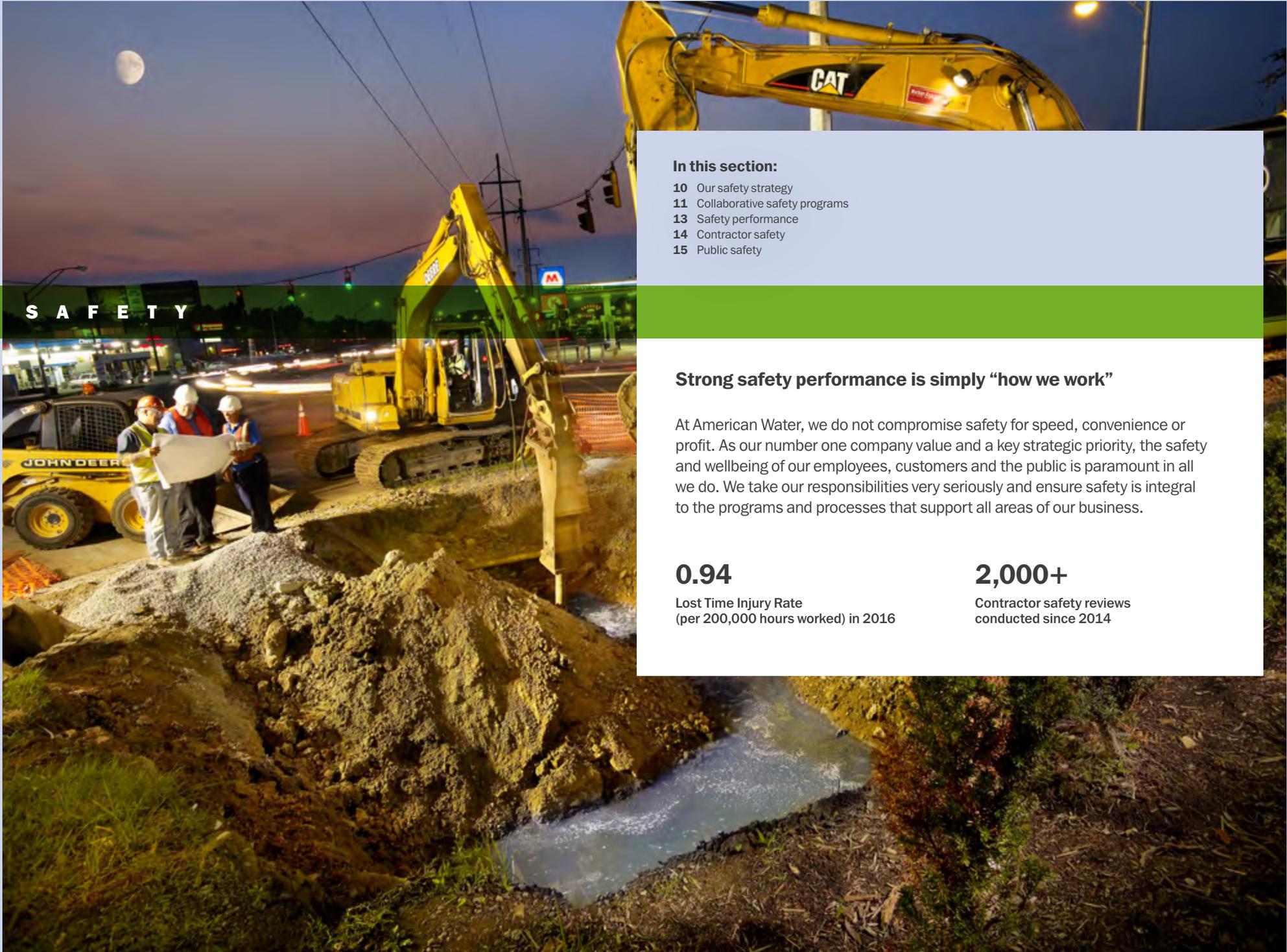
At American Water, we do not compromise safety for speed, convenience or profit. As our number one company value and a key strategic priority, the safety and wellbeing of our employees, customers and the public is paramount in all we do. We take our responsibilities very seriously and ensure safety is integral to the programs and processes that support all areas of our business.

0.94

Lost Time Injury Rate
(per 200,000 hours worked) in 2016

2,000+

Contractor safety reviews
conducted since 2014



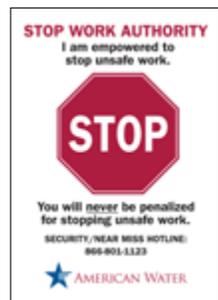
OUR SAFETY STRATEGY

Through the execution of our safety strategy, strong safety performance is simply “how we work” every day. With a focus on continuous improvement in safety, monitored through both leading and lagging metrics, we always strive to improve safety for our employees and the public we serve.

And our goal is simple – ZERO safety incidents. We evaluate our safety programs and performance, improving our processes and procedures to reduce exposures that can lead to injury or illness.

Safety built into our culture

The engagement of all our employees is a critical aspect of our safety strategy. At American Water, safety management is not a stand-alone activity – it is integrated in every task we perform – and every employee is accountable for their own safety and the safety of their co-workers.



This accountability provides a foundation to our culture, driving continuous improvement in how we perform our work and, ultimately, in our results. Our employees are empowered to question and stop unsafe activities without repercussion. All employees are provided with a “Stop Work Authority” card as a reminder of this important responsibility.

SAFETY STRATEGY

Zero accidents and injuries



Keeping up to date with best practice

We rely on our people’s input and feedback to continuously review and update our practices and procedures; to develop safer processes; to introduce safer tools and equipment; and to integrate safety into our operational training modules. This employee involvement and collaboration on safety is critical and strengthens the sense of personal ownership across the organization, underlining the fact that safety is not an additional task, but part of everything we do. We reinforce this further by ensuring that we listen to our employees’ safety suggestions and incorporate their ideas into our programs.

Our recent company culture survey indicates that we are making strong progress, as our employees ranked safety highly. In many of the safety areas surveyed, we scored higher than the best performing U.S. companies we use for benchmarking.

COLLABORATIVE SAFETY PROGRAMS

We continue to develop companywide programs that not only comply with federal and state regulations, but go beyond these standards to lower the risks our employees and contractors face as they carry out their daily duties.

This includes introducing new or revised processes, as well as specifically designed and developed tools and equipment that improve the safety of our field operations. Employee collaboration in these programs remain critical to their success, both in their acceptance and implementation across the business.

Our Safety Council

We have an active corporate-level Safety Council that has introduced several initiatives over the past two years, further supporting our core value of safety. The council includes employees from across the business who represent our operations, including union-represented locations, and is accountable to our executive leadership team. Its main responsibilities are setting our strategic safety direction and making recommendations for safety. Many safety issues are raised, discussed and resolved at the local level, so we also have local safety councils and safety committees that both support the corporate Safety Council and raise issues that need wider consideration.



National Safety Days

The Safety Council hosts an annual national safety stand-down, where normal work is paused while we focus on safety issues. We use these Safety Days to introduce and reinforce key elements of our safety program.

The past two Safety Days have launched several initiatives and programs:

- **Safety Strategy Roadmap**
- **Safety Charter**
- **Lifesaving Rules**
- **Stop Work Authority**
- **Visitor and Contractor Safety Orientations**
- **National Safety Rewards and Recognition Programs**
- **Certified Safe Worker Program**

Lifesaving rules

- 1** Always wear required personal protective equipment (PPE).
- 2** Always work free from the influence of alcohol or illegal drugs.
- 3** Always establish work zone safety prior to working in traffic zones.
- 4** Always protect excavations against cave-in – with no exception – at depths five feet or greater.
- 5** Always use approved tools in the manner intended or required.
- 6** Always Lock Out/Tag Out when the potential for unexpected release of energy is present.
- 7** Always use fall protection at heights above four feet as required.
- 8** Never enter confined spaces without all safeguards in place and a completed permit as required.
- 9** Always identify and establish safeguards to prevent contact with utility lines.
- 10** All employees are empowered to stop work to address safety concerns.



Certified Safe Worker

Our Certified Safe Worker program helps to raise awareness and encourage personal commitments to safety on and off the job. Every employee has the opportunity to participate in this program and gain certification. Upon successful completion, Certified Safe Worker status ensures employees are recognized within their business units for this achievement.



Highlighting exemplary performance

Our CEO National Safety Reward and Recognition Program, introduced in 2016, highlights exemplary employee performance in three categories: Safety Leadership, Innovation and Lifesaving Actions. We received over 150 entries from our employees in the first year, and these were evaluated by our Safety Council. Seven employees or groups of employees received awards, including both union and non-represented employees. This high-level recognition for safety achievement has made an impact on the business and underscores the many and significant contributions our employees make in improving American Water's safety performance and culture.

CASE STUDY



Raising safety awareness – near-miss reporting

We introduced a formal near-miss reporting program in 2015. Employees who have been involved in or witnessed a near-miss incident, or have identified an unsafe condition, can report it through our intranet or by telephone to a designated member of staff. We operate a “no fault” system to encourage reporting. Employees can report without fear of discipline, or if they prefer, choose to report anonymously.

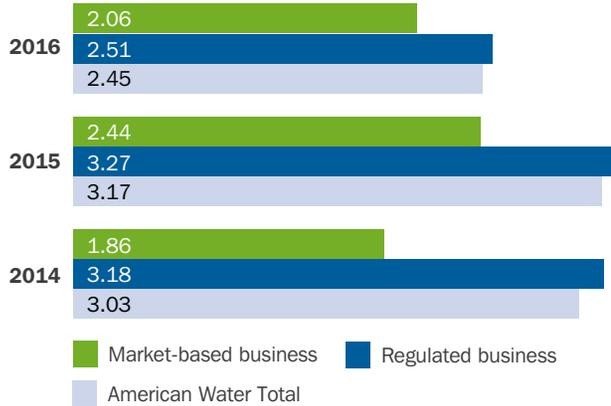
This program has raised safety awareness among all employees. In 2016, we experienced a threefold increase in the number of near misses reported by employees across the company. A total of 4,601 near-miss reports were made by our employees during the year. More importantly, 92.4 percent of these reported near misses have been corrected, with over 87 percent corrected within 30 days of reporting.

SAFETY PERFORMANCE

Our safety performance has shown steady improvement over the years, as measured by injury rates. In the past 10 years, we have reduced workplace injuries by almost 70 percent, and our efforts continue.

While the number of employees injured on the job has been declining, our goal is zero. Our expectation is that every employee goes home free of injury or illness at the end of the day.

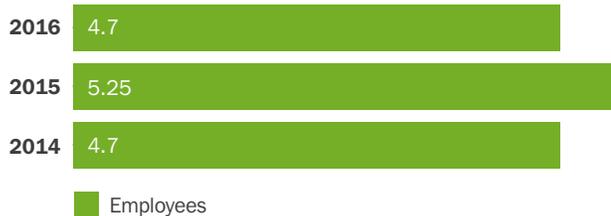
OSHA Recordable Injury Rate
(rate)



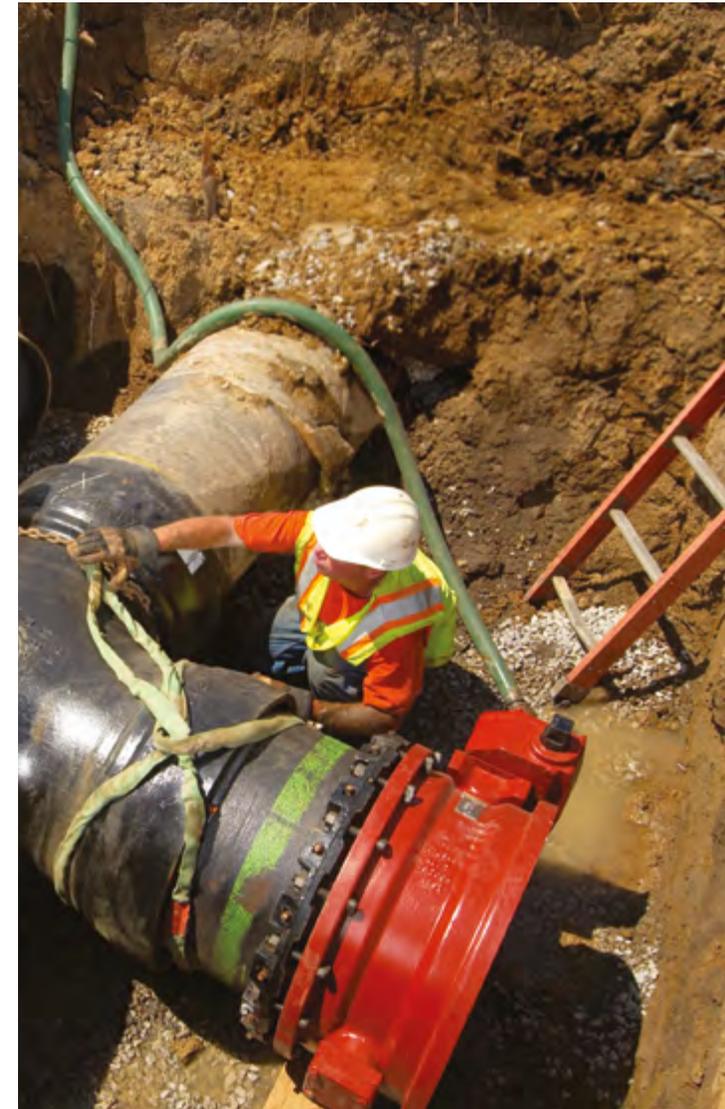
Lost Workday Case Rate
(rate)



Lost Time Injury Frequency Rate
(Number/million hours worked)



In the past 10 years,
we have **reduced** 
workplace injuries
by almost **70%**



CONTRACTOR SAFETY

American Water is committed to fostering a wider understanding of safety and a stronger foundation for it with our contractors. As well as complying with federal, state and local occupational health and safety regulations, our contractors must also comply with American Water's own safety practices that may exceed regulatory standards.

Prequalifying contractors for safety

We have established a formal review process to prequalify contractors for safety. If contractors do not meet the safety qualification requirements, they cannot bid or perform work for us. This important program helps assure that contractors performing work for American Water are conducting their operations safely and reducing the potential of injury, not only for their employees, but also for American Water people who might be working alongside them and the public.

