UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 22, 2018

Aqua America, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	001-06659	23-1702594
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

762 West Lancaster Avenue Bryn Mawr, Pennsylvania	19010-3489
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610) 527-8000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Explanatory Note

As previously reported in a Current Report on Form 8-K filed on October 23, 2018 (the "Initial Form 8-K"), Aqua America, Inc. (the "Company") entered into a Purchase Agreement (the "Purchase Agreement") with LDC Parent LLC, a Delaware limited liability company ("Seller"), to acquire all of the issued and outstanding limited liability company membership interests of LDC Funding LLC, a Delaware limited liability company ("LDC"), from Seller (the "Peoples Gas Acquisition"). LDC is the ultimate parent of Peoples Natural Gas Company LLC ("Peoples Natural Gas Company"), Peoples Gas Company LLC ("Peoples Gas"), Delta Natural Gas Company Inc. ("Delta"), Peoples Gas WV LLC, Peoples Gas KY LLC, Peoples Homeworks LLC, PNG Gathering LLC, Delta Resources LLC, Delgasco LLC and Enpro LLC, and collectively these businesses are referred to as "Peoples".

Peoples Natural Gas Company, Peoples Gas, Delta, Peoples Gas WV LLC and Peoples Gas KY LLC are also collectively referred to as "the regulated companies".

Peoples Homeworks LLC, PNG Gathering LLC, Delta Resources LLC, Delgasco LLC and Enpro LLC are also collectively referred to as the "non-regulated companies"

This Form 8-K/A amends the Initial Form 8-K to include the financial statements and pro forma financial information required by Items 9.01(a) and 9.01(b) of Form 8-K, as well as additional information regarding Peoples, and should be read in conjunction with the Initial Form 8-K.

Item 8.01 Other Events

The following are risk factors, business description and management's discussion of financial condition and results of operations as set forth in the financial statements of LDC as of December 31, 2018 and 2017, and for the three years ended December 31, 2018, related to Peoples's business. This information provides further details regarding the business of Peoples and is being provided in connection with the proposed Peoples Gas Acquisition.

The Peoples Gas Acquisition has not yet occurred and is subject to customary closing conditions set forth in the Purchase Agreement, including, among others, (1) the absence of any law or governmental order prohibiting the consummation of the Acquisition, (2) the accuracy of the parties' representations and warranties, subject to customary materiality standards and certain other exceptions, (3) compliance in all material respects of the parties with their applicable covenants under the Acquisition Agreement, subject to certain exceptions, (4) the absence of a "material adverse effect" with respect to LDC and its subsidiaries and (5) receipt of certain regulatory approvals, including from the public utility commission in Pennsylvania and West Virginia. The closing of the Acquisition is not subject to any financing condition. We currently expect the Acquisition will close in mid-2019. For further information regarding the Acquisition, please refer to our Annual Report on Form 10-K filed on February 26, 2019, and the Initial Form 8-K.

Risk Factors related to Peoples

Transporting, distributing and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs.

Natural gas transportation, distribution and storage activities inherently involve a variety of hazards and operational risks, such as leaks, accidental explosions, damage caused by third parties and mechanical problems, which could cause substantial financial losses. These risks could result in serious personal injury, loss of human life, significant damage to property, environmental pollution, impairment of operations and substantial losses to Peoples. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. These activities may also subject Peoples to litigation or administrative proceedings. Such litigation or proceedings could result in substantial monetary judgments, fines or penalties against Peoples or otherwise be resolved on unfavorable terms.

Peoples is subject to federal and state laws and regulations requiring it to maintain certain safety and system integrity measures by identifying and managing storage and pipeline risks. In addition, companies that supply and transport gas to Peoples are also subject to similar regulations and other restrictions related to their activities. Compliance with these laws and regulations, or future changes in these laws and regulations, may, directly or indirectly, result in increased capital, operating and other costs which may not be recoverable in a timely manner or at all from customers in rates. In accordance with customary industry practices, Peoples maintains insurance against a significant portion, but not all, of these risks and losses. To the extent any of these events occur or regulations change, it could adversely affect the financial condition and results of operations of Peoples.

Regulation of Peoples's business may impact its customer tariffs, costs and profitability.

Peoples is subject to regulation by federal, state and local authorities. At the state level, Peoples is regulated in Pennsylvania by the Pennsylvania Public Utility Commission ("PAPUC"), in Kentucky by the Kentucky Public Service Commission ("KYPSC"), and in West Virginia by the West Virginia Public Service Commission ("WVPSC"). These state public service commissions regulate many aspects of the Peoples distribution operations, including construction and maintenance of facilities, required capital expenditures and planned capital expenditures, including pipe replacement programs, operations, safety, the rates Peoples may charge customers, the terms of service to its customers, transactions with its affiliates, the rate of return it is allowed to realize, and the accounting treatment for certain aspects of its operations. In addition, Peoples's utility operating subsidiaries are required to maintain certain capitalization ratios, which could affect their ability to pay dividends or make distributions. Rate increases and rate supplements to recover Peoples's costs and maintain its rate of return are subject to regulatory review and approval. There can be no assurance that Peoples will be able to obtain rate increases or rate supplements or continue its current rates of return.

Peoples could incur additional costs and otherwise be adversely impacted if required to adjust to new laws or regulations, revisions to existing laws or regulations or changes in interpretations of existing laws or regulations. In addition, as the regulatory environment for the natural gas industry increases in complexity, the risk of inadvertent noncompliance could also increase. If Peoples fails to comply with applicable laws and regulations, whether existing or new, it could be subject to fines, penalties, disallowance of cost recovery or other enforcement action by the authorities that regulate Peoples operations.

Warmer-than-normal weather conditions can adversely impact Peoples's financial condition and results of operations.

Peoples's revenues are temperature sensitive and vary from year-to-year, depending on weather conditions, with a substantial portion (approximately 70% in 2018) of Peoples's total throughput occurring in the first and fourth quarters of the year. As a result, warmer-than-normal-weather conditions can decrease the amount of natural gas Peoples sells in any year, which would adversely affect its financial condition and results of operations.

Peoples's ability to meet customers' natural gas requirements may be impaired if contracted natural gas supplies and interstate pipelines services are not available, are not delivered in a timely manner or if federal regulations decrease its available capacity, which may result in a loss of customers and an adverse effect on Peoples's financial conditions and results of operations.

Peoples is responsible for acquiring sufficient natural gas supplies, interstate pipeline capacity and storage capacity to meet current and future customers' peak, annual and seasonal natural gas requirements. Peoples relies on third-party service providers, as it purchases a portion of its natural gas supply from interstate sources and relies on interstate pipelines to transport natural gas to its distribution system, in addition to local production that is delivered directly into its pipeline system. The Federal Energy Regulatory Commission ("FERC") regulates the transportation of the natural gas received from interstate sources, and any change in regulatory policies could increase Peoples's transportation costs or decrease its available pipeline capacity. A decrease in interstate pipeline capacity available, an increase in competition for interstate pipeline transportation service or other interruptions to pipeline gas supplies could reduce Peoples's normal interstate supply of natural gas. Additionally, federal or state legislation could restrict or limit natural gas drilling, which could decrease the supply of available natural gas. If Peoples is unable to maintain access to a reliable and adequate natural gas supply or sufficient pipeline capacity to deliver that supply, it may be unable to meet its customers' requirements resulting in a loss of customers and an adverse effect on Peoples's financial conditions and results of operations.

Peoples has traditionally used local production as its primary source of supply to fulfill its supply requirements. In order to absorb local gas into its system, Peoples has in place a network of pipelines and related facilities that move the gas either to customers located where gas is produced or to the more populated areas of the service territory where the greatest level of consumption occurs, and, in summer months, to Peoples's on-system and off-system storage facilities. This network of facilities includes gathering lines, compressor stations and transmission lines. Peoples has entered into gas purchase agreements with various producers to supply this local production. A decrease in this supply could occur, for example, if the local gas producers no longer drill wells to offset natural well production decline or if such producers decide to cease production or produce into another pipeline. State and federal legislation or regulations could also limit drilling activities and in turn limit gas supply. If supply is limited, Peoples would be faced with purchasing gas supplies likely at a higher cost and may not be able to find alternative gas supply, and accordingly, may be unable to meet customer requirements, resulting in a loss of customers and an adverse effect on its financial condition and results of operations.

Workforce-related risks may affect Peoples's results of operations.

Peoples is subject to various workforce-related risks, including the risk that it will be unable to attract and retain qualified personnel; that it will be unable to effectively transfer the knowledge and expertise of an aging workforce to new personnel as those workers retire; and that it will be unable to reach collective bargaining arrangements with the unions that represent certain of its workers, which could result in work stoppages. Additionally, Peoples relies on outside resources to supplement its workforce, including construction crews which are key to Peoples's infrastructure replacement program. Peoples faces the same risks associated with these outside resources as it does with its own workforce. As a result, Peoples may be unable to hire or retain an adequate number of individuals who are knowledgeable about public utilities and the natural gas industry or face a lengthy time period associated with skill development and knowledge transfer. Failure to address these risks may result in increased operational and safety risks as well as increased costs. Even with reasonable plans in place to address succession planning and workforce training, Peoples cannot control the future availability of qualified labor. If Peoples is unable to successfully attract and retain an appropriately qualified workforce, it could adversely affect Peoples's financial condition and results of operations.

Environmental laws and regulations may require significant expenditures or increase operating costs.

Peoples is subject to federal, state and local environmental laws and regulations affecting many aspects of its present and future operations. These laws and regulations subject Peoples to inspections and require Peoples to obtain and comply with a wide variety of environmental licenses, permits and approvals. Failure to comply with these laws and regulations and failure to obtain any required permits and licenses may result in a variety of administrative, civil and criminal enforcement measures, including the assessment of mandatory penalties, the imposition of remedial actions and the issuance of orders enjoining future operations, which may be material. In addition, existing environmental laws and regulations could be revised or reinterpreted and/or new laws and regulations could be adopted or become applicable to Peoples or its facilities, thereby impacting Peoples cost of compliance. The discovery of presently unknown environmental conditions, including former manufactured gas plant sites, and claims against Peoples under environmental laws and regulations may result in expenditures and liabilities, which could be material. If these events occur, they could have an adverse effect on Peoples's financial condition and results of operations.

Climate change and regulatory and legislative developments in the energy industry related to climate change may in the future adversely affect operations and financial results.

Climate change, and the extent of regulatory or legislative changes to address the potential for climate change, could adversely affect operations and financial results of Peoples. It is difficult to quantify the impacts of climate change with any degree of specificity, but the impacts could adversely affect Peoples's business, financial condition and results of operations. For example, to the extent climate change results in warmer temperatures, financial results could be adversely affected through lower gas volumes and revenues. In addition, there have been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including by limiting greenhouse gas emissions, such as methane and carbon dioxide. The adoption of this type of legislation or the adoption of related regulations by federal or state governments mandating a substantial reduction in greenhouse gas emissions in the future could have far-reaching and significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs or additional operating restrictions, affect the demand for or supply of natural gas or impact the prices charged to customers. At this time, it is not possible to anticipate the potential impact of such laws or regulations, but they could have an adverse effect on Peoples's business, financial condition and results of operations.

Peoples may incur significant costs and liabilities resulting from pipeline integrity and other similar programs and related repairs.

Certain of Peoples's pipeline operations are subject to pipeline safety laws and regulations. The DOT's (US Department of Transportation) PHMSA (Pipeline and Hazardous Materials Safety Administration) has adopted regulations requiring pipeline operators to develop integrity management programs, including more frequent inspections and other measures, for transmission pipelines located in "high consequence areas," which are those areas where a leak or rupture could do the most harm. The regulations require pipeline operators, including Peoples, to, among other things:

- perform ongoing assessments of pipeline integrity;
- develop a baseline plan to prioritize the assessment of a covered pipeline segment;
- identify and characterize applicable threats that could impact a high consequence area;
- improve data collection, integration, and analysis;
- develop processes for performance management, record keeping, management of change and communication;
- repair and remediate pipelines as necessary; and
- implement preventive and mitigating action.

Peoples is required to maintain pipeline integrity testing programs that are intended to assess pipeline integrity. Peoples is also required to establish and maintain a Distribution Integrity Management Program for all distribution assets. This program requires protocols for identifying risks and threats to the distribution systems. The program incorporates a relative risk model to measure risk reduction to these threats. Any repair, remediation, preventative or mitigating actions may require significant capital and operating expenditures. Should Peoples fail to comply with applicable statutes and related rules, regulations and orders, it could be subject to significant penalties and fines.

Changes to income tax policy, certain tax elections, tax regulations and future taxable income could adversely impact Peoples's financial condition and results of operations.

Peoples has generated annual taxable losses that have resulted in federal and state net operating losses. Peoples plans to utilize these net operating losses in the future to reduce income tax obligations. The value of these net operating losses could be reduced if Peoples cannot generate enough taxable income in the future to utilize the net operating losses before they expire due to lower than expected financial performance or regulatory actions or if the Internal Revenue Service does not agree with certain filing positions of Peoples. Changes to income tax policy, laws and regulations, including but not limited to changes in tax rates, the deductibility of certain expenses including interest and state and local income taxes and/or changes in the deductibility of certain expenditures for property, could adversely impact Peoples. Those impacts could include reducing the value of its net operating losses and could result in adverse impacts on Peoples's financial condition and results of operations.

Peoples's liquidity may be adversely affected by delays in recovery of its costs, due to regulation.

In the normal course of business, there is a lag between when Peoples incurs increases in certain of its costs and the time in which those costs are considered for recovery in the ratemaking process. Cash requirements for increased operating costs, increased funding levels of defined benefit pension and postretirement costs, capital expenditures and other increases in the costs of doing business can require outlays of cash prior to the authorization of increases in rates charged to customers, as approved by the PAPUC, KYPSC and WVPSC. Accordingly, Peoples's liquidity can be adversely impacted to the extent higher costs are not timely recovered from its customers.

Peoples's liquidity and, in certain circumstances, its results of operations may be adversely affected by the cost of purchasing natural gas during periods in which natural gas prices are rising significantly.

Peoples's regulated companies purchase their natural gas supply primarily through a combination of requirements contracts, some of which contain minimum purchase obligations, monthly spot purchase contracts and forward purchase contracts. The price paid for natural gas acquired under forward purchase contracts is fixed prior to the delivery of the natural gas. Additionally, a portion of natural gas purchases is injected into natural gas storage facilities in the non-heating months and withdrawn from storage for delivery to customers during the heating months.

Peoples's short-term borrowing requirements and liquidity are also significantly affected by the seasonal nature of the natural gas business. Changes in the price of natural gas and the amount of natural gas needed to supply customers' needs due to, for example, colder than expected seasonal temperatures, could significantly affect the price and amount of natural gas Peoples is required to purchase and the timing of such purchases, and in turn affect its borrowing requirements and liquidity position. As a result, Peoples's short-term borrowings and its liquidity needs typically reach their highest levels in the winter months. If Peoples fails to secure sufficient natural gas supplies at appropriate prices (due to, for example, more extreme winter conditions) and is required to purchase additional natural gas supplies or purchase natural gas at elevated prices, it could adversely affect Peoples's borrowing levels, liquidity and financial condition.

Peoples's tariff rate schedules contain Purchased Gas Adjustment ("PGA") clauses that permit filings for rate adjustments to recover the cost of purchased gas. Subject to regulatory approval, as described below, changes in the cost of purchased gas are flowed through to customers and may affect uncollectible amounts and cash flows and can therefore impact Peoples's financial condition and results of operations.

The state regulatory commissions approve the PGA changes on an interim basis, subject to refund and the outcome of a subsequent audit and prudence review. Due to such review process, there is a risk of a disallowance of full recovery of these costs. Peoples is also subject to regulations and standards with regards to the amount of lost and unaccounted for gas that may be recovered from customers. Any material disallowance of purchased gas costs would adversely affect Peoples's financial condition and results of operations.

Increases in the prices that Peoples charges for gas may also adversely affect Peoples's business because increased prices could lead customers to reduce usage and cause some customers to have trouble paying the resulting higher bills. These higher prices may increase bad debt expenses and ultimately reduce earnings. Rapid increases in the price of purchased gas may result in an increase in short-term debt.

Peoples's nonregulated companies purchase natural gas utilizing a combination of requirements contracts, some of which contain minimum purchase obligations, monthly spot purchase contracts and forward purchase contracts. Although price risk for the non-regulated companies is mitigated to a degree by efforts aimed at balancing supply and demand, there are practical limitations on the ability to accurately predict demand and any failure to do so could adversely affect Peoples's financial condition and results of operations.

Peoples's business activities are concentrated in three states.

Peoples provides natural gas distribution services to customers in Pennsylvania, Kentucky and West Virginia. Changes in the regional economies, politics, regulations and weather patterns of these states could negatively impact Peoples's growth opportunities and the usage patterns and financial condition of customers and could adversely affect Peoples's financial condition and results of operations.

Peoples may be adversely affected by economic conditions.

Periods of slowed economic activity generally result in decreased energy consumption, particularly by industrial and large commercial companies, a loss of existing customers and fewer new customers, especially from reduced construction of new buildings. As a consequence, national or regional recessions or other downturns in economic activity could adversely affect Peoples's financial condition and results of operations or restrict future growth. Economic conditions in Peoples's service territories may also adversely impact Peoples's ability to collect accounts receivable, resulting in an increase in bad debt expense and adversely affecting its financial condition and results of operations.

Competition and industry trends could impact Peoples's ability to retain existing customers or acquire new customers, which could have an adverse impact on its business, results of operations and financial condition.

Peoples faces the risk that customers may bypass gas distribution services by gaining distribution directly from interstate pipelines, other gas distributors or other energy sources. Increased competition or other changes in legislation, regulation or policies could have a material adverse effect on Peoples's business, financial condition or results of operations. Moreover, changes in wholesale natural gas prices compared with prices for electricity, fuel oil, coal, propane or other energy sources may affect Peoples's retention of natural gas customers and may adversely impact its financial condition and results of operations.

