

Essential Utilities, Inc.  
Reconciliation of GAAP to Non-GAAP financial measures  
(in thousands of dollars)  
(GAAP refers to accounting principles generally accepted in the United States)

Essential Utilities, Inc. 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.

Gross margin is not a measurement of financial performance under accounting principles generally accepted in the United States. We believe gross margin is a relevant, useful indicator, and provides a meaningful basis for evaluating our utility operations since purchased gas expenses are included in operating revenues and passed through to customers. Therefore, fluctuations in the cost of purchased gas impact operating revenues on a dollar-for-dollar basis, but do not impact gross margin. The following table shows the reconciliation of gross margin (non-GAAP) to operating revenues (GAAP):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Operating revenues (GAAP)	\$ 434,618	\$ 361,860	\$ 1,582,649	\$ 1,342,457
Purchased gas	52,041	25,488	354,896	202,538
Gross margin (non-GAAP)	<u>\$ 382,577</u>	<u>336,372</u>	<u>\$ 1,227,753</u>	<u>\$ 1,139,919</u>

The term gross margin is not intended to represent operating revenues, the most comparable GAAP financial measure, as an indicator of operating performance. In addition, our measurement of gross margin is not necessarily comparable to similarly titled measures reported by other companies. This non-GAAP financial measure is derived from our consolidated financial statements, and should only be used as a supplement to our GAAP disclosures.