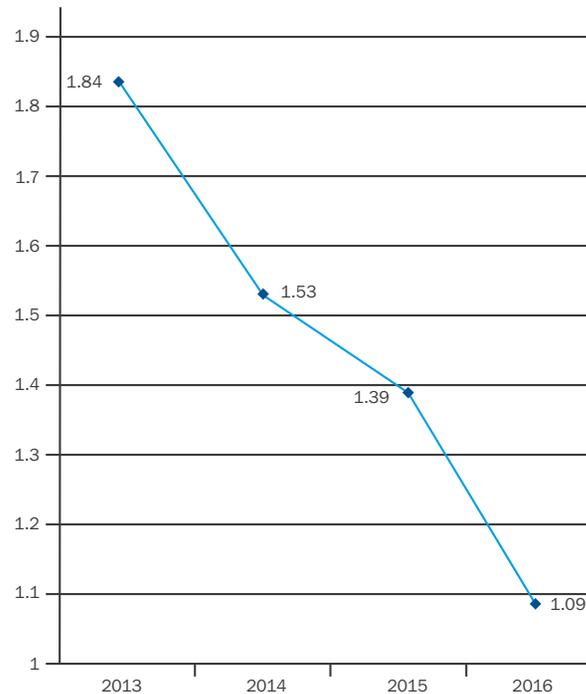
This prequalification program is managed by a third party that specializes in this area, with oversight by a committee composed of representatives from our Health and Safety, Engineering and Supply Chain functions. As part of this review process, contractors must demonstrate that they have:

- A comprehensive safety program
- A Total Recordable Injury Rate (TRIR), presented as a three-year average, at or below their respective industry average
- An Experience Modification Ratio (EMR) – which calculates past cost of injuries and future chances of risk – at or below 1
- Valid insurance certificates that meet our requirements

Contractor safety reviews

Since 2014, over 2,000 contractor safety reviews have been conducted and the contractor qualification program is showing positive results. Since 2013, the median TRIR for our contractors has improved by 41 percent. Similarly, the EMR for our contractors has also improved.

Contractor Median TRIR



Integrated safety training

To achieve our goal of zero incidents, we focus on proactively improving safety and incident avoidance by ensuring our people have the right tools, skills and competencies to do their job safely and efficiently. That includes training and empowering employees to recognize and minimize the exposures that can lead to accident and injury risk.

As such a critical component of the company's safety program, we provide safety training on many topics. The type of training is determined based on our people's job descriptions and includes both initial and refresher training at specified intervals.

Through our Learning and Development department, job skills training is also integrated with safety training. This supports our safety strategy, reinforcing our approach to continuous improvement and the reduction of exposures that can lead to injury by ensuring that safety is very much part of any technical job skills our people need.

Safety training options

We employ many training delivery methods, including:

- **Classroom training conducted by experienced operational and safety personnel**
- **Online learning modules**
- **On-the-job mentoring by our experienced field staff**
- **Weekly "safety toolbox talks"**
- **Refresher training at regular intervals**

Additionally, "Safety Alerts" are issued after an incident or near-miss situation, so that our people can review and discuss where and when they may encounter similar situations and how they can apply appropriate corrective actions.

PUBLIC SAFETY

Much of our work is conducted outside of our properties in public areas, making it critical that we conduct our work safely and in a way that protects both our employees and the general public. Establishing safe work zones and traffic protection is always a priority, and our employees carry company identification.

Our vehicles are also clearly branded, providing assurance to the public that they are performing work on behalf of the company. Safeguarding excavations and restoring work sites once a project is completed is also an essential part of preventing any potential injuries.

For us, safety also includes providing safe, clean water to our 15 million customers.

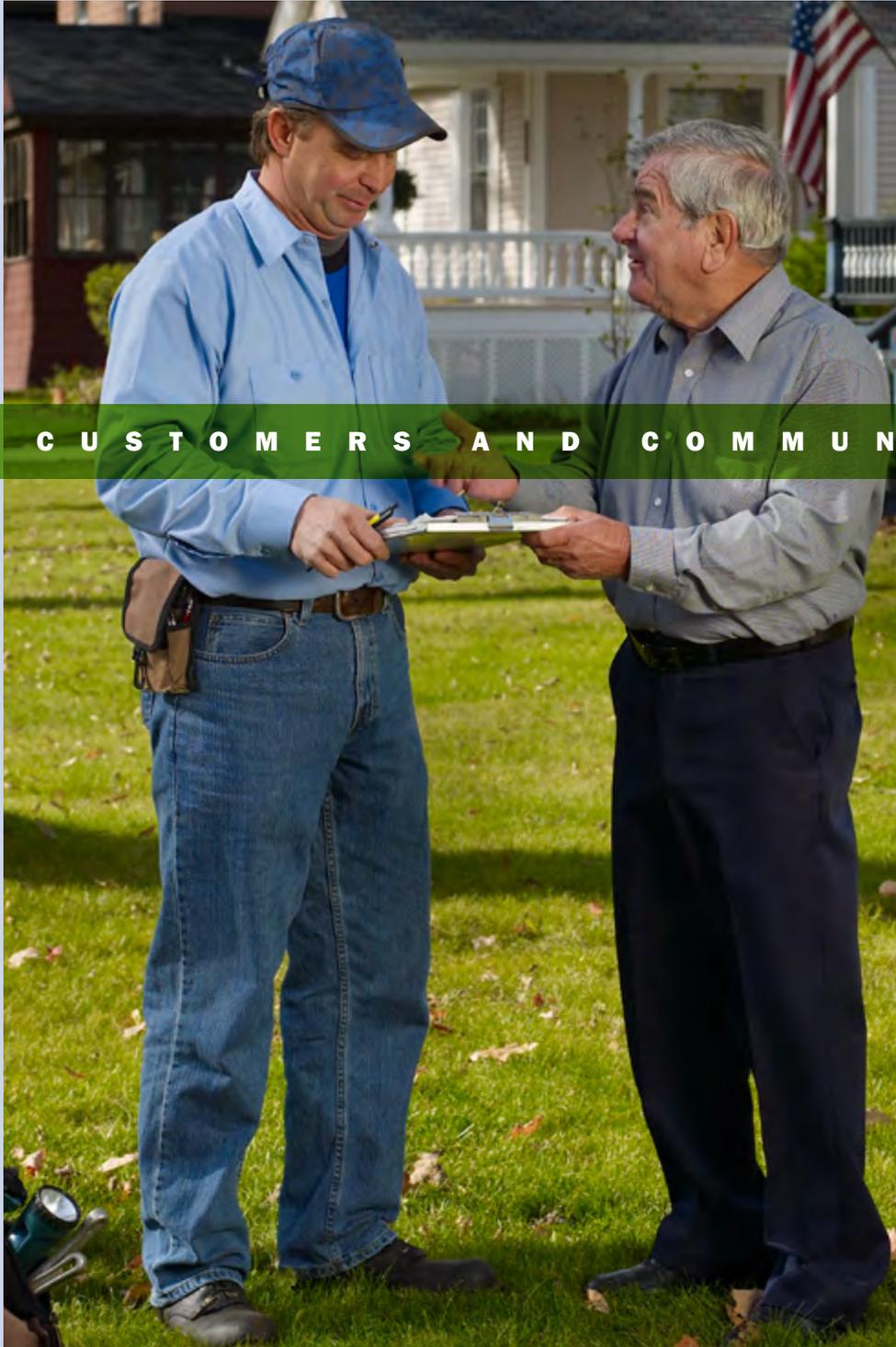
CASE STUDY



Partnering with our unions to deliver safety training

We recognize that employee-led safety programs, supported by management, are critical to sustaining effective programs and driving continuous safety performance improvement. This concept is taking hold across the company. In 2016, working with the Utility Workers Union of America, we introduced a training program called Systems of Safety Training. This program emphasizes collaboration and the application of effective remediation techniques to safety problems encountered in our work. This training is unique, in that it is a union-developed, employee-driven program that fosters communication and collaboration between management and front-line employees.

This approach directly supports a key component of our safety strategy – employee empowerment and collaboration. This is the first time union-represented employees have led a safety training program and, in 2016, our 25 union trainers trained approximately 400 employees. Training classes focus on small group activities and problem solving rather than traditional classroom safety training techniques. Results and feedback have been positive and the program is continuing in 2017.



C U S T O M E R S A N D C O M M U N I T Y

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Customer experience is becoming a key differentiator

To be successful, our goal is to deliver safe, clean, reliable and affordable water and wastewater service to our customers. Our success is also based on how well we serve our customers and their communities. This is just as important as the vital water services we provide. Many companies, across all industries, are raising their game on customer experience, and our customers deserve the same types of options, flexibility and clear communications from us.

Customer experience is rapidly overtaking product or price as a company's key differentiator, and our goal is to treat our regulated customers so well that if they had a choice of a water or wastewater service provider, they would choose us. Many of our employees also demonstrate a deep commitment to the communities we serve by volunteering their time, resources and expertise in neighborhood organizations, charitable activities, local boards and other benevolent endeavors.

A record-breaking 2,266 employees volunteered

more than 4,000 hours of community service in September 2016

The American Water Charitable Foundation has committed \$2.5 million

to the National Recreation and Park Association

CUSTOMER EXPERIENCE

Over the past few years, we have dedicated ourselves to improving the customer experience. We started with gaining a better understanding of what our customers want, and looking at the technology, systems and processes we have that support customers, and how they all fit together to deliver exceptional service.

Our focus on the customer makes us easier to do business with:

- **Residential customers – who want alerts about high water usage, planned work in their communities and emergency repairs, easy-to-read bills, and convenient payment options and plans**
- **Industrial customers – who want collective billing and conservation technologies**
- **Our partner cities and the federal government – who want access to the full breadth of knowledge and expertise American Water can provide**

Technology is a key enabler in all of this, as we integrate it further with our culture and operations to support our ambition to be the water and wastewater services provider of choice for customers.

Customer Experience Council

Formed at the beginning of 2016, our Customer Experience Council is a committee of employees that addresses major issues and opportunities arising within customer service. The council has five key focus areas:

- **Technology**
- **Employee empowerment**
- **Billing and payment**
- **Customer experience journey mapping**
- **Customer data and analytics**

The council looked at American Water's process for new customers and how to capture more information earlier.

It is now easier for customers to contact us and to do business with us. Our collective billing processes have also improved, so that one bill can cover multiple locations for a business customer.

Using extensive market research on industries beyond water, we have adopted innovative ideas that will be cutting edge in the water industry, such as using alerts and notifications, giving customers access to leak data, storm alerts, and we aim to enable customers to opt in and out of communications like texts or emails. We are also looking at adding billing and payment to our customer alerts.

Ongoing initiatives include a new smartphone app that provides our field representatives with full visibility of a customer's account, with a prototype due to go live in 2017.

Call center upgrades

Upgrades to our Call Center technology include the introduction of natural language interactive voice response (IVR), meaning that customers can speak with our version of "Siri" or "Alexa" to quickly answer their questions or efficiently direct them to the correct person in our Call Center team. We are one of the first water utilities to implement this innovative technology.

We also know how frustrating being stuck on hold can be – so we will be one of the first water utilities to bring in "virtual hold" later in 2017. The system will tell our customers how long they have to wait before they can speak to someone, and give them the option to hold or give us a number on which we will call them back after holding their place in line.



Customers are at the center of everything we do: our complaint escalation process

Our customer service representatives (CSRs) and supervisors all undergo TARGET and ICARE Training, which ensures they deal with complaints effectively, quickly get to the facts, reassure our customers and offer timely delivery of options to resolve any issues.

Every CSR has experienced requests to speak with a supervisor, but they are always encouraged to take ownership of the call and resolve the customer's concern. In most cases, the issue can be handled by the CSR, who will always work hard with our customers to try to de-escalate the issue through the following:

- **Actively listening to the customer's issue/concern**
- **Making use of appropriate probing questions**
- **Investigating the customer's account and concern thoroughly**
- **Using all available tools to resolve the issue, such as Instant Data Access (IDA), Online Resource Documents and the SAP Call Handling Manual**
- **Acting on the information gathered and documented**

If our CSR is unable to resolve the customer's concern by following these steps, and if the customer requests to speak with a supervisor, the CSR will use a defined process to find an available supervisor swiftly or offer the customer a call back.

COMMUNICATIONS – PUTTING THE CUSTOMER FIRST

Water quality for most customers is an afterthought. They are accustomed to clear, clean, safe water delivered to their taps. They expect exceptional service, but recent events like the lead contamination in Flint, Michigan, and emerging contaminants such as chromium-6 have brought water quality to the forefront of public concern.

We have a good story to tell. With decades of expertise in providing solutions for a wide array of issues, American Water consistently meets or surpasses all federal, state or local standards for delivering safe, quality drinking water. Each year, the company conducts more than 1 million water quality tests and has a compliance rate that is 21 times better than the industry average.

But delivering what our customers need requires regular dialogue to understand and help us meet their expectations. We use customer surveys, focus groups, follow-up phone calls and other customer communications to do this. We are currently setting up an online panel of customers who can provide us with rapid feedback on a number of topics like billing design. Customers are at the center of everything we do, and responding to their needs and concerns helps shape our strategic priorities.

Our commitment to being strong communicators has helped position American Water as one of the best at satisfying our customers. Indeed, in 2016, our Illinois American Water operation was named the J.D. Power award winner for most satisfied customers in the Midwest region of the U.S.

We conduct more than
1 million water quality tests
each year, and our compliance rate is
21 times better
than the industry average in 2016



Assisting customers

Where approved by state authorities, our state subsidiaries offer customer assistance programs to help financially challenged or disadvantaged households pay for water services. Programs vary by state and include assistance in the form of one-time emergency grants and/or ongoing service charge discounts. In some states, such as California, where a customer meets the program threshold, data is shared to enable other utilities to approach them with similar offers of assistance.

Increase in paperless billing

At the end of 2016, close to 337,000 of our customers were enrolled in paperless billing (up from 210,000 at the end of 2015) and more than 469,000 were paying their bill electronically. Both programs are free and available through our website. This enabled us to save more than eight tons of paper in 2015–2016, and it reduced postage costs for our customers and our business.

According to J.D. Power, customers are more satisfied when they use e-billing, as it's easier for them and cost-effective all round. And, of course, for every dollar more we save through these programs, we can invest seven dollars in our systems without impacting customers' bills.

Reaching customers about lead

Recent events have shown water quality is critical to customers. The company has increased communications around lead to its customers and taken progressive steps to help on the customer-owned side of service lines.

- **Pennsylvania American Water filed a request with the Public Utility Commission seeking authorization to replace customer-owned lead service lines when removing company-owned lead service lines. This proposal will allocate \$6 million annually to replace such lines, and if approved, eliminate the financial burden placed on customers to do the work**
- **New Jersey American Water conducted a Lead Service Line Replacement pilot project in a financially distressed community and replaced customer service lines when found. Working with the New Jersey Board of Public Utilities on recovery of these investments, American Water will continue to replace customer-owned lead service lines during the main renewal and replacement programs**
- **Missouri American Water filed a plan with the Missouri Public Service Commission for a pilot project that has already replaced approximately 60 customer service lines**
- **Indiana American Water is working with the Indiana Utility Regulatory Commission for approval of a plan that would include projects in financially distressed communities with higher lead line concentrations**
- **Virginia American Water was awarded funding for lead service line replacements by the Virginia Department of Health through a grant program using a state revolving fund**

These efforts are driven by the company's commitment to the safety of its customers and the communities it services.

Communicating the value of water

Water service is typically the least expensive household utility service – pennies per gallon or less in most of the communities we serve. That creates a perception that water treatment and delivery has few, if any, associated costs.

Yet public understanding around the economic value of water services is growing, and by supporting educational campaigns, American Water also improves levels of understanding around water conservation, the impacts of aging infrastructure and how variability in climate can affect water supply.

