

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6659

**ESSENTIAL UTILITIES, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

23-1702594  
(I.R.S. Employer  
Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania  
(Address of principal executive offices)

19010 -3489  
(Zip Code)

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

N/A  
(Former Name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12(b)-2 of the Exchange Act.:

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.50 par value	WTRG	New York Stock Exchange
6.00% Tangible Equity Units	WTRU	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 27, 2020: 245,041,284

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## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

Assets	March 31, 2020	December 31, 2019
Property, plant and equipment, at cost	\$ 10,795,110	\$ 8,201,936
Less: accumulated depreciation	1,905,274	1,856,146
Net property, plant and equipment	<u>8,889,836</u>	<u>6,345,790</u>
Current assets:		
Cash and cash equivalents	31,848	1,868,922
Accounts receivable, net	179,572	67,137
Unbilled revenues	83,979	40,483
Inventory - materials and supplies	22,224	18,379
Inventory - gas stored	11,693	-
Prepayments and other current assets	32,024	16,259
Regulatory assets	5,110	2,389
Assets held for sale	1,558	1,558
Total current assets	<u>368,008</u>	<u>2,015,127</u>
Regulatory assets	1,186,102	875,743
Deferred charges and other assets, net	61,754	42,652
Investment in joint venture	5,473	5,984
Funds restricted for construction activity	1,223	-
Goodwill	2,351,526	63,822
Operating lease right-of-use assets	65,064	12,867
Total assets	<u>\$ 12,928,986</u>	<u>\$ 9,361,985</u>

The accompanying notes are an integral part of these consolidated financial statements

## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

Liabilities and Equity	March 31, 2020	December 31, 2019
Stockholders' equity:		
Common stock at \$0.50 par value, authorized 300,000,000 shares, issued 248,234,603 and 223,871,284 as of March 31, 2020 and December 31, 2019	\$ 124,117	\$ 111,935
Capital in excess of par value	3,361,586	2,636,555
Retained earnings	1,209,501	1,210,072
Treasury stock, at cost, 3,194,287 and 3,112,565 shares as of March 31, 2020 and December 31, 2019	(82,041)	(77,702)
<b>Total stockholders' equity</b>	<b>4,613,163</b>	<b>3,880,860</b>
Long-term debt, excluding current portion	4,757,427	2,972,349
Less: debt issuance costs	28,393	29,022
Long-term debt, excluding current portion, net of debt issuance costs	4,729,034	2,943,327
Commitments and contingencies (See Note 15)		
Current liabilities:		
Current portion of long-term debt	115,011	105,051
Loans payable	381,005	25,724
Accounts payable	115,611	74,919
Book overdraft	-	10,944
Accrued interest	51,871	29,818
Accrued taxes	41,876	22,775
Regulatory liabilities	31,663	4,612
Other accrued liabilities	90,337	49,618
<b>Total current liabilities</b>	<b>827,374</b>	<b>323,461</b>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,192,900	936,158
Customers' advances for construction	99,447	95,556
Regulatory liabilities	640,503	512,987
Asset retirement obligations	49,272	-
Operating lease liabilities	60,970	11,645
Pension and other postretirement benefit liabilities	110,018	69,406
Other	48,864	33,059
<b>Total deferred credits and other liabilities</b>	<b>2,201,974</b>	<b>1,658,811</b>
Contributions in aid of construction	557,441	555,526
<b>Total liabilities and equity</b>	<b>\$ 12,928,986</b>	<b>\$ 9,361,985</b>

The accompanying notes are an integral part of these consolidated financial statements

## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended March 31,	
	2020	2019
Operating revenues	\$ 255,585	\$ 201,132
Operating expenses:		
Operations and maintenance	106,637	79,314
Purchased gas	12,770	-
Depreciation	45,566	39,074
Amortization	679	336
Taxes other than income taxes	16,436	14,969
Total operating expenses	182,088	133,693
Operating income	73,497	67,439
Other expense (income):		
Interest expense	35,122	27,869
Interest income	(5,035)	(19)
Allowance for funds used during construction	(2,948)	(4,056)
Change in fair value of interest rate swap agreements	-	34,782
Gain on sale of other assets	(105)	(220)
Equity loss (earnings) in joint venture	127	(543)
Other	1,679	872
Income before income taxes	44,657	8,754
Provision for income tax benefit	(7,124)	(8,170)
Net income	\$ 51,781	\$ 16,924
Comprehensive income	\$ 51,781	\$ 16,924
Net income per common share:		
Basic	\$ 0.22	\$ 0.09
Diluted	\$ 0.20	\$ 0.09
Average common shares outstanding during the period:		
Basic	236,122	178,213
Diluted	255,054	178,552

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

	March 31, 2020	December 31, 2019
Stockholders' equity:		
Common stock, \$0.50 par value	\$ 124,117	\$ 111,935
Capital in excess of par value	3,361,586	2,636,555
Retained earnings	1,209,501	1,210,072
Treasury stock, at cost	(82,041)	(77,702)
Total stockholders' equity	<u>4,613,163</u>	<u>3,880,860</u>
Long-term debt of subsidiaries (substantially collateralized by utility plant):		
<u>Interest Rate Range</u>	<u>Maturity Date Range</u>	
0.00% to 0.99%	2023 to 2033	3,225
1.00% to 1.99%	2020 to 2039	10,682
2.00% to 2.99%	2022 to 2033	117,667
3.00% to 3.99%	2020 to 2056	1,148,133
4.00% to 4.99%	2020 to 2059	1,419,071
5.00% to 5.99%	2028 to 2043	65,852
6.00% to 6.99%	2022 to 2036	35,410
7.00% to 7.99%	2022 to 2027	30,540
8.00% to 8.99%	2021 to 2025	4,880
9.00% to 9.99%	2020 to 2026	19,300
		<u>2,854,760</u>
Notes payable to bank under revolving credit agreement, variable rate, due 2023	802,000	-
Unsecured notes payable:		
Bank note at 3.50% due 2020	50,000	50,000
Amortizing notes at 3.00% due 2022	89,751	99,356
Notes ranging from 3.01% to 3.59% due 2029 through 2041	525,000	490,000
Notes at 4.28%, due 2049	500,000	500,000
Notes ranging from 5.64% to 5.95%, due 2020 through 2034	50,927	50,927
	<u>4,872,438</u>	<u>3,077,400</u>
Current portion of long-term debt	115,011	105,051
Long-term debt, excluding current portion	4,757,427	2,972,349
Less: debt issuance costs	28,393	29,022
Long-term debt, excluding current portion, net of debt issuance costs	<u>4,729,034</u>	<u>2,943,327</u>
Total capitalization	<u>\$ 9,342,197</u>	<u>\$ 6,824,187</u>

The accompanying notes are an integral part of these consolidated financial statements

## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
(In thousands of dollars)  
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2019	\$ 111,935	\$ 2,636,555	\$ 1,210,072	\$ (77,702)	\$ 3,880,860
Net income	-	-	51,781	-	51,781
Dividends declared (\$0.2343 per share)	-	-	(52,205)	-	(52,205)
Issuance of common stock from private placement (21,661,095 shares)	10,831	719,304	-	-	730,135
Issuance of common stock from stock purchase contracts (2,335,654 shares)	1,168	(1,168)	-	-	-
Issuance of common stock under dividend reinvestment plan (86,969 shares)	43	4,019	-	-	4,062
Repurchase of stock (81,722 shares)	-	-	-	(4,339)	(4,339)
Equity compensation plan (223,495 shares)	112	(112)	-	-	-
Exercise of stock options (56,106 shares)	28	922	-	-	950
Stock-based compensation	-	2,072	(147)	-	1,925
Other	-	(6)	-	-	(6)
Balance at March 31, 2020	<u>\$ 124,117</u>	<u>\$ 3,361,586</u>	<u>\$ 1,209,501</u>	<u>\$ (82,041)</u>	<u>\$ 4,613,163</u>

The accompanying notes are an integral part of these consolidated financial statements

## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
(In thousands of dollars)  
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2018	\$ 90,576	\$ 820,378	\$ 1,174,245	\$ (75,835)	\$ 2,009,364
Net income	-	-	16,924	-	16,924
Dividends declared (\$0.2190 per share)	-	-	(39,014)	-	(39,014)
Issuance of common stock under dividend reinvestment plan (117,845 shares)	59	3,976	-	-	4,035
Repurchase of stock (52,124 shares)	-	-	-	(1,857)	(1,857)
Equity compensation plan (134,257 shares)	67	(67)	-	-	-
Exercise of stock options (77,479 shares)	39	1,136	-	-	1,175
Stock-based compensation	-	1,929	42	-	1,971
Other	-	(13)	-	-	(13)
Balance at March 31, 2019	<u>\$ 90,741</u>	<u>\$ 827,339</u>	<u>\$ 1,152,197</u>	<u>\$ (77,692)</u>	<u>\$ 1,992,585</u>

The accompanying notes are an integral part of these consolidated financial statements



## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)  
(UNAUDITED)

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 51,781	\$ 16,924
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	46,245	39,410
Deferred income taxes	(18,701)	(8,852)
Provision for doubtful accounts	2,204	803
Stock-based compensation	1,688	1,930
Gain on sale of other assets	(105)	(220)
Interest rate swap agreements	-	34,782
Net change in receivables, inventory and prepayments	22,921	2,263
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(7,531)	(3,402)
Pension and other postretirement benefits contributions	(36)	(3,947)
Other	(2,945)	(404)
Net cash flows from operating activities	<u>95,521</u>	<u>79,287</u>
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$873 and \$1,030	(118,734)	(133,792)
Acquisitions of utility systems, net	(3,446,056)	(469)
Net proceeds from the sale of other assets	160	242
Other	28	462
Net cash flows used in investing activities	<u>(3,564,602)</u>	<u>(133,557)</u>
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,462	1,858
Repayments of customers' advances	(1,065)	(765)
Net proceeds of short-term debt	174,281	17,114
Proceeds from long-term debt	801,184	117,995
Repayments of long-term debt	(11,509)	(41,976)
Change in cash overdraft position	(10,943)	(3,856)
Issuance of common stock under dividend reinvestment plan	4,062	4,035
Issuance of common stock from private placement	730,135	-
Proceeds from exercised stock options	950	1,175
Repurchase of common stock	(4,339)	(1,857)
Dividends paid on common stock	(52,205)	(39,014)
Other	(6)	(13)
Net cash flows from financing activities	<u>1,632,007</u>	<u>54,696</u>
Net change in cash and cash equivalents	(1,837,074)	426
Cash and cash equivalents at beginning of period	1,868,922	3,627
Cash and cash equivalents at end of period	<u>\$ 31,848</u>	<u>\$ 4,053</u>
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	\$ 55,881	\$ 42,594
Non-cash customer advances and contributions in aid of construction	8,637	17,331

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

**Note 1 – Basis of Presentation**

On March 16, 2020 we completed the acquisition of Peoples Natural Gas (the “Peoples Gas Acquisition”), which expanded the Company’s regulated utility business to include natural gas distribution, serving approximately 747,000 natural gas utility customers in western Pennsylvania, West Virginia, and Kentucky. The results of Peoples Natural Gas (“Peoples”) are included in our unaudited Consolidated Financial Statements since the date of the acquisition. See Note 3 – *Acquisitions* for further information and Note 14 – *Segment Information* for information on our reportable segments.

The accompanying consolidated balance sheets and statements of capitalization of Essential Utilities, Inc. and subsidiaries (the “Company”, “we”, “us” or “our”) at March 31, 2020, the consolidated statements of operations and comprehensive income for the three months ended March 31, 2020 and 2019, the consolidated statements of cash flow for the three months ended March 31, 2020 and 2019, and the consolidated statements of equity for the three months ended March 31, 2020 and 2019 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present a fair statement of its consolidated financial position, consolidated changes in equity, consolidated results of operations, and consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2019. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2019 consolidated balance sheet data presented herein was derived from the Company’s December 31, 2019 audited consolidated financial statements but does not include all disclosures and notes normally provided in annual financial statements. The following prior period amounts have been reclassified to conform to the current period presentation:

- In the consolidated balance sheet the presentation of:
  - the current portion of regulatory assets and liabilities
  - pension and other postretirement liabilities, which was formerly presented in non-current liabilities within other
- In the consolidated statements of operations and comprehensive income the presentation of interest expense and interest income, which was formerly presented as interest expense, net.

The preparation of financial statements often requires the selection of specific accounting methods and policies. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in its consolidated balance sheets, the revenues and expenses in its consolidated statements of operations and comprehensive income, and the information that is contained in its summary of significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that the Company includes currently in its consolidated financial statements, summary of significant accounting policies, and notes.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

The current novel coronavirus (“COVID-19”) pandemic has caused significant social and economic restrictions that have been imposed in the United States and abroad, which has resulted in significant volatility in the global economy and led to reduced economic activity. In the preparation of these financial statements and related disclosures, we have assessed the impact that COVID-19 has had on our estimates, assumptions, forecasts, and accounting policies. Because of the essential nature of our business, we do not believe the COVID-19 pandemic had a material impact on our estimates, assumptions and forecasts used in the preparation of our first quarter financial statements, although we continue to monitor this closely. As the COVID-19 situation is unprecedented and ever evolving, future events and effects related to COVID-19 cannot be determined with precision, and actual results could significantly differ from our estimates or forecasts. Refer to *Recent Developments – COVID-19* within Part I Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information.

There have been no changes to the summary of significant accounting policies previously identified in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, other than as described below as a result of the completion of the Peoples Gas Acquisition:

- *Inventories*: The Company accounts for gas in storage inventory using the weighted average cost of gas method.
- *Derivative Instruments*: The Company utilizes requirements contracts, spot purchase contracts and underground storage to meet regulated customers’ natural gas requirements that may have fixed or variable pricing. The variable price contracts qualify as derivative instruments; however, because the contract price is the prevailing price at the future transaction date the contract has no determinable fair value. The fixed price contracts and firm commitments to purchase a fixed quantity of gas in the future qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business and, as such, are accounted for under the accrual basis and are not recorded at fair value in the Company’s consolidated financial statements.
- *Asset Retirement Obligations*: The Company recognizes asset retirement obligations associated with interim retirements of natural gas gathering, transmission, distribution, production wells, and storage pipeline components 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. As the Company is able to recover the cost to retire assets through rates, the Company reports the unrecovered accretion of the asset retirement obligations due to the passage of time and the depreciation of the asset retirement costs as a regulatory asset.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

**Note 2 – Revenue Recognition**

The following table presents our revenues disaggregated by major source and customer class:

	Three Months Ended March 31, 2020				Three Months Ended March 31, 2019		
	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues	Water Revenues	Wastewater Revenues	Other Revenues
Revenues from contracts with customers:							
Residential	\$ 127,014	\$ 22,614	\$ 22,900	\$ -	\$ 114,047	\$ 19,947	\$ -
Commercial	35,300	4,451	3,929	-	30,291	3,566	-
Fire protection	8,646	-	-	-	8,078	-	-
Industrial	6,942	446	433	-	6,865	481	-
Gas transportation	-	-	9,469	-	-	-	-
Other water	7,159	-	-	-	12,808	-	-
Other wastewater	-	724	-	-	-	1,396	-
Other utility	-	-	1,731	3,204	-	-	2,890
Revenues from contracts with customers	185,061	28,235	38,462	3,204	172,089	25,390	2,890
Alternative revenue program	(281)	(22)	82	-	(36)	(113)	-
Other and eliminations	-	-	-	844	-	-	912
Consolidated	<u>\$ 184,780</u>	<u>\$ 28,213</u>	<u>\$ 38,544</u>	<u>\$ 4,048</u>	<u>\$ 172,053</u>	<u>\$ 25,277</u>	<u>\$ 3,802</u>

On March 16, 2020, the Company completed the Peoples Gas Acquisition, which expanded the Company's regulated utility business, to include natural gas distribution. The natural gas revenues of Peoples are included for the period since the date of the acquisition.

**Revenues from Contracts with Customers** – These revenues are composed of four main categories: water, wastewater, natural gas, and other. Water revenues represent revenues earned for supplying customers with water service. Wastewater revenues represent revenues earned for treating wastewater and releasing it into the environment. Natural gas revenues represent revenues earned for the delivery of natural gas to customers. Other revenues are associated fees that relate to our utility businesses but are not water, wastewater, or natural gas revenues. Refer to the description below for a discussion of the performance obligation for each of these revenue streams.

**Tariff Revenues** – These revenues are categorized by customer class: residential, commercial, fire protection, industrial, gas transportation, and other water and other wastewater. The rates that generate these revenues are approved by the respective state utility commission, and revenues are billed cyclically and accrued for when unbilled. Other water and other wastewater revenues consist primarily of fines, penalties, surcharges, and availability lot fees. Our performance obligation for tariff revenues is to provide potable water, wastewater treatment service, or delivery of natural gas to customers. This performance obligation is satisfied over time as the services are rendered. The amounts that the Company has a right to invoice for tariff revenues reflect the right to consideration from the customers in an amount that corresponds directly with the value transferred to the customer for the performance completed to date.