In addition, over time, average customer gas consumption has declined, as more energy efficient appliances and furnaces have been installed and conservation programs have been implemented. If Peoples is unable to compete effectively or if customers further reduce their gas needs, Peoples may lose existing customers, sell less gas to its customers and/or fail to acquire new customers, which could have a material adverse effect on its business, results of operations and financial condition.

Increased dependence on technology may hinder Peoples's business operations and adversely affect the financial condition and results of operations if such technologies fail.

Over the last several years, Peoples has implemented or acquired a variety of technological tools, including both Peoples-owned information technology and technological services provided by outside parties. These tools and systems support critical functions, including Peoples's integrated planning, scheduling and dispatching of field resources, its automated meter reading system, its customer care and billing, procurement and accounts payable operational logistics, management reporting and its external financial reporting. The failure of these or other similarly important technologies, or Peoples's inability to have these technologies supported, updated, expanded or integrated into other technologies, such as the Company's, could hinder its business operations and adversely impact Peoples's financial condition and results of operations. Although Peoples has, when possible, developed alternative sources of technology and sought to build redundancy into its computer networks and tools, there can be no assurance that it will be able to do so in the future or that these efforts would protect against potential issues related to the loss or failure of any such technologies or Peoples's use of such technologies.

A cyberattack may disrupt Peoples's operations or lead to a loss or misuse of confidential and proprietary information or potential liability.

Peoples is subject to cybersecurity risks primarily related to breaches of security pertaining to sensitive customer, employee and vendor information maintained by Peoples or its third-party vendors in the normal course of business, as well as breaches in the technology utilized in Peoples's natural gas distribution operations and other business processes. Peoples utilizes an industrial control system to remotely control, monitor and measure the flow of natural gas through its pipelines from a central location. A loss of confidential data, particularly personal customer data, or proprietary data or security breaches of its industrial control system could adversely affect Peoples's reputation, diminish customer confidence, disrupt operations and subject Peoples to possible financial liability, any of which could have a material effect on Peoples's financial condition and results of operations.

We may make certain changes in connection with our integration of the Peoples business.

We anticipate that the Peoples Gas Acquisition will close in mid-2019, following receipt of all required regulatory approvals. The Peoples Gas Acquisition is complex and, if the acquisition is consummated, we will devote significant time and resources to integrating the Peoples businesses. As part of this integration, we expect certain management changes, which could result in the potential disruption of our ongoing businesses and the business of Peoples, distraction of our management and the potential impairment of relationships with employees.

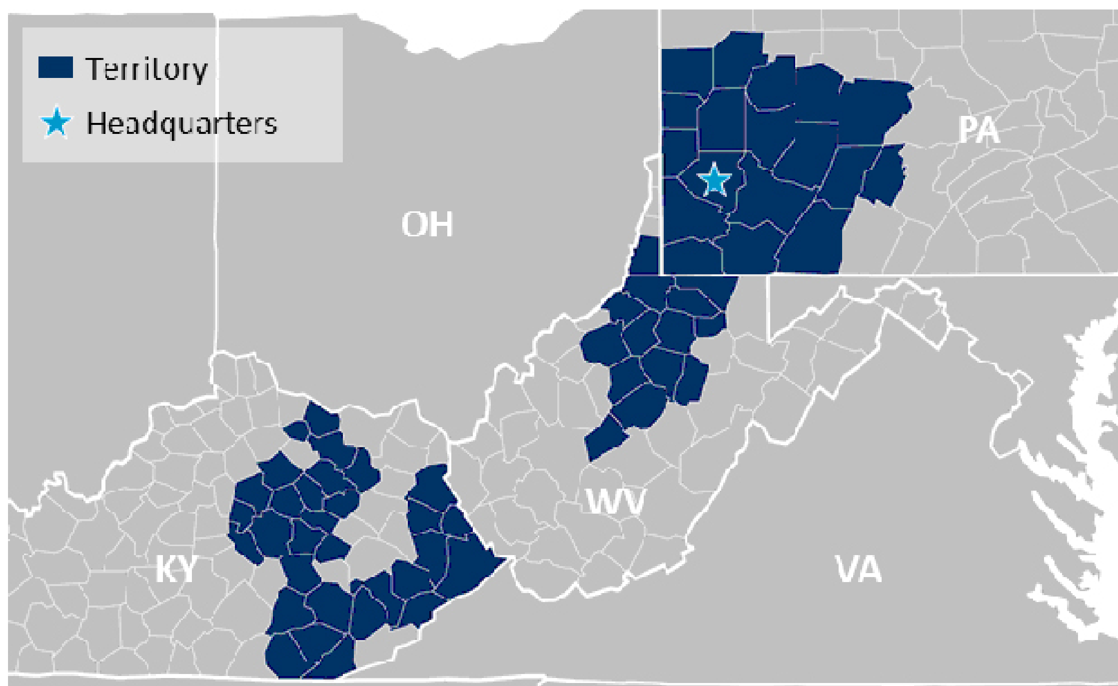
Peoples may not have effective internal control over financial reporting such that we may not be able to report our financial results accurately or on a timely basis.

Peoples is currently a privately held entity and therefore does not have to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As such, Peoples's management has not performed a formal evaluation of its internal controls over financial reporting, nor has an independent registered public accounting firm conducted an audit to express an opinion on the effectiveness of Peoples's internal controls. Subsequent to the effective date of the Peoples Gas Acquisition, we will undertake efforts to evaluate Peoples's internal controls and comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The initial evaluation of Peoples's internal controls could identify internal control deficiencies which may require remediation.

Peoples’s Business

Overview

Peoples, which consists of Peoples Natural Gas Company, Peoples Gas, Delta, and other utility and non-utility subsidiaries, primarily engages in regulated distribution and transportation of natural gas to approximately 740,000 residential, commercial and industrial customers in Pennsylvania, West Virginia and Kentucky. Peoples’s service territory is depicted below.



In 2018, approximately 42% of Peoples’s total throughput was to residential customers and approximately 58% was to commercial and industrial customers. The table below reflects the number of Peoples’s customers by state as of December 31, 2018:

	Residential	Commercial/ Industrial	Total Customers
Pennsylvania	644,515	48,729	693,244
West Virginia	11,824	1,044	12,868
Kentucky	33,348	5,353	38,701
Total	689,687	55,126	744,813

Supply and Transportation

Peoples’s gas supply strategy is to ensure dependable gas supply which is available for delivery when needed and that is economically priced. Peoples purchases its natural gas from intrastate, interstate and local sources. Peoples transports its natural gas supplies through various intrastate and interstate pipelines under contracts with remaining terms, including extensions, varying from one month to fifteen years. Peoples anticipates that these gas supply and transportation contracts will be renewed or replaced prior to their expiration.

In 2018, Peoples purchased the majority of its gas supply off the following Interstate Pipelines:

Interstate Pipeline Supplies	Percent of Supply Volumes
Equitrans Midstream	55%
Dominion Energy Transmission	12%
Columbia Gulf	10%
Tennessee	5%
Texas Eastern	2%
Columbia Transmission	1%
National Fuel	1%

Peoples also receives a portion of its natural gas supply from local production. Local gas purchases account for approximately 14% of Peoples's total gas supply procured on behalf of customers and are gathered from local production systems. Three suppliers provided more than 5% of Peoples Gas Supply in 2018, with Equitrans Production, Centerpoint Energy and Range Resources providing 43%, 12% and 5% of Peoples's gas supply, respectively.

The regulations of the states in which Peoples operates allow it to pass through changes in the cost of natural gas to its customers under purchased gas adjustment provisions in its tariffs. Depending upon the jurisdiction, the purchased gas adjustment factors are updated periodically, ranging from quarterly to annually. The changes in the cost of gas billed to customers are subject to review by the applicable regulatory bodies.

Peoples uses various third-party storage services or owned natural gas storage facilities to meet peak-day requirements and to manage the daily changes in demand due to changes in weather.

Peoples owns and operates an underground natural gas storage facility with a capacity of 8.3 billion cubic feet ("Bcf"). It has a working capacity of 3.7 Bcf available for use during the heating season and a maximum daily withdrawal rate of 66 million cubic feet ("MMcf"). Additionally, Peoples has contracted for off-system storage from interstate pipelines. The total amount of off-system storage under contract to Peoples is 30.2 Bcf with a maximum daily withdrawal rate of 504 MMcf.

On an ongoing basis, Peoples enters into contracts to provide sufficient supplies and pipeline capacity to meet its customer's natural gas requirements. However, it is possible for limited service disruptions to occur from time to time due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time, or prices may increase rapidly in response to temporary supply constraints or other factors. In 2018, Peoples purchased its natural gas supply from 12 suppliers and over 100 local producers to meet its customers' natural gas requirements. Peoples and its subsidiaries entered into firm agreements with suppliers, including major producers and marketers, intended to provide flexibility to meet the temperature sensitive needs of its customers. In Pennsylvania, Peoples's distribution system is connected to 6 interstate pipelines, where Peoples maintains capacity it believes is sufficient to meet its customers' gas requirements. In Kentucky, Delta's distribution system is connected to 4 interstate pipelines, where Delta maintains capacity it believes is sufficient to meet its customers' gas requirements. In West Virginia, Peoples's distribution system is connected to 1 interstate pipeline, as well as local production, to meet its customers' gas requirements.

Seasonality

Natural gas sales to residential, commercial and industrial customers are seasonal. In 2018, approximately 70% of Peoples total throughput occurred in the first and fourth quarters. These patterns reflect the higher demand for natural gas for heating purposes during the colder months.

Assets

As of December 31, 2018, Peoples owned approximately 15,200 linear miles of natural gas distribution mains, varying in size from one-half inch to 36 inches in diameter, 2,400 miles of gathering pipeline and 310 miles of intrastate transmission/storage pipeline. Generally, in each of the cities, towns and rural areas served by Peoples, it owns the underground gas mains and service lines, metering and regulating equipment located on customers' premises and the district regulating equipment necessary for pressure maintenance. With a few exceptions, the measuring stations at which Peoples receives gas are owned, operated and maintained by others, and its distribution facilities begin at the outlet of the measuring equipment. These facilities, including odorizing equipment, are usually located on land owned by suppliers.

Competition

Peoples faces the risk that customers may bypass gas distribution services by gaining distribution directly from interstate pipelines, other gas distributors or other energy sources.

Employees

As of December 31, 2018, Peoples had 1,498 full-time employees, of which 873 are subject to collective-bargaining agreements and represented by organized labor unions. Peoples believes labor relations with its employees are good.

Merger with Delta

On September 20, 2017, Peoples acquired 100% of the outstanding shares of Delta for $217.6 million in cash ("Delta Acquisition"). Delta is a local gas distribution company, serving residential, commercial and industrial customers in Kentucky.

Regulation of Peoples's Business

Economic Regulation

Peoples's utility operations are subject to regulation by their respective state utility commissions, the WVPSC (West Virginia), the PAPUC (Pennsylvania) and the KYPSC (Kentucky), which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The utility commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems and loans and other financings. The policies of the utility commissions often differ from state to state and may change over time.

The profitability of Peoples utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances granted by the respective utility commissions. Each commission has historically utilized cost-of-service ratemaking where base rates are established to recover normal operating expenses, exclusive of natural gas costs and other track expenses, and a reasonable rate of return on Peoples's rate base. Rate base consists primarily of the property, plant and equipment related to Peoples's regulated business, natural gas in storage, offset by accumulated depreciation and certain deferred income taxes. Peoples's regulated rates were most recently adjusted in the following cases:

People Natural Gas Company	Docket No. R-2012-2285985
Peoples Gas	Docket No. R-2013-2355886
Delta	Case No. 2010-00116

In January 2019, Peoples filed a request for increased base rates with the PAPUC for Peoples Natural Gas Company. This base rate case requests an annual revenue increase of approximately $95 million, which would represent an increase of 14% in total revenues for Peoples Natural Gas Company. The rate case utilizes a fully projected future test year of October 31, 2020 and requests a return on common equity of 11.25%. The request allocates a majority of the requested increase to the fixed monthly customer charge as opposed to the volumetric rate, which would mean that the increase in revenue would be less dependent on customer usage and would instead occur more evenly throughout the year. The outcome of the base rate case is subject to review by the PAPUC and other intervening parties.

Rate Design Strategies

Sales of natural gas to residential and commercial customers are largely seasonal and are impacted by weather. Trends in the average consumption among natural gas residential and commercial customers have tended to decline as more efficient appliances and furnaces are installed. Revenues are derived from a combination of a monthly customer charge which is fixed and a volumetric charge based on the quantity of natural gas consumed.

Infrastructure Replacement

In the majority of natural gas service territories, the commissions have authorized bare steel and cast iron replacement programs. In Pennsylvania, Peoples filed a Long-Term Infrastructure Replacement program with the PAPUC where Peoples has committed to the replacement of bare steel and cast iron pipe. On February 14, 2012, the Governor of Pennsylvania signed into law Act 11 of 2012, which provided a Distribution System Improvement Charge ("DSIC") mechanism for certain utilities to recover costs related to repair, replacement or improvement of eligible distribution property that has not previously been reflected in rates or rate base. Through a DSIC, subject to an earnings test, a utility may recover the fixed costs of eligible infrastructure incurred during the three months ended one month prior to the effective date of the charge, thereby reducing the historical regulatory lag associated with cost recovery through the traditional rate-making process. In Kentucky, Delta has a pipe replacement program tariff, which allows adjustment of regulated rates annually to earn a return on capital expenditures incurred subsequent to Delta's last rate case which are associated with the replacement of bare steel and vintage plastic pipe.

Operating Expense Cost Recovery Mechanisms

Gas costs incurred to serve Peoples's customers are the most significant operating expense. Peoples's regulated rates, in all jurisdictions, contain a PGA, which are reflected in its tariffs. The PGA clause allows Peoples to timely charge for changes in the cost of purchased gas, inclusive of unaccounted for gas expense based on actual experience. PGA procedures involve periodic filings and hearings before the state regulatory commissions to establish price adjustments for a designated future period. The procedures also provide for inclusion in later periods of any variances between actual recoveries representing the estimated costs and actual costs incurred. The PGA is subject to periodic review and audit by the state regulatory commissions who also have the authority to disallow previously incurred costs.

In Pennsylvania, the gas cost component of uncollectible accounts expense, gas procurement costs and certain costs to maintain a supplier choice program, where customers can elect their natural gas supplier, are recovered by mechanisms outside of typical base rate recovery. Additionally, in Pennsylvania, Peoples recovers the costs related to universal service programs, whereby customers who meet certain income guidelines receive assistance toward paying their monthly bill, weatherization services and other programs.

In Kentucky, the gas cost component of uncollectible accounts expense is recovered outside of base rate recovery.

In all jurisdictions, base rates have been reduced to reflect the change in the corporate income tax rate from 35% to 21%, under the Tax Cuts and Jobs Act.

Non-regulated operations

Peoples's non-regulated subsidiaries derive revenues from natural gas marketing, production and processing of natural gas liquids and home warranty programs. In 2018, non-regulated revenues represented approximately 4% of Peoples's total consolidated revenues for 2018.

Department of Transportation

In December 2006, Congress enacted the Pipeline, Inspection, Protection, Enforcement and Safety Act of 2006 (“2006 Act”), which reauthorized the programs adopted under the Pipeline Safety Improvement Act of 2002 (“2002 Act”). These programs included several requirements related to ensuring pipeline safety, and a requirement to assess the integrity of pipeline transmission facilities in areas of high population concentration.

Pursuant to the 2006 Act, PHMSA, an agency of the DOT, issued regulations, effective February 12, 2010, requiring operators of gas distribution pipelines to develop and implement integrity management programs similar to those required for gas transmission pipelines, but tailored to reflect the differences in distribution pipelines. Operators of natural gas distribution systems were required to write and implement integrity management programs by August 2, 2011. Peoples’s natural gas distribution systems met this deadline.

Pursuant to the 2002 Act and the 2006 Act, PHMSA has adopted a number of rules concerning, among other things, distinguishing between gathering lines and transmission facilities, requiring certain design and construction features in new and replaced lines to reduce corrosion and requiring pipeline operators to amend existing written operations and maintenance procedures and operator qualification programs. PHMSA also updated its reporting requirements for natural gas pipelines effective January 1, 2011.

In December 2011, Congress passed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (“2011 Act”). This act increased the maximum civil penalties for pipeline safety administrative enforcement actions; required the DOT to study and report on the expansion of integrity management requirements and the sufficiency of existing gathering line regulations to ensure safety; required pipeline operators to verify their records on maximum allowable operating pressure; and imposed new emergency response and incident notification requirements. In 2016, the Protecting our Infrastructure of Pipelines and Enhancing Safety Act of 2016 (“2016 Act”) reauthorized PHMSA’s pipeline safety programs through 2019 and provided limited new authority, including the ability to issue emergency orders, to set inspection requirements for certain underwater pipelines and to promulgate minimum safety standards for natural gas storage facilities, as well as to provide increased transparency into the status of as-yet-incomplete PHMSA actions required by the 2011 Act.

Compliance with PHMSA’s regulations, performance of the remediation activities by Peoples’s natural gas distribution companies and intrastate pipelines and verification of records on maximum allowable operating pressure will continue to require increases in both capital expenditures and operating costs. The level of expenditures will depend upon several factors, including age, location and operating pressures of the facilities. In particular, the cost of compliance with the DOT’s integrity management rules will depend on integrity testing and the repairs found to be necessary by such testing. Changes to the amount of pipe subject to integrity management, whether by expansion of the definition of the type of areas subject to integrity management procedures or of the applicability of such procedures outside of those defined areas, may also affect incurred costs. Implementation of the 2011 and 2016 Acts by PHMSA may result in other regulations or the reinterpretation of existing regulations that could impact compliance costs. In addition, Peoples may be subject to the DOT’s enforcement actions and penalties if it fails to comply with pipeline regulations.

Natural Gas Gathering

Peoples’s service territory is uniquely situated in the Marcellus Shale production region. Approximately 30% of the natural gas supply on the system is from locally produced gas, which Peoples gathers and transports into its distribution system. Peoples’s gathering system is regulated by the PAPUC which includes various safety, environmental and, in some circumstances, anti-discrimination requirements, and in some instances complaint-based rate regulation. Peoples’s gathering operations may be subject to ratable take and common purchaser statutes in the states in which it operates.