Each year, we evaluate our messaging and methods of delivery to determine how we can most effectively educate our customers about the value of water service. For example, in 2015 and 2016, we conducted five digital hives (virtual communities of customers who provide feedback to us) that were focused on topics such as water quality, paperless billing and emergency communications. These online forums allowed us to obtain actionable customer feedback on our materials and messaging. Where they can, all of our state-regulated subsidiaries use Facebook, Twitter and YouTube channels, and our engagement levels continue to rise.

Expanding our commitment to our customers

The Customer Experience team is leading our efforts to:

- **Understand the customer**
- **Design new processes**
- **Deliver technology that enables customer engagement**

Online forums
allowed us to obtain
actionable
customer feedback
on our materials and messaging



 **32,061**
fans

 **29,758**
followers

 **2,509,814**
views

 **10,556**
followers

PHONE



E-MAIL



TEXT



Let us know what you prefer.
Visit amwater.com/myaccount
to enter your contact info today!



VIRGINIA
AMERICAN WATER

CodeRED system

Launched in Spring 2015, our customer emergency communication system – CodeRED – uses outbound calls, text and emails to alert our customers about incidents that can affect their water quality and water usage, and disrupt their water service. It also allows our teams to create and post outage maps and provides new direct notification tools for employees in the case of emergency, rather than expecting customers to call in repeatedly.

COMMITMENT TO OUR COMMUNITIES

Giving back is part of who we are. It's as essential as water. We have long believed in the importance of being a good neighbor and a good steward of the environment. American Water supports and enhances the communities we serve.

Corporate giving

American Water sponsors workplace giving campaigns for two organizations focused on helping communities around the world: United Way and Water For People.

In 2016, our annual United Way giving campaign raised nearly \$500,000 and, during the last 10 years, American Water donated \$5 million to United Way efforts across the country.

In the developing world, American Water supports Water For People, an international non-profit working across nine countries to bring safe water and sanitation to four million people.

In 2016, our partnership raised more than \$210,000, and over the last decade we have donated more than \$1.7 million to support their life-changing work.

AmeriCANS in Action! Month of Service



In 2016, nearly 2,300 American Water employees participated in 116 different community projects, contributing more than 4,000 volunteer hours during our annual AmeriCANS in Action! Month of Service. In its sixth year, the event set a record for participation, demonstrating the passion our people have to serve our communities in limitless ways.

American Water Charitable Foundation



American Water enhances the lives of those we serve by assisting our employees in giving back to organizations they care about.

In 2012, we established the American Water Charitable Foundation. The primary focus of the Foundation is to support employees in their own charitable endeavors, provide stronger support for disaster relief efforts and provide funding for higher-level initiatives related to clean water, conservation, education and community sustainability. Through our Employee Volunteer and Matching Gift Program, Disaster Relief Program and our signature program, *Building Better Communities*, the Foundation has donated over \$2.5 million and continues to make a difference every day.

• Employee Volunteer and Matching Gift Program

In the five years since the Foundation launched, our Employee Volunteer and Matching Gift Program has matched over \$612,000 to public charities that are important to our employees. This includes more than 20,000 hours of volunteer time.

• Disaster Relief Program

The Foundation's Disaster Relief Program is designed to increase the impact of American Water employee donations made in response to natural disasters such as floods, hurricanes, fires and other extraordinary disaster events. Since 2012, the Foundation has provided \$130,000 to support disaster relief efforts.

• Signature Program – *Building Better Communities*

In 2014, the Foundation announced its commitment to contribute \$2.5 million over five years to the National Recreation and Park Association, as part of our signature program, *Building Better Communities*. The grant program enables communities to build nature-inspired play spaces that highlight the importance of natural resources and water stewardship.

During the last three years, the Foundation has awarded grants to nine communities in California, Illinois, Indiana, Iowa, Missouri, New Jersey, Pennsylvania, Virginia and West Virginia. The program will continue in 2017 and 2018.

As another component of our signature program, in 2015, the Foundation launched a new partnership with the Union Sportsmen's Alliance (USA) and awarded a grant of \$25,000. The partnership brings together USA's union members and American Water employees to volunteer their time and skills to improve public access to water-based recreational activities and enhance environmental sustainability.

Due to the success of the program, and our first three projects in Illinois, Tennessee and West Virginia, the Foundation awarded an additional \$150,000 grant for water-related conservation projects in 2016 and 2017.

During 2017, our employees will participate in three "Work Boots on the Ground" projects that will benefit American Water communities in Kentucky, Missouri and Pennsylvania.

TECHNOLOGY

Our industry-leading research and development enhances our services, helps ensure compliance, and shapes a more sustainable future for American Water and our customers. Integrating new technology also helps us to generate operational and capital efficiencies, improve customer satisfaction and, most importantly, build trust.

Technology projects driving capital spend efficiencies

Our technology roadmap outlines the projects we need to deliver to support our business strategy. Potential projects are considered based on three key criteria:

- **Improving key performance indicators (KPIs)**
- **Measurable payback**
- **Risk mitigation**

These criteria enable us to prioritize business-critical projects, the outcomes of which are vetted by focus groups for completeness and what we will achieve. Once agreed, each project is sponsored by one of nine business leaders, and is allocated a partner from our Technology and Innovation team. Technology delivery has been a major focus in recent years, and we have developed an asset prioritization model for infrastructure replacements. This model takes into consideration several aspects of water systems, including Asset Management, Work Management, Hydraulic Model, Water Quality Data and Customer Complaint Data.

We deployed
1,000 
acoustical leak detection sensors
and integrated them into our GIS system
and work management system sensors

This ultimately supports efficiency in our capital spend. For example, we deployed 1,000 acoustical leak detection sensors and integrated them into our GIS system and work management system. The monitors proactively identified 40 emerging sub-surface leaks, enabling us to mitigate customer risks, interruptions in service and minimize replacement costs. This leak detection work is now further supported by the deployment of drones, and infrared cameras in pipelines.

Integrating our systems creates a real-time view of our water treatment process from the source to the tap. New triggers alert us to variations in the process, help reduce response time to problems, and support our customers by providing more reliable and clean water to keep life flowing.



Innovation development

Our innovation process helps us seek out new technologies and methodologies to enhance water quality and process optimization. Over the past two years, we have explored, adapted and implemented up to 50 technologies and methodologies, and we work in concert with domestic and international partners to drive efficiencies in the areas of water reuse, desalination, wastewater operations and bioenergy.

Collaboration on research

We use an open collaboration model in four key areas:

- **Water treatment and distribution**
- **Wastewater treatment and collection**
- **Biosolids management**
- **Energy management at the water-energy nexus**

We collaborate with many stakeholders, including governmental entities (such as the EPA), consultants, universities, other utilities and research agencies (such as the Water Research Foundation, Water Environment & Reuse Foundation (WE&RF)). We also participate and collaborate with numerous state and local organizations through our state-regulated entities.

Enterprise security

As a critical infrastructure company that provides water and wastewater service to our customers, the protection of our facilities, technology systems, and customer and employee information is a top priority and focus. Members of the company's enterprise security team are certified by the American Society for Industrial Security (ASIS), who:

- **Ensure the cybersecurity of our informational and operational technology systems**
- **Safeguard the physical security of our staff, facilities and assets**
- **Provide support and leadership to our operations teams in emergency response and business continuity activities**

Our security team conducts internal security reviews and partners with the Department of Homeland Security (DHS) on external security assessments, using the results to develop improvement initiatives and further enhance security controls of company assets and systems.

Central to our protection model is our advanced 24/7 Integrated Operations Center (IOC). The IOC monitors American Water security and technology systems; continuously tracks weather alerts, security threats and intelligence; and serves as a key collaboration point for operations, leadership and functional teams.

Cybersecurity

Technology solutions are vital to reliable and resilient water systems. For that reason, cybersecurity is core to the American Water vision of resiliency and sustainability.

As we continue to implement intelligent water and wastewater systems, we ensure that industry-leading cyber controls are designed, built and integrated into all aspects of the technology.

These controls protect our existing systems, and enable the implementation of secure innovation. Enhancing the customer experience while safeguarding the integrity of company information and systems is our security mission.

Our cybersecurity program is consistent with industry best practices, including the *National Institute of Standards and Technology (NIST) Cybersecurity Framework* and the *American Water Works Association (AWWA) Process Control System Security Guidance for the Water Sector*.

Training and exercises

American Water has developed security awareness training for physical and cybersecurity risks, incident response and emergency preparedness. This training reinforces the shared responsibility for security with all employees, contractors and visitors, and supports a safe and secure work environment.

Although we work hard to prevent incidents from happening, we must also prepare for them. Practice exercises are a powerful way to bring solid planning and years of experience to bear on the new and diverse challenges we face. American Water has led dozens of preparedness exercises across our business, while also participating in regional and national level exercises with state and federal partners. In addition to our state operations, our executive leadership team and Board of Directors have participated in cybersecurity exercises. The Board and executive exercises included representatives from the DHS. Not only do these activities enhance readiness, they often identify opportunities for increased operational efficiency.

We have established a business continuity framework across the company, bringing functional and operational teams together for the purpose of reducing risk and enhancing resiliency. As part of the framework, we adopted the nationally recognized *Incident Command System (ICS)*, which enables unified emergency response and close, effective coordination with emergency management in the communities we serve.



Partnerships for security

Demonstrating external leadership and fostering effective partnerships is key to our internal success and to making improvements to security across the water and wastewater sector. We partner with environmental organizations, public service commissions, state fusion centers, the DHS and the Federal Bureau of Investigation to share information and promote security best practices.

We also take a leadership role in advancing security and resiliency of the water and wastewater sector through participation in key working groups, such as the Water Sector Coordinating Council (WSCC). Together with other utilities and the EPA, we collaborate in a public-private partnership to plan and implement programs aimed at achieving a common goal.

P E O P L E

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- 29 Engaging with our people
- 30 Recognizing our people's contribution
- 30 Encouraging healthy lifestyles

Supporting our people's professional and personal growth

Innovation, diversity and community involvement are the cornerstones of our culture. Our people take their responsibilities very seriously, both within the organization and outside it. They understand the importance of what they do, and the impact they have on the everyday lives of millions of customers.

At American Water, we support our people's professional and personal growth, and work hard to provide an environment where involved, valued and responsible employees can thrive. The health and wellbeing of our people matters to us too, and we encourage them and their families to pursue healthier lifestyles. Our Healthy Solutions wellness program is one way we support them, and more than 56 percent of employees received one or more health screenings or preventative examinations in 2016.

**More than
83% of employees**

responded to our myVoice Culture Survey, enabling us to understand their needs on topics from career growth to efficiency

100%

of employees completed 10 or more hours of training in 2016

EMBRACING DIVERSITY AND EQUAL OPPORTUNITIES

At American Water, diversity of ideas, thoughts and experiences are vital to our culture and the way we do business. We encourage, honor and celebrate differences in our employees – including race, gender, spiritual practice, age, nationality, military/veteran status, sexual orientation, physical capabilities, education and personal style.

Creating an environment where differences are embraced and celebrated, and where every employee feels engaged and included, makes us a stronger and more successful business.

Attracting the next generation of employees

Approximately 30 percent of our people in operational roles will be eligible to retire in the next 10 years. However, our business plan includes a long-term recruitment strategy to attract a new generation of diverse employees. And that makes the skills and knowledge of our longest-tenured people that much more important. They play a critical role in bringing high-quality applicants to our business, transferring their institutional knowledge and ensuring they understand the way we work.

We have a clear vision for diversity and diversity hiring. Our plan addresses differences in skills, experience and ideas to assist American Water in reaching its business goals.

Our approach to recruitment has successfully enriched the diversity of our workforce at most levels in the organization. For example, in 2016, 88 percent of our job requisitions had a diverse candidate pool and 62 percent of transfers/promotions were filled by minority, female, veteran or disabled candidates.

Measuring our progress on diversity

We value the diversity in our business and, in 2015, we identified several key metrics to measure our progress in this area, including:

- **Ensuring we are attracting a diverse pool of applicants**
- **Identifying minority, female, veteran and disabled candidates to fill internal vacancies and promotions**
- **Providing our employees with tools and resources to create quality development plans**

We set goals for these metrics in 2016 and met or exceeded each of them, including:

62%

of transfers or promotions were filled by minority, female, veteran or disabled candidates

88%

of our job requisitions had a diverse candidate pool

In the coming months, our Human Resources function will continue to review and expand upon these metrics to continuously monitor our progress in building a skilled workforce that accurately represents the diversity of 15 million people served.

A long-term recruitment strategy to attract diverse employees is central to our business plan



In 2016, our board had more female members than any other S&P 500 company



42%

of our total employee population represents diversity in at least one of the following categories:

- Female
- Racial/ethnic diversity
- Disability
- Military – active or veteran

Employer Support of the Guard and Reserve

One of American Water's People goals is to receive official designation as an employer of choice for military veterans. As part of achieving that goal, our Talent Acquisition team has been working with the Employer Support of the Guard and Reserve (ESGR) to gain the status of a "Supportive Employer." This requires us to formally sign and post a statement of our continued support of military employees.

The Statement of Support Program is the cornerstone of ESGR's effort to gain and maintain employer support for the Guard and Reserve. The intent of the program is to increase employer support by encouraging employers to act as advocates for employee participation in the military. Supportive employers play an important role in maintaining the strength and readiness of the Nation's Guard and Reserve units.

