

ESSENTIAL UTILITIES, INC.
Board of Directors
Corporate Governance Guidelines

The following corporate governance guidelines will provide the principles by which the Board of Directors (the “Board”) of Essential Utilities, Inc. (the “Corporation”) will organize and execute its responsibilities along with the requirements of the Corporation’s Articles of Incorporation, Bylaws and the laws and regulations governing the Corporation and the Board. These Guidelines have been developed by the Corporation’s Corporate Governance Committee, which will annually review these Guidelines and recommend to the full Board any changes that are deemed necessary or appropriate.

I. COMPOSITION OF THE BOARD

1. A majority of the Board shall be comprised of independent directors as determined under the guidelines established by the New York Stock Exchange.
2. No director will be deemed independent unless the Board affirmatively determines that the director has no material relationship with the Corporation (directly or as a partner, stockholder, or officer of an organization that has a relationship with the Corporation).
3. The Board has established the following standards to assist in determining director independence:
 - a. *Categorical Standards.* A director will not be deemed independent if:
 - i. the director is, or has been within the last three years, an employee of the Corporation, or an immediate family member is, or has been within the last three years, an executive officer of the Corporation;
 - ii. (A) the director or an immediate family member is a current partner of a firm that is the Corporation’s internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Corporation’s audit; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Corporation’s audit within that time;
 - iii. the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Corporation’s present executive officers at the same time serves or served on that company’s compensation committee; or
 - iv. the director has received or has an immediate family member who has received during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Corporation, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) and, in the case of an immediate family member, other than compensation for service as an

employee of the Corporation (other than an executive officer). (Members of the Audit Committee and of the Executive Compensation Committee are subject to additional requirements as set forth below and in the respective Committee Charters.).

- b. In addition, a director will not be deemed independent if:
 - i. the director is an executive officer or employee, or someone in her/his immediate family is an executive officer of, another company that, during any of the other company's past three fiscal years made payments to, or received payments from, the Corporation for property or services in an amount which, in any single fiscal year of the other company, exceeds \$1 million or two percent, whichever is greater, of the other company's consolidated gross revenues or
 - ii. The director serves as an executive officer of a charitable organization and, during any of the charitable organization's past three fiscal years, the Corporation made charitable contributions to the charitable organization in any single fiscal year of the charitable organization that exceeded \$1 million or two percent, whichever is greater, of the charitable organization's consolidated gross revenues.
 - iii. For the purposes of these categorical standards, the terms "immediate family member" and "executive officer" have the meanings set forth in the New York Stock Exchange's corporate governance rules.
- c. For relationships not prohibited by the guidelines in subsection a or b above, the determination of whether the director would be independent or not shall be made by the Board, unless an independence determination is otherwise precluded by a listing or regulatory requirement.
- d. Audit Committee members will be evaluated under the following additional standards:
 - i. No Audit Committee member shall accept, directly or indirectly, any consulting, advisory, or other compensatory fees from the Corporation or any of its subsidiaries, except for fees for services as a director and a member of the Audit Committee and any other Board of Directors' committee.
 - ii. No Committee member or immediate family member of such Committee member may be an affiliated person of the Corporation or any of its subsidiaries, as that term is defined by the rules promulgated by the Securities and Exchange Commission ("SEC").
 - iii. All members of the Audit Committee must be financially literate (as such qualification is interpreted by the Board of Directors in its business judgment) or become financially literate within a reasonable time after appointment to the Committee. The Chairperson of the Audit Committee must have accounting or financial management experience.