**Other Utility Revenues** – Other utility revenues represent revenues earned primarily from: antenna revenues, which represent fees received from telecommunication operators that have put cellular antennas on our water towers; operation and maintenance and billing contracts, which represent fees earned from municipalities for our operation of their water or wastewater treatment services or performing billing services; fees earned from developers for accessing our water mains; miscellaneous

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

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 performance obligations vary for these revenues, but all are primarily recognized over time as the service is delivered.

**Alternative Revenue Program:**

- **Water / Wastewater Revenues:** These revenues represent the difference between the actual billed utility water and wastewater revenues for Aqua Illinois and the revenues set in the last Aqua Illinois rate case. We recognize revenues based on the target amount established in the last rate case, and then record either a regulatory asset or liability based on the cumulative annual difference between the target and actual, which results in either a refund due to customers or a payment from customers. The cumulative annual difference is either refunded to customers or collected from customers over a nine-month period.
- **Natural Gas Revenues:** These revenues represent the weather-normalization adjustment (“WNA”) mechanism in place for our natural gas customers served in Kentucky. The WNA serves to minimize the effects of weather on the Company’s gross margin for its residential and small commercial natural gas customers. This regulatory mechanism adjusts revenues earned for the variance between actual and normal weather and can have either positive (warmer than normal) or negative (colder than normal) effects on revenues. Customer bills are adjusted in the December through April billing months, with rates adjusted for the difference between actual revenues and revenues calculated under this mechanism billed to the customers.

These revenue programs represent a contract between the utility and its regulators, not customers, and therefore are not within the scope of the Financial Accounting Standards Board’s (“FASB”) accounting guidance for recognizing revenue from contracts with customers.

**Other and Eliminations** – Other and eliminations consist of our market-based revenues, which comprises Aqua Infrastructure and Aqua Resources (described below) and intercompany eliminations for revenue billed between our subsidiaries.

Aqua Infrastructure is the holding company for our 49% investment in a joint venture that operates a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale of north central Pennsylvania. The joint venture earns revenues through providing non-utility raw water supply services to natural gas drilling companies that enter into water supply contracts. The performance obligation is to deliver non-potable water to the joint venture’s customers. Aqua Infrastructure’s share of the revenues recognized by the joint venture is reflected, net, in equity earnings in joint venture on our consolidated statements of operations and comprehensive income.

Aqua Resources earns revenues by providing non-regulated water services through an operating and maintenance contract, and third-party water and sewer service line protection and repair services. The performance obligations are performing agreed upon contract services to operate the water system, or allowing the use of our logo to a third-party water and sewer service line repair. Revenues are primarily recognized over time as service is delivered.

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**Note 3 – Acquisitions****Peoples Gas Acquisition**

On March 16, 2020 (the “Closing Date”), the Company completed the Peoples Gas Acquisition and paid cash consideration of \$3,465,344, which is subject to adjustment upon completion of a closing balance sheet and the finalization of other adjustments that may occur over the next several months. Peoples is headquartered in Pittsburgh, Pennsylvania and serves approximately 747,000 natural gas utility customers in western Pennsylvania, West Virginia, and Kentucky. The estimated purchase price paid by the Company was determined as follows:

Base purchase price	\$	4,275,000
Adjustments:		
Estimated change in working capital		43,935
Certain estimated capital expenditures		247,500
Assumption of indebtedness		(1,101,091)
Cash consideration	\$	<u>3,465,344</u>

The assumption of \$1,101,091 of indebtedness as of the closing date, consisted of \$920,091 of senior notes and \$181,000 of short-term debt. The acquisition was financed through a series of financing transactions which included the issuance of common stock from a public offering and a private placement, a tangible equity unit offering, and short and long-term debt. Refer to Note 6 – *Capitalization* for further information on these financings.

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The Company accounted for the Peoples Gas Acquisition as a business combination using the acquisition method of accounting. The estimated purchase price is allocated to the net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. The purchase price allocation is preliminary and subject to revision. The Company has not completed the allocation of the purchase price as we are finalizing the valuation of the net assets acquired, including the evaluation of certain acquired contracts, asset retirement obligations, and pension and other postretirement benefits obligations, among others. Additionally, we are finalizing the purchase price for the adjustments provided for in the purchase agreement. The Company expects to finalize the purchase price allocation no later than the first quarter of 2021. Additionally, in the event we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the one year measurement period, and they are related to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement-period adjustment, and we record the offset to goodwill. The preliminary purchase price allocation is as follows:

	March 16, 2020
Property, plant and equipment, net	\$ 2,468,946
Current assets	241,372
Regulatory assets	288,665
Goodwill	2,287,677
Other long-term assets	82,528
Total assets acquired	<u>5,369,188</u>
Current portion of long-term debt	5,136
Loans payable	181,000
Other current liabilities	182,622
Long-term debt	999,460
Deferred income taxes	245,701
Regulatory liabilities	134,875
Other long-term liabilities	155,050
Total liabilities assumed	<u>1,903,844</u>
Net assets acquired	<u>\$ 3,465,344</u>

The fair value of long-term debt was determined based on prevailing market prices for similar debt issuances as of March 16, 2020, which resulted in an adjustment to increase the carrying amount by \$84,569. The fair value adjustment will be amortized over the remaining life of the debt.

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 for the Peoples Gas Acquisition is not expected to be deductible for tax purposes.

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The Company incurred transaction-related expenses for the Peoples Gas Acquisition, which consists of costs recorded as operations and maintenance expenses for the three months ended March 31, 2020 and 2019 of \$25,397 and \$6,646, respectively, primarily representing expenses associated with investment banking fees, employee related costs, obtaining regulatory approvals, legal expenses, and integration planning. Additionally, mark-to-market fair value adjustments of \$34,782 associated with our interest rate swap agreements for debt issued related to this transaction were incurred in the three months ended March 31, 2019. The interest rate swap agreements were settled on April 24, 2019, which coincided with debt financings to partially fund the Peoples Gas Acquisition.

The results of Peoples have been included in our consolidated financial statements as of the Closing Date. Peoples contributed revenues of \$38,544 and earnings of \$13,398 for the period from the Closing Date to March 31, 2020. The following pro forma summary presents consolidated information as if the Peoples Gas Acquisition had occurred on January 1, 2019:

	Three Months Ended	
	March 31,	
	2020	2019
Operating revenues	\$ 536,653	\$ 598,663
Net income	137,292	68,075

The supplemental pro forma information is not necessarily representative of the actual results that may have occurred for these periods or of the results that may occur in the future. This supplemental pro forma information is based upon the historical operating results of Peoples for periods prior to the Closing Date, and is adjusted to reflect the effect of non-recurring acquisition-related costs, incurred in 2020 and 2019 as if they occurred on January 1, 2019, including \$20,628 (\$25,197 pre-tax) and \$16,464 (\$21,406 pre-tax) of expenses incurred in 2020 and 2019, respectively, primarily associated with investment banking fees, obtaining regulatory approvals, legal expenses and other direct costs of the Peoples Gas Acquisition, adjustments to reflect net acquisition financing as of January 1, 2019 of \$35,812 (\$46,129 pre-tax), the elimination of interest on debt that was not assumed in the acquisition of \$7,084 (\$9,962 pre-tax), and the elimination of a management fee charged quarterly to Peoples by its former parent company of \$885 (\$1,245 pre-tax).



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On October 22, 2018, the Company obtained a commitment (the “Bridge Commitment”) from certain banks to provide senior unsecured bridge loans in an aggregate amount of up to \$5,100,000 to, among other things, backstop the Peoples Gas Acquisition purchase price and refinancing of certain debt of the Company and Peoples. On March 16, 2020, as a result of our completion of the Peoples Gas Acquisition, the Company terminated the Bridge Commitment.

Associated with the approval of the Peoples Gas Acquisition from the Pennsylvania Public Utility Commission, the Company has committed to addressing the replacement of gathering pipe over a seven year timeframe for an estimated cost of \$120,000, which will be recoverable through customer rates. Additionally, the Company has committed to provide \$23,000 of customer rate credits before the end of the year 2020 to its natural gas utility customers and water and wastewater customers served by Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”).

#### ***Water and Wastewater Utility Acquisitions***

In January 2020, the Company acquired the water utility system assets of the City of Campbell, Ohio, which serves 3,126 customers. The total cash purchase price for the utility system was \$7,500. The purchase price allocation for this acquisition consisted primarily of acquired property, plant and equipment.

In December 2019, the Company acquired the wastewater utility system assets of Cheltenham Township, Pennsylvania, which serves 9,887 customers for \$50,250. The preliminary purchase price allocation for this acquisition consisted primarily of property, plant and equipment of \$44,440 and goodwill of \$5,810. Additionally, in 2019, the Company completed seven acquisitions of water and wastewater utility systems in three states adding 2,393 customers. The total purchase price of these utility systems consisted of \$9,437 in cash. The purchase price allocation for these acquisitions consisted primarily of acquired property, plant and equipment. The pro forma effect of the utility systems acquired is not material either individually or collectively to the Company’s results of operations.

In September 2019, Company entered into a purchase agreement to acquire the wastewater utility system assets of the Delaware County Regional Water Quality Control Authority (“DELCORA”), which consists of approximately 16,000 customers, or the equivalent of 198,000 retail customers, in 42 municipalities in Southeast Pennsylvania for \$276,500. The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of this acquisition by the issuance of common stock and by utilizing our revolving credit facility until permanent debt is secured. Closing for our acquisition of DELCORA is expected to occur in late 2020 or early 2021, subject to the timing of the regulatory approval processes.

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In November 2018, the Company entered into a purchase agreement to acquire the wastewater utility system assets of East Norriton Township, Pennsylvania, which serves approximately 4,950 customers for \$21,000. The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of this acquisition by utilizing our revolving credit facility until permanent debt is secured. Closing for our acquisition of East Norriton Township, Pennsylvania is expected to occur in the second quarter of 2020, subject to the timing of the regulatory approval processes.

In addition to the Company's pending acquisitions of DELCORA and East Norriton Township, the Company has a purchase agreement to acquire the wastewater utility system assets of New Garden Township, Pennsylvania, which will add approximately 2,106 customers, for a total purchase price in cash of \$29,500. We plan to finance the purchase price of this acquisition utilizing our revolving credit facility until permanent debt is secured. The purchase price for this acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. Closing for our acquisition of New Garden Township is expected to occur in the fourth quarter of 2020, subject to the timing of the regulatory approval processes.

#### Note 4 – Goodwill

The following table summarizes the changes in the Company's goodwill, by business segment:

	Regulated Water	Regulated Natural Gas	Other	Consolidated
Balance at December 31, 2019	\$ 58,981	\$ -	\$ 4,841	\$ 63,822
Goodwill acquired	118	2,287,677	-	2,287,795
Reclassification to utility plant acquisition adjustment	(91)	-	-	(91)
Balance at March 31, 2020	<u>\$ 59,008</u>	<u>\$ 2,287,677</u>	<u>\$ 4,841</u>	<u>\$ 2,351,526</u>

On March 16, 2020, the Company completed the Peoples Gas Acquisition, which resulted in initial goodwill of \$2,287,677, subject to adjustment over the one year measurement period. Refer to Note 3 – *Acquisitions* for information about the goodwill attributed to our Regulated Natural Gas segment.

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisition upon achieving specific objectives.

#### Note 5 – Assets Held for Sale

In the fourth quarter of 2018, the Company decided to market for sale a water system in Virginia that serves approximately 500 customers. This water system was reported as assets held for sale in the Company's consolidated balance sheet, and in April 2019, the Company completed the sale for proceeds of \$1,882 and recognized a gain on sale of \$403.

In the first quarter of 2017, the Company decided to market for sale a water system in Texas that serves approximately 265 customers. This water system is reported as assets held for sale in the Company's

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consolidated balance sheet, and pending completion of all regulatory approvals, the sale is expected to close in the third quarter of 2020.

**Note 6 – Capitalization**

***Private Placement***

On March 29, 2019, the Company entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Canada Pension Plan Investment Board (the “Investor”), pursuant to which the Company has agreed to issue and sell to the Investor in a private placement (the “Private Placement”) 21,661,095 newly issued shares of common stock, par value \$0.50 per share (the “Common Stock”). On March 16, 2020, in connection with the closing of the Peoples Gas Acquisition the Company closed on the Private Placement and received gross proceeds of \$749,907, less expenses of \$19,772. The Investor has agreed to certain transfer restrictions for a period of 15 months from the closing date of the Peoples Gas Acquisition.

The shares issued and sold to the Investor pursuant to the Private Placement were to be priced at the lower of (1) \$34.62, which represents a 4.5% discount to the trailing 20 consecutive trading day volume weighted average price of the Common Stock ending on, and including, March 28, 2019, and (2) the volume weighted average price per share in the Company’s subsequent public offering of Common Stock to fund a portion of the Peoples Gas Acquisition. Based on the common stock offering noted below, the Private Placement was priced at \$34.62 per share.

The Stock Purchase Agreement contains customary representations, warranties and covenants of the Company and the Investor, and the parties have agreed to indemnify each other for losses related to breaches of their respective representations and warranties. At the closing of the Private Placement, the Company reimbursed the Investor for reasonable out-of-pocket diligence expenses of \$4,000.

***Common Stock / Tangible Equity Unit Issuances***

On April 23, 2019, the Company issued \$1,293,750, less expenses of \$30,651, of its common stock and \$690,000, less expenses of \$16,358, of its tangible equity units (the “Units”), with a stated amount of \$50 per unit. These issuances were part of the permanent financing to close the Peoples Gas Acquisition. The common stock was issued at \$34.62 per share and thus the Private Placement noted above was priced at \$34.62 per share.

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Each Unit consists of a prepaid stock purchase contract and an amortizing note due April 30, 2022, each issued by the Company. Unless earlier settled or redeemed, each stock purchase contract will automatically settle on April 30, 2022 (subject to postponement in limited circumstances) for between 1.1790 and 1.4442 shares of the Company's common stock, subject to adjustment, based upon the applicable market value of the common stock, as described in the final prospectus supplement relating to the Units. During the first quarter of 2020, 1,979,570 stock purchase contracts were early settled by the holders of the contracts, resulting in the issuance of 2,335,654 shares of the Company's common stock. The balance of stock purchase contracts is 7,711,138. The amortizing notes have an initial principal amount of \$8.62909, or \$119,081 in aggregate, and bear interest at a rate of 3.00% per year, and pay equal quarterly cash installments of \$0.75000 per amortizing note (except for the July 30, 2019 installment payment, which was \$0.80833 per amortizing note), that will constitute a payment of interest and a partial repayment of principal, and which cash payment in the aggregate will be equivalent to 6.00% per year with respect to each \$50 stated amount of the Units. The amortizing notes represent unsecured senior obligations of the Company.

The issuance of the common stock and the Units (including the component stock purchase contracts and amortizing notes) were separate public issuances made by means of separate prospectus supplements pursuant to the Company's universal "pay as you go" shelf registration statement, filed with the SEC in February 2018, which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of the Company's common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices.

The Company recorded the issuance of the purchase contract portion of the Units as additional paid-in-capital of \$570,919, less allocable issuance costs of \$13,530, in our financial statements. The Company recorded the amortizing notes portion of the Units of \$119,081 as long-term debt and recorded allocable issuance costs of \$2,828 as debt issuance costs.

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***Long-term Debt and Loans Payable***

Subsequent to the period ended March 31, 2020, on April 3, 2020, the Company entered into a credit agreement that provided the Company with short-term borrowing capacity of up to \$500,000 in unsecured term loans, which matures on April 2, 2021. The Company borrowed the full \$500,000 on April 3, 2020, which is to be used for general corporate purposes and to strengthen its liquidity and cash position, and maximize its financial flexibility in light of the uncertainty surrounding the impact of the COVID-19 pandemic. The proceeds remain on deposit, and the Company will evaluate the timing of repayment based on the development of COVID-19 and its impact on the business. The term loans bear interest at either the Adjusted LIBO Rate or the Alternate Base Rate, as each such term is defined in the Term Loan Agreement. Amounts under the term loan cannot be re-borrowed upon repayment. Additionally, on April 13, 2020, the Company issued \$1,100,000 of long-term debt, less expenses of approximately \$10,900, of which \$500,000 is due in 2030, and \$600,000 is due in 2050 with interest rates of 2.704% and 3.351%, respectively. The Company used the proceeds from this issuance to repay in full the borrowings of \$181,000 of short-term debt assumed in the Peoples Gas Acquisition, \$150,000 of short-term debt issued on March 13, 2020, and to repay borrowings under its existing five year unsecured revolving credit agreement. Further, on May 1, 2020, Aqua Pennsylvania issued \$175,000 of first mortgage bonds, of which \$75,000 is due in 2051, \$50,000 is due in 2055, and \$50,000 is due in 2056 with interest rates of 3.49%, 3.54%, and 3.55%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

On March 13, 2020, in connection with the closing of the Peoples Gas Acquisition, the Company amended its existing five year unsecured revolving credit agreement, which expires in December 2023, to provide the Company with an additional \$300,000 of borrowing capacity, and pursuant to the terms of the revolving credit facility, our borrowing capacity thereunder was further increased by \$150,000 upon the completion of the Peoples Gas Acquisition on March 16, 2020. As a result of these increases, our total borrowing capacity increased to \$1,000,000. Further, on March 13, 2020, the Company entered into a 364 day \$150,000 credit agreement pursuant to which the Company borrowed \$150,000, which was used to fund a portion of the Peoples Gas Acquisition in lieu of additional borrowings under our revolving credit facility, which was subsequently repaid with the proceeds from the Company's April 2020 long-term debt issuance noted above.