American Water held a signing ceremony with ESGR on Tuesday, June 13, 2017, where Walter Lynch, Chief Operating Officer, represented our leadership to sign the official Statement of Support, pledging us to:

- **Fully recognize, honor and comply with the Uniformed Services Employment and Reemployment Rights Act**
- **Provide our managers and supervisors with the tools they need to effectively manage employees who serve in the Guard and Reserve**
- **Appreciate the values, leadership and unique skills service members bring to the workforce, and encourage the hiring of Guardsmen, Reservists and Veterans**
- **Continually recognize and support our country's service members and their families, in peace, in crisis and in war**



88%

of our job requisitions
had a diverse candidate pool



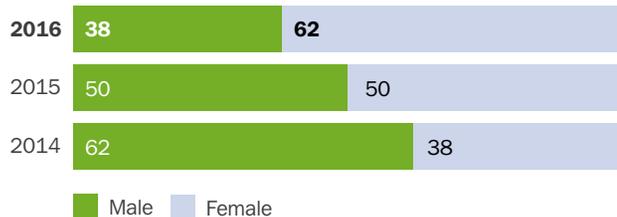
Increasing diversity

The following are some of the tactics we have used to increase diversity in American Water's workforce:

- **Enhance American Water's online career page by developing and posting our Diversity and Inclusion Statement**
- **Leverage organizations such as National Utilities Diversity Council (NUDC) as partners in recruitment on our Careers site**
- **Restate our commitment to diversity in each job description**
- **Expand our outreach to diversity associations and organizations**
- **Provide training to improve diversity awareness**
- **Ensure all recruiters obtain Alliance of Information and Referral Systems (AIRS) and Certified Diversity & Inclusion Recruiters (CDR) certifications**
- **Increase media/advertising for visibility (GI Jobs/Victory Media)**
- **Expand outreach to military veterans: The Army Partnership for Youth Success (PaYS) Program provides America's youth (enlisting soldiers) with an opportunity to serve their country while they prepare for their future, guaranteeing soldiers an interview and possible employment after their army commitment**
- **Provide paid leave through our military leave policy to our military employees (union-represented and non-represented) who take leave for reserve training**

Board of Directors

(%)



Employee Turnover Rate

(%)



Ethnicity: All Employees

(%)



Part-time Employees

(number)



New Employee Hires

(number)



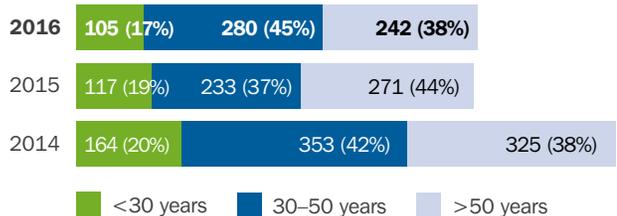
Ethnicity: Management

(%)



Turnover by Age

Total market and regulated business (number, %)



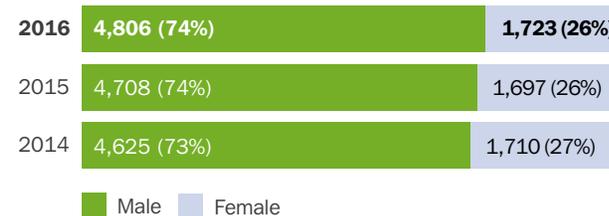
Rate of New Employee Hires

(%)



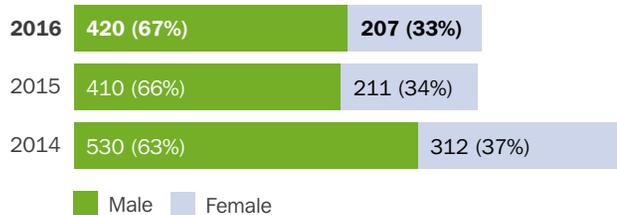
Gender: All Employees

Total market and regulated business (number, %)



Turnover by Gender

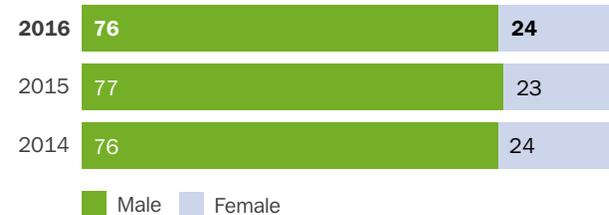
Total market and regulated business (number, %)



62% 
of transfers/promotions were filled by minority, female, veteran or disabled candidates

Gender: Management

Total (%)



DEVELOPING OUR PEOPLE

To ensure our people have the tools and resources they need to deliver water for life, our Learning and Development team uses a robust blend of training approaches. With training topics ranging from safe working practices to leadership effectiveness, our people gain the right work experiences to equip them with what they need to grow their careers as the company grows.

American Water has also established a Talent Management Center of Expertise to help attract, motivate, develop and retain talented employees, and foster a learning culture over time.

Utility Workers Union of America Power For America Training Trust Fund

In 2015, American Water began a partnership with the Utility Workers Union of America (UWUA) Power for America Training Trust Fund (P4A) – a national labor-management training trust that supports apprenticeship and journey-level training programs, continuous learning opportunities and scholarship opportunities. P4A provides information, resources and training opportunities to help our people perform their jobs more effectively through:

- **External education and internal training of apprentices**
- **Ongoing training for field employees to maintain skill proficiency and certification**
- **Specialized instruction to enhance skill levels**
- **Safety training with the goal of protecting our people and the public, and maintaining system integrity**
- **New technology awareness to increase knowledge and productivity**

Developing our people

As part of our performance review process, we discuss professional growth throughout the year, with goal setting, development planning, a performance checkpoint at midyear, and the year-end performance review and rating. To support our managers with driving conversations around career development, myCareer Solutions, our human capital management system, helps them to set career targets and goals for our people, review their achievements, identify development objectives, understand their skills and capabilities, and make decisions on how we shape their training.

By the end of 2016, 65 percent of employees entered professional development plans in myCareer Solutions that included short- and long-term objectives.

In 2016, all 3,098 of our eligible non-represented employees received an annual performance review. This represents nearly 48 percent of our total workforce of approximately 6,800 employees (as of December 31, 2016). Collective bargaining agreements prevent American Water from conducting performance appraisals for union-represented employees.

Additionally, 100 percent of employees received 10 or more hours of training.



P4A's Systems of Safety

American Water was invited to participate in the Susan Harwood Grant that was awarded to P4A to offer the Systems of Safety (SOS) training program. The program is a proactive training system that actively seeks to identify, control and/or eliminate workplace hazards, where employees work in small groups and are challenged with situations that require them to use their experience and expertise to tackle problems and make judgments on key safety issues.

Training sessions are designed to build confidence, which is the key to adult learning. Scenarios include: handling cell phone distractions; finding effective ways to hold pre-job safety briefings; and working in a confined space. The training also provides workers with relevant train-the-trainer training, giving them the skills and abilities to convey key information to their peers, managers and other workers in disaster response and recovery based on the SOS philosophy.

Succession planning

American Water utilizes a tiered competency model that defines the behaviors and characteristics necessary to be successful as employees advance within the company. Annual talent review meetings are held with leaders across the company to identify high-potential employees that exemplify American Water's competencies and values, and create development plans that best set them up for success in current and future roles. American Water's Talent Review meetings provide the foundation for succession planning, which focuses on identifying high-potential talent as successors for critical roles within the company.

During succession planning meetings, leaders review their business and functional strategy, and identify near-term successors for critical roles. This forward-looking approach provides leaders with an opportunity to gauge bench strength and areas of development opportunity, and provide the right support to individuals in their succession pipeline. The succession planning process also provides visibility to core workforce planning metrics such as diversity representation and high-potential employee retention, so that American Water can continue to develop strategies that support an inclusive and diverse culture.

Process Excellence Program

Process Excellence includes a holistic set of methods to build capability in the business for continuous improvement.

These methods include Lean, Six Sigma, innovative design, project management and change management. By the end of 2016, we certified over 750 employees to various levels of achievement, including Yellow, Green, Black and Executive Belt. The benefits from this program have now exceeded \$60 million in efficiencies and expense reduction across our business.

There are three elements to deploying Process Excellence:

- **Build capability**
- **Engage the workforce**
- **Drive benefits for the customer, business and shareholder**

All three of these elements have and will continue to drive our culture of customer focus, critical thinking, and continuous improvement. We deliver process excellence training to employees who are sponsored and work on approved projects. These projects are aligned to our strategy and tracked through our Process Excellence program office. The training involves workshops, e-learning, videos and mentoring.

In 2017, we began delivering a new element of process excellence – strategy execution. Projects that deliver on the corporate strategy became the primary focus of the team. To reduce risk we manage a portfolio of projects within each

of the elements of our strategic plan that center around the customer experience. These strategy areas are growth, safety, people, technology, operational efficiency and customer experience.



LEARN

One of the ways we empower our people is through the educational tools we develop. In April 2015, we launched a new learning management system, designed to simplify and organize all employee training activity. The system, called the Leadership Education and Resource Network (LEARN), unifies our training efforts in a single companywide platform (myCareer Solutions) that is available to all our people. With a team of 160 coordinators enterprisewide, LEARN provides an intuitive platform for both supervisors and employees to better manage career development.

Our business education modules

Process Excellence supports the varied needs of the entire business. This requires professionals with a range of experiences and education, whose areas of discipline include but are not limited to: engineering (electrical, chemical, civil and process); finance; human resources; project management; education; mathematics; and marketing/communications.

Certifications are required for the different roles on the Process Excellence team and these include but are not limited to: Belt certification in Lean; Six Sigma; change management or design for Six Sigma; Project Management Professional (PMP); Certification in Change Management

(CM); certification in adult education techniques; and certification in design tools like TRIZ and SIT that support innovation and creative problem-solving.

We believe that personal and professional learning is most effective when it involves hands-on experience through job rotations, special assignments, career coaching and mentoring, formal face-to-face teaching and e-learning. We offer business education modules to develop our people's knowledge and understanding of our wider operations, focusing on improving technical understanding of our operations, and on developing the competencies required to deliver safe and clean water.

Leadership and professional development

Along with performance management and organizational development plans, we provide leadership and professional development learning opportunities that foster an agile and high-performing organization. Based on a tiered competency model, our aim is to equip our employees with the resources and support they need to improve their skills in: listening, communicating, coaching, empathizing, giving feedback, resolving conflict and building trust by leveraging the best approaches to formal and social learning.

ENGAGING WITH OUR PEOPLE

We aim to provide a workplace that allows our employees to flourish, feel recognized for their value to our business and be an active member of the team. To achieve this, we are adapting our culture, fostering an appreciation of our people and supporting them as they engage with the world around us.

Starting conversations

We believe the best way to understand how our people think is by having conversations with them. Since 2014, our CEO, Susan Story, participated in more than 100 site visits across our business operations, accompanied by other members of American Water's executive leadership team. In 2016, we used the myVoice Culture Survey to further engage with our people, inviting them to comment formally through an anonymous online survey. More than 5,400 employees participated in the survey – that's 83 percent of our people – submitting more than 6,800 comments, spanning 20 topics from career growth to working efficiently.

Our operating areas and functions have all reviewed the survey results and the comments relevant to them. As a result, more than a dozen "culture action teams" have come together to address the survey's findings and drive year-over-year improvements in the scores. To ensure our leaders are fully engaged in the culture actions and driving positive culture change, the action teams are following a top-down approach, with Human Resources consulting and providing direction as needed. To track progress, all managers and action team members have set performance goals around following through on the action items generated by the culture action teams.

“

A more engaged workforce will be better trained, have better teamwork, a focus on continuous improvement and achieve strong operations to serve customers well. As a result, we'll be more successful and provide more opportunities for everyone.”

Walter Lynch, Executive Vice President and Chief Operating Officer, Regulated Operations

Open dialogue with our labor unions

Approximately 46 percent of our employees are represented by an independent trade union or covered by collective bargaining agreements. In March 2015, American Water met with union leaders representing 3,200 employees at a conference in Philadelphia. This meeting was the first of its kind and gave the 110 participants an opportunity to discuss topics of joint concern, such as safety improvements, expanding training and development, and dealing with the implications of the federal Affordable Care Act.

We continue to meet annually with key union stakeholders, including many of our supervisors, local union leaders and front-line employees in informative and open dialogue.



RECOGNIZING OUR PEOPLE'S CONTRIBUTION

American Water aims to be an employer of choice. We provide a comprehensive compensation program, designed to recognize our people and the vital roles they play in our future, with rewards that are based on individual contributions to broader corporate goals.

We call our whole employee experience myValue Plan – it's what our employees get for their contribution to the company's success. Our employees are our greatest asset, and we want them to understand the value of being part of American Water.

We provide variable compensation for a significant number of our employees, linking awards to both overall business and individual results. Our performance culture targets total cash compensation at the 50th percentile of the market, with greater earning opportunities for exceptional performance. Through our American Water Employee Stock Purchase Plan (ESPP), we give all employees the opportunity to purchase American Water (AWK) common stock at a 10 percent discount, through after-tax payroll deductions.

Competitive benefits package

We're proud to provide a highly competitive total compensation package, in line with our peers in the water and electricity industries, along with great benefits for our people and their families. We offer a full spectrum of medical, prescription, dental and vision coverage plus disability, life insurance, health and wellness programs, retirement savings, tuition assistance, referral bonuses and much more. The 401(k) retirement program also offers employees well-diversified investment options to successfully prepare for retirement based on their circumstances with an employer match.

Employee Assistance Program

We also offer a range of initiatives that support and assist our people during times of change or challenging life events. These initiatives, grouped under our Employee Assistance Program (EAP), range from wellness programs for quitting smoking and weight management, to childcare locator information, where specialists can guide parents and supply referrals. Further benefits include access to elderly care specialists and discounts on specialist programs covering numerous issues. The EAP also provides access to information on rehabilitation facilities, advance directives, powers of attorney, reverse mortgages, caregiver programs, home-delivered meals, home healthcare, hospice care, respite care, backup care, long-distance caregiving and assisted living facilities, as well as up to six face-to-face visits with a specialist per incident, at no cost to the employee or their dependents.

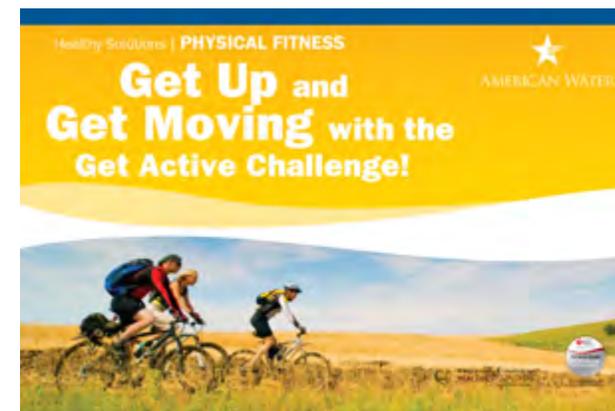
New medical plan offering

In 2016, American Water introduced an additional medical plan offering to our non-represented employees to provide them with more choice and flexibility. The Consumer Driven Health Plan (CDHP) comes with a health savings account that allows employees and the company to deposit funds for future medical expenses on a tax-free basis.

ENCOURAGING HEALTHY LIFESTYLES

The support we offer our people extends to encouraging them and their families to pursue healthier living habits and maintain better lifestyles.

Our award-winning Healthy Solutions program gives members access to a dedicated website where our employees and their families can participate in a free, confidential health assessment, and benefit from tools and tips about health, fitness, safety, stress and weight management.



E N V I R O N M E N T

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Clean water does not happen without environmental leadership

Being responsible for water and wastewater services means that we have to ensure the sustainability of these critical services. That includes everything from helping ensure water security and quality to a focus on energy and energy efficiency that has a positive environmental impact and reduces our carbon footprint.

We are also focused on aging infrastructure, emerging contaminants and water supply issues. American Water aims to be a leader in the U.S. water and wastewater industry and a provider of solutions to these challenges. But it is equally important that we operate as an efficient utility at all levels and make wise use of our customers' money and resources.

Demonstrating environmental leadership means working smarter and driving capital efficiency. For every \$1 we save by working more efficiently, we can invest \$7 in capital without impacting our customers' bills and, in 2016, we invested around \$1.3 billion in our regulated water and wastewater systems to deliver clean, safe, reliable and affordable water services. We were also the only water utility to be named by Newsweek in its annual list of "America's Top Green Companies" for 2016.

\$1.3 billion

invested in our regulated water
and wastewater systems

**Recognized more
than any other water
utility company**

by the EPA's Partnership for Safe Water

WATER

Water security and quality are the foundations of our business. The long-term viability of safe and reliable water supplies is critical to food production, industries and energy generation, and to meeting the needs of residential and business users.

Each year, we invest in the health of our plants and pipes to enable us to continue to provide essential services to our customers. This is a huge commitment and we are proud to say that compared to the EPA's drinking water quality database, our water systems were 21 times better than the industry average in 2016.

