

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

	Quarter ended		Quarters ended				Years ended December 31,			
	3/31/2021	6/30/2021	3/31/2020	6/30/2020	9/30/2020	12/31/2020	2020	2019	2018	2017
Operating revenues (GAAP financial measure)	\$ 583,565	\$ 397,032	\$ 255,585	\$ 384,468	\$ 348,647	\$ 473,998	\$ 1,462,698	\$ 889,692	\$ 838,091	\$ 809,525
Transaction-related rate credits issued to utility customers	-	-	-	-	4,080	18,924	\$ 23,004	-	-	-
Adjusted operating revenues (Non-GAAP financial measure)	<u>\$ 583,565</u>	<u>\$ 397,032</u>	<u>\$ 255,585</u>	<u>\$ 384,468</u>	<u>\$ 352,727</u>	<u>\$ 492,922</u>	<u>\$ 1,485,702</u>	<u>\$ 889,692</u>	<u>\$ 838,091</u>	<u>\$ 809,525</u>
Net income (GAAP financial measure)	\$ 183,689	\$ 80,914	\$ 51,781	\$ 74,629	\$ 55,732	\$ 102,707	\$ 284,849	\$ 224,543	\$ 191,988	\$ 239,738
Add:										
Interest expense, net	50,382	51,698	30,087	51,470	49,747	51,768	183,072	99,977	98,902	88,341
Allowance for funds used during construction	(2,934)	(4,906)	(2,948)	(2,230)	(3,543)	(3,966)	(12,687)	(16,172)	(13,023)	(15,211)
Provision for income taxes	4,766	3,786	(7,124)	462	4,031	(17,247)	(19,878)	(13,017)	(13,669)	16,914
Depreciation	71,637	72,764	45,566	67,925	68,175	69,777	251,443	158,179	146,032	136,302
Amortization	1,307	1,408	679	1,967	1,766	1,204	5,616	(1,703)	641	422
Earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	<u>\$ 308,847</u>	<u>\$ 205,664</u>	<u>\$ 118,041</u>	<u>\$ 194,223</u>	<u>\$ 175,908</u>	<u>\$ 204,243</u>	<u>\$ 692,415</u>	<u>\$ 451,807</u>	<u>\$ 410,871</u>	<u>\$ 466,506</u>
Transaction-related expenses for acquisition of Peoples	-	-	25,573	-	-	-	25,573	65,161	73,963	-
Transaction-related water rate credits issued to utility customers	-	-	-	-	4,080	18,924	23,004	-	-	-
Adjusted earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	<u>\$ 308,847</u>	<u>\$ 205,664</u>	<u>\$ 143,614</u>	<u>\$ 194,223</u>	<u>\$ 179,988</u>	<u>\$ 223,167</u>	<u>\$ 740,992</u>	<u>\$ 516,968</u>	<u>\$ 484,834</u>	<u>\$ 466,506</u>
Selected operating results as a percentage of adjusted operating revenues:										
Net income	31.5%	20.4%	20.3%	19.4%	15.8%	20.8%	19.2%	25.3%	22.9%	29.6%
Add:										
Interest expense, net	8.6%	13.0%	11.8%	13.4%	14.1%	10.5%	12.3%	11.2%	11.8%	10.9%
Allowance for funds used during construction	-0.5%	-1.2%	-1.2%	-0.6%	-1.0%	-0.8%	-0.9%	-1.8%	-1.6%	-1.9%
Provision for income taxes	0.8%	0.9%	-2.8%	0.1%	1.1%	-3.5%	-1.3%	-1.5%	-1.6%	2.1%
Depreciation	12.3%	18.3%	17.8%	17.7%	19.3%	14.2%	16.9%	17.8%	17.4%	16.8%
Amortization	0.2%	0.4%	0.3%	0.5%	0.5%	0.3%	0.4%	-0.2%	0.1%	0.1%
Other Non-GAAP adjustments	0.0%	0.0%	10.0%	0.0%	1.2%	3.8%	3.3%	7.3%	8.8%	0.0%
Adjusted earnings before interest, taxes, depreciation and amortization	<u>52.9%</u>	<u>51.8%</u>	<u>56.2%</u>	<u>50.5%</u>	<u>51.0%</u>	<u>45.3%</u>	<u>49.9%</u>	<u>58.1%</u>	<u>57.8%</u>	<u>57.6%</u>

Reconciliation of GAAP to Non-GAAP financial measures -

The Company is providing disclosure of the reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures provide investors the ability to measure the Company's financial operating performance by adjustment, which is more indicative of the Company's ongoing performance and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results.

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

Adjusted EBITDA amounts for the quarters ended March 31, 2020 and September 30, 2020, and quarter and year ended December 31, 2020, and years ended December 31, 2019 and 2018 have been adjusted to exclude the effects of the Company's transaction-related expenses related to the acquisition of Peoples, which closed on March 16, 2020.

These financial measures are measures of the Company's operating performance that do not comply with U.S. generally accepted accounting principles (GAAP), and are thus considered to be "non-GAAP financial measures" under applicable Securities and Exchange Commission regulations. These non-GAAP financial measures are derived from our consolidated financial information, and should only be used as a supplement to our GAAP disclosures.