The Company completed the Peoples Gas Acquisition on March 16, 2020, which resulted in the assumption of \$1,101,091 of indebtedness, which includes \$920,091 of senior notes and \$181,000 of short-term debt. The senior notes have maturities ranging from 2020 to 2032 and interest rates that range from 2.90% to 6.42%. The short-term debt assumed at closing was repaid with the proceeds from the Company's April 2020 long-term debt issuance noted above.

On April 26, 2019, the Company issued \$900,000 of long-term debt (the "Senior Notes"), less expenses of \$7,931, of which \$400,000 is due in 2029, and \$500,000 is due in 2049 with interest rates of 3.566% and 4.276%, respectively.

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The Company used the net proceeds from the April 2019 issuance of Senior Notes, together with the net proceeds from the common stock offering and tangible equity unit offering noted above, as well as the proceeds from the Private Placement of common stock noted above, to (1) secure funding for the Peoples Gas Acquisition, (2) complete the redemption of \$313,500 aggregate principal amount of certain of the Company's outstanding notes noted below, (3) pay related costs and expenses, and (4) for general corporate purposes.

On May 18, 2019, the Company redeemed \$313,500 of the Company's outstanding notes (the "Company Debt Refinancing") that had maturities ranging from 2019-2037 and interest rates ranging from 3.57-5.83%. Additionally, the Company Debt Refinancing was subject to a make whole payment of \$25,237, and \$18,528 of this payment was expensed in 2019 and was presented in the consolidated statements of operations and comprehensive income on the line item "loss on debt extinguishment." The balance of the payment, or \$6,709, was deferred as a regulatory asset, as it represents an amount by which the Company expects to receive prospective rate recovery.

**Note 7 – Interest Rate Swap Agreements**

In October 2018, the Company entered into interest rate swap agreements to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition and refinance a portion of the Company's borrowings. On April 24, 2019, the Company settled the interest rate swap agreements upon issuance of \$900,000 of long-term debt used to finance a portion of the purchase price of the Peoples Gas Acquisition and redeem \$313,500 of the Company's existing debt. The settlement resulted in a payment by the Company of \$83,520 in April 2019.

The interest rate swaps did not qualify for hedge accounting, and any changes in the fair value of the swaps was included in our earnings. The interest rate swaps were classified as financial derivatives used for non-trading activities. Other than the interest rate swaps, the Company had no other derivative instruments. The Company recorded the fair value of the interest rate swaps by discounting the future net cash flows associated with the debt issuance utilizing level 2 methods and assumptions and recognized either an asset or liability at the balance sheet date.

The following table provides a summary of the amounts recognized in earnings for our interest rate swap agreements:

	Location of Gain (Loss) Recognized	Amount of Gain (Loss) Recognized in Income on Derivatives	
		Three Months Ended March 31,	
		2019	
Derivatives not designated as hedging instrument:			
Interest rate swaps	Other income (expense)	\$	(34,782)

**Note 8 – Financial Instruments**

The Company follows the FASB's accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to

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measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. 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 quarter ended March 31, 2020.

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of March 31, 2020 and December 31, 2019, the carrying amount of the Company's loans payable was \$381,005 and \$25,724, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of uninvested cash and prior to our completion of the Peoples Gas Acquisition on March 16, 2020, the proceeds from the April 2019 issuances of common stock, tangible equity units, and long-term debt for the Peoples Gas Acquisition, which were held in an interest-bearing account, is determined based on Level 1 methods and assumptions. As of March 31, 2020, and December 31, 2019, the carrying amounts of the Company's cash and cash equivalents was \$31,848 and \$1,868,922, respectively, which equates to their fair value. The Company's assets underlying the deferred compensation and non-qualified pension plans are determined by the fair value of mutual funds, which are based on quoted market prices from active markets utilizing Level 1 methods and assumptions. As of March 31, 2020, and December 31, 2019, the carrying amount of these securities was \$22,959 and \$23,419, respectively, which equates to their fair value, and is reported in the consolidated balance sheet in deferred charges and other assets.

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Unrealized gain and losses on equity securities held in conjunction with our non-qualified pension plan is as follows:

	Three Months Ended March 31,	
	2020	2019
Net gain (loss) recognized during the period on equity securities	\$ (54)	\$ 133
Less: net gain / loss recognized during the period on equity securities sold during the period	-	-
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ (54)</u>	<u>\$ 133</u>

The net gain recognized on equity securities is presented on the consolidated statements of operations and comprehensive income on the line item "Other."

The carrying amounts and estimated fair values of the Company's long-term debt is as follows:

	March 31, 2020	December 31, 2019
Carrying amount	\$ 4,872,438	\$ 3,077,400
Estimated fair value	4,964,211	3,324,377

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions.

The Company's customers' advances for construction have a carrying value of \$99,447 as of March 31, 2020, and \$95,556 as of December 31, 2019. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rates. Portions of these non-interest-bearing instruments are payable annually through 2030 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest-bearing feature.



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**Note 9 – Net Income per Common Share**

Basic net income per common share is based on the weighted average number of common shares outstanding and the minimum number of shares to be issued upon settlement of the stock purchase contracts issued under the tangible equity units. Diluted net income per common share is based on the weighted average number of common shares outstanding, potentially dilutive shares, and the expected number of shares to be issued upon settlement of the stock purchase contracts issued under the tangible equity units, based on the applicable market value of our common stock. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The treasury stock method assumes that the proceeds from stock-based compensation are used to purchase the Company's common stock at the average market price during the period. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended March 31,	
	2020	2019
Average common shares outstanding during the period for basic computation	236,122	178,213
Effect of dilutive securities:		
Issuance of common stock from private placement	17,853	-
Tangible equity units	607	-
Employee stock-based compensation	472	339
Average common shares outstanding during the period for diluted computation	<u>255,054</u>	<u>178,552</u>

For the three months ended March 31, 2020, the average common shares outstanding during the period for diluted computation reflects the impact of the issuance of common stock from the March 16, 2020 private placement as if the shares were issued on January 1, 2020.

For the three months ended March 31, 2020, the average common shares outstanding during the period for basic computation includes the weighted-average impact of 10,215,189 shares, based on the minimum number of shares of 9,091,432 to be issued in April 2022 upon settlement of the stock purchase contracts issued in April 2019 under the tangible equity units. Further, for the three months ended March 31, 2020, average common shares outstanding during the period for diluted computation includes the impact of the additional shares to be issued in April 2022 upon settlement of the stock purchase contracts based on the threshold appreciation price of \$42.41.

For the three months ended March 31, 2020, all of the Company's employee stock options were included in the calculations of diluted net income per share as the calculated cost to exercise employee stock options was less than the average market price of the Company's common stock during this period. For the three months ended March 31, 2019, employee stock options to purchase 776,211 shares of common stock were excluded from the calculation of diluted net income per share as the calculated cost to exercise the stock options was greater than the average market price of the Company's common stock

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during this period. Additionally, the dilutive effect of performance share units and restricted share units granted are included in the Company's calculation of diluted net income per share.

**Note 10 – Stock-based Compensation**

Under the Company's Amended and Restated Equity Compensation Plan, (the "Plan") approved by the Company's shareholders on May 2, 2019, to replace the 2004 Equity Compensation Plan, stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The Plan authorizes 6,250,000 shares for issuance under the Plan. A maximum of 3,125,000 shares under the Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the Plan. Awards to employees and consultants under the Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At March 31, 2020, 2,447,574 shares were still available for issuance under the 2009 Plan. No further grants may be made under the Company's 2004 Equity Compensation Plan.

**Performance Share Units** – A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three year performance period specified in the grant, subject to exceptions through the respective vesting period, which is generally three years. Each grantee is granted a target award of PSUs and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals. The following table provides compensation costs for stock-based compensation related to PSUs:

	Three Months Ended	
	March 31,	
	2020	2019
Stock-based compensation within operations and maintenance expenses	\$ 510	\$ 997
Income tax benefit	144	227

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The following table summarizes the PSU transactions for the three months ended March 31, 2020:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	261,398	\$ 16.35
Granted	118,924	52.09
Performance criteria adjustment	18,954	36.77
Forfeited	(653)	36.09
Share units issued	(169,352)	25.75
Nonvested share units at end of period	<u>229,271</u>	

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2020 was \$52.09. The Company did not grant PSUs for the three months ended March 31, 2019. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on the Company's estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

**Restricted Stock Units** – A restricted stock unit (“RSU”) represents the right to receive a share of the Company's common stock. RSUs are eligible to be earned at the end of a specified restricted period, which is generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides the compensation cost and income tax benefit for stock-based compensation related to RSUs:

	Three Months Ended March 31,	
	2020	2019
Stock-based compensation within operations and maintenance expenses	\$ 486	\$ 425
Income tax benefit	136	120

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The following table summarizes the RSU transactions for the three months ended March 31, 2020:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	141,884	\$ 34.39
Granted	68,901	47.10
Stock units vested and issued	(38,643)	31.05
Forfeited	(90)	36.01
Nonvested stock units at end of period	<u>172,052</u>	<u>40.17</u>

The per unit weighted-average fair value at the date of grant for RSUs granted during the three months ended March 31, 2020 and 2019 was \$47.10 and \$36.01, respectively.

**Stock Options** – A stock option represents the option to purchase a number of shares of common stock of the Company as specified in the stock option grant agreement at the exercise price per share as determined by the closing market price of our common stock on the grant date. Stock options are exercisable in installments of 33% annually, starting one year from the grant date and expire 10 years from the grant date, subject to satisfaction of designated performance goals. The fair value of each stock option is amortized into compensation expense using the graded-vesting method, which results in the recognition of compensation costs over the requisite service period for each separately vesting tranche of the stock options as though the stock options were, in substance, multiple stock option grants. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock options:

	Three Months Ended March 31,	
	2020	2019
Stock-based compensation within operations and maintenance expenses	\$ 501	\$ 328
Income tax benefit	142	92

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the application of this valuation model:

	2019
Expected term (years)	5.47
Risk-free interest rate	2.53%
Expected volatility	17.7%
Dividend yield	2.44%
Grant date fair value per option	\$ 5.25

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted-average combination of historical and implied volatilities

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over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The Company did not grant stock options for the three months ended March 31, 2020.

The following table summarizes stock option transactions for the three months ended March 31, 2020:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	1,041,756	\$ 34.22		
Granted	-	-		
Forfeited	(9,516)	35.75		
Exercised	(56,106)	16.93		
Outstanding at end of period	976,134	\$ 35.20	8.6	\$ 5,366
Exercisable at end of period	438,341	\$ 34.43	8.2	\$ 2,750

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**Restricted Stock** – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense that is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis. The following table provides the compensation cost and income tax benefit for stock-based compensation related to restricted stock:

	Three Months Ended March 31,	
	2020	
Stock-based compensation within operations and maintenance expenses	\$	18
Income tax benefit		5

The following table summarizes restricted stock transactions for the three months ended March 31, 2020:

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stock at beginning of period	-	\$ -
Granted	11,952	33.47
Vested	-	-
Nonvested restricted stock at end of period	<u>11,952</u>	<u>\$ 33.47</u>

The weighted-average fair value at the date of grant for restricted stock awards granted during the three months ended March 31, 2020 was \$33.47. The Company did not grant restricted stock for the three months ended March 31, 2019.

**Stock Awards** – Stock awards represent the issuance of the Company’s common stock, without restriction. The issuance of stock awards results in compensation expense that is equal to the fair market value of the stock on the grant date and is expensed immediately upon grant. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock awards:

	Three Months Ended March 31,		
	2020	2019	
Stock-based compensation within operations and maintenance expenses	\$ 175	\$	180
Income tax benefit	51		52

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The following table summarizes stock award transactions for the three months ended March 31, 2020:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	\$ -
Granted	4,207	41.58
Vested	(4,207)	41.58
Nonvested stock awards at end of period	-	-

The weighted-average fair value at the date of grant for stock awards granted during the three months ended March 31, 2020 and 2019 was \$41.58 and \$36.73, respectively.

**Note 11 – Pension Plans and Other Postretirement Benefits**

The Company maintains qualified defined benefit pension plan (the “Pension Plans”), a nonqualified pension plan, and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values and an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company’s employees, mortality, turnover, and medical costs. The following tables provide the components of net periodic benefit cost for the Company’s legacy pension and other postretirement benefit plans:

	Pension Benefits	
	Three Months Ended March 31,	
	2020	2019
Service cost	\$ 763	\$ 680
Interest cost	2,540	2,954
Expected return on plan assets	(3,938)	(3,818)
Amortization of prior service cost	148	155
Amortization of actuarial loss	1,992	1,982
Net periodic benefit cost	<u>\$ 1,505</u>	<u>\$ 1,953</u>

	Other Postretirement Benefits	
	Three Months Ended March 31,	
	2020	2019
Service cost	\$ 217	\$ 205
Interest cost	677	750
Expected return on plan assets	(675)	(621)
Amortization of prior service credit	(116)	(116)
Amortization of actuarial loss	156	166
Net periodic benefit cost	<u>\$ 259</u>	<u>\$ 384</u>

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The Company presents the components of net periodic benefit cost other than service cost in the consolidated statements of operations and comprehensive income on the line item “Other.”

During the first three months of 2020 the Company did not make cash contributions to its Pension Plans, and intends to make cash contributions of \$17,566 to the Pension Plans during the remainder of 2020.

On March 16, 2020, we completed the Peoples Gas Acquisition and assumed the pension and other postretirement benefit plans for its employees. The operating results of Peoples has been included in our consolidated financial statements since the date of acquisition. As such, the following table presents the components of net periodic benefit costs for the period since March 16, 2020 that are related to the Peoples’ pension and other postretirement benefit plans acquired:

	Three Months Ended March 31, 2020	
	Pension Benefits	Other Postretirement Benefits
Service cost	\$ 40	\$ 77
Interest cost	192	54
Expected return on plan assets	(302)	(76)
Net periodic benefit (income) cost	<u>\$ (70)</u>	<u>\$ 55</u>

**Note 12 – Rate Activity**

During the first three months of 2020, the Company’s water and wastewater utility operating divisions in Indiana and Ohio were granted base rate increases designed to increase total operating revenues on an annual basis by \$1,006. Further, during the first three months of 2020, the Company’s water and wastewater utility operating divisions in Illinois and North Carolina received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by \$3,775.

In August 2018, Aqua Pennsylvania filed for a base rate increase in water and wastewater rates for its customers. In May 2019 the Company received an order from the Pennsylvania Public Utility Commission resulting in an increase of \$47,000 in annual revenue, and new rates went into effect on May 24, 2019. The rates in effect at the time of the filing also included \$29,493 in Distribution System Improvement Charges (“DSIC”), which was 7.5% above prior base rates. Consequently, the aggregate base rates increased by \$76,493 since the last base rate increase and the DSIC was reset to zero.



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**Note 13 – Taxes Other than Income Taxes**

The following table provides the components of taxes other than income taxes:

	Three Months Ended March 31,	
	2020	2019
Property	\$ 7,033	\$ 6,466
Gross receipts, excise and franchise	3,122	3,220
Payroll	4,280	3,481
Regulatory assessments	700	747
Pumping fees	1,081	969
Other	220	86
<b>Total taxes other than income</b>	<b>\$ 16,436</b>	<b>\$ 14,969</b>

**Note 14 – Segment Information**

On March 16, 2020, the Company completed the Peoples Gas Acquisition, marking the Company's entrance into the regulated natural gas business. The operating results of Peoples are included in the consolidated financial statements for the period since the acquisition date. As a result, the Company now has eleven operating segments and two reportable segments. The Regulated Water segment is comprised of eight operating segments representing its water and wastewater regulated utility companies, which are organized by the states where the Company provides water and wastewater services. The eight water and wastewater utility operating segments are aggregated into one reportable segment, because each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. The Regulated Natural Gas segment is comprised of one operating segment representing natural gas utility companies, acquired in the Peoples Gas Acquisition, for which the Company provides natural gas distribution services.

In addition to the Company's two reportable segments, we include two of our operating segments within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Infrastructure and Aqua Resources. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources manages a water system operating and maintenance contract and offers, through a third-party, water and sewer service line protection solutions and repair services to households. In addition to these segments, Other is comprised of business activities not included in the reportable segments, including corporate costs that have not been allocated to the Regulated Water and Regulated Natural Gas segments and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense. The Company reports these corporate costs within Other as they relate to corporate-focused responsibilities and decisions and are not included in internal measures of segment operating performance used by the Company to measure the underlying performance of the operating segments.