Water security

Improving the security and resiliency of our drinking water and wastewater infrastructure remains critical for American Water. This is vital to us in providing our customers with clean and safe water and helping to ensure the environmental, economic and social health of the communities we serve.

Our ability to draw, treat and provide water to customers is directly affected by the variation and intensity of rainfall and can be adversely impacted by both flood and drought. Changes to historical patterns of water availability and quality affect how much water we can expect to access, where our treatment plants are located and the water treatment technologies that we use.



Our water and wastewater systems are built for resiliency and sustainability of operations during weather events or other circumstances that could potentially interrupt service. The experience of significant weather events, such as the blizzard that shut down New York City and coastal New Jersey for five days in 2010, Hurricanes Irene and Sandy in 2011 and 2012, and the California drought from 2011 to 2016 have created a new "normal" for water utilities.

Our customers generally do not lose service during storm events because our systems are designed to provide continuous service under adverse conditions. However, we continue to focus on business continuity and emergency response systems. For example, we maintain standby electric generation capacity, with pumps driven by natural gas or diesel, to ensure critical facilities keep running should there be a loss of power. The development of new or improved floodwalls at several of our water treatment plants has also helped enhance system reliability.

CASE STUDY



Providing solutions

American Water works with many communities helping them find solutions to water and wastewater challenges.

In 2016, Pennsylvania American Water completed the acquisition of the wastewater system assets of the Scranton Sewer Authority (SSA). The newly acquired system provides wastewater service to approximately 31,000 customers in Scranton and Dunmore. Pennsylvania American Water already provided water service to residents and businesses in both communities so it could leverage its scale and size. The wastewater system was under an EPA Consent Decree that mandated significant upgrades, totaling an estimated \$140 million, to bring the system into environmental compliance.

As the system's new owner, Pennsylvania American Water will continue the projects started by the SSA and assume the SSA's obligations under the Consent Decree. The purchase of the sewer system also enables SSA to pay off its existing debt. Pennsylvania American Water has also committed to bringing 100 new jobs to Scranton by 2020. The purchase price was approximately \$195 million. Based on Act 11, Pennsylvania American Water has proposed combining the revenue requirement for its water and wastewater operations. As a result, the company can spread capital investments and expenses among both its water and wastewater customers base, and it has proposed rate increases that are considerably lower than if SSA had not been sold.



Protecting the viability, integrity, and resiliency of water supplies and wastewater systems in areas that are vulnerable to floods

Work was completed on important floodwall projects in 2016, and more got underway during the year and in early 2017, including major works in Raritan, New Jersey, and Davenport, Iowa. Extreme storms such as Hurricanes Irene and Sandy challenge the resiliency of regional water systems and floodwaters have previously come within an inch of breaching our Raritan Millstone Water Treatment Plant's floodwall, which could have resulted in a regional economic loss estimated at more than \$1.8 billion.

The Raritan plant supplies more than a million people in seven counties; provides water to five large public water systems; and serves as an emergency source of water for the cities of Newark and Trenton. Raising the floodwall by four feet is a multi-million-dollar project, undertaken with the assistance of both the New Jersey Environmental Infrastructure Trust and New Jersey's Department of Environmental Protection.

Working with the district authorities and the city of Davenport, our company in Iowa has constructed a floodwall that provides our Davenport Water Treatment Plant with a level of protection to the 1966 historic flood-year level of 573.9 feet (or a 200-year flood event). The floodwall design uses colored concrete to help make it look more aesthetically appealing along Davenport's historic riverfront, while – importantly – the plant can now be sealed up in a matter of minutes, with two steel gates that shut the railroad track openings and a third that closes the plant's access road.

A multi-million-dollar project

Raising the floodwall at our Raritan New Jersey Plant **ensures protected water supplies for a million people** in seven counties

Collaboration is essential to delivering a rapid response when water security issues arise

Using the expertise we have demonstrated in protecting the water we supply, American Water has collaborated closely with the EPA and the DHS to help determine risk and develop security recommendations and solutions for our industry. We also participate in the WSCC and have worked with them on many national preparedness and water security documents.

The DHS has designated 16 critical infrastructure/key resource sectors that have interdependencies with drinking water and/or wastewater services. They include many community services that could be affected severely by a disruption in water services: Chemical; Commercial Facilities; Communications; Critical Manufacturing; Dams; Defense Industrial Base; Emergency Services; Energy; Financial Services; Food and Agriculture; Government Facilities; Healthcare and Public Health; Information Technology; Nuclear Reactors, Materials, and Waste; Transportation Systems; and Water and Wastewater Systems.

The broad consequences of a disruption to the supply of drinking water have been outlined by the EPA as: a lack of water for general consumption and commercial use; a loss in public confidence in the water supply; the need for alternate water supplies (or for boiling available water); adverse economic effects; and the loss of water for cooling electrical and telecommunications equipment.

Disruption to wastewater services could be even more hazardous, with many unwelcome consequences, including: damage to buildings, plants and animals from storm water discharges; the release of harmful chemicals into wastewater; public health and sanitation issues; and damage to service providers' reputations.

Water quality and availability

Water quality and availability vary locally, due to geography, weather conditions and supply infrastructure. And in as many as 40 out of 50 U.S. states, the Government Accountability Office (GAO) is predicting shortages in some areas of their states under average climate conditions over the next 10 years (according to the Report on Freshwater Supply from the GAO). However, our customers expect to turn on a tap 24/7 and receive clean, safe water at their homes and businesses every day.

That's where our vast network of more than 600 water treatment plants comes in, along with our pumping stations, storage facilities and approximately 49,000 miles of mains. American Water's water quality record is industry-leading. The company has consistently achieved over 99 percent compliance with federal and state drinking water standards over the past several years, and has earned more awards from the EPA's Partnership for Safe Water than any other water utility company – 51 Directors Awards in 2015 and 2016. These awards indicate the higher standards met by our water plants and demonstrate a commitment to continuous improvement in the performance of our treatment facilities to help protect the health of customers.

We draw water from different sources:

- **Groundwater (aquifers or artesian aquifers)**
- **Surface water (streams, rivers, lakes, reservoirs)**
- **Seawater**

Groundwater collects naturally through the water cycle and forms large pools under the Earth's surface, called aquifers. These can be hundreds of feet deep, often avoiding exposure to many contaminants, making the water up to five times less expensive to treat than surface water. Seawater contains salt and requires a desalination process as well as surface water treatment before it can be consumed.

We deal with diverse sources of pollution, such as urban storm water, sanitary sewer overflows, agricultural runoff and atmospheric deposition within our source waters. Human and animal waste, and pollutants such as fertilizer runoff are also common causes of contamination. In many cases, these sources of pollution require more rigorous treatment. The EPA, water industry experts and American Water researchers are working together to develop effective treatment methods that can address these issues as well as emerging contaminants. Further, every year, our team of professionals conducts nearly one million tests and measurements using the most advanced technology and equipment available. Our scientists test water samples from across the country to protect against hazardous chemicals, algae, metals, minerals, microbes and other potential contaminants. Computerized analyzers also monitor the water as it passes through our systems.



**We have an
industry-leading
quality record**





Working to define critical concerns, identify potential sources of significant contamination and establish source water monitoring systems

To raise awareness of source water contamination issues, American Water has established a Surface Water Quality Awareness Practice and is working with regulatory agencies to address:

Delineation of Zone of Critical Concern

Our surface water sources maintain a delineated zone of critical concern. For most systems, these zones were delineated during the development of the system's source water assessment.

Identification of Potential Sources of Significant Contamination

We make all reasonable efforts to assess potential sources of significant contamination in the zone of critical concern.

Using WaterSuite™, a “living” source water assessment tool designed for use in source water protection and event response, we can integrate data from federal, state and local databases to create a context for more effective and efficient water resource management and data-driven decision-making.

Source Water Monitoring Systems

We have installed source water monitors to assist in identifying events that could impact water quality at our surface water intakes. Systems typically monitor for parameters such as pH, conductivity and dissolved oxygen, but can also install probes for parameters such as oil, algae (chlorophyll), or ammonia depending on the potential sources of significant contamination they have identified. Each system is establishing a baseline of up to a year's water quality data, enabling us to set appropriate triggers and alarms for additional action if needed.

American Water's strong presence in the Partnership for Safe Water

The EPA's Partnership for Safe Water Program is dedicated to increasing the protection against microbial contamination by optimizing water treatment.

With 78 surface water treatment plants in the program, American Water makes up around 20 percent of the participating plants nationwide. Sixty-eight of these plants have

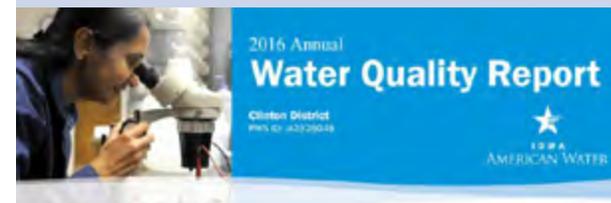
received the program's Phase III Director Award, with most of them having sustained the award for either 10 years (21 plants) or 15 years (39 plants).

Pennsylvania American Water accounts for more than 25 percent of the plants that have received the President's Award (9 plants out of 33), while American Water Enterprises' Military Services Group accounts for more than 20 percent of the systems receiving the Phase III Director Award for Distribution Systems (4 out of 18).

We plan to deliver safe, clean, reliable, affordable water for generations to come

While the U.S. government, state governments, and environmental and public health regulators set and enforce standards in our industry, we believe water suppliers have a responsibility for the quality of the water that flows from the tap. American Water is at the forefront of monitoring and controlling microbial, chemical and radiological contaminants, and we regularly achieve compliance with drinking water standards prior to deadlines established by regulators.

Our systems are required to comply with federal and state regulations developed under the Safe Drinking Water Act, the Clean Water Act, the Clean Air Act and other statutes. To track our environmental stewardship efforts, we employ an Environmental Management Plan alongside our internal environmental audit program. This enables us to assess the services we provide, identify potential vulnerabilities and address them.



Infrastructure leadership

One of the major challenges facing the U.S. water and wastewater industry is the age of its infrastructure. The country has a vast network of aging treatment plants, pumping stations, storage facilities and pipelines, much of which needs replacement or repair.

The EPA estimates that \$633 billion is needed for capital improvements just to maintain current levels of service over the next two decades. This figure could top \$1 trillion if we are to address climate change issues by 2050. Preparing our water infrastructure for the future will require a significant amount of work, planning, coordination and funding, with a strong commitment from not only utilities, but rate-payers and government as well. We will need to see real leadership from the key players, but we must acknowledge that collaboration is vital to generating viable solutions.

We own and operate more than 400 drinking water and wastewater systems of varying age and size across the U.S., with pipeline infrastructure totaling around 49,000 miles. Every day, we work to support and improve the water infrastructure in the communities we serve, and an annual investment of around \$1 billion each year in our assets is only part of the story. For us, leadership also means developing partnerships within our communities and working with government agencies and local organizations to understand their needs and usage. Together, we look at the available options for delivery and treatment, and assess actions that are the most cost-effective, sustainable and environmentally friendly.

Our own engineering planning studies help provide a strong foundation for dialogue with state utility regulators and local government officials about the impacts of climate variability and other factors important to the integrity of water supplies and developing infrastructure. These studies, along with conclusions from our risk assessment models, may result in a decision to build additional infrastructure, but often an operational solution or well-scoped emergency plan can provide a more effective solution.

Enhancing our event response planning and procedures

In recent years, American Water has updated its event response planning and procedures to keep up with the increase in extreme weather. For example, our prior planning standard of 50 percent of an average day's demand for standby power is no longer adequate for maintaining service for extended time periods after an extreme event.

To address this, we have systematically added additional standby power capacity at our water treatment plants, while at the same time we have sourced a more diverse and reliable mix of emergency fuel supplies.



Research and technology

Developing new technologies is an important part of making the water industry more effective and efficient. Our research program is focused on enhancing our services, ensuring we meet all compliance standards and shaping a more sustainable future.

We collaborate on many of our research projects with key stakeholders, including governmental entities (such as the EPA), consultants, universities, other utilities and research agencies (such as the Water Research Foundation and the WE&RF). We also work with numerous state and local organizations through our state-regulated entities.

We take a proactive approach to validating innovations across our geographically diverse footprint, often becoming an early adopter of new technologies. This is our Innovation Development Process (IDP), through which we seek innovative, cost-effective and sustainable solutions that can benefit all water utilities. The IDP combines research and development, technical expertise, and

infrastructure assets with innovations from both within American Water and external business partners to create greater efficiencies.

Using the IDP, we have examined more than 600 technologies to date and are actively pursuing many more partnerships with domestic and international partners. This helps us to create greater efficiencies in the areas of water reuse, desalination, wastewater operations and bioenergy. We use an open collaboration model in four key areas:

- **Water treatment and distribution**
- **Wastewater treatment and collection**
- **Biosolids management**
- **Energy management at the water-energy nexus**

To continue providing improved services, we believe it is essential to invest in new technology to ensure that our existing infrastructure is replaced in a timely manner.



Reducing energy use and nitrogen, phosphorous and nitrous oxide emissions at our plants

Most of the energy used for treating wastewater occurs during aeration, as we remove nitrogen and phosphorous. That's why we are researching an energy-efficient wastewater treatment technology called NPXpress, which uses 50 percent less oxygen (and therefore less energy) for aeration, and fewer chemicals. The technology enhances energy and operational efficiency, reduces costs and makes water reuse a more economical and promising way to increase water supplies. It is also more effective at reducing nitrogen and phosphorous emissions from our plants, which are coming under more stringent government regulation, as well as nitrous oxide (N₂O) emissions, which is a very powerful greenhouse gas. American Water is piloting the technology at eight water systems, as we expect N₂O emissions from wastewater plants to become an increasingly important business risk within the next ten years.

Our Central Laboratory at the forefront of monitoring, testing, identifying and controlling contaminants

Over the years, we have developed a leading water-related research program, achieving significant advancements in the science around drinking water and wastewater. The testing and analysis carried out at our lab in Belleville, Illinois, sets the standard for water utilities across the U.S. The lab has a history of being at the forefront of monitoring, testing, identifying and controlling contaminants before specific federal regulations are put in place. The EPA regularly makes use of our lab and our research team to help develop federal drinking water standards and regulations, further enhancing its reputation for highly sophisticated analytical and industry-leading research capabilities.

Water conservation and efficiency

We work closely with our customers and with state utility commissions to encourage water conservation. Programs used at various American Water service areas include:

- **A tiered-rate structure**
- **A water efficiency appliance rebate program**
- **Leak detection kits**
- **Water-saving hints and tips on our websites and in social media**
- **Educational literature and events for customers**
- **Partnerships with the EPA and other organizations on public education**

Through our conservation efforts in 2015, we reduced water use by 3.5 billion gallons compared to 2014 levels.

American Water is also a voluntary member of the EPA's WaterSense Program. This aims to raise awareness about the importance of conserving water and promotes the use of WaterSense products. Since the EPA's program began in 2006, U.S. consumers have saved a cumulative 1.1 trillion gallons of water and more than \$21.7 billion in water and energy bills.

