

May 28, 2025

Ms. Linda C. Bridwell, P.E.  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602

*Re: In the Matter of: Electronic Application of Atmos Energy Corporation for  
an Adjustment of Rates; Approval of Tariff Revisions; and Other General Relief-  
Case No. 2024-00276*

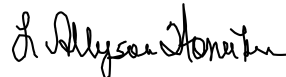
Dear Ms. Bridwell:

Please find attached Atmos Energy Corporation's ("Atmos Energy") Responses to Commission Staff's Post-Hearing Request for Information in the above-styled case.

This is to certify that the foregoing electronic filing was transmitted to the Commission on May 28, 2025 that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, no paper copies of this filing will be made.

If you have any questions, please let me know.

Very truly yours,



L. Allyson Honaker

Enclosure

BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

ELECTRONIC APPLICATION OF ATMOS )  
ENERGY CORPORATION FOR AN )  
ADJUSTMENT OF RATES; APPROVAL OF ) Case No. 2024-00276  
TARIFF REVISIONS; AND OTHER )  
GENERAL RELIEF )

CERTIFICATE AND AFFIDAVIT

The Affiant, Timothy (Ryan) Austin, being duly sworn, deposes and states that the attached responses to Commission Staff's first post-hearing request for information are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Timothy (Ryan) Austin

STATE OF KENTUCKY  
COUNTY OF DAVIESS

SUBSCRIBED AND SWORN to before me by Timothy (Ryan) Austin on this the 27<sup>th</sup>  
day of May, 2025.

  
\_\_\_\_\_  
Notary Public  
My Commission Expires: Dec. 8, 2025



BEFORE THE PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

ELECTRONIC APPLICATION OF ATMOS )  
ENERGY CORPORATION FOR AN )  
ADJUSTMENT OF RATES; APPROVAL OF )  
TARIFF REVISIONS; AND OTHER )  
GENERAL RELIEF )

Case No. 2024-00276

CERTIFICATE AND AFFIDAVIT

The Affiant, Joe T. Christian, being duly sworn, deposes and states that the attached responses to Commission Staff's first post-hearing request for information are true and correct to the best of his knowledge and belief.

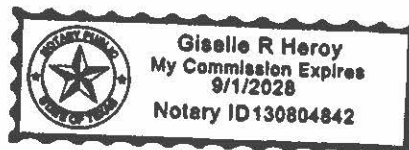
  
\_\_\_\_\_  
Joe T. Christian

STATE OF TEXAS  
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joe T. Christian on this the 28<sup>th</sup> day of May, 2025.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: 9/01/2028



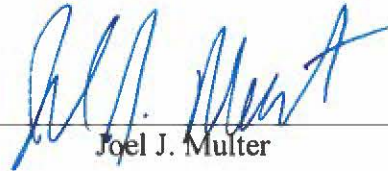
**BEFORE THE PUBLIC SERVICE COMMISSION**

**COMMONWEALTH OF KENTUCKY**

**ELECTRONIC APPLICATION OF ATMOS )**  
**ENERGY CORPORATION FOR AN )**  
**ADJUSTMENT OF RATES; APPROVAL OF ) Case No. 2024-00276**  
**TARIFF REVISIONS; AND OTHER )**  
**GENERAL RELIEF )**


**CERTIFICATE AND AFFIDAVIT**

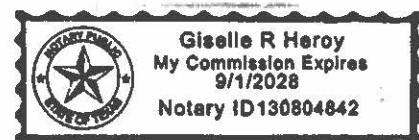
The Affiant, Joel J. Multer, being duly sworn, deposes and states that the attached responses to Commission Staff's first post-hearing request for information are true and correct to the best of his knowledge and belief

  
Joel J. Multer

STATE OF TEXAS  
COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Joel J. Multer on this the 28<sup>th</sup> day of May, 2025.

  
Notary Public  
My Commission Expires: 9/01/2025





BEFORE THE PUBLIC SERVICE COMMISSION

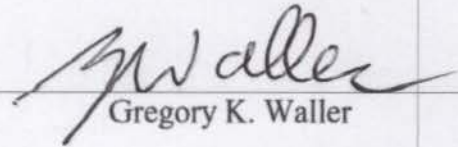
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ELECTRONIC APPLICATION OF ATMOS )  
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Case No. 2024-00276

CERTIFICATE AND AFFIDAVIT

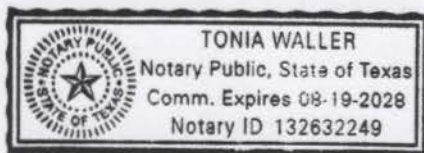
The Affiant, Gregory K. Waller, being duly sworn, deposes and states that the attached responses to Commission Staff's post-hearing first request for information are true and correct to the best of his knowledge and belief.

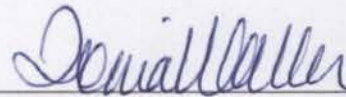
  
Gregory K. Waller

STATE OF TEXAS

COUNTY OF DALLAS

SUBSCRIBED AND SWORN to before me by Gregory K. Waller on this the 27<sup>th</sup> day of May, 2025.





Notary Public

My Commission Expires: 8/19/28

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-01**  
**Page 1 of 1**

**REQUEST:**

Describe any changes Atmos has encountered or expects to encounter to the Low Income Home Energy Assistance Program (LIHEAP) under the current presidential administration.

**RESPONSE:**

The federal LIHEAP program provides assistance to qualifying households to help meet their heating and cooling bills. Funding is appropriated by the US Congress and Administered by the US Department of Health & Human Services. Recently HHS released the remaining 10% of LIHEAP funds that Congress appropriated for the federal fiscal year 2025. Funds are disbursed via block grants to states, including Kentucky, which are then remitted to state agency partners who identify qualifying households to receive LIHEAP support. We are monitoring LIHEAP developments in the US Congress and Executive branch regarding the program in FY26.

In addition to LIHEAP, and as noted by the Company in response to Staff 3-01, Atmos Energy's shareholders contribute dollars each year to assist customers who may be having trouble paying their bills. In 2024, the following shareholder dollars were allocated to Kentucky to assist Kentucky customers:

<b>Kentucky Energy Assistance Agency</b>	<b>FY24 Donated</b>
AUDUBON AREA COMMUNITY SERVICES INC	\$ 113,558
BLUE GRASS COMMUNITY ACTION PARTNERSHIP	\$ 10,000
Community Action Agency of Southern Kentucky Inc	\$ 94,660
FAMILY SERVICE SOCIETY INC	\$ 15,000
HELP OFFICE OWENSBORO	\$ 25,000
LAKE CUMBERLAND COMMUNITY ACTION AGENCY	\$ 10,000
MID AMERICA ASSISTANCE COALITION	\$ 188,758
MULTI PURPOSE COMMUNITY ACTION AGENCY INC	\$ 15,000
NEXT STEP MINISTRIES	\$ 5,000
PENNYRILE ALLIED COMMUNITY SERVICES INC	\$ 118,558
Salvation Army	\$ 110,898
ST VINCENT DE PAUL SOCIETY	\$ 20,000
WEST KENTUCKY ALLIED SERVICES INC	\$ 113,558
<b>Grand Total</b>	<b>\$ 839,990</b>

Respondent: Brannon Taylor

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-02**  
**Page 1 of 3**

**REQUEST:**

Refer to Direct Testimony of T. Ryan Austin, pages 17-18 and Exhibit TRA-5.

- a. Explain why pressure reduction per PHMSA was not a valid option for complying with PHMSA for the projects listed in Exhibit TRA-5.
- b. For each pipeline referenced in Exhibit TRA-5, provide the total estimated costs of complying with the PHMSA Mega Rule by (1) replacing the pipeline, (2) pressure testing and (3) by retrofitting for use with an inline inspection (ILI) tool over the useful life of the proposed replacement pipeline. Include the cost of ILI testing after replacement.

**RESPONSE:**

- a. See the Direct Testimony of Company witness T. Ryan Austin from Page 18, Line 4 to Page 21, Line 6. With pressure reduction the Company is unable to supply the existing demands on the system as well as any future growth in the towns it serves. A majority of these lines are tied into the Company's existing systems that operate at a common pressure.

Where pressure tests can be safely performed, the Company has done so or will plan to do so. To date, the Company has already reconfirmed 2.3 miles of transmission assets via pressure test as shown on Exhibit TRA-5. The Company is evaluating a 1.0 mile section of a Hawesville line for pressure testing in 2027, but believes it will ultimately be a candidate for pipe replacement and has noted such in the attachment.

There are several reasons why a pressure test is not a practical option for a large portion of the Company's Kentucky transmission assets. Primarily, the affected pipelines are not "piggable" due to factors including diameter changes, stopple fittings, tees for regulator stations and farm tap services, and insufficient radius bends. These factors also make the pipelines impractical to test with water as it would not be viable to remove all the water from the lines because of the inability to "pig". In pipeline safety, "piggable" refers to the ability of a pipeline to allow a measurement device, or "pig", to enter and exit without damaging the pipe or the measurement device. In addition to measurement, pigs are inserted into pipelines to clean and inspect the pipeline from the inside.

In addition, the miles proposed for replacement were installed prior to the adoption of the record-keeping requirements in Part 192, and complete records on wall thickness and grade necessary to perform pressure-testing do not exist for these assets. To confirm the MAOP via a pressure test with water poses risks, as the Company would need to pressure the line to at least 1.5 times its MAOP. To safely perform these tests, the wall thickness and grade must be known. Otherwise, manufacturing-related

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-02**  
**Page 2 of 3**

or construction-related defects may fail due to overstressing the pipe beyond 100% of its yield strength. This would potentially result, beyond the safety risks alone, in replacing significant amounts of pipe because of testing. In addition, the pressure testing would heavily increase O&M spending not just for the cost of pressure testing, but also to account for long-term outages while the tests and any replacements are performed that would require sustained use of liquified natural gas ("LNG") or compressed natural gas ("CNG") supply to be trucked in continuously to supply those customers with natural gas in the interim period.

As the Company also mentioned during the hearing, estimates for retesting of the pipelines are not easy nor quick to obtain. Detailed design plans would need to be drawn up for each segment of pipe that has to be pressure tested. For every section the Company would need items such as flow analysis, where to cut and cap sections of pipe, and the effect on other lines all while maintaining continuity of service. The pipes would need to be completely isolated and separated from the existing pipeline, LNG and CNG would need to be brought in to supply the customers continuously (and in some cases, entire systems such as Paducah would need to be serviced with LNG and CNG for prolonged periods of time) outside the limits of the work. Once the line is separated for pressure testing each tap and tie over would have to be exposed and separated in order to hydro test the pipe.

During the pressure test process, ***if any materials were to fail***, Atmos Energy would be legally required to expose and replace a section of pipe, which would not only result in the capital investment necessary but also in additional delays and even more increased costs for providing daily, continuous LNG / CNG supplies to multiple locations within the system. The resulting pipeline would then be a mismatch of the existing pipeline materials and segments of modern industry materials. Pressure testing would also not allow the Company to potentially right size pipeline sizes which would be an additional benefit of the replacement process. Right sizing the pipelines during the replacement process allows the Company to have adequate capacity in place for future economic growth of the affected towns. In addition, the majority of the pipe that falls under the MAOP reconfirmation is already 60 or 70 years old, installed in the 1950s and 1960s before the original 192 code requirements so there are many unknowns that are already existing with these pipeline materials.

- b. As noted in the original testimony as well as the lengthy discussion at the hearing, full designs are not completed at this time for the entirety of the individual projects outside of the FY25 and FY26 projects originally listed. Scope changes as designs are developed will impact the total cost due to material, labor, ROW expenses as well as actual length of entire replacements as the project might not be able to follow the original route as laid in the 1950s and 60s. Understanding these limitations on the ability to provide accurate, detailed estimates of the cost of these projects, see Attachment 1 for preliminary estimates of projects listed in Exhibit TRA-5. Estimates

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-02**  
**Page 3 of 3**

are based on unit pricing for the quantities listed in the table. The estimates are currently based on today's dollars, so future consideration of costs and any increases that may occur due to inflation or other outside factors outside of the Company's control will be incorporated into annual PM Rider filings for the Commission's review and approval. The estimates provided based on today's dollars should, however, provide the Commission a baseline of the scope and scale of the projects listed under TRA-5 required to meet legally mandated compliance. For the reasons laid out in the response to Staff PH 1-02(a) the Company does not believe, in the Company's opinion, that pressure testing the segments where pipeline replacement is listed is a feasible option from a risk and safety perspective. The segments where the Company believed pressure testing was a feasible option have already been performed.

**ATTACHMENT:**

Staff PH\_1-02\_Att1 - Exhibit TRA-5 Atmos Energy Kentucky 192.624 Schedule Estimates.xlsx

Respondent: Ryan Austin

Town	Length (ft)	In-Service Date	Outside Diameter	MAOP	% SMYS at MAOP	Consequence Area Type	Proposed MAOP Reconfirmation Method	Forecast Reconfirmation (Fiscal Year)	Current Estimated Capital Cost
Hawesville	206	7/25/1969	6.625	594	43.6%	N/A	Pipe Replacement	2025	\$2,677,220
Hawesville	5916	7/16/1968	8.625	594	56.8%	N/A	Pressure Reduction	2025	
Hawesville	5650	12/5/1964	6.625	594	29.9%	N/A	Pipe Replacement	2026	\$6,124,697
Madisonville	6142		6.625	594	43.6%	MCA	Pipe Replacement	2026	
Madisonville	4699	11/25/1955	6.625	425	23.5%	N/A	Pipe Replacement	2026	
Hawesville	5322	11/15/1966	6.625	500	36.7%	N/A	Pressure Test	2027	\$ 3,064,969.80
Paducah	20333	11/14/1954	8.625	395	28.4%	N/A	Pipe Replacement	2028	\$ 12,932,032.00
Bowling Green	10771	2/24/1995	8.625	814	44.5%	N/A	Pressure Reduction	2030	\$ 405,000.00
Paducah	8886	12/4/1969	8.625	395	37.8%	N/A	Pipe Replacement	2031	\$ 5,651,602.63
Paducah	5185	9/16/1958	8.625	395	37.8%	N/A	Pipe Replacement	2032	\$ 3,297,722.22
Paducah	3860	9/4/1956	8.625	395	37.8%	N/A	Pipe Replacement	2032	\$ 2,455,006.32
Bon Harbor	2202	8/1/1964	6.625	529	38.8%	N/A	Pipe Replacement	2033	\$ 1,113,750.00
Paducah	15850	10/12/1959	8.625	395	37.8%	N/A	Pipe Replacement	2034	\$ 10,080,790.20
Paducah	667	7/13/1970	6.625	395	29.0%	MCA	Pipe Replacement	2034	\$ 424,220.00



**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-03**  
**Page 1 of 1**

**REQUEST:**

Refer to Direct Testimony of T. Ryan Austin, pages 37–38.

- a. Provide the estimated cost and timeline, both with the current spending cap and without a cap, to replace all Aldyl-A pipeline. Break this down by project, and by year if available. If not available, explain how Atmos has determined both the cost and timeline for replacement.
- b. Provide the estimated construction schedule for projects to be paid for by the PM Rider, both with the current spending cap and without a cap.

**RESPONSE:**

- a. See Attachment 1. The Company has broken down the replacement costs by both a 7-year and 10-year time frame. Similar to the response to Staff Post-hearing DR 1-02, the estimates are currently based on today's dollars, so future consideration of costs and any increases that may occur due to inflation or other outside factors outside of the Company's control will be incorporated into annual PRP filings for the Commission's review and approval. The estimates provided based on today's dollars should, however, provide the Commission a baseline of the scope and scale of the Aldyl-A projects.
- b. Exhibit TRA-5 is the current estimated construction schedule, the work within the PM Rider is legally required by PHMSA within prescriptive timeframes. Specifically:
  - Complete MAOP Reconfirmation of 50% of affected pipeline mileage by July 2028 (§192.624);
  - Complete MAOP Reconfirmation of 100% of affected pipeline mileage by July 2035 (§192.624);

The projects listed within TRA-5 must occur within the timeframes set forth above to achieve legal compliance, regardless of the spending cap. The proposed PM Rider also allows for the Commission to review the necessary projects each year and the capital spending associated with those projects.

**ATTACHMENT:**

Staff PH\_1-03\_Att1 - Aldyl A Estimate

Respondent: Ryan Austin

	Mileage	Footage	\$/Ft	Total Estimated Cost
Remaining Aldyl-A	198.37	1,047,394	\$ 169	\$ 176,747,670

	Svc / Mile	\$/Svc	Total Svc (Est)	Total Estimated Cost - Services
Aldyl-A Services (Est.)	50	\$ 6,750	9,919	\$ 66,949,875

\$ 243,697,545	<--- Total Estimated Cost
\$ 34,813,935	<--- Total Cost / Year (7 Year)
\$ 24,369,755	<--- Total Cost / Year (10 Year)

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-04**  
**Page 1 of 1**

**REQUEST:**

Refer to Direct Testimony of Gregory K. Waller, page 34. Provide copies of American Gas Association (AGA) and Chamber of Commerce bills for the last three years showing their allocation between lobbying and non-lobbying costs.

**RESPONSE:**

See Attachment 1 and Attachment 2. The invoices for the Kentucky State Chamber of Commerce state that 80% is not related to lobbying. The Company applied the inferred 20% remainder to the adjustment for all Chamber of Commerce invoices, which includes several smaller local entities that collectively sum to the amount reported in the Company's filing on Schedule F.1.

**ATTACHMENTS:**

Staff PH\_1-04\_Att1 - AGA Invoices - Last Three Years.pdf

Staff PH\_1-04\_Att2 - KY Chamber of Commerce Invoices - Last Three Years.pdf

Respondent: Greg Waller



PLEASE ROUTE TO AMANDA MORGAN  
FOR CODING

CASE NO. 2024-00276  
ATTACHMENT 1

TO STAFF POST-HEARING DR 1-04

Post Office Box 79226

Baltimore, Maryland 21279-0226

Telephone (202) 824-7256

Fax (202) 824-7256

Email to: [dues@aga.org](mailto:dues@aga.org)

## 2023 MEMBERSHIP DUES NOTICE

### Atmos Energy Corporation

#### 2023 DUES

Year ending December 31, 2023

AGA dues rules are attached. Dues are based upon the average of the following operating income (\$000):

2019 595,208

2020 691,515

2021 740,166

Average 675,630

**YOUR 2022 DUES WERE ..... \$ 1,099,311**

**YOUR 2023 DUES ARE ..... \$ 1,147,461 Pay this amount**

#### 2023 Payment Schedule

☒ Full amount enclosed ☐ Semi-annually (Jan.1, July 1) ☐ Quarterly (Jan.1, Apr.1, July 1, Oct.1) ☐ Other (Please check box)

Please email this completed membership dues notice to Joe Pierce at [dues@aga.org](mailto:dues@aga.org). An official AGA invoice will follow based on the payment schedule selected. Payments may be paid electronically using the instructions below or via check mailed to the P.O Box above.

Invoice to:

Account Coding:

010.0000.1650.13028.002000.0000

American Gas Association Annual Dues

Approved:

Title:

Date:

Phone:

Email:

Send payments electronically by ACH to:

Account Holder: American Gas Association

Bank: Truist Bank

Address: One Park Place, Atlanta, GA 30303

ABA Number: 021052053

Account Number: 11521323

Reference: **2023 Membership**

#### IMPORTANT IRS REQUIRED NOTICE

Dues payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2023 dues -- **the portion that is allocable to lobbying is 3.4%.**

# AMERICAN GAS ASSOCIATION 2023 DUES RULES

## U.S. Energy Utilities

- AGA dues for U.S. Energy Utility members are based on the average of 2019, 2020 and 2021 gas operating income\* and the following income blocks and rates:

Block 1	First	\$ 10,000,000	1.0468%
Block 2	Next	\$ 7,500,000	.6710%
Block 3	Next	\$ 20,000,000	.4481%
Block 4	Next	\$ 40,000,000	.3200%
Block 5	Next	\$ 80,000,000	.2550%
Block 6	Over	\$ 157,500,000	.1500%

In applying the above formula, the maximum annual increase for any company equals 4.38%. No company's dues will decrease starting in 2023.

- For companies that merge or are acquired whose dues would have decreased, the dues of the resulting company will equal the combined dues of the merging companies immediately prior to the merger for 4 years with no dues increases for increased operating income. After 4 years, the company's dues will be assessed via the formula structure, and any reduction in dues will be phased-in over a 4-year period or until the phased-in amount equals the formula dues, whichever comes first.
- If necessary, the Board may approve the redistribution of any remaining AGA budget deficit to the members based on each company's share of total dues revenue.
- For distribution companies with less than 75,000 meters, the maximum distribution company dues are equal to \$0.90/meter\*\*. When dues are capped at \$0.90/meter, the maximum annual increase/decrease provision does not apply.
- No company, whose consolidated or subsidiary meets the eligibility standards of a U.S. Energy Utility company, will be allowed to join a different AGA membership class. All regulated U.S. gas distribution subsidiaries of a parent organization must be included in the dues calculations.
- Minimum Gas Company 2023 dues are \$2,230.

\*Gas operating income is defined as Line 11, Schedule II of the Uniform Statistical Report.

\*\*Meters are defined as Line 17 (total), Schedule XX of the Uniform Statistical Report.

Please contact Terri Oliva, Chief Financial Officer at (202) 824-7092 regarding any questions about the invoice or rules.

# Invoice for Membership Dues



Mr. Kevin Akers  
President & CEO  
Atmos Energy Corporation  
5430 LBJ Freeway  
Suite 1800  
Dallas, TX 75240

Date	Invoice Number
DEC 11, 2023	141466

Description	Total
Dues for 2024 membership year: <b>\$1,219,407.00</b>  Annual Payment	
<b>010.0000.1650.13028.002000.0000</b>	<b>\$1,219,407.00</b>

## IMPORTANT IRS REQUIRED NOTICE

Dues payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2024 dues -- the portion that is allocable to lobbying is **4.3%**.

## **PLEASE REMIT PAYMENT WITH COPY OF INVOICE TO:**

Send payments by check to:

AMERICAN GAS ASSOCIATION  
Post Office Box 79226  
Baltimore, MD 21279-0226

Send payments electronically by ACH to:

Account Holder: American Gas Association  
Bank: Truist Bank  
Address: 214 N. Tryon Street, Charlotte, NC 28202  
ABA Number: 021052053  
Account Number: 11521323  
Reference: 141466





PLEASE ROUTE TO AMANDA MORGAN  
FOR PROCESSING

amanda.morgan@atmosenergy.com

CASE NO. 2024-00276

ATTACHMENT 1

TO STAFF POST-HEARING DR 1-04

Post Office Box 79226

Baltimore, Maryland 21279-0226

Telephone (202) 824-7256

Fax (202) 824-7256

Email to: [dues@aga.org](mailto:dues@aga.org)

## 2024 MEMBERSHIP DUES NOTICE

### Atmos Energy Corporation

#### 2024 DUES

Year ending December 31, 2024

AGA dues rules are attached. Dues are based upon the average of the following operating income (\$000):

2020 691,515

2021 740,166

2022 860,846

Average 764,176

YOUR 2023 DUES WERE ..... \$ 1,147,461

YOUR 2024 DUES ARE ..... \$ 1,219,407 **Pay this amount**

#### 2024 Payment Schedule (Please check box)

☒ Full amount ☐ Semi-annually (Jan.1, July 1) ☐ Quarterly (Jan.1, Apr.1, July 1, Oct.1) ☐ Other

Please email this completed membership dues notice to Joe Pierce at [dues@aga.org](mailto:dues@aga.org). An official AGA invoice will follow based on the payment schedule selected. Payments may be paid electronically using the instructions below or via check mailed to the P.O Box above.

Invoice to:

Phone:

Email:

Approved:

Title:

Date:

#### Send payments electronically by ACH to:

Account Name: American Gas Association

Bank: Truist Bank

Address: 214 N. Tryon Street, Charlotte NC 28202

ABA Number: 021052053

Account Number: 11521323

Reference: **2024 Membership**

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Dues payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2024 dues -- the portion that is allocable to lobbying is 4.3%.

## AMERICAN GAS ASSOCIATION 2024 DUES RULES

### U.S. Energy Utilities

1. AGA Dues for U.S. Energy Utility members are based on the average of 2020, 2021 and 2022 gas operating income\* and the following income blocks and rates:

Block 1	First	\$ 10,000,000	1.0468%
Block 2	Next	\$ 7,500,000	.6710%
Block 3	Next	\$ 20,000,000	.4481%
Block 4	Next	\$ 40,000,000	.3200%
Block 5	Next	\$ 80,000,000	.2550%
Block 6	Over	\$ 157,500,000	.1500%

In applying the above formula, the maximum annual increase for any company equals 6.27%, and the maximum decrease equals 0%.

2. For companies that merge or are acquired whose dues would have decreased, the dues of the resulting company will equal the combined dues of the merging companies immediately prior to the merger for 4 years with no dues increases for increased operating income. After 4 years, the company's dues will be assessed via the formula structure, and any reduction in dues will be phased-in over a 4-year period or until the phased-in amount equals the formula dues, whichever comes first.
3. If necessary, the Board may approve the redistribution of any remaining AGA budget deficit to the members based on each company's share of total dues revenue.
4. For distribution companies with less than 75,000 meters, the maximum distribution company dues are equal to \$0.90/meter\*\*. When dues are capped at \$0.90/meter, the maximum annual increase/decrease provision does not apply.
5. No company, whose consolidated or subsidiary meets the eligibility standards of a U.S. Energy Utility company, will be allowed to join a different AGA membership class. All regulated U.S. gas distribution subsidiaries of a parent organization must be included in the dues calculations.
6. Minimum Gas Company 2024 dues are \$2,370.

\*Gas operating income is defined as Line 11, Schedule II of the Uniform Statistical Report.

\*\*Meters are defined as Line 17 (total), Schedule XX of the Uniform Statistical Report.

Please contact Terri Oliva, Chief Financial Officer at (202) 824-7092 regarding any questions about the invoice or rules.



# Invoice

Mr. Kevin Akers  
President & CEO  
Atmos Energy Corporation  
5430 LBJ Freeway  
Suite 1800  
Dallas, TX 75240

Date	Invoice Number
December 19, 2024	142813

Description	Total
Dues for 2025 membership year:	
Annual Payment	\$ 1,305,863
<b>010.0000.1650.13028.002000.0000</b>	
<b>Total Amount Due</b>	<b>\$ 1,305,863</b>

## IMPORTANT IRS REQUIRED NOTICE

Payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2025 contribution -- **the portion that is allocable to lobbying is 3.78%.**

### Send payment by check to:

American Gas Association  
Post Office Box 79226  
Baltimore, MD 21279-0226

**Please remit copy of invoice with check**

### Send payment electronically by ACH to:

Account Holder: American Gas Association  
Bank: Truist Bank  
Address: One Park Place, Atlanta, GA 30303  
ABA Number: 021052053  
Account Number: 11521323  
Reference: 142813



Post Office Box 79226  
Baltimore, Maryland 21279-0226  
Telephone (202) 824-7256  
Fax (202) 824-7256  
Email to: [dues@aga.org](mailto:dues@aga.org)

## 2025 MEMBERSHIP DUES NOTICE

### Atmos Energy Corporation

#### 2025 DUES

Year ending December 31, 2025

AGA dues rules are attached. Dues are based upon the average of the following operating income (\$000):

2021	<u>740,166</u>	2022	<u>860,846</u>	2023	<u>997,336</u>	Average	<u>866,116</u>
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YOUR 2024 DUES WERE ..... \$ 1,219,407

YOUR 2025 DUES ARE ..... \$ 1,305,863 **Pay this amount**

---

#### 2025 Payment Schedule (Please check box)

☒ Full amount   ☐ Semi-annually (Jan.1, July 1)   ☐ Quarterly (Jan.1, Apr.1, July 1, Oct.1)   ☐ Other

Please email this completed membership dues notice to Joe Pierce at [dues@aga.org](mailto:dues@aga.org). An official AGA invoice will follow based on the payment schedule selected. Payments may be paid electronically using the instructions below or via check mailed to the P.O Box above.

---

Invoice to: **Kevin Akers**

**President & CEO**

**Atmos Energy Corporation**

Phone:

Email:

**kevin.akers@atmosenergy.com**

Approved:

Title:

Date:

#### Send payments electronically by ACH to:

Account Name: American Gas Association

Bank: Truist Bank

Address: 214 N. Tryon Street, Charlotte NC 28202

ABA Number: 021052053

Account Number: 11521323

Reference: **142813**

#### IMPORTANT IRS REQUIRED NOTICE

Dues payments, contributions or gifts to the American Gas Association are not tax deductible as charitable contributions for federal income tax purposes. However, they may be deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of AGA's lobbying activities as defined by the Budget Reconciliation Act of 1993. AGA estimates that the nondeductible portion of your 2025 dues -- the portion that is allocable to lobbying is 3.78%.

## AMERICAN GAS ASSOCIATION 2025 DUES RULES

### U.S. Energy Utilities

1. AGA Dues for U.S. Energy Utility members are based on the average of 2021, 2022 and 2023 gas operating income\* and the following income blocks and rates:

Block 1	First	\$ 10,000,000	1.0468%
Block 2	Next	\$ 7,500,000	.6710%
Block 3	Next	\$ 20,000,000	.4481%
Block 4	Next	\$ 40,000,000	.3200%
Block 5	Next	\$ 80,000,000	.2550%
Block 6	Over	\$ 157,500,000	.1500%

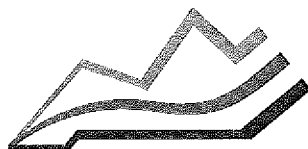
In applying the above formula, the maximum annual increase for any company equals 7.09%, and the maximum decrease equals 0%.

2. For companies that merge or are acquired whose dues would have decreased, the dues of the resulting company will equal the combined dues of the merging companies immediately prior to the merger for 4 years with no dues increases for increased operating income. After 4 years, the company's dues will be assessed via the formula structure, and any reduction in dues will be phased-in over a 4-year period or until the phased-in amount equals the formula dues, whichever comes first.
3. If necessary, the Board may approve the redistribution of any remaining AGA budget deficit to the members based on each company's share of total dues revenue.
4. For distribution companies with less than 75,000 meters, the maximum distribution company dues are equal to \$0.90/meter\*\*. When dues are capped at \$0.90/meter, the maximum annual increase/decrease provision does not apply.
5. No company, whose consolidated or subsidiary meets the eligibility standards of a U.S. Energy Utility company, will be allowed to join a different AGA membership class. All regulated U.S. gas distribution subsidiaries of a parent organization must be included in the dues calculations.
6. Minimum Gas Company 2025 dues are \$2,538.

\*Gas operating income is defined as Line 11, Schedule II of the Uniform Statistical Report.

\*\*Meters are defined as Line 17 (total), Schedule XX of the Uniform Statistical Report.

Please contact Terri Oliva, Chief Financial Officer at (202) 824-7092 regarding any questions about the invoice or rules.



**Kentucky Chamber**  
Uniting Business. Advancing Kentucky.

464 Chenault Road Frankfort, KY 40601 phone 502-695-4700 fax 502-695-5051

Mr. Mark Martin  
VP, Rates & Regulatory Affairs  
Atmos Energy Corporation  
3275 Highland Pointe Dr  
Owensboro, KY 42303-7835  
  
(270) 685-8024  
mark.martin@atmosenergy.com

**ROUTE TO  
EVELYN K COOMES**

CASE NO. 2024-00276  
ATTACHMENT 2  
TO STAFF POST-HEARING DR 1-04

**Membership Renewal -  
Invoice No. 35552022**

Date: 9/8/2022  
Original Join Date: 03/01/1949  
Membership Dates: 10/01/2022 - 09/30/2023  
KCC Federal Tax ID: 61-0405718

Please verify information at left and note any updates.

**Remit to:**  
Kentucky Chamber of Commerce  
464 Chenault Road  
Frankfort, KY 40601

Investing in membership with the Kentucky Chamber of Commerce makes good business sense. Whether you're a small, family-owned business or a Fortune 500 company, we have the tools to help you succeed, because our business is growing your business.

Company	Member Number	Due Date	Membership Dues
Atmos Energy Corporation	3555	10/31/2022	\$20,045.00
<b>Chamber Action Fund</b> Your voluntary contribution to the Chamber Action Fund is used in the most critical situations to garner needed public support on important business issues. Action Fund dollars are used exclusively to advance member-supported issues and are not used for political activity.			\$50.00
<i>Membership dues are not deductible as a charitable contribution. In compliance with the Omnibus Budget Reconciliation Act of 1993, 80 percent of your dues may be deductible as an ordinary business expense and are not allocable to lobbying activity.</i>			
<b>Total Due</b>			<b>\$20,095.00</b>

Please return this portion with payment.

Company	Member Number	Due Date	Membership Dues	
Atmos Energy Corporation	3555	10/31/2022	\$20,045.00	
<b>Please select your area(s) of interest:</b>			Action Fund	\$50.00
<input type="checkbox"/> Human Resources				
<input type="checkbox"/> Political Education				
<input type="checkbox"/> Health & Wellness				
<input type="checkbox"/> Energy & Environmental				
<input type="checkbox"/> Manufacturing				
<input type="checkbox"/> Small Business				
<input type="checkbox"/> Fiscal Policy				
<input type="checkbox"/> OSHA				
<input type="checkbox"/> Workers' Compensation				
<input type="checkbox"/> Education & Workforce Dev.			<b>Total Due</b>	<b>\$20,095.00</b>

<b>Pay by Check</b>	<b>Pay by Credit Card (select one)</b> VISA MasterCard American Express
Amount: \$ _____	Card # _____ Exp. Date _____
Check # _____	Signature (required) _____





## Route to Kay Coomes

Mr. Mark Martin  
VP, Rates & Regulatory Affairs  
Atmos Energy Corporation  
3275 Highland Pointe Dr  
Owensboro, KY 42303-7835  
  
(270) 685-8024  
mark.martin@atmosenergy.com

**Date:** 9/12/2023  
**Original Join Date:** 03/01/1949  
**Membership Dates:** 10/01/2023 - 09/30/2024

KCC Federal Tax ID: 61-0405718

Please verify information at left and note any updates.

**Remit to:**  
Kentucky Chamber of Commerce  
464 Chenault Road  
Frankfort, KY 40601

Investing in membership with the Kentucky Chamber of Commerce makes good business sense. Whether you're a small, family-owned business or a Fortune 500 company, we have the tools to help you succeed, because our business is growing your business.

Company	Member Number	Due Date	Membership Dues
Atmos Energy Corporation	3555	10/31/2023	\$22,050.00
Chamber Action Fund Your voluntary contribution to the Chamber Action Fund is used in the most critical situations to garner needed public support on important business issues. Action Fund dollars are used exclusively to advance member-supported issues and are not used for political activity.			\$50.00
<i>Membership dues are not deductible as a charitable contribution. In compliance with the Omnibus Budget Reconciliation Act of 1993, 80 percent of your dues may be deductible as an ordinary business expense and are not allocable to lobbying activity.</i>			
			<b>Total Due</b> \$22,100.00

Please return this portion with payment.

Company	Member Number	Due Date	Membership Dues	
Atmos Energy Corporation	3555	10/31/2023	\$22,050.00	
<b>Please select your area(s) of interest:</b>			Action Fund	\$50.00
<input type="checkbox"/> Human Resources <input type="checkbox"/> Political Education <input type="checkbox"/> Fiscal Policy <input type="checkbox"/> Health & Wellness <input type="checkbox"/> Energy & Environmental <input type="checkbox"/> OSHA <input type="checkbox"/> Manufacturing <input type="checkbox"/> Small Business <input type="checkbox"/> Workers' Compensation <input type="checkbox"/> Education & Workforce Dev.				
			<b>Total Due</b>	\$22,100.00

<b>Pay by Check</b>	<b>Pay by Credit Card (select one)</b> VISA    MasterCard    AMEX    Discover			
Amount: \$ _____	Card # _____	Exp. Date _____	CVV: _____	
Check # _____	Signature (required) _____		Billing Zip Code: _____	



## Route to Kay Coomes

Mr. Mark Martin  
VP, Public Affairs  
Atmos Energy Corporation  
3275 Highland Pointe Dr  
Owensboro, KY 42303-7835  
  
(270) 685-8024  
mark.martin@atmosenergy.com

Date: 9/10/2024  
Original Join Date: 03/01/1949  
Membership Dates: 10/01/2024 - 09/30/2025  
KCC Federal Tax ID: 61-0405718

Please verify information at left and note any updates.

Remit to:  
Kentucky Chamber of Commerce  
464 Chenault Road  
Frankfort, KY 40601

Investing in membership with the Kentucky Chamber of Commerce makes good business sense. Whether you're a small, family-owned business or a Fortune 500 company, we have the tools to help you succeed, because our business is growing your business.

Company	Member Number	Due Date	Membership Dues	
Atmos Energy Corporation	3555	10/31/2024	\$22,050.00	
Chamber Action Fund			\$50.00	
Your voluntary contribution to the Chamber Action Fund is used in the most critical situations to garner needed public support on important business issues. Action Fund dollars are used exclusively to advance member-supported issues and are not used for political activity.				
Membership dues are not deductible as a charitable contribution. In compliance with the Omnibus Budget Reconciliation Act of 1993, 80 percent of your dues may be deductible as an ordinary business expense and are not allocable to lobbying activity.				
			Total Due	\$22,100.00

Please return this portion with payment.