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The following table presents information about the Company's reportable segments, including the operating results and capital expenditures of the Regulated Natural Gas segment for the period since the completion of the Peoples Gas Acquisition on March 16, 2020:

	Three Months Ended March 31, 2020				Three Months Ended March 31, 2019		
	Regulated Water	Regulated Natural Gas	Other	Consolidated	Regulated Water	Other	Consolidated
Operating revenues	\$ 216,197	\$ 38,544	\$ 844	\$ 255,585	\$ 200,220	\$ 912	\$ 201,132
Operations and maintenance expense	73,694	8,823	24,120	106,637	74,338	4,976	79,314
Purchased gas	-	12,770	-	12,770	-	-	-
Depreciation and amortization	41,511	4,569	165	46,245	39,261	149	39,410
Operating income (loss)	86,506	11,715	(24,724)	73,497	72,865	(5,426)	67,439
Interest expense, net	25,495	1,887	2,705	30,087	23,658	4,192	27,850
Allowance for funds used during construction	2,912	36	-	2,948	4,056	-	4,056
Change in fair value of interest rate swap agreements	-	-	-	-	-	34,782	34,782
Equity (loss) earnings in joint venture	-	-	(127)	(127)	-	543	543
Provision for income taxes (benefit)	3,127	(3,448)	(6,803)	(7,124)	936	(9,106)	(8,170)
Net income (loss)	59,934	13,398	(21,551)	51,781	52,169	(35,245)	16,924
Capital expenditures	110,606	8,128	-	118,734	133,792	-	133,792

	March 31, 2020	December 31, 2019
Total assets:		
Regulated water	\$ 7,362,550	\$ 7,269,404
Regulated natural gas	5,362,064	-
Other	204,372	2,092,581
Consolidated	<u>\$ 12,928,986</u>	<u>\$ 9,361,985</u>

**Note 15 – Commitments and Contingencies**

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2020, the aggregate amount of \$21,769 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. Further, the Company has insurance coverage for certain of these loss contingencies, and as of March 31, 2020, estimates that approximately \$7,685 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

During a portion of 2019, the Company initiated a do not consume advisory for some of its water customers in one division served by the Company's Illinois subsidiary. Although the Company had

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determined that it is reasonably possible that a fine or penalty may be incurred, it cannot estimate the possible range of loss at this time and no liability has been accrued for these future costs. In addition, on September 3, 2019, two individuals, on behalf of themselves and those similarly situated, commenced an action against the Company's Illinois subsidiary in the State court in Will County, Illinois related to this do not consume advisory. The complaint seeks class action certification, attorney's fees, and "damages, including, but not limited to, out of pocket damages, and discomfort, aggravation, and annoyance" based upon the water provided by the Company's subsidiary to a discrete service area in University Park Illinois. The complaint contains allegations of damages as a result of supplied water that exceeded the standards established by the federal Lead and Copper Rule. The complaint is in the discovery phase and class certification has not been granted. The Company plans to vigorously defend against this claim. A claim for the expenses incurred related to such claim has been submitted to the Company's insurance carrier for potential recovery of a portion of these costs. The Company continues to assess the potential loss contingency on this matter. While the final outcome of this claim cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Although the results of legal proceedings cannot be predicted with certainty, other than disclosed above, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations, or cash flows.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$1,852 at March 31, 2020 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Associated with the approval of the Peoples Gas Acquisition from the Pennsylvania Public Utility Commission, the Company has committed to addressing the replacement of gathering pipe over a seven year timeframe for an estimated cost of \$120,000, which will be recoverable through customer rates. Additionally, the Company has committed to provide \$23,000 of customer rate credits before the end of the year 2020 to its natural gas utility customers and water and wastewater customers served by Aqua Pennsylvania, Inc.

#### **Note 16 – Income Taxes**

On March 16, 2020, the Company completed the Peoples Gas Acquisition. On March 31, 2020, the Company changed the method of tax accounting for certain qualifying infrastructure investments at its Peoples Natural Gas subsidiary, our largest natural gas subsidiary in Pennsylvania. This change allows a tax deduction for qualifying utility asset improvement costs that were formerly capitalized for tax purposes. The Company is performing an analysis to determine the ultimate amount of qualifying utility asset improvement costs eligible to be deducted under the IRS's final tangible property regulations that will be reflected on its 2020 Federal Tax Return to be filed in October 2021. As a result, the Company has estimated a portion of its infrastructure investment at Peoples Natural Gas since the acquisition date that will qualify as a utility system repairs deduction for 2020. Consistent with the Company's accounting for differences between book and tax expenditures in Pennsylvania, the Company is utilizing the flow-through method to account for this timing difference and has reduced income tax expense in the

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first quarter of 2020 by \$5,938. In addition, the calculation to determine the income tax benefits for qualifying capital expenditures made prior to March 16, 2020 (“catch-up adjustment”) has not yet been finalized. When the analysis is complete, the Company intends to record a regulatory liability for these tax benefits that will remain on the consolidated balance sheet pending regulatory guidance.

The Company’s effective tax rate was (16.0)% and (93.4)% for the three months ended March 31, 2020 and 2019, respectively. The increase in the effective tax rate for this period can be attributed to an increase in our income before income taxes as compared to the prior period. The statutory Federal tax rate is 21% for three months ended March 31, 2020 and 2019. For states with a corporate net income tax, the state corporate net income tax rates range from 2.5% to 9.99% for all periods presented. In determining its interim tax provision, the Company reflects its estimated permanent and flow-through tax differences for the taxable year, including the basis difference for the adoption of the tangible property regulations. Qualifying utility asset improvement costs and the amortization of excess deferred income taxes caused the year-to-date effective tax rate to be significantly different from the statutory rate.

In connection with the completion of the Peoples Gas Acquisition, in the event the Company identifies changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the one year measurement period, and they are related to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement-period adjustment, and the offset will be an adjustment to goodwill. The Company records all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current-period income tax expense.

In response to COVID-19, President Donald Trump signed into law the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, temporary suspension of certain payment requirements for the employer portion of Social Security taxes, technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property, and the creation of certain refundable employee retention credits. We evaluated the provisions of the CARES Act and do not anticipate that the associated impacts, if any, will have a material effect on our financial position or liquidity.

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**Note 17 – Recent Accounting Pronouncements**

Pronouncements to be adopted upon the effective date:

In March 2020, the FASB issued accounting guidance that provides companies with optional guidance, including expedients and exceptions for applying generally accepted accounting principles to contracts and other transactions affected by reference rate reform, such as the London Interbank Offered Rate (LIBOR). The accounting guidance was effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. The Company is evaluating the impact of this accounting guidance.

In December 2019, the FASB issued updated accounting guidance that simplifies the accounting for income taxes. The updated guidance removes certain exceptions to the general principles of accounting for income taxes to reduce the cost and complexity of its application, including the accounting for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, deferred tax liabilities for equity method investments when a foreign subsidiary becomes an equity method investment or when a foreign equity method investment becomes a subsidiary, and calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the updated guidance clarifies and amends the existing guidance over accounting for franchise taxes and other taxes partially based on income, an entity's tax basis of goodwill, separate entity financial statements, interim recognition of enactment of tax laws or rate changes, and improvements to the Codification for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. The updated accounting guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years with early adoption permitted. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued updated accounting guidance that modifies the disclosures required for defined benefit pension and other postretirement 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, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

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Pronouncements adopted during the year:

In August 2018, the FASB issued updated accounting guidance on accounting for cloud computing arrangements. The updated guidance requires entities that are customers in cloud computing arrangements to defer implementation costs if they would be capitalized by the entity in software licensing arrangements under the internal-use software guidance. The guidance may be applied retrospectively or prospectively to implementation costs incurred after the date of adoption. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. On January 1, 2020, we adopted the new guidance prospectively, which did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued updated accounting guidance that modifies the disclosure requirements on fair value measurements. The modifications in this update eliminates, amends, and adds disclosure requirements for fair value measurements, which is expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The updated accounting guidance is effective for fiscal years ending after December 15, 2019, with early adoption available. On January 1, 2020, we adopted the new guidance, which did not have an impact on our consolidated financial statements.

In June 2016, the FASB issued updated accounting guidance on accounting for impairments of financial instruments, including trade receivables, which requires companies to estimate expected credit losses on trade receivables over their contractual life. Historically, companies reserve for expected credit losses by applying historical loss percentages to respective aging categories. Under the updated accounting guidance, companies will use a forward-looking methodology that incorporates lifetime expected credit losses, which will result in an allowance for expected credit losses for receivables that are either current or not yet due, which historically have not been reserved for. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption available. On January 1, 2020, we adopted the new guidance, which did not have a material impact on our consolidated financial statements.

**Note 18 – Subsequent Events**

On May 6, 2020, the Company held its annual meeting of shareholders for 2020. The meeting was held as a virtual meeting due to the COVID-19 pandemic. In addition to the election of directors and other routine annual meeting matters, the shareholders approved amendments to the Company's Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of common stock from 300 million, par value \$0.50 per share, to 600 million, par value \$0.50 per share, and to establish a majority voting standard in uncontested director elections. The Company will file Amended and Restated Articles of Incorporation promptly with the Secretary of State of the Commonwealth of Pennsylvania.

## ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands of dollars, except per share amounts)

## Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

*This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "estimates," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others, the effects of COVID-19, the effects of regulation, abnormal weather, changes in capital requirements and funding, our ability to close acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report and those included under the captions "Risk Factors" in this Quarterly Report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.*

General Information

Essential Utilities, Inc. ("we", "us", "our" or the "Company"), a Pennsylvania corporation, is the holding company for regulated utilities providing water, wastewater, or natural gas services to what we estimate to be almost five million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, Virginia, West Virginia, and Kentucky under the Aqua and Peoples brands. One of our largest operating subsidiaries, Aqua Pennsylvania, Inc. ("Aqua Pennsylvania"), provides water or wastewater services to approximately one-half of the total number of water or wastewater customers we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated water or wastewater utility subsidiaries provide similar services in seven other states. Additionally, pursuant to the Company's growth strategy, commencing on March 16, 2020, with the completion of the Peoples Gas Acquisition, the Company began to provide natural gas distribution services to customers in western Pennsylvania, Kentucky, and West Virginia. Approximately 93% of the total number of natural gas utility customers we serve are in western Pennsylvania. Lastly, the Company's market-based activities are conducted through Aqua Infrastructure, LLC and Aqua Resources, Inc. and certain other subsidiaries of Peoples. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources

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manages a water system operating and maintenance contract, and offers, through a third-party, water and sewer service line protection solutions and repair services to households.

Essential Utilities, Inc., which prior to its name change in February 2020 was known as Aqua America, Inc., was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012, and the March 16, 2020 acquisition of Peoples, a Pittsburgh, Pennsylvania based natural gas distribution company. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated operations from southeastern Pennsylvania to include regulated water and wastewater operations in seven other states. On March 16, 2020, the Company completed the Peoples Gas Acquisition, a natural gas distribution utility, marking its entrance into the regulated natural gas business. The Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities, natural gas utilities, and other regulated utilities, and to opportunistically pursue growth ventures in select market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

*The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.*

Recent Developments – COVID-19

The impact of the global outbreak of the current novel coronavirus (“COVID-19”) pandemic has created significant volatility in the global economy and led to reduced economic activity. We are monitoring the global outbreak of COVID-19 and taking steps to mitigate the potential risks to our employees and our customers posed by its spread.



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We provide a critical service to our customers, which means that it is paramount that we keep our employees who operate the business safe and informed. For example, we have taken precautions with regard to employee and facility hygiene, imposed travel restrictions on our employees and directed our employees to work remotely wherever and whenever possible. We have implemented additional protocols for required work within customers' premises to protect our employees, our customers and the public. Additionally, we have assessed and updated, where appropriate, our existing business continuity plan in the context of this pandemic, including our recent acquisition of Peoples. We are also working with our suppliers to understand the potential impacts to our supply chain. At this time, no material risks to our supply chain have been identified; however, if there were global shortages it could impact our maintenance and capital programs and the effects of any such impact cannot currently be anticipated. We continue to implement strong physical and cyber-security measures in an effort to ensure that our systems remain functional in order to both serve our operational needs with a remote workforce and maintain uninterrupted service to our customers. To maximize our financial flexibility in light of the uncertainty surrounding the impact of the COVID-19 pandemic, we have taken steps to secure higher-than-typical levels of liquidity during this time in case it is needed, including entering into a credit agreement on April 3, 2020, which provided the Company with a short-term borrowing facility of \$500,000 in unsecured term loans, which was drawn and matures on April 2, 2021.

This is a rapidly evolving situation, and we will continue to monitor developments affecting our business, workforce, and suppliers and take additional precautions as we believe are warranted. We are actively monitoring our utility billings as usage patterns may impact various customer classes differently; however, it is too soon to draw conclusions regarding the magnitude or severity of the impact from COVID-19 on operating revenues. In response to concerns about customer economic hardship and affordability during the COVID-19 health crisis, our state regulators mandated the temporary curtailment of certain collection practices, such as disconnections from utility service. In addition, we are monitoring collections of customer utility accounts as to potential impacts on cash flows, and increased expenses for costs associated with workforce-related expenses, security and cleaning of company offices and operating facilities, as well as other one-time expenses above the expense amounts included in general rates. Some public utility commission are issuing guidance for utilities to defer COVID-19 expenses in anticipation of seeking recovery in a future rate proceeding, and we are currently evaluating the impact of this guidance. We are currently continuing with our capital investment program, and based on the current situation, continue to believe we are able to complete the planned projects and improvements to our utility infrastructure. Despite our efforts, the ultimate impact to the Company of COVID-19 also depends on factors beyond our knowledge or control, including the duration and severity of this outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects. Although we do not currently anticipate a significant impact, by the nature of the outbreak, we currently cannot estimate the potential impact to our financial position, results of operations and cash flows.

Financial Condition

With the exception of periods in 2019 when the proceeds from the April 2019 financings were held as cash pending completion of the Peoples Gas Acquisition, the Company's consolidated balance sheet historically has had a negative working capital position whereby our current liabilities routinely exceed our current assets. Management believes that internally generated funds along with existing credit

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facilities, and the proceeds from the issuance of long-term debt and equity will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

During the first three months of 2020, we incurred \$118,734 of capital expenditures, expended \$3,465,344 for the acquisition of Peoples Natural Gas, \$7,500 for the acquisition of a water utility system, issued \$730,135 of shares of common stock in a private placement, \$800,184 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of \$11,509. The capital expenditures were related to new and replacement water, wastewater, and natural gas mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of common stock and long-term debt was comprised principally of the permanent financing to complete our acquisition of Peoples and funds borrowed under our revolving credit facility.

On March 16, 2020 (the "Closing Date"), the Company completed the Peoples Gas Acquisition and paid cash consideration of \$3,465,344, which is subject to adjustment upon completion of a closing balance sheet and the finalization of other adjustments that may occur over the next several months. Peoples is headquartered in Pittsburgh, Pennsylvania and serves approximately 747,000 natural gas utility customers in western Pennsylvania, West Virginia, and Kentucky. The estimated purchase price paid by the Company was determined based on a base price of \$4,275,000, which was adjusted by \$43,935 for an estimated change in working capital, certain capital expenditures of \$247,500, and the assumption of \$1,101,091 of indebtedness as of the closing date, consisting of \$920,091 of senior notes and \$181,000 of short-term debt. The acquisition was financed through a series of financing transactions that included the issuance of common stock from a public offering and a private placement, a tangible equity unit offering, and short and long-term debt. Refer to Note 6 – *Capitalization* to the consolidated financial statements for further information on these financings.

On October 22, 2018, the Company obtained a commitment (the "Bridge Commitment") from certain banks to provide senior unsecured bridge loans in an aggregate amount of up to \$5,100,000 to, among other things, backstop the Peoples Gas Acquisition purchase price and refinancing of certain debt of the Company and Peoples. On March 16, 2020, as a result of our completion of the Peoples Gas Acquisition, the Company terminated the Bridge Commitment.

Associated with the approval of the Peoples Gas Acquisition from the Pennsylvania Public Utility Commission, the Company has committed to addressing the replacement of gathering pipe over a seven year timeframe for an estimated cost of \$120,000, which will be recoverable through customer rates. Additionally, the Company has committed to provide \$23,000 of customer rate credits before the end of the year 2020 to its natural gas utility customers and water and wastewater customers served by Aqua Pennsylvania.

On May 18, 2019, the Company redeemed \$313,500 of the Company's outstanding notes that had maturities ranging from 2019-2037 and interest rates ranging from 3.57-5.83%. Additionally, the redemption of senior unsecured notes was subject to a make whole payment of \$25,237, and \$18,528 of this payment was expensed and was presented in the consolidated statements of operations and

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comprehensive income on the line item "loss on debt extinguishment." The balance of the payment, or \$6,709, was deferred, as a regulatory asset, as it represents an amount by which the Company expects to receive prospective rate recovery.