- iv. If a member serves on the audit committees of more than three companies, the Board of Directors must determine that this does not impair his or her effectiveness to serve on the Audit Committee, and disclose such determination in the Corporation's annual proxy statement or other applicable filing filed with the SEC.
 - v. At least one member of the Audit Committee shall be an "audit committee financial expert," as that term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC.
 - e. Executive Compensation Committee ("Compensation Committee") members will be evaluated under the following additional standards:
 - i. No Compensation Committee member shall accept, directly or indirectly, any consulting, advisory, or other compensatory fees from the Corporation or any of its subsidiaries, except for fees for services as a director and a member of the Compensation Committee and any other Board of Directors' committee.
 - ii. In addition, in affirmatively determining the independence of any director who will serve on the Compensation Committee, the Board of Directors must consider all factors specifically relevant to determining whether a director has a relationship to the Corporation which is material to that director's ability to be independent from management in connection with the duties of a Compensation Committee member, including, but not limited to whether such director is affiliated with the Corporation, a subsidiary of the Corporation or an affiliate of the Corporation or a subsidiary of the Corporation. When considering any relationship a director has with the Corporation, a subsidiary of the Corporation, or an affiliate of the Corporation or a subsidiary of the Corporation, in determining his or her independence for purposes of Compensation Committee service, the Board of Directors should consider whether the affiliate relationship places the director under the direct or indirect control of the Corporation or its senior management, or creates a direct relationship between the director and members of senior management, in each case of a nature that would impair his or her ability to make independent judgments about the Corporation's executive compensation.
- 4. In accordance with the Corporation's Articles and Bylaws, the size of the Board is determined by the Board. Although the size of the Board may change as the Corporation changes, based on the present circumstances, the Board believes that a Board of 8 to 12 members is the most conducive to the development of close working relationships among the directors, while providing sufficient directors for the Board Committees. The optimal size of the Board may need to be re-evaluated as a result of significant growth or acquisitions by the Corporation.
- 5. The nomination of candidates for election to the Board is the responsibility of the Board. The identification, evaluation and recommendation of candidates for nomination for election is the responsibility of the Corporate Governance Committee, taking into consideration input from other members of the Board, input from management and

candidates recommended by shareholders. Recommendations of candidates by shareholders should be submitted to the Chairman of the Corporate Governance Committee in accordance with the Corporation's Bylaws.

6. Candidates for nomination to the Board will be considered based on their personal abilities, qualifications, independence, knowledge, judgment, character, leadership skills, education, background and their expertise and experience in fields and disciplines relevant to the Corporation, including financial expertise or financial literacy. When assessing a candidate, consideration will be given to the effect such candidate will have on the diversity of the Board. Diversity of the Board is evaluated by considering a broad range of attributes, such as background, both geographic and demographic (including, without limitation race, gender and national origin), expertise and experience. Due consideration will also be given to the position the candidate holds at the time of their nomination and their capabilities to advance the Corporation's interests with its various constituencies.
7. Within three months prior to the expiration of a director's term, the Chair of the Corporate Governance Committee and the Chairman of the Board will meet with the director to discuss the appropriateness of nominating the director for re-election to another term. In determining whether to recommend a director for re-election, consideration will be given to, among other things, the director's past attendance at meetings and participation in and contributions to the activities of the Board. The Chair of the Corporate Governance Committee will then make a recommendation to the Corporate Governance Committee regarding the director's re-nomination.
8. The Board believes that term limits are an important element of good governance. However, it also believes that it must strike the appropriate balance between the contribution of directors who have developed, over a period of time, meaningful insight into the Corporation and its operations, and therefore can provide an increasing contribution to the Board as a whole. Accordingly, the Board has established that upon the fifteenth anniversary of a director accepting appointment to the Board of Directors, the director shall tender his resignation to the Board (the "Term Limit Policy"). The Term Limit Policy shall not apply to existing directors as of December 1, 2015.
9. The Board believes that a policy of retirement for directors at age 75 is in the best interests of the Corporation. All directors are required to submit their resignation from the Board effective as of their 75th birthday.
10. It is not the Board of Director's policy that a director must immediately resign from the Board in the event of retirement or other change in the position he/she held when joining the Board. However, it is the belief of the Board that if such an event were to occur, the director should meet with the Chairman of the Board and the Chair of the Corporate Governance Committee to discuss the situation. The Corporate Governance Committee, in consultation with the Chairman of the Board, will then determine if the director's continued service is appropriate and make a recommendation with respect thereto to the Board.
11. The Board believes that, based on the current facts and circumstances, the positions of Chairman and Chief Executive Officer should be held by the same person. This belief is based on the principle that unified leadership and direction of the Board and the

leadership team serves the Corporation's shareholders by, among other things, providing accountability in decision-making, providing uniformity in leadership, and has worked well for the Corporation for several decades. The Board has delegated to the Corporate Governance Committee the responsibility to review the efficacy of this practice on an annual basis and periodically as circumstances change, such as in connection with a transition in leadership. As long as the positions of Chairman and Chief Executive Officer are held by the same person, it is the policy of the Board to maintain the position of lead independent director.