Peoples’s gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services. Peoples’s gathering operations could also be subject to additional safety and operational regulations relating to the design, construction, testing, operation, replacement and maintenance of gathering facilities. Peoples cannot predict what effect, if any, such changes might have on its operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

Environmental Regulation

Peoples’s operations are subject to stringent and complex laws and regulations pertaining to the environment. As an owner or operator of natural gas pipelines, distribution systems and storage, and the facilities that support these systems, Peoples must comply with these laws and regulations at the federal, state and local levels.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial actions and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to assess, clean up and restore sites where hazardous substances have been stored, disposed or released.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples

The following discussion and analysis should be read in combination with LDC's financial statements filed as Exhibit 99.1 hereto and incorporated herein by reference. Certain tables and charts contained in this section may not add due to rounding.

Overview

Peoples receives gas revenues by selling gas directly to customers at approved rates or by transporting gas through its pipelines at approved rates to customers that have purchased gas directly from other producers, brokers, or marketers. For the year ended December 31, 2018, operating revenues were $914 million.

Certain factors affecting results of operations

Peoples's business is affected by various factors, including the key factors and trends discussed below. Peoples's past earnings and results of operations are not necessarily indicative of its future earnings and results of operations. Peoples's earnings and results of its operations are affected by numerous factors, including:

- effects of acquisitions, including the Delta Acquisition, the acquisition of Peoples by Aqua America and any revised organizational structure;
- Peoples's ability to recover the costs of purchasing and distributing natural gas to its customers;
- the impact of weather and other factors, such as customer conservation, on revenues and expenses;
- changes in the regulatory environment at the federal, state and local levels, as well as decisions by regulators, that impact Peoples's ability to earn its authorized rate of return in its service territories, including pipe replacements;
- impacts of federal, state and local regulations and tax laws;
- the effect of natural gas price volatility on the business; and
- the ability to manage costs, integrate and standardize operations, and upgrade infrastructure.

Peoples's operations are affected by the cost of natural gas, which is passed through to customers using a PGA clause and include commodity price, transportation and storage costs. These costs are reflected in the income statement as purchased gas expenses. Therefore, increases in the cost of gas are offset by a corresponding increase in revenues. Accordingly, contribution margin, a non-GAAP financial measure, defined as operating revenues less purchased gas expense, is a useful and relevant measure to analyze Peoples's financial performance. Contribution margin can be derived directly from Peoples's consolidated statements of incomes, filed as part of Exhibit 99.1 hereto.

	Years ended December 31,		
	2018	2017	2016
	(in millions)		
Operating revenue	$ 914.0	$ 805.1	$ 682.6
Purchased gas	392.7	316.5	217.0
Contribution margin	$ 521.3	$ 488.6	$ 465.6

However, the term Contribution margin is not intended to represent income from operations, the most comparable GAAP financial measure, as an indicator of operating performance and should only be used in conjunction with income from operations. In addition, our measurement of Contribution margin is not necessarily comparable to similarly titled measures reported by other companies.

Results of Operations

The following table presents the consolidated statements of income for LDC Funding LLC for the years ended December 31, 2018, 2017 and 2016. For additional information, please refer to the notes to the consolidated financial statements of LDC Funding LLC, filed as Exhibit 99.1 hereto.

	Years ended December 31,		
	2018	**2017**	**2016**
		(in millions)	
Operating revenue	$ 914.0	$ 805.1	$ 682.6
Operating expenses:			
Purchased gas	392.7	316.5	217.0
Other operations and maintenance	220.3	200.8	191.6
Depreciation and amortization	88.4	77.7	71.5
Other taxes	16.3	12.8	11.7
Total operating expenses	717.8	607.8	492.0
Income from operations	196.2	197.3	190.7
Other expense-net	9.9	5.9	5.2
Interest Charges	60.0	49.0	50.7
Affiliated interest charges	35.6	29.3	29.0
Total interest charges	95.6	78.2	79.6
Income before income taxes	90.6	113.1	105.9
Provision for income taxes	23.0	54.2	44.9
Net income	$ 67.7	$ 58.9	$ 60.9

The following table shows Peoples's natural gas volumes, in millions of cubic feet ("MMcf"), for the years ended December 31, 2018, 2017 and 2016.

	Years ended December 31,		
	2018	**2017**	**2016**
		(in MMcf)	
Natural gas volumes	153,224	135,602	134,901

2018 Compared to 2017

Operating revenue. Operating revenue amounted to $914.0 million for 2018 compared to $805.1 million for 2017. The increase of $108.9 million, or 14%, was primarily driven by higher gas costs passed onto customers, higher sales volumes due to colder weather and the full-year impact of Delta revenues, partially offset by a reduction in customer rates approved by the state regulatory commissions for the prospective impact of the Tax Cuts and Jobs Act.

Contribution margin amounted to $521.3 million for 2018 compared to $488.6 million for 2017. The increase of $32.7 million, or 7%, was primarily due to colder weather and the full-year impact of Delta revenues, partially offset by a reduction in customer rates approved by the state regulatory commissions for the prospective impact of the Tax Cuts and Jobs Act.

Operating expenses. Operating expenses amounted to $717.8 million for 2018 compared to $607.8 million for 2017. The increase of $110.0 million, or 18%, was primarily due to:

- purchased gas expense increased $76.2 million, or 24%, from $316.5 million for 2017 to $392.7 million for 2018, primarily due to higher sales volumes and commodity prices and the full-year impact of the Delta Acquisition;
- other operations and maintenance expense increased $19.5 million, or 10%, from $200.8 million for 2017 to $220.3 million for 2018, primarily due to higher employee related costs and a full year of expenses related to the Delta Acquisition;
- depreciation and amortization expense increased $10.7 million, or 14%, from $77.7 million for 2017 to $88.4 million for 2018, primarily due to increased capital expenditures and the full-year impact of Delta; and
- other taxes expense increased $3.5 million, or 27% from $12.8 million for 2017 to $16.3 million for 2018, primarily due to the full-year impact of the Delta Acquisition.

Other expense – net. Other expense—net amounted to $9.9 million for 2018 compared to $5.9 million for 2017. The increase of $4.0 million, or 68%, was primarily due to higher corporate donations, the full-year impact of Delta and other non-recurring expenses.

Interest charges. Interest Charges amounted to $95.6 million for 2018 compared to $78.2 million for 2017. The increase of $17.4 million, or 22%, was primarily due to the full-year impact of increased debt costs associated with the Delta Acquisition and an increase in affiliate Senior Notes of $90 million.

Provision for income taxes. Provision for income taxes amounted to $23.0 million for 2018 compared to $54.2 million for 2017. The decrease of $31.2 million, or 58%, was primarily due to lower income before taxes and lower corporate tax rates.

Net income. For the reasons stated above, net income increased $8.8 million, or 15% from $58.9 million for 2017 to $67.7 million for 2018.

2017 Compared to 2016

Operating revenue. Operating revenue amounted to $805.1 million for 2017 compared to $682.6 million for 2016. The increase of $122.5 million, or 18%, was primarily driven by higher gas costs passed onto customers, the impact of Delta revenues and increased rates from both operating cost recovery mechanisms and the DSIC Mechanism.

Contribution margin amounted to $488.6 million for 2017 compared to $465.6 million for 2017. The increase of $23.0 million, or 5%, was primarily the impact of Delta revenues and increased rates from both operating cost recovery mechanisms and the DSIC mechanism. Contribution margin is a non-GAAP financial measure.

Operating expenses. Operating expenses amounted to $607.8 million for 2017 compared to $492.0 million for 2016. The increase of $115.8 million, or 24%, was primarily due to:

- purchased gas expense increased $99.5 million, or 46%, from $217.0 million for 2016 to $316.5 million for 2017, primarily due to higher commodity prices and the impact of the Delta Acquisition;
- other operations and maintenance expense increased $9.2 million, or 5%, from $191.6 million for 2016 to $200.8 million for 2017, primarily due to higher employee related costs and the impact of the Delta Acquisition;
- depreciation and amortization expense increased $6.2 million, or 9%, from $71.5 million for 2016 to $77.7 million for 2017, primarily due to increased capital expenditures and the impact of the Delta Acquisition; and
- other taxes expense increased $1.1 million, or 9%, from $11.7 million for 2016 to $12.8 million for 2017, primarily due to the impact of the Delta Acquisition.

Other expense – net. Other expense—net amounted to $5.9 million for 2017 compared to $5.2 million for 2016. The increase of $0.7 million, or 13%, was primarily due to the impact of the Delta Acquisition.

Interest charges. Interest Charges amounted to $78.2 million for 2017 compared to $79.6 million for 2016. The decrease of $1.4 million, or 2%, was primarily due to repayment of debt offset by an increase in affiliated interest charges.

Provision for income taxes. Provision for income taxes amounted to $54.2 million for 2017 compared to $44.9 million for 2016. The increase of $9.3 million, or 21%, was primarily due to increased income before income taxes, as well as the remeasurement of deferred income taxes due to the impact of the Tax Cuts and Jobs Act.

Net income. For the reasons stated above, net income decreased $2.0 million, or 3%, from $60.9 million for 2016 to $58.9 million for 2017.

Liquidity and capital resources

Cash flows

The net cash provided by (used in) operating, investing and financing activities for 2018, 2017 and 2016 is as follows:

	Years Ended December 31,		
	2018	**2017**	**2016**
		(in millions)	
Net cash provided by (used in):			
Operating activities	$ 197.1	$ 107.6	$ 130.7
Investing activities	(248.7)	(416.0)	(139.3)
Financing activities	37.8	327.5	(9.4)

Cash provided by operating activities. Net cash provided by operating activities increased $89.5 million, or 83%, from $107.6 million in 2017 to $197.1 million in 2018 primarily due to increased net income and changes in working capital. The changes in working capital items in 2018 were primarily driven by weather conditions year over year.

Net cash provided by operating activities decreased $23.1 million, or 18%, from $130.7 million in 2016 to $107.6 million in 2017 primarily due to decreased net income and changes in working capital. The changes in working capital items in 2018 were primarily driven by weather conditions year over year.

Cash used in investing activities. Net cash used in investing activities decreased $167.3 million, or 40%, from $416.0 million in 2017 to $248.7 million in 2018, primarily due to the Delta Acquisition in 2017 partially offset by increased capital expenditures in 2018.

Net cash used in investing activities increased $276.7 million from $139.3 million in 2016 to $416.0 million in 2017, primarily due to the Delta Acquisition and increased capital expenditures in 2017.

Cash used in financing activities. Net cash from financing activities decreased $289.7 million, or 88%, from $327.5 million in 2017 to $37.8 million in 2018, primarily due to borrowings in connection with the Delta Acquisition and the issuance of $90.0 million in affiliate senior notes in 2017.

Net cash from financing activities changed from a cash outflow of $9.4 million in 2016 to a cash inflow of $327.5 million in 2017, or 3584%, primarily due to borrowings in connection with the Delta Acquisition and the issuance of $90.0 million in affiliate senior notes in 2017, which was partially offset by increased repayments under the revolving credit facility.

For additional information, please refer to the notes to the consolidated financial statements of LDC Funding LLC, filed as Exhibit 99.1 hereto.

Financial condition and available liquidity

Within the Peoples consolidated group, financing is maintained at LDC Holdings LLC ("LDC Holdings") (a direct subsidiary of LDC Funding LLC) and PNG Companies LLC ("PNG Companies") (an indirect subsidiary of LDC Funding LLC). LDC Holdings has historically maintained a term loan facility that matures in 2022 and had outstanding borrowings of $226.6 million at December 31, 2018. PNG Companies has historically funded its short-term and long-term financing needs of the various operating subsidiaries through both senior notes issuances and borrowings under its revolving credit facility. PNG Companies has historically maintained a $500.0 million revolving credit facility that matures on June 8, 2022. PNG Companies credit facility contains a letter of credit sublimit of $50 million. The credit agreement governing the PNG Companies credit facility is secured by a pledge of the stock of PNG Companies operating subsidiaries. This credit facility funds the short-term borrowings needs of PNG Companies and its operating subsidiaries. PNG Companies's debt is secured by a pledge of the stock of each of its direct and indirect subsidiaries. As of December 31, 2018, PNG Companies's senior notes outstanding were approximately $1.1 billion and borrowings outstanding under its revolving credit facility were approximately $223.0 million. In connection with the Peoples Gas Acquisition, it is expected that the Peoples's term loan and revolving credit facilities will be repaid or replaced, but the senior notes will remain outstanding.

Senior notes of LDC Funding LLC, issued to affiliates, were maintained by LDC Funding until December 2018. During December 2018, capital was contributed from LDC Funding LLC's parent company which resulted in settlement of those senior notes. As of December 31, 2018, LDC Funding LLC did not have any outstanding senior notes owed to affiliates.

Dividends historically paid by Peoples have been primarily funded by cash flow from operations and borrowings under the revolving credit facility. Peoples's utility operating subsidiaries are required to maintain certain capitalization ratios, which could affect their ability to pay dividends or make distributions.

Both long-term and short-term borrowing arrangements of Peoples contain customary default provisions; restrictions on liens, sale-leaseback transactions, mergers or consolidations, and sales of assets; and restrictions on leverage, among other restrictions. LDC Holdings's credit agreement contains a covenant that the ratio of consolidated total debt to consolidated total capitalization will not exceed 70%. PNG Companies senior notes and credit agreement contain a covenant that the ratio of consolidated total debt to consolidated total capitalization will not exceed 60%. As of December 31, 2018, Peoples was in compliance with all debt covenants.

Peoples's financial position has allowed it to access the capital markets from time to time. Historically, the majority of the long-term debt needs of Peoples's utility operating subsidiaries were met through debt issuances by PNG Companies, some or all of which were then re-loaned to the individual operating subsidiaries. If the Peoples Gas Acquisition is completed, the Company expects to fund Peoples's future capital expenditures and dividends principally through internally generated funds, as supplemented with incremental external debt financing. Access to both the short-term and long-term capital markets is expected to be a relevant source of funding for capital requirements as the resources required for capital investment remain uncertain for a variety of factors including, but not limited to, uncertainty in environmental and safety policies and regulations, developments in the regulated business and developments in Peoples's non-regulated business. To the extent that events create uncertainty in capital markets, cost of capital and ability to access capital markets may be affected.

Uses of liquidity

Peoples's liquidity and capital requirements are affected primarily by its results of operations, capital expenditures, debt service requirements, tax payments, working capital needs and various regulatory actions.

If the Peoples Gas Acquisition is completed, the Company expects Peoples's anticipated cash needs to be met with cash flow from operations and borrowings.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

Filed as Exhibit 99.1 and incorporated in this Item 9.01 by reference are the historical audited consolidated balance sheets of LDC as of December 31, 2018 and 2017, and the related audited consolidated statements of income and comprehensive income, member's equity and cash flows for each of the three years ended December 31, 2018, together with the notes thereto and the report thereon.

(b) Pro Forma Financial Information.

Filed as Exhibit 99.2 is the unaudited pro forma consolidated combined financial statements of the Company reflecting the Peoples Gas Acquisition as required by this Item 9.01(b). Such financial statements are incorporated by reference into this Item 9.01(b).

(d) Exhibits.

Exhibit No.	Exhibit Description
23.1	Consent of Deloitte & Touche LLP
99.1	Audited consolidated financial statements of LDC Funding LLC as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016
99.2	Unaudited pro forma consolidated combined financial statements reflecting the Acquisition

SIGNATURES

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

Date: April 15, 2019

Aqua America, Inc.

By: /s/ Christopher P. Luning

Christopher P. Luning
Executive Vice President,
General Counsel, and Secretary
(Duly Authorized Officer)

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-223306 and No. 333-219545 on Form S-3 of Aqua America, Inc., of our report dated March 29, 2019 related to the consolidated financial statements of LDC Funding LLC and its subsidiaries as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 appearing in this Current Report on Form 8-K/A of Aqua America, Inc.

DELOITTE & TOUCHE LLP

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
April 15, 2019

LDC Funding LLC

Consolidated Balance Sheets as of December 31, 2018 and 2017, the Related Consolidated Statements of Income, Comprehensive Income, Member’s Equity, and Cash Flows for Each of the Three years in the Period Ended December 31, 2018, and the Related Notes to the Consolidated Financial Statements, and Independent Auditors’ Report

LDC FUNDING LLC

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INDEPENDENT AUDITORS' REPORT

To the Member of LDC Funding LLC
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated financial statements of LDC Funding LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, member's equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LDC Funding LLC and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

March 29, 2019

LDC FUNDING LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,738	$ 27,511
Accounts receivable—net	173,579	189,985
Inventories:		
Materials and supplies	4,629	4,364
Gas stored	44,310	37,904
Prepayments	13,927	9,127
Regulatory assets	23,825	12,940
Other	5,443	4,395
Total current assets	279,451	286,226
INVESTMENTS	5,018	3,733
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,314,883	3,094,524
Accumulated depreciation and amortization	(1,139,672)	(1,097,970)
Total property, plant and equipment—net	2,175,211	1,996,554
DEFERRED CHARGES AND OTHER ASSETS:		
Goodwill	431,839	431,839
Intangible assets—net	87,368	81,176
Regulatory assets	190,020	180,719
Derivative assets		3,003
Other	10,111	6,952
Total deferred charges and other assets	719,338	703,689
TOTAL	$ 3,179,018	$ 2,990,202

(Continued)

LDC FUNDING LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 119,959	$ 92,393
Current portion of long-term debt	7,436	7,891
Interest payable to affiliates		1,506
Accrued interest, payroll and taxes	43,334	45,737
Regulatory liabilities	3,844	2,455
Other	24,408	23,877
Total current liabilities	198,981	173,859
LONG-TERM DEBT	1,539,890	1,883,366
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	190,099	154,327
Asset retirement obligations	47,124	43,400
Pension and other postretirement benefit liabilities	33,104	41,777
Regulatory liabilities	150,253	130,315
Other	20,136	19,260
Total deferred credits and other liabilities	440,716	389,079
Total liabilities	2,179,587	2,446,304
MEMBER'S EQUITY:		
Member's equity	992,431	539,676
Accumulated other comprehensive income	7,000	4,222
Total member's equity	999,431	543,898
TOTAL	$ 3,179,018	$ 2,990,202

See notes to consolidated financial statements. (Concluded)

LDC FUNDING LLC

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In thousands)

	2018	2017	2016
OPERATING REVENUE	$ 913,973	$ 805,087	$ 682,628
OPERATING EXPENSES:			
Purchased gas	392,700	316,543	217,031
Other operations and maintenance	220,330	200,810	191,636
Depreciation and amortization	88,435	77,711	71,545
Other taxes	16,330	12,763	11,739
Total operating expenses	717,795	607,827	491,951
INCOME FROM OPERATIONS	196,178	197,260	190,677
OTHER EXPENSE—Net	9,915	5,939	5,174
INTEREST CHARGES	60,017	48,961	50,699
AFFILIATED INTEREST CHARGES	35,620	29,250	28,950
Total interest charges	95,637	78,211	79,649
INCOME BEFORE INCOME TAXES	90,626	113,110	105,854
PROVISION FOR INCOME TAXES	22,953	54,211	44,938
NET INCOME	$ 67,673	$ 58,899	$ 60,916

See notes to consolidated financial statements.