On October 23, 2018, the Company entered into interest rate swap agreements to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition. The interest rate swaps were settled on April 24, 2019 in conjunction with the issuance of \$900,000 of long-term debt used to finance a portion of the purchase price of this acquisition and redeem \$313,500 of the Company's existing debt. Refer to Note 7 – *Interest Rate Swap Agreements* to the consolidated financial statements in this report for further information. The interest rate swaps did not qualify for hedge accounting and any changes in the fair value of the swaps was included in our earnings.

At March 31, 2020, we had \$31,848 of cash and cash equivalents compared to \$1,868,922 at December 31, 2019. The cash and cash equivalents balance at December 31, 2019 included a portion of the proceeds from the April 2019 financings that were held in an interest-bearing account prior to closing of the Peoples acquisition on March 16, 2020. During the first three months of 2020, we used the proceeds on deposit from the April 2019 financings as well as the proceeds from the issuance of common stock, long-term debt, and internally generated funds to fund the cash requirements discussed above and to pay dividends.

At March 31, 2020, our \$1,000,000 unsecured revolving credit facility, which expires in December 2023, had \$178,533 available for borrowing. Additionally, at March 31, 2020, we had short-term lines of credit of \$135,500, of which \$85,495 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with four banks, which is used to provide working capital, and as of March 31, 2020, \$57,495 was available for borrowing. Our short-term lines of credit of \$135,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. Additionally, on March 13, 2020, the Company entered into a 364 day \$150,000 credit agreement pursuant to which the Company borrowed \$150,000, which was used to fund a portion of the Peoples Gas Acquisition, in lieu of additional borrowings under our revolving credit facility, and was subsequently paid off in April 2020.

On April 3, 2020, the Company entered into a credit agreement that provided the Company with a short-term borrowing facility of \$500,000 in unsecured term loans, which was drawn and matures on April 2, 2021. The Company intends to use the proceeds from the term loans for general corporate purposes and to strengthen its liquidity and cash position, and maximize its financial flexibility in light of the uncertainty surrounding the impact of the COVID-19 pandemic. The proceeds remain on deposit, and the Company will evaluate the timing of repayment based on the development of COVID-19 and its impact on the business.

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On April 13, 2020, the Company issued \$1,100,000 of long-term debt, of which \$500,000 is due in 2030, and \$600,000 is due in 2050 with interest rates of 2.704% and 3.351%, respectively. The Company used the proceeds from this issuance to repay in full the borrowings of \$181,000 of short-term debt assumed in the Peoples Gas Acquisition, \$150,000 of short-term debt issued by the Company on March 13, 2020, and to repay a portion of the borrowings under our existing five year unsecured revolving credit agreement.

On May 1, 2020, Aqua Pennsylvania issued \$175,000 of first mortgage bonds, of which \$75,000 is due in 2051, \$50,000 is due in 2055, and \$50,000 is due in 2056 with interest rates of 3.49%, 3.54%, and 3.55%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

Consolidated Results of Operations

Analysis of First Quarter of 2020 Compared to First Quarter of 2019

Revenues increased by \$54,453 or 27.1%, primarily due to:

- natural gas revenues of \$38,544 associated with the Peoples Gas Acquisition;
- an increase in water and wastewater rates, net of infrastructure rehabilitation surcharges, of \$12,968;
- additional water and wastewater revenues of \$3,792 associated with a larger customer base due to organic growth and utility acquisitions, and other growth ventures;
- offset by a decrease in customer water consumption; and
- a decrease in water and wastewater revenues of \$300 as a result of an advisory for some of our water utility customers served by our Illinois subsidiary. We expect this decrease in revenues to continue into the second half of 2020.

Operations and maintenance expenses increased by \$27,323 or 34.4%, primarily due to:

- transaction expenses of \$25,397 in the first quarter of 2020 as compared to \$6,646 in the first quarter of 2019 for the Peoples Gas Acquisition, primarily representing expenses associated with investment banking fees, employee related expenses, obtaining regulatory approvals, legal expenses and integration planning;
- operating costs of \$8,823 associated with the Peoples Gas Acquisition;
- additional operating costs associated with acquired and pending acquisitions of water and wastewater utility systems of \$1,488; and
- expenses of \$605 associated with remediating an advisory for some of our water utility customers served by our Illinois subsidiary. We expect that the expenses associated with remediating the advisory to continue in the second half of 2020.

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Purchased gas of \$12,770 in the first quarter of 2020 represents the cost of gas sold by Peoples during the period since the acquisition date of March 16, 2020. There were no corresponding amounts in prior periods.

Depreciation expense increased by \$6,492 or 16.6%, primarily due to depreciation expense of \$4,373 associated with our completion of the Peoples Gas Acquisition and the utility plant placed in service since March 31, 2019.

Taxes other than income taxes increased by \$1,467 or 9.8%, primarily due to increases in payroll taxes of \$799 and property taxes of \$567 resulting from additional expenses associated with acquired operations including the Peoples Gas Acquisition.

Interest expense increased by \$7,253 or 26.0%, primarily due to the following items:

- pre-acquisition interest expense of \$3,959 from the issuance of \$900,000 long-term debt and \$119,081 of amortizing notes in April 2019 to partially fund the Peoples Gas Acquisition
- interest of \$1,887 on debt assumed in the Peoples Gas Acquisition; and
- an increase in average borrowings.

Interest income increased by \$5,016 primarily due to interest income of \$4,930 earned on the proceeds from our April 2019 equity offerings.

Allowance for funds used during construction ("AFUDC") decreased by \$1,108 due to a decrease in the average balance of utility plant construction work in progress, to which AFUDC is applied.

The decrease in the change in the fair value of interest rate swap agreements of \$34,782 represents the mark-to-market adjustment recognized in the first quarter of 2019 of our interest rate swap agreement, which was entered into on October 23, 2018 and was settled on April 24, 2019.

Equity loss in joint venture increased by \$670 due to a decrease in the sale of raw water to firms in the natural gas drilling industry.

Other increased by \$807 primarily due to an increase in the non-service cost components of our net benefit cost for pension benefits.

Our effective income tax rate was (16.0)% in the first quarter of 2020 and (93.3)% in the first quarter of 2019. The effective income tax rate increased due to the increase in our income before income taxes of \$35,903. The Company's provision for income taxes represents an income tax benefit due to the effects of tax deductions recognized for certain qualifying infrastructure improvements for Aqua Pennsylvania and Peoples. On March 31, 2020, we changed the method of tax accounting for certain qualifying infrastructure investments at Peoples Natural Gas, our largest natural gas subsidiary in Pennsylvania,

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which provided for a reduction to income tax expense of \$5,938 due to the flow-through treatment of the current tax benefits.

Net income increased by \$34,857 primarily as a result of the factors described above.

Results of Operations – Regulated Water Segment

Our Regulated Water segment is comprised of eight operating segments representing its water and wastewater regulated utility companies which are organized by the states where the Company provides water and wastewater services. The Regulated Water segment is aggregated into one reportable segment and for a discussion and analysis of the segment operating results, refer to the consolidated results of operations.

Results of Operations – Regulated Natural Gas Segment

Upon closing on the Peoples Gas acquisition on March 16, 2020, the operating results since the acquisition date comprises the Regulated Natural Gas segment. Our Regulated Natural Gas segment recognizes 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. Natural gas sales to residential, commercial and industrial customers are seasonal, which results in higher demand for natural gas for heating purposes during the colder months.

Our Regulated Natural Gas segment is affected by the cost of natural gas, which is passed through to customers using a purchased gas adjustment clause and includes commodity price, transportation and storage costs. These costs are reflected in the consolidated statement of operations and comprehensive income as purchased gas expenses. Therefore, fluctuations in the cost of purchased gas impact operating revenues on dollar-for-dollar basis, but does not impact gross margin or operating income. Accordingly, gross margin, a non-GAAP financial measure, defined as operating revenues less purchased gas expense, is a useful and relevant measure to analyze the financial performance of our Regulated Natural Gas segment's financial performance. The following table includes the operating results of the Peoples Gas Acquisition for the period since the acquisition date of March 16, 2020:

	Three Months Ended March 31, 2020	
Operating revenues	\$	38,544
Purchased gas		12,770
Gross margin		25,774
Operations and maintenance		8,823
Depreciation		4,373
Amortization		196
Taxes other than income taxes		667
Operating income	\$	11,715

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The term gross margin is not intended to represent operating income, 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 gross margin is not necessarily comparable to similarly titled measures reported by other companies.

On March 31, 2020, we changed the method of tax accounting for certain qualifying infrastructure investments at Peoples Natural Gas, our largest natural gas subsidiary in Pennsylvania, which provided for a reduction to income tax expense of \$5,923 due to the flow-through treatment of the current tax benefits. In addition, since the date of acquisition of March 16, 2020, operating revenues of \$38,544, operations and maintenance expenses of \$8,823, and earnings of \$13,398 were included in our consolidated operating results.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 17, *Recent Accounting Pronouncements*, to the consolidated financial statements in this report.

### Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. Volatile equity market conditions arising from the COVID-19 pandemic may result in our pension and other post-retirement plans' assets market values suffering a decline, which could increase our required cash contributions to the plans and expense in subsequent years. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed February 28, 2020, for additional information on market risks.

### Item 4 – Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

#### (b) Changes in Internal Control over Financial Reporting

On March 16, 2020, we completed the Peoples Gas Acquisition. For additional information refer to Note 3 – *Acquisitions* to the consolidated financial statements included in this report. We consider this acquisition material to our business, financial condition, and results of operations, and believe the internal controls and procedures of Peoples have a material effect on our internal control over financial reporting. We are in the process of integrating Peoples internal controls over financial reporting. Except for the Peoples Gas Acquisition, no change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1 – Legal Proceedings

On September 3, 2019, two individuals, on behalf of themselves and those similarly situated, commenced an action against the Company's Illinois subsidiary in the State court in Will County, Illinois related to this do not consume advisory. The complaint seeks class action certification, attorney's fees, and "damages, including, but not limited to, out of pocket damages, and discomfort, aggravation, and annoyance" based upon the water provided by the Company's subsidiary to a discrete service area in University Park Illinois. The complaint contains allegations of damages as a result of supplied water that exceeded the standards established by the federal Lead and Copper Rule. The complaint is in the discovery phase and class certification has not been granted. The Company plans to vigorously defend against this claim, and believes the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Other than the matter described above, we are party to other various legal proceedings in the ordinary course of business. Although the results of these legal proceedings cannot be predicted with certainty, there are no



other pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to have a material adverse effect on our financial position, results of operations or cash flows.

## Item 1A – Risk Factors

Please review the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 28, 2020, under “Part 1, Item 1A – Risk Factors.” In addition, we provide the following risk factors related to our business now that the Peoples Gas Acquisition is completed and related to the COVID-19 pandemic:

***Our 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 our financial conditions and results of operations.***

We are 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. We rely on third-party service providers, as we purchase a portion of our natural gas supply from interstate sources and rely on interstate pipelines to transport natural gas to our 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 our transportation costs or decrease our 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 our 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 we are unable to maintain access to a reliable and adequate natural gas supply or sufficient pipeline capacity to deliver that supply, we may be unable to meet our customers’ requirements resulting in a loss of customers and an adverse effect on our 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’ 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, we would be faced with purchasing gas supplies likely at a higher cost, may be unable 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 our financial condition and results of operations.

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

Certain of Peoples’ pipeline operations are subject to pipeline safety laws and regulations. The Department of Transportation’s 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 preventative and mitigating action.

We are 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 we fail to comply with applicable statutes and related rules, regulations and orders, we could be subject to significant penalties and fines.

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

The Peoples’ 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.

Our 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 we are required to purchase and the timing of such purchases, and, in turn, affect our borrowing requirements and liquidity position. If we fail to secure sufficient natural gas supplies at appropriate prices (due to, for example, more extreme winter conditions), we may be required to purchase additional natural gas supplies or purchase natural gas at elevated prices, which could adversely affect our borrowing levels, liquidity and financial condition.

Peoples’ 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 our 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. We are also subject to regulations and standards regarding the

amount of lost and unaccounted for gas that may be recovered from customers. Any material disallowance of purchased gas costs would adversely affect our financial condition and results of operations.

Increases in the prices that we charge for gas may also adversely affect our business because increased prices could lead customers to reduce usage and cause some customers to have difficulty 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' 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 our financial condition and results of operations.

***Workforce-related risks may affect our results of operations.***

We are subject to various workforce-related risks, including the risk that we will be unable to attract and retain qualified personnel for our water, wastewater and natural gas operations, that we will be unable to effectively transfer the knowledge and expertise of an aging workforce to new personnel as those workers retire, and that we will be unable to reach collective bargaining arrangements with the unions that represent certain of our workers, which could result in work stoppages. Additionally, we rely on outside resources to supplement our workforce, including construction crews which are key to our infrastructure replacement program. We face the same risks associated with these outside resources as we do with our own workforce. As a result, we may be unable to hire or retain an adequate number of individuals who are knowledgeable about public utilities, water or 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, we cannot control the future availability of qualified labor. If we are unable to successfully attract and retain an appropriately qualified workforce, it could adversely affect our financial condition and results of operations.

***Global or regional health pandemics, epidemics or similar public health threats, including COVID-19, could negatively impact our business, outlook, financial condition, results of operations and liquidity.***

Our business and financial results could be negatively impacted by the COVID-19 pandemic or other pandemics, epidemics or similar public health threats. The severity, magnitude and duration of COVID-19 is uncertain, rapidly changing and hard to predict. In 2020, COVID-19 has significantly impacted economic activity and markets around the world, including in our service areas, and it could negatively impact our business in numerous ways, including, but not limited to, those outlined below:

- we expect reduced demand from our commercial customers and shifts in demand for our regulated utility services;
- our ability to maintain our service to customers may be impaired because of shutdowns and/or illness and travel restrictions among our employees or employees of other companies on whom we rely;
- we expect that some of our customers may become unable to pay for our services, and we are temporarily limited in our ability to disconnect service for non-payment, and state regulators may impose bill deferral programs, all of which could impact our business, results of operations, liquidity and financial condition;

- the COVID-19 pandemic may limit or curtail significantly or entirely the ability of public utility commissions to approve or authorize applications and other requests we may make with respect to our regulated water and natural gas businesses;
- our supply chain and our ability to complete maintenance, repairs and capital programs, could be impacted, which could result in delays and/or increased costs; and
- the COVID-19 pandemic has increased volatility and pricing in the capital markets, and we might not be able to continue to access preferred sources of liquidity when we would like, and our borrowing costs could increase.

These and other impacts of COVID-19 or other global or regional health pandemics, epidemics or similar public health threats could also have the effect of heightening many of the other risks described in “Risk Factors” in the Form 10-K and the other reports we file from time to time with the SEC. We might not be able to predict or respond to all impacts on a timely basis to prevent near- or long-term adverse impacts to our results of operations, financial condition and liquidity. The ultimate impact of COVID-19 on our business depends on factors beyond our knowledge or control, including the duration and severity of the outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects. Any of these factors could have a negative impact on our business, outlook, financial condition, and results of operations, which impact could be material.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company’s purchases of its common stock for the quarter ended March 31, 2020:

<u>Issuer Purchases of Equity Securities</u>				
<u>Period</u>	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs
January 1 - 31, 2020	2,592	\$ 46.37	-	-
February 1 - 29, 2020	79,130	\$ 53.31	-	-
March 1 - 31, 2020	-	\$ -	-	-
<b>Total</b>	<b>81,722</b>	<b>\$ 53.09</b>	<b>-</b>	<b>-</b>

(1) These amounts include the following: (a) 80,209 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation; and (b) 1,513 shares we acquired from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock), upon exercise, by delivering to us shares of or common stock in accordance with the terms of our equity compensation plan that were previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.

## Unregistered Sales of Equity Securities

On March 16, 2020, in connection with the Peoples Gas Acquisition, the Company issued and sold 21,661,095 shares of common stock, par value \$0.50 per share (the “Common Stock”) to the CPP Investment Board PMI-2 Inc. (the “Investor”), an affiliate of Canada Pension Plan Investment Board (“CPP Investments”). The shares of Common Stock issued and sold to Investor were priced at \$34.62 per share, resulting in proceeds of \$749,907,109 (the “Private Placement”). The net proceeds from the Private Placement were used to fund a portion of the purchase price for the Peoples Gas Acquisition. The Private Placement was completed in accordance with the terms of the previously announced Stock Purchase Agreement entered into on March 29, 2019, between the Company and CPP Investments (and assigned by CPP Investments to the Investor) and disclosed in the Company’s Current Report on Form 8-K filed on March 29, 2019.

The Private Placement of the shares of Common Stock pursuant to the Stock Purchase Agreement was undertaken in reliance upon an exemption from the registration requirements under Section 4(a)(2) of the Securities Act.