Company	Member Number	Due Date	Membership Dues	
Atmos Energy Corporation	3555	10/31/2024	\$22,050.00	
Please select your area(s) of interest:  <div><input type="checkbox"/> Human Resources</div> <div><input type="checkbox"/> Health &amp; Wellness</div> <div><input type="checkbox"/> Manufacturing</div> <div><input type="checkbox"/> Political Education</div> <div><input type="checkbox"/> Energy &amp; Environmental</div> <div><input type="checkbox"/> Small Business</div> <div><input type="checkbox"/> Fiscal Policy</div> <div><input type="checkbox"/> OSHA</div> <div><input type="checkbox"/> Workers' Compensation</div> <div><input type="checkbox"/> Education &amp; Workforce Dev.</div>			Action Fund	\$50.00
			Total Due	\$22,100.00

Pay by Check	Pay by Credit Card (select one)	VISA	MasterCard	AMEX	Discover
Amount: \$	Card #	Exp. Date	CVV:		
Check #	Signature (required)	Billing Zip Code:			

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-05**  
**Page 1 of 1**

**REQUEST:**

Refer to Rebuttal Testimony of Gregory K. Waller. Also, refer also to the hearing testimony of Gregory Waller, May 6, 2025 Hearing Video Transcript (May 6, 2025 HVT) at 14:11:20. Provide the budgeted and actual capitalization rates and the variances between the budgeted and actual capitalization rates for labor expense for Kentucky direct employees for Fiscal Years 2019 through 2023.

**RESPONSE:**

See Attachment 1.

**ATTACHMENT:**

Staff PH\_1-05\_Att1 - Bud v Act Cap Rat FY2019-2023.xlsx

Respondent: Greg Waller

Labor Split by Cost Center- Actual vs Budget  
Atmos Energy-KY/Mid-States

	Fiscal 2019	Budget 2019	CY Act vs Budget	Fiscal 2020	Budget 2020	CY Act vs Budget	Fiscal 2021	Budget 2021	CY Act vs Budget	Fiscal 2022	Budget 2022	CY Act vs Budget	Fiscal 2023	Budget 2023	CY Act vs Budget
	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September	YTD September
TOTAL COMPANY - 009REG Only															
Labor Capitalized %	58.9%	59.4%	-0.5%	60.1%	57.6%	2.5%	60.7%	57.6%	3.1%	60.2%	57.4%	2.8%	58.7%	57.9%	0.8%

This report excludes any labor acurrals in its calculations.

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-06**  
**Page 1 of 2**

**REQUEST:**

Refer to Direct Testimony of Joel J. Multer, pages 4–5 and Exhibit JJM-1.

- a. Explain how far back Atmos has Income Statement and ADIT data like that used to calculate the information in Exhibit JJM-1, and the time and expense it would take to provide that data.
- b. Identify the last fiscal year in which Atmos had no net operating loss carryforward and provide a spreadsheet showing overall changes to that net operating loss carryforward in each year since that year, along with a breakdown of that amount between Atmos's regulated and unregulated divisions.
- c. Explain whether Atmos would be able to perform the calculation included in Exhibit JJM-1 from the last year that Atmos had no net operating loss carryforward, and if so, explain any issues or risks that might arise in such a calculation such as issues associated with the reliability of information in historic years.
- d. Provide an update to Exhibit JJM-1 reflecting increases and decreases in the deferred tax asset for the period beginning October 1, 2024 and ending March 31, 2025.
- e. Provide the effect of the change in the deferred tax asset from October 1, 2024 through March 31, 2025 on Atmos's revenue requirement and explain how that effect was calculated.

**RESPONSE:**

- a. Atmos Energy has identified Income Statements and ADIT balances back to fiscal 2024. It would take several days to accumulate and verify before such information could be provided.
- b. The last fiscal year in which Atmos Energy had no net operating loss carryforward was fiscal 2008. See Attachment 1 for summary of NOL carryforward balances since that year.
- c. Atmos Energy could perform the calculation included in Exhibit JJM-1 from the last year that Atmos Energy had no net operating loss carryforward. This calculation, however, requires undertaking a significant analysis to prepare. Issues or risks that might arise include verifying accuracy of 17 years of historic information as well as identifying applicable jurisdictional allocation factors for each year during this time period along with all ADIT balances that have been previously determined to be excluded from ADIT in rate base in previous cases.
- d. See Attachment 2.

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-06**  
**Page 2 of 2**

- e. As shown and as calculated on Attachment 2, there is a \$583,289 reduction to the NOLC from October 1, 2024 to March 31, 2025. The impact of reducing the deferred tax asset by that amount on revenue requirement in isolation is (\$62,064). That amount is calculated by making an adjustment in the Company's revenue requirement model attached as Exhibit GKW-R-1 to the rebuttal testimony of Greg Waller and calculating the resulting difference in total cost of service. However, the Company has included the allocable amount of the utility NOLC in its rebuttal revenue requirement, forecasted through March 31, 2026, consistent with its acceptance of the Office of Attorney General's second recommendation to "Reduce Asset NOLADIT to Reflect Allocated Share of SSU Division Amount" as discussed in the testimony of OAG witness Lane Kollen.

**ATTACHMENTS:**

Staff PH\_1-06\_Att1 - NOLC by Year.xlsx

Staff PH\_1-06\_Att2 - NOLC DTA Update Through 3-31-2025.xlsx

Respondents: Joel Multer and Greg Waller



Atmos Energy  
Schedule of NOLs  
Cummulative to 9/30/2024

		Consolidated	Utility	NonReg	Other	Tax Rate	Total	Utility	Non Utility	Other
9/30/2009	FY09 Tax Return	(372,944,892)	(440,015,537)	67,070,645		21.00%	(78,318,427)	(92,403,263)	14,084,835	-
9/30/2009	FY09 Utilization (carried back to offset all taxable income in FY04-FY08)	280,337,910	(92,504,293)	372,842,203		21.00%	58,870,961	(19,425,902)	78,296,863	-
9/30/2010	FY10 Tax Return	(53,348,587)	(132,720,487)	79,371,900		21.00%	(11,203,203)	(27,871,302)	16,668,099	-
9/30/2011	FY11 Tax Return	(110,265,393)	(143,555,143)	33,289,750		21.00%	(23,155,733)	(30,146,580)	6,990,848	-
9/30/2012	FY12 Tax Return	(177,136,541)	(174,504,974)	(2,631,567)		21.00%	(37,198,673)	(36,646,044)	(552,629)	-
9/30/2013	FY13 Tax Return	(137,682,317)	(167,493,748)	29,811,431		21.00%	(28,913,287)	(35,173,687)	6,260,401	-
9/30/2014	FY14 Tax Return	(261,141,430)	(297,014,507)	35,873,077		21.00%	(54,839,700)	(62,373,046)	7,533,346	-
9/30/2015	FY15 Tax Return	(194,209,729)	(219,078,665)	24,868,936		21.00%	(40,784,043)	(46,006,520)	5,222,477	-
9/30/2016	FY16 Tax Return	(357,416,608)	(383,733,497)	26,316,889		21.00%	(75,057,488)	(80,584,034)	5,526,547	-
9/30/2017	FY17 Tax Return	(143,624,437)	(212,481,170)	68,856,733		21.00%	(30,161,132)	(44,621,046)	14,459,914	-
9/30/2018	FY18 Tax Return	(445,657,653)	(466,201,471)	20,543,818		21.00%	(93,588,107)	(97,902,309)	4,314,202	-
9/30/2019	FY19 Tax Return	(188,819,331)	(213,508,255)	24,688,924		21.00%	(39,652,060)	(44,836,734)	5,184,674	
9/30/2020	FY20 Tax Return Utilization of FY09 NOL	76,598,663	56,520,806	20,077,857		21.00%	16,085,720	11,869,370	4,216,350	-
9/30/2021	FY21 Tax Return	(1,901,327,706)	(1,920,464,919)	19,137,213		21.00%	(399,278,818)	(403,297,633)	4,018,815	
9/30/2022	FY22 Tax Return	1,940,721,513	1,915,534,861	25,186,652		21.00%	407,551,517	402,262,320	5,289,197	
9/30/2023	FY23 Tax Return	(54,976,296)	(76,544,713)	21,568,417		21.00%	(11,545,022)	(16,074,390)	4,529,368	
9/30/2024	FY24 Provision Activity	42,719,442	13,883,356	28,836,086		21.00%	8,971,083	2,915,505	6,055,578	
	Other - FIN48	(46,174,243)			(46,174,243)	21.00%	(9,696,591)	-	-	(9,696,591)
	<b>NOL as of 12/31/2023</b>	<b>(2,104,347,635)</b>	<b>(2,953,882,356)</b>	<b>895,708,964</b>	<b>(46,174,243)</b>		<b>(441,913,003)</b>	<b>(620,315,294)</b>	<b>188,098,883</b>	<b>(9,696,591)</b>
		21.00%	21.00%	21.00%	21.00%					
		(441,913,003)	(620,315,295)	188,098,883	(9,696,591)					
		441,913,339	620,311,385	(188,094,637)	9,696,591	ADIT	441,913,339	620,311,385	(188,094,637)	9,696,591
		336	(3,910)	4,246	(0)	Difference	336	(3,910)	4,245	(0)

	Utility	NonReg	Consolidated	Other	
9/30/2009	111,829,164	(92,381,698)	19,447,466	-	19,447,466
9/30/2010	27,871,302	(16,668,099)	11,203,203	-	11,203,203
9/30/2011	30,146,580	(6,990,848)	23,155,733	-	23,155,733
9/30/2012	36,646,045	552,629	37,198,674	-	37,198,674
9/30/2013	35,173,687	(6,260,401)	28,913,287	-	28,913,287
9/30/2014	62,373,046	(7,533,346)	54,839,700	-	54,839,700
9/30/2015	46,006,520	(5,222,477)	40,784,043	-	40,784,043
9/30/2016	80,584,034	(5,526,547)	75,057,488	-	75,057,488
9/30/2017	44,621,046	(14,459,914)	30,161,132	-	30,161,132
9/30/2018	97,902,309	(4,314,202)	93,588,107	-	93,588,107
9/30/2019	44,836,734	(5,184,674)	39,652,060	-	39,652,060
9/30/2020	(11,869,369)	(4,216,350)	-16,085,719	-	-16,085,719
9/30/2021	403,297,633	(4,018,815)	399,278,818	9,696,591	408,975,409
9/30/2022	(402,262,321)	(5,289,197)	-407,551,518		
Tax Effected	607,156,410	(177,513,937)	429,642,473	9,696,591	846,890,582
	2,891,221,000	(845,304,461)	2,045,916,539	46,174,243	4,032,812,294
Check	(62,661,357.00)	50,404,503.00	(58,431,097.00)		

		FY 2022	FY 2023	As of 6/30/2024 FY 2024	July - Sept FY 2024	As of 9/30/2024 Total FY 2024	As of 3/31/2025 FY 2025
DIV 09	Pre Tax Book Income	27,826,385	32,545,724	30,045,584	122,150	30,167,734	33,265,125
DIV 09	Federal Taxable Income (Loss) from Book/Tax Differences	(51,090,545)	(8,033,323)	(21,012,802)	2,303,078	(18,709,723)	(30,717,363)
DIV 02	Federal Taxable Income (Loss) from Book/Tax Differences	(18,026,132)	(9,024,826)	(108,093)	3,961,381	3,853,288	(809,237)
DIV 012	Federal Taxable Income (Loss) from Book/Tax Differences	155,935	433,981	290,790	(206,779)	84,011	(29,021)
DIV 091	Federal Taxable Income (Loss) from Book/Tax Differences	2,362,331	(4,907,832)	(8,629,366)	(2,397,230)	(11,026,597)	1,068,064
	Regulatory Federal Taxable Income (Loss)	(38,772,027)	11,013,723	586,113	3,782,600	4,368,713	2,777,569
	Federal Tax Rate	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
	Increase / (Decrease) in NOLC ADIT Asset	8,142,126	(2,312,882)	(123,084)	(794,346)	(917,430)	(583,289)
	NOLC ADIT Beginning of Year	28,552,909 A	36,695,035	34,382,153	34,259,069	34,382,153	33,464,723
	Increase / (Decrease) in NOLC ADIT Asset	8,142,126	(2,312,882)	(123,084)	(794,346)	(917,430)	(583,289)
	NOLC ADIT End of Year	36,695,035	34,382,153	34,259,069	33,464,723	33,464,723	32,881,434

A - NOL ADIT as of 9/30/2021 - End of Base Period in Case No. 2021-00214

	FY 2022	FY 2023	As of 6/30/2024	July - Sept	As of 9/30/2024	As of 3/31/2025
			FY 2024	FY 2024	Total FY 2024	FY2025
<b>DIV 09</b>						
Pre Tax Book Income	27,826,385	32,545,724	30,045,584	122,150	30,167,734	33265125
ADIT Beginning of Year	(97,066,594)	(120,107,365)	(119,965,923)	(126,931,020)	(119,965,923)	(125,813,250)
Less Items Excluded from Rate Base	(1,439,654)	(5,485,739)	(1,437,843)	(1,011,179)	(1,437,843)	(415,201)
Less State Only Items	11,070,567	5,705,377	5,782,479	5,117,842	5,782,479	5,559,682
Less TCJA Regulatory Liabiltiy related ADIT	7,021,267	6,138,862	4,159,620	2,675,190	4,159,620	2,180,524
Adjusted ADIT Beginning of Year	(113,718,774)	(126,465,865)	(128,470,179)	(133,712,873)	(128,470,179)	(133,138,255)
ADIT End of Year	(120,107,365)	(119,965,923)	(126,931,020)	(125,813,250)	(125,813,250)	(135,972,167)
Less Items Excluded from Rate Base	(5,485,739)	(1,437,843)	(1,011,179)	(415,201)	(415,201)	(1,200,510)
Less State Only Items	5,705,377	5,782,479	5,117,842	5,559,682	5,559,682	4,839,676
Less TCJA Regulatory Liabiltiy related ADIT	6,138,862	4,159,620	2,675,190	2,180,524	2,180,524	1,190,904
Adjusted ADIT End of Year	(126,465,865)	(128,470,179)	(133,712,873)	(133,138,255)	(133,138,255)	(140,802,237)
Change in Adjusted ADIT	(12,747,091)	(2,004,314)	(5,242,694)	574,618	(4,668,076)	(7,663,982)
Applicable Federal & State Deferred Tax Rate	24.9500%	24.9500%	24.9500%	24.9500%	24.9500%	24.9500%
Kentucky Mid States Div Allocation	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Kentucky Jurisdiction Allocation	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Federal Taxable Income (Loss) from Book/Tax Differences</b>	<b>(51,090,545)</b>	<b>(8,033,323)</b>	<b>(21,012,802)</b>	<b>2,303,078</b>	<b>(18,709,723)</b>	<b>(30,717,363)</b>
<b>DIV 02</b>						
ADIT Beginning of Year	841,973,871	342,022,601	314,468,054	252,997,116	314,468,054	311,818,167
Less Items Excluded from Rate Base	35,796,993	25,188,290	21,428,201	19,995,420	21,428,201	17,982,823
Less State Only Items	1,910,422	2,780,160	2,296,070	2,299,863	2,296,070	2,475,851
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Less Federal NOL	850,194,457	441,283,389	458,676,680	399,122,247	458,676,680	441,913,339
Adjusted ADIT Beginning of Year	(45,928,001)	(127,229,238)	(167,932,897)	(168,420,414)	(167,932,897)	(150,553,846)
ADIT End of Year	342,022,601	314,468,054	252,997,116	311,818,167	311,818,167	240,522,763
Less Items Excluded from Rate Base	25,188,290	21,428,201	19,995,420	17,982,823	17,982,823	13,349,312
Less State Only Items	2,780,160	2,296,070	2,299,863	2,475,851	2,475,851	2,433,242
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Less Federal NOL	441,283,389	458,676,680	399,122,247	441,913,339	441,913,339	378,943,867
Adjusted ADIT End of Year	(127,229,238)	(167,932,897)	(168,420,414)	(150,553,846)	(150,553,846)	(154,203,658)
Change in Adjusted ADIT	(81,301,236)	(40,703,659)	(487,517)	17,866,569	17,379,051	(3,649,813)
Applicable Federal & State Deferred Tax Rate	22.4220%	22.4220%	22.4220%	22.4220%	22.4220%	22.4220%
Kentucky Mid States Div Allocation	9.86%	9.86%	9.86%	9.86%	9.86%	9.86%
Kentucky Jurisdiction Allocation	50.42%	50.42%	50.42%	50.42%	50.42%	50.42%
<b>Federal Taxable Income (Loss) from Book/Tax Differences</b>	<b>(18,026,132)</b>	<b>(9,024,826)</b>	<b>(108,093)</b>	<b>3,961,381</b>	<b>3,853,288</b>	<b>(809,237)</b>
<b>DIV 012</b>						
ADIT Beginning of Year	(15,341,523)	(14,387,639)	(11,822,885)	(10,661,552)	(11,822,885)	(10,383,728)
Less Items Excluded from Rate Base	(1,166,404)	(841,660)	(27,859)	(39,651)	(27,859)	1,072,375
Less State Only Items	-	-	-	-	-	-
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Adjusted ADIT Beginning of Year	(14,175,119)	(13,545,979)	(11,795,026)	(10,621,901)	(11,795,026)	(10,621,901)
ADIT End of Year	(14,387,639)	(11,822,885)	(10,661,552)	(10,383,728)	(10,383,728)	(9,632,135)
Less Items Excluded from Rate Base	(841,660)	(27,859)	(39,651)	1,072,375	1,072,375	1,106,843
Less State Only Items	-	-	-	-	-	-
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Adjusted ADIT End of Year	(13,545,979)	(11,795,026)	(10,621,901)	(11,456,103)	(11,456,103)	(10,738,978)
Change in Adjusted ADIT	629,140	1,750,953	1,173,125	(834,202)	338,923	(117,077)
Applicable Federal & State Deferred Tax Rate	22.42%	22.42%	22.42%	22.42%	22.42%	22.42%
Kentucky Mid States Div Allocation	11.02%	11.02%	11.02%	11.02%	11.02%	11.02%
Kentucky Jurisdiction Allocation	50.43%	50.43%	50.43%	50.43%	50.43%	50.43%
<b>Federal Taxable Income (Loss) from Book/Tax Differences</b>	<b>155,935</b>	<b>433,981</b>	<b>290,790</b>	<b>(206,779)</b>	<b>84,011</b>	<b>(29,021)</b>

			As of 6/30/2024	July - Sept	As of 9/30/2024	As of 3/31/2025
	FY 2022	FY 2023	FY 2024	FY 2024	Total FY 2024	FY2025
<b>DIV 091</b>						
ADIT Beginning of Year	(3,474,544)	(2,438,663)	(4,559,829)	(8,390,118)	(4,559,829)	(9,326,201)
Less Items Excluded from Rate Base	1,222,305	1,207,647	1,269,016	1,276,245	1,269,016	1,406,221
Less State Only Items	-	-	-	-	-	-
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Adjusted ADIT Beginning of Year	(4,696,849)	(3,646,310)	(5,828,845)	(9,666,363)	(5,828,845)	(10,732,422)
ADIT End of Year	(2,438,663)	(4,559,829)	(8,390,118)	(9,326,201)	(9,326,201)	(8,699,595)
Less Items Excluded from Rate Base	1,207,647	1,269,016	1,276,245	1,406,221	1,406,221	1,557,854
Less State Only Items	-	-	-	-	-	-
Less TCJA Regulatory Liabiltiy related ADIT	-	-	-	-	-	-
Adjusted ADIT End of Year	(3,646,310)	(5,828,845)	(9,666,363)	(10,732,422)	(10,732,422)	(10,257,449)
Change in Adjusted ADIT	1,050,539	(2,182,535)	(3,837,518)	(1,066,059)	(4,903,577)	474,973
Applicable Federal & State Deferred Tax Rate	22.42%	22.42%	22.42%	22.42%	22.42%	22.42%
Kentucky Mid States Div Allocation	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Kentucky Jurisdiction Allocation	50.42%	50.42%	50.42%	50.42%	50.42%	50.42%
<b>Federal Taxable Income (Loss) from Book/Tax Differences</b>	<b>2,362,331</b>	<b>(4,907,832)</b>	<b>(8,629,366)</b>	<b>(2,397,230)</b>	<b>(11,026,597)</b>	<b>1,068,064</b>
<b>Regulatory Federal Taxable Income (Loss)</b>	<b>(38,772,027)</b>	<b>11,013,723</b>	<b>586,113</b>	<b>3,782,600</b>	<b>4,368,713</b>	<b>2,777,569</b>
<b>Federal Tax Rate</b>	<b>21.00%</b>	<b>21.00%</b>	<b>21.00%</b>	<b>21.00%</b>	<b>21.00%</b>	<b>21.00%</b>
<b>Increase / (Decrease) in NOLC ADIT Asset</b>	<b>8,142,126</b>	<b>(2,312,882)</b>	<b>(123,084)</b>	<b>(794,346)</b>	<b>(917,430)</b>	<b>(583,289)</b>

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
			9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022
Adjustment Description	Category	Adj Code										
Environmental Activities	ACC	ACC01										
Ad Valorem Taxes	ACC	ACC02										
Directors Deferred Bonus	ACC	ACC03										
MIP/VPP Accrual	ACC	ACC04	(248,888)	(248,888)	(248,888)	(249,043)	(249,043)	(249,043)	(249,197)	(249,197)	(249,197)	(249,352)
Accrued Environmental Asset	ACC	ACC05										
Miscellaneous Accrued	ACC	ACC06										
Self Insurance - Adjustment	ACC	ACC08										
Vacation Accrual	ACC	ACC11	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)	(72,129)
Worker's Comp Insurance Reserve	ACC	ACC12	117,791	117,791	117,791	120,851	120,851	120,851	126,540	126,540	126,540	131,190
Accrual - Subtotal			(203,226)	(203,226)	(203,226)	(200,321)	(200,321)	(200,321)	(194,786)	(194,786)	(194,786)	(190,291)
Rabbi Trust - True Up	BEN	NBP01										
SEBP Adjustment	BEN	NBP03										
SERP DTL Offset	BEN	NBP04										
Restricted Stock Grant Plan	BEN	NBP05										
Rabbi Trust	BEN	NBP06										
VEBA Trust Contribution Adjustment	BEN	NBP08										
Restricted Stock - MIP	BEN	NBP13										
Director's Stock Awards	BEN	NBP16										
Director's Stock - Temp	BEN	NBP18										
Rabbi Trust Book Gain or Loss	BEN	NBP22										
Rabbi Trust Tax Gain or Loss	BEN	NBP23										
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24										
Pension Expense	BEN	PEN01										
FAS106 Adjustment	BEN	PRB01	-	-	-	-	-	-	-	-	-	-
Benefits - Subtotal			-	-	-	-	-	-	-	-	-	-
CWIP	Excl	CWIP/RWIP	FXA26	(79,453)	(79,453)	(79,453)	(79,453)	(79,453)	(79,453)	(79,453)	(79,453)	(79,453)
RWIP	Excl	CWIP/RWIP	FXA47	(54,610)	(54,610)	(54,610)	(54,610)	(54,610)	(54,610)	(54,610)	(54,610)	(54,610)
CWIP/RWIP - Subtotal				(134,063)	(134,063)	(134,063)	(134,063)	(134,063)	(134,063)	(134,063)	(134,063)	(134,063)
Fixed Asset Cost Adjustment	FXA	FXA01	(93,738,475)	(93,738,475)	(93,738,475)	(95,856,080)	(95,856,080)	(95,856,080)	(99,259,385)	(99,259,385)	(99,259,385)	(100,037,852)
Depreciation Adjustment	FXA	FXA02	(23,051,260)	(23,051,260)	(23,051,260)	(23,417,178)	(23,417,178)	(23,417,178)	(23,787,850)	(23,787,850)	(23,787,850)	(24,031,299)
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas	FXA	FXA13	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas	FXA	FXA14	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost	FXA	FXA15	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum	FXA	FXA16	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance	FXA	FXA41	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR	FXA	FXA46	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50										
AFUDC - Equity Asset Cost Adj	FXA	FXA80	-	-	-	(26,660)	(26,660)	(26,660)	(88,910)	(88,910)	(88,910)	(173,800)
Plant - Subtotal			(116,789,735)	(116,789,735)	(116,789,735)	(119,299,918)	(119,299,918)	(119,299,918)	(123,136,145)	(123,136,145)	(123,136,145)	(124,242,951)
Deferred Gas Costs	Excl	GCA	GCA01	(895,760)	(895,760)	(895,760)	(2,986,611)	(2,986,611)	(2,986,611)	(1,435,225)	(1,435,225)	(2,515,491)
Over Recoveries of PGA	Excl	GCA	GCA03	(714,552)	(714,552)	(714,552)	(642,814)	(642,814)	(642,814)	(2,393,468)	(2,393,468)	-
PGA - Amended Item		GCA	GCA04									
Gas Cost Adjustment - Subtotal				(1,610,312)	(1,610,312)	(1,610,312)	(3,629,425)	(3,629,425)	(3,629,425)	(3,828,693)	(3,828,693)	(2,515,491)
LGS - Goodwill Amortization	GDW	ONT13										
TXU - Goodwill Amortization	GDW	ONT49										
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01	233,412	233,412	233,412	204,852	204,852	204,852	200,613	200,613	200,613	196,043
Capital Loss CarryForward	ONT	CAP_LOSS_CF										
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01	-	-	-	-	-	-	-	-	-	-
Deferred Expense Projects	ONT	DTE09	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12	-	-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition	ONT	DTE14	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized	ONT	DVA05	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized	ONT	DVA06	-	-	-	-	-	-	-	-	-	-
Leases - Assets	ONT	DVA10	(4,155,415)	(4,155,415)	(4,155,415)	(4,065,299)	(4,065,299)	(4,065,299)	(4,086,023)	(4,086,023)	(4,086,023)	(4,110,084)
DIG on Fixed Assets	ONT	DVA16	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage	ONT	DVA18	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG	ONT	DVA19	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities	ONT	DVA20	4,155,415	4,155,415	4,155,415	4,065,299	4,065,299	4,065,299	4,086,023	4,086,023	4,086,023	4,110,084

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022
Leases Reclass - Liabilities	ONT	DVA21										
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-	-	-	-	-	-
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-	-	-	-	-	-
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	800,972	800,972	800,972	839,789	839,789	839,789	793,716	793,716	793,716	678,061
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	569,155	569,155	569,155	622,979	622,979	622,979	569,155	569,155	569,155	569,155
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-	-	-	-	-	-
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-	-	-	-
Prepayments	Excl	ONT31	(15,546)	(15,546)	(15,546)	(2,132)	(2,132)	(2,132)	17,989	17,989	17,989	34,260
Rate Case Accrual	ONT	ONT32	(1,051,243)	(1,051,243)	(1,051,243)	(2,224,214)	(2,224,214)	(2,224,214)	(475,866)	(475,866)	(475,866)	(402,848)
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-	-	-	-	-	-
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-	-	-	-
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-	-	-	-
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	-	-	-	86,107	86,107	86,107	176,563	176,563	176,563	2,008,013
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	7,021,267	6,993,435	6,965,602	6,937,770	6,909,938	6,882,105	6,854,273	6,826,441	6,798,608	6,633,673
Regulatory Liability - KY GUD	ONT	RGL07	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948	2,216,948
Regulatory Liability - NSC	ONT	RGL08	834,128	834,128	834,128	2,051,571	2,051,571	2,051,571	-	-	-	-
Fuel Cell ITC	ONT	RGL09										
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11										
Regulatory Liability - LA	ONT	ATTD_RGL_LA							-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG										



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023
Adjustment Description			7/31/2022	8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023
Environmental Activities		ACC										
Ad Valorem Taxes		ACC										
Directors Deferred Bonus		ACC										
MIP/VPP Accrual	Excl	ACC	(249,352)	(249,352)	(296,676)	(296,676)	(296,676)	(296,638)	(296,638)	(296,638)	(296,601)	(296,601)
Accrued Environmental Asset		ACC										
Miscellaneous Accrued		ACC										
Self Insurance - Adjustment		ACC										
Vacation Accrual		ACC	(72,129)	(72,129)	(66,331)	(66,331)	(66,331)	(66,331)	(66,331)	(66,331)	(66,331)	(66,331)
Worker's Comp Insurance Reserve		ACC	131,190	131,190	138,263	138,263	138,263	141,339	141,339	141,339	146,279	146,279
Accrual - Subtotal			(190,291)	(190,291)	(224,744)	(224,744)	(224,744)	(221,630)	(221,630)	(221,630)	(216,653)	(216,653)
Rabbi Trust - True Up		BEN										
SEBP Adjustment		BEN										
SERP DTL Offset		BEN										
Restricted Stock Grant Plan		BEN										
Rabbi Trust		BEN										
VEBA Trust Contribution Adjustment		BEN										
Restricted Stock - MIP		BEN										
Director's Stock Awards		BEN										
Director's Stock - Temp		BEN										
Rabbi Trust Book Gain or Loss		BEN										
Rabbi Trust Tax Gain or Loss		BEN										
Rabbi Trust Unrealized Gain or Loss		BEN										
Pension Expense		BEN										
FAS106 Adjustment		BEN										
Benefits - Subtotal			-	-	29,736	29,736	29,736	29,736	29,736	29,736	29,736	29,736
CWIP	Excl	CWIP/RWIP	(79,453)	(79,453)	(96,103)	(96,103)	(96,103)	(96,103)	(96,103)	(96,103)	(96,103)	(96,103)
RWIP	Excl	CWIP/RWIP	(54,610)	(54,610)	(43,127)	(43,127)	(43,127)	(43,127)	(43,127)	(43,127)	(43,127)	(43,127)
CWIP/RWIP - Subtotal			(134,063)	(134,063)	(139,230)	(139,230)	(139,230)	(139,230)	(139,230)	(139,230)	(139,230)	(139,230)
Fixed Asset Cost Adjustment		FXA	(100,037,852)	(100,037,852)	(103,748,559)	(103,748,559)	(103,748,559)	(106,742,671)	(106,742,671)	(106,742,671)	(109,399,745)	(109,399,745)
Depreciation Adjustment		FXA	(24,031,299)	(24,031,299)	(25,975,181)	(25,975,181)	(25,975,181)	(25,976,862)	(25,976,862)	(25,976,862)	(25,977,947)	(25,977,947)
Book Gain/Loss on Sale of Fixed Assets		FXA	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA			-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	(173,800)	(173,800)	-	-	-	-	-	-	-	-
Plant - Subtotal			(124,242,951)	(124,242,951)	(129,723,740)	(129,723,740)	(129,723,740)	(132,719,533)	(132,719,533)	(132,719,533)	(135,377,692)	(135,377,692)
Deferred Gas Costs	Excl	GCA	(2,515,491)	(2,515,491)	(5,619,177)	(5,619,177)	(5,619,177)	(6,911,117)	(6,911,117)	(6,911,117)	(3,066,716)	(3,066,716)
Over Recoveries of PGA	Excl	GCA	-	-	-	-	-	-	-	-	(1,855,612)	(1,855,612)
PGA - Amended Item		GCA										0
Gas Cost Adjustment - Subtotal			(2,515,491)	(2,515,491)	(5,619,177)	(5,619,177)	(5,619,177)	(6,911,117)	(6,911,117)	(6,911,117)	(4,922,328)	(4,922,328)
LGS - Goodwill Amortization	GDW	ONT13										-
TXU - Goodwill Amortization	GDW	ONT49										-
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-
Customer Advances		ONT	196,043	196,043	194,564	194,564	194,564	193,205	193,205	193,205	188,553	188,553
Capital Loss CarryForward		ONT										
Amoritzation - LGS Acq. 1810-13523		ONT	-	-	-	-	-	-	-	-	-	-
Deferred Expense Projects		ONT	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)
Amoritzation - LGS Acq. 1810-14155		ONT	-	-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition		ONT	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized		ONT	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized		ONT	-	-	-	-	-	-	-	-	-	-
Leases - Assets		ONT	(4,110,084)	(4,110,084)	(4,005,865)	(4,005,865)	(4,005,865)	(3,904,043)	(3,904,043)	(3,904,043)	(3,820,561)	(3,820,561)
DIG on Fixed Assets		ONT	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG		ONT	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities		ONT	4,110,084	4,110,084	4,005,865	4,005,865	4,005,865	3,904,043	3,904,043	3,904,043	3,820,561	3,820,561



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023
			7/31/2022	8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023
Adjustment Description	Category	Adj Code										
Leases Reclass - Liabilities	ONT	DVA21										
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-	-	-	-	-	-
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-	-	-	-	-	-
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	678,061	678,061	553,374	553,374	553,374	494,750	494,750	494,750	515,157	515,157
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	569,155	569,155	569,155	569,155	569,155	586,389	586,389	586,389	613,229	613,229
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-	-	-	-	-	-
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-	-	-	-
Prepayments	Excl	ONT31	34,260	34,260	189	189	189	5,422	5,422	5,422	22,259	22,259
Rate Case Accrual	ONT	ONT32	(402,848)	(402,848)	(358,878)	(358,878)	(358,878)	(300,602)	(300,602)	(300,602)	(358,878)	(358,878)
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-	-	-	-	-	-
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-	-	-	-
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-	-	-	-
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	2,008,013	2,008,013	-	-	-	582,105	582,105	582,105	2,096,625	2,096,625
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	6,468,736	6,303,799	6,138,862	5,973,925	5,808,988	5,644,052	5,479,115	5,314,178	5,149,242	4,984,305
Regulatory Liability - KY GUD	ONT	RGL07	2,216,948	2,216,948	2,697,562	2,697,562	2,697,562	2,697,562	2,697,562	2,697,562	2,697,562	2,697,562
Regulatory Liability - NSC	ONT	RGL08	-	-	78,503	78,503	78,503	78,503	78,503	78,503	235,613	235,613
Fuel Cell ITC	ONT	RGL09			-	-	-	-	-	-	-	-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11									-	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-	-	-	-	-	-	-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG						-	-	-	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023
				7/31/2022	8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023
Adjustment Description	Category	Adj Code											
Other - Subtotal				11,759,450	11,594,513	9,864,413	9,699,476	9,534,539	9,972,468	9,807,531	9,642,594	11,150,444	10,985,507
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR										
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U										
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT										
ST-State Net Operating Loss	state	TAX	TAX04	3,858,497	3,858,497	6,320,938	6,320,938	6,320,938	6,309,845	6,309,845	6,309,845	5,648,517	5,648,517
ST-State Bonus Depreciation	state	TAX	TAX05	4,065,397	4,065,397	3,381,432	3,381,432	3,381,432	3,381,432	3,381,432	3,381,432	3,381,432	3,381,432
FD-FAS 115 Adjustment		TAX	TAX06										
FD-Treasury Lock Adjustment		TAX	TAX08										
FD-Other		TAX	TAX10										
FD-Federal Benefit on State Bonus	state	TAX	TAX11	(853,733)	(853,733)	(710,101)	(710,101)	(710,101)	(710,101)	(710,101)	(710,101)	(710,101)	(710,101)
FD-Federal Benefit on State NOL	state	TAX	TAX12	(810,284)	(810,284)	(1,327,397)	(1,327,397)	(1,327,397)	(1,325,068)	(1,325,068)	(1,325,068)	(1,186,189)	(1,186,189)
FD-Fuel Cell Credit		TAX	TAX15										
State Texas Margin WWE DTL		TAX	SATTD_ONT10										
ST-Other		TAX	TAX43										
ST - Valuation Allow on State NOL		TAX	TAX13										
FD - Valuation on Fed Tax of St NO		TAX	TAX14										
FD-FAS 158 Measurement Date Change		TAX	TAX22										
FD-AMT Minimum Tax Credit		TAX	TAX23										
ST- Valuation Allow Enterprise Zone ITC		TAX	TAX37										
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-	-	-	-	-	-	-	-	-	-
ST-Enterprise Zone ITC		TAX	TAX39	-	-	-	-	-	-	-	-	-	-
STATE NOL_FIN48	state	TAX	TAX44			(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)
STATE NOL_FIN48 TN		TAX	TAX45			-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-	-	-	-	-	-	-	-	-	-
FD -Federal Tax on Enterprise ITC		TAX	TAX42	-	-	-	-	-	-	-	-	-	-
Other Tax Effected Items - Subtotal				6,259,877	6,259,877	5,705,377	5,705,377	5,705,377	5,696,613	5,696,613	5,696,613	5,174,164	5,174,164
Total Accumulated Deferred Income Tax				(109,063,469)	(109,228,406)	(120,107,365)	(120,272,302)	(120,437,239)	(124,292,693)	(124,457,630)	(124,622,567)	(124,301,559)	(124,466,496)
				(109,063,469)	(109,228,406)	(120,107,365)	(120,272,302)	(120,437,239)	(124,292,693)	(124,457,630)	(124,622,567)	(124,301,559)	(124,466,497)

Excluded (5,485,739)  
State Only 5,705,377  
TCJA Reg Liab Related 6,138,862  
Fed NOL -  
  
(126,465,865)

