GAAP Reconciliation

The following tables set forth a reconciliation of AGL Resources' non-GAAP financial measures.

	Three months ended March 31,					Three months ended June 30,					Three months ended September 30,					Three months ended December 31,				
In millions	**2016**	**2015**	**2014**	**2013**	**2012**	**2015**	**2014**	**2013**	**2012**	**2011**	**2015**	**2014**	**2013**	**2012**	**2011**	**2015**	**2014**	**2013**	**2012**	**2011**
Operating revenues	$ 1,334	$ 1,721	$ 2,462	$ 1,612	$ 1,318	$ 674	$ 889	$ 805	$ 604	$ 371	$ 584	$ 589	$ 574	$ 526	$ 291	$ 962	$ 1,445	$ 1,218	$ 1,114	$ 767
Cost of goods sold	(578)	(935)	(1,400)	(920)	(669)	(222)	(402)	(353)	(189)	(134)	(146)	(198)	(174)	(163)	(112)	(342)	(765)	(663)	(562)	(384)
Revenue tax expense	(39)	(55)	(67)	(49)	(41)	(18)	(25)	(24)	(13)	—	(8)	(9)	(8)	(8)	—	(20)	(29)	(29)	(23)	(9)
Operating margin	717	731	995	643	608	434	462	428	402	237	430	382	392	355	179	600	651	526	529	374
Operating expenses																				
Operation and maintenance	241	249	289	231	230	209	211	204	194	127	204	193	199	186	106	252	246	253	226	190
Revenue tax expense	(39)	(55)	(67)	(49)	(41)	(18)	(25)	(24)	(13)	—	(8)	(9)	(8)	(8)	—	(20)	(29)	(29)	(23)	(9)
Depreciation and amortization	102	97	93	102	97	98	95	103	99	41	98	93	104	99	42	104	99	88	99	58
Taxes other than income taxes	62	76	88	69	61	38	42	43	32	11	28	30	27	26	12	39	48	48	40	21
Merger-related expenses	3	—	—	—	—	—	—	—	—	—	35	—	—	—	—	9	—	—	—	—
Goodwill impairment	—	—	—	—	—	—	—	—	—	—	14	—	—	—	—	—	—	—	—	—
Total operating expenses	369	367	403	353	347	327	323	326	312	179	371	307	322	303	160	384	364	360	342	260
Gain (loss) on disposition of assets	—	—	—	—	—	—	—	11	—	—	—	3	—	—	—	—	(1)	—	—	—
Operating income	348	364	592	290	261	107	139	113	90	58	59	78	70	52	19	216	286	166	187	114
Other income (expense)	3	3	3	5	4	4	2	6	9	2	2	3	7	5	1	4	6	(2)	6	3
EBIT	351	367	595	295	265	111	141	119	99	60	61	81	77	57	20	220	292	164	193	117
Interest expense, net	(47)	(44)	(46)	(45)	(47)	(42)	(45)	(44)	(45)	(33)	(42)	(44)	(37)	(45)	(30)	(45)	(44)	(44)	(46)	(42)
Income (loss) before income tax	304	323	549	250	218	69	96	75	54	27	19	37	40	12	(10)	175	248	120	147	75
Income tax expense (benefit)	111	118	203	91	79	25	37	30	20	10	7	14	16	6	(4)	63	96	40	52	40
Income (loss) from continuing operations	193	205	346	159	139	44	59	45	34	17	12	23	24	6	(6)	112	152	80	95	35
(Loss) income from discontinued operations, net of tax	—	—	(50)	1	(1)	—	1	(1)	(2)	—	—	(31)	1	—	—	—	—	4	4	—
Net income (loss)	193	205	296	160	138	44	60	44	32	17	12	(8)	25	6	(6)	112	152	84	99	35
Less: net income (loss) attributable to noncontrolling interest	11	12	12	10	9	2	2	1	1	1	1	—	—	—	(1)	5	4	7	5	4
Net income (loss) attributable to AGL - as reported	182	193	284	150	129	42	58	43	31	16	11	(8)	25	6	(5)	107	148	77	94	31
Impact of merger-related expenses, net of tax	2	—	—	—	6	—	—	—	2	8	21	—	—	1	5	5	—	—	4	48
Impact of goodwill impairment, net of tax	—	—	—	—	—	—	—	—	—	—	9	—	—	—	—	—	—	—	—	—
Impact of additional accrual for Nicor Gas PBR issue, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5	—
Net income (loss) attributable to AGL - as adjusted	**$ 184**	**$ 193**	**$ 284**	**$ 150**	**$ 135**	**$ 42**	**$ 58**	**$ 43**	**$ 33**	**$ 24**	**$ 41**	**$ (8)**	**$ 25**	**$ 7**	**$ —**	**$ 112**	**$ 148**	**$ 77**	**$ 103**	**$ 79**