Water efficiency is as important to our business as conservation. Efficiency is about reducing our operating costs, such as pumping and treatment of water, and reducing the need to expand our water infrastructure.

For example, improved metering systems (giving us more accurate usage information), a smarter water grid, better pipes, pressure management and leak detection programs all promote water efficiency. This reduces withdrawals from limited freshwater supplies, improving both water quality and habitat.

In 2016, American Water reported that an estimated 19 percent of water processed was lost due to main breaks and leaks, which is why the company invests approximately \$1.5 billion annually in infrastructure repair and replacement. American Water takes every precaution to keep its water loss to a practical minimum, and has a variety of programs in place to assist with this challenge. Water loss and leak control technology used include:

- **Automatic Meter Reading:** water meters can automatically record and report leakage within the customer's plumbing by detecting a constant flow of water, conserving water and helping customers avoid high water bills
- **Continuous Acoustic Monitoring of Water Mains via Valves:** leak detecting sensors record sound vibrations and trained staff periodically use specially designed software to analyze the noise for leaks
- **Improved Pressure Control:** reducing and modulating pressure in water systems lowers the amount of water leaking out of pipes and reduces the stress on pipes while still providing customers with the supply they need
- **Drone Technologies:** We're using satellite imagery that detects leaks by looking for a particular spectral "signature" typical to drinking water. Other drones have infrared and spectral technology to spot changes in ground temperature or moisture where there are leaks. Another type of drone can be threaded several hundred feet through a fire hydrant. Its sensors can spot cracks or weaknesses in the pipe. We're working on a future innovation that would equip a drone with material that could fix the pipe from the inside – while the water is still flowing

Satellite imagery leak detection

We began a project with the California Energy Commission in 2016 to evaluate satellite imagery leak detection (SILD). With no on-site infrastructure required, this technology uses imagery analysis and analytics to find subsurface chlorinated water. Essentially, the technology is the same as that used to look for water on other planets, and can be used to detect leaks across large areas of thousands of square miles at once. The leaks detected can be displayed in GIS reports with great accuracy, meaning that SILD has the potential to save significant time and effort associated with finding leaks, especially in conjunction with other innovative methods, such as continuous acoustic monitoring.

Committed to maintaining and improving our wastewater performance

Our current wastewater compliance rate is greater than 99 percent, and the vast majority of the facilities we own or operate meet their discharge requirements every day of the year. As part of our commitment to maintaining and improving this performance, we have formed a Wastewater Center of Expertise – a virtual community across American Water's operations, business development, engineering, rates, finance, legal and environmental stewardship professionals, through which they can share their knowledge and skills when operational issues arise.

In 2016, our wastewater operations achieved a 35 percent decrease in sewer overflows and a 28 percent reduction in end-of-pipe exceedances, compared to 2015. This represented a 31 percent decrease in overall wastewater issues. To demonstrate best practice in the industry, we are working toward achieving an additional 10 percent reduction on sewer overflows and end-of-pipe exceedances and we will share our progress with the EPA to help other organizations do the same.

Water reuse

We believe that water reuse will play an increasingly important role in safeguarding the nation's long-term water supply as water demand grows. While water reuse cannot solve scarcity issues alone, it is an essential part of a sustainable approach toward water resource management. Water reuse in the U.S. is a growing practice, with more than 2 billion gallons per day reused, and reused water volume growing at an estimated 15 percent per year.

Of the water withdrawn at a typical American Water plant, approximately 95 percent is delivered to the water system for customer consumption and around 5 percent is used for internal production processes. Of that 5 percent, most of our facilities (roughly 90 percent) reuse the water in the production process and, where this is not done, the plant discharges the water back to a water body with the approval of the regulating authority. This is not directly measured, but is estimated at around 1 percent.

Overall, we recycle over 2 billion gallons of water annually and produce reuse water at more than 39 facilities. Since 2006, we have conducted 15 research projects sponsored by the WE&RF, valued at over \$5.9 million. The studies support the 39 reuse systems owned or operated by American Water and provide strategic groundwork for future growth in this area.

We recycle over  **2 billion gallons of water annually** and produce reuse water at more than **39 facilities**



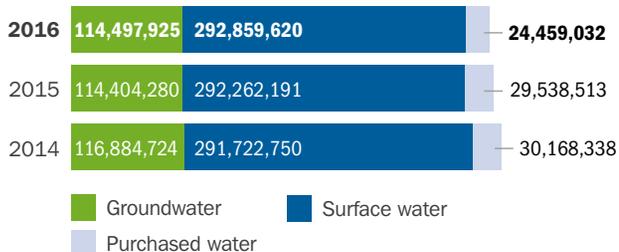
Reducing the demand for freshwater resources

Two of the most important technological solutions for improving water availability are water reuse and desalination. We currently operate recycled water systems that process and reuse wastewater for flush water, HVAC systems and landscape irrigation – greatly reducing demand for freshwater resources.

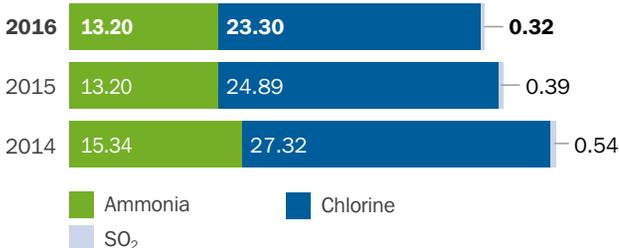
The company's zero-discharge water recycling plant developed through a public-private partnership with the city of Fillmore, California, provides 1 million gallons of treated water per day for irrigation and groundwater recharge. In Tampa Bay, Florida, American Water operates a desalination plant that can provide 25 million gallons of water per day through a reverse osmosis process.



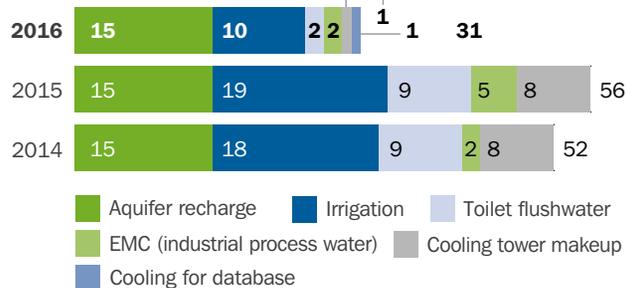
Total Water Withdrawal by Source
(thousands of gallons)



Material and Chemical Use
(lb per million gallons produced)



Wastewater Reuse Applications
(number of plants)



Notices of Violation* and systems in violation

We have changed our method for comparing our performance to the rest of the drinking water industry and now use a comparison of prorated drinking water Notices of Violation (NOVs). We believe basing our comparison on the number of systems receiving an NOV (rather than the industry average of NOVs received per system) is a more accurate representation.

		2016	2015	2014
U.S. Drinking Water Industry	U.S. Systems in Violation	19,059	19,193	19,525
	U.S. Total Systems	50,059	50,546	50,808
	Percentage	38%	38%	38%
American Water	American Water Systems	336	339	334
	Theoretical No. Systems with NOVs (based on U.S. percentage)	128	129	128
	American Water Systems with Drinking Water NOVs**	6	10	8
	Times better than rest of water industry	21	13	16



* NOVs counted according to company targets, per American Water's written practice.

** Excludes new systems acquired in same year.

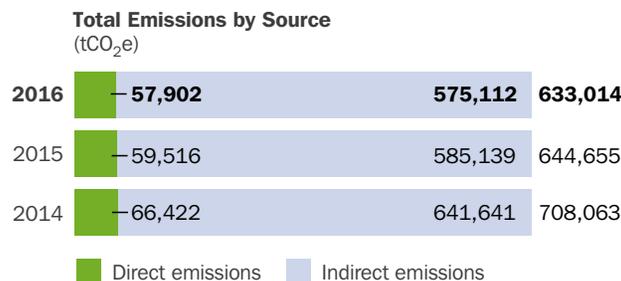
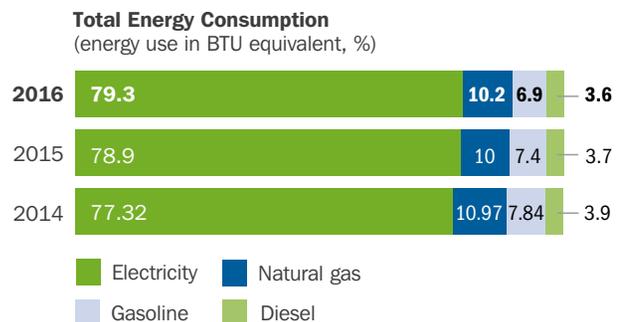
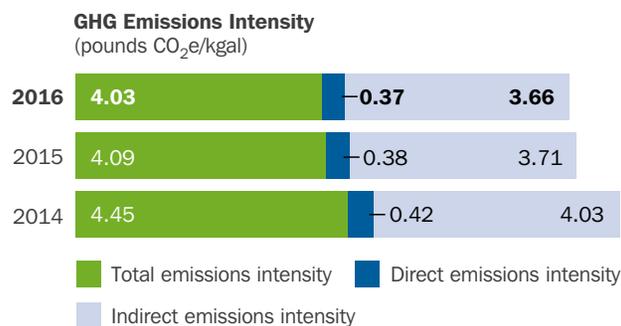
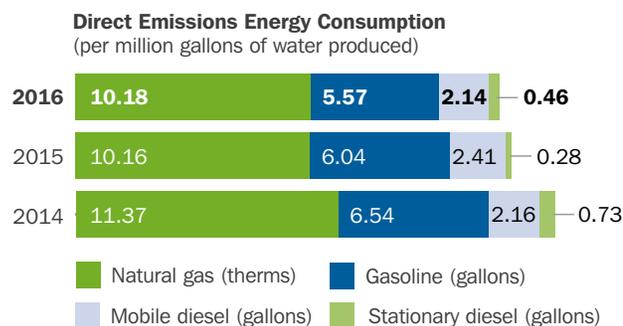
ENERGY AND EMISSIONS

The growing strain on available water and energy resources is a serious global challenge. To reduce emissions, we need to make more efficient use of conventional energy and pursue innovation with new, renewable energy sources. We share the responsibility for this with government, consumers and businesses, including others in the water industry – and American Water is already proud to be a leader in reducing the energy costs of water and wastewater systems.

The Energy-Water Nexus

For the U.S. to continue to meet both its water and energy needs, and to do so in a more sustainable manner, requires an understanding of the interdependent relationship between energy and water, known as the **energy-water nexus**.

American Water is an advocate for and is prepared to serve as a resource to the government to further develop and enhance the synergies that exist within the energy-water nexus. For example, if credit for energy efficiency measures in the water and wastewater industry were included in state plans, we believe carbon emissions could be greatly reduced.



Portfolio of alternative energy supplies to reduce greenhouse gas emissions

American Water maintains a portfolio of alternative energy supplies to reduce greenhouse gas (GHG) emissions. Our solar output in 2016 was 3,059 megawatt-hours (MWh), slightly lower than 2015 due to some of our systems being down for maintenance during the year. Overall in 2016, we avoided 2,150 metric tons of carbon dioxide as a result of our solar operations, although wind energy was not used in 2016 and bioenergy is not generated within our regulated footprint. In addition to environmental benefits, solar energy helps save money and generates revenue through the sale of tradable solar credits. Wind power is generated off-site, so enrolling in a wind energy program is ideal for smaller utilities that want to commit to greener operations but can't undertake the level of commitment required by solar installations.

Driving efficiencies

The vast majority of energy consumed by water utilities is used to pump water. Indeed, around 90 percent of American Water's own electricity consumption and over 80 percent of its GHG emissions are related to pumping water – initially from its source to treatment and storage facilities, then later, on to customers.

As the pumps age, they become less efficient, requiring more energy to move the same amount of water. Improving pump efficiency, and the early detection and repair of leaks in our pipes, can save water and energy, reduce overall repair costs and help us decrease our carbon footprint.

American Water has developed a proactive approach to increasing efficiency, conserving energy and water, and reducing waste within its operations:

- **Design for efficiency (enhanced pump, lighting and process design standards)**
- **Construct for efficiency (sustainable construction standards and methods)**
- **Operate for efficiency (enhanced best operating practices, leak detection and repair procedures)**
- **Maintain for efficiency (computerized maintenance management systems and preventive maintenance systems)**

In the past six years, American Water has refurbished or replaced approximately 200 pumps. These improvements are expected to yield energy savings of 17 million kilowatt-hours per year and a corresponding reduction in carbon emissions of 25 million pounds per year.



GHG emissions

American Water was at the forefront of environmental leadership when, in 2006, it became the first U.S. water or wastewater utility to join the EPA's Climate Leaders program and subsequently the Carbon Disclosure Program. We set an ambitious goal to lower our GHG emissions per volume of water produced by 16 percent over a 10-year period (from 2007 to 2017). Even though this commitment surpassed the national agenda and led the water industry, we have already reached our goal.

Our total GHG emissions for 2016 was 633,014 metric tons, a 25.8 percent decrease from the base year of 2007. In reducing our own carbon footprint, we have introduced innovations that we hope will set the stage for more environmentally friendly practices throughout our industry. We are working to cut our carbon footprint and our waste in half over the long term. Through research, innovation and technology, we continue to identify improvements and to build environmental understanding at a state and site level.



REDUCING WASTE

American Water is committed to minimizing both its resource consumption and waste production across our capital projects and during new construction. We promote recycling and work to recover energy from our waste.

Residuals are the largest waste product, generated from water treatment where the silt and sediment is removed from raw water. In 2014 (the latest data we have available), we reduced our total treatment residuals (the sediment and chemical waste left following water or wastewater purification) by 14.6 percent compared to 2013 levels.

Also in 2014, we set a target to reduce the overall residuals we send to landfill from operations under our direct control by 10 percent. While the regulated business showed a 30 percent increase in residuals generated between 2014 and 2016, the amount sent to landfill only increased by 1 percent. Overall, 92 percent of the residuals produced are beneficially used or returned to the environment. The change in total residuals is attributed to the addition of new operations (or operations that had not previously reported) and the fact that residuals disposal is not necessarily an annual event (because some plants dispose of residuals every other year).

For those residuals generated by our “non-regulated” market-based business (20,540 metric tons), we engage with our clients on options for beneficial use.



Environmental stewardship

Now in its tenth year, American Water’s Environmental Grant Program has provided more than \$1.4 million of needed support for 373 projects. We believe everyone is an environmental steward in protecting the nation’s water supplies, and this program is one way we can help communities play an active role in this important effort. In 2015, American Water issued 42 environmental grants totaling \$153,350 for innovative, community-based environmental projects that improve, restore or protect the watersheds, surface water and/or groundwater supplies in our local communities.