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
			5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024
Adjustment Description		Category	Adj Code									
Environmental Activities		ACC	ACC01					-	-	-	-	-
Ad Valorem Taxes		ACC	ACC02					-	-	-	-	-
Directors Deferred Bonus		ACC	ACC03					-	-	-	-	-
MIP/VPP Accrual	Excl	ACC	ACC04	(296,601)	(296,563)	(296,563)	(296,563)	(253,480)	(253,480)	(253,480)	(252,751)	(252,751)
Accrued Environmental Asset		ACC	ACC05					-	-	-	-	-
Miscellaneous Accrued		ACC	ACC06					-	-	-	-	-
Self Insurance - Adjustment		ACC	ACC08					-	-	-	-	-
Vacation Accrual		ACC	ACC11	(66,331)	(66,331)	(66,331)	(66,331)	(67,490)	(67,490)	(67,490)	(67,490)	(67,490)
Worker's Comp Insurance Reserve		ACC	ACC12	146,279	150,448	150,448	150,448	157,105	157,105	157,105	159,774	159,774
Accrual - Subtotal				(216,653)	(212,446)	(212,446)	(212,446)	(163,865)	(163,865)	(163,865)	(160,467)	(160,467)
Rabbi Trust - True Up		BEN	NBP01					-	-	-	-	-
SEBP Adjustment		BEN	NBP03					-	-	-	-	-
SERP DTL Offset		BEN	NBP04					-	-	-	-	-
Restricted Stock Grant Plan		BEN	NBP05					-	-	-	-	-
Rabbi Trust		BEN	NBP06					-	-	-	-	-
VEBA Trust Contribution Adjustment		BEN	NBP08					-	-	-	-	-
Restricted Stock - MIP		BEN	NBP13					-	-	-	-	-
Director's Stock Awards		BEN	NBP16					-	-	-	-	-
Director's Stock - Temp		BEN	NBP18					-	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22					-	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23					-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24					-	-	-	-	-
Pension Expense		BEN	PEN01					-	-	-	-	-
FAS106 Adjustment		BEN	PRB01	29,736	29,736	29,736	29,736	29,736	29,736	29,736	29,736	29,736
Benefits - Subtotal				29,736	29,736	29,736	29,736	29,736	29,736	29,736	29,736	29,736
CWIP	Excl	CWIP/RWIP	FXA26	(96,103)	(96,103)	(96,103)	(96,103)	(81,088)	(81,088)	(81,088)	(81,088)	(81,088)
RWIP	Excl	CWIP/RWIP	FXA47	(43,127)	(43,127)	(43,127)	(43,127)	(52,369)	(52,369)	(52,369)	(52,369)	(52,369)
CWIP/RWIP - Subtotal				(139,230)	(139,230)	(139,230)	(139,230)	(133,457)	(133,457)	(133,457)	(133,457)	(133,457)
Fixed Asset Cost Adjustment		FXA	FXA01	(109,399,745)	(109,373,523)	(109,373,523)	(109,373,523)	(98,904,501)	(98,904,501)	(98,904,501)	(101,079,155)	(101,079,155)
Depreciation Adjustment		FXA	FXA02	(25,977,947)	(26,414,187)	(26,414,187)	(26,414,187)	(32,555,781)	(32,555,781)	(32,555,781)	(32,887,309)	(32,887,309)
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	FXA14	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-	-	-	-	-	-
Plant - Subtotal				(135,377,692)	(135,787,710)	(135,787,710)	(135,787,710)	(131,460,282)	(131,460,282)	(131,460,282)	(133,966,464)	(133,966,464)
Deferred Gas Costs	Excl	GCA	GCA01	(3,066,716)	991,766	991,766	991,766	3,159,397	3,159,397	3,159,397	2,932,638	2,932,638
Over Recoveries of PGA	Excl	GCA	GCA03	(1,855,612)	(3,852,553)	(3,852,553)	(3,852,553)	(5,105,649)	(5,105,649)	(5,105,649)	(5,017,403)	(5,017,403)
PGA - Amended Item		GCA	GCA04	0	0	0	0	0	-	-	-	-
Gas Cost Adjustment - Subtotal				(4,922,328)	(2,860,787)	(2,860,787)	(2,860,787)	(1,946,252)	(1,946,252)	(1,946,252)	(2,084,765)	(2,084,765)
LGS - Goodwill Amortization		GDW	ONT13	-	-	-	-	-	-	-	-	-
TXU - Goodwill Amortization		GDW	ONT49	-	-	-	-	-	-	-	-	-
Goodwill - Subtotal								-	-	-	-	-
Customer Advances		ONT	CAP01	188,553	188,553	188,553	188,553	183,666	183,666	183,666	183,666	183,666
Capital Loss CarryForward		ONT	CAP_LOSS_CF					-	-	-	-	-
Amoritzation - LGS Acq. 1810-13523		ONT	DTE01	-	-	-	-	-	-	-	-	-
Deferred Expense Projects		ONT	DTE09	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)
Amoritzation - LGS Acq. 1810-14155		ONT	DTE12	-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition		ONT	DTE14	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized		ONT	DVA05	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized		ONT	DVA06	-	-	-	-	-	-	-	-	-
Leases - Assets		ONT	DVA10	(3,820,561)	(3,707,257)	(3,707,257)	(3,707,257)	(3,612,666)	(3,612,666)	(3,612,666)	(3,192,885)	(3,192,885)
DIG on Fixed Assets		ONT	DVA16	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	DVA18	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG		ONT	DVA19	-	-	-	-	-	-	-	-	-
Leases - Liabilities		ONT	DVA20	3,820,561	3,707,257	3,707,257	3,707,257	3,612,666	3,612,666	3,612,666	3,192,885	3,192,885

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description	Category	Adj Code	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024
Leases Reclass - Liabilities	ONT	DVA21					-	-	-	-	-	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-	-	-	-	-	-
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-	-	-	-	-	-
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	515,157	516,086	516,086	516,086	420,935	420,935	420,935	418,378	418,378	418,378
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	613,229	636,643	636,643	636,643	954,111	954,111	954,111	1,013,898	1,013,898	1,013,898
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-	-	-	-	-	-
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-	-	-	-
Prepayments	Excl	ONT31	22,259	(15,235)	(15,235)	(15,235)	(58,765)	(58,765)	(58,765)	(45,298)	(45,298)	(45,298)
Rate Case Accrual	ONT	ONT32	(358,878)	(358,878)	(358,878)	(358,878)	-	-	-	-	-	-
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-	-	-	-	-	-
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-	-	-	-
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-	-	-	-
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	2,096,625	1,539,905	1,539,905	1,539,905	-	-	-	587,098	587,098	587,098
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	4,819,368	4,654,431	4,489,494	4,324,557	4,159,620	3,994,683	3,829,746	3,664,810	3,499,873	3,334,936
Regulatory Liability - KY GUD	ONT	RGL07	2,697,562	2,697,562	2,697,562	2,697,562	2,253,273	2,253,273	2,253,273	2,253,273	2,253,273	2,253,273
Regulatory Liability - NSC	ONT	RGL08	235,613	294,224	294,224	294,224	21,796	21,796	21,796	78,680	78,680	78,680
Fuel Cell ITC	ONT	RGL09	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-	-	-	-	-	-	-	-	-	-
Regulatory Liability - LA		ATTD_RGL_LA	-	-	-	-	-	-	-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-	-	-	-	-	-	-	-	-	-

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

				Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description		Category	Adj Code	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024
Other - Subtotal				10,820,570	10,144,373	9,979,436	9,814,499	7,925,718	7,760,781	7,595,844	8,145,587	7,980,650	7,815,713
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR						-	-	-	-	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U						-	-	-	-	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT						-	-	-	-	-
ST-State Net Operating Loss	state	TAX	TAX04	5,648,517	5,866,650	5,866,650	5,866,650	6,706,624	6,706,624	6,706,624	6,431,960	6,431,960	6,431,960
ST-State Bonus Depreciation	state	TAX	TAX05	3,381,432	3,381,432	3,381,432	3,381,432	2,869,415	2,869,415	2,869,415	2,869,415	2,869,415	2,869,415
FD-FAS 115 Adjustment		TAX	TAX06						-	-	-	-	-
FD-Treasury Lock Adjustment		TAX	TAX08						-	-	-	-	-
FD-Other		TAX	TAX10						-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	(710,101)	(710,101)	(710,101)	(710,101)	(602,577)	(602,577)	(602,577)	(602,577)	(602,577)	(602,577)
FD-Federal Benefit on State NOL	state	TAX	TAX12	(1,186,189)	(1,231,997)	(1,231,997)	(1,231,997)	(1,408,391)	(1,408,391)	(1,408,391)	(1,350,712)	(1,350,712)	(1,350,712)
FD-Fuel Cell Credit		TAX	TAX15						-	-	-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10						-	-	-	-	-
ST-Other		TAX	TAX43						-	-	-	-	-
ST - Valuation Allow on State NOL		TAX	TAX13						-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14						-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22						-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23						-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC		TAX	TAX37						-	-	-	-	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-	-	-	-	-	-	-	-	-	-
ST-Enterprise Zone ITC		TAX	TAX39	-	-	-	-	-	-	-	-	-	-
STATE NOL_FIN48	state	TAX	TAX44	(1,959,495)	(1,959,495)	(1,959,495)	(1,959,495)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)
STATE NOL_FIN48 TN		TAX	TAX45	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-	-	-	-	-	-	-	-	-	-
FD -Federal Tax on Enterprise ITC		TAX	TAX42	-	-	-	-	-	-	-	-	-	-
Other Tax Effected Items - Subtotal				5,174,164	5,346,489	5,346,489	5,346,489	5,782,479	5,782,479	5,782,479	5,565,494	5,565,494	5,565,494
Total Accumulated Deferred Income Tax				(124,631,433)	(123,479,575)	(123,644,512)	(123,809,449)	(119,965,923)	(120,130,860)	(120,295,797)	(122,604,336)	(122,769,273)	(122,934,210)
				(124,631,434)	(123,479,573)	(123,644,510)	(123,809,446)	(119,965,922)	(120,130,860)	(120,295,797)	(122,604,336)	(122,769,273)	(122,934,210)
Excluded				(1,437,843)									
State Only				5,782,479									
TCJA Reg Liab Related				4,159,620									
Fed NOL				-									

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
Adjustment Description			3/31/2024	4/30/2024	5/31/2024	6/30/2024	6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Environmental Activities		ACC	ACC01	-	-	-	-	-	-	-	-
Ad Valorem Taxes		ACC	ACC02	-	-	-	-	-	-	-	-
Directors Deferred Bonus		ACC	ACC03	-	-	-	-	-	-	-	-
MIP/VPP Accrual	Excl	ACC	ACC04	(252,021)	(252,021)	(252,021)	(251,292)	(251,292)	(251,292)	(251,109)	(251,109)
Accrued Environmental Asset		ACC	ACC05	-	-	-	-	-	-	-	-
Miscellaneous Accrued		ACC	ACC06	-	-	-	-	-	-	-	-
Self Insurance - Adjustment		ACC	ACC08	-	-	-	-	-	-	-	-
Vacation Accrual		ACC	ACC11	(67,490)	(67,490)	(67,490)	(67,490)	(67,490)	(67,490)	(66,998)	(66,998)
Worker's Comp Insurance Reserve		ACC	ACC12	163,840	163,840	163,840	167,938	167,938	167,938	172,845	180,296
Accrual - Subtotal				(155,671)	(155,671)	(155,671)	(150,844)	(150,844)	(150,844)	(145,262)	(137,811)
Rabbi Trust - True Up		BEN	NBP01	-	-	-	-	-	-	-	-
SEBP Adjustment		BEN	NBP03	-	-	-	-	-	-	-	-
SERP DTL Offset		BEN	NBP04	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan		BEN	NBP05	-	-	-	-	-	-	-	-
Rabbi Trust		BEN	NBP06	-	-	-	-	-	-	-	-
VEBA Trust Contribution Adjustment		BEN	NBP08	-	-	-	-	-	-	-	-
Restricted Stock - MIP		BEN	NBP13	-	-	-	-	-	-	-	-
Director's Stock Awards		BEN	NBP16	-	-	-	-	-	-	-	-
Director's Stock - Temp		BEN	NBP18	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24	-	-	-	-	-	-	-	-
Pension Expense		BEN	PEN01	-	-	-	-	-	-	-	-
FAS106 Adjustment		BEN	PRB01	29,736	29,736	29,736	29,736	29,736	29,736	18,958	18,958
Benefits - Subtotal				29,736	29,736	29,736	29,736	29,736	29,736	18,958	18,958
CWIP	Excl	CWIP/RWIP	FXA26	(81,088)	(81,088)	(81,088)	(81,088)	(81,088)	(81,088)	631,594	631,594
RWIP	Excl	CWIP/RWIP	FXA47	(52,369)	(52,369)	(52,369)	(52,369)	(52,369)	(52,369)	(47,648)	(47,648)
CWIP/RWIP - Subtotal				(133,457)	(133,457)	(133,457)	(133,457)	(133,457)	(133,457)	583,946	583,946
Fixed Asset Cost Adjustment		FXA	FXA01	(103,808,145)	(103,808,145)	(103,808,145)	(104,751,034)	(104,751,034)	(104,751,034)	(99,190,469)	(106,335,358)
Depreciation Adjustment		FXA	FXA02	(33,272,401)	(33,272,401)	(33,272,401)	(33,585,505)	(33,585,505)	(33,585,505)	(36,964,103)	(37,771,327)
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	FXA14	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-	-	-	-	-
Plant - Subtotal				(137,080,546)	(137,080,546)	(137,080,546)	(138,336,539)	(138,336,539)	(138,336,539)	(136,154,572)	(141,082,558)
Deferred Gas Costs	Excl	GCA	GCA01	2,525,883	2,525,883	2,525,883	2,039,530	2,039,530	2,039,530	528,447	(582,188)
Over Recoveries of PGA	Excl	GCA	GCA03	(4,918,759)	(4,918,759)	(4,918,759)	(3,787,553)	(3,787,553)	(3,787,553)	(2,500,805)	(2,414,482)
PGA - Amended Item		GCA	GCA04	-	-	-	-	-	-	-	-
Gas Cost Adjustment - Subtotal				(2,392,876)	(2,392,876)	(2,392,876)	(1,748,023)	(1,748,023)	(1,748,023)	(1,972,358)	(2,996,670)
LGS - Goodwill Amortization	GDW	ONT13		-	-	-	-	-	-	-	-
TXU - Goodwill Amortization	GDW	ONT49		-	-	-	-	-	-	-	-
Goodwill - Subtotal				-	-	-	-	-	-	-	-
Customer Advances		ONT	CAP01	183,666	183,666	183,666	183,666	183,666	183,666	172,606	170,777
Capital Loss CarryForward		ONT	CAP_LOSS_CF	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-13523		ONT	DTE01	-	-	-	-	-	-	-	-
Deferred Expense Projects		ONT	DTE09	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)	(8,918)
Amoritzation - LGS Acq. 1810-14155		ONT	DTE12	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition		ONT	DTE14	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized		ONT	DVA05	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized		ONT	DVA06	-	-	-	-	-	-	-	-
Leases - Assets		ONT	DVA10	(3,198,398)	(3,198,398)	(3,198,398)	(3,144,373)	(3,144,373)	(3,144,373)	(3,376,514)	(3,755,235)
DIG on Fixed Assets		ONT	DVA16	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	DVA18	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG		ONT	DVA19	-	-	-	-	-	-	-	-
Leases - Liabilities		ONT	DVA20	3,198,398	3,198,398	3,198,398	3,144,373	3,144,373	3,144,373	3,376,514	3,755,235

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024						Fiscal 2025
Adjustment Description	Category	Adj Code	3/31/2024	4/30/2024	5/31/2024	6/30/2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025	
							6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025	
Leases Reclass - Liabilities	ONT	DVA21	-	-	-	-	-	-	-	-	-	
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-	-	-	-	-	
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-	-	-	
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-	-	-	
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-	-	-	
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-	-	-	
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-	-	-	
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-	-	-	
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-	-	-	
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-	-	-	
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-	-	-	
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-	-	-	
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-	-	-	-	-	
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	
Allowance for Doubtful Accounts	ONT	ONT02	528,427	528,427	528,427	543,283	543,283	543,283	543,283	447,868	581,168	
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	
Charitable Contribution Carryover	Excl	ONT04	1,092,690	1,092,690	1,092,690	1,152,002	1,152,002	1,152,002	1,152,002	1,286,280	1,402,740	
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-	-	-	
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-	-	-	
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-	-	-	
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-	-	-	
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-	-	-	-	-	
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-	-	-	
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-	-	-	
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-	-	-	
Prepayments	Excl	ONT31	(25,098)	(25,098)	(25,098)	(30,409)	(30,409)	(30,409)	(30,409)	(61,960)	(25,798)	
Rate Case Accrual	ONT	ONT32	-	-	-	-	-	-	-	-	-	
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-	-	-	
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-	-	-	
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-	-	-	
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-	-	-	
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-	-	-	
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-	-	-	
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-	-	-	-	-	
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-	-	-	
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-	-	-	
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-	-	-	
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-	-	-	
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-	-	-	
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-	-	-	
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-	-	-	
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-	-	-	
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-	-	-	
Intra Period Tax Allocation	ONT	OTH	1,969,250	1,969,250	1,969,250	1,308,176	1,308,176	1,308,176	1,308,176	-	86,378	
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-	-	-	
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-	-	-	
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-	-	-	
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-	-	-	
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-	-	-	
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-	-	-	
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-	-	-	
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-	-	-	
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-	-	-	
Regulatory Liability - 2017 Gross Up	tcja	RGL06	3,170,000	3,005,063	2,840,126	2,675,190	2,675,190	2,510,253	2,345,316	2,180,524	1,190,900	
Regulatory Liability - KY GUD	ONT	RGL07	2,253,273	2,253,273	2,253,273	2,253,273	2,253,273	2,253,273	2,253,273	1,877,337	1,877,337	
Regulatory Liability - NSC	ONT	RGL08	100,257	100,257	100,257	214,002	214,002	214,002	214,002	402,619	551,820	
Fuel Cell ITC	ONT	RGL09	-	-	-	-	-	-	-	-	-	
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-	-	-	-	-	-	-	-	-	
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-	-	-	-	-	-	-	-	-	
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-	-	-	-	-	-	-	-	-	

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

				Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024					
Adjustment Description		Category	Adj Code	3/31/2024	4/30/2024	5/31/2024	6/30/2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
				6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025				
Other - Subtotal				9,263,547	9,098,610	8,933,673	8,290,265	8,290,265	8,125,328	7,960,391	6,296,356	5,826,419
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	-	-	-	-	-	-	-	-	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	-	-	-	-	-	-	-	-	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	-	-	-	-	-	-	-	-	-
ST-State Net Operating Loss	state	TAX	TAX04	5,905,450	5,905,450	5,905,450	5,865,312	5,865,312	5,865,312	5,865,312	6,786,468	5,875,068
ST-State Bonus Depreciation	state	TAX	TAX05	2,869,415	2,869,415	2,869,415	2,869,415	2,869,415	2,869,415	2,869,415	2,507,549	2,507,549
FD-FAS 115 Adjustment		TAX	TAX06	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment		TAX	TAX08	-	-	-	-	-	-	-	-	-
FD-Other		TAX	TAX10	-	-	-	-	-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	(602,577)	(602,577)	(602,577)	(602,577)	(602,577)	(602,577)	(602,577)	(526,585)	(526,585)
FD-Federal Benefit on State NOL	state	TAX	TAX12	(1,240,144)	(1,240,144)	(1,240,144)	(1,231,716)	(1,231,716)	(1,231,716)	(1,231,716)	(1,425,158)	(1,233,764)
FD-Fuel Cell Credit		TAX	TAX15	-	-	-	-	-	-	-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10	-	-	-	-	-	-	-	-	-
ST-Other		TAX	TAX43	-	-	-	-	-	-	-	-	-
ST - Valuation Allow on State NOL		TAX	TAX13	-	-	-	-	-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14	-	-	-	-	-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22	-	-	-	-	-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23	-	-	-	-	-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC		TAX	TAX37	-	-	-	-	-	-	-	-	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-	-	-	-	-	-	-	-	-
ST-Enterprise Zone ITC		TAX	TAX39	-	-	-	-	-	-	-	-	-
STATE NOL_FIN48	state	TAX	TAX44	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)	(1,782,592)
STATE NOL_FIN48 TN		TAX	TAX45	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-	-	-	-	-	-	-	-	-
FD -Federal Tax on Enterprise ITC		TAX	TAX42	-	-	-	-	-	-	-	-	-
Other Tax Effected Items - Subtotal				5,149,552	5,149,552	5,149,552	5,117,842	5,117,842	5,117,842	5,117,842	5,559,682	4,839,676
Total Accumulated Deferred Income Tax				(125,319,715)	(125,484,652)	(125,649,589)	(126,931,020)	(126,931,020)	(127,095,957)	(127,260,894)	(125,813,250)	(135,972,167)
				(125,319,715)	(125,484,652)	(125,649,589)	(126,931,020)	(126,931,020)	(127,095,957)	(127,260,894)	(125,813,250)	(135,972,167)
Excluded							(1,011,179)				(415,201)	(1,200,510)
State Only							5,117,842				5,559,682	4,839,676
TCJA Reg Liab Related							2,675,190				2,180,524	1,190,904
Fed NOL							-				-	-



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022
Environmental Activities	ACC	ACC01											
Ad Valorem Taxes	ACC	ACC02											
Directors Deferred Bonus	ACC	ACC03	94,915	94,915	94,915	96,428	96,428	96,428	98,801	98,801	98,801	100,952	100,952
MIP/VPP Accrual	Excl	ACC04	1,249,670	1,249,670	1,249,670	1,278,088	1,278,088	1,278,088	1,306,506	1,306,506	1,306,506	1,334,924	1,334,924
Accrued Environmental Asset	ACC	ACC05											
Miscellaneous Accrued	ACC	ACC06	-	-	-	-	-	-	6,428	6,428	6,428	5,858	5,858
Self Insurance - Adjustment	Excl	ACC08	2,086,143	2,086,143	2,086,143	9,880,030	9,880,030	9,880,030	(349,917)	(349,917)	(349,917)	(271,440)	(271,440)
Vacation Accrual	ACC	ACC11	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023
Worker's Comp Insurance Reserve	ACC	ACC12	55,170	55,170	55,170	57,705	57,705	57,705	67,641	67,641	67,641	65,522	65,522
Accrual - Subtotal			3,552,921	3,552,921	3,552,921	11,379,274	11,379,274	11,379,274	1,196,482	1,196,482	1,196,482	1,302,839	1,302,839
Rabbi Trust - True Up		NBP01											
SEBP Adjustment	Excl	NBP03	11,156,393	11,156,393	11,156,393	7,704,295	7,704,295	7,704,295	7,800,331	7,800,331	7,800,331	7,895,271	7,895,271
SERP DTL Offset	Excl	NBP04	(3,482,825)	(3,482,825)	(3,482,825)	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	Excl	NBP05	(4,330,129)	(4,330,129)	(4,330,129)	(3,659,230)	(3,659,230)	(3,659,230)	(3,855,052)	(3,855,052)	(3,855,052)	(3,647,768)	(3,647,768)
Rabbi Trust	Excl	NBP06	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381
VEBA Trust Contribution Adjustment	Excl	NBP08	4,800,453	4,800,453	4,800,453	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712
Restricted Stock - MIP	Excl	NBP13	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812	10,725,812
Director's Stock Awards	Excl	NBP16	5,757,264	5,757,264	5,757,264	3,934,672	3,934,672	3,934,672	3,997,721	3,997,721	3,997,721	4,052,407	4,052,407
Director's Stock - Temp		NBP18	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		NBP22	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)
Rabbi Trust Tax Gain or Loss		NBP23	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637
Rabbi Trust Unrealized Gain or Loss		NBP24											
Pension Expense	Excl	PEN01	590,990	590,990	590,990	914,125	914,125	914,125	1,398,827	1,398,827	1,398,827	1,883,529	1,883,529
FAS106 Adjustment	Excl	PRB01	13,781,153	13,781,153	13,781,153	8,186,342	8,186,342	8,186,342	8,198,092	8,198,092	8,198,092	8,176,820	8,176,820
Benefits - Subtotal			39,894,492	39,894,492	39,894,492	33,613,109	33,613,109	33,613,109	34,072,824	34,072,824	34,072,824	34,893,164	34,893,164
CWIP	Excl	CWIP/RWIP	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)
RWIP	Excl	CWIP/RWIP	-	-	-	-	-	-	-	-	-	-	-
CWIP/RWIP - Subtotal			(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)	(1,639,039)
Fixed Asset Cost Adjustment	FXA	FXA01	(36,833,985)	(36,833,985)	(36,833,985)	(37,268,722)	(37,268,722)	(37,268,722)	(37,698,924)	(37,698,924)	(37,698,924)	(38,128,666)	(38,128,666)
Depreciation Adjustment	FXA	FXA02	18,771,079	18,771,079	18,771,079	18,497,338	18,497,338	18,497,338	18,523,287	18,523,287	18,523,287	19,227,851	19,227,851
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03											
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04											
Section 481(a) Cushion Gas	FXA	FXA13	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426
Section 481(a) Line Pack Gas	FXA	FXA14	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942
IRS Audit Assessment - Cost	FXA	FXA15											
IRS Audit Assessment - Accum	FXA	FXA16											
Repair % Completion Allowance	FXA	FXA41											
Section 481(a) TPR	FXA	FXA46											
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50											
AFUDC - Equity Asset Cost Adj	FXA	FXA80	-	-	-	(15,349)	(15,349)	(15,349)	(15,990)	(15,990)	(15,990)	(14,991)	(14,991)
Plant - Subtotal			(17,684,538)	(17,684,538)	(17,684,538)	(18,408,365)	(18,408,365)	(18,408,365)	(18,813,259)	(18,813,259)	(18,813,259)	(18,537,438)	(18,537,438)
Deferred Gas Costs	GCA	GCA01											
Over Recoveries of PGA	GCA	GCA03											
PGA - Amended Item	GCA	GCA04											
Gas Cost Adjustment - Subtotal			-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13											
TXU - Goodwill Amortization	GDW	ONT49											
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01											
Capital Loss CarryForward	ONT	CAP_LOSS_CF											
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01											
Deferred Expense Projects	ONT	DTE09											
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12											
Deferred Projects - TXU Acquisition	ONT	DTE14											
RAR 91/93 Bond Cost Amortized	ONT	DVA05											
RAR 91/93 Bond Cost Capitalized	ONT	DVA06											
Leases - Assets	ONT	DVA10	(10,862,628)	(10,862,628)	(10,862,628)	(10,718,449)	(10,718,449)	(10,718,449)	(10,501,718)	(10,501,718)	(10,501,718)	(10,292,346)	(10,292,346)
DIG on Fixed Assets	ONT	DVA16											
DIG on Fixed Assets - UCG Storage	ONT	DVA18											
DIG on Fixed Assets - WKG	ONT	DVA19											
Leases - Liabilities	ONT	DVA20	10,862,628	10,862,628	10,862,628	10,718,449	10,718,449	10,718,449	10,501,718	10,501,718	10,501,718	10,292,346	10,292,346

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022
Leases Reclass - Liabilities	ONT	DVA21											
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26											
MVG Right of Way	ONT	DVA35											
Amortization - ComfurT Goodwill	ONT	DVA37											
Deferred ITC - GGC	ONT	ITC01											
Deferred ITC - UCG Non-Utility	ONT	ITC02											
Deferred ITC - UCG	ONT	ITC03											
Deferred ITC - MVG	ONT	ITC04											
Regulatory Liability - GGC	ONT	ITC05											
Capitalized Selling Expense	ONT	NTE03											
Industrial Contracts	ONT	NTE05											
Linder - Partnership Investment	ONT	NTE08											
UNICAP Section 263A Costs	ONT	NTE11											
481(a) UNICAP	ONT	NTE15											
UNICAP - IRS Audit	ONT	NTE19											
Allowance for Doubtful Accounts	ONT	ONT02	1	1	1	1	1	1	1	1	1	1	1
Clearing Account - Adjustment	ONT	ONT03	276,598	276,598	276,598	224,220	224,220	224,220	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)	(642,745)
RAR CFWE 1990-1985	ONT	ONT06											
Contributed Contracts	ONT	ONT09											
Book Inc Recognized for MTM Acctg	ONT	ONT19											
RAR Amortization of Non-Compete	ONT	ONT20											
Union Gas - Non Compete	ONT	ONT21											
Monarch - Non Compete	ONT	ONT22											
Palmyra - Non Compete	ONT	ONT23											
Duke - Purchased Contracts	ONT	ONT27											
Prepayments	Excl	ONT31	(6,527,616)	(6,527,616)	(6,527,616)	(7,717,452)	(7,717,452)	(7,717,452)	(7,260,813)	(7,260,813)	(7,260,813)	(7,587,797)	(7,587,797)
Rate Case Accrual	ONT	ONT32	(24,031,075)	(24,031,075)	(24,031,075)	639,879	639,879	639,879	176,034	176,034	176,034	165,861	165,861
Research and Development Expenses	ONT	ONT33											
Partnership Investment - Unitary	ONT	ONT37											
IGS - Purchased Contracts	ONT	ONT39											
Inventory Adjustment	ONT	ONT44											
Stock Option Expense	ONT	ONT50											
Prepayments - MVG	ONT	ONT51											
WACOG to FIFO Adjustment	ONT	ONT52											
Tax Free Interest - Temp	ONT	ONT58											
Federal & State Tax Interest	Excl	ONT61	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088	1,376,088
Prepayments - IRS Audits	ONT	ONT64											
Impairment - Atmos Gathering LLC	ONT	ONT66											
VA Charitable Contributions	ONT	ONT67											
Reg Asset Benefit Accrual	ONT	ONT68	(1,720,775)	(1,720,775)	(1,720,775)								
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69											
LA SIIP Reg Asset	ONT	ONT70											
TN Reg Asset Deferral	ONT	ONT71											
Intra Period Tax Allocation	ONT	OTH	-	-	-	3,213,303	3,213,303	3,213,303	3,688,021	3,688,021	3,688,021	(2,107,147)	(2,107,147)
Regulatory Asset - LGS Amortization	ONT	RGA01											
AFUDC - Equity Gross-Up	ONT	RGA02											
Regulatory Asset - Mid Tex	ONT	RGA03											
Regulatory Asset - Winter Weather Event	ONT	RGA04											
Regulatory Liability - Atmos 109	ONT	RGL01											
Reg Liability – Pension & OPEB asset	ONT	RGL02											
Regulatory Liability - GGC 109	ONT	RGL03											
Regulatory Liability - UCGC 109	ONT	RGL04											
Regulatory Liability - UCGC Rate	ONT	RGL05											
Regulatory Liability - 2017 Gross Up	tcja	RGL06											
Regulatory Liability - KY GUD	ONT	RGL07											
Regulatory Liability - NSC	ONT	RGL08	19,629,703	19,629,703	19,629,703	(813,430)	(813,430)	(813,430)	-	-	-	-	-
Fuel Cell ITC	ONT	RGL09											
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11											
Regulatory Liability - LA	ONT	ATTD_RGL_LA											
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG											

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
				9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022
Adjustment Description	Category	Adj Code												
Other - Subtotal				(11,639,821)	(11,639,821)	(11,639,821)	(3,720,136)	(3,720,136)	(3,720,136)	(2,663,414)	(2,663,414)	(2,663,414)	(8,795,739)	(8,795,739)
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	(172,186,819)	(172,186,819)	(172,186,819)	(173,898,040)	(173,898,040)	(173,898,040)	(174,734,420)	(174,734,420)	(174,734,420)	(176,055,112)	(176,055,112)
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	1,015,494,919	1,015,494,919	1,015,494,919	1,017,844,563	1,017,844,563	1,017,844,563	606,028,135	606,028,135	606,028,135	573,673,647	573,673,647
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	6,886,357	6,886,357	6,886,357	6,734,879	6,734,879	6,734,879	6,734,879	6,734,879	6,734,879	6,734,879	6,734,879
ST-State Net Operating Loss	state	TAX	TAX04	262,745	262,745	262,745	436,644	436,644	436,644	436,644	436,644	436,644	436,644	436,644
ST-State Bonus Depreciation	state	TAX	TAX05											
FD-FAS 115 Adjustment		TAX	TAX06	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)
FD-Treasury Lock Adjustment		TAX	TAX08											
FD-Other		TAX	TAX10											
FD-Federal Benefit on State Bonus	state	TAX	TAX11											
FD-Federal Benefit on State NOL	state	TAX	TAX12											
FD-Fuel Cell Credit		TAX	TAX15				1,120,717	1,120,717	1,120,717	1,120,717	1,120,717	1,120,717	1,120,717	1,120,717
State Texas Margin WWE DTL		TAX	SATTD_ONT10											
ST-Other	state	TAX	TAX43											
ST - Valuation Allow on State NOL		TAX	TAX13											
FD - Valuation on Fed Tax of St NO		TAX	TAX14											
FD-FAS 158 Measurement Date Change		TAX	TAX22											
FD-AMT Minimum Tax Credit		TAX	TAX23											
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)
FD- Valuation Allow Fed Tax Enterprise Zone ITC	state	TAX	TAX38	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809
ST-Enterprise Zone ITC	state	TAX	TAX39	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331	2,213,331
STATE NOL_ FIN48	state	TAX	TAX44											
STATE NOL_ FIN48 TN	state	TAX	TAX45											
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	17,941,793	17,870,111	17,798,428	17,726,746	17,655,064	17,583,381	17,511,699	17,440,017	17,368,334	17,296,652	17,224,970
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	(38,090,514)	(28,957,718)	(18,147,957)	(24,615,587)	(41,785,601)	(43,646,845)	(59,628,131)	(93,255,617)	(101,722,095)	(105,581,121)	(90,867,601)
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)	(464,800)
Other Tax Effected Items - Subtotal				829,489,856	838,550,969	849,289,047	844,531,296	827,289,600	825,356,673	396,650,898	362,951,730	354,413,569	316,807,681	331,449,519
Total Accumulated Deferred Income Tax				841,973,871	851,034,984	861,773,062	865,756,139	848,514,443	846,581,516	408,804,492	375,105,324	366,567,163	324,031,468	338,673,306
				841,973,871	851,034,984	861,773,062	865,756,139	848,514,443	846,581,516	408,804,492	375,105,324	366,567,163	324,031,468	338,673,306

Excluded  
State Only  
TCJA Reg Liab Related  
Fed NOL

35,796,993  
1,910,422  
-  
850,194,457

(45,928,001)  
  
17,941,793  
(38,090,514)  
(20,148,721)  
  
(81,301,236)  
  
(86,669,920)