The shares of Common Stock issued and sold in the Private Placement described above have not been registered under the Securities Act and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

## Item 6 – Exhibits

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Amendment to Amended and Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, filed with the SEC on February 3, 2020).</a>
3.2*	<a href="#">Amendment to the Amended and Restated Bylaws of the Registrant</a>
4.1	<a href="#">Fourth Supplemental Indenture, dated as of April 15, 2020, between Essential Utilities, Inc. and U.S. Bank N.A., as trustee (incorporated by reference to Exhibit 4.3 to the Company’s Current Report on Form 8-K, filed with the SEC on April 15, 2020).</a>
4.2	<a href="#">Form of Global Note for the 2030 Notes (incorporated by reference to Exhibit 4.4 to the Company’s Current Report on Form 8-K, filed with the SEC on April 15, 2020)</a>
4.3	<a href="#">Form of Global Note for the 2050 Notes (incorporated by reference to Exhibit 4.5 to the Company’s Current Report on Form 8-K, filed with the SEC on April 15, 2020)</a>
4.4*	<a href="#">Bond Purchase Agreement, dated May 1, 2020, by and among Aqua Pennsylvania, Inc., Teacher Insurance and Annuity Association of America, Metropolitan Life Insurance Company, MetLife Insurance K.K., Metropolitan Tower Life Insurance Company, Rothesay Life PLC, American General Life Insurance Company, The United States Life Insurance Company in the City of New York, The Northwestern Mutual Life Insurance Company, The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account, Banner Life Insurance Company, West Coast Life Insurance Company, Manulife (International) Limited, Manufacturers Life Reinsurance Limited, Manulife Insurance Company</a>
10.1*	<a href="#">Third Amendment to Revolving Credit Agreement, dated as of November 8, 2019 between Aqua Pennsylvania and PNC Bank, National Association, Citizens Bank of Pennsylvania, TD Bank, N.A., and Huntington National Bank</a>
10.2	<a href="#">Form of Incremental Facility Amendment Agreement, dated March 13, 2020, between the Company and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed with the SEC on March 16, 2020).</a>
10.3	<a href="#">Form of Credit Agreement, dated March 13, 2020 between the Company and PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed with the SEC on March 16, 2020)</a>
10.4* **	<a href="#">Form of Stock Award Grant Instrument</a>
10.5	<a href="#">Credit Agreement, dated April 3, 2020, among the Company, the lenders party thereto and PNC Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed with the SEC on April 3, 2020)</a>

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10.6	<a href="#"><u>PNG Companies LLC, Note Purchase Agreement, dated as of February 26, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.7	<a href="#"><u>PNG Companies LLC, First Amendment, dated as of August 10, 2011, to Note Purchase Agreement dated as of February 26, 2010 (incorporated by reference to Exhibit 10.1.1 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.8	<a href="#"><u>PNG Companies LLC, Second Amendment, dated as of August 22, 2013, to Note Purchase Agreement dated as of February 26, 2010, as amended (incorporated by reference to Exhibit 10.1.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.9	<a href="#"><u>PNG Companies LLC, Third Amendment, dated as of November 9, 2017, to Note Purchase Agreement dated as of February 26, 2010, as amended and supplemented (incorporated by reference to Exhibit 10.1.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.10	<a href="#"><u>PNG Companies LLC, First Supplement, dated as of December 12, 2013, to Note Purchase Agreement dated as of February 26, 2010, as amended (incorporated by reference to Exhibit 10.1.4 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.11	<a href="#"><u>PNG Companies LLC, Second Supplement, dated as of July 14, 2017, to Note Purchase Agreement dated as of February 26, 2010, as amended and supplemented (incorporated by reference to Exhibit 10.1.5 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.12	<a href="#"><u>PNG Companies LLC, Third Supplement, dated as of September 20, 2017, to Note Purchase Agreement dated as of February 26, 2010, as amended and supplemented (incorporated by reference to Exhibit 10.1.6 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.13	<a href="#"><u>PNG Companies LLC, Fourth Supplement, dated as of November 9, 2017, to Note Purchase Agreement dated as of February 26, 2010, as amended and supplemented (incorporated by reference to Exhibit 10.1.7 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
10.14	<a href="#"><u>PNG Companies LLC, Fifth Supplement, dated as of December 20, 2017, to Note Purchase Agreement dated as of February 26, 2010, as amended and supplemented (incorporated by reference to Exhibit 10.1.8 to the Company's Current Report on Form 8-K, filed with the SEC on April 13, 2020)</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer, filed pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer, filed pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934</u></a>

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32.1	<a href="#">Certification of Chief Executive Officer, furnished pursuant to 18 U.S.C. Section 1350</a>
32.2	<a href="#">Certification of Chief Financial Officer, furnished pursuant to 18 U.S.C. Section 1350</a>
101.INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRES	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, formatted in Inline XBRL (included in Exhibit 101)

\* Filed herewith

\*\* Indicates management contract or compensatory plan or arrangement



SIGNATURES

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

May 8, 2020

Essential Utilities, Inc.  
Registrant

/s/ Christopher H. Franklin  
Christopher H. Franklin  
Chairman, President and  
Chief Executive Officer

/s/ Daniel J. Schuller  
Daniel J. Schuller  
Executive Vice President and  
Chief Financial Officer

**AQUA AMERICA, INC.**  
**AMENDMENT TO BYLAWS**

THIS AMENDMENT (this “**Amendment**”), effective as of February 3, 2020, is made to the Amended and Restated Bylaws (the “**Bylaws**”) of Aqua America, Inc., a Pennsylvania corporation (the “**Company**”).

**RECITALS**

WHEREAS, Section 8.08 and Section 4.11(b) of the Bylaws provide that the Bylaws may be amended by the Company's Board of Directors (the “**Board**”) with respect to those matters that are not by statute committed expressly to the shareholders; and

WHEREAS, the relevant provisions Pennsylvania Business Corporation Law of 1988, as amended, (the “**BCL**”), including Section 1504, do not commit amendments to reflect a corporate name change expressly to the shareholders of the corporation.

**AMENDMENT**

NOW THEREFORE, the Board hereby amends the Bylaws as follows:

**1. Amendment to Bylaws**

The Bylaws shall be amended to reflect the name change of the Company by replacing each reference therein to “Aqua America, Inc.” with “Essential Utilities, Inc.”

**2. Ratification.** Except as specifically set forth herein, the Bylaws shall continue in full force and effect.

**FILED** with the undersigned as Secretary of the Company this 3rd day of February, 2020.

/s/ Christopher P. Luning  
Christopher P. Luning  
Executive Vice President, General Counsel  
and Secretary

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AQUA PENNSYLVANIA, INC.

\$175,000,000

\$75,000,000 First Mortgage Bonds, 3.49% Series due June 1, 2051

\$50,000,000 First Mortgage Bonds, 3.54% Series due June 1, 2055

\$50,000,000 First Mortgage Bonds, 3.55% Series due June 1, 2056

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BOND PURCHASE AGREEMENT

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Dated as of May 1, 2020

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**AQUA PENNSYLVANIA, INC.**  
762 West Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010-3489

\$175,000,000

\$75,000,000 First Mortgage Bonds, 3.49% Series due June 1, 2051  
\$50,000,000 First Mortgage Bonds, 3.54% Series due June 1, 2055  
\$50,000,000 First Mortgage Bonds, 3.55% Series due June 1, 2056

As of May 1, 2020

To Each of the Purchasers Listed in  
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the “*Company*”), agrees with each of the purchasers whose names appear at the end hereof (each, a “*Purchaser*” and, collectively, the “*Purchasers*”) as follows:

SECTION 1. AUTHORIZATION OF BONDS.

The Company will authorize the issue and sale of (i) First Mortgage Bonds, 3.49% Series due June 1, 2051 (herein referred to as the “*3.49% Series due June 1, 2051 Bonds*”) in an aggregate principal amount of \$75,000,000, to bear interest at the rate of 3.49% per annum, and to mature on June 1, 2051, (ii) First Mortgage Bonds, 3.54% Series due June 1, 2055 (herein referred to as the “*3.54% Series due June 1, 2055 Bonds*”) in an aggregate principal amount of \$50,000,000, to bear interest at the rate of 3.54% per annum, and to mature on June 1, 2055, and (iii) First Mortgage Bonds, 3.55% Series due June 1, 2056 (herein referred to as the “*3.55% Series due June 1, 2056 Bonds*”) in an aggregate principal amount of \$50,000,000, to bear interest at the rate of 3.55% per annum, and to mature on June 1, 2056 (the 3.49% Series due June 1, 2051 Bonds, the 3.54% Series due June 1, 2055 Bonds, and the 3.55% Series due June 1, 2056 Bonds are collectively referred to as the “*Bonds*” and such term includes any such bonds issued in substitution therefor). The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “*Trustee*”) (the “*Original Indenture*”), as previously amended and supplemented by fifty-seven supplemental indentures and as further supplemented by the Fifty-eighth Supplemental Indenture dated as of March 15, 2020 (such Fifty-eighth Supplemental Indenture being referred to herein as the “*Supplement*”) which will be substantially in the form attached hereto as *Exhibit A*, with such changes therein, if any, as shall be approved by the Purchasers and the Company. The Original Indenture, as supplemented and amended by the aforementioned fifty-six supplemental indentures and the Supplement, and as further supplemented or amended according to its terms, is hereinafter referred to as the “*Indenture*”.

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Certain capitalized and other terms used in this Agreement are defined in *Schedule B*; and references to a “*Schedule*” or an “*Exhibit*” are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

## SECTION 2. SALE AND PURCHASE OF BONDS.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in **Section 3**, Bonds in the principal amount and in the series specified opposite such Purchaser’s name in *Schedule A* at the purchase price of 100% of the principal amount thereof. The Purchasers’ obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

## SECTION 3. CLOSING.

The execution and delivery of this Agreement and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at a closing on May 1, 2020 or on such other Business Day thereafter on or prior to May 30, 2020 as may be agreed upon by the Company and the Purchasers (the “*Closing*”). At the Closing the Company will deliver to each Purchaser the Bonds to be purchased by such Purchaser in the form of one or more Bonds to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of \$100,000 for each Bond), dated the date of the Closing and registered in such Purchaser’s name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this **Section 3**, or any of the conditions specified in **Section 4** shall not have been fulfilled to such Purchaser’s satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure by the Company to tender such Bonds or any of the conditions specified in **Section 4** not having been fulfilled to such Purchaser’s satisfaction.

## SECTION 4. CONDITIONS TO CLOSING.

Each Purchaser’s obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser’s satisfaction prior to or at the Closing of the following conditions:

*Section 4.1. Representations and Warranties.* The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

*Section 4.2. Performance; No Default.* The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect to the issue and sale of the Bonds (and the application of the proceeds thereof as contemplated by **Section 5.14**), no Default or Event of Default shall have occurred and be continuing.

*Section 4.3. Compliance Certificates.* The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be performed or complied with by the Company for the issuance of the Bonds at the Closing. In addition, the Company shall have delivered the following certificates:

(a) *Officer's Certificate.* The Company shall have delivered to such Purchaser (i) an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in **Section 4** of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the Bonds, in each case, dated the date of the Closing.

(b) *Secretary's Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement, the Bonds, under the Indenture, and the Supplement.

(c) *Certification of Indenture.* Such Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of the Closing, exclusive of property exhibits, recording information and the like.

*Section 4.4. Opinions of Counsel.* Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in *Exhibit 4.4(a)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in *Exhibit 4.4(b)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in *Exhibit 4.4(c)* and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this **Section 4.4** and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.

*Section 4.5. Purchase Permitted by Applicable Law, Etc.* On the date of the Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U, or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of the Closing. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

*Section 4.6. Sale of Bonds.* Contemporaneously with the Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds to be purchased by it as specified in Schedule A.

*Section 4.7. Payment of Special Counsel Fees.* Without limiting the provisions of **Section 12.2**, the Company shall have paid on or before the Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in **Section 4.4(c)** to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

*Section 4.8. Private Placement Number.* A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for each series of Bonds issued at the Closing.

*Section 4.9. Changes in Corporate Structure.* The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in *Schedule 5.5*.

*Section 4.10. Funding Instructions.* At least three Business Days prior to the date of the Closing, such Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in **Section 3** including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number (c) the account name and number into which the purchase price for the Bonds is to be deposited, and (d) the name and telephone number and/or email address for an appropriate contact person at such transferee bank.

*Section 4.11. Proceedings and Documents.* All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

*Section 4.12. Execution and Delivery and Filing and Recording of the Supplement.* Prior to or at the Closing, the Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

*Section 4.13. Regulatory Approvals.* The issue and sale of the Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the date of the Closing and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of such Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

## SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser at the Closing that:

*Section 5.1. Organization; Power and Authority.* The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplement (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

*Section 5.2. Authorization, Etc.* At the Closing, each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplement and the Bonds) constitutes, and when the Supplement is executed and delivered by the Company and the Trustee and when the Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, the Supplement and each Bond will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

*Section 5.3. Disclosure.* This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Private placement memorandum (including the documents incorporated therein by reference) dated March 2020, and the financial statements listed in *Schedule 5.5* (collectively, the “*Disclosure Documents*”), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2019, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

*Section 5.4. Organization and Ownership of Shares of Subsidiaries.* (a) *Schedule 5.4* contains a complete and correct list of the Company’s Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in *Schedule 5.4* as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in *Schedule 5.4* is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

*Section 5.5. Financial Statements; Material Liabilities.* The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on *Schedule 5.5*. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the *Disclosure Documents*.

*Section 5.6. Compliance with Laws, Other Instruments, Etc.* The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter, regulations or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

*Section 5.7. Governmental Authorizations, Etc.* No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds and the Supplement, other than approval of the Pennsylvania Public Utility Commission, which has been obtained and is in full force and effect and final and is non-appealable.

*Section 5.8. Litigation; Observance of Statutes and Orders.* (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, any arbitrator of any kind or any Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in **Section 5.16**), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

*Section 5.9. Taxes.* The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its

Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2011 and all amounts owing in respect of such audit have been paid.

*Section 5.10. Title to Property; Leases.* The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in **Section 5.5** or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

*Section 5.11. Licenses, Permits, Etc.* The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of convenience and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

*Section 5.12. Compliance with Employee Benefit Plans.* (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans subject to section 412 of the Code (other than Multiemployer Plans), determined as of January 1, 2019 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated September 2019 did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the case of any single Plan and by more than \$5,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "*current value*" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 715-60, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this **Section 5.12(e)** is made in reliance upon and subject to the accuracy of such Purchaser's representation in **Section 6.2** as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

(f) The Company and its Subsidiaries do not have any Non-U.S. Plans.

*Section 5.13. Private Offering by the Company.* Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than twenty seven (27) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of **Section 5** of the Securities Act.

*Section 5.14. Use of Proceeds; Margin Regulations.* The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in **Section 5.16**. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this **Section**, the terms "*margin stock*" and "*purpose of buying or carrying*" shall have the meanings assigned to them in said Regulation U.

*Section 5.15. Existing Debt.* Except as described therein, *Schedule 5.15(a)* sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of December 31, 2019 since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the



Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in **Section 5.6**, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in *Schedule 5.15(b)*.

*Section 5.16. Foreign Assets Control Regulations, Etc.* (a) Neither the Company nor any Controlled Entity (i) is a Blocked Person, (ii) has been notified that its name appears or may in the future appear on a State Sanctions List or (iii) is a target of sanctions that have been imposed by the United Nations or the European Union.

(b) Neither the Company nor any Controlled Entity (i) has violated, been found in violation of, or been charged or convicted under, any applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws or (ii) to the Company's knowledge, is under investigation by any Governmental Authority for possible violation of any U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws.

(c) No part of the proceeds from the sale of the Bonds hereunder:

(i) constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (A) in connection with any investment in, or any transactions or dealings with, any Blocked Person, (B) for any purpose that would cause any Purchaser to be in violation of any U.S. Economic Sanctions Laws, or (C) otherwise in violation of any U.S. Economic Sanctions Laws;

(ii) will be used, directly or indirectly, in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Money Laundering Laws; or

(iii) will be used, directly or indirectly, for the purpose of making any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would be in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Corruption Laws.

(d) The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws and Anti-Corruption Laws.

*Section 5.17. Status under Certain Statutes.* Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

*Section 5.18. Environmental Matters.* Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchasers in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

*Section 5.19. Lien of Indenture.* The Indenture (and for avoidance of doubt including the Supplement) constitutes a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of a supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

*Section 5.20. Filings.* No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing Agreements, except such action as has been previously taken, which action remains in full force and effect.