LDC FUNDING LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(In thousands)

	2018	2017	2016
NET INCOME	$ 67,673	$ 58,899	$ 60,916
COMPREHENSIVE GAIN (LOSS)—Changes in net unrecognized pension and other postretirement benefit costs—net of taxes of $(150), $(14) and $(55) in 2018, 2017, and 2016, respectively	362	(241)	66
COMPREHENSIVE GAIN—Change in fair value of cash flow hedges—net of taxes of $(982), $(63), and $(3,553) in 2018, 2017, and 2016, respectively	2,416	2,355	5,011
COMPREHENSIVE INCOME	$ 70,451	$ 61,013	$ 65,993

See notes to consolidated financial statements.

LDC FUNDING LLC

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(In thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—January 1, 2016	$ 467,236	$ (2,969)	$ 464,267
Net income	60,916		60,916
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $(55)		66	66
Change in fair value of cash flow hedges—net of taxes of $(3,553)		5,011	5,011
Dividends paid to member	(57,635)		(57,635)
BALANCE—December 31, 2016	470,517	2,108	472,625
Capital contribution from member	22,475		22,475
Net income	58,899		58,899
Comprehensive gain (loss):			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $(14)		(241)	(241)
Change in fair value of cash flow hedges—net of taxes of $(63)		2,355	2,355
Dividends paid to member	(12,215)		(12,215)
BALANCE—December 31, 2017	539,676	4,222	543,898
Capital contribution from member	394,807		394,807
Net income	67,673		67,673
Comprehensive gain:			
Changes in unrecognized pension and other postretirement benefit costs—net of taxes of $(150)		362	362
Change in fair value of cash flow hedges—net of taxes of $(982)		2,416	2,416
Dividends paid to member	(9,725)		(9,725)
BALANCE—December 31, 2018	$ 992,431	$ 7,000	$ 999,431

See notes to consolidated financial statements.

LDC FUNDING LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(In thousands)

	2018	2017	2016
OPERATING ACTIVITIES:			
Net income	$ 67,673	$ 58,899	$ 60,916
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	88,435	77,711	71,545
Amortization of debt issuance costs	2,179	2,074	2,470
Deferred provision for income taxes	21,593	51,416	44,374
Provision for doubtful accounts	13,975	11,557	9,161
Changes in:			
Accounts receivable—net	2,431	(59,782)	(30,128)
Inventories	(6,659)	(4,200)	3,557
Regulatory asset/liability—net	(4,030)	1,974	(41,170)
Prepayments	(4,799)	(1,401)	607
Accounts payable—net	15,043	(21,377)	16,853
Accrued interest, payroll and taxes	2,159	(8,808)	(8,431)
Other	(899)	(453)	976
Net cash provided by operating activities	197,101	107,610	130,730
INVESTING ACTIVITIES:			
Plant construction and other property additions—net	(248,650)	(205,880)	(139,337)
Acquisition of Delta Natural Gas Company, Inc—net of cash acquired		(210,079)	
Net cash used in investing activities	(248,650)	(415,959)	(139,337)
FINANCING ACTIVITIES:			
Repayment of borrowings under credit agreement			(7,801)
Repayments under term debt agreement	(7,899)	(387,214)	
Borrowings under revolving credit agreement	291,000	460,000	125,000
Repayments under revolving credit agreement	(236,000)	(417,000)	(69,000)
Payment of capital lease obligation		(18,951)	
Issuance of long-term debt		597,615	
Issuance of affiliated senior notes		90,000	
Payment of debt issuance costs		(7,197)	
Capital contributions from member	400	22,475	
Dividends paid to member	(9,725)	(12,215)	(57,635)
Net cash provided by (used in) financing activities	37,776	327,513	(9,436)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,773)	19,164	(18,043)
CASH AND CASH EQUIVALENTS—Beginning of year	27,511	8,347	26,390
CASH AND CASH EQUIVALENTS—End of year	$ 13,738	$ 27,511	$ 8,347

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

LDC Funding LLC (the “Company,” “we,” “our,” or “us”) is a Delaware limited liability company. It is a wholly-owned direct subsidiary of LDC Parent LLC (“LDC Parent”), which is indirectly owned by SteelRiver Infrastructure Fund North America LP (SRIFNA) and an affiliated fund.

The Company is primarily a natural gas distribution utility operating in Pennsylvania, West Virginia, and Kentucky. Wholly-owned subsidiaries of the Company include five natural gas distribution companies: Peoples Natural Gas Company LLC (“Peoples”), Peoples Gas Company LLC (PGC), Peoples Gas WV LLC (“Peoples Gas WV”), Peoples Gas KY LLC (“Peoples Gas KY”) and Delta Natural Gas Company (“Delta”). The Company also has the following wholly-owned subsidiaries: Peoples Homeworks LLC, PNG Gathering LLC, Delta Resources, LLC (“Delta Resources”), Delgasco, LLC (“Delgasco”) and Enpro, LLC (“Enpro”).

Peoples and PGC are subject to the regulation of the Pennsylvania Public Utility Commission (“PA PUC”), Delta and Peoples Gas KY are subject to the regulation of the Kentucky Public Service Commission, and Peoples Gas WV is subject to the regulation of the West Virginia Public Service Commission.

On September 20, 2017, PNG Companies LLC (PNG), a wholly-owned subsidiary of the Company, acquired Delta Natural Gas Company and its subsidiaries: Delta Resources, Delgasco, and Enpro. Refer to Note 3, *Acquisition of Delta*, for further details.

On October 22, 2018, LDC Parent entered into a Purchase Agreement with Aqua America, Inc., (“Aqua America”) under which Aqua America agreed to acquire all of the issued and outstanding limited liability company membership interests of the Company. Refer to Note 14, *Pending Merger with Aqua America*, for further details.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Use of Estimates—The Company makes certain estimates and assumptions in preparing our financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

Regulation—For regulated businesses subject to state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, the Company defers these costs as regulatory assets, that otherwise would be expensed by nonregulated companies. Likewise, the Company recognizes regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that are not yet incurred. Regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulator.

The Company evaluates whether or not recovery of our regulatory assets through future regulated rates is probable and make various assumptions in our analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If recovery of a regulatory asset is determined to be less than probable, it will be written off and an expense will be recorded in the period such assessment is made. Refer to Note 8, *Regulatory Assets and Liabilities*, for further details.

Recognition of Revenue—The primary types of sales and service activities reported as operating revenue include natural gas distribution services, gas transportation and storage, and other revenues. Regulated gas sales consist primarily of state-regulated retail natural gas sales and related distribution services. Gas transportation and storage consists primarily of regulated sales of gathering, transmission, distribution, and storage services. Also included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers. Other revenue consists primarily of miscellaneous service revenue from gas distribution operations, gas processing and handling revenue, sales of natural gas at market-based rates and contracted fixed prices, sales of gas purchased from third parties, and other gas marketing activities.

The Company records regulated deliveries of natural gas in accordance with the tariff established by the regulator. The Company reads meters and bills customers on a monthly cycle. The billing cycles for customers do not necessarily coincide with the accounting periods used for financial reporting purposes. Revenues primarily include amounts billed to customers on a cycle basis, and unbilled amounts based on estimated usage, applicable customer rates, and weather factors. Refer to Note 6, *Accounts Receivable*, for further details.

Income Taxes—The Company is taxed as a C corporation for federal and state income tax purposes. The Company's taxable income or loss, in addition to the taxable income or loss of the single-member limited liability subsidiary companies treated as disregarded entities for United States federal and Pennsylvania state income tax purposes, is included in the federal and state tax returns filed by the Company.

Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Where permitted by regulatory authorities, the treatment of temporary differences may differ. For those temporary differences, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities; as a result, only a provision for the current tax expense is included in the determination of net income. The Company has not identified any uncertain tax positions as of December 31, 2018. The Company establishes a valuation allowance when it is more likely than not that all, or a portion, of a deferred tax asset will not be realized. As of December 31, 2018 and 2017, no valuation allowances were considered necessary. Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material. Refer to Note 5, *Income Taxes*, for further details.

Cash and Cash Equivalents—The Company considers cash and cash equivalents to include cash on hand, cash in banks, and investments with original maturities of three months or less. Current banking arrangements generally do not require checks to be funded until actually presented for payment. Accounts payable included $2,970 and $1,348 of checks outstanding but not yet presented for payment as of December 31, 2018 and 2017, respectively.

Allowance for Doubtful Accounts—Accounts receivable are presented on the Consolidated Balance Sheets net of estimated uncollectible amounts. The balance within the allowance for doubtful accounts represents estimated uncollectible amounts pertaining to active customer accounts in an amount approximating anticipated losses. Individual accounts are written off against the allowance when the individual account balances are determined to be uncollectible. Refer to Note 6, *Accounts Receivable*, for further details.

Inventories—Materials and supplies inventories are valued using the weighted-average cost method. The Company has stored gas inventories under the weighted-average cost method, which is valued at $38,329 and $33,876 at December 31, 2018 and 2017, respectively. The Company also has stored gas inventory used in local gas distribution operations that is valued using the last-in, first-out (LIFO) method. Under the LIFO method, those inventories were valued at $5,981 and $4,028 at December 31, 2018 and 2017, respectively. Based on the average price of gas purchased during 2018 and 2017, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by approximately $14,312 and $12,580, respectively. The use of two valuation methods for stored gas inventories is necessitated by regulatory accounting. The two methods will continue to be used absent a regulatory order requiring a change.

Fair Value Measurement—The Company reports certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value based on observable and unobservable data. The hierarchy categorizes the inputs into three levels, with the highest priority given to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority given to unobservable inputs (Level 3). The levels of the hierarchy are described below:

Level 1—Unadjusted quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2—Inputs other than Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets, and inputs that are derived from observable market data by correlation or other means.

Level 3—Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

While the Company believes its valuation methods used to assess the classification of financial instruments within the hierarchy are appropriate, the use of different methodologies or assumptions could result in a change in a financial instrument's fair value tier from year to year. Refer to Note 4, *Fair Value Measurements*, for further details.

The carrying values of cash, accounts receivable, accounts payable, accrued expenses, and other accrued liabilities approximate their fair values because of their short-term nature.

Derivative Instruments—Certain of our natural gas purchase and sale contracts qualify as derivatives. All such contracts have been designated as normal purchases and sales and, as such, are accounted for under the accrual basis and are not recorded at fair value in the accompanying financial statements.

Derivative Instruments Not Designated as Hedging Instruments—The Company utilizes requirements contracts, spot purchase contracts and underground storage to meet regulated customers' natural gas requirements. The costs associated with these contracts are recoverable as purchased gas costs. None of our natural gas cost contracts are accounted for using the fair value method of accounting. While some of our natural gas contracts meet the definition of a derivative, the Company has designated these contracts as normal purchases and sales.

Derivative Instruments Designated as Cash Flow Hedging Instruments—Refer to Note 4 *Fair Value Measurements* for further details.

Property, Plant and Equipment—Property, plant, and equipment, including additions and replacements, are recorded at original cost, including labor, materials, asset retirement costs, and other direct and indirect costs, including capitalized interest. The cost of repairs and maintenance, including minor additions and replacements, is charged to expense as incurred. Depreciation of property, plant, and equipment is computed on the straight-line method, based on projected service lives. At retirement, the depreciable cost of property, plant, and equipment, less salvage value, is charged to accumulated depreciation. Refer to Note 7, *Property, Plant and Equipment and Intangible Assets*, for further details.

Cost of removal collections from utility customers and expenditures not representing asset retirement obligations are recorded as regulatory liabilities or regulatory assets. Refer to Note 8 *Regulatory Assets and Liabilities* for further details.

Intangible Assets—Intangible assets predominately include internal-use software and related costs associated with the Company's computerized information systems. In addition to the initial installation of the Company's computerized information systems, new applications continue to be added and capitalized, accordingly. Such assets are being amortized over their estimated useful lives of 10 years for major systems and 5 years for other software applications. Refer to Note 7 *Property, Plant and Equipment and Intangible Assets* for further details.

Amortization expense for intangible assets acquired in a business combination for each of the next five years is as follows:

2019	2020	2021	2022	2023
$ 1,006	$ 847	$ 744	$ 666	$ 600

Asset Retirement Obligations—The Company recognizes asset retirement obligations at fair value, as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. These amounts are capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, the Company estimates fair value using discounted cash flow analyses. The Company reports the accretion of the asset retirement obligations due to the passage of time and the depreciation of the asset retirement costs as a regulatory asset. Refer to Note 10 *Asset Retirement Obligations* for further details.

Impairment of Long-Lived and Intangible Assets—The Company performs an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. Assets are written down to fair value if the sums of their expected future undiscounted cash flows are less than their carrying amounts.

The Company tests goodwill for impairment at least annually at the reporting unit level. A reporting unit is an operating segment, or a business one level below the operating segment (a component) if discrete financial information is prepared and regularly reviewed by segment management. PNG represents an operating segment and reporting unit. The Company evaluated goodwill for impairment as of June 30, 2018 at PNG. There were no impairments recorded in 2018, 2017 or 2016 or historical impairment losses in prior periods.

The changes in the carrying amount of goodwill were as follows:

Balance as of December 31, 2016	$	287,998
Acquisition of Delta		143,841
Balances as of December 31, 2017 and 2018	$	431,839

Debt Issuance Costs—Debt issuance costs are being amortized into interest expense over the term of the debt and are netted against the Company's long-term debt within the Consolidated Balance Sheets. Refer to Note 9 *Long Term Debt* for further information.

Supplemental Disclosures of Cash Flow Information—

		2018		2017		2016
Cash paid (received) during the year for:						
Income taxes (refunded) paid	$	(710)	$	2,092	$	3,733
Interest	$	94,479	$	77,615	$	76,854
Significant non-cash transactions—						
Accrued capital expenditures	$	24,622	$	11,524	$	10,056

Recently Adopted Accounting Pronouncements—In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Income Taxes—Balance Sheet Classification of Deferred Income Tax*, which requires deferred tax liabilities and assets are classified entirely as non-current. This was part of the FASB's simplification initiative intended to reduce cost and complexity in financial reporting while improving or maintaining the efficacy of information reported to investors. As a result of the standard, the Company has presented all deferred tax liabilities and assets, net, as non-current in deferred income taxes on the Consolidated Balance Sheets, retrospectively for all periods presented. The adoption of this standard resulted in an $8,904 reclassification of current deferred income tax assets to long-term deferred income tax liabilities for 2017. Such reclassification and retrospective application also impacted the disclosure of deferred taxes in our footnotes to conform to the presentation on the balance sheet. Refer to Note 5 *Income Taxes* for further details.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits*, which requires the service cost component of pension and postretirement benefit costs be presented within the same line item in the income statement as other compensation costs (except for the amount being capitalized), while other components are to be presented outside the subtotal of operating income and are no longer eligible for capitalization. On January 1, 2018 the Company adopted the updated guidance, which did not have a material impact on its results of operations or financial position. The Company elected to use the practical expedient permitting the use of the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements, which resulted in the reclassification of $2,148 and $1,303 for the years ended December 31, 2017 and 2016, respectively. The Company plans to continue to capitalize into property, plant and equipment all components of net periodic benefit cost for ratemaking purposes and will defer the non-service cost components as a regulatory asset for GAAP reporting purposes.

Recently Issued Accounting Pronouncements—In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of revenue recognition. The core principle of the guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration an entity expects to be entitled to in exchange for those goods or services. ASU 2015-14 delayed the effective date of ASU 2014-09 to annual periods beginning after December 15, 2018. The Company is currently assessing the impacts of adopting this standard, but does not expect a material impact to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability for all leases, including operating leases, with a term in excess of twelve months. ASU Nos. 2018-01, 2018-10, and 2018-11, issued in January and July of 2018, amended several aspects of the new lease guidance. The amendments provide a practical expedient for entities to not evaluate existing or expired land easements that were not previously accounted for as leases under the current guidance, as well as an additional and optional transition method to adopt the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact that the adoption of the standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses*, which will require credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument from the date of initial recognition of that instrument. In contrast, current GAAP is based on an incurred loss model that delays recognition of credit losses until it is probable the loss has been incurred. The new guidance also introduces a new impairment recognition model for available-for-sale securities that will require credit losses for available-for-sale debt securities to be recorded through an allowance account. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging—Targeted Improvements to Accounting for Hedging Activities*, which amends accounting guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new guidance is effective for annual reporting periods beginning after December 15, 2018. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. Previous GAAP did not specifically address the accounting for implementation costs of a hosting arrangement that is a service contract. The updated guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments in this ASU may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement*. The modifications in this update eliminate, amend, and add disclosure requirements for fair value measurements, which are expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The new guidance is effective for annual reporting periods beginning after December 15, 2019. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Changes to the Disclosure Requirements for Defined Benefit Plans*. The modifications in this update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The updated accounting guidance is effective for fiscal years ending after December 15, 2020. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

3. ACQUISITION OF DELTA

On September 20, 2017, the Company acquired 100% of the outstanding shares of Delta for $217,629 in cash. The acquisition is consistent with the Company's long-term growth strategy.