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2022	Fiscal 2022	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023
Adjustment Description	Category	Adj Code	8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023
Environmental Activities	ACC	ACC01												
Ad Valorem Taxes	ACC	ACC02												
Directors Deferred Bonus	ACC	ACC03	100,952	103,293	103,293	103,293	105,661	105,661	105,661	22,804	22,804	22,804	25,212	25,212
MIP/VPP Accrual	Excl	ACC04	1,334,924	613,120	613,120	613,120	529,991	529,991	529,991	446,861	446,861	446,861	363,731	363,731
Accrued Environmental Asset	ACC	ACC05												
Miscellaneous Accrued	ACC	ACC06	5,858	-	-	-	-	-	-	-	-	-	-	-
Self Insurance - Adjustment	Excl	ACC08	(271,440)	8,396,905	8,396,905	8,396,905	8,173,806	8,173,806	8,173,806	8,173,806	8,173,806	8,173,806	8,173,806	8,173,806
Vacation Accrual	ACC	ACC11	67,023	57,658	57,658	57,658	57,658	57,658	57,658	57,658	57,658	57,658	57,658	57,658
Worker's Comp Insurance Reserve	ACC	ACC12	65,522	64,545	64,545	64,545	66,587	66,587	66,587	55,673	55,673	55,673	57,101	57,101
Accrual - Subtotal			1,302,839	9,235,521	9,235,521	9,235,521	8,933,703	8,933,703	8,933,703	8,756,802	8,756,802	8,756,802	8,677,508	8,677,508
Rabbi Trust - True Up		NBP01												
SEBP Adjustment	Excl	NBP03	7,895,271	6,519,741	6,519,741	6,519,741	6,546,922	6,546,922	6,546,922	6,589,332	6,589,332	6,589,332	6,634,440	6,634,440
SERP DTL Offset	Excl	NBP04	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	Excl	NBP05	(3,647,768)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)	(5,818,540)
Rabbi Trust	Excl	NBP06	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381	895,381
VEBA Trust Contribution Adjustment	Excl	NBP08	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712
Restricted Stock - MIP	Excl	NBP13	10,725,812	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351	12,101,351
Director's Stock Awards	Excl	NBP16	4,052,407	3,104,019	3,104,019	3,104,019	2,845,091	2,845,091	2,845,091	3,214,351	3,214,351	3,214,351	3,214,351	3,214,351
Director's Stock - Temp		NBP18	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		NBP22	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	(1,384,637)	-	-	-	-	-
Rabbi Trust Tax Gain or Loss		NBP23	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	1,384,637	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		NBP24					(132,914)	(132,914)	(132,914)	(107,937)	(107,937)	(107,937)	(472,139)	(472,139)
Pension Expense	Excl	PEN01	1,883,529	623,929	623,929	623,929	866,606	866,606	866,606	1,228,575	1,228,575	1,228,575	1,592,590	1,592,590
FAS106 Adjustment	Excl	PRB01	8,176,820	8,230,887	8,230,887	8,230,887	8,180,628	8,180,628	8,180,628	8,102,420	8,102,420	8,102,420	8,071,692	8,071,692
Benefits - Subtotal			34,893,164	30,568,480	30,568,480	30,568,480	30,396,237	30,396,237	30,396,237	31,116,645	31,116,645	31,116,645	31,130,838	31,130,838
CWIP	Excl	CWIP/RWIP	(1,639,039)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)
RWIP	Excl	CWIP/RWIP	-	-	-	-	-	-	-	-	-	-	-	-
CWIP/RWIP - Subtotal			(1,639,039)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)	(1,876,575)
Fixed Asset Cost Adjustment	FXA	FXA01	(38,128,666)	(38,176,260)	(38,176,260)	(38,176,260)	(38,670,804)	(38,670,804)	(38,670,804)	(39,165,347)	(39,165,347)	(39,165,347)	(39,659,892)	(39,659,892)
Depreciation Adjustment	FXA	FXA02	19,227,851	18,994,821	18,994,821	18,994,821	18,760,210	18,760,210	18,760,210	18,999,044	18,999,044	18,999,044	19,064,809	19,064,809
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03												
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04												
Section 481(a) Cushion Gas	FXA	FXA13	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426
Section 481(a) Line Pack Gas	FXA	FXA14	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942
IRS Audit Assessment - Cost	FXA	FXA15												
IRS Audit Assessment - Accum	FXA	FXA16												
Repair % Completion Allowance	FXA	FXA41												
Section 481(a) TPR	FXA	FXA46												
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50												
AFUDC - Equity Asset Cost Adj	FXA	FXA80	(14,991)	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal			(18,537,438)	(18,803,071)	(18,803,071)	(18,803,071)	(19,532,226)	(19,532,226)	(19,532,226)	(19,787,935)	(19,787,935)	(19,787,935)	(20,216,715)	(20,216,715)
Deferred Gas Costs	GCA	GCA01												
Over Recoveries of PGA	GCA	GCA03												
PGA - Amended Item	GCA	GCA04												
Gas Cost Adjustment - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13												
TXU - Goodwill Amortization	GDW	ONT49												
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01												
Capital Loss CarryForward	ONT	CAP_LOSS_CF												
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01												
Deferred Expense Projects	ONT	DTE09												
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12												
Deferred Projects - TXU Acquisition	ONT	DTE14												
RAR 91/93 Bond Cost Amortized	ONT	DVA05												
RAR 91/93 Bond Cost Capitalized	ONT	DVA06												
Leases - Assets	ONT	DVA10	(10,292,346)	(9,998,771)	(9,998,771)	(9,998,771)	(9,861,607)	(9,861,607)	(9,861,607)	(9,663,690)	(9,663,690)	(9,663,690)	(9,454,022)	(9,454,022)
DIG on Fixed Assets	ONT	DVA16												
DIG on Fixed Assets - UCG Storage	ONT	DVA18												
DIG on Fixed Assets - WKG	ONT	DVA19												
Leases - Liabilities	ONT	DVA20	10,292,346	9,998,771	9,998,771	9,998,771	9,861,607	9,861,607	9,861,607	9,663,690	9,663,690	9,663,690	9,454,022	9,454,022

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

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Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2022	Fiscal 2022	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023
				8/31/2022	9/30/2022	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023
Adjustment Description		Category	Adj Code												
Other - Subtotal				(8,795,739)	(11,880,359)	(11,880,359)	(11,880,359)	(10,991,717)	(10,991,717)	(10,991,717)	(23,890,496)	(23,890,496)	(23,890,496)	(17,704,957)	(17,704,957)
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	(176,055,112)	(177,504,317)	(177,504,317)	(177,504,317)	(178,972,714)	(178,972,714)	(178,972,714)	(179,951,007)	(179,951,007)	(179,951,007)	(181,392,985)	(181,392,985)
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	573,673,647	610,407,005	610,407,005	610,407,005	610,865,223	610,865,223	610,865,223	567,447,871	567,447,871	567,447,871	583,275,066	583,275,066
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	6,734,879	8,380,701	8,380,701	8,380,701	8,248,175	8,248,175	8,248,175	8,248,175	8,248,175	8,248,175	8,248,175	8,248,175
ST-State Net Operating Loss	state	TAX	TAX04	436,644	978,371	978,371	978,371	978,371	978,371	978,371	978,371	978,371	978,371	978,371	978,371
ST-State Bonus Depreciation	state	TAX	TAX05												
FD-FAS 115 Adjustment		TAX	TAX06	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)
FD-Treasury Lock Adjustment		TAX	TAX08												
FD-Other		TAX	TAX10												
FD-Federal Benefit on State Bonus	state	TAX	TAX11												
FD-Federal Benefit on State NOL	state	TAX	TAX12												
FD-Fuel Cell Credit		TAX	TAX15	1,120,717	-	-	-	-	-	-	-	-	-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10												
ST-Other	state	TAX	TAX43												
ST - Valuation Allow on State NOL		TAX	TAX13												
FD - Valuation on Fed Tax of St NO		TAX	TAX14												
FD-FAS 158 Measurement Date Change		TAX	TAX22												
FD-AMT Minimum Tax Credit		TAX	TAX23												
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)
FD- Valuation Allow Fed Tax Enterprise Zone ITC	state	TAX	TAX38	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809
ST-Enterprise Zone ITC	state	TAX	TAX39	2,213,331	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409	2,408,409
STATE NOL_ FIN48	state	TAX	TAX44												
STATE NOL_ FIN48 TN	state	TAX	TAX45												
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	17,153,288	(27,203,680)	(27,152,619)	(27,101,557)	(27,050,496)	(26,999,435)	(26,948,374)	(26,897,313)	(26,846,252)	(26,795,191)	(26,744,129)	(26,693,068)
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	(104,924,806)	(79,614,961)	(95,033,677)	(77,884,472)	(86,164,526)	(77,176,952)	(86,936,232)	(77,511,825)	(80,539,706)	(89,531,553)	(90,245,689)	(99,063,898)
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	(464,800)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)	(505,766)
Other Tax Effected Items - Subtotal				317,320,631	334,778,605	319,410,951	336,611,217	327,239,519	336,278,154	326,569,936	291,649,759	288,672,939	279,732,153	293,454,295	284,687,147
Total Accumulated Deferred Income Tax				324,544,418	342,022,601	326,654,947	343,855,213	334,168,941	343,207,576	333,499,358	285,968,200	282,991,380	274,050,594	293,464,394	284,697,246
				324,544,418	342,022,601	326,654,947	343,855,213	334,168,941	343,207,576	333,499,358	285,968,200	282,991,380	274,050,594	293,464,394	284,697,246

Excluded  
State Only  
TCJA Reg Liab Related  
Fed NOL

25,188,290  
2,780,160  
-  
441,283,389

(127,229,238)  
  
(27,203,680)  
(79,614,961)  
(106,818,641)

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description	Category	Adj Code	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024
Environmental Activities	ACC	ACC01			-	-	-	-	-	-	-	-	-
Ad Valorem Taxes	ACC	ACC02			-	-	-	-	-	-	-	-	-
Directors Deferred Bonus	ACC	ACC03	25,212	27,790	27,790	27,790	32,244	32,244	32,244	34,800	34,800	34,800	37,403
MIP/VPP Accrual	ACC	ACC04	363,731	864,071	864,071	864,071	900,522	900,522	900,522	936,974	936,974	936,974	973,425
Accrued Environmental Asset	ACC	ACC05			-	-	-	-	-	-	-	-	-
Miscellaneous Accrued	ACC	ACC06	-	-	-	-	-	-	-	-	-	-	17
Self Insurance - Adjustment	ACC	ACC08	8,173,806	(45,285)	(45,285)	(45,285)	679,877	679,877	679,877	(8,407,498)	(8,407,498)	(8,407,498)	3,004,096
Vacation Accrual	ACC	ACC11	57,658	51,114	51,114	51,114	51,114	51,114	51,114	51,114	51,114	51,114	51,114
Worker's Comp Insurance Reserve	ACC	ACC12	57,101	54,222	54,222	54,222	55,754	55,754	55,754	55,277	55,277	55,277	53,850
Accrual - Subtotal			8,677,508	951,912	951,912	951,912	1,719,511	1,719,511	1,719,511	(7,329,333)	(7,329,333)	(7,329,333)	4,119,905
Rabbi Trust - True Up	BEN	NBP01			-	-	-	-	-	-	-	-	-
SEBP Adjustment	BEN	NBP03	6,634,440	7,320,985	7,320,985	7,320,985	7,329,364	7,329,364	7,329,364	6,298,606	6,298,606	6,298,606	6,288,048
SERP DTL Offset	BEN	NBP04	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	BEN	NBP05	(5,818,540)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)	(5,177,922)
Rabbi Trust	BEN	NBP06	895,381	896,430	896,430	896,430	896,430	896,430	896,430	896,430	896,430	896,430	896,430
VEBA Trust Contribution Adjustment	BEN	NBP08	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712	4,911,712
Restricted Stock - MIP	BEN	NBP13	12,101,351	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141	11,994,141
Director's Stock Awards	BEN	NBP16	3,214,351	3,248,868	3,248,868	3,248,868	3,085,107	3,085,107	3,085,107	3,460,731	3,460,731	3,460,731	3,499,676
Director's Stock - Temp	BEN	NBP18	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss	BEN	NBP22	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss	BEN	NBP23	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24	(472,139)	2,374,733	2,374,733	2,374,733	2,233,934	2,233,934	2,233,934	2,130,685	2,130,685	2,130,685	2,125,078
Pension Expense	BEN	PEN01	1,592,590	284,183	284,183	284,183	523,469	523,469	523,469	882,398	882,398	882,398	1,241,328
FAS106 Adjustment	BEN	PRB01	8,071,692	7,667,869	7,667,869	7,667,869	7,591,377	7,591,377	7,591,377	7,424,072	7,424,072	7,424,072	7,305,130
Benefits - Subtotal			31,130,838	33,520,999	33,520,999	33,520,999	33,387,612	33,387,612	33,387,612	32,820,853	32,820,853	32,820,853	33,083,621
CWIP	CWIP/RWIP	FXA26	(1,876,575)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)
RWIP	CWIP/RWIP	FXA47	-	-	-	-	-	-	-	-	-	-	-
CWIP/RWIP - Subtotal			(1,876,575)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)	(1,499,174)
Fixed Asset Cost Adjustment	FXA	FXA01	(39,659,892)	(38,309,529)	(38,309,529)	(38,309,529)	(38,372,991)	(38,372,991)	(38,372,991)	(38,436,452)	(38,436,452)	(38,436,452)	(38,499,914)
Depreciation Adjustment	FXA	FXA02	19,064,809	18,862,809	18,862,809	18,862,809	18,625,967	18,625,967	18,625,967	18,591,767	18,591,767	18,591,767	19,313,453
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03			-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04			-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas	FXA	FXA13	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426	337,426
Section 481(a) Line Pack Gas	FXA	FXA14	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942	40,942
IRS Audit Assessment - Cost	FXA	FXA15			-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum	FXA	FXA16			-	-	-	-	-	-	-	-	-
Repair % Completion Allowance	FXA	FXA41			-	-	-	-	-	-	-	-	-
Section 481(a) TPR	FXA	FXA46			-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50			-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj	FXA	FXA80	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal			(20,216,715)	(19,068,352)	(19,068,352)	(19,068,352)	(19,368,656)	(19,368,656)	(19,368,656)	(19,466,317)	(19,466,317)	(19,466,317)	(18,808,093)
Deferred Gas Costs	GCA	GCA01			-	-	-	-	-	-	-	-	-
Over Recoveries of PGA	GCA	GCA03			-	-	-	-	-	-	-	-	-
PGA - Amended Item	GCA	GCA04			-	-	-	-	-	-	-	-	-
Gas Cost Adjustment - Subtotal					-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13			-	-	-	-	-	-	-	-	-
TXU - Goodwill Amortization	GDW	ONT49			-	-	-	-	-	-	-	-	-
Goodwill - Subtotal					-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01			-	-	-	-	-	-	-	-	-
Capital Loss CarryForward	ONT	CAP_LOSS_CF		2,366	2,366	2,366	2,366	2,366	2,366	2,366	2,366	2,366	2,366
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01			-	-	-	-	-	-	-	-	-
Deferred Expense Projects	ONT	DTE09			-	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12			-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition	ONT	DTE14			-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized	ONT	DVA05			-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized	ONT	DVA06			-	-	-	-	-	-	-	-	-
Leases - Assets	ONT	DVA10	(9,454,022)	(9,212,492)	(9,212,492)	(9,212,492)	(9,779,500)	(9,779,500)	(9,779,500)	(9,590,096)	(9,590,096)	(9,590,096)	(9,516,482)
DIG on Fixed Assets	ONT	DVA16			-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage	ONT	DVA18			-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG	ONT	DVA19			-	-	-	-	-	-	-	-	-
Leases - Liabilities	ONT	DVA20	9,454,022	9,212,492	9,212,492	9,212,492	9,779,500	9,779,500	9,779,500	9,590,096	9,590,096	9,590,096	9,516,482

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

Adjustment Description	Category	Adj Code	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
			8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024
Leases Reclass - Liabilities	ONT	DVA21			-	-	-	-	-	-	-	-	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26			-	-	-	-	-	-	-	-	-
MVG Right of Way	ONT	DVA35			-	-	-	-	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37			-	-	-	-	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01			-	-	-	-	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02			-	-	-	-	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03			-	-	-	-	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04			-	-	-	-	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05			-	-	-	-	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03			-	-	-	-	-	-	-	-	-
Industrial Contracts	ONT	NTE05			-	-	-	-	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08			-	-	-	-	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11			-	-	-	-	-	-	-	-	-
481(a) UNICAP	ONT	NTE15			-	-	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19			-	-	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	1	1	1	1	1	1	1	1	1	1	1
Clearing Account - Adjustment	ONT	ONT03	97,379	266,178	266,178	266,178	146,906	146,906	146,906	56,008	56,008	56,008	56,008
Charitable Contribution Carryover	Excl	ONT04	(6,604,753)	(4,040,191)	(4,040,191)	(4,040,191)	(5,113,253)	(5,113,253)	(5,113,253)	(5,114,374)	(5,114,374)	(5,114,374)	(5,113,752)
RAR CFWE 1990-1985	ONT	ONT06			-	-	-	-	-	-	-	-	-
Contributed Contracts	ONT	ONT09			-	-	-	-	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19			-	-	-	-	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20			-	-	-	-	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21			-	-	-	-	-	-	-	-	-
Monarch - Non Compete	ONT	ONT22			-	-	-	-	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23			-	-	-	-	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27			-	-	-	-	-	-	-	-	-
Prepayments	Excl	ONT31	(8,070,338)	(7,403,700)	(7,403,700)	(7,403,700)	(8,571,663)	(8,571,663)	(8,571,663)	(9,255,055)	(9,255,055)	(9,255,055)	(10,733,932)
Rate Case Accrual	ONT	ONT32	4,551,156	-	-	-	-	-	-	-	-	-	-
Research and Development Expenses	ONT	ONT33			-	-	-	-	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37			-	-	-	-	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39			-	-	-	-	-	-	-	-	-
Inventory Adjustment	ONT	ONT44			-	-	-	-	-	-	-	-	-
Stock Option Expense	ONT	ONT50			-	-	-	-	-	-	-	-	-
Prepayments - MVG	ONT	ONT51			-	-	-	-	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52			-	-	-	-	-	-	-	-	-
Tax Free Interest - Temp	ONT	ONT58			-	-	-	-	-	-	-	-	-
Federal & State Tax Interest	Excl	ONT61	1,592,426	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214	2,406,214
Prepayments - IRS Audits	ONT	ONT64			-	-	-	-	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66			-	-	-	-	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67			-	-	-	-	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68			-	-	-	-	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69			-	-	-	-	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70			-	-	-	-	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71			-	-	-	-	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	(5,227,547)	-	-	-	1,761,667	1,761,667	1,761,667	(5,814,222)	(5,814,222)	(5,814,222)	(2,419,744)
Regulatory Asset - LGS Amortization	ONT	RGA01			-	-	-	-	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02			-	-	-	-	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03			-	-	-	-	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04			-	-	-	-	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01			-	-	-	-	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02		302,252	302,252	302,252	302,252	302,252	302,252	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03			-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04			-	-	-	-	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05			-	-	-	-	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06			-	-	-	-	-	-	-	-	-
Regulatory Liability - KY GUD	ONT	RGL07			-	-	-	-	-	-	-	-	-
Regulatory Liability - NSC	ONT	RGL08	(4,422,482)	116,801	116,801	116,801	111,776	111,776	111,776	103,732	103,732	103,732	95,410
Fuel Cell ITC	ONT	RGL09	379,201	373,362	373,362	373,362	371,500	371,500	371,500	369,638	369,638	369,638	367,776
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11			-	-	-	-	-	-	-	-	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA			-	-	-	-	-	-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG					-	-	-	-	-	-	-



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
				8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024
Adjustment Description	Category	Adj Code												
Other - Subtotal				(17,704,957)	(7,976,717)	(7,976,717)	(7,976,717)	(8,582,234)	(8,582,234)	(8,582,234)	(17,245,692)	(17,245,692)	(17,245,692)	(15,339,653)
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	(181,392,985)	(182,172,220)	(182,172,220)	(182,172,220)	(183,632,891)	(183,632,891)	(183,632,891)	(184,671,913)	(184,671,913)	(184,671,913)	(186,397,886)
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	583,275,066	631,058,684	631,058,684	631,058,684	613,526,418	613,526,418	613,526,418	578,886,554	578,886,554	578,886,554	577,387,922
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	8,248,175	9,790,216	9,790,216	9,790,216	8,865,702	8,865,702	8,865,702	8,332,257	8,332,257	8,332,257	8,132,211
ST-State Net Operating Loss	state	TAX	TAX04	978,371	501,177	501,177	501,177	501,177	501,177	501,177	501,177	501,177	501,177	501,177
ST-State Bonus Depreciation	state	TAX	TAX05			-	-	-	-	-	-	-	-	-
FD-FAS 115 Adjustment		TAX	TAX06	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)
FD-Treasury Lock Adjustment		TAX	TAX08			-	-	-	-	-	-	-	-	-
FD-Other		TAX	TAX10			-	-	-	-	-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11			-	-	-	-	-	-	-	-	-
FD-Federal Benefit on State NOL	state	TAX	TAX12			-	-	-	-	-	-	-	-	-
FD-Fuel Cell Credit		TAX	TAX15			-	-	-	-	-	-	-	-	(39,445)
State Texas Margin WWE DTL		TAX	SATTD_ONT10			-	-	-	-	-	-	-	-	-
ST-Other	state	TAX	TAX43			-	-	-	-	-	3,793	3,793	3,793	3,793
ST - Valuation Allow on State NOL		TAX	TAX13			-	-	-	-	-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14			-	-	-	-	-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22			-	-	-	-	-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23			-	-	-	-	-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)
FD- Valuation Allow Fed Tax Enterprise Zone ITC	state	TAX	TAX38	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809	26,809
ST-Enterprise Zone ITC	state	TAX	TAX39	2,408,409	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680	2,399,680
STATE NOL_FIN48	state	TAX	TAX44			-	-	-	-	-	-	-	-	-
STATE NOL_FIN48 TN	state	TAX	TAX45			-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	(26,642,007)	(64,972,208)	(64,732,208)	(64,492,207)	(64,252,206)	(64,012,206)	(63,772,205)	(63,532,204)	(63,292,204)	(63,052,203)	(62,812,202)
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	(107,144,119)	(84,994,853)	(94,212,423)	(82,824,782)	(71,201,740)	(76,832,949)	(79,627,647)	(79,771,419)	(89,585,933)	(87,239,398)	(84,663,650)
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	(505,766)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)	(503,933)
Other Tax Effected Items - Subtotal				276,657,987	308,539,386	299,561,816	311,189,458	303,135,050	297,743,842	295,189,144	259,076,835	249,502,322	252,088,857	251,440,510
Total Accumulated Deferred Income Tax				276,668,086	314,468,054	305,490,484	317,118,126	308,792,109	303,400,901	300,846,203	246,357,172	236,782,659	239,369,194	252,997,116
				276,668,086	314,468,054	305,490,484	317,118,126	308,792,109	303,400,901	300,846,203	246,357,172	236,782,659	239,369,194	252,997,116

Excluded	21,428,201	19,995,420
State Only	2,296,070	2,299,863
TCJA Reg Liab Related	-	-
Fed NOL	458,676,680	399,122,247

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
Adjustment Description			6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Environmental Activities		ACC	ACC01	-	-	-	-
Ad Valorem Taxes		ACC	ACC02	-	-	-	-
Directors Deferred Bonus		ACC	ACC03	37,403	37,403	37,403	40,193
MIP/VPP Accrual	Excl	ACC	ACC04	973,425	973,425	973,425	1,177,127
Accrued Environmental Asset		ACC	ACC05	-	-	-	-
Miscellaneous Accrued		ACC	ACC06	17	17	17	-
Self Insurance - Adjustment	Excl	ACC	ACC08	3,004,096	3,004,096	3,004,096	3,640,505
Vacation Accrual		ACC	ACC11	51,114	51,114	51,114	23,539
Worker's Comp Insurance Reserve		ACC	ACC12	53,850	53,850	53,850	52,462
Accrual - Subtotal			4,119,905	4,119,905	4,119,905	4,933,826	11,484,828
Rabbi Trust - True Up		BEN	NBP01	-	-	-	-
SEBP Adjustment	Excl	BEN	NBP03	6,288,048	6,288,048	6,288,048	5,603,373
SERP DTL Offset	Excl	BEN	NBP04	-	-	-	-
Restricted Stock Grant Plan	Excl	BEN	NBP05	(5,177,922)	(5,177,922)	(5,177,922)	(5,540,782)
Rabbi Trust	Excl	BEN	NBP06	896,430	896,430	896,430	892,937
VEBA Trust Contribution Adjustment	Excl	BEN	NBP08	4,911,712	4,911,712	4,911,712	4,903,059
Restricted Stock - MIP	Excl	BEN	NBP13	11,994,141	11,994,141	11,994,141	11,280,430
Director's Stock Awards	Excl	BEN	NBP16	3,499,676	3,499,676	3,499,676	3,568,372
Director's Stock - Temp		BEN	NBP18	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24	2,125,078	2,125,078	2,125,078	1,861,538
Pension Expense	Excl	BEN	PEN01	1,241,328	1,241,328	1,241,328	597,745
FAS106 Adjustment	Excl	BEN	PRB01	7,305,130	7,305,130	7,305,130	7,050,367
Benefits - Subtotal			33,083,621	33,083,621	33,083,621	30,217,039	30,397,798
CWIP	Excl	CWIP/RWIP	FXA26	(1,499,174)	(1,499,174)	(1,499,174)	(1,336,136)
RWIP	Excl	CWIP/RWIP	FXA47	-	-	-	-
CWIP/RWIP - Subtotal			(1,499,174)	(1,499,174)	(1,499,174)	(1,336,136)	(1,329,062)
Fixed Asset Cost Adjustment		FXA	FXA01	(38,499,914)	(38,499,914)	(38,499,914)	(36,095,392)
Depreciation Adjustment		FXA	FXA02	19,313,453	19,313,453	19,313,453	19,408,674
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	337,426	337,426	337,426	336,832
Section 481(a) Line Pack Gas		FXA	FXA14	40,942	40,942	40,942	40,870
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-
Plant - Subtotal			(18,808,093)	(18,808,093)	(18,808,093)	(16,309,016)	(17,380,421)
Deferred Gas Costs		GCA	GCA01	-	-	-	-
Over Recoveries of PGA		GCA	GCA03	-	-	-	-
PGA - Amended Item		GCA	GCA04	-	-	-	-
Gas Cost Adjustment - Subtotal			-	-	-	-	-
LGS - Goodwill Amortization		GDW	ONT13	-	-	-	-
TXU - Goodwill Amortization		GDW	ONT49	-	-	-	-
Goodwill - Subtotal			-	-	-	-	-
Customer Advances		ONT	CAP01	-	-	-	-
Capital Loss CarryForward		ONT	CAP_LOSS_CF	2,366	2,366	2,366	312,834
Amoritzation - LGS Acq. 1810-13523		ONT	DTE01	-	-	-	-
Deferred Expense Projects		ONT	DTE09	-	-	-	-
Amoritzation - LGS Acq. 1810-14155		ONT	DTE12	-	-	-	-
Deferred Projects - TXU Acquisition		ONT	DTE14	-	-	-	-
RAR 91/93 Bond Cost Amortized		ONT	DVA05	-	-	-	-
RAR 91/93 Bond Cost Capitalized		ONT	DVA06	-	-	-	-
Leases - Assets		ONT	DVA10	(9,516,482)	(9,516,482)	(9,516,482)	(9,392,957)
DIG on Fixed Assets		ONT	DVA16	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	DVA18	-	-	-	-
DIG on Fixed Assets - WKG		ONT	DVA19	-	-	-	-
Leases - Liabilities		ONT	DVA20	9,516,482	9,516,482	9,516,482	9,392,957

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
Adjustment Description	Category	Adj Code	6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Leases Reclass - Liabilities	ONT	DVA21	-	-	-	-	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-
MVG Right of Way	ONT	DVA35	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-
481(a) UNICAP	ONT	NTE15	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	1	1	1	1	1
Clearing Account - Adjustment	ONT	ONT03	56,008	56,008	56,008	56,008	(646,655)
Charitable Contribution Carryover	Excl	ONT04	(5,113,752)	(5,113,752)	(5,113,752)	(6,192,583)	(6,162,411)
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-
Prepayments	Excl	ONT31	(10,733,932)	(10,733,932)	(10,733,932)	(10,067,107)	(9,414,009)
Rate Case Accrual	ONT	ONT32	-	-	-	-	-
Research and Development Expenses	ONT	ONT33	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-
Federal & State Tax Interest	Excl	ONT61	2,406,214	2,406,214	2,406,214	2,405,516	2,392,780
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	(2,419,744)	(2,419,744)	(2,419,744)	-	(12,030,036)
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	-	-	-	-	-
Regulatory Liability - KY GUD	ONT	RGL07	-	-	-	-	-
Regulatory Liability - NSC	ONT	RGL08	95,410	95,410	95,410	85,149	73,640
Fuel Cell ITC	ONT	RGL09	367,776	367,776	367,776	365,660	361,293
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-	-	-	-	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-	-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-	-	-	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
				6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Adjustment Description	Category	Adj Code						
Other - Subtotal				(15,339,653)	(15,339,653)	(15,339,653)	(13,034,522)	(25,114,220)
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	(186,397,886)	(186,397,886)	(186,397,886)	(188,094,637)	(190,622,301)
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	577,387,922	577,387,922	577,387,922	620,311,385	560,781,175
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	8,132,211	8,132,211	8,132,211	9,696,591	8,784,993
ST-State Net Operating Loss	state	TAX	TAX04	501,177	501,177	501,177	501,177	501,177
ST-State Bonus Depreciation	state	TAX	TAX05	-	-	-	-	-
FD-FAS 115 Adjustment		TAX	TAX06	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)	(2,466,303)
FD-Treasury Lock Adjustment		TAX	TAX08	-	-	-	-	-
FD-Other		TAX	TAX10	-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	-	-	-	-	-
FD-Federal Benefit on State NOL	state	TAX	TAX12	-	-	-	-	-
FD-Fuel Cell Credit		TAX	TAX15	(39,445)	(39,445)	(39,445)	(39,445)	(39,445)
State Texas Margin WWE DTL		TAX	SATTD_ONT10	-	-	-	-	-
ST-Other	state	TAX	TAX43	3,793	3,793	3,793	3,687	(38,922)
ST - Valuation Allow on State NOL		TAX	TAX13	-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14	-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22	-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23	-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	(127,663)	(127,663)	(127,663)	(127,663)	(127,663)
FD- Valuation Allow Fed Tax Enterprise Zone ITC	state	TAX	TAX38	26,809	26,809	26,809	26,809	26,809
ST-Enterprise Zone ITC	state	TAX	TAX39	2,399,680	2,399,680	2,399,680	2,622,583	2,622,583
STATE NOL_FIN48	state	TAX	TAX44	-	-	-	-	-
STATE NOL_FIN48 TN	state	TAX	TAX45	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	(62,812,202)	(62,572,202)	(62,332,201)	(113,912,589)	(110,809,492)
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	(84,663,650)	(81,029,806)	(77,737,938)	(20,623,877)	(25,598,029)
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	(503,933)	(503,933)	(503,933)	(550,742)	(550,742)
Other Tax Effected Items - Subtotal				251,440,510	255,314,355	258,846,223	307,346,976	242,463,840
Total Accumulated Deferred Income Tax				252,997,116	256,870,961	260,402,829	311,818,167	240,522,763
				252,997,116	256,870,961	260,402,829	311,818,167	240,522,763

Excluded	17,982,823	13,349,312
State Only	2,475,851	2,433,242
TCJA Reg Liab Related	-	-
Fed NOL	441,913,339	378,943,867

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

Adjustment Description	Category	Adj Code	Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	
			9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022	
Environmental Activities	ACC	ACC01														
Ad Valorem Taxes	ACC	ACC02														
Directors Deferred Bonus	ACC	ACC03														
MIP/VPP Accrual	Excl	ACC	ACC04	(687,431)	(687,431)	(687,431)	(688,190)	(688,190)	(688,190)	(688,949)	(688,949)	(688,949)	(689,708)	(689,708)	(689,708)	(834,776)
Accrued Environmental Asset		ACC	ACC05													
Miscellaneous Accrued		ACC	ACC06													
Self Insurance - Adjustment		ACC	ACC08													
Vacation Accrual		ACC	ACC11	9,852	9,852	9,852	9,852	9,852	9,852	9,852	9,852	9,852	9,852	9,852	9,852	224
Worker's Comp Insurance Reserve	ACC	ACC12	530	530	530	560	560	560	646	646	646	720	720	720	720	729
Accrual - Subtotal			(677,049)	(677,049)	(677,049)	(677,778)	(677,778)	(677,778)	(678,451)	(678,451)	(678,451)	(679,136)	(679,136)	(679,136)	(833,823)	
Rabbi Trust - True Up	BEN	NBP01														
SEBP Adjustment	BEN	NBP03														
SERP DTL Offset	BEN	NBP04														
Restricted Stock Grant Plan	BEN	NBP05														
Rabbi Trust	BEN	NBP06														
VEBA Trust Contribution Adjustment	BEN	NBP08														
Restricted Stock - MIP	BEN	NBP13														
Director's Stock Awards	BEN	NBP16														
Director's Stock - Temp	BEN	NBP18														
Rabbi Trust Book Gain or Loss	BEN	NBP22														
Rabbi Trust Tax Gain or Loss	BEN	NBP23														
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24														
Pension Expense	BEN	PEN01														
FAS106 Adjustment	BEN	PRB01	(936,951)	(936,951)	(936,951)	(1,107,361)	(1,107,361)	(1,107,361)	(1,145,022)	(1,145,022)	(1,145,022)	(1,149,269)	(1,149,269)	(1,149,269)	(1,149,269)	(1,146,908)
Benefits - Subtotal			(936,951)	(936,951)	(936,951)	(1,107,361)	(1,107,361)	(1,107,361)	(1,145,022)	(1,145,022)	(1,145,022)	(1,149,269)	(1,149,269)	(1,149,269)	(1,149,269)	(1,146,908)
CWIP	Excl	CWIP/RWIP	FXA26	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(62,582)
RWIP	Excl	CWIP/RWIP	FXA47	-	-	-	-	-	-	-	-	-	-	-	-	-
CWIP/RWIP - Subtotal			(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(236,984)	(62,582)
Fixed Asset Cost Adjustment	FXA	FXA01	(22,333,444)	(22,333,444)	(22,333,444)	(22,396,903)	(22,396,903)	(22,396,903)	(22,460,362)	(22,460,362)	(22,460,362)	(22,523,822)	(22,523,822)	(22,523,822)	(22,523,822)	(23,037,662)
Depreciation Adjustment	FXA	FXA02	9,083,799	9,083,799	9,083,799	9,555,624	9,555,624	9,555,624	9,977,712	9,977,712	9,977,712	10,087,031	10,087,031	10,087,031	10,087,031	10,648,828
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03														
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04														
Section 481(a) Cushion Gas	FXA	FXA13														
Section 481(a) Line Pack Gas	FXA	FXA14														
IRS Audit Assessment - Cost	FXA	FXA15														
IRS Audit Assessment - Accum	FXA	FXA16														
Repair % Completion Allowance	FXA	FXA41														
Section 481(a) TPR	FXA	FXA46														
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50														
AFUDC - Equity Asset Cost Adj	FXA	FXA80														
Plant - Subtotal			(13,249,645)	(13,249,645)	(13,249,645)	(12,841,279)	(12,841,279)	(12,841,279)	(12,482,650)	(12,482,650)	(12,482,650)	(12,436,791)	(12,436,791)	(12,436,791)	(12,436,791)	(12,388,834)
Deferred Gas Costs	GCA	GCA01														
Over Recoveries of PGA	GCA	GCA03														
PGA - Amended Item	GCA	GCA04														
Gas Cost Adjustment - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13														
TXU - Goodwill Amortization	GDW	ONT49														
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01														
Capital Loss CarryForward	ONT	CAP_LOSS_CF														
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01														
Deferred Expense Projects	ONT	DTE09														
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12														
Deferred Projects - TXU Acquisition	ONT	DTE14														
RAR 91/93 Bond Cost Amortized	ONT	DVA05														
RAR 91/93 Bond Cost Capitalized	ONT	DVA06														
Leases - Assets	ONT	DVA10	(2,545,695)	(2,545,695)	(2,545,695)	(2,510,790)	(2,510,790)	(2,510,790)	(2,458,125)	(2,458,125)	(2,458,125)	(2,405,086)	(2,405,086)	(2,405,086)	(2,405,086)	(2,333,782)
DIG on Fixed Assets	ONT	DVA16														
DIG on Fixed Assets - UCG Storage	ONT	DVA18														
DIG on Fixed Assets - WKG	ONT	DVA19														
Leases - Liabilities	ONT	DVA20	2,545,695	2,545,695	2,545,695	2,510,790	2,510,790	2,510,790	2,458,125	2,458,125	2,458,125	2,405,086	2,405,086	2,405,086	2,405,086	2,333,782

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022
Leases Reclass - Liabilities	ONT	DVA21													
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26													
MVG Right of Way	ONT	DVA35													
Amortization - ComfurT Goodwill	ONT	DVA37													
Deferred ITC - GGC	ONT	ITC01													
Deferred ITC - UCG Non-Utility	ONT	ITC02													
Deferred ITC - UCG	ONT	ITC03													
Deferred ITC - MVG	ONT	ITC04													
Regulatory Liability - GGC	ONT	ITC05													
Capitalized Selling Expense	ONT	NTE03													
Industrial Contracts	ONT	NTE05													
Linder - Partnership Investment	ONT	NTE08													
UNICAP Section 263A Costs	ONT	NTE11													
481(a) UNICAP	ONT	NTE15													
UNICAP - IRS Audit	ONT	NTE19													
Allowance for Doubtful Accounts	ONT	ONT02													
Clearing Account - Adjustment	ONT	ONT03													
Charitable Contribution Carryover	Excl	ONT04	3,177	3,177	3,177	4,276	4,276	4,276	3,177	3,177	3,177	3,177	3,177	3,177	3,177
RAR CFWE 1990-1985	ONT	ONT06													
Contributed Contracts	ONT	ONT09													
Book Inc Recognized for MTM Acctg	ONT	ONT19													
RAR Amortization of Non-Compete	ONT	ONT20													
Union Gas - Non Compete	ONT	ONT21													
Monarch - Non Compete	ONT	ONT22													
Palmyra - Non Compete	ONT	ONT23													
Duke - Purchased Contracts	ONT	ONT27													
Prepayments	Excl	ONT31	(245,166)	(245,166)	(245,166)	(212,519)	(212,519)	(212,519)	(418,990)	(418,990)	(418,990)	(71,503)	(71,503)	(71,503)	52,521
Rate Case Accrual	ONT	ONT32	5,981	5,981	5,981	(51,064)	(51,064)	(51,064)	(11,057)	(11,057)	(11,057)	(10,825)	(10,825)	(10,825)	(12,549)
Research and Development Expenses	ONT	ONT33													
Partnership Investment - Unitary	ONT	ONT37													
IGS - Purchased Contracts	ONT	ONT39													
Inventory Adjustment	ONT	ONT44													
Stock Option Expense	ONT	ONT50													
Prepayments - MVG	ONT	ONT51													
WACOG to FIFO Adjustment	ONT	ONT52													
Tax Free Interest - Temp	ONT	ONT58													
Federal & State Tax Interest	ONT	ONT61													
Prepayments - IRS Audits	ONT	ONT64													
Impairment - Atmos Gathering LLC	ONT	ONT66													
VA Charitable Contributions	ONT	ONT67													
Reg Asset Benefit Accrual	ONT	ONT68													
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69													
LA SIIP Reg Asset	ONT	ONT70													
TN Reg Asset Deferral	ONT	ONT71													
Intra Period Tax Allocation	ONT	OTH	-	-	-	938	938	938	2,465	2,465	2,465	4,295	4,295	4,295	-
Regulatory Asset - LGS Amortization	ONT	RGA01													
AFUDC - Equity Gross-Up	ONT	RGA02													
Regulatory Asset - Mid Tex	ONT	RGA03													
Regulatory Asset - Winter Weather Event	ONT	RGA04													
Regulatory Liability - Atmos 109	ONT	RGL01													
Reg Liability – Pension & OPEB asset	ONT	RGL02													
Regulatory Liability - GGC 109	ONT	RGL03													
Regulatory Liability - UCGC 109	ONT	RGL04													
Regulatory Liability - UCGC Rate	ONT	RGL05													
Regulatory Liability - 2017 Gross Up	tcja	RGL06													
Regulatory Liability - KY GUD	ONT	RGL07													
Regulatory Liability - NSC	ONT	RGL08	(4,886)	(4,886)	(4,886)	52,534	52,534	52,534	-	-	-	-	-	-	1,359
Fuel Cell ITC	ONT	RGL09													
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11													
Regulatory Liability - LA	ONT	ATTD_RGL_LA													
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG													