## SECTION 6. REPRESENTATIONS OF THE PURCHASERS.

*Section 6.1. Purchase for Investment.* Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

*Section 6.2. Source of Funds.* Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an “investment fund” (within the meaning of Part VI of PTE 84-14 (the “*QPAM Exemption*”)) managed by a “*qualified professional asset manager*” or “*QPAM*” (within the meaning of Part VI of the *QPAM Exemption*), no employee benefit plan’s assets that are managed by the *QPAM* in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the *QPAM Exemption*) of such employer or by the same employee organization and managed by such *QPAM*, represent more than 20% of the total client assets managed by such *QPAM*, the conditions of Part I(c) and (g) of the *QPAM Exemption* are satisfied, neither the *QPAM* nor a person controlling or controlled by the *QPAM* maintains an ownership interest in the Company that would cause the *QPAM* and the Company to be “*related*” within the meaning of Part VI(h) of the *QPAM Exemption* and (i) the identity of such *QPAM* and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the *QPAM Exemption*) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a “*plan(s)*” (within the meaning of Part IV(h) of PTE 96-23 (the “*INHAM Exemption*”)) managed by an “*in-house asset manager*” or “*INHAM*” (within the meaning of Part IV(a) of the *INHAM Exemption*), the conditions of Part I(a), (g) and (h) of the *INHAM Exemption* are satisfied, neither the *INHAM* nor a person controlling or controlled by the *INHAM* (applying the definition of “*control*” in Part IV(d)(3) of the *INHAM Exemption*) owns a 10% or more interest in the Company and (i) the identity of such *INHAM* and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms “*employee benefit plan*,” “*governmental plan*,” and “*separate account*” shall have the respective meanings assigned to such terms in section 3 of ERISA.

## SECTION 7. INFORMATION AS TO COMPANY.

*Section 7.1. Financial and Business Information.* The Company shall deliver to each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company’s said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access (“EMMA”) database shall be deemed to satisfy the requirements of this **Section 7.1(a)**;

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon (without a “going concern” or similar qualification or exception and without any qualification or exception as to the scope of the audit on

which such opinion is based) of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and containing the above-described audit opinion and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this **Section 7.1(b)**;

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice, or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this **Section 7.1(c)**;

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *Employee Benefits Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by any such holder of Bonds; and

(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

*Section 7.2 Officer's Certificate.* Each set of financial statements delivered to a holder of Bonds pursuant to **Section 7.1(a)** or **Section 7.1(b)** shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

*Section 7.3. Visitation.* The Company shall permit the representatives of each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

## SECTION 8. PURCHASE OF BONDS

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate pro rata to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

## SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that from the date of this Agreement and thereafter, so long as any of the Bonds are outstanding:

*Section 9.1. Compliance with Law.* Without limiting **Section 10.4**, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in **Section 5.16**,



and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

*Section 9.2. Insurance.* The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

*Section 9.3. Maintenance of Properties.* The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this **Section 9.3** shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary have concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

*Section 9.4. Payment of Taxes.* The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

*Section 9.5. Corporate Existence, Etc.* The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

*Section 9.6. Books and Records.* The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable

requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

#### SECTION 10. NEGATIVE COVENANTS.

The Company covenants that from the date of this Agreement and thereafter, so long as any of the Bonds are outstanding:

*Section 10.1. Transactions with Affiliates.* The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

*Section 10.2. Merger, Consolidation, Etc.* The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this **Section 10.2** from its liability under the Financing Agreements.

*Section 10.3. Line of Business.* The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

*Section 10.4. Economic Sanctions, Etc..* The Company will not, and will not permit any Controlled Entity to (a) become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or (b) directly or indirectly have any investment in or engage in any dealing or transaction (including any investment, dealing or transaction involving the proceeds of the Bonds) with any Person if such investment, dealing or transaction (i) would cause any holder or any affiliate of such holder to be in violation of, or subject to sanctions under, any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions Laws.

#### SECTION 11. PAYMENTS ON BONDS.

*Section 11.1. Payment by Wire Transfer.* So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay, or cause to be paid by a paying agent, a trustee or other similar party, all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in *Schedule A*, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company or any paying agent made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this **Section 11.1** to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this **Section 11.1**.

#### SECTION 12. REGISTRATION; EXCHANGE; EXPENSES, ETC.

*Section 12.1. Registration of Bonds.* The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

*Section 12.2. Transaction Expenses.* Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or

in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being a Purchaser or holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed \$6,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

*Section 12.3. Survival.* The obligations of the Company under this **Section 12** will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

*Section 12.4. Tax Withholding.* Except as otherwise required by applicable law, the Company agrees that it will not withhold from any applicable payment to be made to a holder of a Bond that is not a United States Person any tax so long as such holder shall have delivered to the Company (in such number of copies as shall be requested) on or about the date on which such holder becomes a holder under this Agreement (and from time to time thereafter upon the reasonable request of the Company), executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, as well as the applicable "U.S. Tax Compliance Certificate" substantially in the form attached as *Exhibit 12.4*, in both cases correctly completed and executed.

#### SECTION 13. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

#### SECTION 14. AMENDMENT AND WAIVER.

*Section 14.1. Requirements.* This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of **Sections 1, 2, 3, 4, 5, 6, or 19** hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by

such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the holders of which are required to consent to any such amendment or waiver, or (C) amend any of **Sections 8, 14, or 18**.

*Section 14.2. Solicitation of Holders of Bonds.*

(a) *Solicitation.* The Company will provide each holder of Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this **Section 14** to each Purchaser and each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Bonds.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any holder of Bonds as consideration for or as an inducement to the entering into by any holder of Bonds of any waiver or amendment of any of the terms and provisions hereof or of the Bonds unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Bonds then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this **Section 14** by a holder of Bonds that has transferred or has agreed to transfer its Bonds to (i) the Company, (ii) any Subsidiary or any other Affiliate, or (iii) any other Person in connection with, or in anticipation of, such other Person acquiring, making a tender offer for or merging with the Company and/or any of its Affiliates, and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

*Section 14.3. Binding Effect, Etc.* Any amendment or waiver consented to as provided in this **Section 14** applies equally to all holders of Bonds and is binding upon them and upon each future holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and any holder

of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any holder of such Bond.

*Section 14.4. Bonds Held by Company, Etc.* Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

#### SECTION 15. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in *Schedule A*, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489, or at such other address as the Company shall have specified to the holder of each Bond in writing.

Notices under this **Section 15** will be deemed given only when actually received.

#### SECTION 16. INDEMNIFICATION.

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this **Section 16** shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

## SECTION 17. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This **Section 17** shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

## SECTION 18. CONFIDENTIAL INFORMATION.

For the purposes of this **Section 18**, “*Confidential Information*” means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser’s behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under **Section 7.1** of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this **Section 18**, (iii) the Trustee or any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 18**), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this **Section 18**), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser’s investment portfolio, or (viii) any other Person to which such

delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party, or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this **Section 18** as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this **Section 18**.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this **Section 18**, this **Section 18** shall not be amended thereby and, as between such Purchaser or such holder and the Company, this **Section 18** shall supersede any such other confidentiality undertaking.

#### SECTION 19. MISCELLANEOUS.

*Section 19.1. Successors and Assigns.* All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not, except that, subject to **Section 10.2**, the Company may not assign or otherwise transfer any of its rights or obligations hereunder or under the Bonds without the prior written consent of each holder. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and assigns permitted hereby) any legal or equitable right, remedy or claim under or by reason of this Agreement.

*Section 19.2. Accounting Terms.* All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option*, International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.



*Section 19.3. Severability.* Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

*Section 19.4. Construction, Etc.* Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

*Section 19.5. Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

*Section 19.6. Governing Law.* This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

*Section 19.7. Jurisdiction and Process; Waiver of Jury Trial.* (a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in **Section 19.7(a)** by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in **Section 15** or at such other address of which such holder shall then have been notified pursuant to said **Section**. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this **Section 19.7** shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.

*Section 19.8. Payments Due on Non-Business Days.* Anything in this Agreement or the Bonds to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

\* \* \* \* \*

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

AQUA PENNSYLVANIA, INC.

By: /s/ Stanley F. Szczygiel  
Name: Stanley F. Szczygiel  
Title: VP Finance and Treasurer

Accepted as of the date first written above.

TEACHERS INSURANCE AND ANNUITY  
ASSOCIATION OF AMERICA. a New York  
domiciled life insurance company

By: Nuveen Alternatives Advisors LLC.  
a Delaware limited liability company.  
its investment manager

By: /s/ Matthew W. Smith  
Name: Matthew W. Smith  
Title: Senior Director

Accepted as of the date first written above.

METROPOLITAN LIFE INSURANCE COMPANY  
by MetLife Investment Management, LLC, Its  
Investment Manager

METROPOLITAN TOWER LIFE INSURANCE  
COMPANY  
by MetLife Investment Management, LLC, Its  
Investment Manager

METLIFE INSURANCE K.K  
By MetLife Investment Management, LLC, Its  
Investment Manager

By: /s/ John Wills  
Name: John Wills  
Title: Authorized Signatory

Accepted as of the date first written above.

ROTHESAY LIFE PLC

By: /s/ David Land  
Name: David Land  
Title: Authorized Signatory

Accepted as of the date first written above.

THE UNITED STATES LIFE INSURANCE  
COMPANY IN THE CITY OF NEW YORK  
AMERICAN GENERAL LIFE INSURANCE  
COMPANY

By: AIG Asset Management (U.S.), LLC, as Investment  
Adviser

By: /s/ John H. Pollock  
Name: John H. Pollock  
Title: Head of Infrastructure

Accepted as of the date first written above.

THE NORTHWESTERN MUTUAL LIFE  
INSURANCE COMPANY  
By: Northwestern Mutual Investment Management  
Company, LLC, Its Investment Adviser

By: /s/ David A. Barras  
Name: David A Barras  
Title: Managing Director

THE NORTHWESTERN MUTUAL LIFE  
INSURANCE COMPANY for its Group Annuity  
Separate Account

By: /s/ David A. Barras  
Name: David A Barras  
Title: Authorized Representative



Accepted as of the date first written above.

BANNER LIFE INSURANCE COMPANY

By Legal & General Investment Management  
America, Inc., its Investment Manager

By: /s/ Edward Wood  
Name: Edward Wood  
Title: Head of US Private Placements

Accepted as of the date first written above.

WEST COAST LIFE INSURANCE COMPANY  
(WCL)

By: /s/ Diane S. Griswold  
Name: Diane S. Griswold  
Title: Second Vice President Investments

Accepted as of the date first written above.

MANULIFE LIFE INSURANCE COMPANY

By: /s/ Akira Okada  
Name: Akira Okada  
Title: Head of Investments

Accepted as of the date first written above.

MANUFACTURERS LIFE REINSURANCE  
LIMITED

By: /s/ Tatsuya Oshiro  
Name: Tatsuya Oshiro  
Title: Manulife General Account  
Investments (Singapore) Pte. Ltd.  
as investment manager of  
Manufacturers Life Reinsurance  
Limited

**INFORMATION RELATING TO PURCHASERS**

NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED \$
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SCHEDULE A  
(to Bond Purchase Agreement)

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## DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

“3.49% Series due June 1, 2051 Bonds” is defined in **Section 1**.

“3.54% Series due June 1, 2055 Bonds” is defined in **Section 1**.

“3.55% Series due June 1, 2056 Bonds” is defined in **Section 1**.

“*Affiliate*” means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an “*Affiliate*” is a reference to an Affiliate of the Company.

“*Agreement*” means this Bond Purchase Agreement, including all Schedules and Exhibits attached to this Agreement.

“*Anti-Corruption Laws*” means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding bribery or any other corrupt activity, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010.

“*Anti-Money Laundering Laws*” means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes, including the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act) and the USA Patriot Act.

“*Blocked Person*” means (a) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (b) a Person, entity, organization, country or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws, or (c) a Person that is an agent, department or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, any Person, entity, organization, country or regime described in **clause (a)** or **(b)**.

“*Bonds*” is defined in **Section 1**.

“*Business Day*” means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

## SCHEDULE B (to Bond Purchase Agreement)

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“*Capital Lease*” means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

“*Capital Lease Obligation*” means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“*Closing*” is defined in **Section 3**.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“*Company*” means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

“*Controlled Entity*” means any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates. As used in this definition, “*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Debt*” means, with respect to any Person, without duplication,

- (a) its liabilities for borrowed money;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) its Capital Lease Obligations;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);
- (e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;
- (f) Swaps of such Person; and

(g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“*Default*” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“*Disclosure Documents*” is defined in **Section 5.3**.

“*EMMA*” is defined in **Section 7.1(a)**.

“*Environmental Laws*” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*ERISA Affiliate*” means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

“*Event of Default*” is an “event of default” as defined in the Indenture.

“*Financing Agreements*” means this Agreement, the Indenture (including without limitation the Supplement), and the Bonds.

“*GAAP*” means generally accepted accounting principles as in effect from time to time in the United States of America.

“*Governmental Authority*” means:

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or



(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“*Governmental Official*” means any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

“*Guaranty*” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

“*Hazardous Material*” means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

“*holder*” is defined in the Indenture.

“*Indenture*” is defined in **Section 1**.

“*Institutional Investor*” means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

“*Lien*” means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

“*Make-Whole Amount*” is defined in the Supplement.

“*Material*” means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

“*Material Adverse Effect*” means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture, or (c) the validity or enforceability of any Financing Agreement.

“*Multiemployer Plan*” means any Plan that is a “*multiemployer plan*” (as such term is defined in section 4001(a)(3) of ERISA).

“*NAIC*” means the National Association of Insurance Commissioners or any successor thereto.

“*Non-U.S. Plan*” means any plan, fund or other similar program that (a) is established or maintained outside the United States of America by the Company or any Subsidiary primarily for the benefit of employees of the Company or one or more Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and (b) is not subject to ERISA or the Code.

“*OFAC*” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“*OFAC Sanctions Program*” means any economic or trade sanction that OFAC is responsible for administering and enforcing. A list of OFAC Sanctions Programs may be found at <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

“*Officer’s Certificate*” means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

“*Original Indenture*” is defined in **Section 1**.

“*PBGC*” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

“*Permitted Liens*” shall have the meaning assigned to such term in the Indenture.

“*Person*” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

“*Plan*” means an “*employee benefit plan*” (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

“*property*” or “*properties*” means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

“*PTE*” is defined in **Section 6.2(a)**.

“*Purchaser*” is defined in the first paragraph of this Agreement.

“*Related Fund*” means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

“*Required Holders*” means the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates).

“*Responsible Officer*” means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

“*SEC*” means the Securities and Exchange Commission of the United States, or any successor thereto.

“*Securities*” or “*Security*” shall have the meaning specified in section 2(a)(1) of the Securities Act.

“*Securities Act*” means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Senior Financial Officer*” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

“*Source*” is defined in **Section 6.2**.

“*State Sanctions List*” means a list that is adopted by any state Governmental Authority within the United States of America pertaining to Persons that engage in investment or other commercial activities in Iran or any other country that is a target of economic sanctions imposed under U.S. Economic Sanctions Laws.

“*Subsidiary*” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a “*Subsidiary*” is a reference to a Subsidiary of the Company.

“*Supplement*” is defined in **Section 1**.

“*SVO*” means the Securities Valuation Office of the NAIC or any successor to such Office.

“*Swaps*” means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

“*Trust Estate*” is defined in the Indenture.

“*Trustee*” is defined in **Section 1**.

“*UCC*” means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

“*USA Patriot Act*” means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*U.S. Economic Sanctions Laws*” means those laws, executive orders, enabling legislation or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act, each as amended from time to time, and any other OFAC Sanctions Program.

