

Essential Utilities, Inc. and Subsidiaries
Reconciliation of GAAP to Non-GAAP Financial Measure
(Unaudited)

The Company is providing disclosure of the reconciliation of the Company's outlook of the non-GAAP financial measure "adjusted diluted income per common share" to the most comparable GAAP financial measure "diluted net income per common share." The diluted income per share guidance for 2020 reflects the completion of the Peoples acquisition March 16, 2020. The Company believes that the non-GAAP financial measure "adjusted diluted income per common share" for Essential's 2020 full-year illustrative guidance provides investors the ability to measure the Company's future financial operating performance with adjustments, by providing an estimate of the full-year effects of the Peoples acquisition as if this transaction closed on January 1, 2020. The adjusted results are more indicative of the Company's future performance and are more comparable to measures reported by other companies. The Company believes that the presentation of this non-GAAP financial measure is more indicative of the Company's future performance and is more comparable to measures reported by other companies.

This reconciliation includes a presentation of the non-GAAP financial measure "adjusted diluted income per common share" for Essential's 2020 full-year guidance and has been adjusted for the following items:

- (1) Excludes transaction-related expenses for the Company's Peoples acquisition completed in March 2020, which consisted of costs primarily representing expenses associated with obtaining regulatory approvals, investment banking fees, legal expenses, and integration planning;
- (2) Excludes the impact of Peoples transaction-related rate credits of \$23 million to be granted to Pennsylvania water and gas customers;
- (3) In order to illustrate the full-year 2020 effects of the Peoples acquisition as if this transaction closed on January 1, 2020, this adjustment includes both the estimated impact of Peoples Gas pre-tax operating results for the period in 2020 prior to closing, as well as the additional net interest expense expected to have been incurred for partially funding the estimated purchase price of Peoples;
- (4) Excludes the income tax impact of the non-GAAP adjustments described above.

This financial measure is a measure of the Company's operating performance that does not comply with U.S. generally accepted accounting principles (GAAP), and is thus considered to be a "non-GAAP financial measure" under applicable Securities and Exchange Commission regulations. The non-GAAP financial measure is provided to supplement the Company's GAAP outlook and should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP.

The following reconciles Essential's 2020 full-year guidance GAAP outlook to the non-GAAP information that we have provided:

Diluted net income per common share for Essential's full year 2020 guidance (GAAP financial measure)	\$1.05 to \$1.10
Adjustments on a per share basis:	
(1) Transaction-related expenses for Peoples transaction completed in March 2020	\$0.10
(2) Peoples transaction-related commitment to grant rate credits to utility customers	\$0.09 +/- \$0.01
(3) Adjustment to provide full-year run rate of Peoples operating results, including additional net interest expense	\$0.42
(4) Income tax effect of non-GAAP adjustments	(\$0.15) +/- \$0.02
Adjusted diluted income per common share for Essential's full year 2020 guidance (Non-GAAP financial measure)	\$1.53 to \$1.58