	Six months ended June 30,					Nine months ended September 30,					Twelve months ended December 31,				
In millions	**2015**	**2014**	**2013**	**2012**	**2011**	**2015**	**2014**	**2013**	**2012**	**2011**	**2015**	**2014**	**2013**	**2012**	**2011**
Operating revenues	$ 2,395	$ 3,351	$ 2,417	$ 1,922	$ 1,247	$ 2,979	$ 3,940	$ 2,991	$ 2,448	$ 1,538	$ 3,941	$ 5,385	$ 4,209	$ 3,562	$ 2,305
Cost of goods sold	(1,157)	(1,802)	(1,273)	(858)	(589)	(1,303)	(2,000)	(1,447)	(1,021)	(701)	(1,645)	(2,765)	(2,110)	(1,583)	(1,085)
Revenue tax expense	(73)	(92)	(73)	(54)	—	(81)	(101)	(81)	(62)	—	(101)	(130)	(110)	(85)	(9)
Operating margin	1,165	1,457	1,071	1,010	658	1,595	1,839	1,463	1,365	837	2,195	2,490	1,989	1,894	1,211
Operating expenses															
Operation and maintenance	458	500	435	424	258	662	693	634	610	364	914	939	887	836	554
Revenue tax expense	(73)	(92)	(73)	(54)	—	(81)	(101)	(81)	(62)	—	(101)	(130)	(110)	(85)	(9)
Depreciation and amortization	195	188	205	196	82	293	281	309	295	124	397	380	397	394	182
Taxes other than income taxes	114	130	112	93	24	142	160	139	119	36	181	208	187	159	57
Merger-related expenses	—	—	—	—	—	35	—	—	—	—	44	—	—	—	—
Goodwill impairment	—	—	—	—	—	14	—	—	—	—	14	—	—	—	—
Total operating expenses	694	726	679	659	364	1,065	1,033	1,001	962	524	1,449	1,397	1,361	1,304	784
Gain on disposition of assets	—	—	11	—	—	—	3	11	—	—	—	2	11	—	—
Operating income	471	731	403	351	294	530	809	473	403	313	746	1,095	639	590	427
Other income	7	5	11	13	3	9	8	18	18	4	13	14	16	24	7
EBIT	478	736	414	364	297	539	817	491	421	317	759	1,109	655	614	434
Interest expense, net	(86)	(91)	(89)	(92)	(62)	(128)	(135)	(126)	(137)	(92)	(173)	(179)	(170)	(183)	(134)
Income before income tax	392	645	325	272	235	411	682	365	284	225	586	930	485	431	300
Income tax expense	143	240	121	99	85	150	254	137	105	81	213	350	177	157	121
Income from continuing operations	249	405	204	173	150	261	428	228	179	144	373	580	308	274	179
(Loss) income from discontinued operations, net of tax	—	(49)	—	(3)	—	—	(80)	1	(3)	—	—	(80)	5	1	—
Net income	249	356	204	170	150	261	348	229	176	144	373	500	313	275	179
Less: net income (loss) attributable to noncontrolling interest	14	14	11	10	11	15	14	11	10	10	20	18	18	15	14
Net income attributable to AGL - as reported	235	342	193	160	139	246	334	218	166	134	353	482	295	260	165
Impact of merger-related expenses, net of tax	—	—	—	8	11	21	—	—	9	16	26	—	—	13	64
Impact of goodwill impairment, net of tax	—	—	—	—	—	9	—	—	—	—	9	—	—	—	—
Impact of additional accrual for Nicor Gas PBR issue, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	5	—
Net income attributable to AGL - as adjusted	**$ 235**	**$ 342**	**$ 193**	**$ 168**	**$ 150**	**$ 276**	**$ 334**	**$ 218**	**$ 175**	**$ 150**	**$ 388**	**$ 482**	**$ 295**	**$ 278**	**$ 229**

AGL RESOURCES INC.