12. The Board has established the position of lead independent director. The lead independent director shall be appointed annually by the full Board of Directors. The lead independent director shall have the following duties and powers:
 - a. Presiding at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent directors;
 - b. Serving as liaison between the independent directors and the Chairman of the Board;
 - c. Reviewing and approving meeting agendas and information provided to the Board for meetings, including the authority to add items to the agendas for any such meeting;
 - d. Reviewing and approving meeting schedules to assure that there is sufficient time for discussion of all agenda items;
 - e. Having the authority to call executive sessions of the independent directors and prepare the agendas for such executive sessions;
 - f. If requested by major shareholders, ensures that he or she is available for consultation and direct communications;
 - g. Serving as a member of the Executive Committee;
 - h. In the event of the death or incapacity of the Chairman, becoming the acting Chairman of the Board until a new Chairman is selected; and
 - i. Having the authority, with the approval of the majority of the directors, to engage such legal, financial or other advisors as the independent directors shall deem appropriate at the expense of the Company and without consultation or the need to obtain approval of any officer of the Company.
13. In an uncontested director election (i.e. an election where the only nominees are those recommended by the Board), any incumbent director nominated for re-election as a director who receives a greater number of votes "against" for his or her election than votes "for" such election shall be deemed to have tendered his or her resignation after such election. The independent directors of the Board, through a process managed by the lead independent director (unless he or she is the director deemed to have submitted his or her resignation), shall evaluate the relevant facts and circumstances in connection with such director's resignation, giving due consideration to the best interests of the Corporation and its shareholders. Within 90 days after the election, the independent directors shall make a decision on whether to accept or reject the tendered resignation, or whether other action should be taken. Any director who is deemed to tender a resignation

pursuant to this provision shall not participate in the Board's decision, but will otherwise serve as a director during the period of the independent directors' deliberations. The Board will promptly disclose publicly its decision and the reasons for its decision. The Board believes that this process enhances accountability to shareholders and responsiveness to shareholder votes, while allowing the Board appropriate discretion in considering whether a particular director's resignation would be in the best interests of the Corporation and its shareholders.

II. RESPONSIBILITIES OF THE BOARD

1. It is the responsibility of the Board to provide guidance and direction on the Corporation's general business goals and strategy, and to provide general oversight of, and direction to, management so that the affairs of the Corporation are conducted in the long-term interests of all its shareholders.
2. It is the responsibility of the Board to hire the Chief Executive Officer ("CEO") for the Corporation, assess the overall performance of the CEO and terminate the CEO should such action become necessary.
3. The Board, directly or through its Committees, is responsible for: (a) oversight of the preparation of the Corporation's financial statements; (b) oversight of the Corporation's compliance with legal and regulatory requirements; (c) the selection and oversight of the Corporation's independent auditors; (d) the establishment of an internally consistent and externally competitive executive compensation program designed to attract, retain and incent qualified executives and approval of the annual and long-term compensation of the Corporation's CEO and executive officers; (e) the identification and selection of qualified individuals to become Board members; (f) the development and review of appropriate corporate governance guidelines; (g) the development and periodic review of a management succession plan for the CEO and other executives as appropriate; (h) the review, approval and monitoring of fundamental financial and business strategies and major corporate actions; (i) the development of an educational program for new Board members that includes meetings with key management; (j) the development of continuing education programs for existing directors designed to improve their ability to perform their duties; and (k) the oversight of management's risk management policies.
4. The Board will review and, if it deems appropriate, approve changes to these Corporate Governance Guidelines that have been recommended to the Board by the Corporate Governance Committee.
5. The Board believes that the Corporation should maintain an appropriate code of ethical business conduct covering: (i) conflicts of interest, (ii) corporate opportunities, (iii) confidentiality, (iv) fair dealing, (v) protection and proper use of company assets, (vi) compliance with laws, rules, and regulations, (vii) encouraging the reporting of any illegal or unethical behavior and (viii) such other matters as the Board deems appropriate. Such code also will include standards of conduct reasonably applicable to designated persons, including the CEO and the senior financial officers, designed to promote: (i) honest and ethical conduct, (ii) full, fair, accurate, timely, and understandable disclosure in the periodic reports, proxy statements, and other filings under the Securities Exchange Act of 1934, as amended, that are required to be filed by the Corporation, (iii) compliance