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022
				9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022
Adjustment Description		Category	Adj Code													
Other - Subtotal				(240,894)	(240,894)	(240,894)	(205,835)	(205,835)	(205,835)	(424,405)	(424,405)	(424,405)	(74,856)	(74,856)	(74,856)	44,508
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR													
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U													
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT													
ST-State Net Operating Loss	state	TAX	TAX04													
ST-State Bonus Depreciation	state	TAX	TAX05													
FD-FAS 115 Adjustment		TAX	TAX06													
FD-Treasury Lock Adjustment		TAX	TAX08													
FD-Other		TAX	TAX10													
FD-Federal Benefit on State Bonus	state	TAX	TAX11													
FD-Federal Benefit on State NOL	state	TAX	TAX12													
FD-Fuel Cell Credit		TAX	TAX15													
State Texas Margin WWE DTL		TAX	SATTD_ONT10													
ST-Other	state	TAX	TAX43													
ST - Valuation Allow on State NOL	state	TAX	TAX13													
FD - Valuation on Fed Tax of St NO		TAX	TAX14													
FD-FAS 158 Measurement Date Change		TAX	TAX22													
FD-AMT Minimum Tax Credit		TAX	TAX23													
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37													
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38													
ST-Enterprise Zone ITC	state	TAX	TAX39													
STATE NOL_FIN48	state	TAX	TAX44													
STATE NOL_FIN48 TN	state	TAX	TAX45													
FD-Treasury Lock Adjustment-Realized		TAX	TAX40													
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41													
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42													
Other Tax Effected Items - Subtotal				-	-	-	-	-	-	-	-	-	-	-	-	-
Total Accumulated Deferred Income Tax				(15,341,523)	(15,341,523)	(15,341,523)	(15,069,237)	(15,069,237)	(15,069,237)	(14,967,512)	(14,967,512)	(14,967,512)	(14,577,036)	(14,577,036)	(14,577,036)	(14,387,639)
				(15,341,523)	(15,341,523)	(15,341,523)	(15,069,237)	(15,069,237)	(15,069,237)	(14,967,512)	(14,967,512)	(14,967,512)	(14,577,036)	(14,577,036)	(14,577,036)	(14,387,639)

Excluded	(1,166,404)	(841,660)
State Only	-	-
TCJA Reg Liab Related	-	-
Fed NOL	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

Adjustment Description	Category	Adj Code	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024
			10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	
Environmental Activities	ACC	ACC01														-
Ad Valorem Taxes	ACC	ACC02														-
Directors Deferred Bonus	ACC	ACC03														-
MIP/VPP Accrual	ACC	ACC04	(834,776)	(834,776)	(833,473)	(833,473)	(833,473)	(832,169)	(832,169)	(832,169)	(830,866)	(830,866)	(830,866)	(756,501)	(756,501)	
Accrued Environmental Asset	ACC	ACC05														-
Miscellaneous Accrued	ACC	ACC06														-
Self Insurance - Adjustment	ACC	ACC08														-
Vacation Accrual	ACC	ACC11	224	224	224	224	224	224	224	224	224	224	224	(8,408)	(8,408)	
Worker's Comp Insurance Reserve	ACC	ACC12	729	729	738	738	738	779	779	779	847	847	847	924	924	
<b>Accrual - Subtotal</b>			<b>(833,823)</b>	<b>(833,823)</b>	<b>(832,511)</b>	<b>(832,511)</b>	<b>(832,511)</b>	<b>(831,166)</b>	<b>(831,166)</b>	<b>(831,166)</b>	<b>(829,795)</b>	<b>(829,795)</b>	<b>(829,795)</b>	<b>(763,985)</b>	<b>(763,985)</b>	
Rabbi Trust - True Up	BEN	NBP01														-
SEBP Adjustment	BEN	NBP03														-
SERP DTL Offset	BEN	NBP04														-
Restricted Stock Grant Plan	BEN	NBP05														-
Rabbi Trust	BEN	NBP06														-
VEBA Trust Contribution Adjustment	BEN	NBP08														-
Restricted Stock - MIP	BEN	NBP13														-
Director's Stock Awards	BEN	NBP16														-
Director's Stock - Temp	BEN	NBP18														-
Rabbi Trust Book Gain or Loss	BEN	NBP22														-
Rabbi Trust Tax Gain or Loss	BEN	NBP23														-
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24														-
Pension Expense	BEN	PEN01														-
FAS106 Adjustment	BEN	PRB01	(1,146,908)	(1,146,908)	(1,146,908)	(1,146,908)	(1,146,908)	(1,159,540)	(1,159,540)	(1,159,540)	(1,168,981)	(1,168,981)	(1,168,981)	(1,182,516)	(1,182,516)	
<b>Benefits - Subtotal</b>			<b>(1,146,908)</b>	<b>(1,146,908)</b>	<b>(1,146,908)</b>	<b>(1,146,908)</b>	<b>(1,146,908)</b>	<b>(1,159,540)</b>	<b>(1,159,540)</b>	<b>(1,159,540)</b>	<b>(1,168,981)</b>	<b>(1,168,981)</b>	<b>(1,168,981)</b>	<b>(1,182,516)</b>	<b>(1,182,516)</b>	
CWIP	Excl	CWIP/RWIP	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(62,582)	(68,320)	(68,320)
RWIP	Excl	CWIP/RWIP	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>CWIP/RWIP - Subtotal</b>			<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(62,582)</b>	<b>(68,320)</b>	<b>(68,320)</b>	
Fixed Asset Cost Adjustment	FXA	FXA01	(23,037,662)	(23,037,662)	(23,144,414)	(23,144,414)	(23,144,414)	(23,251,165)	(23,251,165)	(23,251,165)	(23,357,917)	(23,357,917)	(23,357,917)	(22,696,272)	(22,696,272)	
Depreciation Adjustment	FXA	FXA02	10,648,828	10,648,828	11,049,531	11,049,531	11,049,531	11,449,590	11,449,590	11,449,590	11,877,733	11,877,733	11,877,733	12,096,546	12,096,546	
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03														-
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04														-
Section 481(a) Cushion Gas	FXA	FXA13														-
Section 481(a) Line Pack Gas	FXA	FXA14														-
IRS Audit Assessment - Cost	FXA	FXA15														-
IRS Audit Assessment - Accum	FXA	FXA16														-
Repair % Completion Allowance	FXA	FXA41														-
Section 481(a) TPR	FXA	FXA46														-
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50														-
AFUDC - Equity Asset Cost Adj	FXA	FXA80														-
<b>Plant - Subtotal</b>			<b>(12,388,834)</b>	<b>(12,388,834)</b>	<b>(12,094,883)</b>	<b>(12,094,883)</b>	<b>(12,094,883)</b>	<b>(11,801,575)</b>	<b>(11,801,575)</b>	<b>(11,801,575)</b>	<b>(11,480,184)</b>	<b>(11,480,184)</b>	<b>(11,480,184)</b>	<b>(10,599,726)</b>	<b>(10,599,726)</b>	
Deferred Gas Costs	GCA	GCA01														-
Over Recoveries of PGA	GCA	GCA03														-
PGA - Amended Item	GCA	GCA04														-
<b>Gas Cost Adjustment - Subtotal</b>			-	-	-	-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13														-
TXU - Goodwill Amortization	GDW	ONT49														-
<b>Goodwill - Subtotal</b>			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01														-
Capital Loss CarryForward	ONT	CAP_LOSS_CF														-
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01														-
Deferred Expense Projects	ONT	DTE09														-
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12														-
Deferred Projects - TXU Acquisition	ONT	DTE14														-
RAR 91/93 Bond Cost Amortized	ONT	DVA05														-
RAR 91/93 Bond Cost Capitalized	ONT	DVA06														-
Leases - Assets	ONT	DVA10	(2,333,782)	(2,333,782)	(2,297,877)	(2,297,877)	(2,297,877)	(2,243,702)	(2,243,702)	(2,243,702)	(2,189,143)	(2,189,143)	(2,189,143)	(2,115,795)	(2,115,795)	
DIG on Fixed Assets	ONT	DVA16														-
DIG on Fixed Assets - UCG Storage	ONT	DVA18														-
DIG on Fixed Assets - WKG	ONT	DVA19														-
Leases - Liabilities	ONT	DVA20	2,333,782	2,333,782	2,297,877	2,297,877	2,297,877	2,243,702	2,243,702	2,243,702	2,189,143	2,189,143	2,189,143	2,115,795	2,115,795	



**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024
Adjustment Description	Category	Adj Code	10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023
Leases Reclass - Liabilities	ONT	DVA21													-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26													-
MVG Right of Way	ONT	DVA35													-
Amortization - ComfurT Goodwill	ONT	DVA37													-
Deferred ITC - GGC	ONT	ITC01													-
Deferred ITC - UCG Non-Utility	ONT	ITC02													-
Deferred ITC - UCG	ONT	ITC03													-
Deferred ITC - MVG	ONT	ITC04													-
Regulatory Liability - GGC	ONT	ITC05													-
Capitalized Selling Expense	ONT	NTE03													-
Industrial Contracts	ONT	NTE05													-
Linder - Partnership Investment	ONT	NTE08													-
UNICAP Section 263A Costs	ONT	NTE11													-
481(a) UNICAP	ONT	NTE15													-
UNICAP - IRS Audit	ONT	NTE19													-
Allowance for Doubtful Accounts	ONT	ONT02													-
Clearing Account - Adjustment	ONT	ONT03													-
Charitable Contribution Carryover	Excl	ONT04	3,177	3,177	3,269	3,269	3,269	4,920	4,920	4,920	5,616	5,616	5,616	8,496	8,496
RAR CFWE 1990-1985	ONT	ONT06													-
Contributed Contracts	ONT	ONT09													-
Book Inc Recognized for MTM Acctg	ONT	ONT19													-
RAR Amortization of Non-Compete	ONT	ONT20													-
Union Gas - Non Compete	ONT	ONT21													-
Monarch - Non Compete	ONT	ONT22													-
Palmyra - Non Compete	ONT	ONT23													-
Duke - Purchased Contracts	ONT	ONT27													-
Prepayments	Excl	ONT31	52,521	52,521	133,702	133,702	133,702	(28,240)	(28,240)	(28,240)	375,675	375,675	375,675	788,466	788,466
Rate Case Accrual	ONT	ONT32	(12,549)	(12,549)	(12,041)	(12,041)	(12,041)	(12,549)	(12,549)	(12,549)	(12,549)	(12,549)	(12,549)	-	-
Research and Development Expenses	ONT	ONT33													-
Partnership Investment - Unitary	ONT	ONT37													-
IGS - Purchased Contracts	ONT	ONT39													-
Inventory Adjustment	ONT	ONT44													-
Stock Option Expense	ONT	ONT50													-
Prepayments - MVG	ONT	ONT51													-
WACOG to FIFO Adjustment	ONT	ONT52													-
Tax Free Interest - Temp	ONT	ONT58													-
Federal & State Tax Interest	ONT	ONT61													-
Prepayments - IRS Audits	ONT	ONT64													-
Impairment - Atmos Gathering LLC	ONT	ONT66													-
VA Charitable Contributions	ONT	ONT67													-
Reg Asset Benefit Accrual	ONT	ONT68													-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69													-
LA SIIP Reg Asset	ONT	ONT70													-
TN Reg Asset Deferral	ONT	ONT71													-
Intra Period Tax Allocation	ONT	OTH	-	-	(31,006)	(31,006)	(31,006)	(866)	(866)	(866)	(1,562)	(1,562)	(1,562)	-	-
Regulatory Asset - LGS Amortization	ONT	RGA01													-
AFUDC - Equity Gross-Up	ONT	RGA02													-
Regulatory Asset - Mid Tex	ONT	RGA03													-
Regulatory Asset - Winter Weather Event	ONT	RGA04													-
Regulatory Liability - Atmos 109	ONT	RGL01													-
Reg Liability – Pension & OPEB asset	ONT	RGL02													-
Regulatory Liability - GGC 109	ONT	RGL03													-
Regulatory Liability - UCGC 109	ONT	RGL04													-
Regulatory Liability - UCGC Rate	ONT	RGL05													-
Regulatory Liability - 2017 Gross Up	tcja	RGL06													-
Regulatory Liability - KY GUD	ONT	RGL07													-
Regulatory Liability - NSC	ONT	RGL08	1,359	1,359	1,359	1,359	1,359	3,097	3,097	3,097	5,532	5,532	5,532	(5,304)	(5,304)
Fuel Cell ITC	ONT	RGL09													-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11													-
Regulatory Liability - LA	ONT	ATTD_RGL_LA													-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG													-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024
				10/31/2022	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	
Adjustment Description				Category	Adj Code												
Other - Subtotal						44,508	44,508	95,283	95,283	95,283	(33,638)	(33,638)	(33,638)	372,712	372,712	372,712	791,658
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR														-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U														-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT														-
ST-State Net Operating Loss	state	TAX	TAX04														-
ST-State Bonus Depreciation	state	TAX	TAX05														-
FD-FAS 115 Adjustment		TAX	TAX06														-
FD-Treasury Lock Adjustment		TAX	TAX08														-
FD-Other		TAX	TAX10														-
FD-Federal Benefit on State Bonus	state	TAX	TAX11														-
FD-Federal Benefit on State NOL	state	TAX	TAX12														-
FD-Fuel Cell Credit		TAX	TAX15														-
State Texas Margin WWE DTL		TAX	SATTD_ONT10														-
ST-Other	state	TAX	TAX43														-
ST - Valuation Allow on State NOL	state	TAX	TAX13														-
FD - Valuation on Fed Tax of St NO		TAX	TAX14														-
FD-FAS 158 Measurement Date Change		TAX	TAX22														-
FD-AMT Minimum Tax Credit		TAX	TAX23														-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37														-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38														-
ST-Enterprise Zone ITC	state	TAX	TAX39														-
STATE NOL_FIN48	state	TAX	TAX44														-
STATE NOL_FIN48 TN	state	TAX	TAX45														-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40														-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41														-
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42														-
Other Tax Effected Items - Subtotal						-	-	-	-	-	-	-	-	-	-	-	-
Total Accumulated Deferred Income Tax						(14,387,639)	(14,387,639)	(14,041,601)	(14,041,601)	(14,041,601)	(13,888,501)	(13,888,501)	(13,888,501)	(13,168,830)	(13,168,830)	(13,168,830)	(11,822,889)
						(14,387,639)	(14,387,639)	(14,041,601)	(14,041,601)	(14,041,601)	(13,888,501)	(13,888,499)	(13,888,499)	(13,168,828)	(13,168,828)	(13,168,828)	(11,822,885)
						(14,387,639)	(14,387,639)	(14,041,601)	(14,041,601)	(14,041,601)	(13,888,501)	(13,888,499)	(13,888,499)	(13,168,828)	(13,168,828)	(13,168,828)	(11,822,889)

Excluded	(27,859)
State Only	-
TCJA Reg Liab Related	-
Fed NOL	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

Adjustment Description	Category	Adj Code	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
			11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024	6/30/2024	7/31/2024	8/31/2024	9/30/2024	6/30/2024	7/31/2024	8/31/2024
Environmental Activities	ACC	ACC01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Taxes	ACC	ACC02	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Directors Deferred Bonus	ACC	ACC03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MIP/VPP Accrual	ACC	ACC04	(756,501)	(758,365)	(758,365)	(758,365)	(760,229)	(760,229)	(760,229)	(760,229)	(762,093)	(762,093)	(762,093)	(762,093)	(762,093)	(241,751)	(241,751)
Accrued Environmental Asset	ACC	ACC05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Accrued	ACC	ACC06	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Self Insurance - Adjustment	ACC	ACC08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vacation Accrual	ACC	ACC11	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(8,408)	(14,216)	(14,216)
Worker's Comp Insurance Reserve	ACC	ACC12	924	932	932	932	962	962	962	962	991	991	991	991	991	1,025	1,025
Accrual - Subtotal			(763,985)	(765,841)	(765,841)	(765,841)	(767,675)	(767,675)	(767,675)	(767,675)	(769,510)	(769,510)	(769,510)	(769,510)	(769,510)	(254,942)	(254,942)
Rabbi Trust - True Up	BEN	NBP01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SEBP Adjustment	BEN	NBP03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SERP DTL Offset	BEN	NBP04	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	BEN	NBP05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust	BEN	NBP06	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VEBA Trust Contribution Adjustment	BEN	NBP08	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock - MIP	BEN	NBP13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock Awards	BEN	NBP16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock - Temp	BEN	NBP18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss	BEN	NBP22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss	BEN	NBP23	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension Expense	BEN	PEN01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FAS106 Adjustment	BEN	PRB01	(1,182,516)	(1,188,408)	(1,188,408)	(1,188,408)	(1,194,926)	(1,194,926)	(1,194,926)	(1,194,926)	(1,207,677)	(1,207,677)	(1,207,677)	(1,207,677)	(1,207,677)	(1,214,904)	(1,214,904)
Benefits - Subtotal			(1,182,516)	(1,188,408)	(1,188,408)	(1,188,408)	(1,194,926)	(1,194,926)	(1,194,926)	(1,194,926)	(1,207,677)	(1,207,677)	(1,207,677)	(1,207,677)	(1,207,677)	(1,214,904)	(1,214,904)
CWIP	Excl	CWIP/RWIP	FXA26	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(4,426)	(4,426)
RWIP	Excl	CWIP/RWIP	FXA47	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CWIP/RWIP - Subtotal			(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(68,320)	(4,426)	(4,426)
Fixed Asset Cost Adjustment	FXA	FXA01	(22,696,272)	(22,699,710)	(22,699,710)	(22,699,710)	(22,703,147)	(22,703,147)	(22,703,147)	(22,703,147)	(22,706,585)	(22,706,585)	(22,706,585)	(22,706,585)	(22,706,585)	(23,779,801)	(23,779,801)
Depreciation Adjustment	FXA	FXA02	12,096,546	12,384,286	12,384,286	12,384,286	12,763,900	12,763,900	12,763,900	12,763,900	13,301,101	13,301,101	13,301,101	13,301,101	13,301,101	13,554,153	13,554,153
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas	FXA	FXA13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas	FXA	FXA14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost	FXA	FXA15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum	FXA	FXA16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance	FXA	FXA41	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR	FXA	FXA46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj	FXA	FXA80	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal			(10,599,726)	(10,315,424)	(10,315,424)	(10,315,424)	(9,939,247)	(9,939,247)	(9,939,247)	(9,939,247)	(9,405,484)	(9,405,484)	(9,405,484)	(9,405,484)	(9,405,484)	(10,225,648)	(10,225,648)
Deferred Gas Costs	GCA	GCA01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over Recoveries of PGA	GCA	GCA03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PGA - Amended Item	GCA	GCA04	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas Cost Adjustment - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TXU - Goodwill Amortization	GDW	ONT49	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Loss CarryForward	ONT	CAP_LOSS_CF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Expense Projects	ONT	DTE09	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition	ONT	DTE14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized	ONT	DVA05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Capitalized	ONT	DVA06	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Assets	ONT	DVA10	(2,115,795)	(2,235,177)	(2,235,177)	(2,235,177)	(2,176,535)	(2,176,535)	(2,176,535)	(2,176,535)	(2,147,929)	(2,147,929)	(2,147,929)	(2,147,929)	(2,147,929)	(2,105,759)	(2,105,759)
DIG on Fixed Assets	ONT	DVA16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage	ONT	DVA18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - WKG	ONT	DVA19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities	ONT	DVA20	2,115,795	2,235,177	2,235,177	2,235,177	2,176,535	2,176,535	2,176,535	2,176,535	2,147,929	2,147,929	2,147,929	2,147,929	2,147,929	2,105,759	2,105,759

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024		Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description	Category	Adj Code	11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024		6/30/2024	7/31/2024	8/31/2024	9/30/2024
Leases Reclass - Liabilities	ONT	DVA21	-	-	-	-	-	-	-	-		-	-	-	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-	-	-	-	-	-	-	-		-	-	-	-
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-	-		-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-	-		-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-	-		-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-	-		-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-	-		-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-	-		-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-	-		-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-	-		-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-	-		-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	-	-	-	-	-	-	-	-		-	-	-	-
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-		-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-		-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	-	-	-	-	-	-	-	-		-	-	-	-
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-		-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	8,496	8,991	8,991	8,991	11,720	11,720	11,720	12,851		12,851	12,851	12,851	10,248
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-	-		-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-	-		-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-	-		-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-	-		-	-	-	-
Union Gas - Non Compete	ONT	ONT21	-	-	-	-	-	-	-	-		-	-	-	-
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-	-		-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-	-		-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-	-		-	-	-	-
Prepayments	Excl	ONT31	788,466	917,612	917,612	917,612	600,288	600,288	600,288	777,911		777,911	777,911	777,911	1,308,304
Rate Case Accrual	ONT	ONT32	-	-	-	-	-	-	-	-		-	-	-	-
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-	-		-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-	-		-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-	-		-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-	-		-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-	-		-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-	-		-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	-	-	-	-	-	-	-	-		-	-	-	-
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-	-		-	-	-	-
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-	-		-	-	-	-
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-	-		-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-	-		-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-	-		-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-	-		-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-	-		-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-	-		-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-	-		-	-	-	-
Intra Period Tax Allocation	ONT	OTH	-	(123)	(123)	(123)	(4,765)	(4,765)	(4,765)	2,037		2,037	2,037	2,037	-
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-	-		-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-	-		-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - KY GUD	ONT	RGL07	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - NSC	ONT	RGL08	(5,304)	(4,910)	(4,910)	(4,910)	(3,997)	(3,997)	(3,997)	(3,360)		(3,360)	(3,360)	(3,360)	(2,360)
Fuel Cell ITC	ONT	RGL09	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-	-	-	-	-	-	-	-		-	-	-	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-	-	-	-	-	-	-	-		-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-	-	-	-	-	-	-	-		-	-	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024				
Adjustment Description		Category	Adj Code	11/30/2023	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024
				6/30/2024	7/31/2024	8/31/2024	9/30/2024								
Other - Subtotal				791,658	921,570	921,570	921,570	603,246	603,246	603,246	789,439	789,439	789,439	789,439	1,316,192
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	-	-	-	-	-	-	-	-	-	-	-	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	-	-	-	-	-	-	-	-	-	-	-	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	-	-	-	-	-	-	-	-	-	-	-	-
ST-State Net Operating Loss	state	TAX	TAX04	-	-	-	-	-	-	-	-	-	-	-	-
ST-State Bonus Depreciation	state	TAX	TAX05	-	-	-	-	-	-	-	-	-	-	-	-
FD-FAS 115 Adjustment		TAX	TAX06	-	-	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment		TAX	TAX08	-	-	-	-	-	-	-	-	-	-	-	-
FD-Other		TAX	TAX10	-	-	-	-	-	-	-	-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	-	-	-	-	-	-	-	-	-	-	-	-
FD-Federal Benefit on State NOL	state	TAX	TAX12	-	-	-	-	-	-	-	-	-	-	-	-
FD-Fuel Cell Credit		TAX	TAX15	-	-	-	-	-	-	-	-	-	-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10	-	-	-	-	-	-	-	-	-	-	-	-
ST-Other	state	TAX	TAX43	-	-	-	-	-	-	-	-	-	-	-	-
ST - Valuation Allow on State NOL	state	TAX	TAX13	-	-	-	-	-	-	-	-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14	-	-	-	-	-	-	-	-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22	-	-	-	-	-	-	-	-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23	-	-	-	-	-	-	-	-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	-	-	-	-	-	-	-	-	-	-	-	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-	-	-	-	-	-	-	-	-	-	-	-
ST-Enterprise Zone ITC	state	TAX	TAX39	-	-	-	-	-	-	-	-	-	-	-	-
STATE NOL_FIN48	state	TAX	TAX44	-	-	-	-	-	-	-	-	-	-	-	-
STATE NOL_FIN48 TN	state	TAX	TAX45	-	-	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-	-	-	-	-	-	-	-	-	-	-	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-	-	-	-	-	-	-	-	-	-	-	-
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	-	-	-	-	-	-	-	-	-	-	-	-
Other Tax Effected Items - Subtotal				-	-	-	-	-	-	-	-	-	-	-	-
Total Accumulated Deferred Income Tax				(11,822,889)	(11,416,423)	(11,416,423)	(11,416,423)	(11,366,922)	(11,366,922)	(11,366,922)	(10,661,552)	(10,661,552)	(10,661,552)	(10,661,552)	(10,383,728)
				(11,822,889)	(11,416,423)	(11,416,423)	(11,416,423)	(11,366,922)	(11,366,922)	(11,366,922)	(10,661,552)	(10,661,552)	(10,661,552)	(10,661,552)	(10,383,728)

Excluded	(39,651)	1,072,375
State Only	-	-
TCJA Reg Liab Related	-	-
Fed NOL	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2025
Adjustment Description	Category	Adj Code	3/31/2025
Environmental Activities	ACC	ACC01	-
Ad Valorem Taxes	ACC	ACC02	-
Directors Deferred Bonus	ACC	ACC03	-
MIP/VPP Accrual	ACC	ACC04	15,872
Accrued Environmental Asset	ACC	ACC05	-
Miscellaneous Accrued	ACC	ACC06	-
Self Insurance - Adjustment	ACC	ACC08	-
Vacation Accrual	ACC	ACC11	(12,612)
Worker's Comp Insurance Reserve	ACC	ACC12	1,063
Accrual - Subtotal			4,323
Rabbi Trust - True Up	BEN	NBP01	-
SEBP Adjustment	BEN	NBP03	-
SERP DTL Offset	BEN	NBP04	-
Restricted Stock Grant Plan	BEN	NBP05	-
Rabbi Trust	BEN	NBP06	-
VEBA Trust Contribution Adjustment	BEN	NBP08	-
Restricted Stock - MIP	BEN	NBP13	-
Director's Stock Awards	BEN	NBP16	-
Director's Stock - Temp	BEN	NBP18	-
Rabbi Trust Book Gain or Loss	BEN	NBP22	-
Rabbi Trust Tax Gain or Loss	BEN	NBP23	-
Rabbi Trust Unrealized Gain or Loss	BEN	NBP24	-
Pension Expense	BEN	PEN01	-
FAS106 Adjustment	BEN	PRB01	(1,226,432)
Benefits - Subtotal			(1,226,432)
CWIP	Excl	CWIP/RWIP	FXA26
			(4,403)
RWIP	Excl	CWIP/RWIP	FXA47
			-
CWIP/RWIP - Subtotal			(4,403)
Fixed Asset Cost Adjustment	FXA	FXA01	(23,658,870)
Depreciation Adjustment	FXA	FXA02	14,159,110
Book Gain/Loss on Sale of Fixed Assets	FXA	FXA03	-
Tax Gain/Loss on Sale of Fixed Assets	FXA	FXA04	-
Section 481(a) Cushion Gas	FXA	FXA13	-
Section 481(a) Line Pack Gas	FXA	FXA14	-
IRS Audit Assessment - Cost	FXA	FXA15	-
IRS Audit Assessment - Accum	FXA	FXA16	-
Repair % Completion Allowance	FXA	FXA41	-
Section 481(a) TPR	FXA	FXA46	-
Repairs Aggregation Sec 481(a) Adj	FXA	FXA50	-
AFUDC - Equity Asset Cost Adj	FXA	FXA80	-
Plant - Subtotal			(9,499,760)
Deferred Gas Costs	GCA	GCA01	-
Over Recoveries of PGA	GCA	GCA03	-
PGA - Amended Item	GCA	GCA04	-
Gas Cost Adjustment - Subtotal			-
LGS - Goodwill Amortization	GDW	ONT13	-
TXU - Goodwill Amortization	GDW	ONT49	-
Goodwill - Subtotal			-
Customer Advances	ONT	CAP01	-
Capital Loss CarryForward	ONT	CAP_LOSS_CF	-
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01	-
Deferred Expense Projects	ONT	DTE09	-
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12	-
Deferred Projects - TXU Acquisition	ONT	DTE14	-
RAR 91/93 Bond Cost Amortized	ONT	DVA05	-
RAR 91/93 Bond Cost Capitalized	ONT	DVA06	-
Leases - Assets	ONT	DVA10	(2,054,402)
DIG on Fixed Assets	ONT	DVA16	-
DIG on Fixed Assets - UCG Storage	ONT	DVA18	-
DIG on Fixed Assets - WKG	ONT	DVA19	-
Leases - Liabilities	ONT	DVA20	2,054,402

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2025
Adjustment Description	Category	Adj Code	3/31/2025
Leases Reclass - Liabilities	ONT	DVA21	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	-
MVG Right of Way	ONT	DVA35	-
Amortization - ComfurT Goodwill	ONT	DVA37	-
Deferred ITC - GGC	ONT	ITC01	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-
Deferred ITC - UCG	ONT	ITC03	-
Deferred ITC - MVG	ONT	ITC04	-
Regulatory Liability - GGC	ONT	ITC05	-
Capitalized Selling Expense	ONT	NTE03	-
Industrial Contracts	ONT	NTE05	-
Linder - Partnership Investment	ONT	NTE08	-
UNICAP Section 263A Costs	ONT	NTE11	-
481(a) UNICAP	ONT	NTE15	-
UNICAP - IRS Audit	ONT	NTE19	-
Allowance for Doubtful Accounts	ONT	ONT02	-
Clearing Account - Adjustment	ONT	ONT03	-
Charitable Contribution Carryover	Excl	ONT04	13,907
RAR CFWE 1990-1985	ONT	ONT06	-
Contributed Contracts	ONT	ONT09	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-
RAR Amortization of Non-Compete	ONT	ONT20	-
Union Gas - Non Compete	ONT	ONT21	-
Monarch - Non Compete	ONT	ONT22	-
Palmyra - Non Compete	ONT	ONT23	-
Duke - Purchased Contracts	ONT	ONT27	-
Prepayments	Excl	ONT31	1,088,676
Rate Case Accrual	ONT	ONT32	-
Research and Development Expenses	ONT	ONT33	-
Partnership Investment - Unitary	ONT	ONT37	-
IGS - Purchased Contracts	ONT	ONT39	-
Inventory Adjustment	ONT	ONT44	-
Stock Option Expense	ONT	ONT50	-
Prepayments - MVG	ONT	ONT51	-
WACOG to FIFO Adjustment	ONT	ONT52	-
Tax Free Interest - Temp	ONT	ONT58	-
Federal & State Tax Interest	ONT	ONT61	-
Prepayments - IRS Audits	ONT	ONT64	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-
VA Charitable Contributions	ONT	ONT67	-
Reg Asset Benefit Accrual	ONT	ONT68	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-
LA SIIP Reg Asset	ONT	ONT70	-
TN Reg Asset Deferral	ONT	ONT71	-
Intra Period Tax Allocation	ONT	OTH	(7,209)
Regulatory Asset - LGS Amortization	ONT	RGA01	-
AFUDC - Equity Gross-Up	ONT	RGA02	-
Regulatory Asset - Mid Tex	ONT	RGA03	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-
Regulatory Liability - Atmos 109	ONT	RGL01	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-
Regulatory Liability - GGC 109	ONT	RGL03	-
Regulatory Liability - UCGC 109	ONT	RGL04	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	-
Regulatory Liability - KY GUD	ONT	RGL07	-
Regulatory Liability - NSC	ONT	RGL08	(1,237)
Fuel Cell ITC	ONT	RGL09	-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2025
Adjustment Description				3/31/2025
Other - Subtotal				1,094,137
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	-
ST-State Net Operating Loss	state	TAX	TAX04	-
ST-State Bonus Depreciation	state	TAX	TAX05	-
FD-FAS 115 Adjustment		TAX	TAX06	-
FD-Treasury Lock Adjustment		TAX	TAX08	-
FD-Other		TAX	TAX10	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	-
FD-Federal Benefit on State NOL	state	TAX	TAX12	-
FD-Fuel Cell Credit		TAX	TAX15	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10	-
ST-Other	state	TAX	TAX43	-
ST - Valuation Allow on State NOL	state	TAX	TAX13	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14	-
FD-FAS 158 Measurement Date Change		TAX	TAX22	-
FD-AMT Minimum Tax Credit		TAX	TAX23	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-
ST-Enterprise Zone ITC	state	TAX	TAX39	-
STATE NOL_FIN48	state	TAX	TAX44	-
STATE NOL_FIN48 TN	state	TAX	TAX45	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-
FD -Federal Tax on Enterprise ITC	state	TAX	TAX42	-
Other Tax Effectd Items - Subtotal				-
Total Accumulated Deferred Income Tax				(9,632,135)
				(9,632,135)

Excluded	1,106,843
State Only	-
TCJA Reg Liab Related	-
Fed NOL	-



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022	10/31/2022
Environmental Activities	ACC	ACC01	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Taxes	ACC	ACC02	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Directors Deferred Bonus	ACC	ACC03	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MIP/VPP Accrual	ACC	ACC04	331,396	331,396	331,396	344,082	344,082	344,082	356,838	356,838	356,838	369,744	369,744	369,744	325,429	325,429
Accrued Environmental Asset	ACC	ACC05	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Accrued	ACC	ACC06	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Self Insurance - Adjustment	ACC	ACC08	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vacation Accrual	ACC	ACC11	98,271	98,271	98,271	98,254	98,254	98,254	98,258	98,258	98,258	98,301	98,301	98,301	99,204	99,204
Worker's Comp Insurance Reserve	ACC	ACC12	(51,585)	(51,585)	(51,585)	(54,446)	(54,446)	(54,446)	(79,481)	(79,481)	(79,481)	(86,240)	(86,240)	(86,240)	(104,128)	(104,128)
Accrual - Subtotal			378,082	378,082	378,082	387,890	387,890	387,890	375,615	375,615	375,615	381,805	381,805	381,805	320,505	320,505
Rabbi Trust - True Up		BEN	NBP01	-	-	-	-	-	-	-	-	-	-	-	-	-
SEBP Adjustment	Excl	BEN	NBP03	1,014,325	1,014,325	1,014,325	1,013,442	1,013,442	1,013,442	1,012,417	1,012,417	1,012,417	1,011,801	1,011,801	1,011,801	1,010,204
SERP DTL Offset	Excl	BEN	NBP04	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	Excl	BEN	NBP05	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust		BEN	NBP06	-	-	-	-	-	-	-	-	-	-	-	-	-
VEBA Trust Contribution Adjustment		BEN	NBP08	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock - MIP		BEN	NBP13	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock Awards		BEN	NBP16	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock - Temp		BEN	NBP18	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension Expense		BEN	PEN01	-	-	-	-	-	-	-	-	-	-	-	-	-
FAS106 Adjustment		BEN	PRB01	(4,262,009)	(4,262,009)	(4,262,009)	(3,515,440)	(3,515,440)	(3,515,440)	(3,892,260)	(3,892,260)	(3,892,260)	(4,237,703)	(4,237,703)	(4,237,703)	(4,729,631)
Benefits - Subtotal			(3,247,684)	(3,247,684)	(3,247,684)	(2,501,998)	(2,501,998)	(2,501,998)	(2,879,843)	(2,879,843)	(2,879,843)	(3,225,902)	(3,225,902)	(3,225,902)	(3,719,427)	(3,719,427)
CWIP	Excl	CWIP/RWIP	FXA26	(126,936)	(126,936)	(126,936)	(126,914)	(126,914)	(126,914)	(126,919)	(126,919)	(126,919)	(126,975)	(126,975)	(126,975)	(126,943)
RWIP	Excl	CWIP/RWIP	FXA47	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(1)	(1)
CWIP/RWIP - Subtotal			(127,043)	(127,043)	(127,043)	(127,021)	(127,021)	(127,021)	(127,026)	(127,026)	(127,026)	(127,082)	(127,082)	(127,082)	(126,944)	(126,944)
Fixed Asset Cost Adjustment		FXA	FXA01	(1,090,547)	(1,090,547)	(1,090,547)	(1,090,420)	(1,090,420)	(1,090,420)	(1,091,948)	(1,091,948)	(1,091,948)	(1,092,490)	(1,092,490)	(1,092,490)	(959,665)
Depreciation Adjustment		FXA	FXA02	349,179	349,179	349,179	347,061	347,061	347,061	344,925	344,925	344,925	343,661	343,661	343,661	241,311
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	FXA14	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal			(741,368)	(741,368)	(741,368)	(743,359)	(743,359)	(743,359)	(747,023)	(747,023)	(747,023)	(748,829)	(748,829)	(748,829)	(718,354)	(718,354)
Deferred Gas Costs	GCA	GCA01														
Over Recoveries of PGA	GCA	GCA03														
PGA - Amended Item	GCA	GCA04														
Gas Cost Adjustment - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization	GDW	ONT13														
TXU - Goodwill Amortization	GDW	ONT49														
Goodwill - Subtotal			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer Advances	ONT	CAP01														
Capital Loss CarryForward	ONT	CAP_LOSS_CF														
Amoritzation - LGS Acq. 1810-13523	ONT	DTE01														
Deferred Expense Projects	ONT	DTE09														
Amoritzation - LGS Acq. 1810-14155	ONT	DTE12														
Deferred Projects - TXU Acquisition	ONT	DTE14														
RAR 91/93 Bond Cost Amortized	ONT	DVA05	22,562	22,562	22,562	22,558	22,558	22,558	22,559	22,559	22,559	22,569	22,569	22,569	22,565	22,565
RAR 91/93 Bond Cost Capitalized	ONT	DVA06	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Assets	ONT	DVA10	(1,480,631)	(1,480,631)	(1,480,631)	(1,438,090)	(1,438,090)	(1,438,090)	(1,381,877)	(1,381,877)	(1,381,877)	(1,318,838)	(1,318,838)	(1,318,838)	(1,232,790)	(1,232,790)
DIG on Fixed Assets	ONT	DVA16	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage	ONT	DVA18	(810,599)	(810,599)	(810,599)	(810,460)	(810,460)	(810,460)	(810,490)	(810,490)	(810,490)	(810,848)	(810,848)	(810,848)	(810,703)	(810,703)
DIG on Fixed Assets - WKG	ONT	DVA19	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities	ONT	DVA20	1,480,631	1,480,631	1,480,631	1,438,090	1,438,090	1,438,090	1,381,877	1,381,877	1,381,877	1,318,838	1,318,838	1,318,838	1,232,790	1,232,790