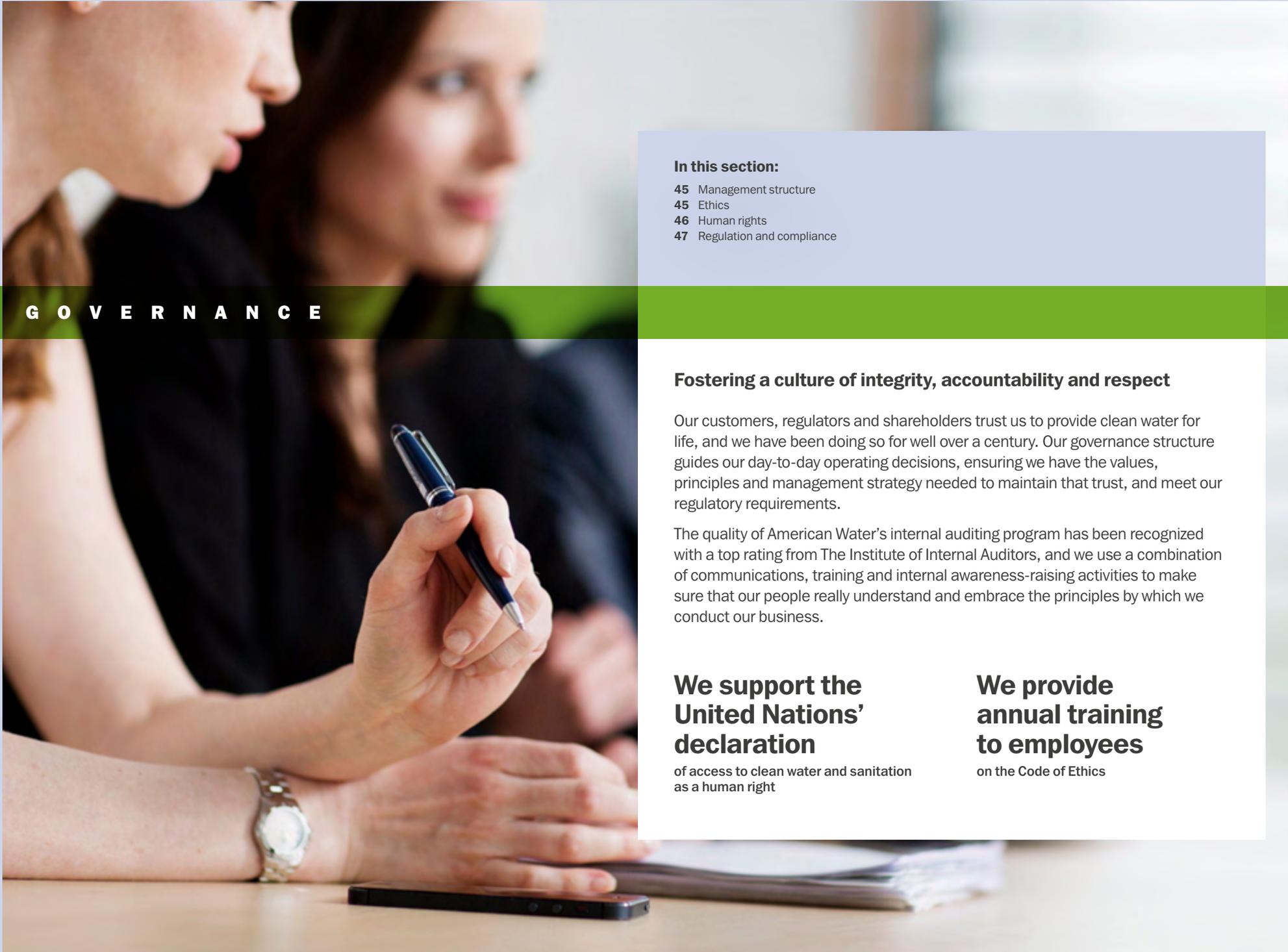
To qualify, proposed projects must:

- **Address a source water or watershed protection need in the community**
- **Be a new or innovative program for the community, or serve as a significant expansion to an existing program**
- **Be carried out by a formal or informal partnership between two or more organizations**

- **Provide evidence of sustainability (continued existence after the American Water grant monies are used up)**
- **Be located within one of American Water’s service areas in the following states: Illinois, Indiana, Iowa, Kentucky, Missouri, New Jersey, New York, Pennsylvania, Tennessee, and West Virginia**

Examples of activities our Environmental Grant Program has supported, or would consider supporting, include:

- **Watershed cleanup**
- **Reforestation**
- **Biodiversity projects (habitat restoration, wildlife protection)**
- **Streamside buffer restoration projects**
- **Wellhead protection initiatives**
- **Hazardous waste collection**
- **Surface or groundwater protection**
- **Education (designing and providing workshops for citizens and local officials)**



G O V E R N A N C E

In this section:

- 45 Management structure
- 45 Ethics
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- 47 Regulation and compliance

Fostering a culture of integrity, accountability and respect

Our customers, regulators and shareholders trust us to provide clean water for life, and we have been doing so for well over a century. Our governance structure guides our day-to-day operating decisions, ensuring we have the values, principles and management strategy needed to maintain that trust, and meet our regulatory requirements.

The quality of American Water’s internal auditing program has been recognized with a top rating from The Institute of Internal Auditors, and we use a combination of communications, training and internal awareness-raising activities to make sure that our people really understand and embrace the principles by which we conduct our business.

We support the United Nations’ declaration

of access to clean water and sanitation as a human right

We provide annual training to employees

on the Code of Ethics

MANAGEMENT STRUCTURE

Our corporate responsibility strategy is driven by our overall strategy and includes input from internal senior level representatives from American Water's business units and functional areas. Their many points of view enrich the discussion and help to integrate programs throughout the business.

Our corporate responsibility progress is tracked through our annual performance review process.



ETHICS

We promote open and direct communication and require our people to treat each other with fairness and respect. We also expect our people and business partners to comply with our Code of Ethics, as well as observing all applicable federal laws, regulations, and American Water's policies and practices.

Our Code of Ethics is a set of guidelines for ethical behavior that helps to ensure our people and business partners embrace and reflect our company values. It covers a number of areas, including:

- **Avoiding conflicts of interest**
- **Fair dealing**
- **Handling sensitive information**
- **Safeguarding financial information and controls**
- **Government relations**
- **Conduct in the workplace**

Compliance with our Code of Ethics is a condition of employment at American Water. Failure to abide by it or to report a known violation can lead to disciplinary action, up to and including termination of employment.

We provide annual training to employees on the Code of Ethics and supplement this with face-to-face and web-based training focused on specific topics identified as areas of need.

“**The focus of our compliance and ethics program is on building a values-based culture. As we have enhanced our communications and training efforts, we have seen the strengthening of our culture and the benefits that it brings.**”

Mark McDonough, Chief Compliance Officer

Increasing transparency

We use a variety of communications to share information with our employees, highlighting topics such as respect and dignity, confidentiality, the use of company property, non-retaliation and conflicts of interest. A key priority is increasing transparency around the operation of the Ethics Hotline, explaining the investigation process and sharing information with management to allow them to better address ethical issues before they escalate.

The Compliance and Ethics team is developing training modules and communications that use real-life scenarios to better help employees understand how they can live the values that are critical to American Water's culture and address ethical issues that are of immediate relevance to the business.

Our Ethics Hotline

A confidential Ethics Hotline is available for all employees, and employees may also bring issues forward directly to the Compliance team, Human Resources, Legal or their management. These matters are managed by the Chief Compliance Officer (CCO) and reviewed by members of the Ethics Committee. The CCO reports on any matters raised to the Audit Committee on at least a quarterly basis.

Employees reported 120 ethics matters in 2015 and 106 matters in 2016 through the Ethics Hotline. Of these, 28 percent and 34 percent, respectively, resulted in some form of corrective action, including additional training, counseling, discipline, suspension, or termination of employment.

HUMAN RIGHTS

We are committed to respecting all human rights as outlined by the Universal Declaration of Human Rights and its two corresponding covenants, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

While respecting human rights is the responsibility of every employee at American Water, we recognize that our ability to uphold them requires strong oversight and governance. Executive oversight of human rights at American Water lies with the CCO.

We work to promote human rights wherever possible across our operations. Regular engagement in our communities and with our stakeholders has helped us better understand our human rights impacts. With most of our operations situated in the U.S., and working within a strong regulatory framework, human rights are constitutionally protected, and do not constitute a material risk for us.

The human right to clean water and sanitation

We supply our customers with something they cannot live without: clean water. We believe that fulfilling this responsibility in a sustainable manner is critical to the overall health and wellness of the communities we serve.

American Water supports the United Nation’s declaration of access to clean water and sanitation as a human right.

We are committed to building a culture of trust and respect, and we demonstrate that commitment in a number of ways. In 2017, we updated our Respect and Dignity in the Workplace policy, which asserts that our greatest competitive advantage, our people, will be valued and respected regardless of our many different personal backgrounds, experiences and perspectives. Additionally, we formed a Diversity & Inclusion Advisory Council, made up of a diverse group of employees, that will help us develop new ways to continue fostering a workplace where individuals from different backgrounds, beliefs and values are respected. We also continue to enhance our training on diversity and respect in the workplace, and in 2017 have enhanced the program so that we continue to foster a positive work environment.

We demonstrate our commitment to the **human right to clean water and sanitation** by focusing on three key areas:

Infrastructure investments	Water efficiency	Affordability
We continually invest in infrastructure improvements to ensure sustainable access to clean water for our customers. Each year, we invest approximately \$1 billion in our assets to enable us to continue to provide essential services to customers in our regulated footprint.	Integrating new technology helps us provide better quality water services with less water while generating operational and capital efficiencies. After we deployed 1,000 acoustical leak detection sensors, we identified 40 emerging sub-surface leaks, enabling us to mitigate customer risks and interruptions in service, and minimize replacement costs.	Where approved by state authorities, we offer customer assistance programs to help financially challenged or disadvantaged households pay for water services. Programs vary by state and include assistance in the form of one-time emergency grants and/or ongoing service charge discounts. Other examples include rebates for water-saving appliances, leak detection kits, free water-saving devices and educational booklets to help customers make their homes more water efficient and reduce water costs.



Human rights in our supply chain

Our large network of suppliers and business partners provide us with the products and services we need to achieve our business objectives, and we expect them to demonstrate similar commitments to human rights to our own. We work with domestic suppliers exclusively, so human rights standards are driven by U.S. law regarding the Equal Employment Opportunity Commission (EEOC), Occupational Safety and Health Administration (OSHA) and other applicable regulations, which are all part of our template agreements with suppliers.

We use our strong supplier relationships to raise human rights standards in every link of the water and wastewater utility supply chain, and our contracts require a commitment by our suppliers to provide opportunities for diverse suppliers delivering products or services to them. Our supplier guidelines also require their adherence to our Code of Ethics.

“**People’s quality of life and the quality of their water go hand in hand. American Water is committed to ensuring the sustainability, safety and quality of the water and water services we provide to our customers and communities. We apply our expertise and resources to ensure clean and sufficient water in the future.**”

Ben Stanford, Ph.D., Senior Director of Water Research and Development

REGULATION AND COMPLIANCE

We operate regulated utilities in 16 U.S. states, and are required to follow environmental and health and safety regulations set by local authorities as well as federal standards. Our systems are required to comply with federal and state regulations developed under the Safe Drinking Water Act, the Clean Water Act, the Clean Air Act, and other federal and state statutes.

Environmental compliance

To ensure compliance with applicable regulations and track our environmental stewardship efforts, American Water employs an Environmental Management Plan system in tandem with an internal audit program. Under the system, each facility maintains an Environmental Management Plan, with specific requirements and designated employees responsible for its implementation.

Plans are reviewed by site management quarterly and updated with new requirements and changes in responsibility. In addition, American Water's internal environmental audit program reviews plans, procedures and physical facilities. It proactively assesses our drinking water and wastewater services, seeking to identify potential vulnerabilities, thereby enabling us to address them.

Ensuring integrity in all our activities

Our policies and procedures are designed to prevent and combat corruption and fraud, to promote transparency in compliance and to ensure integrity in all our activities.

We depend on

our employees



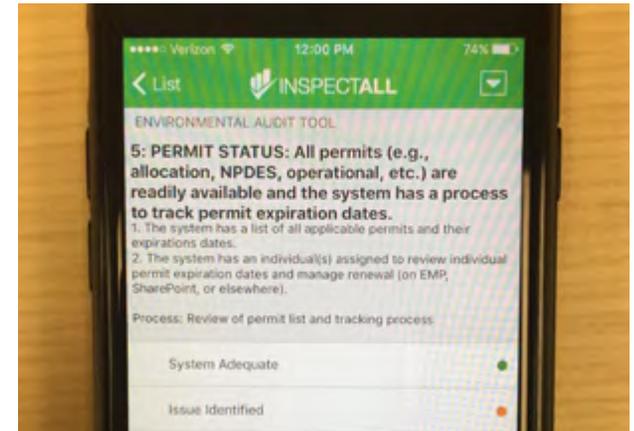
to report ethical
grievances through
our Ethics Hotline

We adhere to the principles laid out by the United States Sentencing Commission, within Chapter 8 of its guidelines, including the detection and prevention of unethical or illegal conduct.

We also comply with the International Labor Organization's Declaration of Fundamental Rights at Work, with respect to non-discrimination, freedom of association and freedom from forced and child labor. Additionally, we are committed to adhering to all federal, state and local laws regarding discrimination, retaliation, harassment and the rights of employees.

We have adopted a Labor Relations philosophy that commits the company to partnering with the labor unions that represent our employees and treating our labor partners with respect; working together to resolve issues early; communicating openly and candidly; sharing information; and listening carefully to ensure full understanding between both parties.

These commitments are supported by our corporate Compliance and Ethics Program and our Code of Ethics, and our policies on environment, safety and health, equal employment opportunity, non-discrimination, non-retaliation and a harassment-free workplace. We encourage compliance with these policies through ongoing training and annual certification. Our employees also have the opportunity and responsibility to report any grievances through our Ethics Hotline.

