

Essential Utilities, Inc. and Subsidiaries

Reconciliation of GAAP to Non-GAAP Financial Measures

(in thousands of dollars)

(GAAP refers to accounting principles generally accepted in the United States)

(Unaudited)

	Quarters ended				Quarters ended				Years ended December 31,			
	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2018	6/30/2018	9/30/2018	12/31/2018	2019	2018	2017	2016
Operating revenues (GAAP financial measure)	\$ 201,132	\$ 218,892	\$ 243,626	\$ 226,042	\$ 194,347	\$ 211,860	\$ 226,137	\$ 205,747	\$ 889,692	\$ 838,091	\$ 809,525	\$ 819,875
Net income (loss) (GAAP financial measure)	\$ 16,924	\$ 54,903	\$ 88,489	\$ 64,227	\$ 50,839	\$ 66,590	\$ 78,216	\$ (3,657)	\$ 224,543	\$ 191,988	\$ 239,738	\$ 234,182
Add:												
Interest expense, net	27,850	23,309	22,963	25,855	23,471	23,723	25,359	26,349	99,977	98,902	88,341	80,594
Allowance for funds used during construction	(4,056)	(3,611)	(4,613)	(3,892)	(2,867)	(2,577)	(3,066)	(4,513)	(16,172)	(13,023)	(15,211)	(8,815)
Provision for income taxes	(8,170)	(2,171)	(1,553)	(1,123)	(2,131)	(367)	3,935	(15,106)	(13,017)	(13,669)	16,914	20,978
Depreciation	39,074	39,550	39,489	40,066	35,967	36,613	37,457	35,995	158,179	146,032	136,302	130,987
Amortization	336	(2,920)	444	437	130	149	199	163	(1,703)	641	422	2,021
Earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	\$ 71,958	\$ 109,060	\$ 145,219	\$ 125,570	\$ 105,409	\$ 124,131	\$ 142,100	\$ 39,231	\$ 451,807	\$ 410,871	\$ 466,506	\$ 459,947
Transaction-related expenses for acquisition of Peoples	41,428	20,640	2,480	613	-	-	-	73,963	65,161	73,963	-	-
Adjusted earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	\$ 113,386	\$ 129,700	\$ 147,699	\$ 126,183	\$ 105,409	\$ 124,131	\$ 142,100	\$ 113,194	\$ 516,968	\$ 484,834	\$ 466,506	\$ 459,947
Selected operating results as a percentage of operating revenues:												
Net income (loss)	8.4%	25.1%	36.3%	28.4%	26.1%	31.4%	34.6%	-1.8%	25.3%	22.9%	29.6%	28.6%
Add:												
Interest expense, net	13.9%	10.6%	9.4%	11.4%	12.1%	11.2%	11.2%	12.8%	11.2%	11.8%	10.9%	9.8%
Allowance for funds used during construction	-2.0%	-1.6%	-1.9%	-1.7%	-1.5%	-1.2%	-1.4%	-2.2%	-1.8%	-1.6%	-1.9%	-1.1%
Provision for income taxes	-4.1%	-1.0%	-0.6%	-0.5%	-1.1%	-0.2%	1.7%	-7.3%	-1.5%	-1.6%	2.1%	2.6%
Depreciation	19.4%	18.1%	16.2%	17.7%	18.5%	17.3%	16.6%	17.5%	17.8%	17.4%	16.8%	16.0%
Amortization	0.2%	-1.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	-0.2%	0.1%	0.1%	0.2%
Other Non-GAAP adjustments	20.6%	9.4%	1.0%	0.3%	-	-	-	35.9%	7.3%	8.8%	-	-
Adjusted earnings before interest, taxes, depreciation and amortization	56.4%	59.3%	60.6%	55.8%	54.2%	58.6%	62.8%	55.0%	58.1%	57.8%	57.6%	56.1%

Reconciliation of GAAP to Non-GAAP financial measures -

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.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is not a measurement of financial performance under accounting principles generally accepted in the United States. This table presents EBITDA amounts for the quarters and years noted. We believe EBITDA is a relevant and useful indicator of operating performance, as we measure it for management purposes because it provides a better understanding of our results of operations by highlighting our operations and the underlying profitability of our core business. The amounts reported on this reconciliation include the operating results of Essential Utilities' EBITDA for all periods reported.

Adjusted EBITDA amounts for the quarter and years ended December 31, 2019 and December 31, 2018 have been adjusted to exclude the effects of the Company's transaction-related expenses related to the acquisition of Peoples.

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.