**AQUA PENNSYLVANIA, INC.  
SUBSIDIARIES OF THE COMPANY,  
OWNERSHIP OF SUBSIDIARY STOCK**

<b>Company Name</b>	<b>State of Incorporation</b>	<b>% of Ownership (Direct &amp; Indirect)</b>
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Aqua Pennsylvania Wastewater, Inc.	Pennsylvania	100%
2. Honesdale Consolidated Water Company	Pennsylvania	100%

SCHEDULE 5.4  
(to Bond Purchase Agreement)

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## **FINANCIAL STATEMENTS**

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the years ended December 31, 2019, 2018, and 2017 (audited)

### **SCHEDULE 5.5 (to Bond Purchase Agreement)**

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**Aqua Pennsylvania and Subsidiaries**  
**Schedule 5.15(a) - Existing Debt**  
**as of 12/31/2019**

		Outstanding Balance
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Bank Loan	3.50%	50,000,000
<b>Total Unsecured Notes</b>		<b>100,927,000</b>
Tax Exempt-Bond Premium		1,341,169
Tax Exempt-Bond Premium		222,070
Tax Exempt-Bond Discount		(1,324,130)
Tax Exempt-Bond Premium		410,592
Tax Exempt-Bond Discount		(200,947)
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000
Tax Exempt-Bond Discount		(82,888)
Tax Exempt	4.50%	15,000,000
Tax Exempt-Bond Discount		(439,200)
Tax Exempt	5.00%	81,205,000
Tax Exempt-Bond Premium		1,871,535
<b>Total Tax Exempt Bonds</b>		<b>143,173,201</b>
PennVest	2.711%	347,797
PennVest	2.547%	736,686
PennVest	2.547%	244,694
PennVest	2.690%	711,795
PennVest	2.547%	1,406,348
PennVest	2.547%	466,671
PennVest	1.510%	1,837,810
PennVest	1.000%	826,310
PennVest	4.047%	76,699
PennVest	3.631%	11,703
PennVest	4.047%	27,581
PennVest	3.552%	(0)

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

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PennVest	1.349%	28,435
PennVest	3.631%	41,075
PennVest	4.050%	134,439
PennVest	3.030%	148,270
PennVest	3.460%	2,865,956
PennVest	3.468%	254,670
PennVest	2.774%	1,127,511
PennVest	4.047%	50,178
PennVest	3.790%	483,909
PennVest	3.810%	221,924
PennVest	3.430%	262,858
PennVest	2.774%	459,928
PennVest	3.470%	1,854,999
PennVest	3.468%	109,577
PennVest	3.195%	1,019,959
PennVest	2.556%	517,410
PennVest	2.554%	652,955
PennVest	2.547%	334,576
PennVest	3.046%	787,165
PennVest	2.547%	897,015
PennVest	2.547%	651,104
PennVest	2.547%	764,571
PennVest	3.143%	1,266,600
PennVest	2.547%	620,679
PennVest	1.000%	5,866,229
PennVest	3.330%	141,640
PennVest	2.730%	1,379,859
PennVest	2.668%	746,347
PennVest	1.000%	725,137
PennVest	2.547%	288,905
PennVest	1.000%	116,526
PennVest	2.774%	89,044
PennVest	2.774%	423,298
PennVest	3.052%	1,990,285
PennVest	3.468%	576,552
PennVest	2.774%	158,796
PennVest	1.156%	851,785
PennVest	2.774%	993,468
PennVest	3.365%	1,110,514
PennVest	2.547%	571,068
<b>Total PennVest</b>		<b>38,279,312</b>

FMB	5.980%	3,000,000
FMB	6.060%	15,000,000
FMB	6.06%	5,000,000
FMB	7.72%	15,000,000
FMB	9.17%	800,000
FMB	9.29%	12,000,000
FMB	3.79%	40,000,000
FMB	3.80%	20,000,000
FMB	3.85%	20,000,000
FMB	3.94%	25,000,000
FMB	4.61%	25,000,000
FMB	4.62%	25,000,000
FMB	3.64%	25,000,000
FMB	4.01%	15,000,000
FMB	4.06%	13,000,000
FMB	4.11%	12,000,000
FMB	3.77%	65,000,000
FMB	3.82%	20,000,000
FMB	3.85%	25,000,000
FMB	4.16%	60,000,000
FMB	4.18%	20,000,000
FMB	4.20%	20,000,000
FMB	3.85%	25,000,000
FMB	3.95%	60,000,000
FMB	3.65%	10,000,000
FMB	3.69%	40,000,000
FMB	4.04%	40,000,000
FMB	4.06%	40,000,000
FMB	4.06%	35,000,000
FMB	4.07%	20,000,000
FMB	4.09%	20,000,000
FMB	3.99%	25,000,000
FMB	4.04%	10,000,000
FMB	4.09%	65,000,000
FMB	4.44%	65,000,000
FMB	4.49%	35,000,000
FMB	4.51%	25,000,000
FMB	4.02%	75,000,000
FMB	4.07%	25,000,000
FMB	4.12%	25,000,000
FMB	4.09%	50,000,000
FMB	4.13%	75,000,000
FMB	4.14%	50,000,000
FMB	3.39%	75,000,000
FMB	3.41%	50,000,000

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**Total First Mortgage Bonds** **1,420,800,000**

PennVest - Aqua PA WW	1.16%	552,423
PennVest - Aqua PA WW	1.00%	508,555
PennVest - Aqua PA WW	1.00%	73,440
PennVest - Aqua PA WW	1.35%	21,004
PennVest - Aqua PA WW	2.77%	138,134

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**Total PennVest LWWW** **1,293,557**

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**Total Long Term Debt** **\$1,704,473,070**

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**PNC Revolver** **25,724,392**

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**Total Debt Aqua Pennsylvania** **\$1,730,197,462**



**SCHEDULE 5.15(b)**

**AQUA PENNSYLVANIA, INC. AND SUBSIDIARIES  
DEBT ISSUANCE LIMITATIONS**

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc. as Supplemented and Amended

\$100 million Amended and Restated Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent dated as of November 8, 2019, as amended

Aqua Pennsylvania, Inc. \$40,000,000 5.95% Senior Notes dated March 31, 2006

Aqua Pennsylvania, Inc. \$10,927,000 5.64% Senior Notes dated September 29, 2006

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent and Dated as of May 4, 2018, as amended

SCHEDULE 5.15(b)  
(to Bond Purchase Agreement)

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**FORM OF SUPPLEMENT**

[SEE ATTACHED FIFTY-EIGHTH SUPPLEMENTAL INDENTURE]

EXHIBIT A  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF GENERAL COUNSEL  
TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF SPECIAL COUNSEL  
TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(b)  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF SPECIAL COUNSEL  
TO THE PURCHASERS**

[DELIVERED TO PURCHASERS ONLY]

EXHIBIT 4.4(c)  
(to Bond Purchase Agreement)

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**U.S. TAX COMPLIANCE CERTIFICATE**

Reference is hereby made to the Bond Purchase Agreement dated as of May 1, 2020 (as amended, supplemented or otherwise modified from time to time, the “*Bond Purchase Agreement*”), among Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the “*Company*”) and the Purchasers that are signatories thereto.

Unless otherwise defined herein, capitalized terms defined in the Bond Purchase Agreement and used herein have the meanings given to them in the Bond Purchase Agreement.

Pursuant to the provisions of Section 12.4 (Tax Withholding) of the Bond Purchase Agreement, the undersigned hereby certifies that:

- (i) it is the sole record and beneficial owner of the Bonds in respect of which it is providing this certificate;
- (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code;
- (iii) it is not a ten percent shareholder of the Company within the meaning of Section 871(h)(3)(B) of the Code; and
- (iv) it is not a controlled foreign corporation related to the Company as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Company with a certificate of its non-U.S. Person status on IRS W-8BEN-E.

[Purchaser Name]

By: \_\_\_\_\_  
Name:  
Title:

Date: \_\_\_\_\_, 20[\_\_]

EXHIBIT 12.4  
(to Bond Purchase Agreement)

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**THIRD AMENDMENT TO CREDIT AGREEMENT**

THIS THIRD AMENDMENT TO CREDIT AGREEMENT is made as of this 8<sup>th</sup> day of November, 2019, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (“Borrower”), the several banks which are parties to this Agreement (each a “Bank” and collectively, the “Banks”) and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for the Banks (in such capacity, the “Agent”).

**BACKGROUND**

A. The Borrower, the Agent and the Banks are parties to an Amended and Restated Credit Agreement, dated as of November 17, 2016 (as heretofore amended, supplemented, modified, or restated, the “Credit Agreement”), pursuant to which the Banks have made available to the Borrower a revolving credit facility in an aggregate amount of \$100,000,000 (the “Facility”). The loans under the Facility are evidenced by the Borrower’s Notes to the Banks in the aggregate principal amount of \$100,000,000.

B. The Borrower, the Agent and the Banks desire to extend the Termination Date of the Facility and modify certain other provisions of the Credit Agreement, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

**AGREEMENT**

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendment to Credit Agreement. Effective on November 8, 2019 (the “Effective Date”), the Credit Agreement is hereby amended as follows:

(a) The following definition in Section 1.1 of the Credit Agreement is hereby amended and restated to read in full as follows:

“Termination Date”: the earlier of (a) November 6, 2020 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.

(b) The following Section 9.18 is hereby added to the Credit Agreement immediately following Section 9.17:

“9.18 Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for interest rate hedge agreements or contracts or any other agreement or instrument

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that is a QFC (such support, “QFC Credit Support” and each such QFC a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the Commonwealth of Pennsylvania and/or of the United States or any other state of the United States):

(i) In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(ii) As used in this Section 9.18, the following terms have the following meanings:

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

“Covered Entity” means any of the following:

(a) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(b) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(c) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).”

3. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any of the Loan Documents or any other document delivered to the Banks or the Agent in connection therewith shall be to the Credit Agreement as amended by this Agreement.

4. Borrower’s Ratification. The Borrower agrees that it has no defenses or set-offs against the Banks or the Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. The Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

5. Representations and Warranties. The Borrower hereby represents and warrants to the Agent and the Banks that:

(a) The representations and warranties made in the Credit Agreement are true and correct in all material respects as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank;

(b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and

(c) This Agreement has been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

All of the above representations and warranties shall survive the making of this Agreement.

6. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of the Agent and its counsel, of the following conditions precedent on or before the Effective Date:

(a) The Agent shall have received, with copies or counterparts for each Bank as appropriate, the following, all of which shall be in form and substance satisfactory to the Agent and shall be duly completed and executed by the Borrower, the Agent and the Banks, as applicable:

- (i) This Agreement;
- (ii) Copies, certified by the Secretary or an Assistant Secretary of the Borrower as of a recent date, of resolutions of the board of directors of the Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;
- (iii) Copies, certified by its corporate secretary as of a recent date, of the articles of incorporation, certificate of formation, and by-laws of the Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to the Agent;
- (iv) If the Borrower qualifies as a legal entity customer under the Beneficial Ownership Regulations, an executed Certificate of Beneficial Ownership for the Borrower and such other documentation and other information requested by the Agent and the Banks in connection with applicable “know your customer” and anti-money laundering rules and regulations, including the USA Patriot Act; and
- (v) Such additional documents, certificates and information as the Agent or the Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) After giving effect to this Agreement, the representations and warranties set forth in the Credit Agreement shall be true and correct in all material respects on and as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank.

(c) No Default or Event of Default shall have occurred and be continuing as of the date hereof.

7. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to the Agent and the Banks in connection therewith

shall remain unaltered and in full force and effect except as modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and provisions hereof shall control.

(b) The execution, delivery and effectiveness of this Agreement shall neither operate as a waiver of any right, power or remedy of the Agent or the Banks under any of the Loan Documents nor constitute a waiver of any Default or Event of Default thereunder.

(c) In consideration of the Agent's and the Banks' agreement to amend the existing revolving credit facility, the Borrower hereby waives and releases the Agent and the Banks and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(d) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(e) In the event any provisions of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(f) This Agreement shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(g) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns and may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

(i) This Agreement may be executed in one or more counterparts, each of which counterparts when executed and delivered shall be deemed to be an original, and all of which shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other electronic transmission will be effective as delivery of a manually executed counterpart hereof.

IN WITNESS WHEREOF, the Borrower, the Agent and the Banks have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AQUA PENNSYLVANIA, INC.

By: /s/ Daniel J. Schuller  
Name: Daniel J. Schuller  
Title: Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION,  
as Agent and as a Bank

By: /s/ Domenic D'Ginto  
Name: Domenic D'Ginto  
Title: Managing Director

CITIZENS BANK OF PENNSYLVANIA,  
as a Bank

By: /s/ Hassan Shakeel  
Name: Hassan Shakeel  
Title: Vice President

TD BANK, N.A., as a Bank

By: /s/ Jennifer L. Suspenski  
Name: Jennifer L. Suspenski  
Title: Vice President

THE HUNTINGTON NATIONAL BANK,  
as a Bank

By: /s/ Marcel Fournier  
Name: Marcel Fournier  
Title: Vice President

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**ESSENTIAL UTILITIES, INC.**  
**STOCK AWARD GRANT INSTRUMENT**

This STOCK AWARD GRANT INSTRUMENT (this “Instrument”) dated as of March 16, 2020 (the “Date of Grant”), is made by Essential Utilities, Inc., a Pennsylvania corporation (the “Company”), to \_\_\_\_\_ (the “Grantee”).

**RECITALS**

The Company’s Amended and Restated Omnibus Equity Compensation Plan (the “Plan”) provides for the issuance of equity awards to Employees of the Company, and the Grantee is an eligible Employee under the Plan. All defined terms used in this Instrument without definition, have the meanings set forth in the Plan.

The Board of Directors has determined that it is in the best interests of the Company and its stockholders to grant the Stock Award provided for herein to the Grantee pursuant to the terms set forth herein as a bonus for the Grantee’s participation in the successful closing of the Peoples Natural Gas acquisition.

**NOW THEREFORE**, in consideration of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Award of Stock .

(a) The Company hereby grants to the Grantee Two Thousand Nine Hundred and Eighty-eight (2,988) shares of Stock (“the Award”), representing the right to receive an equal number of shares of common stock of the Company (the “Shares”), upon the lapse of forfeiture restrictions (“vesting”) set forth below, and subject to the terms and conditions set forth in this Instrument.

(b) The Award is made under Section 7 of the Plan, and is subject to the terms and conditions set forth in the Plan. A copy of the Plan has been made available to the Grantee and made a part hereof.

(c) Prior to the end of the Restriction Period the Grantee shall be entitled to vote the Shares and to receive dividends declared and/or paid during the Restriction Period.

2. Restriction Period. Except as otherwise provided in Section 3 hereof or in Section 7(c) of the Plan, the Restriction Period is one (1) year after the Date of Grant. The Award is subject to forfeiture if the Grantee does not continue to provide Continuous Service to the Company or any subsidiary during the Restriction Period. At the end of the Restriction Period, the Shares shall vest and be earned.

3. Change in Control. The provisions of Section 15 of the Plan shall apply to the Shares granted under this Instrument.

4. Issuance of Certificates. Promptly following the end of the Restriction Period, and subject to the terms and conditions of the Plan, the Company will issue a stock certificate for the Shares. Such issuance shall take place as soon as practicable following the end of the Restriction Period (but in no event later than two and one-half months following the end of the calendar year in which the Restriction Period ends). The certificates representing the Shares shall be subject to such stop transfer orders and other restrictions as the Committee may determine is required by the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, any applicable federal or state laws and the Company’s Articles of Incorporation, as amended, and Bylaws,

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and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. If no such stop transfer orders or other restrictions are determined to be necessary, the Shares can be issued in book-entry form.

5. No Right to Continued Employment. Neither the Plan nor this Instrument shall confer on the Grantee any right to be retained, in any position, as an Employee of, or an advisor, consultant or Director of the Company.

6. Transferability.

(a) The Shares are not transferable and may not be sold, assigned, transferred, disposed of, pledged or otherwise encumbered by the Grantee, other than by will or the laws of descent and distribution. Upon such transfer (by will or the laws of descent and distribution), such transferee in interest shall take the rights granted herein subject to all the terms and conditions hereof.

(b) Subject to Section 6(a) hereof, in order to comply with any applicable securities laws, the Grantee agrees that the Shares issued to the Grantee shall only be sold by the Grantee following registration of such Shares under the Securities Act of 1933, as amended, or pursuant to an exemption therefrom.

7. Withholding. The Grantee acknowledges that the Grantee shall be responsible for all taxes that arise at the time of vesting. The Committee has determined that this Award is eligible under Section 13(b) of the Plan, regarding the withholding of shares to satisfy tax obligations.

8. Governing Law. This Instrument shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the conflicts of law provisions thereof.

9. Amendments. This Instrument may be amended or modified as contemplated by Section 17 of the Plan.

10. Administration. This Instrument shall at all times be interpreted in accordance with the terms and conditions of the Plan as if set forth herein. The Committee shall have sole and complete discretion under this Instrument with respect to all matters reserved to it by the Plan and decisions of the Committee with respect thereto and this Instrument shall be final and binding upon the Grantee and the Company. In the event of any conflict between the terms and conditions of this Instrument and the Plan, the provisions of this Instrument shall control. The Committee has the authority and discretion to determine any questions which arise in connection with the award of the Shares hereunder.

11. Compliance with Code Section 409A. It is the intention of the Company and Grantee that this Instrument not result in an unfavorable tax consequences to Grantee under Code Section 409A. Accordingly, Grantee consents to any amendment of this Instrument as the Company may reasonably make in furtherance of such intention, and the Company shall make available to the Grantee a copy of such amendment. Any such amendments shall be made in a manner that preserves to the maximum extent possible the intended benefits to Grantee. This paragraph does not create an obligation on the part of Company to modify this Instrument and does not guarantee that the amounts or benefits owed under the Instrument will not be subject to interest and penalties under Code Section 409A.

12. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Shares to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Award, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. The Grantee agrees, upon

demand of the Company or the Committee, to do all acts and execute, deliver and perform all additional documents, instruments and agreements which may be reasonably required by the Company or the Committee, as the case may be, to implement the provisions and purposes of this Instrument.

13. Severability. The invalidity or unenforceability of any provision of this Instrument shall not affect the validity or enforceability of any other provision of this Instrument, and each other provision of the Instrument shall be severable and enforceable to the extent permitted by law.

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## CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Christopher H. Franklin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essential Utilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Christopher H. Franklin

Christopher H. Franklin  
President and Chief Executive Officer  
May 8, 2020

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## CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Daniel J. Schuller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essential Utilities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Daniel J. Schuller

Daniel J. Schuller  
Executive Vice President and Chief Financial Officer  
May 8, 2020

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Essential Utilities, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Franklin, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher H. Franklin

Christopher H. Franklin  
President and Chief Executive Officer  
May 8, 2020

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CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Essential Utilities, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel J. Schuller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel J. Schuller

Daniel J. Schuller  
Executive Vice President and Chief Financial Officer  
May 8, 2020

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