

Aqua America, Inc. and Subsidiaries
 Reconciliation of GAAP to Non-GAAP Financial Measures
 (In thousands, except per share amounts)
 (Unaudited)

The Company is providing disclosure of the reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures provide investors the ability to measure the Company's financial operating performance by adjustment, which is more indicative of the Company's ongoing performance and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results.

This reconciliation includes a presentation of "adjusted income" and "adjusted diluted income per common share." Both of these amounts have been adjusted to exclude the following:

- (1) Transaction-related expenses for the Company's pending Peoples acquisition, which consists of costs of \$12,744 recorded as operations and maintenance expenses for the three months ended June 30, 2019 and \$19,390 for the six months ended June 30, 2019, primarily representing expenses associated with obtaining regulatory approvals, investment banking fees, legal expenses, and integration planning. Additionally, mark-to-market fair value adjustments of \$(11,040) for the three months ended June 30, 2019 and \$23,742 for the six months ended June 30, 2019 associated with our interest rate swap agreements for debt issued related to this transaction are included in transaction-related (income) / expenses. The interest rate swap agreements were settled on April 24, 2019, which coincided with the debt financings to partially fund the Peoples acquisition. Further, expenses of \$18,954 associated with the refinancing of existing debt that occurred in May 2019 are included in transaction-related expenses;
- (2) Pre-acquisition interest expense of \$3,492, net of interest income of \$2,174, commencing in the second quarter of 2019 for funds borrowed for our pending acquisition of Peoples since the acquisition for which the funds were borrowed for is not yet complete;
- (3) On April 26, 2019, the Company issued \$313,500 of notes so as to complete an early extinguishment of \$313,500 of existing debt on May 18, 2019. The Company incurred overlapping interest expense during this 22-day period of \$858, net of interest income earned of \$406, on the borrowed funds, and considers this overlapping net interest expense of \$452 to be a transaction-related expense;
- (4) Interest income earned on the proceeds received from our April 2019 equity offerings of common shares and tangible equity units; and
- (5) The effect on average diluted shares outstanding of the shares issued in April 2019 for our common share and tangible equity unit issuances for our acquisition of Peoples since the acquisition for which the equity offerings were issued for is not yet complete.

This acquisition is expected to close in the fall of 2019, once the remaining regulatory approval is obtained.

These financial measures are measures of the Company's operating performance that do not comply with U.S. generally accepted accounting principles (GAAP), and are thus considered to be "non-GAAP financial measures" under applicable Securities and Exchange Commission regulations. These non-GAAP financial measures are derived from our consolidated financial information, and should only be used as a supplement to our GAAP disclosures.

The following reconciles our GAAP results to the non-GAAP information we disclose :

	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (GAAP financial measure)	\$ 54,903	\$ 66,590	\$ 71,827	\$ 117,429
(1) Plus: transaction-related expenses for the Peoples transaction	20,658	-	62,086	-
(2) Plus: pre-acquisition interest expense for funds borrowed for acquisition of Peoples, net	1,318	-	1,318	-
(3) Plus: overlapping interest expense on refinanced debt	452	-	452	-
(4) Less: interest income earned on proceeds from April 2019 equity offerings	(7,408)	-	(7,408)	-
Less: tax effect	(3,108)	-	(11,736)	-
Adjusted income (Non-GAAP financial measure)	<u>\$ 66,815</u>	<u>\$ 66,590</u>	<u>\$ 116,539</u>	<u>\$ 117,429</u>
Net income per common share (GAAP financial measure):				
Basic	\$ 0.25	\$ 0.37	\$ 0.36	\$ 0.66
Diluted	\$ 0.25	\$ 0.37	\$ 0.36	\$ 0.66
Adjusted income per common share (Non-GAAP financial measure):				
Diluted	\$ 0.37	\$ 0.37	\$ 0.65	\$ 0.66
Average common shares outstanding:				
Basic	219,055	177,901	198,747	177,852
Diluted	<u>219,790</u>	<u>178,273</u>	<u>199,303</u>	<u>178,299</u>
Average common shares outstanding:				
Shares used in calculating diluted net income per common share	219,790	178,273	199,303	178,299
(5) Less: Adjustment for effects of April 2019 common share issuance	(28,336)	-	(14,246)	-
(5) Less: Adjustment for effects of April 2019 tangible equity unit issuance	(12,760)	-	(6,415)	-
Shares used in calculating adjusted diluted income per common share (Non-GAAP financial measure)	<u>178,694</u>	<u>178,273</u>	<u>178,642</u>	<u>178,299</u>