Reconciliation of Earnings per Share to Adjusted Earnings per Share

(Unaudited)

Adjusted to exclude merger-related expenses and wholesale services:

	Three months ended March 31,	
Per share information	**2016**	**2015**
Diluted earnings per share - consolidated	$1.51	$1.62
Add: Merger-related expenses	0.02	—
Diluted earnings per share - adjusted for merger expenses	1.53	1.62
Less: Wholesale services	0.23	0.28
Diluted earnings per share - adjusted for merger expenses and wholesale services	$1.30	$1.34

AGL RESOURCES INC.

Reconciliation of Wholesale Services' Reported EBIT to Economic Earnings

(Unaudited)

	Three months ended March 31,	
In millions	**2016**	**2015**
Wholesale services EBIT reported on a GAAP basis	$ 44	$ 56
Current quarter and prior year-end realized storage roll-out, net	6	16
Current transportation and hedge movement, net of prior period hedge offset	(4)	16
Deferred incentive compensation	2	1
Economic Earnings	$ 48	$ 89

Reconciliations of operating margin, adjusted earnings per share, adjusted net income and economic earnings are available in our quarterly reports (Form 10-Q) and annual reports (Form 10-K) filed with the Securities and Exchange Commission.

Our management evaluates segment financial performance based on operating margin and earnings before interest and taxes (EBIT), which include the effects of corporate expense allocations. We believe that EBIT is a useful measurement of our performance because it provides information that can be used to evaluate the effectiveness of our businesses from an operational perspective, exclusive of the costs to finance those activities and exclusive of income taxes, neither of which is directly relevant to the efficiency of those operations.

Operating margin is a non-GAAP measure that is calculated as operating revenues minus cost of goods sold and revenue tax expense in distribution operations. Operating margin excludes operation and maintenance expenses, depreciation and amortization, taxes other than income taxes, merger-related expenses, goodwill impairment charges and gains or losses on the sale of assets, if any. These items are included in our calculation of operating income as calculated in accordance with GAAP and reflected on our Consolidated Statements of Income. We believe that the presentation of operating margin provides useful information to management and investors regarding the contribution resulting from customer growth in our distribution operations segment since cost of goods sold and revenue tax expenses can vary significantly and are generally billed directly to our customers. We further believe that operating margin at our retail operations, wholesale services and midstream operations segments allows us to focus on a direct measure before overhead costs.

We present the non-GAAP measure of adjusted EPS that excludes the impacts of our wholesale services segment, merger-related expenses, goodwill impairment and our discontinued operations. Additionally, the company presented a non-GAAP measure of adjusted net income from continuing operations that excludes merger-related expenses and the goodwill impairment. The company believes presenting EPS excluding wholesale services provides investors with an additional measure of operating performance that excludes the volatility that results from mark-to-market and lower of weighted average cost or current market price accounting adjustments in the wholesale services segment. Economic earnings is further presented to adjust the EBIT of our wholesale services segment for mark-to-market accounting adjustments as well as the storage roll-out value. As the company does not regularly engage in transactions of the magnitude of the proposed merger with Southern Company, and consequently does not regularly incur merger expenses of correlative size, the company believes presenting EPS and net income from continuing operations excluding merger expenses provides investors with an additional measure of AGL Resources’ core operating performance. The company also has chosen to exclude a goodwill impairment that was recorded at our midstream operations segment as management believes that investors may find it useful to assess our core operating performance without this non-cash item. The loss related to the sale of Tropical Shipping is reflected as discontinued operations for the year ended December 31, 2014, and the company believes excluding the impact of discontinued operations provides a more accurate view of earnings from continuing operations.

Operating margin, adjusted EPS, adjusted net income and economic earnings should not be considered as alternatives to, or more meaningful indicators of, the company's operating performance than net income attributable to AGL Resources, operating income or EPS as determined in accordance with GAAP. In addition, the company's operating margin, adjusted EPS, adjusted net income and economic earnings may not be comparable to similarly titled measures of another company.