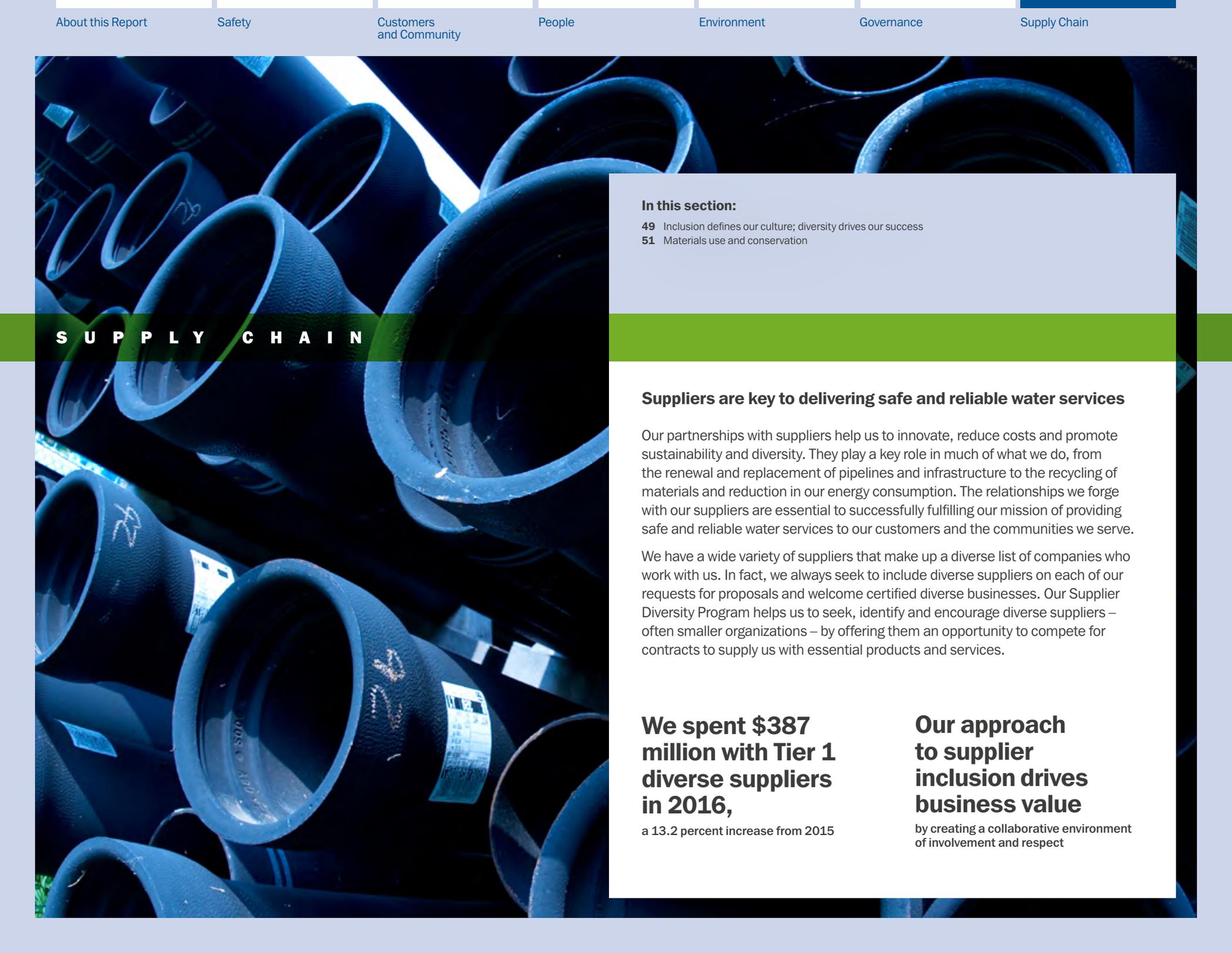


Custom-designed audit tool

To perform our environmental audits, American Water has developed a set of risk-based questions that cover the different aspects of drinking water and wastewater systems. By incorporating these questions into the InspectAll audit tool and taking advantage of the mobile technology that the tool offers, we are able to accelerate the development of final audit reports, which allows more time to perform additional audits.

Enhancing our Compliance and Ethics Program

In line with the principles of good governance, we regularly review our position on ethics and compliance. The most recent review was completed in 2016 and, as a result, we have further enhanced the company's Compliance and Ethics Program. We are implementing program improvements with relation to fraud risk assessments, training and communications and policy management. These enhancements will strengthen the company's values-based culture.



S U P P L Y C H A I N

In this section:

- 49 Inclusion defines our culture; diversity drives our success
- 51 Materials use and conservation

Suppliers are key to delivering safe and reliable water services

Our partnerships with suppliers help us to innovate, reduce costs and promote sustainability and diversity. They play a key role in much of what we do, from the renewal and replacement of pipelines and infrastructure to the recycling of materials and reduction in our energy consumption. The relationships we forge with our suppliers are essential to successfully fulfilling our mission of providing safe and reliable water services to our customers and the communities we serve.

We have a wide variety of suppliers that make up a diverse list of companies who work with us. In fact, we always seek to include diverse suppliers on each of our requests for proposals and welcome certified diverse businesses. Our Supplier Diversity Program helps us to seek, identify and encourage diverse suppliers – often smaller organizations – by offering them an opportunity to compete for contracts to supply us with essential products and services.

We spent \$387 million with Tier 1 diverse suppliers in 2016,

a 13.2 percent increase from 2015

Our approach to supplier inclusion drives business value

by creating a collaborative environment of involvement and respect

INCLUSION DEFINES OUR CULTURE; DIVERSITY DRIVES OUR SUCCESS

At American Water, our diversity equips us to better understand evolving markets, and connect with our diverse customers and supply base. This is supported by the relationships we have built with an outstanding array of suppliers, who help us develop innovative solutions and drive the business.

Our approach to supplier inclusion ensures we benefit from this diversity and drive business value by creating a collaborative environment of involvement and respect. By pursuing relationships with best-in-class diverse suppliers, not only are we providing them with excellent business opportunities, we are also able to take advantage of the unique perspectives and capabilities they bring to the larger business community.

Managing the supplier diversity process

Overall accountability for our strategic approach to managing our supplier diversity process sits with our CEO and our executive leadership team. However, each of our businesses develops its own plans and objectives for valuing and leveraging supplier diversity. The state presidents of American Water and their senior management teams are therefore accountable for the success of the supplier diversity initiatives within their own businesses. Our supplier diversity and inclusion strategy to ensure the successful and ongoing engagement of our diverse supplier community encompasses the following:

Opportunity

Increased opportunities and contracts for our existing base of diverse suppliers.

Recruitment

We recruit best-in-class diverse suppliers for goods and services categories where we identify a need and opportunity for growth.

Retention and development

We actively engage our diverse suppliers through education to enhance their skillsets and further improve performance and opportunities.

Inclusive

Our sourcing process includes supplier diversity at the outset of all strategic sourcing opportunities.

Leadership

Supplier diversity plays a leading role within our supply chain organization, so is always part of the decision-making process.

Communication

We communicate a clear business case, so all our associates embrace and understand the need for supplier diversity and inclusion.

CASE STUDY

Pugh Capital – pension investment provider

The diversity of ideas, thoughts and experiences is vital to our culture, the way we do business and how we select the companies with which we work. Beginning June 2017, American Water transitioned a portion of our pension investments to Pugh Capital, a minority-owned, culturally diverse and independent institutional fixed income firm located in the Pacific Northwest. Pugh Capital is 100 percent employee-owned, and prides itself on its investment team comprising highly diverse and experienced professionals.

Significant progress in 2016

In 2016, American Water's spend with Tier 1 diverse suppliers increased from \$336 million in 2015 to \$387 million, with both certified and self-certified diverse suppliers – an increase of 15.2 percent over 2015.

Additionally, spend with both certified and self-certified women-owned businesses exceeded \$140 million in 2016, which represents 36 percent of our overall Tier 1 diverse suppliers spend.

Overall, more than 20 percent of American Water's sourcing spend was with small businesses whose owners are women, disabled veterans, minority or disadvantaged groups.

Supplier Diversity Program

Where a supplier operates a company that is 51 percent-owned and operated by a woman or a disabled veteran, or someone who is from a minority group, they can qualify to become certified as a diverse vendor for American Water, as part of our Supplier Diversity Program.

Our procurement practices encourage the inclusion of diverse vendors with a Supplier Clearinghouse certification of minority-owned, woman-owned and disabled veteran-owned businesses (MBE/WBE/DVBE) wherever possible. We also employ a corporate supplier diversity manager, as well as diversity leads across the business, to address and assist in all areas of supplier diversity, from sourcing to mentoring new diverse partners, and ensuring successful ongoing business-to-business relationships.

Our Supplier Diversity team continues to attend national and regional supplier-diversity events across the U.S., and to participate in one-to-one meetings with potential new suppliers. Our supplier diversity outreach in 2015–16 included:

- **National Utilities Diversity Council**
- **National Reservation Economic Summit**
- **Greenlining – 21st Annual Economic Summit**
- **U.S. Pan Asian American Chamber of Commerce CelebrAsian**
- **Women's Business National Annual Conference**
- **National Association of Regulatory Utility Commissioners Utility Market Access Summer Meeting**
- **Water Professionals Conference**
- **Elite Service-Disabled Veteran-Owned Business Conference**

- **California Public Utility Commission En Banc Hearing, San Francisco**
- **National Minority Supplier Development Council Annual Meeting**
- **National Association of Regulatory Utility Commissioners/Annual Meeting**
- **Illinois Commerce Commission Regulatory Hearing**
- **Member Utility – Missouri Economic Development Association**
- **California Joint Utility – Member Utility**
- **California Water Association – Member Utility**
- **New Jersey Supplier Diversity Council – Member Utility**



Annual Report to the California Public Utilities Commission
2016 Results & 2017 Annual Plan



CASE STUDY



Mentor Protégé Program at California American Water

The demographics of California are changing and our businesses and relationships with our suppliers, employees and customers need to reflect that. That's why our people at California American Water have made diversity a real priority in purchasing, hiring, governance and community outreach, and our organization continues to become more ethnically and culturally diverse.

We increased our diverse spend in 2016 over the previous year, added new diverse suppliers, and are actively engaged with a new electrical contractor, Lyden Electric, who we made contact with through a supplier diversity fair. Lyden is a Hispanic women-owned electrical supplier that provides services throughout the state and, after a lengthy selection process, they were chosen as our 2016–2018 Mentor Protégé. We have led them through the integration process of becoming a supplier and made several resources and opportunities available to Lyden to support them in their company's growth and success.

We also continued our outreach to identify new diverse suppliers that could provide goods and services to meet our needs in California. As a result, we have welcomed 10 new suppliers in 2016. And, toward the end of the year, we established a portal registration process that allows prospective suppliers to register with us. Along with a database we have developed to track suppliers we meet at outreach events, this is helping us to reach out to suppliers to bid on projects and invite them to future sourcing events.

MATERIALS USE AND CONSERVATION

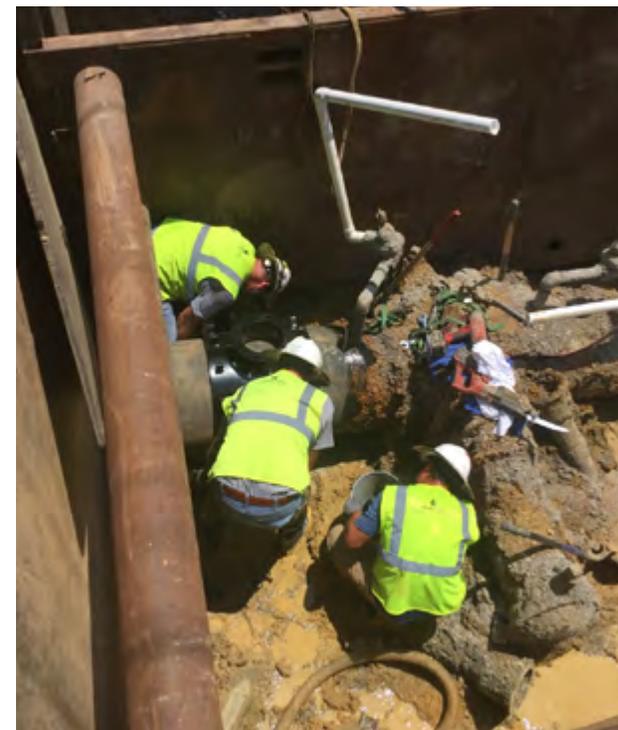
Maintaining a reliable and efficient water system is a primary focus for American Water's Supply Chain and Engineering departments. A large part of our water system maintenance work each year involves replacing or rehabilitating pipelines, with the potential to consume significant amounts of pipe, stone and asphalt concrete.

By minimizing our use of these materials, we not only help to keep capital costs down, but we also conserve them for use in future projects.

We work with suppliers to conserve materials used in our pipeline projects whenever possible. For example, by "cleaning and lining" a pipeline, it is often possible to avoid a full pipeline replacement. This conservation method rehabilitates a pipeline by applying a lining that, depending on the type of lining material employed, improves water quality, system hydraulics and the structural condition of the pipe. This can be done with far less excavating than would be required to remove and replace the pipeline. During 2016, it is estimated that in New Jersey alone, this technique conserved approximately 75,000 feet of pipe and 30,000 cubic yards of stone and soil.

Overall, 92 percent of the residuals produced by American Water are beneficially used or returned to the environment. We also actively recycle asphalt concrete. Traditionally, the replacement of pipeline infrastructure under a roadway means removing asphalt concrete, which is then transferred to a landfill site. Although recycled asphalt is currently limited in use, its use is expected to increase in the future. Recycling asphalt can also save the expense of moving it to a landfill.

**Overall,
92%** 
**of the residuals we produce
are beneficially used or returned
to the environment**



CASE STUDY



How American Water works with suppliers

American Water negotiates professionally and fairly with suppliers, and working properly with them is critical to our business success. We are committed to building ethically sound business partnerships, which means upholding the highest standards of fair dealing and integrity and acting in line with all applicable laws, regulations and American Water policies and procedures. We will not enter into any contracts or agreements that violate applicable laws or regulations or compromise the company's ability to comply with laws and regulations.

Most of our suppliers are selected by category sourcing teams, facilitated by our Supply Chain function. During the selection

process, we make sure that the outside parties are reputable and qualified. We also make our Code of Ethics available to them and carefully document all activities to ensure that our records reflect actual transactions and payments.

All contracts, agreements, letters of intent and memoranda of understanding are reviewed against our Contract Administration Policy, before being signed by an officer of the company or someone to whom that authority has been formally delegated. And once an agreement has been signed by all parties, we work closely with our suppliers to ensure they carry out their obligations and service commitments to us.

CONCLUSION

A summary of key points

We understand the vital role of clean water in the lives of our customers. It is necessary for their health and wellbeing, and our job is to provide this essential and critical service for a lifetime. We work hard to deliver clean water that is also safe, reliable and affordable, because our customers, our employees, our partners, and the people and institutions who invest in us deserve nothing less.

And we believe the only way to do business is to do it responsibly – that's how we deliver value to our customers, build strong communities, use innovations to inspire and lead our industry, and support our dedicated people in furthering their skills and expertise.

Our Values

Our core values are the principles by which **everyone at American Water** works and lives. They help us in the decisions we make every day. They also help us explain what the company is about and what it represents to our stakeholders. Our people live by this set of values, and they form the cornerstones of our business culture.

Performance highlights 2015–2016

Top quartile



**in the water industry for
customer satisfaction**

(based on survey results of 12 water utility companies, including American Water)

\$1.5bn

**capital investment in total
infrastructure in 2016,**

to build a more resilient system
for our customers



More than

\$19.6m



in savings

realized through more than 249 completed
process excellence initiatives in 2015 and 2016

**We have partnered with
local environmental groups on**

89 stewardship projects



in 11 states from 2015–2016

Awards and recognition

President's Award:



Recognized by:



for our water quality and sustainability



America's top green companies

On average, more than

60,000



**hours of safety training
are given annually to American
Water employees**

**GHG intensity
reduction of**

9.4%



since 2014

**Drinking water
compliance was**

21 times



better than the industry average
for drinking water quality in 2016

AWK members of



2017 Constituent
MSCI Global
Sustainability Indexes



Dow Jones
Sustainability Indexes



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