with applicable governmental rules and regulations, (iv) the prompt internal reporting of violations of the codes and (v) the accountability for adherence to the codes.

III. OPERATION OF THE BOARD

1. The Board shall hold a minimum of five regularly scheduled meetings each year. Directors are expected to attend all regularly scheduled meetings and to have, prior to the meetings, reviewed the written materials distributed to them in advance.
2. The Board believes that maintaining confidentiality of information and deliberations is an imperative.
3. The Board believes that its responsibilities can be fulfilled most effectively through the operation of committees. Each of these committees will be designated by the Board and will have a written charter meeting all legal and, if appropriate, stock exchange requirements that will be reviewed annually by the full Board. Under the Corporation's present circumstances, the Board believes that five committees are appropriate: Executive, Audit, Corporate Governance, Risk Mitigation and Investment Policy, and Executive Compensation. The Board will review and, if it deems appropriate, approve changes to the committee charters that have been recommended to the Board by such committees.
4. Each year the Corporate Governance Committee, in consultation with the Chairman of the Board, will propose the members and chairs of the committees to the Board for the Board's review and approval. Rotation of committee chairpersons is encouraged and may occur at any time by a vote of the Board of Directors.
5. The Chairman of the Board, or, if applicable, the lead independent director, in consultation with the Chief Executive Officer (if he or she is not also the Chairman), will establish the agenda for each Board meeting. Each Board member is encouraged to submit items for consideration for inclusion.
6. At the meetings of the Board and its Committees, the directors will review and discuss reports by management on the performance of the Corporation, its strategic and operating plans and any significant issues facing the Corporation. It is management's responsibility to submit important information and data to the Board and its Committees in writing in advance of each meeting.
7. The Board shall have such access to management as it deems necessary or desirable for the accomplishment of its responsibilities. The Board has the authority, in its discretion and at the Corporation's expense, to retain independent advisors.
8. The non-management members of the Board will meet as a group in executive session (i.e. with no executive officer or director who is not independent present) at least twice a year to review the overall state of the Corporation, the Corporation's strategy and management's performance, including an evaluation of the CEO. These sessions will be led by the lead independent director for general purposes and the Chair of the Compensation Committee will lead the discussion on management's performance. In addition, every Board meeting may provide time for an executive session if any member of the Board so desires to discuss any matter.

9. The Board will establish performance criteria for itself and annually review the Board's performance against those criteria. These criteria should include guidelines as to the ownership of stock in the Corporation and attendance at Board and Committee meetings. Annually, the Corporate Governance Committee will conduct a board evaluation in which directors evaluate individual members as well as the collective Board performance. The Corporate Governance Committee will coordinate the development of these criteria and lead the Board's discussions thereof.
10. The Compensation Committee will periodically review the compensation package for directors and make recommendations to the Board for any changes. Such reviews shall take place annually. The Board should make changes in its director compensation only upon recommendation by the Compensation Committee and after discussion and approval by the Board. Both the Compensation Committee and the Board should be guided by the following principles: compensation should fairly pay directors for the work required; compensation should align directors' interests with the long-term interests of shareholders, while not calling into question their objectivity; and the structure of the compensation should be simple, transparent and easy for shareholders to understand.

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