The Company incurred costs related to this acquisition of $4.1 million for the year ended December 31, 2017 which were included on the Consolidated Statements of Income within "Other operations and maintenance."

The following table summarizes the allocation of the fair value of the purchase price for the acquisition on September 20, 2017.

Assets acquired and liabilities assumed:	
Cash	$ 7,550
Inventories	8,710
Other current assets	13,937
Property, plant and equipment	141,797
Other intangibles	6,907
Other assets	13,639
Current liabilities	(17,165)
Long-term debt	(48,931)
Deferred taxes	(46,136)
Other liabilities	(6,520)
Total identifiable net assets	73,788
Goodwill	143,841
Consideration—cash	$ 217,629

4. FAIR VALUE MEASUREMENTS

As of December 31, 2018 and 2017 the Company designated interest rate swaps as cash flow hedges with outstanding notional amounts of $226,550 and $228,850, respectively.

On December 19, 2018 LDC Holdings LLC ("LDC Holdings"), a wholly-owned subsidiary of the Company, amended its existing interest rate swap agreements. Previously to the amendment, the interest rate swap agreements received cash flow hedge accounting. Effective December 19, 2018, the interest rate swap agreements discontinued cash flow hedge treatment, while contemporaneously establishing new cash flow hedge treatment on the amended agreements. The amount in accumulated other comprehensive income ("AOCI"), prior to the amendment is being reclassified into earnings through June 2022. For the years ended December 31, 2018 and 2017 gains or losses on hedging instruments determined to be ineffective were not material. The amount expected to be reclassified to earnings from AOCI during the next 12 months is $2,119. There have been no changes in the valuation techniques used to measure fair value or asset or liability transfers between the levels of the fair value hierarchy for the years ended December 31, 2018 and 2017.

As of December 31, 2018 the carrying value and fair value of the Company's instruments were as follows:

	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets—				
Derivatives—interest rate swaps	$ 1,247	$ —	$ 1,247	$ —
Total assets	$ 1,247	$ —	$ 1,247	$ —
Liabilities—				
Long-term debt—				
Notes payable:				
Fixed	$ 1,106,227	$ —	$ 1,088,802	$ —
Variable	449,550		449,550	
Total liabilities	$ 1,555,777	$ —	$ 1,538,352	$ —

As of December 31, 2017 the carrying value and fair value of the Company's instruments as follows:

	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Assets—				
Derivatives—interest rate swaps	$ 3,003	$ —	$ 3,003	$ —
Total assets	$ 3,003	$ —	$ 3,003	$ —
Liabilities:				
Derivatives—interest rate swaps	$ 76	$ —	$ 76	$ —
Long-term debt:				
Senior Notes Payable to affiliate	393,000		393,000	
Notes payable:				
Fixed	1,111,818		1,133,716	
Variable	396,850		396,850	
Total liabilities	$ 1,901,744	$ —	$ 1,923,642	$ —

5. INCOME TAXES

The Company's income tax expense for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

	2018	2017	2016
Current:			
Federal	$ 121	$ 606	$ 339
State	1,239	2,189	225
Total current	1,360	2,795	564
Deferred:			
Federal	21,685	49,283	39,718
State	131	2,133	4,656
Total deferred	21,816	51,416	44,374
Amortization of deferred investment tax credits—net	(223)		
Total income tax expense	$ 22,953	$ 54,211	$ 44,938

The statutory U.S. federal income tax rate reconciles to our effective income tax rate for the years ended December 31, 2018, 2017 and 2016 as follows:

	2018	2017	2016
U.S. statutory rate	21.0%	35.0%	35.0%
Increases (reductions) resulting from:			
Utility plant differences	(5.3)	(1.8)	1.0
Tax law change		10.7	
State tax items	7.2	3.9	4.6
Employee benefits		0.2	(0.4)
Other	2.4	0.3	2.3
Overall effective tax rate	25.3%	48.3%	42.5%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our net deferred income taxes at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Benefits	$ (12,048)	$ (15,668)
Other	14,492	10,364
Depreciation method and plant-basis differences	235,335	215,169
Income taxes collected through rates	(18,464)	(20,111)
Unrecovered purchased gas costs	14,826	12,251
Bad debts	(8,407)	(7,697)
Net operating loss	(35,635)	(39,981)
Total net deferred income tax liabilities	$ 190,099	$ 154,327

At December 31, 2018 the Company had federal loss carryforwards of $114,188 and state loss carryforwards of $149,843 that begin to expire if unutilized in 2030. There are no uncertain tax positions as of December 31, 2018.

US Federal Tax Reform—On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA made broad and complex changes to the U.S. tax code, including, but not limited to:

- reducing the U.S. federal corporate tax rate from 35 percent to 21 percent;
- eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized;
- providing for full expensing of property acquired after September 27, 2017;
- creating a new limitation on deductible interest expense; and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

Further, the TCJA included changes only affecting the taxation of regulated public utilities. These changes included generally allowing for the continued deductibility of interest expense, not allowing the full expensing of certain property acquired after September 27, 2017, and continuing certain rate normalization requirements for accelerated depreciation benefits.

In accordance with the accounting rules for income taxes, the tax effects of changes in tax laws were recognized in 2017, the period in which the law was enacted, and deferred tax assets and liabilities were re-measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. The effect of the remeasurement resulted in a net decrease to consolidated deferred tax liabilities in the amount of $129,271.

Consistent with state regulatory treatment and the accounting rules for regulated operations, the net decrease in certain deferred income taxes represents excess deferred taxes to be amortized in future periods. As such, a regulatory liability for the excess deferred taxes was recognized. As a result, the Company recognized a regulatory liability of $129,263, inclusive of a gross-up on the excess deferred income taxes, of this amount, $92,527 was related to accelerated tax depreciation benefits which, under rate normalization requirements, are to be amortized over the remaining lives of the related assets.

For all other tax positions, the change in deferred taxes was reflected as a decrease or increase in income tax expense and other comprehensive income. Additionally, in 2017, the remeasurement resulted in the recognition of $12,065 of tax expense, increased other comprehensive income by $831 and decreased its regulatory asset for income taxes through future rates by $11,242.

As of December 31, 2018 and 2017, the balance of the regulatory liability related to TCJA was $148,171 and $129,263, respectively.

The Company recorded its final true-up related to the remeasurement of deferred tax assets and liabilities for which a provisional estimate had been previously recorded. The true-up adjustment was not material. The Company now considers its accounting for the provisional estimates recorded pursuant to SAB 118 of the TCJA complete.

6. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31, 2018 and 2017 were as follows:

	2018	2017
Billed revenue	$ 108,786	$ 105,257
Unbilled revenue	71,354	92,186
Other	6,396	5,927
	186,536	203,370
Less allowance for doubtful accounts	12,957	13,385
Net accounts receivable	$ 173,579	$ 189,985

The following table summarizes the changes within the Company’s allowance for doubtful accounts for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Balance at January 1,	$ 13,385	$ 14,010	$ 17,718
Amounts charged to expense	13,975	11,557	9,161
Accounts written off	(17,758)	(15,421)	(15,856)
Recoveries of accounts written off	3,355	3,239	2,987
Balance at December 31,	$ 12,957	$ 13,385	$ 14,010

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Major classes of utility property, plant, and equipment and their respective balances at December 31, 2018 and 2017 were as follows:

	2018	2017
Transmission	$ 344,020	$ 339,731
Distribution	2,621,314	2,385,377
Storage	50,555	50,425
Gas gathering and processing	122,929	121,666
General and other	158,250	180,542
Plant under construction	17,815	16,783
Total property, plant and equipment	$ 3,314,883	$ 3,094,524

In 2018, 2017 and 2016, depreciation expense was $73,380, $63,796 and $58,820, respectively.

Details of our intangible assets at December 31, 2018 and 2017 were as follows:

	2018	2017
Internal-use software	$ 137,072	$ 132,109
Other intangibles	13,065	6,907
Less—accumulated amortization	(62,769)	(57,840)
Intangible assets—net	$ 87,368	$ 81,176

In 2018, 2017 and 2016, amortization expense was $15,055, $13,915 and $12,725, respectively.

8. REGULATORY ASSETS AND LIABILITIES

The regulatory assets represent costs that are probable to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. The Company's regulatory assets and liabilities are not earning a return.

	December 31, 2018		
	Current	Noncurrent	Total
Regulatory assets:			
Unrecovered purchased gas costs	$ 22,094	$ —	$ 22,094
Income taxes recoverable through future rates		90,498	90,498
Asset retirement obligations		43,956	43,956
Pension/OPEB unrecognized funding costs		12,112	12,112
Cost of removal		30,508	30,508
Other	1,731	12,946	14,677
Total regulatory assets	$ 23,825	$ 190,020	$ 213,845
Regulatory liabilities:			
Tax cuts and Jobs Act	$ —	$ 148,171	$ 148,171
Other	3,844	2,082	5,926
Total regulatory liabilities	$ 3,844	$ 150,253	$ 154,097

	December 31, 2017		
	Current	Noncurrent	Total
Regulatory assets:			
Unrecovered purchased gas costs	$ 6,939	$ —	$ 6,939
Income taxes recoverable through future rates		83,504	83,504
Asset retirement obligations		49,641	49,641
Pension/OPEB unrecognized funding costs		15,710	15,710
Cost of Removal		15,748	15,748
Other	6,001	16,116	22,117
Total regulatory assets	$ 12,940	$ 180,719	$ 193,659
Regulatory liabilities:			
Over-recovered purchased gas costs	$ 727	$ —	$ 727
Tax Cuts and Jobs Act		129,263	129,263
Other	1,728	1,052	2,780
Total regulatory liabilities	$ 2,455	$ 130,315	$ 132,770

Unrecovered and Over-Recovered Purchased Gas Costs—Reflects the differences between actual purchased gas expenses and the levels of recovery for these expenses in current rates. The unrecovered costs are recovered and the over-recovered costs are refunded in future periods, typically within a year, through quarterly and annual filings with the applicable state regulatory agency.

Income Taxes Recoverable Through Future Rates—Represents the deferral and under collection of deferred taxes in the rate making process. In prior years, customer rates were lowered in certain jurisdictions for the benefits of accelerated tax deductions. Amounts are expensed for financial reporting purposes as deferred taxes and are recovered in the rate making process.

Asset Retirement Obligations and Cost of Removal—Rates charged to customers include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement. Costs are recovered over a five-year period after being incurred.

Pension/OPEB Unrecognized Funding Costs—Primarily represents a regulatory asset, net of taxes, for the difference between postretirement expense and changes that would otherwise be recorded to AOCI by certain subsidiaries, and the postretirement expense and AOCI recorded in accordance with GAAP, pursuant to applicable state regulatory agency orders. These costs are expected to be collected through future base rates. Refer to Note 11 *Employee Benefit Plans* for further details.

Tax Cuts and Jobs Act—Represents the obligation to refund to customers the impact of the Tax Cuts and Jobs Act enacted in 2017 including excess accumulated deferred taxes. Such obligation will be passed back to customers through future base rates. Refer to Note 5 *Income Taxes* for further details.

9. LONG-TERM DEBT

Type	Company	Rates	Issue Dates	Due Dates	2018	2017
Affiliated Senior Notes	LDC Funding	7.5%–12%	2010–2017	2020–2047	$ —	$ 393,000
Credit Agreement	LDC Holdings	Variable	2017	2022	226,550	228,850
Senior Secured Notes	PNG	2.9%–6.42%	2010–2017	2018–2032	1,106,227	1,111,818
Revolving Credit Agreement	PNG	Variable	2017	2022	223,000	168,000
Debt issuance costs					(8,451)	(10,411)
					1,547,326	1,891,257
Current portion of long-term debt					(7,436)	(7,891)
Total long-term debt					$ 1,539,890	$ 1,883,366

On December 16, 2013, the Company issued $150,000 of senior notes to Steel River LDC Ventures, LLC (“Ventures”), an entity owned by SRIFNA and an affiliated fund, and then parent of the Company. On the same day, SRIFNA assigned its interests in $47,000 and $106,000 of the Company’s senior notes to Ventures. During 2016, as an equity contribution to LDC Parent, Ventures assigned its interests in the $150,000, $47,000 and $106,000 notes to LDC Parent.

On December 14, 2017, the Company issued $90,000 of Senior Notes to LDC Parent at 7.5% per annum, due December 14, 2047. On December 30, 2018, LDC Parent contributed to the Company the entire amount of the outstanding Affiliated Senior Notes, which was comprised of $393,000 of principal and its associated interest of $1,407 as an equity contribution to LDC Funding.

During 2017, LDC Holdings amended its existing Credit Agreement (“LDC Holdings Credit Agreement”) by increasing the amount to $230,000 and extending the expiration date to June 8, 2022. Under the terms of the agreement, the interest rate options include either London InterBank Offered Rate (“LIBOR”) or the administrative agent bank’s prime interest rate, plus an applicable margin based upon PNG’s credit rating. The LDC Holdings Credit Agreement requires quarterly amortization payments equal to 0.25% of the amended borrowings.

On February 26, 2010, PNG issued $411,000 of Senior Secured Notes under a Note Purchase Agreement dated February 26, 2010. Of the $411,000 Senior Secured Notes, $230,000 had been refinanced under a PNG Credit Agreement prior to January 1, 2017. On December 19, 2013, PNG issued $414,000 of Senior Secured Notes in connection with the Equitable ("EGC") acquisition. During 2017, PNG issued $669,682 of Senior Secured Notes under Supplements to its existing Note Purchase Agreement dated February 26, 2010. A portion of the proceeds was used to pay off $230,000 outstanding related to the PNG Credit Agreement and $150,000 related to the PNG Senior Secured Notes. In addition, $50,500 of this amount was issued in exchange for the surrender of Delta's existing Notes in conjunction with the Delta acquisition and $69,182 was issued in exchange for the surrender of PGC's existing Notes.

During 2017, PNG amended and extended its existing Revolving Credit Agreement dated August 22, 2013 ("PNG Revolving Credit Agreement") with a consortium of financial institutions. PNG is permitted to borrow and repay funds and/or issue letters of credit up to a total commitment of $500,000 through June 8, 2022, subject to a $50,000 sublimit for letters of credit. At December 31, 2018 and 2017, outstanding borrowings under the PNG Revolving Credit Agreement were $223,000 and $168,000, respectively. At December 31, 2018 and 2017, total outstanding letters of credit were $4,727. Under the terms of the agreement, interest rate options include either LIBOR or the administrative agent bank's prime interest rate, plus an applicable margin based upon PNG's credit rating. Commitment fees on the unused portion of the total commitment are also based upon PNG's credit rating.

As of December 31, 2018, the aggregated future maturities of long-term debt are as follows:

2019	2020	2021	2022	2023	Thereafter
$ 7,436	$ 188,436	$ 27,073	$ 546,423	$ 182,409	$ 604,000

Covenants and Other Terms—The Senior Secured Notes, Credit Agreement, and Revolving Credit Agreement contain usual and customary negative covenants that require the Company to meet certain minimum leverage and interest coverage ratio covenants, and also contain usual and customary provisions regarding the acceleration of payments. In the event of certain defaults by the Company under these agreements, the lenders will have no further obligation to extend credit, and in some cases, any amounts owed by the Company will automatically become immediately due and payable. As of December 31, 2018 and 2017, the Company was in compliance with the covenants under the Senior Secured Notes, Credit Agreement, and Revolving Credit Agreement.

The Company's obligations under the Senior Secured Notes, Credit Agreement, and Revolving Credit Agreement are secured by the tangible and intangible assets of the Company and/or its subsidiaries, as specified in each agreement.

At December 31, 2018 and 2017, the unamortized debt issuance costs were $8,451, and $10,411, respectively. Total debt issuance costs amortized or expensed as interest expense during 2018, 2017 and 2016 were $2,179, $2,074 and $2,471, respectively.

Accrued interest related to debt instruments was $6,478 and $6,373 at December 31, 2018 and 2017, respectively, which was included on the Consolidated Balance Sheets within “Accrued interest, payroll, and taxes.”

Surety Bonds—As of December 31, 2018 and 2017, the Company purchased surety bonds of $8,468 and $7,813, respectively, to facilitate commercial transactions with third parties.

10. ASSET RETIREMENT OBLIGATIONS

The Company’s asset retirement obligations are primarily associated with the interim retirements of natural gas gathering, transmission, distribution, production wells, and storage pipeline components. These obligations result from certain safety and environmental activities that the Company is required to perform when any pipeline is abandoned. The Company also has asset retirement obligations related to the retirement of the gas storage wells in our underground natural gas storage network. The Company currently does not have sufficient information to estimate a reasonable range of expected retirement dates for any of these wells. Thus, asset retirement obligations for those assets will not be reflected in our consolidated financial statements until sufficient information becomes available to determine a reasonable estimate of the fair value of the activities to be performed. Generally, this will occur when the expected retirement or abandonment dates are determined by our operations engineering department.

The changes to the Company’s asset retirement obligations during 2018 and 2017 were as follows:

	2018	2017
Total asset retirement obligations—January 1	$ 45,241	$ 40,745
Obligations acquired in acquisition		4,093
Liabilities incurred	4,080	4,107
Obligations settled during the period	(3,124)	(6,325)
Regulatory asset—accretion	2,930	2,621
Total asset retirement obligations—December 31	49,127	45,241
Less: current portion	2,003	1,841
Non-current asset retirement obligations—December 31	$ 47,124	$ 43,400

11. EMPLOYEE BENEFIT PLANS

The Company provides certain benefits to eligible active employees, retirees, and qualifying dependents. Under the terms of our benefit plans, the Company reserves the right to change, modify, or terminate the plans, unless restricted by collective bargaining.

Strategic investment policies are established for each of the Company’s prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, funded status of the plans, cash disbursement requirements, and the expected long-term rate of return on plan assets. Deviations from the plans’ strategic allocation are a function of short-term actual investment results in the capital markets and/or short-term market movements, which result in the plans’ actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing actual allocations are brought back in line with the target.

