

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)

	Quarters ended				Quarters ended				Years ended December 31,			
	3/31/2023	6/30/2023	9/30/2023	12/31/2023	3/31/2022	6/30/2022	9/30/2022	12/31/2022	2023	2022	2021	2020
Operating revenues (GAAP financial measure)	\$ 726,450	\$ 436,700	\$ 411,255	\$ 479,419	\$ 699,275	\$ 448,756	\$ 434,618	\$ 705,383	\$ 2,053,824	\$ 2,288,032	\$ 1,878,144	\$ 1,462,698
Transaction-related rate credits issued to utility customers	-	-	-	-	-	-	-	-	-	-	-	23,004
Adjusted operating revenues (Non-GAAP financial measure)	\$ 726,450	\$ 436,700	\$ 411,255	\$ 479,419	\$ 699,275	\$ 448,756	\$ 434,618	\$ 705,383	\$ 2,053,824	\$ 2,288,032	\$ 1,878,144	\$ 1,485,702
Net income (GAAP financial measure)	\$ 191,434	\$ 91,268	\$ 80,076	\$ 135,448	\$ 199,376	\$ 82,291	\$ 68,638	\$ 114,932	\$ 498,226	\$ 465,237	\$ 431,612	\$ 284,849
Add:												
Interest expense, net	71,849	68,212	67,648	72,252	53,027	54,397	58,978	68,039	279,961	234,441	205,325	183,072
Allowance for funds used during construction	(5,688)	(3,424)	(5,455)	(2,400)	(5,839)	(6,151)	(5,812)	(5,863)	(16,967)	(23,665)	(20,792)	(12,687)
Provision for income taxes	(31,637)	(263)	(3,711)	(30,834)	(17,233)	8,100	4,797	(9,993)	(66,445)	(14,329)	(9,612)	(19,878)
Depreciation	82,923	84,937	84,348	86,447	77,878	77,425	80,471	80,037	338,655	315,811	292,191	251,443
Amortization	871	724	1,687	1,758	468	1,751	2,259	888	5,040	5,366	5,761	5,616
Earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	\$ 309,752	\$ 241,454	\$ 224,593	\$ 262,671	\$ 307,677	\$ 217,813	\$ 209,331	\$ 248,040	\$ 1,038,470	\$ 982,861	\$ 904,485	\$ 692,415
Transaction-related expenses for acquisition of Peoples	-	-	-	-	-	-	-	-	-	-	-	25,573
Transaction-related water rate credits issued to utility customers	-	-	-	-	-	-	-	-	-	-	-	23,004
Adjusted earnings before interest, taxes, depreciation and amortization (Non-GAAP financial measure)	\$ 309,752	\$ 241,454	\$ 224,593	\$ 262,671	\$ 307,677	\$ 217,813	\$ 209,331	\$ 248,040	\$ 1,038,470	\$ 982,861	\$ 904,485	\$ 740,992
Selected operating results as a percentage of adjusted operating revenues:												
Net income	26.4%	21.0%	19.5%	28.2%	28.5%	18.3%	15.8%	16.3%	24.3%	20.4%	23.0%	19.2%
Add:												
Interest expense, net	9.9%	15.6%	16.4%	15.1%	7.6%	12.1%	13.6%	9.7%	13.6%	10.2%	10.9%	12.3%
Allowance for funds used during construction	-0.8%	-0.8%	-1.3%	-0.5%	-0.8%	-1.4%	-1.3%	-0.8%	-0.8%	-1.0%	-1.1%	-0.9%
Provision for income taxes	-4.4%	-0.1%	-0.9%	-6.4%	-2.5%	1.8%	1.1%	-1.4%	-3.2%	-0.6%	-0.5%	-1.3%
Depreciation	11.4%	19.4%	20.5%	18.0%	11.1%	17.3%	18.5%	11.3%	16.5%	13.8%	15.6%	16.9%
Amortization	0.1%	0.2%	0.4%	0.4%	0.1%	0.4%	0.5%	0.1%	0.2%	0.2%	0.3%	0.4%
Other Non-GAAP adjustments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%
Adjusted earnings before interest, taxes, depreciation and amortization	42.6%	55.3%	54.6%	54.8%	44.0%	48.5%	48.2%	35.2%	50.6%	43.0%	48.2%	49.9%

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 for the year ended December 31, 2020 has been adjusted to exclude the effects of the Company's transaction-related expenses and credits 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.