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023
Adjustment Description	Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022	10/31/2022
Leases Reclass - Liabilities	ONT	DVA21														
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	(116,246)	(116,246)	(116,246)	(116,226)	(116,226)	(116,226)	(116,230)	(116,230)	(116,230)	(116,282)	(116,282)	(116,282)	(116,261)	(116,261)
MVG Right of Way	ONT	DVA35														
Amortization - ComfurT Goodwill	ONT	DVA37														
Deferred ITC - GGC	ONT	ITC01														
Deferred ITC - UCG Non-Utility	ONT	ITC02														
Deferred ITC - UCG	ONT	ITC03														
Deferred ITC - MVG	ONT	ITC04														
Regulatory Liability - GGC	ONT	ITC05														
Capitalized Selling Expense	ONT	NTE03														
Industrial Contracts	ONT	NTE05														
Linder - Partnership Investment	ONT	NTE08														
UNICAP Section 263A Costs	ONT	NTE11	1,149,725	1,149,725	1,149,725	1,149,527	1,149,527	1,149,527	1,149,571	1,149,571	1,149,571	1,150,078	1,150,078	1,150,078	1,657,696	1,657,696
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	76,004	76,004	76,004	79,919	79,919	79,919	91,308	91,308	91,308	11,404	11,404	11,404	18,349	18,349
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	27	27	27	27	27	27	27	27	27	27	27	27	27	27
RAR CFWE 1990-1985	ONT	ONT06														
Contributed Contracts	ONT	ONT09														
Book Inc Recognized for MTM Acctg	ONT	ONT19														
RAR Amortization of Non-Compete	ONT	ONT20														
Union Gas - Non Compete	ONT	ONT21	281,924	281,924	281,924	281,876	281,876	281,876	281,887	281,887	281,887	282,011	282,011	282,011	281,961	281,961
Monarch - Non Compete	ONT	ONT22														
Palmyra - Non Compete	ONT	ONT23														
Duke - Purchased Contracts	ONT	ONT27														
Prepayments	Excl	ONT31	3,600	3,600	3,600	4,742	4,742	4,742	5,586	5,586	5,586	7,085	7,085	7,085	(1,069)	(1,069)
Rate Case Accrual	ONT	ONT32	(1,243,910)	(1,243,910)	(1,243,910)	(1,844,623)	(1,844,623)	(1,844,623)	(226,203)	(226,203)	(226,203)	(197,088)	(197,088)	(197,088)	(37,483)	(37,483)
Research and Development Expenses	ONT	ONT33														
Partnership Investment - Unitary	ONT	ONT37														
IGS - Purchased Contracts	ONT	ONT39														
Inventory Adjustment	ONT	ONT44														
Stock Option Expense	ONT	ONT50														
Prepayments - MVG	ONT	ONT51														
WACOG to FIFO Adjustment	ONT	ONT52	(49,574)	(49,574)	(49,574)	512,798	512,798	512,798	1,039,580	1,039,580	1,039,580	845,233	845,233	845,233	913,489	913,489
Tax Free Interest - Temp	ONT	ONT58														
Federal & State Tax Interest	ONT	ONT61														
Prepayments - IRS Audits	ONT	ONT64														
Impairment - Atmos Gathering LLC	ONT	ONT66														
VA Charitable Contributions	ONT	ONT67														
Reg Asset Benefit Accrual	ONT	ONT68														
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69														
LA SIIP Reg Asset	ONT	ONT70														
TN Reg Asset Deferral	ONT	ONT71														
Intra Period Tax Allocation	ONT	OTH	-	-	-	2,060	2,060	2,060	5,036	5,036	5,036	2,707	2,707	2,707	-	-
Regulatory Asset - LGS Amortization	ONT	RGA01														
AFUDC - Equity Gross-Up	ONT	RGA02														
Regulatory Asset - Mid Tex	ONT	RGA03														
Regulatory Asset - Winter Weather Event	ONT	RGA04	(43,190)	(43,190)	(43,190)	(37,425)	(37,425)	(37,425)	(28,789)	(28,789)	(28,789)	(20,161)	(20,161)	(20,161)	(8,639)	(8,639)
Regulatory Liability - Atmos 109	ONT	RGL01														
Reg Liability – Pension & OPEB asset	ONT	RGL02														
Regulatory Liability - GGC 109	ONT	RGL03														
Regulatory Liability - UCGC 109	ONT	RGL04														
Regulatory Liability - UCGC Rate	ONT	RGL05														
Regulatory Liability - 2017 Gross Up	tcja	RGL06														
Regulatory Liability - KY GUD	ONT	RGL07														
Regulatory Liability - NSC	ONT	RGL08	993,146	993,146	993,146	952,154	952,154	952,154	-	-	-	-	-	-	(114,375)	(114,375)
Fuel Cell ITC	ONT	RGL09														
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11														
Regulatory Liability - LA	ONT	ATTD_RGL_LA														
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG														

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

				Fiscal 2021	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2022	Fiscal 2023	
Adjustment Description		Category	Adj Code	9/30/2021	10/31/2021	11/30/2021	12/31/2021	1/31/2022	2/28/2022	3/31/2022	4/30/2022	5/31/2022	6/30/2022	7/31/2022	8/31/2022	9/30/2022	10/31/2022
Other - Subtotal				263,469	263,469	263,469	196,927	196,927	196,927	1,413,842	1,413,842	1,413,842	1,176,735	1,176,735	1,176,735	1,805,557	1,805,557
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR														
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U														
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT														
ST-State Net Operating Loss	state	TAX	TAX04														
ST-State Bonus Depreciation	state	TAX	TAX05														
FD-FAS 115 Adjustment		TAX	TAX06														
FD-Treasury Lock Adjustment		TAX	TAX08														
FD-Other		TAX	TAX10														
FD-Federal Benefit on State Bonus	state	TAX	TAX11														
FD-Federal Benefit on State NOL	state	TAX	TAX12														
FD-Fuel Cell Credit		TAX	TAX15														
State Texas Margin WWE DTL		TAX	SATTD_ONT10														
ST-Other	state	TAX	TAX43														
ST - Valuation Allow on State NOL	state	TAX	TAX13														
FD - Valuation on Fed Tax of St NO		TAX	TAX14														
FD-FAS 158 Measurement Date Change		TAX	TAX22														
FD-AMT Minimum Tax Credit		TAX	TAX23														
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37														
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38														
ST-Enterprise Zone ITC	state	TAX	TAX39														
STATE NOL_FIN48	state	TAX	TAX44														
STATE NOL_FIN48 TN	state	TAX	TAX45														
FD-Treasury Lock Adjustment-Realized		TAX	TAX40														
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41														
FD -Federal Tax on Enterprise ITC		TAX	TAX42														
Other Tax Effected Items - Subtotal				-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Accumulated Deferred Income Tax				(3,474,544)	(3,474,544)	(3,474,544)	(2,787,561)	(2,787,561)	(2,787,561)	(1,964,435)	(1,964,435)	(1,964,435)	(2,543,273)	(2,543,273)	(2,543,273)	(2,438,663)	(2,438,663)
				(3,474,544)	(3,474,544)	(3,474,544)	(2,787,561)	(2,787,561)	(2,787,561)	(1,964,435)	(1,964,435)	(1,964,435)	(2,543,273)	(2,543,273)	(2,543,273)	(2,438,663)	(2,438,663)

Excluded	1,222,305	1,207,647
State Only	-	-
TCJA Reg Liab Related	-	-
Fed NOL	-	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description		Category	Adj Code	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023
Environmental Activities		ACC	ACC01	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Taxes		ACC	ACC02	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Directors Deferred Bonus		ACC	ACC03	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MIP/VPP Accrual	Excl	ACC	ACC04	325,429	311,957	311,957	311,957	298,613	298,613	298,613	285,296	285,296	285,296	396,122	396,122	396,122	405,946
Accrued Environmental Asset		ACC	ACC05	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Accrued		ACC	ACC06	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Self Insurance - Adjustment		ACC	ACC08	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vacation Accrual		ACC	ACC11	99,204	99,181	99,181	99,181	99,198	99,198	99,198	99,227	99,227	99,227	97,281	97,281	97,281	97,293
Worker's Comp Insurance Reserve		ACC	ACC12	(104,128)	(105,063)	(105,063)	(105,063)	(126,605)	(126,605)	(126,605)	(140,230)	(140,230)	(140,230)	(149,359)	(149,359)	(149,359)	(154,655)
Accrual - Subtotal				320,505	306,075	306,075	306,075	271,206	271,206	271,206	244,293	244,293	244,293	344,044	344,044	344,044	348,584
Rabbi Trust - True Up		BEN	NBP01	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SEBP Adjustment	Excl	BEN	NBP03	1,010,204	1,009,647	1,009,647	1,009,647	1,009,626	1,009,626	1,009,626	1,010,310	1,010,310	1,010,310	1,011,675	1,011,675	1,011,675	1,011,495
SERP DTL Offset	Excl	BEN	NBP04	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	Excl	BEN	NBP05	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust		BEN	NBP06	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VEBA Trust Contribution Adjustment		BEN	NBP08	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock - MIP		BEN	NBP13	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock Awards		BEN	NBP16	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Director's Stock - Temp		BEN	NBP18	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension Expense		BEN	PEN01	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FAS106 Adjustment		BEN	PRB01	(4,729,631)	(4,953,608)	(4,953,608)	(4,953,608)	(5,310,861)	(5,310,861)	(5,310,861)	(5,698,517)	(5,698,517)	(5,698,517)	(6,937,121)	(6,937,121)	(6,937,121)	(7,227,186)
Benefits - Subtotal				(3,719,427)	(3,943,961)	(3,943,961)	(3,943,961)	(4,301,235)	(4,301,235)	(4,301,235)	(4,688,207)	(4,688,207)	(4,688,207)	(5,925,446)	(5,925,446)	(5,925,446)	(6,215,691)
CWIP	Excl	CWIP/RWIP	FXA26	(126,943)	(126,913)	(126,913)	(126,913)	(126,936)	(126,936)	(126,936)	(126,973)	(126,973)	(126,973)	(127,089)	(127,089)	(127,089)	(127,104)
RWIP	Excl	CWIP/RWIP	FXA47	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(107)	(107)	(107)	(107)
CWIP/RWIP - Subtotal				(126,944)	(126,914)	(126,914)	(126,914)	(126,937)	(126,937)	(126,937)	(126,974)	(126,974)	(126,974)	(127,196)	(127,196)	(127,196)	(127,211)
Fixed Asset Cost Adjustment		FXA	FXA01	(959,665)	(959,443)	(959,443)	(959,443)	(959,614)	(959,614)	(959,614)	(959,893)	(959,893)	(959,893)	(960,698)	(960,698)	(960,698)	(960,818)
Depreciation Adjustment		FXA	FXA02	241,311	239,698	239,698	239,698	238,096	238,096	238,096	236,520	236,520	236,520	268,197	268,197	268,197	266,830
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	FXA14	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal				(718,354)	(719,745)	(719,745)	(719,745)	(721,518)	(721,518)	(721,518)	(723,373)	(723,373)	(723,373)	(692,501)	(692,501)	(692,501)	(693,988)
Deferred Gas Costs		GCA	GCA01												-	-	-
Over Recoveries of PGA		GCA	GCA03												-	-	-
PGA - Amended Item		GCA	GCA04												-	-	-
Gas Cost Adjustment - Subtotal				-	-	-	-	-							-	-	-
LGS - Goodwill Amortization		GDW	ONT13												-	-	-
TXU - Goodwill Amortization		GDW	ONT49												-	-	-
Goodwill - Subtotal				-	-	-	-	-							-	-	-
Customer Advances		ONT	CAP01												-	-	-
Capital Loss CarryForward		ONT	CAP_LOSS_CF												-	-	-
Amoritzation - LGS Acq. 1810-13523		ONT	DTE01												-	-	-
Deferred Expense Projects		ONT	DTE09												-	-	-
Amoritzation - LGS Acq. 1810-14155		ONT	DTE12												-	-	-
Deferred Projects - TXU Acquisition		ONT	DTE14												-	-	-
RAR 91/93 Bond Cost Amortized		ONT	DVA05	22,565	22,559	22,559	22,559	22,563	22,563	22,563	22,570	22,570	22,570	22,589	22,589	22,589	22,592
RAR 91/93 Bond Cost Capitalized		ONT	DVA06	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Assets		ONT	DVA10	(1,232,790)	(1,189,253)	(1,189,253)	(1,189,253)	(1,124,343)	(1,124,343)	(1,124,343)	(1,060,125)	(1,060,125)	(1,060,125)	(1,008,700)	(1,008,700)	(1,008,700)	(1,285,194)
DIG on Fixed Assets		ONT	DVA16	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	DVA18	(810,703)	(810,516)	(810,516)	(810,516)	(810,660)	(810,660)	(810,660)	(810,896)	(810,896)	(810,896)	(811,576)	(811,576)	(811,576)	(811,677)
DIG on Fixed Assets - WKG		ONT	DVA19	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities		ONT	DVA20	1,232,790	1,189,253	1,189,253	1,189,253	1,124,343	1,124,343	1,124,343	1,060,125	1,060,125	1,060,125	1,008,700	1,008,700	1,008,700	1,285,194

**Atmos Energy Corporation, Inc.**  
**Accumulated Deferred Income Taxes**

			Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description	Category	Adj Code	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023	
Leases Reclass - Liabilities	ONT	DVA21											-	-	-	-	
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	(116,261)	(116,234)	(116,234)	(116,234)	(116,255)	(116,255)	(116,255)	(116,289)	(116,289)	(116,289)	(120,930)	(120,930)	(120,930)	(120,945)	
MVG Right of Way	ONT	DVA35												-	-	-	
Amortization - ComfurT Goodwill	ONT	DVA37												-	-	-	
Deferred ITC - GGC	ONT	ITC01												-	-	-	
Deferred ITC - UCG Non-Utility	ONT	ITC02												-	-	-	
Deferred ITC - UCG	ONT	ITC03												-	-	-	
Deferred ITC - MVG	ONT	ITC04												-	-	-	
Regulatory Liability - GGC	ONT	ITC05												-	-	-	
Capitalized Selling Expense	ONT	NTE03												-	-	-	
Industrial Contracts	ONT	NTE05												-	-	-	
Linder - Partnership Investment	ONT	NTE08												-	-	-	
UNICAP Section 263A Costs	ONT	NTE11	1,657,696	1,657,312	1,657,312	1,657,312	1,657,607	1,657,607	1,657,607	1,658,090	1,658,090	1,658,090	1,315,979	1,315,979	1,315,979	1,316,143	
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Allowance for Doubtful Accounts	ONT	ONT02	18,349	12,216	12,216	12,216	15,412	15,412	15,412	18,735	18,735	18,735	38,339	38,339	38,339	40,515	
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Charitable Contribution Carryover	Excl	ONT04	27	27	27	27	87	87	87	87	87	87	404	404	404	404	
RAR CFWE 1990-1985	ONT	ONT06												-	-	-	
Contributed Contracts	ONT	ONT09												-	-	-	
Book Inc Recognized for MTM Acctg	ONT	ONT19												-	-	-	
RAR Amortization of Non-Compete	ONT	ONT20												-	-	-	
Union Gas - Non Compete	ONT	ONT21	281,961	281,895	281,895	281,895	281,946	281,946	281,946	282,028	282,028	282,028	282,264	282,264	282,264	282,299	
Monarch - Non Compete	ONT	ONT22												-	-	-	
Palmyra - Non Compete	ONT	ONT23												-	-	-	
Duke - Purchased Contracts	ONT	ONT27												-	-	-	
Prepayments	Excl	ONT31	(1,069)	4,563	4,563	4,563	15,808	15,808	15,808	(5,306)	(5,306)	(5,306)	(11,989)	(11,989)	(11,989)	(10,670)	
Rate Case Accrual	ONT	ONT32	(37,483)	(16,672)	(16,672)	(16,672)	(37,481)	(37,481)	(37,481)	(37,492)	(37,492)	(37,492)	-	-	-	-	
Research and Development Expenses	ONT	ONT33												-	-	-	
Partnership Investment - Unitary	ONT	ONT37												-	-	-	
IGS - Purchased Contracts	ONT	ONT39												-	-	-	
Inventory Adjustment	ONT	ONT44												-	-	-	
Stock Option Expense	ONT	ONT50												-	-	-	
Prepayments - MVG	ONT	ONT51												-	-	-	
WACOG to FIFO Adjustment	ONT	ONT52	913,489	1,344,313	1,344,313	1,344,313	1,640,817	1,640,817	1,640,817	1,937,980	1,937,980	1,937,980	1,174,408	1,174,408	1,174,408	593,707	
Tax Free Interest - Temp	ONT	ONT58												-	-	-	
Federal & State Tax Interest	ONT	ONT61												-	-	-	
Prepayments - IRS Audits	ONT	ONT64												-	-	-	
Impairment - Atmos Gathering LLC	ONT	ONT66												-	-	-	
VA Charitable Contributions	ONT	ONT67												-	-	-	
Reg Asset Benefit Accrual	ONT	ONT68												-	-	-	
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69												-	-	-	
LA SIIP Reg Asset	ONT	ONT70												-	-	-	
TN Reg Asset Deferral	ONT	ONT71												-	-	-	
Intra Period Tax Allocation	ONT	OTH	-	16,247	16,247	16,247	24,820	24,820	24,820	46,415	46,415	46,415	-	-	-	10,854	
Regulatory Asset - LGS Amortization	ONT	RGA01												-	-	-	
AFUDC - Equity Gross-Up	ONT	RGA02												-	-	-	
Regulatory Asset - Mid Tex	ONT	RGA03												-	-	-	
Regulatory Asset - Winter Weather Event	ONT	RGA04	(8,639)	(2,879)	(2,879)	(2,879)	-							-	-	-	
Regulatory Liability - Atmos 109	ONT	RGL01												-	-	-	
Reg Liability – Pension & OPEB asset	ONT	RGL02												-	-	-	
Regulatory Liability - GGC 109	ONT	RGL03												-	-	-	
Regulatory Liability - UCGC 109	ONT	RGL04												-	-	-	
Regulatory Liability - UCGC Rate	ONT	RGL05												-	-	-	
Regulatory Liability - 2017 Gross Up	tcja	RGL06												-	-	-	
Regulatory Liability - KY GUD	ONT	RGL07												-	-	-	
Regulatory Liability - NSC	ONT	RGL08	(114,375)	(114,349)	(114,349)	(114,349)	(59,886)	(59,886)	(59,886)	(38,468)	(38,468)	(38,468)	(48,217)	(48,217)	(48,217)	(27,879)	
Fuel Cell ITC	ONT	RGL09												-	-	-	
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11												-	-	-	
Regulatory Liability - LA	ONT	ATTD_RGL_LA												-	-	-	
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG															

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2023	Fiscal 2024	Fiscal 2024	Fiscal 2024
Adjustment Description		Category	Adj Code	11/30/2022	12/31/2022	1/31/2023	2/28/2023	3/31/2023	4/30/2023	5/31/2023	6/30/2023	7/31/2023	8/31/2023	9/30/2023	10/31/2023	11/30/2023	12/31/2023
Other - Subtotal				1,805,557	2,278,482	2,278,482	2,278,482	2,634,778	2,634,778	2,634,778	2,957,454	2,957,454	2,957,454	1,841,271	1,841,271	1,841,271	1,295,343
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR												-	-	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U												-	-	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT												-	-	-
ST-State Net Operating Loss	state	TAX	TAX04												-	-	-
ST-State Bonus Depreciation	state	TAX	TAX05												-	-	-
FD-FAS 115 Adjustment		TAX	TAX06												-	-	-
FD-Treasury Lock Adjustment		TAX	TAX08												-	-	-
FD-Other		TAX	TAX10												-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11												-	-	-
FD-Federal Benefit on State NOL	state	TAX	TAX12												-	-	-
FD-Fuel Cell Credit		TAX	TAX15												-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10												-	-	-
ST-Other	state	TAX	TAX43												-	-	-
ST - Valuation Allow on State NOL	state	TAX	TAX13												-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14												-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22												-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23												-	-	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37												-	-	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38												-	-	-
ST-Enterprise Zone ITC	state	TAX	TAX39												-	-	-
STATE NOL_FIN48	state	TAX	TAX44												-	-	-
STATE NOL_FIN48 TN	state	TAX	TAX45												-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40														-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41												-	-	-
FD -Federal Tax on Enterprise ITC		TAX	TAX42														-
Other Tax Effected Items - Subtotal				-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Accumulated Deferred Income Tax				(2,438,663)	(2,206,063)	(2,206,063)	(2,206,063)	(2,243,706)	(2,243,706)	(2,243,706)	(2,336,807)	(2,336,807)	(2,336,807)	(4,559,828)	(4,559,828)	(4,559,828)	(5,392,963)
															-	-	-
				(2,438,663)	(2,206,063)	(2,206,063)	(2,206,063)	(2,243,706)	(2,243,706)	(2,243,706)	(2,336,811)	(2,336,811)	(2,336,811)	(4,559,829)	(4,559,828)	(4,559,828)	(5,392,963)

Excluded	1,269,016
State Only	-
TCJA Reg Liab Related	-
Fed NOL	-

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

			Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024		Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
Adjustment Description			1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024		6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Environmental Activities		ACC	ACC01	-	-	-	-	-	-	-	-	-	-	-
Ad Valorem Taxes		ACC	ACC02	-	-	-	-	-	-	-	-	-	-	-
Directors Deferred Bonus		ACC	ACC03	-	-	-	-	-	-	-	-	-	-	-
MIP/VPP Accrual	Excl	ACC	ACC04	405,946	405,946	415,738	415,738	415,738	425,513	425,513	425,513	425,513	577,788	675,718
Accrued Environmental Asset		ACC	ACC05	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Accrued		ACC	ACC06	-	-	-	-	-	-	-	-	-	-	-
Self Insurance - Adjustment		ACC	ACC08	-	-	-	-	-	-	-	-	-	-	-
Vacation Accrual		ACC	ACC11	97,293	97,293	97,297	97,297	97,297	97,297	97,297	97,297	97,297	95,728	95,379
Worker's Comp Insurance Reserve		ACC	ACC12	(154,655)	(154,655)	(186,680)	(186,680)	(186,680)	(198,279)	(198,279)	(198,279)	(198,279)	(204,844)	(206,367)
Accrual - Subtotal				348,584	348,584	326,355	326,355	326,355	324,531	324,531	324,531	324,531	468,672	564,730
Rabbi Trust - True Up		BEN	NBP01	-	-	-	-	-	-	-	-	-	-	-
SEBP Adjustment	Excl	BEN	NBP03	1,011,495	1,011,495	972,930	972,930	972,930	972,463	972,463	972,463	972,463	972,526	974,476
SERP DTL Offset	Excl	BEN	NBP04	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock Grant Plan	Excl	BEN	NBP05	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust		BEN	NBP06	-	-	-	-	-	-	-	-	-	-	-
VEBA Trust Contribution Adjustment		BEN	NBP08	-	-	-	-	-	-	-	-	-	-	-
Restricted Stock - MIP		BEN	NBP13	-	-	-	-	-	-	-	-	-	-	-
Director's Stock Awards		BEN	NBP16	-	-	-	-	-	-	-	-	-	-	-
Director's Stock - Temp		BEN	NBP18	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Book Gain or Loss		BEN	NBP22	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Tax Gain or Loss		BEN	NBP23	-	-	-	-	-	-	-	-	-	-	-
Rabbi Trust Unrealized Gain or Loss		BEN	NBP24	-	-	-	-	-	-	-	-	-	-	-
Pension Expense		BEN	PEN01	-	-	-	-	-	-	-	-	-	-	-
FAS106 Adjustment		BEN	PRB01	(7,227,186)	(7,227,186)	(7,781,845)	(7,781,845)	(7,781,845)	(8,357,208)	(8,357,208)	(8,357,208)	(8,357,208)	(8,131,615)	(8,646,005)
Benefits - Subtotal				(6,215,691)	(6,215,691)	(6,808,915)	(6,808,915)	(6,808,915)	(7,384,745)	(7,384,745)	(7,384,745)	(7,384,745)	(7,159,089)	(7,671,529)
CWIP	Excl	CWIP/RWIP	FXA26	(127,104)	(127,104)	(127,110)	(127,110)	(127,110)	(127,110)	(127,110)	(127,110)	(127,110)	(127,189)	(127,206)
RWIP	Excl	CWIP/RWIP	FXA47	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)	(107)
CWIP/RWIP - Subtotal				(127,211)	(127,211)	(127,217)	(127,217)	(127,217)	(127,217)	(127,217)	(127,217)	(127,217)	(127,296)	(127,313)
Fixed Asset Cost Adjustment		FXA	FXA01	(960,818)	(960,818)	(960,857)	(960,857)	(960,857)	(960,857)	(960,857)	(960,857)	(960,857)	(915,338)	(915,461)
Depreciation Adjustment		FXA	FXA02	266,830	266,830	265,436	265,436	265,436	264,005	264,005	264,005	264,005	247,991	245,581
Book Gain/Loss on Sale of Fixed Assets		FXA	FXA03	-	-	-	-	-	-	-	-	-	-	-
Tax Gain/Loss on Sale of Fixed Assets		FXA	FXA04	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Cushion Gas		FXA	FXA13	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) Line Pack Gas		FXA	FXA14	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Cost		FXA	FXA15	-	-	-	-	-	-	-	-	-	-	-
IRS Audit Assessment - Accum		FXA	FXA16	-	-	-	-	-	-	-	-	-	-	-
Repair % Completion Allowance		FXA	FXA41	-	-	-	-	-	-	-	-	-	-	-
Section 481(a) TPR		FXA	FXA46	-	-	-	-	-	-	-	-	-	-	-
Repairs Aggregation Sec 481(a) Adj		FXA	FXA50	-	-	-	-	-	-	-	-	-	-	-
AFUDC - Equity Asset Cost Adj		FXA	FXA80	-	-	-	-	-	-	-	-	-	-	-
Plant - Subtotal				(693,988)	(693,988)	(695,421)	(695,421)	(695,421)	(696,852)	(696,852)	(696,852)	(696,852)	(667,347)	(669,880)
Deferred Gas Costs		GCA	GCA01	-	-	-	-	-	-	-	-	-	-	-
Over Recoveries of PGA		GCA	GCA03	-	-	-	-	-	-	-	-	-	-	-
PGA - Amended Item		GCA	GCA04	-	-	-	-	-	-	-	-	-	-	-
Gas Cost Adjustment - Subtotal				-	-	-	-	-	-	-	-	-	-	-
LGS - Goodwill Amortization		GDW	ONT13	-	-	-	-	-	-	-	-	-	-	-
TXU - Goodwill Amortization		GDW	ONT49	-	-	-	-	-	-	-	-	-	-	-
Goodwill - Subtotal				-	-	-	-	-	-	-	-	-	-	-
Customer Advances		ONT	CAP01	-	-	-	-	-	-	-	-	-	-	-
Capital Loss CarryForward		ONT	CAP_LOSS_CF	-	-	-	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-13523		ONT	DTE01	-	-	-	-	-	-	-	-	-	-	-
Deferred Expense Projects		ONT	DTE09	-	-	-	-	-	-	-	-	-	-	-
Amoritzation - LGS Acq. 1810-14155		ONT	DTE12	-	-	-	-	-	-	-	-	-	-	-
Deferred Projects - TXU Acquisition		ONT	DTE14	-	-	-	-	-	-	-	-	-	-	-
RAR 91/93 Bond Cost Amortized		ONT	DVA05	22,592	22,592	22,593	22,593	22,593	22,593	22,593	22,593	22,593	22,607	22,610
RAR 91/93 Bond Cost Capitalized		ONT	DVA06	-	-	-	-	-	-	-	-	-	-	-
Leases - Assets		ONT	DVA10	(1,285,194)	(1,285,194)	(1,691,344)	(1,691,344)	(1,691,344)	(1,650,384)	(1,650,384)	(1,650,384)	(1,650,384)	(1,579,732)	(1,489,881)
DIG on Fixed Assets		ONT	DVA16	-	-	-	-	-	-	-	-	-	-	-
DIG on Fixed Assets - UCG Storage		ONT	DVA18	(811,677)	(811,677)	(811,710)	(811,710)	(811,710)	(811,710)	(811,710)	(811,710)	(811,710)	(812,218)	(812,327)
DIG on Fixed Assets - WKG		ONT	DVA19	-	-	-	-	-	-	-	-	-	-	-
Leases - Liabilities		ONT	DVA20	1,285,194	1,285,194	1,691,344	1,691,344	1,691,344	1,650,384	1,650,384	1,650,384	1,650,384	1,579,732	1,489,881

Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

Adjustment Description	Category	Adj Code	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
			1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024	
Leases Reclass - Liabilities	ONT	DVA21	-	-	-	-	-	-	-
RAR 86/90 Lease Expense Amortiz.	ONT	DVA26	(120,945)	(120,945)	(120,950)	(120,950)	(120,950)	(120,950)	(120,950)
MVG Right of Way	ONT	DVA35	-	-	-	-	-	-	-
Amortization - ComfurT Goodwill	ONT	DVA37	-	-	-	-	-	-	-
Deferred ITC - GGC	ONT	ITC01	-	-	-	-	-	-	-
Deferred ITC - UCG Non-Utility	ONT	ITC02	-	-	-	-	-	-	-
Deferred ITC - UCG	ONT	ITC03	-	-	-	-	-	-	-
Deferred ITC - MVG	ONT	ITC04	-	-	-	-	-	-	-
Regulatory Liability - GGC	ONT	ITC05	-	-	-	-	-	-	-
Capitalized Selling Expense	ONT	NTE03	-	-	-	-	-	-	-
Industrial Contracts	ONT	NTE05	-	-	-	-	-	-	-
Linder - Partnership Investment	ONT	NTE08	-	-	-	-	-	-	-
UNICAP Section 263A Costs	ONT	NTE11	1,316,143	1,316,143	1,316,197	1,316,197	1,316,197	1,316,197	1,316,197
481(a) UNICAP	ONT	NTE15	-	-	-	-	-	-	-
UNICAP - IRS Audit	ONT	NTE19	-	-	-	-	-	-	-
Allowance for Doubtful Accounts	ONT	ONT02	40,515	40,515	48,543	48,543	48,543	70,600	70,600
Clearing Account - Adjustment	ONT	ONT03	-	-	-	-	-	-	-
Charitable Contribution Carryover	Excl	ONT04	404	404	493	493	493	493	493
RAR CFWE 1990-1985	ONT	ONT06	-	-	-	-	-	-	-
Contributed Contracts	ONT	ONT09	-	-	-	-	-	-	-
Book Inc Recognized for MTM Acctg	ONT	ONT19	-	-	-	-	-	-	-
RAR Amortization of Non-Compete	ONT	ONT20	-	-	-	-	-	-	-
Union Gas - Non Compete	ONT	ONT21	282,299	282,299	282,311	282,311	282,311	282,311	282,311
Monarch - Non Compete	ONT	ONT22	-	-	-	-	-	-	-
Palmyra - Non Compete	ONT	ONT23	-	-	-	-	-	-	-
Duke - Purchased Contracts	ONT	ONT27	-	-	-	-	-	-	-
Prepayments	Excl	ONT31	(10,670)	(10,670)	1,070	1,070	1,070	4,993	4,993
Rate Case Accrual	ONT	ONT32	-	-	-	-	-	-	-
Research and Development Expenses	ONT	ONT33	-	-	-	-	-	-	-
Partnership Investment - Unitary	ONT	ONT37	-	-	-	-	-	-	-
IGS - Purchased Contracts	ONT	ONT39	-	-	-	-	-	-	-
Inventory Adjustment	ONT	ONT44	-	-	-	-	-	-	-
Stock Option Expense	ONT	ONT50	-	-	-	-	-	-	-
Prepayments - MVG	ONT	ONT51	-	-	-	-	-	-	-
WACOG to FIFO Adjustment	ONT	ONT52	593,707	593,707	(1,026,265)	(1,026,265)	(1,026,265)	(1,321,585)	(1,321,585)
Tax Free Interest - Temp	ONT	ONT58	-	-	-	-	-	-	-
Federal & State Tax Interest	ONT	ONT61	-	-	-	-	-	-	-
Prepayments - IRS Audits	ONT	ONT64	-	-	-	-	-	-	-
Impairment - Atmos Gathering LLC	ONT	ONT66	-	-	-	-	-	-	-
VA Charitable Contributions	ONT	ONT67	-	-	-	-	-	-	-
Reg Asset Benefit Accrual	ONT	ONT68	-	-	-	-	-	-	-
TX Rule 8.209 Reg Asset Deferral	ONT	ONT69	-	-	-	-	-	-	-
LA SIIP Reg Asset	ONT	ONT70	-	-	-	-	-	-	-
TN Reg Asset Deferral	ONT	ONT71	-	-	-	-	-	-	-
Intra Period Tax Allocation	ONT	OTH	10,854	10,854	30,379	30,379	30,379	42,981	42,981
Regulatory Asset - LGS Amortization	ONT	RGA01	-	-	-	-	-	-	-
AFUDC - Equity Gross-Up	ONT	RGA02	-	-	-	-	-	-	-
Regulatory Asset - Mid Tex	ONT	RGA03	-	-	-	-	-	-	-
Regulatory Asset - Winter Weather Event	ONT	RGA04	-	-	-	-	-	-	-
Regulatory Liability - Atmos 109	ONT	RGL01	-	-	-	-	-	-	-
Reg Liability – Pension & OPEB asset	ONT	RGL02	-	-	-	-	-	-	-
Regulatory Liability - GGC 109	ONT	RGL03	-	-	-	-	-	-	-
Regulatory Liability - UCGC 109	ONT	RGL04	-	-	-	-	-	-	-
Regulatory Liability - UCGC Rate	ONT	RGL05	-	-	-	-	-	-	-
Regulatory Liability - 2017 Gross Up	tcja	RGL06	-	-	-	-	-	-	-
Regulatory Liability - KY GUD	ONT	RGL07	-	-	-	-	-	-	-
Regulatory Liability - NSC	ONT	RGL08	(27,879)	(27,879)	8,242	8,242	8,242	8,242	8,242
Fuel Cell ITC	ONT	RGL09	-	-	-	-	-	-	-
Regulatory Liability - LA - Hurricane Ida	ONT	RGL11	-	-	-	-	-	-	-
Regulatory Liability - LA	ONT	ATTD_RGL_LA	-	-	-	-	-	-	-
CNG Tax Credit	ONT	ATTD_Alternative Fuel Credit_CNG	-	-	-	-	-	-	-



Atmos Energy Corporation, Inc.  
Accumulated Deferred Income Taxes

				Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024		Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2024	Fiscal 2025
Adjustment Description		Category	Adj Code	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024		6/30/2024	7/31/2024	8/31/2024	9/30/2024	3/31/2025
Other - Subtotal				1,295,343	1,295,343	(249,097)	(249,097)	(249,097)	(505,835)		(505,835)	(505,835)	(505,835)	(1,841,141)	(795,603)
FD-NOL Credit Carryforward - Non Reg	fed nol	TAX	TAX02NR	-	-	-	-	-	-		-	-	-	-	-
FD-NOL Credit Carryforward - Utility	fed nol	TAX	TAX02U	-	-	-	-	-	-		-	-	-	-	-
FD-NOL Credit Carryforward - Other	fed nol	TAX	TAX02OT	-	-	-	-	-	-		-	-	-	-	-
ST-State Net Operating Loss	state	TAX	TAX04	-	-	-	-	-	-		-	-	-	-	-
ST-State Bonus Depreciation	state	TAX	TAX05	-	-	-	-	-	-		-	-	-	-	-
FD-FAS 115 Adjustment		TAX	TAX06	-	-	-	-	-	-		-	-	-	-	-
FD-Treasury Lock Adjustment		TAX	TAX08	-	-	-	-	-	-		-	-	-	-	-
FD-Other		TAX	TAX10	-	-	-	-	-	-		-	-	-	-	-
FD-Federal Benefit on State Bonus	state	TAX	TAX11	-	-	-	-	-	-		-	-	-	-	-
FD-Federal Benefit on State NOL	state	TAX	TAX12	-	-	-	-	-	-		-	-	-	-	-
FD-Fuel Cell Credit		TAX	TAX15	-	-	-	-	-	-		-	-	-	-	-
State Texas Margin WWE DTL		TAX	SATTD_ONT10	-	-	-	-	-	-		-	-	-	-	-
ST-Other	state	TAX	TAX43	-	-	-	-	-	-		-	-	-	-	-
ST - Valuation Allow on State NOL	state	TAX	TAX13	-	-	-	-	-	-		-	-	-	-	-
FD - Valuation on Fed Tax of St NO		TAX	TAX14	-	-	-	-	-	-		-	-	-	-	-
FD-FAS 158 Measurement Date Change		TAX	TAX22	-	-	-	-	-	-		-	-	-	-	-
FD-AMT Minimum Tax Credit		TAX	TAX23	-	-	-	-	-	-		-	-	-	-	-
ST- Valuation Allow Enterprise Zone ITC	state	TAX	TAX37	-	-	-	-	-	-		-	-	-	-	-
FD- Valuation Allow Fed Tax Enterprise Zone ITC		TAX	TAX38	-	-	-	-	-	-		-	-	-	-	-
ST-Enterprise Zone ITC	state	TAX	TAX39	-	-	-	-	-	-		-	-	-	-	-
STATE NOL_FIN48	state	TAX	TAX44	-	-	-	-	-	-		-	-	-	-	-
STATE NOL_FIN48 TN	state	TAX	TAX45	-	-	-	-	-	-		-	-	-	-	-
FD-Treasury Lock Adjustment-Realized		TAX	TAX40	-	-	-	-	-	-		-	-	-	-	-
FD-Treasury Lock Adjustment-Unrealized		TAX	TAX41	-	-	-	-	-	-		-	-	-	-	-
FD -Federal Tax on Enterprise ITC		TAX	TAX42	-	-	-	-	-	-		-	-	-	-	-
Other Tax Effected Items - Subtotal				-	-	-	-	-	-		-	-	-	-	-
Total Accumulated Deferred Income Tax				(5,392,963)	(5,392,963)	(7,554,295)	(7,554,295)	(7,554,295)	(8,390,118)		(8,390,118)	(8,390,118)	(8,390,118)	(9,326,201)	(8,699,595)
				-	-	-	-	-	-						
				(5,392,963)	(5,392,963)	(7,554,295)	(7,554,295)	(7,554,295)	(8,390,118)		(8,390,118)	(8,390,118)	(8,390,118)	(9,326,201)	(8,699,595)

Excluded	1,276,245	1,406,221	1,557,854
State Only	-	-	-
TCJA Reg Liab Related	-	-	-
Fed NOL	-	-	-

**Case No. 2024-00276**  
**Atmos Energy Corporation, Kentucky Division**  
**Staff Post-Hearing DR Set No. 1**  
**Question No. 1-07**  
**Page 1 of 1**

**REQUEST:**

Refer to the Rebuttal Testimony of Joe Christian, Exhibit JTC-R-1. Refer also to the hearing testimony of Joe Christian, May 6, 2025 HVT, at 17:02:20.