The Company's overall objective for investing our pension and other postretirement plan assets is to achieve the best possible long-term rates of return commensurate with prudent levels of risk. To minimize risk funds are broadly diversified among asset classes, investment strategies, and investment advisors.

The Company uses a December 31 measurement date for all employee benefit plans. To determine the expected return on plan assets (a component of net periodic pension cost) the Company uses the market-related value of pension plan assets. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest, and realized and unrealized investment gains and losses. Since the market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

Defined Benefit Plans—The Company provides pension benefits for eligible employees, the provision of which is based upon certain factors, such as job group and hire date. Retirement benefits payable under all plans are based on certain factors, including hire date, years of service, age, and compensation. The Company's contributions to the plans are determined in accordance with the provisions of the Employment Retirement Income Security Act of 1974 ("ERISA"), as well as commitments under base rate cases.

The accumulated benefit obligation for the Company's defined benefit pension plans was $128,741 and $140,826 at December 31, 2018 and 2017, respectively. Under our funding policies, the Company evaluates plan funding requirements annually, usually in the fourth quarter after considering updated plan information from our actuaries. Based on the funded status of the plan and other factors, the Company determines the amount of contributions for the current year, if any.

Postretirement Benefits—The Company also provides limited postretirement health care benefits and life insurance benefits ("Postretirement Benefits") for employees, the provisions of which are based upon certain factors, such as job group and hire date.

Retiree health care and life insurance benefits are provided for the Company's union and salaried employee groups through separately administered other postretirement benefit plans. Annual premiums for both programs are negotiated as part of the Company's group policies and are dependent upon market trends and overall group experience. Annual employee contributions are based on several factors, such as age, retirement date, and years of service.

The Company, through Peoples and PGC, has established Voluntary Employees' Beneficiary Association ("VEBA") trusts for its Postretirement Benefits. Contributions to the VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code, and are made to fund employees' Postretirement Benefits. In accordance with ratemaking standards recognized by the PA PUC, the Company deposits, into irrevocable trusts, amounts equal to the postretirement benefits expenses determined in accordance with authoritative guidance for postretirement benefit plans. The trusts' assets will be used for the payment of Postretirement Benefits and trust administration costs.

The following tables summarize the changes in the Company's defined benefit and other postretirement benefit plan obligations and plan assets, fair value measurements, components of net periodic benefit costs, and expected payments of future service.

Periods Ended December 31	Defined Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Change in benefit obligation:				
Benefit obligation—beginning of year	$ 144,508	$ 105,619	$ 52,983	$ 47,776
Service cost	977	259	2,243	1,913
Interest cost	5,184	4,638	1,802	1,764
Benefits paid	(8,327)	(8,055)	(5,478)	(4,853)
Participant contributions			848	1,078
Acquisition of Delta		31,718		293
Actuarial (gain) loss during the year	(10,810)	10,329	(7,765)	5,012
Benefit obligation—end of year	131,532	144,508	44,633	52,983
Change in plan assets:				
Fair value of plan assets—beginning of year	126,570	83,437	30,141	27,772
Actual return on plan assets	(6,714)	14,258	(404)	1,690
Employer contributions	4,105	2,419	5,748	4,454
Acquisition of Delta		35,080		
Expenses paid	(326)	(568)		
Benefits paid	(8,327)	(8,055)	(5,478)	(4,853)
Participant contributions			848	1,078
Fair value of plan assets—end of year	115,308	126,570	30,855	30,141
Funded status—end of year	$ 16,224	$ (17,938)	$ (13,778)	$ (22,842)
Amounts recognized in the consolidated balance sheet as of December 31:				
Noncurrent assets	$ 2,867	$ 2,925	$ —	$ —
Current liabilities			(1,464)	(1,928)
Noncurrent liabilities	(19,091)	(20,863)	(12,314)	(20,914)
Net amount recognized	$ (16,224)	$ (17,938)	$ (13,778)	$ (22,842)
Significant assumptions used to determine benefit obligations as of December 31:				
Discount rate	4.42%	3.74%	4.19%	3.48%
Weighted-average rate of increase for compensation	N/A	N/A	5.30	5.30

Periods Ended December 31	Defined Benefits 2018	Defined Benefits 2017	Other Postretirement Benefits 2018	Other Postretirement Benefits 2017
Fair value measurements:				
Level 1:				
Cash equivalents	$ 3,750	$ 7,174	$ 8,608	$ 6,389
Equity	80,196	74,399	5,905	7,110
Fixed income	11,898	21,708	6,590	6,061
Subtotal	95,844	103,281	21,103	19,560
Level 2—fixed income	19,464	23,289	9,752	10,581
Level 3				
Fair value	$ 115,308	$ 126,570	$ 30,855	$ 30,141
Components of net periodic benefit costs:				
Service cost	$ 977	$ 759	$ 2,243	$ 1,913
Interest cost	5,184	4,638	1,802	1,764
Expected return on plan assets	(5,977)	(4,773)	(1,100)	(989)
Amortization of prior service cost			924	996
Amortization of net (gain) loss	723	888	(3)	(376)
Net periodic benefit cost	$ 907	$ 1,512	$ 3,866	$ 3,308
Significant assumptions used to determine periodic cost:				
Discount rate	4.42%	3.74%	4.19%	3.48%
Expected long-term rate of return on plan assets	5.76	5.38	4.20	3.89
Weighted-average rate of increase for compensation	N/A	N/A	5.30	5.30
Health care cost trend ultimate rate			4.50	4.50
Long-term asset allocation policy:				
Equity	60%	65%	—%	—%
Debt	40%	35%	—%	—%
Changes in plan assets and benefit obligations recognized in regulatory assets (other comprehensive income) (Note 8):				
Current year net actuarial (gain) loss	$ 2,208	$ 912	$ (6,261)	$ 4,312
Amortization of prior service cost/(credit)			(924)	(996)
Amortization of actuarial loss	(723)	(888)	3	376
Total recognized in regulatory assets (other comprehensive income) (Note 8)	$ 1,485	$ 24	$ (7,182)	$ 3,692
Expected contributions for 2019	$ 3,211		$ 6,130	
Expected future benefit payments:				
2019	$ 8,590		$ 4,149	
2020	7,719		4,311	
2021	8,142		4,148	
2022	8,822		3,921	
2023	8,682		3,823	
2024–2028	41,597		17,139	

401(k) Savings Plans—In addition to the aforementioned employee benefit plans, the Company has various 401(k) Savings Plans for union and salaried employees. Under these 401(k) Savings Plans, employees can make voluntary contributions into their individual 401(k) Savings Plan accounts. The Company provides matching and non-elective employer contributions to the 401(k) Savings Plans, as stipulated in the plan documents. During 2018, 2017 and 2016, the Company made contributions to the 401(k) Savings Plans of $10,289, $8,754 and $8,258, respectively.

12. COMMITMENTS AND CONTINGENCIES

Commitments

Leases—The Company leases various facilities and equipment under operating leases that are noncancelable. Rental expense totaled $5,259, $5,382, and $5,883 in 2018, 2017 and 2016, respectively, the majority of which is reflected in “Other operations and maintenance” on the Consolidated Statements of Income. The future minimum lease payments are as follows:

2019	2020	2021	2022	2023	Thereafter
$ 7,655	$ 7,704	$ 9,697	$ 9,976	$ 10,111	$ 39,540

Sponsorships—The Company has various continuing commitments for corporate sponsorships. Sponsorship expense totaled $3,107, $3,022, and $2,723 in 2018, 2017 and 2016, respectively, which is reflected in “Other operations and maintenance” on the Consolidated Statements of Income. The future minimum sponsorship payments under long-term agreements, that have initial or remaining terms in excess of one year, are as follows:

2019	2020	2021	2022	2023	Thereafter
$ 3,673	$ 3,308	$ 2,055	$ 1,085	$ 500	$ 7,500

Investments—In September 2014, the Company committed to invest $3,000 in a regional site development fund. An investment of $2,233 has been made through 2018, with a commitment of $767 remaining.

Long-Term Gas Supply Obligations—The retail gas supply of the Company is provided by sources on the interstate pipeline system and from local western Pennsylvania gas well production. The Company has various interstate pipeline service agreements that provide for firm transportation capacity, firm storage capacity, and other services and include capacity reservation charges based upon the maximum daily and annual contract quantities set forth in the agreements. Some of these agreements have minimum volume obligations and are transacted at applicable tariff and negotiated rates for remaining periods of up to 15 years.

Contingencies—In the ordinary course of business, the Company is routinely involved in various disputes, claims, lawsuits, and other regulatory and legal matters, including both asserted and unasserted legal claims. While the outcome of these proceedings is uncertain and a loss in excess of the amount the Company has accrued is possible, though not reasonably estimable, it is the opinion of management that any amounts exceeding the accruals will not have a material adverse impact on our consolidated financial statements.

Loss Contingencies—The Company accrues loss contingencies when our assessments indicate it is probable that a liability has been incurred or an asset will not be recovered and an amount can be reasonably estimated. The Company expenses legal fees as incurred and base our legal liability estimates on currently available facts and our estimates of the ultimate outcome or resolution.

Environmental Matters—The Company is subject to costs resulting from a steadily increasing number of federal, state, and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations and can result in increased capital, operating, and other costs as a result of our compliance, remediation, containment, and monitoring obligations. The Company may sometimes seek recovery of environmental-related expenditures through regulatory proceedings.

13. RELATED PARTY TRANSACTIONS

On January 1, 2014, the Company entered into a management agreement with SRIFNA, which requires an annual management fee of approximately $5,000, paid in equal quarterly installments. The Company paid $4,979 during 2018, 2017 and 2016.

The Company expensed interest to LDC Parent of $35,620, $29,250 and $21,712 during 2018, 2017 and 2016, respectively. The Company expensed interest of $7,238 to Ventures during the first quarter of 2016 prior to assignment to LDC Parent.

14. PENDING MERGER WITH AQUA AMERICA

On October 22, 2018, LDC Parent entered into a Purchase Agreement with Aqua America under which Aqua America agreed to acquire all of the issued and outstanding limited liability company membership interests of the Company.

Subject to the terms and conditions set forth in the Purchase Agreement, at the closing of the merger, Aqua America will pay $4.275 billion in cash to LDC Parent, subject to adjustments for working capital, certain capital expenditures, transaction expenses and closing indebtedness.

The Purchase Agreement contains customary representations and warranties from both LDC Parent and Aqua America, and each party has agreed to customary covenants, including, among others, covenants relating to the conduct of business of the Company prior to the closing, and the use of reasonable efforts to consummate the merger (such as making filings with and seeking approvals from certain governmental entities necessary to complete the merger).

The closing of the merger is subject to certain customary closing conditions, including, among others, (1) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and receipt of the applicable public utilities commission approvals, (2) the absence of any law or governmental order prohibiting the consummation of the merger, (3) the accuracy of the parties' representations and warranties, subject to customary materiality standards, (4) compliance in all material respects of the parties with their applicable covenants under the Purchase Agreement, and (5) the absence of a material adverse effect with respect to the Company and its subsidiaries. The closing of the merger is currently expected to occur in mid-2019.

15. SUBSEQUENT EVENTS

The Company has evaluated events through March 22, 2019, the date that these consolidated financial statements were available to be issued.

On January 28, 2019 Peoples filed a base rate increase request with the PA PUC, proposing an overall net distribution rate increase of $94.9 million per year.

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Exhibit 99.2

UNAUDITED PRO FORMA CONSOLIDATED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma consolidated combined financial statements (the “pro forma financial statements”) have been primarily derived from the separate historical consolidated financial statements of each of Aqua America, Inc. (the “Company”) and LDC Funding LLC (“LDC”), as of and for the year ended December 31, 2018. LDC is the parent of Peoples Natural Gas Company, Peoples Gas Company, Peoples Gas WV LLC, Peoples Gas Kentucky, and Delta Natural Gas Co., Inc., as well as other subsidiaries (collectively with LDC, “Peoples”).

The unaudited pro forma consolidated combined balance sheet as of December 31, 2018 combines the historical consolidated balance sheets of the Company and LDC and gives effect to the acquisition by the Company of all of the issued and outstanding limited liability company membership interests of LDC (the “Acquisition”), as well as the related refinancing of approximately $313.5 million aggregate principal amount of the Company’s outstanding privately placed notes (such notes, the “Privately Placed Notes” and, such refinancing, the “Company Debt Refinancing”) and the financing transactions expected to be completed to fund the Acquisition and the Company Debt Refinancing (the “Financing Transactions”), as if it were completed on December 31, 2018. The unaudited pro forma consolidated combined statement of net income for the year ended December 31, 2018 combines the historical consolidated statements of income of the Company and LDC gives effect to the Acquisition, as well as the Financing Transactions and the Company Debt Refinancing, as if they were completed on January 1, 2018. The historical consolidated financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are: (1) directly attributable to the Acquisition and the related transactions described herein; (2) factually supportable; and (3) with respect to the pro forma statement of net income, expected to have continuing impact on the combined results of the Company and Peoples. As such, the impacts of non-recurring Acquisition-related expenses are not included in the pro forma statement of net income. However, the impacts of such expenses are reflected in the pro forma balance sheet.

The pro forma financial statements should be read together with the accompanying notes to the pro forma financial statements. The pro forma financial statements were based on, and should be read in conjunction with, the following:

- the separate historical audited consolidated financial statements of the Company as of and for the year ended December 31, 2018 and the related notes, included in the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2019; and
- the separate historical audited consolidated financial statements of LDC as of December 31, 2018 and 2017, and for the three years ended December 31, 2018, included as Exhibit 99.1 to this Form 8-K/A.

For purposes of the pro forma financial statements, the Acquisition has been accounted for as a business combination. The unaudited pro forma consolidated combined financial information has been prepared using the acquisition method of accounting in accordance with the business combination accounting guidance as provided in Accounting Standards Codification (“ASC”) 805, *Business Combinations*. The applicable guidance also requires that one party to an acquisition be identified as the acquirer. In accordance with such principles, the Acquisition will be accounted for as an acquisition of Peoples by the Company. The Company plans to assume from Peoples approximately $1.4 billion of senior notes and revolver borrowings, which will reduce the cash purchase price to approximately $2.9 billion (subject to certain other adjustments described in Note 1). The pro forma financial statements give effect to the Financing Transactions, which are expected to be completed to finance the Acquisition, based on current market rates. The actual financing transactions the Company will undertake to complete the Acquisition and the terms of such financing transactions will be subject to market conditions, and actual amounts may differ from the amounts reflected in the pro forma financial statements and accompanying notes, and any differences may be material. The acquisition accounting is dependent upon certain valuation and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. The assets and liabilities of Peoples have been measured based on various preliminary estimates using assumptions that the Company believes are reasonable based on information that is currently available to it. Differences between these preliminary estimates and the final acquisition accounting will occur, and those differences could have a material impact on the accompanying unaudited pro forma combined financial statements and the combined company’s future results of operations and financial position. The pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma combined financial statements prepared in accordance with the rules and regulations of the SEC.

The Company intends to commence the necessary valuation and other studies required to complete the acquisition accounting promptly upon completion of the Acquisition and will finalize the acquisition accounting as soon as practicable within the required measurement period, but in no event later than one year following completion of the Acquisition.

The unaudited pro forma combined financial information has been presented for informational purposes only. The unaudited pro forma combined financial information does not purport to represent the actual results of operations that the Company and Peoples would have achieved had the companies been combined during the periods presented in the unaudited pro forma combined financial statements and is not intended to project the future results of operations that the combined company may achieve after the Acquisition. The unaudited pro forma combined financial information does not reflect any potential divestitures that may occur prior to, or subsequent to, completion of the Acquisition or cost savings that may be realized as a result of the Acquisition and also does not reflect any restructuring or integration-related costs to achieve those potential cost savings. The Acquisition has not yet received the necessary approvals from certain governmental authorities, and the unaudited pro forma combined financial information does not reflect the effect of any regulatory actions that may be taken, which could impact the pro forma financial statements, as any such actions cannot be reasonably predicted at the time of this filing and any such impact is thus not factually supportable.

