

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)
 (Unaudited)

| Regulated segment - Efficiency Ratio adjusted for Purchased Water | Trailing twelve months ended December 31, 2019 |
|---|---|
| Operating revenues (GAAP financial measure) | \$ 886,430 |
| Purchased Water | 21,062 |
| Adjusted operating revenues (Non-GAAP financial measure) | <u>\$ 865,368</u> |
| Operations and maintenance expense (GAAP financial measure) | \$ 315,052 |
| Purchased Water | 21,062 |
| Adjusted operations and maintenance expense (Non-GAAP financial measure) | <u>\$ 293,990</u> |
| Regulated segment efficiency ratio (GAAP financial measure) | 35.5% |
| Regulated segment efficiency ratio adjusted for Purchased Water (Non-GAAP financial measure) | 34.0% |

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.

Regulated segment - Efficiency Ratio is adjusted for Purchased Water. Information referring to "Purchased Water" refers to expense related to cost of water purchased from other non-affiliated utilities. This "Purchased Water" expense amount is deducted from the operating revenues amount and the operations and maintenance expense amount to calculate the efficiency ratio adjusted for Purchased Water.

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.