- a. Provide all workpapers for Exhibit JTC-R-1 in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible. In the response, where applicable, include all formulas and sources for any information or calculations within the spreadsheets.
- b. State whether the analysis in Exhibit JTC-R-1 was actually completed based on the assumption of a capital structure consisting of 47.5 percent equity or whether that reference in the exhibit was a typo. If the analysis was completed based on an assumption of 47.5 percent equity, provide an updated analysis with all workpapers in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.
- c. Provide any rating agency documents relied upon for the analysis completed in Exhibit JTC-R-1.

**RESPONSE:**

- a. See Attachment 1. Note that the 'toggle' is set to match Exhibit JTC-R-1 in Cell C42 on the 'Assumptions' tab.
- b. The analysis was completed based on the assumption of a capital structure of 52.5 percent equity. Exhibit JTC-R-1 contained a typographical error, the label reversing the debt and equity ratios analyzed.
- c. See Attachment 2.

**ATTACHMENTS:**

Staff PH\_1-07\_Att1 - KY Rebuttal KFIs based on 2025 5 YR Plan\_975ROE.PDF

Staff PH\_1-07\_Att2 - WP JTC-R-1 S&P Report Corporate Methodology for Rebuttal.pdf

Respondent: Joe Christian

Standard & Poors Report Corporate Methodology  
Table 18 - Core ratios and Supplementary coverage ratios  
Cash Flow/Leverage Analysis Ratios--Medial Volatility

	--Core ratios--		--Supplementary coverage ratios--	
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)
Minimal	50+	less than 1.75	10.5+	14+
Modest	35-50	1.75-2.5	7.5-10.5	9-14
<b>Intermediate</b>	<b>23-35</b>	2.5-3.5	<b>5-7.5</b>	<b>5-9</b>
Significant	13-23	<b>3.5-4.5</b>	3-5	2.75-5
Aggressive	9-13	4.5-5.5	1.75-3	1.75-2.75
Highly leveraged	Less than 9	Greater than 5.5	Less than 1.75	Less than 1.75

	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)
<b>Actual / Projected Capital Structure</b>				
	Intermediate	Significant/ Intermediate	Significant/ Intermediate	Intermediate
Year 1 - Actual	17%	4.8	4.0	5.0
Year 2 - Actual	16%	4.9	3.8	4.8
Year 3 - Test Period	19%	4.3	4.5	5.5
Year 4	26%	3.3	5.8	6.8
Year 5	24%	3.5	5.2	6.2
Year 6	24%	3.5	4.9	5.9
Year 7	27%	3.2	5.2	6.2

**Hypothetical Capital Structure 47.5 D / 52.5 E**

	Significant	Significant / Aggressive	Significant	Significant
Year 1	13%	5.8	3.1	4.1
Year 2	11%	6.4	2.7	3.7
Year 3	13%	5.8	3.0	4.0
Year 4	18%	4.4	4.1	5.1
Year 5	17%	4.7	3.7	4.7
Year 6	17%	4.6	3.5	4.5
Year 7	19%	4.1	3.8	4.8

Standard & Poors, October 29, 2020:

Under our base-case scenario, we expect that Atmos will continue to effectively manage regulatory risk, resulting in **funds from operations (FFO) to debt** in the **22%-24%** range through 2022. The stable outlook reflects our expectation that the company will continue to execute on its strategy focused around safety and reliability of its regulated utility operations.

**Large equity issuances in 2018 and 2019 demonstrate commitment to credit quality**

We consider this balanced financing as positive for credit quality, as lower leverage benefits credit health.

Atmos Energy  
Case No. 2024-00276

2.91                      3.85                      4.99                      2.96                      1.85

Line No.	Description	2023Actual	2024Jun Proj	2025	2026	2027	2028	2029
	(a)	(b)	(c)	(e)	(f)	(g)	(h)	(i)
1	Rate Base	\$ 643,372	\$ 653,451	\$ 651,644	\$ 676,563	\$ 703,462	\$ 781,490	\$ 828,428
2	CAPEX	63,192	63,490	68,913	95,607	136,124	92,530	62,766
3	Revenue Requirement:							
4	O&M, as adjusted	\$ 32,542	\$ 34,132	\$ 34,817	\$ 35,805	\$ 36,409	\$ 37,722	\$ 39,119
5	D&A	21,871	22,923	23,649	24,858	27,284	31,269	33,982
6	Taxes Other	13,551	13,652	14,032	14,824	15,649	16,788	17,370
7	Excess Deferred Tax Adj	0	0	(9,095)	0	631	(126)	0
8	Interest - rate base	12,760	13,061	13,266	14,250	15,244	18,191	19,937
9	Net Income	31,750	32,248	32,159	33,388	34,716	38,567	40,883
10	Income Tax	10,555	10,944	10,864	11,247	11,714	12,974	13,722
11	Total Rev. Requirement	123,029	126,960	119,692	134,372	141,648	155,384	165,014
12	Income Statement							
13	Revenue	\$ 98,699	\$ 96,010	\$ 93,315	\$ 123,765	\$ 123,706	\$ 135,961	\$ 151,832
14	Less:							
15	O&M, as adjusted + cust deposit inter	\$ 32,542	\$ 34,132	\$ 25,723	\$ 35,805	\$ 37,041	\$ 37,596	\$ 39,119
16	D&A	21,871	22,923	23,649	24,858	27,284	31,269	33,982
17	Taxes Other	13,551	13,652	14,032	14,824	15,649	16,788	17,370
18	Interest	12,760	13,061	13,266	14,250	15,244	18,191	19,937
19	Excess Deferred Tax Adj							
20	Operating Income	17,975	12,242	16,647	34,028	28,488	32,117	41,423
21	Income Tax	4,485	3,054	(4,941)	8,490	7,739	7,887	10,335
22	Net Income	13,490	9,188	21,588	25,538	20,749	24,230	31,088
23	ROE - calculated	3.99%	2.68%	6.31%	7.19%	5.62%	5.91%	7.15%
24	FFO (Including Income Tax Deferral)	\$ 39,846	\$ 35,165	\$ 40,296	\$ 58,886	\$ 55,772	\$ 63,386	\$ 75,405
25	EBITDA	52,606	48,226	53,561	73,136	71,016	81,577	95,343
26	FFO/DEBT	13.0%	11.3%	13.0%	18.3%	16.7%	17.1%	19.2%
27	Debt to EBITDA (x)	5.8	6.4	5.8	4.4	4.7	4.6	4.1
28	EBITDA/Interest (x)	4.1	3.7	4.0	5.1	4.7	4.5	4.8
29	FFO/Interest (x)	3.1	2.7	3.0	4.1	3.7	3.5	3.8
30	Assumptions:							
31	Debt Ratio	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%
32	Equity Ratio	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%
33	Debt Rate	4.18%	4.21%	4.29%	4.43%	4.56%	4.90%	5.07%
34	ROE	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
35	Weighted cost of Capital	6.92%	6.93%	6.97%	7.04%	7.10%	7.26%	7.34%
36	Income Tax	24.95%	24.95%	24.95%	24.95%	24.95%	24.95%	24.95%
37	Income Tax Expansion	1.332445	1.332445	1.332445	1.332445	1.332445	1.332445	1.332445
38	Rate Base Financed by:	24.95%	24.95%	-29.68%	24.95%	27.17%	24.56%	24.95%
39	Debt	305,602	310,389	309,531	321,367	334,144	371,208	393,503
40	Equity	337,770	343,062	342,113	355,196	369,318	410,282	434,925

Atmos Energy  
Case No. 2024-00276  
Assumptions for KFI example for Rebuttal

INPUT

Toggle

Rebuttal

Using 2025 Five Year Plan at current authorized ROE

FY 2022 Budget Cost of Capital

	2023 Actual	2024 Jun Proj	2025	2026	2027	2028	2029
Capital Structure:							
Debt Cost	4.18%	4.21%	4.29%	4.43%	4.56%	4.90%	5.07%
Equity Cost	9.23%	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
Debt Component	39.12%	39.12%	39.12%	39.12%	39.12%	39.12%	39.12%
Equity Component	60.88%	60.88%	60.88%	60.88%	60.88%	60.88%	60.88%
Weighted cost of debt	1.63%	1.65%	1.68%	1.73%	1.78%	1.92%	1.98%
Weighted cost of equity	5.62%	5.94%	5.94%	5.94%	5.94%	5.94%	5.94%
Weighted Avg Cost of Capital	7.25%	7.58%	7.61%	7.67%	7.72%	7.85%	7.92%

Hypothetical Capital Structure - OAG Position

	2023 Actual	2024 Jun Proj	2025	2026	2027	2028	2029
Capital Structure:							
Debt Cost	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%
Equity Cost	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
Debt Component	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%
Equity Component	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%
Weighted cost of debt	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%
Weighted cost of equity	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%
Weighted Avg Cost of Capital	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%

Capital Structure utilized to derive KFIs

	2023 Actual	2024 Jun Proj	2025	2026	2027	2028	2029
Capital Structure:							
Debt Cost	4.18%	4.21%	4.29%	4.43%	4.56%	4.90%	5.07%
Equity Cost	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
Debt Component	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%	47.50%
Equity Component	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%	52.50%
Weighted cost of debt	1.98%	2.00%	2.04%	2.11%	2.17%	2.33%	2.41%
Weighted cost of equity	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%
Weighted Avg Cost of Capital	6.92%	6.93%	6.97%	7.04%	7.10%	7.26%	7.34%

FY 2020 Budget - Income Statement Items

Revenue	\$98,699	\$99,625	\$99,725	\$130,114	\$130,214	\$142,652	\$159,044
Excess Deferred Tax Adj	\$0	\$0	(\$9,095)	\$0	\$631	(\$126)	\$0

Set KFI to ACTUAL = 1

Set KFI to "HYPOTHETICAL" = 00

Statutory Tax Calculation

State Tax Rate	5.00%
Federal Tax Rate	21.00%
Composite Tax Rate	24.95%
Tax Gross-Up Rate	1.33245

- **Criteria | Corporates | General: Corporate Methodology**

Data de Publicação: 19-Nov-2013 20:23:32 BRT

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(**Editor's Note:** References to liquidity criteria and the article "[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#)," published Jan. 2, 2014, have been superseded by "[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#)," published Dec. 16, 2014. Master limited partnerships and general partnerships of master limited partnerships are now in scope of these criteria following publication of "[Methodology: Master Limited Partnerships And General Partnerships](#)," on Sept. 22, 2014.

We originally published this criteria article on Nov. 19, 2013. We're republishing this article following our periodic review completed on Oct. 17, 2014. We republished this article to add a section on frequently asked questions. The definitions of financial sponsor-owned companies and financial sponsors in this article have been superseded by those in "[The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities](#)," published April 29, 2014. We republished this article on Dec. 16, 2013, to make some adjustments to language. These adjustments have no impact on our ratings or the effective date of the criteria.)

1. Standard & Poor's Ratings Services is updating its criteria for rating corporate industrial companies and utilities. The criteria organize the analytical process according to a common framework and articulate the steps in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for a corporate entity.

2. This article is related to our criteria article "[Principles Of Credit Ratings](#)," which we published on Feb. 16, 2011.

#### **SUMMARY OF THE CRITERIA**

3. The criteria describe the methodology we use to determine the SACP and ICR for corporate industrial companies and utilities. Our assessment reflects these companies' business risk profiles, their financial risk profiles, and other factors that may modify the SACP outcome (see "[General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#)," published Oct. 1, 2010, for the definition of SACP). The criteria provide clarity on how we determine an issuer's SACP and ICR and are more specific in detailing the various factors of the analysis. The criteria also provide clear guidance on how we use these factors as part of determining an issuer's ICR. Standard & Poor's intends for these criteria to provide the market with a framework that clarifies our approach to fundamental analysis of corporate credit risks.

4. The business risk profile comprises the risk and return potential for a company in the markets in which it participates, the competitive climate within those markets (its industry risk), the country risks within those markets, and the competitive advantages and disadvantages the company has within those markets (its competitive position). The business risk profile affects the amount of financial risk that a company can bear at a given SACP level and constitutes the foundation for a company's expected economic success. We combine our assessments of industry risk, country risk, and competitive position to determine the assessment for a corporation's business risk profile.

5. The financial risk profile is the outcome of decisions that management makes in the context of its business risk profile and its financial risk tolerances. This includes decisions about the manner in which management seeks funding for the company and how it constructs its balance sheet. It also reflects the relationship of the cash flows the organization can achieve, given its business risk profile, to the company's financial obligations. The criteria use cash flow/leverage analysis to determine a corporate issuer's financial risk profile assessment.

6. We then combine an issuer's business risk profile assessment and its financial risk profile assessment to determine its anchor (see table 3). Additional rating factors can modify the anchor. These are: diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance. Comparable ratings analysis is the last analytical factor under the criteria to determine the final SACP on a company.

7. These criteria are complemented by industry-specific criteria called Key Credit Factors (KCFs). The KCFs describe the industry risk assessments associated with each sector and may identify sector-specific criteria that supersede certain sections of these criteria. As an example, the liquidity criteria state that the relevant KCF article may specify different standards than those stated within the liquidity criteria to evaluate companies that are part of exceptionally stable or volatile industries. The KCFs may also define sector-specific criteria for one or more of the factors in the analysis. For example, the analysis of a regulated utility's competitive position is different from the methodology to evaluate the competitive position of an industrial company. The regulated utility KCF will describe the criteria we use to evaluate those companies' competitive positions (see "[Key Credit Factors For The Regulated Utility Industry](#)," published Nov. 19, 2013).

#### **SCOPE OF THE CRITERIA**

8. This methodology applies to nonfinancial corporate issuer credit ratings globally. Please see "[Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt](#)," published Aug. 10, 2009, and "[2008 Corporate Criteria: Rating Each Issue](#)," published April 15, 2008, for further information on our methodology for determining issue ratings. This methodology does not apply to the following sectors, based on the unique characteristics of these sectors, which require either a different framework of analysis or substantial modifications to one or more factors of analysis: project finance entities, project developers, transportation equipment leasing, auto rentals, commodities trading, investment holding companies and companies that maximize their returns by buying and selling equity holdings over time, Japanese general trading companies, corporate securitizations, nonprofit and cooperative organizations, master limited partnerships, general partnerships of master limited partnerships, and other entities whose cash flows are primarily derived from partially owned equity holdings.

#### **IMPACT ON OUTSTANDING RATINGS**

9. We expect about 5% of corporate industrial companies and utilities ratings within the scope of the criteria to change. Of that number, we expect approximately 90% to receive a one-notch change, with the majority of the remainder receiving a two-notch change. We expect the ratio of upgrades to downgrades to be around 3:1.

#### **EFFECTIVE DATE AND TRANSITION**

10. These criteria are effective immediately on the date of publication. We intend to complete our review of all affected ratings within the next six months.

#### **METHODOLOGY**

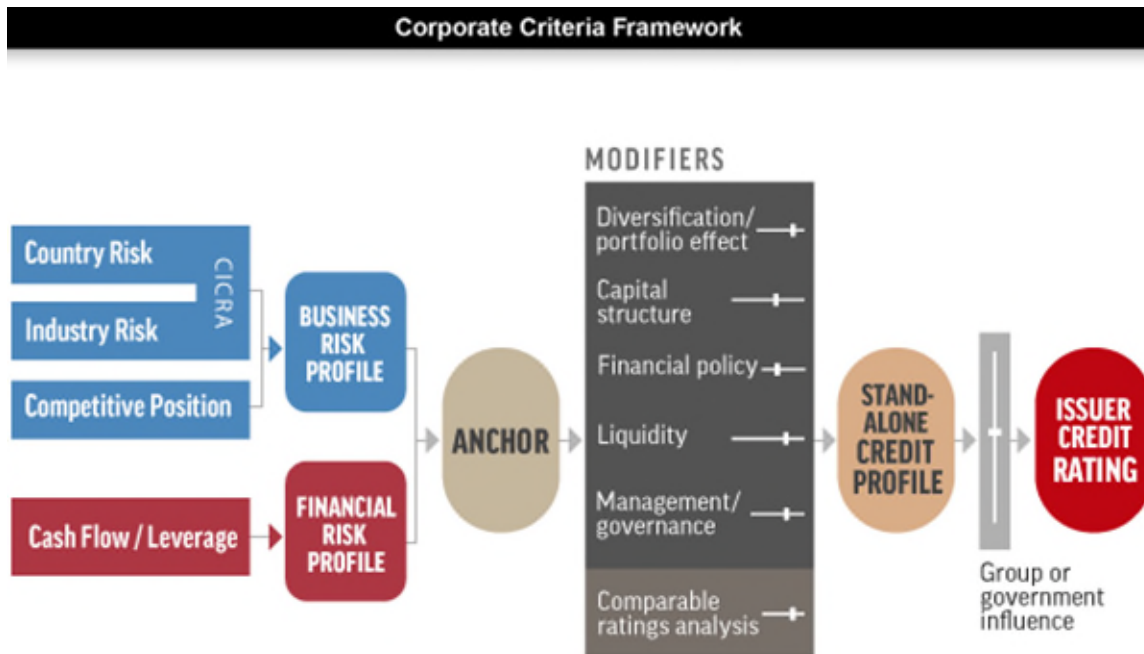
##### **A. Corporate Ratings Framework**

11. The corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several factors so that Standard & Poor's considers all salient issues. First we analyze the company's business risk profile, then evaluate its financial risk profile, then combine those to determine an issuer's anchor. We then analyze six factors that could potentially modify our anchor conclusion.

12. To determine the assessment for a corporate issuer's business risk profile, the criteria combine our assessments of industry risk, country risk, and competitive position. Cash flow/leverage analysis determines a company's financial risk profile assessment. The analysis then combines the corporate issuer's business risk profile assessment and its financial risk profile assessment to determine its anchor. In general, the analysis weighs the business risk profile more heavily for investment-grade anchors, while the financial risk profile carries more weight for speculative-grade anchors.

13. After we determine the anchor, we use additional factors to modify the anchor. These factors are: diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance. The assessment of each factor can raise or lower the anchor by one or more notches--or have no effect. These conclusions take the form of assessments and descriptors for each factor that determine the number of notches to apply to the anchor.

14. The last analytical factor the criteria call for is comparable ratings analysis, which may raise or lower the anchor by one notch based on a holistic view of the company's credit characteristics.



15. The three analytic factors within the business risk profile generally are a blend of qualitative assessments and quantitative information. Qualitative assessments distinguish risk factors, such as a company's competitive advantages, that we use to assess its competitive position. Quantitative information includes, for example, historical cyclicity of revenues and profits that we review when assessing industry risk. It can also include the volatility and level of profitability we consider in order to assess a company's competitive position. The assessments for business risk profile are: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; and 6, vulnerable.

16. In assessing cash flow/leverage to determine the financial risk profile, the analysis focuses on quantitative measures. The assessments for financial risk profile are: 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; and 6, highly leveraged.

17. The ICR results from the combination of the SACP and the support framework, which determines the extent of the difference between the SACP and the ICR, if any, for group or government influence. Extraordinary influence is then captured in the ICR. Please see "[Group Rating Methodology](#)," published Nov. 19, 2013, and "[Rating Government-Related Entities: Methodology And Assumptions](#)," published Dec. 9, 2010, for our methodology on group and government influence.

18. Ongoing support or negative influence from a government (for government-related entities), or from a group, is factored into the SACP (see "SACP criteria"). While such ongoing support/negative influence does not affect the industry or country risk assessment, it can affect any other factor in business or financial risk. For example, such support or negative influence can affect: national industry analysis, other elements of competitive position, financial risk profile, the liquidity assessment, and comparable ratings analysis.

19. The application of these criteria will result in an SACP that could then be constrained by the relevant sovereign rating and transfer and convertibility (T&C) assessment affecting the entity when determining the ICR. In order for the final ICR to be higher than the applicable sovereign rating or T&C assessment, the entity will have to meet the conditions established in "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," published Nov. 19, 2013.

#### 1. Determining the business risk profile assessment

20. Under the criteria, the combined assessments for country risk, industry risk, and competitive position determine a company's business risk profile assessment. A company's strengths or weaknesses in the marketplace are vital to its credit assessment. These strengths and weaknesses determine an issuer's capacity to generate cash flows in order to service its obligations in a timely fashion.

21. Industry risk, an integral part of the credit analysis, addresses the relative health and stability of the markets in which a company operates. The range of industry risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. The treatment of industry risk is in section B.

22. Country risk addresses the economic risk, institutional and governance effectiveness risk, financial system risk, and payment culture or rule of law risk in the countries in which a company operates. The range of country risk assessments is: 1, very low risk; 2, low risk; 3, intermediate risk; 4, moderately high risk; 5, high risk; and 6, very high risk. The treatment of country risk is in section C.

23. The evaluation of an enterprise's competitive position identifies entities that are best positioned to take advantage of key industry drivers or to mitigate associated risks more effectively--and achieve a competitive advantage and a stronger business risk profile than that of entities that lack a strong value proposition or are more vulnerable to industry risks. The range of competitive position assessments is: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; and 6, vulnerable. The full treatment of competitive position is in section D.

24. The combined assessment for country risk and industry risk is known as the issuer's Corporate Industry and Country Risk Assessment (CICRA). Table 1 shows how to determine the combined assessment for country risk and industry risk.

**Table 1**

**Determining The CICRA**

Industry risk assessment	--Country risk assessment--					
	1 (very low risk)	2 (low risk)	3 (intermediate risk)	4 (moderately high risk)	5 (high risk)	6 (very high risk)
1 (very low risk)	1	1	1	2	4	5
2 (low risk)	2	2	2	3	4	5
3 (intermediate risk)	3	3	3	3	4	6
4 (moderately high risk)	4	4	4	4	5	6
5 (high risk)	5	5	5	5	5	6
6 (very high risk)	6	6	6	6	6	6

25. The CICRA is combined with a company's competitive position assessment in order to create the issuer's business risk profile assessment. Table 2 shows how we combine these assessments.

**Table 2**

**Determining The Business Risk Profile Assessment**

Competitive position assessment	--CICRA--					
	1	2	3	4	5	6
1 (excellent)	1	1	1	2	3*	5
2 (strong)	1	2	2	3	4	5
3 (satisfactory)	2	3	3	3	4	6
4 (fair)	3	4	4	4	5	6
5 (weak)	4	5	5	5	5	6
6 (vulnerable)	5	6	6	6	6	6

\*See paragraph 26.

26. A small number of companies with a CICRA of 5 may be assigned a business risk profile assessment of 2 if all of the following conditions are met:

- The company's competitive position assessment is 1.
- The company's country risk assessment is no riskier than 3.
- The company produces significantly better-than-average industry profitability, as measured by the level and volatility of profits.
- The company's competitive position within its sector transcends its industry risks due to unique competitive advantages with its customers, strong operating efficiencies not enjoyed by the large majority of the industry, or scale/scope/diversity advantages that are well beyond the large majority of the industry.

27. For issuers with multiple business lines, the business risk profile assessment is based on our assessment of each of the factors--country risk, industry risk, and competitive position--as follows:

- Country risk: We use the weighted average of the country risk assessments for the company across all countries where companies generate more than 5% of sales or EBITDA, or where more than 5% of fixed assets are located.



- Industry risk: We use the weighted average of the industry risk assessments for all business lines representing more than 20% of the company's forecasted earnings, revenues or fixed assets, or other appropriate financial measures if earnings, revenue, or fixed assets do not accurately reflect the exposure to an industry.
- Competitive position: We assess all business lines identified above for the components competitive advantage, scope/scale/diversity, and operating efficiency (see section D). They are then blended using a weighted average of revenues, earnings, or assets to form the preliminary competitive position assessment. The level of profitability and volatility of profitability are then assessed based on the consolidated financials for the enterprise. The preliminary competitive position assessment is then blended with the profitability assessment, as per section D.5, to assess competitive position for the enterprise.

## 2. Determining the financial risk profile assessment

28. Under the criteria, cash flow/leverage analysis is the foundation for assessing a company's financial risk profile. The range of assessments for a company's cash flow/leverage is 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; and 6, highly leveraged. The full treatment of cash flow/leverage analysis is the subject of section E.

## 3. Merger of financial risk profile and business risk profile assessments

29. An issuer's business risk profile assessment and its financial risk profile assessment are combined to determine its anchor (see table 3). If we view an issuer's capital structure as unsustainable or if its obligations are currently vulnerable to nonpayment, and if the obligor is dependent upon favorable business, financial, and economic conditions to meet its commitments on its obligations, then we will determine the issuer's SACP using "[Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#)," published Oct. 1, 2012. If the issuer meets the conditions for assigning 'CCC+', 'CCC', 'CCC-', and 'CC' ratings, we will not apply Table 3.

Table 3

### Combining The Business And Financial Risk Profiles To Determine The Anchor

#### --Financial risk profile--

Business risk profile	1 (minimal)	2 (modest)	3 (intermediate)	4 (significant)	5 (aggressive)	6 (highly leveraged)
1 (excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

30. When two anchor outcomes are listed for a given combination of business risk profile assessment and financial risk profile assessment, an issuer's anchor is determined as follows:

- When a company's financial risk profile is 4 or stronger (meaning, 1-4), its anchor is based on the comparative strength of its business risk profile. We consider our assessment of the business risk profile for corporate issuers to be points along a possible range. Consequently, each of these assessments that ultimately generate the business risk profile for a specific issuer can be at the upper or lower end of such a range. Issuers with stronger business risk profiles for the range of anchor outcomes will be assigned the higher anchor. Those with a weaker business risk profile for the range of anchor outcomes will be assigned the lower anchor.
- When a company's financial risk profile is 5 or 6, its anchor is based on the comparative strength of its financial risk profile. Issuers with stronger cash flow/leverage ratios for the range of anchor outcomes will be assigned the higher anchor. Issuers with weaker cash flow/leverage ratios for the range of anchor outcomes will be assigned the lower anchor. For example, a company with a business risk profile of (1) excellent and a financial risk profile of (6) highly leveraged would generally be assigned an anchor of 'bb+' if its ratio of debt to EBITDA was 8x or greater and there were no offsetting factors to such a high level of leverage.

## 4. Building on the anchor

31. The analysis of diversification/portfolio effect, capital structure, financial policy, liquidity, and management and governance may raise or lower a company's anchor. The assessment of each modifier can raise or lower the anchor by one or more notches—or have no effect in some cases (see tables 4 and 5). We express these conclusions using specific assessments and descriptors that determine the number of notches to apply to the anchor. However, this notching in aggregate can't lower an issuer's anchor below 'b-' (see "[Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#)," published Oct. 1, 2012, for the methodology we use to assign 'CCC' and 'CC' category SACP and ICRs to issuers).

32. The analysis of the modifier diversification/portfolio effect identifies the benefits of diversification across business lines. The diversification/portfolio effect assessments are 1, significant diversification; 2, moderate diversification; and 3, neutral. The impact of this factor on an issuer's anchor is based on the company's business risk profile assessment and is described in Table 4. Multiple earnings streams (which are evaluated within a firm's business risk profile) that are less-than-perfectly correlated reduce the risk of default of an issuer (see Appendix D). We determine the impact of this factor based on the business risk profile assessment because the benefits of diversification are significantly reduced with poor business prospects. The full treatment of diversification/portfolio effect analysis is the subject of section F.

Table 4

### Modifier Step 1: Impact Of Diversification/Portfolio Effect On The Anchor

#### --Business risk profile assessment--

Diversification/portfolio effect	1 (excellent)	2 (strong)	3 (satisfactory)	4 (fair)	5 (weak)	6 (vulnerable)
1 (significant diversification)	+2 notches	+2 notches	+2 notches	+1 notch	+1 notch	0 notches
2 (moderate diversification)	+1 notch	+1 notch	+1 notch	+1 notch	0 notches	0 notches
3 (neutral)	0 notches	0 notches	0 notches	0 notches	0 notches	0 notches

33. After we adjust for the diversification/portfolio effect, we determine the impact of the other modifiers: capital structure, financial policy, liquidity, and management and governance. We apply these four modifiers in the order listed in Table 5. As we go down the list, a modifier may (or may not) change the anchor to a new range (one of the ranges in the four right-hand columns in the table). We'll choose the appropriate value from the new range, or column, to determine the next modifier's effect on the anchor. And so on, until we get to the last modifier on the list—management and governance. For example, let's assume that the anchor, after adjustment for diversification/portfolio effect but before adjusting for the other modifiers, is 'a'. If the capital structure assessment is very negative, the indicated anchor drops two notches, to 'bbb+'. So, to determine the impact of the next modifier—financial policy—we go to the column 'bbb+' to 'bbb-' and find the appropriate assessment—in this theoretical example, positive. Applying that assessment moves the anchor up one notch, to the 'a-' and higher' category. In our example, liquidity is strong, so the impact is zero notches and the anchor remains unchanged. Management and governance is satisfactory, and thus the anchor remains 'a-' (see chart following table 5).

**Table 5**

**Modifier Step 2: Impact Of Remaining Modifier Factors On The Anchor**

--Anchor range--

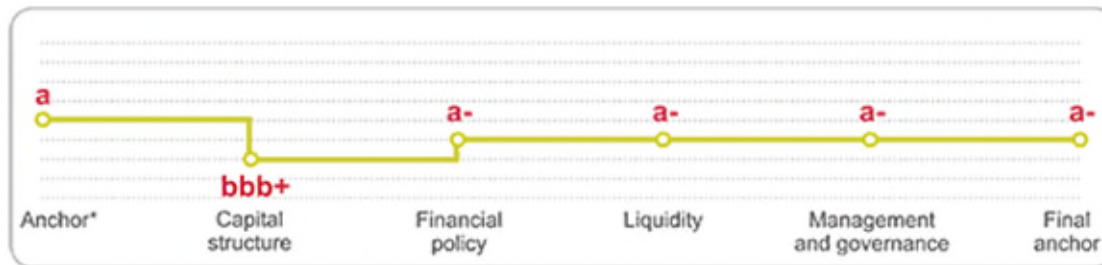
	'a-' and higher	'bbb+' to 'bbb-'	'bb+' to 'bb-'	'b+' and lower
<b>Factor/Assessment</b>				
<b>Capital structure (see section G)</b>				
1 (Very positive)	2 notches	2 notches	2 notches	2 notches
2 (Positive)	1 notch	1 notch	1 notch	1 notch
3 (Neutral)	0 notches	0 notches	0 notches	0 notches
4 (Negative)	-1 notch	-1 notch	-1 notch	-1 notch
5 (Very negative)	-2 or more notches	-2 or more notches	-2 or more notches	-2 notches
<b>Financial policy (FP; see section H)</b>				
1 (Positive)	+1 notch if M&G is at least satisfactory	+1 notch if M&G is at least satisfactory	+1 notch if liquidity is at least adequate and M&G is at least satisfactory	+1 notch if liquidity is at least adequate and M&G is at least satisfactory
2 (Neutral)	0 notches	0 notches	0 notches	0 notches
3 (Negative)	-1 to -3 notches(1)	-1 to -3 notches(1)	-1 to -2 notches(1)	-1 notch
4 (FS-4, FS-5, FS-6, FS-6 [minus])	N/A(2)	N/A(2)	N/A(2)	N/A(2)
<b>Liquidity (see section I)</b>				
1 (Exceptional)	0 notches	0 notches	0 notches	+1 notch if FP is positive, neutral, FS-4, or FS-5 (3)
2 (Strong)	0 notches	0 notches	0 notches	+1 notch if FP is positive, neutral, FS-4, or FS-5 (3)
3 (Adequate)	0 notches	0 notches	0 notches	0 notches
4 (Less than adequate [4])	N/A	N/A	-1 notch(5)	0 notches
5 (Weak)	N/A	N/A	N/A	'b-' cap on SACP

**Management and governance  
(M&G; see section J)**

1 (Strong)	0 notches	0 notches	0, +1 notches(6)	0, +1 notches(6)
2 (Satisfactory)	0 notches	0 notches	0 notches	0 notches
3 (Fair)	-1 notch	0 notches	0 notches	0 notches
4 (Weak)	-2 or more notches(7)	-2 or more notches(7)	-1 or more notches(7)	-1 or more notches(7)

(1) Number of notches depends on potential incremental leverage. (2) See "Financial Policy," section H.2. (3) Additional notch applies only if we expect liquidity to remain exceptional or strong. (4) See "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Nov. 19, 2013. SACP is capped at 'bb+'. (5) If issuer SACP is 'bb+' due to cap, there is no further notching. (6) This adjustment is one notch if we have not already captured benefits of strong management and governance in the analysis of the issuer's competitive position. (7) Number of notches depends upon the degree of negative effect to the enterprise's risk profile.

## Example: How Remaining Modifiers Can Change The Anchor



\*After adjusting for diversification/portfolio effect. See paragraph 33.

34. Our analysis of a firm's capital structure assesses risks in the firm's capital structure that may not arise in the review of its cash flow/leverage. These risks include the currency risk of debt, debt maturity profile, interest rate risk of debt, and an investments subfactor. We assess a corporate issuer's capital structure on a scale of 1, very positive; 2, positive; 3, neutral; 4, negative; and 5, very negative. The full treatment of capital structure is the subject of section G.