Unaudited Pro Forma Consolidated Combined Balance Sheet as of December 31, 2018

(in thousands)	Historical Results		Pro Forma Adjustments						
	Aqua America	LDC	Reclassification Adjustments (Note 3)		Acquisition-related Adjustments (Note 5)		Financing-related Adjustments (Note 6)		Pro Forma Combined
Assets									
Property, plant and equipment, at cost	$ 7,648,469	$ 3,314,883	$ 137,071	3(a)	$ (1,201,117)	5(a)	$ —		$ 9,899,306
Less: accumulated depreciation	1,718,143	1,139,672	61,445	3(a)	(1,201,117)	5(a)	—		1,718,143
Net property, plant and equipment	$ 5,930,326	$ 2,175,211	$ 75,626		$ —		$ —		$ 8,181,163
Current assets:									
Cash and cash equivalents	$ 3,627	$ 13,738	$ —		$ (3,056,024)	5(b)	$ 3,099,016	6(a)	$ 60,357
Accounts receivable and unbilled revenues, net	101,225	173,579	—		—		—		274,804
Inventory, materials and supplies	15,844	4,629	—		—		—		20,473
Gas stored - current portion	—	44,310	—		—		—		44,310
Prepayments and other current assets	23,337	13,927	5,443	3(g)	(10,609)	5(c)	—		32,098
Assets held for sale	3,139	—	—		—		—		3,139
Regulatory assets, current portion	—	23,825	—		—		—		23,825
Other	—	5,443	(5,443)	3(g)	—		—		—
Total current assets	$ 147,172	$ 279,451	$ —		$ (3,066,633)		$ 3,099,016		$ 459,006
Regulatory assets, excluding current portion	$ 788,076	$ 190,020	$ —		$ —		$ —		$ 978,096
Deferred charges and other assets, net	39,237	—	26,871	3(b), 3(g), 3(h)	—		—		66,108
Investment in joint venture	6,959	5,018	(5,018)	3(h)	—		—		6,959
Goodwill	52,726	431,839	—		1,720,111	5(d)	—		2,204,676
Intangible assets, net	—	87,368	(87,368)	3(a), 3(b)	—		—		—
Other	—	10,111	(10,111)	3(g)	—		—		—
Total Assets	**$ 6,964,496**	**$ 3,179,018**	**$ —**		**$ (1,346,522)**		**$ 3,099,016**		**$ 11,896,008**
Liabilities and Equity									
Stockholders' equity:									
Common stock	$ 90,576	$ —	$ —		$ —		$ 24,492	6(b)	$ 115,068
Member's equity	—	992,431	—		(992,431)	5(e)	—		—
Capital in excess of par value	820,378	—	—		—		2,263,067	6(b)	3,083,445
Retained earnings	1,174,245	—	—		(43,081)	5(f)	(996)	6(d)	1,130,168
Treasury stock	(75,835)	—	—		—		—		(75,835)
Accumulated other comprehensive income	—	7,000	—		(7,000)	5(e)	—		—
Total Equity	$ 2,009,364	$ 999,431	$ —		$ (1,042,512)		$ 2,286,563		$ 4,252,846
Long-term debt, excluding current portion	$ 2,419,115	$ 1,539,890	$ 8,451	3(d)	$ (251,692)	5(g)	$ 782,600	6(c)	$ 4,498,364
Less: debt issuance costs	20,651	—	8,451	3(d)	(8,451)	5(g)	11,060	6(c)	31,711
Long-term debt, excluding current portion, net of debt issuance costs	$ 2,398,464	$ 1,539,890	$ —		$ (243,241)		$ 771,540		$ 4,466,653
Commitments and contingencies (see Note XX)									
Current liabilities:									
Current portion of long-term debt	$ 144,545	$ 7,436	$ —		$ (2,300)	5(g)	$ 41,300	6(c)	$ 190,981
Loans payable	15,449	—	—		—		—		15,449
Accounts payable	77,331	119,959	—		—		—		197,290
Book overdraft	8,950	—	—		—		—		8,950
Accrued interest	23,300	43,334	(35,600)	3(c)	—		—		31,034
Accrued taxes	22,234	—	9,357	3(c)	—		(387)	6(d)	31,204
Other accrued liabilities	47,389	24,408	25,678	3(c), 3(i)	—		—		97,475
Interest rate swap agreements	59,779	—	—		(59,779)	5(h)	—		—
Regulatory liabilities, current portion	—	3,844	—		—		—		3,844
Total current liabilities	$ 398,977	$ 198,981	$ (565)		$ (62,079)		$ 40,913		$ 576,227
Deferred credits and other liabilities:									
Deferred income taxes and investment tax credits	$ 845,403	$ 190,099	$ —		$ (16,392)	5(i)	$ —		$ 1,019,110
Customers' advances for construction	93,343	—	610	3(i)	—		—		93,953
Regulatory liabilities, excluding current portion	531,027	150,253	—		17,702	5(j)	—		698,982
Asset retirement obligations	—	47,124	(47,124)	3(e)	—		—		—
Pension and other postretirement benefits liabilities	—	33,104	(33,104)	3(f)	—		—		—
Other	97,182	20,136	80,183	3(f), 3(i), 3(e)	—		—		197,501
Total deferred credits and other liabilities	$ 1,566,955	$ 440,716	$ 565		$ 1,310		$ —		$ 2,009,546
Contributions in aid of construction	590,736	—	—		—		—		590,736
Total Liabilities and Equity	**$ 6,964,496**	**$ 3,179,018**	**$ —**		**$ (1,346,522)**		**$ 3,099,016**		**$ 11,896,008**

See the accompanying notes to the unaudited pro forma combined financial statements, which are an integral part of these statements.

Unaudited Pro Forma Consolidated Combined Statement of Net Income for the Twelve Months Ended December 31, 2018

	Historical Results		Pro Forma Adjustments						
(in thousands, except per share amounts)	Aqua America	LDC	Reclassification Adjustments (Note 3)		Acquisition-related Adjustments (Note 5)		Financing-related Adjustments (Note 6)		Pro Forma Combined
Operating revenues	**$838,091**	**$913,973**	**$ —**		**$ —**		**$ —**		**$ 1,752,064**
Operating expenses:									
Operations and maintenance	$308,478	$220,330	$ 12,316	3(j)	$ (19,332)	5(k), 5(l)	$ —		$ 521,792
Purchased gas	—	392,700	—		—				392,700
Depreciation	146,032	88,435	(1,059)	3(k)	—		—		233,408
Amortization	641	—	1,059	3(k)	—		—		1,700
Taxes other than income taxes	59,762	16,330	—		—		—		76,092
Total operating expenses	$514,913	$717,795	$ 12,316		$ (19,332)		$ —		$ 1,225,692
Operating income	**$323,178**	**$196,178**	**$ (12,316)**		**$ 19,332**		**$ —**		**$ 526,372**
Other expense (income):									
Interest expense, net	$ 98,902	$ 60,017	$ (2,964)	3(j), 3(l), 3(m)	$ (7,232)	5(m)	$ 30,957	6(e)	$ 179,680
Affiliated interest charges	—	35,620	—		(35,620)	5(m)			—
Allowance for funds used during construction	(13,023)	—	(388)	3(l)	—		—		(13,411)
Change in fair value of interest rate swap agreements	59,779	—	—		(59,779)	5(n)	—		—
Gain on sale of other assets	(714)	—	—		—		—		(714)
Equity earnings in joint venture	(2,081)	—	—		—		—		(2,081)
Other expense (income)	1,996	9,915	(8,964)	3(j), 3(m)			—		2,947
Income before income taxes	$178,319	$ 90,626	$ —		$ 121,963		$ (30,957)		$ 359,951
Provision for income taxes (benefit)	$ (13,669)	$ 22,953	$ —		$ 34,150	5(o)	$ (8,668)	6(f)	$ 34,766
Net income	$191,988	$ 67,673	$ —		$ 87,813		$ (22,289)		$ 325,185
Net income per share:									
Basic net income per share	$ 1.08								$ 1.34
Diluted net income per share	$ 1.08								$ 1.32
Weighted-average number of shares (in thousands):									
Basic	177,904								243,396
Diluted	178,399								247,193

See the accompanying notes to the unaudited pro forma combined financial statements, which are an integral part of these statements.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED COMBINED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

On October 22, 2018, the Company entered into a purchase agreement (the "Purchase Agreement") with LDC Parent LLC, a Delaware limited liability company ("Seller"), to acquire all of the issued and outstanding limited liability company membership interests of LDC, from Seller. LDC is the parent of Peoples Natural Gas Company, Peoples Gas Company, Peoples Gas WV LLC, Peoples Gas Kentucky and Delta Natural Gas Co., Inc., as well as other subsidiaries. The Seller, along with LDC and all related subsidiaries and affiliates, is indirectly wholly-owned by SteelRiver Infrastructure Fund North America LP ("SRIFNA") and an affiliated fund.

Peoples primarily operates as a regulated natural gas distribution utility company. Peoples also operates under a variety of different proprietary brand names, based on wholly-owned subsidiaries and affiliates, including: PNG Gathering LLC ("PNG"), Delta Natural Gas Company ("Delta"), Delta Resources, LLC ("Delta Resources"), Delgasco, LLC ("Delgasco") and Enpro, LLC ("Enpro").

The Purchase Agreement entered into by the Company and the Seller provides that, as consideration for the Acquisition, the Company will pay $4.275 billion in cash to Seller, subject to adjustments for working capital, certain capital expenditures, transaction expenses and closing indebtedness as set forth in the Purchase Agreement. The Company plans to assume, as a result of the Acquisition, approximately $1.4 billion aggregate principal amount of senior notes and revolver borrowings of PNG Companies, LLC ("PNG Companies"), a Delaware limited liability company and wholly-owned indirect subsidiary of LDC, which will reduce the cash purchase price to approximately $2.9 billion, subject to other adjustments pursuant to the Purchase Agreement as described above. In connection with the Acquisition, the Company will redeem approximately $313.5 million aggregate principal amount of its privately placed notes. The Company expects to finance the Acquisition and the Company Debt Refinancing with the proceeds of the following transactions, which we refer to as the "Financing Transactions":

- Issuance of $750 million of the Company's common stock, par value $0.50 per share ("Common Stock") pursuant to a Stock Purchase Agreement with Canada Pension Plan Investment Board (the "Private Placement") based on an assumed per share price of $34.62
- Issuance of $1,000 million of Common Stock pursuant to a public offering (the "Common Stock Offerings");
- Issuance of $725 million of tangible equity units ("TEUs"), each comprised of a prepaid stock purchase contract and a senior amortizing note (the "TEU Offering"); and
- Issuance of $1,009 million aggregate principal amount of senior notes (such notes, the "Senior Notes" and, such issuance, the "Notes Offering"). In addition, the Company expects to issue an additional $150 million aggregate principal amount of senior notes in connection with the Notes Offering for general corporate purposes, including working capital and capital needs, which additional senior notes and the expected proceeds from the issuance of such additional senior notes are not reflected in the unaudited pro forma consolidated combined financial statements.

The Financing Transactions, as described in further detail in Note 6, are based on the terms and rates the Company expects to achieve based on current market rates or purchase agreements. The actual financing transactions and terms of the financing transactions will be subject to market conditions, and actual amounts may differ from the amounts reflected in the pro forma financial statements and accompanying notes, and any differences may be material. In addition, the Company obtained a commitment (the "Bridge Commitment") from Goldman Sachs Bank USA and Royal Bank of Canada to provide senior unsecured bridge loans (the "Bridge Facility"), in an aggregate amount of up to $5.1 billion, subject to customary conditions set forth in the Bridge Commitment. Subsequently, approximately $1.6 billion of commitments were terminated. The Bridge Commitment will expire upon the earliest to occur of (a) the termination of the Purchase Agreement in accordance with its terms prior to the consummation of the Acquisition, (b) October 22, 2019 (subject to extension, on the terms set forth in the Purchase Agreement, to April 22, 2020 in order to obtain necessary regulatory approvals for the Acquisition) or (c) the consummation of the Acquisition without use of the Bridge Facility. The Bridge Facility is available to, among other things, backstop the Acquisition purchase price and the refinancing of certain debt of the Company in connection therewith. On October 23, 2018, the Company also entered into interest rate swap agreements to mitigate interest rate risk associated with our planned issuance of long-term debt to fund a portion of the Acquisition. The interest rate swaps will be settled upon issuance of the debt to be used to finance a portion of the purchase price of this acquisition. The Company expects to obtain long-term debt and equity financing in the capital markets pursuant to the Financing Transactions to fund the Acquisition in lieu of utilizing the funds available under the Bridge Commitment; however, if we are unable to obtain long-term financing prior to the consummation of the Acquisition we would fund any shortfall with borrowings under the Bridge Facility.

Since the pro forma financial statements have been prepared based upon preliminary estimates, the final amounts recorded at the date of the Acquisition may differ materially from the information presented herein. These preliminary estimates are subject to change pending further review of the assets acquired and the liabilities assumed.

Certain reclassifications have been made to the historical presentation of LDC's financial statements in order to conform to the financial statement presentation of the Company. These reclassifications are discussed further at Note 3.

The Acquisition has been accounted for as a business combination for purposes of the pro forma financial statements. The unaudited pro forma consolidated combined financial information has been prepared using the acquisition method of accounting. In accordance with the acquisition method, Peoples's assets acquired and liabilities assumed have been measured at their estimated fair value. For purpose of measuring the estimated fair value of assets acquired and liabilities assumed, the Company utilizes estimates based on key assumptions of the Acquisition, including historical and current market information. The pro forma adjustments included herein are preliminary and will be revised at the time the Company has completed detailed fair value valuations and analyses.

Costs related to the Acquisition recorded by both Peoples and the Company in each of the respective historical financial statements have been excluded from the pro forma statement of operations for the year ended December 31, 2018 as they reflect non-recurring charges directly related to the transaction. However, these acquisition-related costs have been reflected within the pro forma balance sheet as of December 31, 2018.

Following the closing of the Acquisition we expect to grant stock-based awards under a long-term incentive plan. However, the number and terms of these awards have not yet been determined and have not been finalized at the time of this filing. Therefore, pro forma adjustments to reflect additional compensation expense or adjust the historical employee compensation expenses related to legacy stock compensation plans (including employee stock option plan expense) are not considered factually supportable. Accordingly, they are not reflected within the pro forma consolidated statements of net income, including any related income tax impacts, and pro forma earnings per share.

Note 2. Significant Accounting Policies

The accounting policies used in the preparation of the pro forma financial statements are those set out in the Company's audited financial statements as of December 31, 2018. Management has substantially completed the review of Peoples's accounting policies and based on its analysis to date has determined that no significant adjustments are necessary to conform Peoples's financial statements to the accounting policies used by the Company in the preparation of the pro forma financial statements. Certain reclassifications have been reflected in the pro forma adjustments to conform Peoples's presentation to the Company's in the pro forma financial statements (Note 3). These reclassifications have no effect on previous reported total assets, total liabilities, and shareholders' equity, or income of the Company or Peoples.

Note 3. Reclassification Adjustments

Certain historical consolidated financial statement balances of Peoples have been reclassified in the unaudited pro forma financial statements to conform to the historical consolidated financial statement presentation of the Company.

Adjustments to the Pro Forma Balance Sheet

(a) *Internal-use Software.* Represents the reclassification of Peoples's capitalized internal-use software costs and related amortization within "Intangible assets, net" into the Company's "Property, plant and equipment, at cost, net" line item in order to conform to the Company's balance sheet presentation.

(b) *Intangibles, net*. Represents the reclassification of Peoples's other intangible assets within Peoples's "Intangible assets, net" into the Company's "Deferred charges and other assets, net" line item in order to conform to the Company's balance sheet presentation.

(c) *Accrued Taxes and Payroll*. Represents the reclassification of Peoples's current accrued payroll and accrued taxes within "Accrued interest, payroll and taxes" into the Company's "Other accrued liabilities" and "Accrued taxes" line items, respectively in order to conform to the Company's balance sheet presentation.

(d) *Debt Issuance Costs.* Represents the reclassification of Peoples's unamortized debt issuance costs within "Long-term debt, excluding current portion" into the Company's "Less: debt issuance costs" line item in order to conform to the Company's balance sheet presentation.

(e) *Asset Retirement Obligation*. Represents the reclassification of Peoples's "Asset retirement obligation" into the Company's "Other" line item of non-current liabilities in order to conform to the Company's balance sheet presentation.

(f) *Pension and Other Postretirement Benefits, Non-current*. Represents the reclassification of Peoples's "Pension and other postretirement benefits liabilities" to the Company's "Other" line item of non-current liabilities in order to conform to the Company's balance sheet presentation.

(g) *Other Current Assets and Other Assets*. Represents the reclassification of Peoples's derivative asset, prepaid gas costs and restricted cash within Peoples's "Other" to the Company's "Prepayments and other current assets" line item in order to conform to the Company's balance sheet presentation. In addition, the amounts presented within Peoples's "Other" are reclassified to "Deferred charges and other assets, net."

(h) *Investments.* Represents the reclassification of Peoples's investments to the Company's "Deferred charges and other assets, net" line item in order to conform to the Company's balance sheet presentation.

(i) *Customer Advances.* Represents the reclassification of Peoples's customer advances for construction reclassified within both other current and other noncurrent liabilities into the Company's "Customers' advances for construction" line item in order to conform to the Company's balance sheet presentation.

Adjustments to the Pro Forma Statement of Net Income

(j) *Donations, Penalties and Other Expenses*. Represents the reclassification of Peoples's donations, penalties and other miscellaneous expenses to the Company's "Operations and maintenance" line item in order to conform to the Company's statement of net income presentation.

(k) *Amortization*. Represents the reclassification of certain expenses from Peoples's "Depreciation and amortization" into the Company's "Amortization" line item in order to conform to the Company's statement of net income presentation.

(l) *Allowance for Funds Used in Construction.* Represents the reclassification of allowance for funds used in construction within Peoples's "Interest expense, net" to the Company's "Allowance for funds used during construction" line item in order to conform to the Company's statement of net income presentation.

(m) *Interest and Other Income.* Represents the reclassification of certain interest income recorded by Peoples within "Other" to the Company's "Interest expense, net" line item in order to conform to the Company's statement of net income presentation.

Note 4. Estimated Purchase Price and Preliminary Purchase Price Allocation

At the closing of the Acquisition, the Company will pay $4.275 billion in cash to the Seller, subject to adjustments for working capital, certain capital expenditures, transaction expenses and closing indebtedness as set forth in the Purchase Agreement. The Company plans to assume, as a result of the Acquisition, approximately $1.4 billion aggregate principal amount of senior notes and revolver borrowings of PNG Companies, which will reduce the cash purchase price to approximately $2.9 billion (subject to other adjustments pursuant to the Purchase Agreement, as described above).

The allocation of the preliminary purchase price to the fair values of the assets acquired and liabilities assumed includes pro forma adjustments to the fair values of Peoples's assets and liabilities. As of the time of this filing, the Company has not yet completed a full, detailed valuation analysis necessary to determine the fair values of identifiable assets to be acquired and liabilities to be assumed. The final purchase price allocation will be determined at the time that the Acquisition is completed. The final amounts recorded for the Acquisition may differ materially from the information presented below.

The preliminary calculation of assets acquired and liabilities assumed performed for the purposes of these unaudited pro forma financial statements was primarily limited to the identification and calculation of preliminary values for goodwill, assumed debt, and deferred taxes, all of which resulted in differing fair values when compared to the amounts historically recorded by Peoples. Property, plant, and equipment, net is valued at Peoples's net book value at December 31, 2018 as the net book value is assumed to approximate fair value. Peoples operations are primarily comprised of regulated distribution and transportation of natural gas to customers. The operations are subject to regulation by various rate-setting authorities including the West Virginia Public Service Commission, the Pennsylvania Public Utility Commission and the Kentucky Public Service Commission, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. Therefore, the carrying value of certain Peoples's assets and liabilities, which are subject to these rate-setting provisions, are expected to approximate fair value. As of the date of this filing, the calculations necessary to estimate the fair values of the assets acquired and liabilities assumed have been performed based on publicly available benchmarking information as well as a variety of other assumptions, including market participant assumptions. The Company will continue to refine its identification and valuation of assets to be acquired and the liabilities to be assumed as further information becomes available.

The total cash purchase price is as follows (in thousands):

	Total
Total consideration pursuant to the Purchase Agreement	$ 4,275,000
Less: Aggregate principal amount of assumed Peoples's debt as of December 31, 2018	1,329,227
Total cash purchase price	**$ 2,945,773**

The preliminary purchase price allocation is as follows (in thousands):

	December 31, 2018 LDC Historical Information	Assets and Liabilities Not Assumed	Fair Value Adjustments	Purchase Price Allocation
Cash and cash equivalents	$ 13,738	$ —	$ —	$ 13,738
Accounts receivable and unbilled revenues, net	173,579	—	—	173,579
Inventory, materials and supplies	48,939	—	—	48,939
Prepayments	13,927	(1,247)	—	12,680
Regulatory assets, current portion	23,825	—	—	23,825
Other current assets	5,443	—	—	5,443
Property, plant and equipment, net	2,175,211	—	—	2,175,211
Regulatory assets, excluding current portion	190,020	—	—	190,020
Intangible assets, net	87,368	—	—	87,368
Other non-current assets	15,129	—	—	15,129
Goodwill	431,839	—	1,720,111	2,151,950
Total assets acquired (excluding goodwill)	**$ 3,179,018**	**$ (1,247)**	**$ 1,720,111**	**$ 4,897,882**
Accounts payable	$ 119,959	$ —	$ —	$ 119,959
Current portion of long-term debt	7,436	(2,300)	—	5,136
Other accrued liabilities (current liability)	71,586	—	—	71,586
Long-term debt, excluding current portion, net of debt issuance costs	1,539,890	(224,250)	(18,991)	1,296,649
Deferred income taxes and investment tax credits	190,099	—	361	190,460
Regulatory liabilities, excluding current portion	150,253	—	17,702	167,955
Other (noncurrent liability)	100,364	—	—	100,364
Total liabilities assumed	**$ 2,179,587**	**$ (226,550)**	**$ (928)**	**$ 1,952,109**
Net assets acquired / purchase price	**$ 999,431**			**$ 2,945,773**

Goodwill represents excess of Acquisition consideration over the fair value of the underlying net assets acquired. In accordance with ASC 350, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but instead is reviewed for impairment at least annually, absent any indicators of impairment. Goodwill is attributable to the assembled workforce of Peoples, planned growth in new markets, and planned growth in rate base through continued investment in utility infrastructure. Goodwill recorded in the Acquisition is not expected to be deductible for tax purposes.

Note 5. Acquisition-related Adjustments

Adjustments to the Pro Forma Balance Sheet

(a) *Property, Plant and Equipment.* The pro forma adjustment reflects the elimination of accumulated depreciation. The net carrying amount of property, plant and equipment of Peoples's regulatory operations is expected to approximate fair value. The Company is currently finalizing its fair value analysis of the property, plant and equipment related to non-regulated activities, but the fair value adjustments are not expected to be material.

(b) *Cash.* The pro forma adjustment reflects the payment of cash purchase price, estimated acquisition-related costs and the settlement of the interest rate swap agreements executed on October 23, 2018. The interest rate swaps will be settled upon issuance of the debt to be used to finance a portion of the purchase price of this acquisition and the expected payment was estimated based on the fair value of the interest rate swap liability as of December 31, 2018.

(in thousands)	**Total**
Total cash purchase price	$ (2,945,773)
Estimated acquisition-related payments in 2019	(50,473)
Settlement of the interest rate swap liability	(59,778)
Total adjustment to cash and cash equivalents	**$ (3,056,024)**

(c) *Prepayments and Other Current Assets.* The pro forma adjustment eliminates (1) the fair value of derivative assets of $1.2 million related to designated interest rate swap agreements held by Peoples that will be settled in connection with the Acquisition, and (2) the prepaid underwriter structuring fees of $9.4 million related to the Acquisition that will be expensed prior to closing of the Acquisition.

(d) *Goodwill.* The pro forma adjustment reflects the elimination of Peoples's historical goodwill of $431.8 million and the preliminary estimate of the purchase price paid over the fair value of Peoples's preliminary calculation of identifiable assets acquired and liabilities assumed related to the Acquisition of $2.2 billion.

(e) *Member's Equity and Accumulated Other Comprehensive Income.* The pro forma adjustment reflects the elimination of Peoples's historical members' equity and accumulated other comprehensive income.

(f) *Retained Earnings.* The pro forma adjustment of $43.1 million reflects the payment of additional Acquisition-related expenses of $59.8 million, net of tax of $16.8 million, that are expected to be incurred to complete the Acquisition. These Acquisition-related expenses are directly attributable to the Acquisition and consist principally of legal and advisory fees, underwriter structuring fees and make-whole interest payments to settle debt in connection with the Acquisition. These costs are not reflected in the pro forma statement of net income because they are nonrecurring in nature.

(g) *Long-Term Debt*. The pro forma adjustment represents the settlement of approximately $226.6 million of Peoples's debt (including $2.3 million of the current portion of long-term debt) that will not be assumed in the Acquisition and fair value adjustments to decrease the carrying amount of Peoples's long-term debt by $27.4 million. In addition, the unamortized debt issuance costs of $8.5 million were eliminated upon the fair value re-measurement. The fair value of long-term debt was determined based on prevailing market prices for similar debt issuances as of December 31, 2018, and will be updated upon completion of the Acquisition. The fair value adjustment to Peoples's debt will be amortized as an adjustment to interest expense over the remaining life of the debt. A substantial portion of the debt is related to regulated operations and as such this adjustment to interest expense will be offset equally by an amortization of a corresponding regulatory liability.

(h) *Interest Rate Swap Agreements.* The pro forma adjustment reflects the elimination of the interest rate swap liability of $59.8 million as of December 31, 2018 because the interest rate swap is expected to be settled in connection with the issuance of long-term debt to finance the Acquisition.

(i) *Deferred Income Taxes.* The pro forma adjustment to decrease deferred income tax liabilities represents the estimated tax impact related to fair value adjustments (excluding goodwill) and acquisition-related expenses.

(j) *Regulatory Liabilities.* The pro forma adjustment reflects an increase of $17.7 million to non-current regulatory liabilities related to the fair value adjustment to long-term debt, including the write-off of certain debt issuance costs, related to regulated companies.

Adjustments to the Pro Forma Statement of Net Income

(k) *Management Fee.* The pro forma adjustment reflects the elimination of a $5.0 million management fee charged to Peoples by its parent, SteelRiver Infrastructure Partners, during the year ended December 31, 2018. The management fee has been eliminated in the unaudited pro forma financial statements as the management fee agreements will be terminated in connection with the Acquisition.

(l) *Transaction Costs.* The pro forma adjustment reflects the elimination of Acquisition-related expenses recorded by both the Company and Peoples of $13.8 million and $0.5 million, respectively for the year ended December 31, 2018. The Acquisition-related expenses consisted principally of legal and advisory fees, including underwriter structuring and opinion letter fees, and have been eliminated as they were directly related to the Acquisition and were nonrecurring in nature.

(m) *Interest Expense, net.* The pro forma adjustment reflects the elimination of interest expense for the year ended December 31, 2018 related to Peoples's debt that will not be assumed in the Acquisition, including interest expenses related to certain loans with the parent company of Peoples. In addition, an adjustment is reflected related to the amortization of the pro forma fair value adjustment of Peoples's long-term debt offset by the elimination of deferred costs related to this debt. The effect of the fair value adjustment, offset by the related amortization of the change in regulatory liabilities, is being amortized over the remaining life of the individual debt issuances on an effective rate basis. The final fair value determination will be based on prevailing market interest rates at the completion of the merger and the necessary fair value adjustment will be amortized as an adjustment to interest expense over the remaining life of the individual debt issuances.

(in thousands)		**Total**
Elimination of interest expense related to Peoples's debt not assumed in the Acquisition	$	(7,333)
Adjustment for amortization of the fair value adjustments, net of change in regulatory liability amortization		101
Total adjustment to interest expense, net	**$**	**(7,232)**
Elimination of interest expense related to affiliated debt that was not assumed	**$**	**(35,620)**

(n) *Change in Fair Value of Interest Rate Swap Agreements.* The pro forma adjustment eliminates the change in fair value of the interest rate swap agreements for the year ended December 31, 2018. This amount will not have a continuing impact on the ongoing results of the combined company as the interest rate swap agreements were executed in October 2018 and will be settled prior to or in connection with the Acquisition upon executing permanent debt financing.

(o) *Income Tax Expense.* The pro forma adjustments for the year ended December 31, 2018 include the income tax effects of the pro forma adjustments calculated using an estimated statutory composite income tax rate of 28%. The statutory rate may differ materially from the Company's effective tax rate following the Acquisition and does not consider any historical or future tax events that may impact the combined company.

Note 6. Financing-related Adjustments

The Company has reflected the following Financing Transactions in the pro forma financial statements to fund the Acquisition and the Company Debt Refinancing:

- *Private Placement.* On March 29, 2019, the Company entered into a Stock Purchase Agreement with Canada Pension Plan Investment Board ("CPPIB") pursuant to which CPPIB committed to purchase an aggregate of approximately 21.7 million newly issued shares of Common Stock at the lower of (1) $34.62 per share and (2) the volume weighted average price per share in the Company's subsequent offerings of Common Stock to fund the Acquisition, the Company Debt Refinancing and pay related costs and expenses related thereto. The pro forma financial statements assume a per share price of $34.62. The Company has estimated total net proceeds for the Private Placement of $728.8 million, net of estimated issuance costs of $21.2 million.

- *Common Stock Offering.* The Company expects to offer and issue $1,000 million of Common Stock pursuant to the Common Stock Offering. The pro forma financial statements assume a public offering price in the Common Stock Offering of $36.60, which is the last reported sale price of the Common Stock on the New York Stock Exchange on April 10, 2019, and would result in the issuance of 27.3 million shares in the Common Stock Offering. The Company has estimated total net proceeds for the Common Stock Offering of $975.6 million, net of estimated issuance costs of $24.4 million.

- *TEU Offering.* The Company expects to offer and issue $725 million of TEUs in the TEU Offering. Each TEU will be comprised of two parts: (1) a prepaid stock purchase contract (a "TEU purchase contract") and (2) a senior amortizing note (a "TEU amortizing note") that will pay equal quarterly installments. Unless earlier redeemed by the Company in connection with an acquisition termination redemption or settled earlier at the holder's option or at our option, each TEU purchase contract will, subject to postponement in certain limited circumstances, automatically settle in 2022, and the Company will deliver a specified number of shares of Common Stock per TEU purchase contract based upon applicable settlement rates and the market value of our Common Stock. The TEU amortizing notes are expected to have a specified initial principal amount and a specified interest rate and the Company will make specified payments of interest and partial repayments of principal on quarterly installment payment dates.

  The pro forma financial statements reflect the expected issuance of the TEU purchase contract portion of the TEUs as additional paid-in-capital, net of issuance costs, and the TEU amortizing notes portion of the TEUs as long-term debt, net of debt issuance costs. The amortization of the TEU amortizing notes is calculated using the effective interest method over the life of the TEU amortizing notes. The Company has estimated total net proceeds for the TEU Offering of $708.7 million, net of estimated issuance costs of $16.3 million, which has been allocated to the TEU purchase contracts and TEU amortizing notes based on the relative fair values of the respective components, determined based on the most recent fair market estimates at the timing of this filing. The Company has estimated that the allocation of the net proceeds of TEUs is $125.5 million, net of issuance costs of $2.9 million, for the TEU amortizing notes and $583.2 million, net of issuance costs of $13.4 million, for the TEU purchase contracts.

  Based on the expected structure of the TEUs, the Company currently expects the TEU purchase contracts to meet equity classification. The classification of the TEUs will be subject to detailed assessment once finalized and a different conclusion may result in a material impact on the information presented.

- *Notes Offering.* The Company expects to issue $1,009 million aggregate principal amount of Senior Notes pursuant to the Notes Offering. A weighted average effective interest rate of 3.94% has been assumed based on market rates. The Company has estimated total net proceeds from the Notes Offering of $999.4 million, net of estimated issuance costs of $9.6 million. Of these proceeds, approximately $313.5 million will be used to repay Privately Placed Notes as part of the Company Debt Refinancing. We expect the Privately Placed Notes would be callable in connection with the Acquisition if they were to remain outstanding and therefore their repayment is considered directly attributable to the Acquisition. In addition, the Company expects to issue an additional $150 million aggregate principal amount of senior notes in connection with the Notes Offering for general corporate purposes, including working capital and capital needs, which additional senior notes and the expected proceeds from the issuance of such notes are not reflected in the unaudited pro forma consolidated combined financial statements.

The actual financing transactions the Company will undertake to complete the Acquisition and the terms of such financing transactions will be subject to market conditions, and actual amounts may differ from the amounts reflected in the pro forma financial statements and these accompanying notes. Changes in the amount and terms of financing could materially impact the pro forma financial statements, including the amount of pro forma interest expense and earnings per share.

If the Company is unable to consummate the Financing Transactions or if the proceeds of the Financing Transactions are lower than expected due to declines in the stock price, fair market value or debt pricing, the Company may be required to finance the Acquisition and Company Debt Refinancing by borrowing under the Bridge Commitment. If, in lieu of the Financing Transactions, borrowings under the Bridge Commitment were incurred to finance the Acquisition and the Company Debt Refinancing, pro forma net income would decline by approximately $77.9 million and pro forma diluted net earnings per share would increase by $0.07 per share to $1.39 per share.

Adjustments to the Pro Forma Balance Sheet

(a) *Cash and Cash Equivalents.* The following table summarizes the pro forma adjustments to cash and cash equivalents (in thousands):

(in thousands)	Total
Cash proceeds from the Private Placement, net of estimated equity issuance costs of $21.2 million comprised of underwriter, legal and advisory costs and approximately $4.0 million of reimbursable costs incurred by CPPIB	$ 728,810
Cash proceeds from the Common Stock Offering, net of estimated equity issuance costs of $24.4 million comprised of underwriter, legal and advisory costs	975,572
Cash proceeds from the TEU Offering, net of estimated issuance costs of $16.3 million primarily related to underwriter fees	708,688
Cash proceeds from Notes Offering, less the repayment of approximately $313.5 million of Privately Placed Notes as part of the Company Debt Refinancing	685,946
Total adjustment to cash and cash equivalents	**$ 3,099,016**

(b) *Common Stock and Capital in Excess of Par Value.* The pro forma adjustment reflects the adjustment to common stock based on the par value related to the issuance of 49.0 million shares, par value $0.50 per share, expected to be pursuant to the Private Placement and Common Stock Offering, and the adjustment to capital in excess of par value related to the Private Placement and the Common Stock Offering and the TEU purchase contract portion of the TEUs, as discussed above.

(c) *Debt.* The pro forma adjustments reflect the following:

(in thousands)	Total
Senior Notes issued	$ 1,009,000
TEU amortizing notes issued	128,400
Less: Repayment of the Private Placement Notes as part of Company Debt Refinancing	(313,500)
Less: Pro forma adjustment for current portion of TEU amortizing notes	(41,300)
Total adjustment to long-term debt	**$ 782,600**
Additional debt issuance costs related to Senior Notes	9,554
Additional debt issuance costs related to TEU amortizing notes	2,889
Less: Write-off of debt issuance costs related to Private Placement Notes	(1,383)
Total adjustment to debt issuance costs	**$ 11,060**

(d) *Retained Earnings and Accrued Taxes.* The pro forma adjustment reflects the write-off of unamortized debt issuance costs of $1.3 million, net of income taxes of $0.4 million, related to the Private Placement Notes settled as part of the Company Debt Refinancing.

Adjustments to the Pro Forma Statement of Net Income

(e) *Interest Expense, net*. The pro forma adjustment reflects the following:

(in thousands)		Total
Additional interest expense, including amortization of debt issuance costs, related to Notes Offering	$	39,736
Additional interest expense, including amortization of debt issuance costs, related to the TEU Amortizing Notes		5,553
Elimination of interest expenses related to Private Placement Notes settled as part of the Company Debt Refinancing		(14,332)
Total Adjustment to Interest Expense, net	**$**	**30,957**

The terms of the Senior Notes and TEU Amortizing Notes are subject to change based on completion of the Notes Offering and the TEU Offering. A 0.125% change in the interest rate would affect interest expense by approximately $1.4 million.

(f) *Income Tax Expense.* The pro forma adjustments for the year ended December 31, 2018 include the income tax effects of the pro forma adjustments calculated using an estimated statutory composite income tax rate of 28%.

Note 7. Pro Forma Earnings Per Share

The earnings per share calculations reflect the shares issuable upon settlement of the TEU purchase contracts portion of the TEUs and the shares expected to be issued in connection with the Private Placement and Common Stock Offering. The basic earnings per share includes the minimum shares issuable under the TEU purchase contract of the TEUs and the diluted earnings per share includes the incremental shares that would be issuable assuming a settlement of the TEU purchase contract at the end of the period.

The pro forma earnings per share for the year ended December 31, 2018 is calculated as follows:

Pro Forma Basic and Diluted Earnings Per Share (in thousands)		**December 31, 2018**
Pro forma net income	**$**	**325,185**
Basic weighted average common shares outstanding		
Historical share count		177,904
Additional issuance in the Private Placement		21,661
Minimum shares issuable under the TEU purchase contract portion of the TEUs		16,509
Additional issuance in the Common Stock Offering		27,322
Basic weighted average common shares outstanding used in pro forma net earnings per share		**243,396**
Diluted weighted average common shares outstanding	**$**	**1.34**
Historical share count		178,399
Additional issuance pursuant to the Private Placement		21,661
Additional shares issuable under the TEU purchase contract portion of the TEUs		19,811
Additional issuance in the Common Stock Offering		27,322
Diluted weighted average common shares outstanding used in pro forma net earnings per share		**247,193**
Pro forma net earnings per common share, basic and diluted	**$**	**1.32**