35. Financial policy serves to refine the view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage, capital structure, and liquidity analyses. Those assumptions do not always reflect or adequately capture the long-term risks of a firm's financial policy. The financial policy assessment is, therefore, a measure of the degree to which owner/managerial decision-making can affect the predictability of a company's financial risk profile. We assess financial policy as 1) positive, 2) neutral, 3) negative, or as being owned by a financial sponsor. We further identify financial sponsor-owned companies as "FS-4", "FS-5", "FS-6", or "FS-6 (minus)." The full treatment of financial policy analysis is the subject of section H.

36. Our assessment of liquidity focuses on the monetary flows--the sources and uses of cash--that are the key indicators of a company's liquidity cushion. The analysis also assesses the potential for a company to breach covenant tests tied to declines in earnings before interest, taxes, depreciation, and amortization (EBITDA). The methodology incorporates a qualitative analysis that addresses such factors as the ability to absorb high-impact, low-probability events, the nature of bank relationships, the level of standing in credit markets, and the degree of prudence of the company's financial risk management. The liquidity assessments are 1, exceptional; 2, strong; 3, adequate; 4, less than adequate; and 5, weak. An SACP is capped at 'bb+' for issuers whose liquidity is less than adequate and 'b-' for issuers whose liquidity is weak, regardless of the assessment of any modifiers or comparable ratings analysis. (For the complete methodology on assessing corporate issuers' liquidity, see "[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#)," published Nov. 19, 2013.)

37. The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the company's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. The range of management and governance assessments is: 1, strong; 2, satisfactory; 3, fair; and 4, weak. Typically, investment-grade anchor outcomes reflect strong or satisfactory management and governance, so there is no incremental benefit. Alternatively, a fair or weak assessment of management and governance can lead to a lower anchor. Also, a strong assessment for management and governance for a weaker entity is viewed as a favorable factor, under the criteria, and can have a positive impact on the final SACP outcome. For the full treatment of management and governance, see "[Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#)," published Nov. 13, 2012.

### 5. Comparable ratings analysis

38. The anchor, after adjusting for the modifiers, could change one notch up or down in order to arrive at an issuer's SACP based on our comparable ratings analysis, which is a holistic review of a company's stand-alone credit risk profile, in which we evaluate an issuer's credit characteristics in aggregate. A positive assessment leads to a one-notch improvement, a negative assessment leads to a one-notch reduction, and a neutral assessment indicates no change to the anchor. The application of comparable ratings analysis reflects the need to 'fine-tune' ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional.

#### B. Industry Risk

39. The analysis of industry risk addresses the major factors that Standard & Poor's believes affect the risks that entities face in their respective industries. (See "[Methodology: Industry Risk](#)," published Nov. 19, 2013.)

#### C. Country Risk

40. The analysis of country risk addresses the major factors that Standard & Poor's believes affect the country where entities operate. Country risks, which include economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks, influence overall credit risks for every rated corporate entity. (See "[Country Risk Assessment Methodology And Assumptions](#)," published Nov. 19, 2013.)

#### 1. Assessing country risk for corporate issuers

41. The following paragraphs explain how the criteria determine the country risk assessment for a corporate entity. Once it's determined, we combine the country risk assessment with the issuer's industry risk assessment to calculate the issuer's CICRA (see section A, table 1). The CICRA is one of the factors of the issuer's business risk profile. If an issuer has very low to intermediate exposure to country risk, as represented by a country risk assessment of 1, 2, or 3, country risk is neutral to an issuer's CICRA. But if an issuer has moderately high to very high exposure to country risk, as represented by a country risk assessment of 4, 5, or 6, the issuer's CICRA could be influenced by its country risk assessment.

42. Corporate entities operating within a single country will receive a country risk assessment for that jurisdiction. For entities with exposure to more than one country, the criteria prospectively measure the proportion of exposure to each country based on forecasted EBITDA, revenues, or fixed assets, or other appropriate financial measures if EBITDA, revenue, or fixed assets do not accurately reflect the exposure to that jurisdiction.

43. Arriving at a company's blended country risk assessment involves multiplying its weighted-average exposures for each country by each country's risk assessment and then adding those numbers. For the weighted-average calculation, the criteria consider countries where the company generates more than 5% of its sales or where more than 5% of its fixed assets are located, and all weightings are rounded to the nearest 5% before averaging. We round the assessment to the nearest integer, so a weighted assessment of 2.2 rounds to 2, and a weighted assessment of 2.6 rounds to 3 (see table 6).

Table 6

##### Hypothetical Example Of Weighted-Average Country Risk For A Corporate Entity

Country	Weighting (% of business*)	Country risk§	Weighted country risk
Country A	45	1	0.45
Country B	20	2	0.4
Country C	15	1	0.15
Country D	10	4	0.4
Country E	10	2	0.2
Weighted-average country risk assessment (rounded to the nearest whole number)			
	--	--	2

\*Using EBITDA, revenues, fixed assets, or other financial measures as appropriate. §On a scale from 1-6, lowest to highest risk.

44. A weak link approach, which helps us calculate a blended country risk assessment for companies with exposure to more than one country, works as follows: If fixed assets are based in a higher-risk country but products are exported to a lower-risk country, the company's exposure would be to the higher-risk country. Similarly, if fixed assets are based in a lower-risk country but export revenues are generated from a higher-risk country and cannot be easily redirected elsewhere, we measure exposure to the higher-risk country. If a company's supplier is located in a higher-risk country, and its supply needs cannot be easily redirected elsewhere, we measure exposure to the higher-risk country. Conversely, if the supply chain can be re-sourced easily to another country, we would not measure exposure to the higher risk country.

45. Country risk can be mitigated for a company located in a single jurisdiction in the following narrow case. For a company that exports the majority of its products overseas and has no direct exposure to a country's banking system that would affect its funding, debt servicing, liquidity, or ability to transfer payments from or to its key counterparties, we could reduce the country risk assessment by one category (e.g., 5 to 4) to determine the adjusted country risk assessment. This would only apply for countries where we considered the financial system risk subfactor a constraint on the overall country risk assessment for that country. For such a company, other country risks are not mitigated: Economic risk still applies, albeit less of a risk than for a company that sells domestically (potential currency volatility remains a risk for exporters); institutional and governance effectiveness risk still applies (political risk may place assets at risk); and payment culture/rule of law risk still applies (legal risks may place assets and cross-border contracts at risk).

46. Companies will often disclose aggregated information for blocks of countries, rather than disclosing individual country information. If the information we need to estimate exposure for all countries is not available, we use regional risk assessments. Regional risk assessments are calculated as averages of the unadjusted country risk assessments, weighted by gross domestic product of each country in a defined region. The criteria assess regional risk on a 1-6 scale (strongest to weakest). Please see Appendix A, Table 26, which lists the constituent countries of the regions.

47. If an issuer does not disclose its country-level exposure or regional-level exposure, individual country risk exposures or regional exposures will be estimated.

#### 2. Adjusting the country risk assessment for diversity

48. We will adjust the country risk assessment for a company that operates in multiple jurisdictions and demonstrates a high degree of diversity of country risk exposures. As a result of this diversification, the company could have less exposure to country risk than the rounded weighted average of its exposures might indicate. Accordingly, the country risk assessment for a corporate entity could be adjusted if an issuer meets the conditions outlined in paragraph 49.

49. The preliminary country risk assessment is raised by one category to reflect diversity if all of the following four conditions are met:

- If the company's head office, as defined in paragraph 51, is located in a country with a risk assessment stronger than the preliminary country risk assessment;
- If no country, with a country risk assessment equal to or weaker than the company's preliminary country risk assessment, represents or is expected to represent more than 20% of revenues, EBITDA, fixed assets, or other appropriate financial measures;

- If the company is primarily funded at the holding level, or through a finance subsidiary in a similar or stronger country risk environment than the holding company, or if any local funding could be very rapidly substituted at the holding level; and
- If the company's industry risk assessment is '4' or stronger.

50. The country risk assessment for companies that have 75% or more exposure to one jurisdiction cannot be improved and will, in most instances, equal the country risk assessment of that jurisdiction. But the country risk assessment for companies that have 75% or more exposure to one jurisdiction can be weakened if the balance of exposure is to higher risk jurisdictions.

51. We consider the location of a corporate head office relevant to overall risk exposure because it influences the perception of a company and its reputation--and can affect the company's access to capital. We determine the location of the head office on the basis of 'de facto' head office operations rather than just considering the jurisdiction of incorporation or stock market listing for public companies. De facto head office operations refers to the country where executive management and centralized high-level corporate activities occur, including strategic planning and capital raising. If such activities occur in different countries, we take the weakest country risk assessment applicable for the countries in which those activities take place.

#### **D. Competitive Position**

52. Competitive position encompasses company-specific factors that can add to, or partly offset, industry risk and country risk--the two other major factors of a company's business risk profile.

53. Competitive position takes into account a company's: 1) competitive advantage, 2) scale, scope, and diversity, 3) operating efficiency, and 4) profitability. A company's strengths and weaknesses on the first three components shape its competitiveness in the marketplace and the sustainability or vulnerability of its revenues and profit. Profitability can either confirm our initial assessment of competitive position or modify it, positively or negatively. A stronger-than-industry-average set of competitive position characteristics will strengthen a company's business risk profile. Conversely, a weaker-than-industry-average set of competitive position characteristics will weaken a company's business risk profile.

54. These criteria describe how we develop a competitive position assessment. They provide guidance on how we assess each component based on a number of subfactors. The criteria define the weighting rules applied to derive a preliminary competitive position assessment. And they outline how this preliminary assessment can be maintained, raised, or lowered based on a company's profitability. Standard & Poor's competitive position analysis is both qualitative and quantitative.

##### **1. The components of competitive position**

55. A company's competitive position assessment can be: 1, excellent; 2, strong; 3, satisfactory; 4, fair; 5, weak; or 6, vulnerable.

56. The analysis of competitive position includes a review of:

- Competitive advantage;
- Scale, scope, and diversity;
- Operating efficiency; and
- Profitability.

57. We follow four steps to arrive at the competitive position assessment. First, we separately assess competitive advantage; scale, scope, and diversity; and operating efficiency (excluding any benefits or risks already captured in the issuer's CICRA assessment). Second, we apply weighting factors to these three components to derive a weighted-average assessment that translates into a preliminary competitive position assessment. Third, we assess profitability. Finally, we combine the preliminary competitive position assessment and the profitability assessment to determine the final competitive position assessment. Profitability can confirm, or influence positively or negatively, the competitive position assessment.

58. We assess the relative strength of each of the first three components by reviewing a variety of subfactors (see table 7). When quantitative metrics are relevant and available, we use them to evaluate these subfactors. However, our overall assessment of each component is qualitative. Our evaluation is forward-looking; we use historical data only to the extent that they provide insight into future trends.

59. We evaluate profitability by assessing two subcomponents: level of profitability (measured by historical and projected nominal levels of return on capital, EBITDA margin, and/or sector-specific metrics) and volatility of profitability (measured by historically observed and expected fluctuations in EBITDA, return on capital, EBITDA margin, or sector specific metrics). We assess both subcomponents in the context of the company's industry.

Table 7

### Competitive Position Components And Subfactors

Component	Explanation	Subfactors
1. Competitive advantage (see Appendix B, section 1)	The strategic positioning and attractiveness to customers of a company's products or services, and the fragility or sustainability of its business model	<ul style="list-style-type: none"> <li>• Strategy</li> <li>• Differentiation/uniqueness/product positioning/bundling</li> <li>• Brand reputation and marketing</li> <li>• Product and/or service quality</li> <li>• Barriers to entry and customers' switching costs</li> <li>• Technological advantage and capabilities and vulnerability to/ability to drive technological displacement</li> <li>• Asset base characteristics</li> </ul>
2. Scale, scope, and diversity (see Appendix B, section 2)	The concentration or diversification of business activities	<ul style="list-style-type: none"> <li>• Diversity of products or services</li> <li>• Geographic diversity</li> <li>• Volumes, size of markets and revenues, and market share</li> <li>• Maturity of products or services</li> </ul>
3. Operating efficiency (see Appendix B, section 3)	The quality and flexibility of a company's asset base and its cost management and structure	<ul style="list-style-type: none"> <li>• Cost structure</li> <li>• Manufacturing processes</li> <li>• Working capital management</li> <li>• Technology</li> </ul>
4. Profitability		<ul style="list-style-type: none"> <li>• Level of profitability (historical and projected return on capital, EBITDA margin, and/or sector-relevant measure)</li> <li>• Volatility of profitability</li> </ul>

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### 2. Assessing competitive advantage, scale, scope, and diversity, and operating efficiency

60. We assess competitive advantage; scale, scope, and diversity; and operating efficiency as: 1, strong; 2, strong/adequate; 3, adequate; 4, adequate/weak; or 5, weak. Tables 8, 9, and 10 provide guidance for assessing each component.

61. In assessing the components' relative strength, we place significant emphasis on comparative analysis. Peer comparisons provide context for evaluating the subfactors and the resulting component assessment. We review company-specific characteristics in the context of the company's industry, not just its narrower subsector. (See list of industries and subsectors in Appendix B, table 27.) For example, when evaluating an airline, we will benchmark the assessment against peers in the broader transportation-cyclical industry (including the marine and trucking subsectors), and not just against other airlines. Likewise, we will compare a home furnishing manufacturer with other companies in the consumer durables industry, including makers of appliances or leisure products. We might occasionally extend the comparison to other industries if, for instance, a company's business lines cross several industries, or if there are a limited number of rated peers in an industry, subsector, or region.

62. An assessment of strong means that the company's strengths on that component outweigh its weaknesses, and that the combination of relevant subfactors results in lower-than-average business risk in the industry. An assessment of adequate means that the company's strengths and weaknesses with respect to that component are balanced and that the relevant subfactors add up to average business risk in the industry. A weak assessment means that the company's weaknesses on that component override any strengths and that its subfactors, in total, reveal higher-than-average business risk in the industry.

63. Where a component is not clearly strong or adequate, we may assess it as strong/adequate. A component that is not clearly adequate or weak may end up as adequate/weak.

64. Although we review each subfactor, we don't assess each individually--and we seek to understand how they may reinforce or weaken each other. A component's assessment combines the relative strengths and importance of its subfactors. For any company, one or more subfactors can be unusually important--even factors that aren't common in the industry. Industry KCF articles identify subfactors that are consistently more important, or happen not to be relevant, in a given industry.

65. Not all subfactors may be equally important, and a single one's strength or weakness may outweigh all the others. For example, if notwithstanding a track record of successful product launches and its strong brand equity, a company's strategy doesn't appear adaptable, in our view, to changing competitive dynamics in the industry, we will likely not assess its competitive advantage as strong. Similarly, if its revenues came disproportionately from a narrow product line, we might view this as compounding its risk of exposure to a small geographic market and, thus, assess its scale, scope, and diversity component as weak.

66. From time to time companies will, as a result of shifting industry dynamics or strategies, expand or shrink their product or service lineups, alter their cost structures, encounter new competition, or have to adapt to new regulatory environments. In such instances, we will reevaluate all relevant subfactors (and component assessments).



Table 8

## Competitive Advantage Assessment

Qualifier	What it means	Guidance
Strong	<ul style="list-style-type: none"> <li>The company has a major competitive advantage due to one or a combination of factors that supports revenue and profit growth, combined with lower-than-average volatility of profits.</li> <li>There are strong prospects that the company can sustain this advantage over the long term.</li> <li>This should enable the company to withstand economic downturns and competitive and technological threats better than its competitors can.</li> <li>Any weaknesses in one or more subfactors are more than offset by strengths in other subfactors that produce sustainable and profitable revenue growth.</li> </ul>	<ul style="list-style-type: none"> <li>The company's business strategy is highly consistent with, and adaptable to, industry trends and conditions and supports its leadership in the marketplace.</li> <li>It consistently develops and markets well-differentiated products or services, aligns products with market demand, and enhances the attractiveness or uniqueness of its value proposition through bundling.</li> <li>Its superior track record of product development, service quality, and customer satisfaction and retention support its ability to maintain or improve its market share.</li> <li>Its products or services command a clear price premium relative to its competitors' thanks to its brand equity, technological leadership, or quality of service; it is able to sustain this advantage with innovation and effective marketing.</li> <li>It benefits from barriers to entry from regulation, market characteristics, or intrinsic benefits (such as patents, technology, or customer relationships) that effectively reduce the threat of new competition.</li> <li>It has demonstrated a commitment and ability to effectively reinvest in its asset base, as evidenced by a continuous pipeline of new products and/or improvement in key capabilities, such as employee retention, customer care, distribution, and supplier relations. These tangible and intangible assets support long term prospects of sustainable and profitable growth.</li> </ul>
Adequate	<ul style="list-style-type: none"> <li>The company has some competitive advantages, but not so large as to create a superior business model or durable benefit compared to its peers'.</li> <li>It has some but not all drivers of competitiveness. Certain factors support the business' long-term viability and should result in average profitability and average profit volatility during recessions or periods of increased competition. However, these drivers are partially offset by the company's disadvantages or lack of sustainability of other factors.</li> </ul>	<ul style="list-style-type: none"> <li>The company's strategy is well adapted to marketplace conditions, but it is not necessarily a leader in setting industry trends.</li> <li>It exhibits neither superior nor subpar abilities with respect to product or service differentiation and positioning.</li> <li>Its products command no price premium or advantage relative to competing brands as a result of its brand equity or its technological positioning.</li> <li>It may enjoy some barriers to entry that provide some defense against competitors but don't overpower them. It faces some risk of product/service displacement or substitution longer term.</li> <li>Its metrics of product or service quality and customer satisfaction or retention are in line with its industry's average. The company could lose customers to competitors if it makes operational missteps.</li> <li>Its asset profile does not exhibit particularly superior or inferior characteristics compared to other industry participants. These assets generate consistent revenue and profit growth although long-term prospects are subject to some uncertainty.</li> </ul>

- |      |   |   |
|------|---|---|
| Weak | <ul style="list-style-type: none"><li>• The company has few, if any, competitive advantages and a number of competitive disadvantages.</li><li>• Because the company lacks many competitive advantages, its long-term prospects are uncertain, and its profit volatility is likely to be higher than average for its industry.</li><li>• The company is less likely than its competitors to withstand economic, competitive, or technological threats.</li><li>• Alternatively, the company has weaknesses in one or more subfactors that could keep its profitability below average and its profit volatility above average during economic downturns or periods of increased competition.</li></ul> | <ul style="list-style-type: none"><li>• The company's strategy is inconsistent with, or not well adapted to, marketplace trends and conditions.</li><li>• There is evidence of little innovation, slowness in developing and marketing new products, an inability to raise prices, and/or ineffective bundling.</li><li>• Its products generally enjoy no price premium relative to competing brands and it often has to sell its products at a lower price than its peers can command.</li><li>• It has suffered or is at risk of suffering customer defections due to falling quality and because customers perceive its products or services to be less valuable than those of its competitors.</li><li>• Its revenues and market shares are vulnerable to aggressive pricing by existing or new competitors or to technological displacement risks over the near to medium term.</li><li>• Its metrics of product or service quality and customer satisfaction or retention are weaker than the industry average.</li><li>• Its reinvestment in its business is lower than its peers', its ability to retain operational talent is limited, its distribution network is inefficient, and its revenue could stagnate or decline as result.</li></ul> |
|------|---|---|



Table 9

## Scale, Scope, And Diversity

Qualifier	What it means	Guidance
Strong	<ul style="list-style-type: none"> <li>The company's overall scale, scope, and diversity supports stable revenues and profits by rendering it essentially invulnerable to all but the most disruptive combinations of adverse factors, events, or trends.</li> <li>Its significant advantages in scale, scope, and diversity enable it to withstand economic, regional, competitive, and technological threats better than its competitors can.</li> </ul>	<ul style="list-style-type: none"> <li>The company's range of products or services is among the most comprehensive in its sector. It derives its revenue and profits from a broader set of products or services than the industry average.</li> <li>Its products and services enjoy industry-leading market shares relative to other participants in its industry.</li> <li>It does not rely on a particular customer or small group of customers. If it does, the customer(s) is/are of high credit quality, their demand is highly sustainable, or the company and its customer(s) have significant interdependence.</li> <li>It does not depend on any particular supplier or related group of suppliers that it could not easily replace. If it does, the supplier(s) is/are of high credit quality, or the company and its supplier(s) have significant interdependence.</li> <li>It enjoys broader geographic diversity than its peers and doesn't overly depend on a single regional or local market. If it does, the market is local, often for regulatory reasons. The company's production or service centers are diversified across several locations.</li> <li>It holds a strategic investment that provides positive business diversification.</li> </ul>
Adequate	<ul style="list-style-type: none"> <li>The company's overall scale, scope, and diversity is comparable to its peers'.</li> <li>Its ability to withstand economic, competitive, or technological threats is comparable to the ability of others within its sector.</li> </ul>	<ul style="list-style-type: none"> <li>The company has a broad range of products or services compared with its competitors and doesn't depend on a particular product or service for the majority of its revenues and profits.</li> <li>Its market share is average compared with that of its competitors.</li> <li>Its dependence on or concentration of key customers is no higher than the industry average, and the loss of a top customer would be unlikely to pose a high risk to its business stability.</li> <li>It isn't overly dependent on any supplier or regional group of suppliers that it couldn't easily replace.</li> <li>It doesn't depend excessively on a single local or regional market, and its geographic footprint of production and revenue compares with that of other industry participants.</li> </ul>
Weak	<ul style="list-style-type: none"> <li>The company's lack of scale, scope, and diversity compromises the stability and sustainability of its revenues and profits.</li> <li>The company's vulnerability to, or reliance on, various elements of scale, scope, and diversity leaves it less likely than its competitors to withstand economic, competitive, or technological threats.</li> </ul>	<ul style="list-style-type: none"> <li>The company's product or service lineup is somewhat limited compared to those of its sector peers. The company derives its profits from a narrow group of products or services, and has not achieved significant market share compared with its peers.</li> <li>Demand for its products or services is lower than for its competitors', and this trend isn't improving.</li> <li>It relies heavily on a particular customer or small group of customers, and the characteristics of the customer base do not mitigate this risk.</li> <li>It depends on a particular supplier or group of suppliers, which it would not be able to easily replace without incurring high switching costs.</li> <li>It depends disproportionately on a single local or regional economy for selling its goods or services, and the company's industry is global.</li> <li>Key production assets are concentrated by location, and the company has limited ability to quickly replace them without incurring high costs relative to its profits.</li> </ul>

Table 10

## Operating Efficiency Assessment

Qualifier	What it means	Guidance
Strong	<ul style="list-style-type: none"> <li>The company maximizes revenues and profits via intelligent use of assets and by minimizing costs and increasing efficiency.</li> <li>The company's cost structure should enable it to withstand economic downturns better than its peers.</li> </ul>	<ul style="list-style-type: none"> <li>The company has a lower cost structure than its peers resulting in higher profits or margins even if capacity utilization or demand are well below ideal levels and during down economic and industry cycles.</li> <li>It has demonstrated its ability to efficiently manage fixed and variable costs in cyclical downturns, and has a history of successful and often ongoing cost reductions programs.</li> <li>Its capacity utilization is close to optimal at the peak of the industry cycle and outperforms the industry average over the cycle.</li> <li>It has demonstrated that it can pass along increases in input costs and we expect this will continue.</li> <li>It has a very high ability to adjust production and labor costs in response to changes in demand without repercussions for product quality, or has demonstrated the ability to operate very profitably in a more costly or less flexible labor environment.</li> <li>Its suppliers have demonstrated an ability to meet swings in demand without causing bottlenecks or quality issues, and can absorb all but the most severe supply chain disruptions.</li> <li>It has superior working capital management, as evidenced by a consistently better-than-average "cash conversion cycle" and other working capital metrics, supporting higher cash flow and lower funding costs.</li> <li>Its investments in technology are likely to increase revenue growth and/or improve its cost structure and operating efficiency.</li> </ul>
Adequate	<ul style="list-style-type: none"> <li>A combination of cost structure and efficiency should support sustainable profits with average profit volatility relative to the company's peers. Its cost structure is similar to its peers'.</li> </ul>	<ul style="list-style-type: none"> <li>The company has demonstrated the ability to manage some fixed and most variable costs except during periods of extremely weak demand, and has some history of cutting costs in good and bad times.</li> <li>Its cost structure permits some profitability even if capacity utilization or customer demand is well below ideal levels. The company can at least break even during most of the industry/demand cycle.</li> <li>Its cost structure is in line with its peers'. For example, its selling, general, and administrative (SG&amp;A) expense as a percent of revenue is similar to its peers' and is likely to be stable.</li> <li>It has demonstrated an ability to adjust labor costs in most scenarios without hurting product output and quality, or can operate profitably in a more costly or less flexible labor environment; it has some success passing on input cost increases, although perhaps only partially or with time lag.</li> <li>Its suppliers have met typical swings in demand without causing widespread bottlenecks or quality issues, and the company has some capacity to withstand limited supply chain disruptions.</li> <li>It has good working capital management, evidenced by its cash conversion cycle and working capital metrics that are on par with its peers'.</li> <li>Its investments in technology are likely to help it at least maintain its cost structure and current level of operating efficiency.</li> </ul>

Weak	<ul style="list-style-type: none"> <li>The company's operating efficiency leaves it with lower profitability than its peers' due to lower asset utilization and/or a higher, less flexible cost structure.</li> <li>The company's cost structure permits better-than-marginal profitability only if capacity utilization is at the top of the cycle or during periods of strong demand. The company needs solid and sustained industry conditions to generate fair profitability.</li> <li>It has limited success or capability of managing fixed costs and even most typically variable costs are fixed in the next two to three years.</li> <li>It has a limited track record of successful cost reductions, such as reducing labor costs in the face of swings in demand, or it has limited ability to pass along increases in input costs.</li> <li>Its costs are higher than its peers'. For example, the company's SG&amp;A expense as a percent of revenue is above that of its peers, and likely to remain so.</li> <li>Its suppliers may face bottlenecks or quality issues in the event of modest swings in demand, or have limited technological capabilities. There is evidence that a limited supply chain disruption would make it difficult for suppliers to meet their commitments to the company.</li> <li>Its working capital management is weak, as evidenced by working capital metrics that are significantly worse than those of its peers, resulting in lower cash flow and higher funding costs.</li> <li>It lacks investments in technology, which could hurt is revenue growth and/or result in a higher cost structure and less efficient operations relative to its peers'.</li> </ul>
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### 3. Determining the preliminary competitive position assessment: Competitive position group profile and category weightings

67. After assessing competitive advantage; scale, scope, and diversity; and operating efficiency, we determine a company's preliminary competitive position assessment by ascribing a specific weight to each component. The weightings depend on the company's Competitive Position Group Profile (CPGP).

68. There are six possible CPGPs: 1) services and product focus, 2) product focus/scale driven, 3) capital or asset focus, 4) commodity focus/cost driven, 5) commodity focus/scale driven, and 6) national industry and utilities (see table 11 for definitions and characteristics).

**Table 11**

#### Competitive Position Group Profile (CPGP)

	Definition and characteristics	Examples
Services and product focus	Brands, product quality or technology, and service reputation are typically key differentiating factors for competing in the industry. Capital intensity is typically low to moderate, although supporting the brand often requires ongoing reinvestment in the asset base.	Typically, these are companies in consumer-facing light manufacturing or service industries. Examples include branded drug manufacturers, software companies, and packaged food.
Product focus/scale driven	Product and geographic diversity, as well as scale and market position are key differentiating factors. Sophisticated technology and stringent quality controls heighten risk of product concentration. Product preferences or sales relationships are more important than branding or pricing. Cost structure is relatively unimportant.	The sector most applicable is medical device/equipment manufacturers, particularly at the higher end of the technology scale. These companies largely sell through intermediaries, as opposed to directly to the consumer.
Capital or asset focus	Sizable capital investments are generally required to sustain market position in the industry. Brand identification is of limited importance, although product and service quality often remain differentiating factors.	Heavy manufacturing industries typically fall into this category. Examples include telecom infrastructure manufacturers and semiconductor makers.
Commodity focus/cost driven	Cost position and efficiency of production assets are more important than size, scope, and diversification. Brand identification is of limited importance	Typically, these are companies that manufacture products from natural resources that are used as raw materials by other industries. Examples include forest and paper products companies that harvest timber or produce pulp, packaging paper, or wood products.
Commodity focus/scale driven	Pure commodity companies have little product differentiation, and tend to compete on price and availability. Where present, brand recognition or product differences are secondary or of less importance.	Examples range from pure commodity producers and most oil and gas upstream producers, to some producers with modest product or brand differentiation, such as commodity foods.

National industries and utilities      Government policy or control, regulation, and taxation and tariff policies significantly affect the competitive dynamics of the industry (see paragraphs 72-73).      An example is a water-utility company in an emerging market.

69. The nature of competition and key success factors are generally prescribed by industry characteristics, but vary by company. Where service, product quality, or brand equity are important competitive factors, we'll give the competitive advantage component of our overall assessment a higher weighting. Conversely, if the company produces a commodity product, differentiation comes less into play, and we will more heavily weight scale, scope, and diversity as well as operating efficiency (see table 12).

**Table 12**

**Competitive Position Group Profiles (CPGPs) And Category Weightings**

--(%)--						
Component	Services and product focus	Product focus/scale driven	Capital or asset focus	Commodity focus/cost driven	Commodity focus/scale driven	National industries and utilities
1. Competitive advantage	45	35	30	15	10	60
2. Scale, scope, and diversity	30	50	30	35	55	20
3. Operating efficiency	25	15	40	50	35	20
Total	100	100	100	100	100	100
Weighted-average assessment*	1.0-5.0	1.0-5.0	1.0-5.0	1.0-5.0	1.0-5.0	1.0-5.0

\*1 (strong), 2 (strong/adequate), 3 (adequate), 4 (adequate/weak), 5 (weak).

70. We place each of the defined industries (see Appendix B, table 27) into one of the six CPGPs (see above and Appendix B, table 27). This is merely a starting point for the analysis, since we recognize that some industries are less homogenous than others, and that company-specific strategies do affect the basis of competition.

71. In fact, the criteria allow for flexibility in selecting a company's group profile (with its category weightings). Reasons for selecting a profile different than the one suggested in the guidance table could include:

- The industry is heterogeneous, meaning that the nature of competition differs from one subsector to the next, and possibly even within subsectors. The KCF article for the industry will identify such circumstances.
- A company's strategy could affect the relative importance of its key factors of competition.

72. For example, the standard CPGP for the telecom and cable industry is services and product focus. While this may be an appropriate group profile for carriers and service providers, an infrastructure provider may be better analyzed under the capital or asset focus group profile. Other examples: In the capital goods industry, a construction equipment rental company may be analyzed under the capital or asset focus group profile, owing to the importance of efficiently managing the capital spending cycle in this segment of the industry, whereas a provider of hardware, software, and services for industrial automation might be analyzed under the services and product focus group profile, if we believe it can achieve differentiation in the marketplace based on product performance, technology innovation, and service.

73. In some industries, the effects of government policy, regulation, government control, and taxation and tariff policies can significantly alter the competitive dynamics, depending on the country in which a company operates. That can alter our assessment of a company's competitive advantage; scale, size, and diversity; or operating efficiency. When industries in given countries have risks that differ materially from those captured in our global industry risk profile and assessment (see "[Methodology: Industry Risk](#)," published Nov. 19, 2013, section B), we will weight competitive advantage more heavily to capture the effect, positive or negative, on competitive dynamics. The assessment of competitive advantage; scale, size, and diversity; and operating efficiency will reflect advantages or disadvantages based on these national industry risk factors. Table 13 identifies the circumstances under which national industry risk factors are positive or negative.

Table 13

National Industry Risk Factors	
National industry risk factors are positive	<ul style="list-style-type: none"> <li>Government policy including regulation, ownership, and taxation is supportive and has a good track record of mitigating risks to the stability of industry margins.</li> <li>Any government ownership, tariff, and taxation policy supports growth prospects for revenues and profit generation.</li> <li>There is very little discernible risk of negative policy, regulatory, ownership, or taxation changes that could threaten business stability.</li> </ul>
National industry risk factors are negative	<ul style="list-style-type: none"> <li>Government policy and regulation has a weak track record of stabilizing margins and reducing industry risks.</li> <li>Any government ownership, tariff, and taxation policy undermine growth prospects for revenues and profit generation.</li> <li>There is an increasing risk of negative policy, ownership, and taxation changes that could undermine industry stability.</li> </ul>

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74. When national industry risk factors are positive for a company, typically they support revenue growth, profit growth, higher EBITDA margins, and/or lower-than-average volatility of profits. Often, these benefits provide barriers to entry that impede or even bar new market entrants, which should be reflected in the competitive advantage assessment. These benefits may also include risk mitigants that enable a company to withstand economic downturns and competitive and technological threats better in its local markets than its global competitors can. The scale, scope, and diversity assessment might also benefit from these policies if the company is able to withstand economic, regional, competitive, and technological threats better than its global competitors can. Likewise, the company's operating efficiency assessment may improve if, as a result, it is better able than its global competitors to withstand economic downturns, taking into account its cost structure.

75. Conversely, when national industry risk factors are negative for a company, typically they detract from revenue growth and profit growth, shrink EBITDA margins, and/or increase the average volatility of profits. The company may also have less protection against economic downturns and competitive and technological threats within its local markets than its global competitors do. We may also adjust the company's scale, scope, and diversity assessment lower if, as a result of these policies, it is less able to withstand economic, regional, competitive, and technological threats than its global competitors can. Likewise, we may adjust its operating efficiency assessment lower if, as a result of these policies, it is less able to withstand economic downturns, taking into account the company's cost structure.

76. An example of when we might use a national industry risk factor would be for a telecommunications network owner that benefits from a monopoly network position, supported by substantial capital barriers to entry, and as a result is subject to regulated pricing for its services. Accordingly, in contrast to a typical telecommunications company, our analysis of the company's competitive position would focus more heavily on the monopoly nature of its operations, as well as the nature and reliability of the operator's regulatory framework in supporting future revenue and earnings. If we viewed the regulatory framework as being supportive of the group's future earnings stability, and we considered its monopoly position to be sustainable, we would assess these national industry risk factors as positive in our assessment of the group's competitive position.

77. The weighted average assessment translates into the preliminary competitive position assessment on a scale of 1 to 6, where one is best. Table 14 describes the matrix we use to translate the weighted average assessment of the three components into the preliminary competitive position assessment.

Table 14

**Translation Table For Converting Weighted-Average Assessments Into Preliminary Competitive Position Assessments**

Weighted average assessment range	Preliminary competitive position assessment
1.00 – 1.50	1
>1.50 – 2.25	2
>2.25 – 3.00	3
>3.00 – 3.75	4
>3.75 – 4.50	5
>4.50 – 5.00	6

**4. Assessing profitability**

78. We assess profitability on the same scale of 1 to 6 as the competitive position assessment.

79. The profitability assessment consists of two subcomponents: level of profitability and the volatility of profitability, which we assess separately. We use a matrix to combine these into the final profitability assessment.

**a) Level of profitability**



80. The level of profitability is assessed in the context of the company's industry. We most commonly measure profitability using return on capital (ROC) and EBITDA margins, but we may also use sector-specific ratios. Importantly, as with the other components of competitive position, we review profitability in the context of the industry in which the company operates, not just in its narrower subsector. (See list of industries and subsectors in Appendix B, table 27.)

81. We assess level of profitability on a three-point scale: above average, average, and below average. Industry KCF articles may establish numeric guidance, for instance by stating that an ROC above 12% is considered above average, between 8%-12% is average, and below 8% is below average for the industry, or by differentiating between subsectors in the industry. In the absence of numeric guidance, we compare a company against its peers across the industry.

82. We calculate profitability ratios generally based on a five-year average, consisting of two years of historical data, our projections for the current year (incorporating any reported year-to-date results and estimates for the remainder of the year), and the next two financial years. There may be situations where we consider longer or shorter historical results or forecasts, depending on such factors as availability of financials, transformational events (such as mergers or acquisitions [M&A]), cyclical distortion (such as peak or bottom of the cycle metrics that we do not deem fully representative of the company's level of profitability), and we take into account improving or deteriorating trends in profitability ratios in our assessment.

#### **b) Volatility of profitability**

83. We base the volatility of profitability on the standard error of the regression (SER) for a company's historical EBITDA, EBITDA margins, or return on capital. The KCF articles provide guidance on which measures are most appropriate for a given industry or set of companies. For each of these measures, we divide the standard error by the average of that measure over the time period in order to ensure better comparability across companies.

84. The SER is a statistical measure that is an estimate of the deviation around a 'best fit' linear trend line. We regress the company's EBITDA, EBITDA margins, or return on capital against time. A key advantage of SER over standard deviation or coefficient of variation is that it doesn't view upwardly trending data as inherently more volatile. At the same time, we recognize that SER, like any statistical measure, may understate or overstate expected volatility and thus we will make qualitative adjustments where appropriate (see paragraphs 86-90). Furthermore, we only calculate SER when companies have at least seven years of historical annual data and have not significantly changed their line of business during the timeframe, to ensure that the results are meaningful.

85. As with the level of profitability, we evaluate a company's SER in the context of its industry group. For most industries, we establish a six-point scale with 1 capturing the least volatile companies, i.e., those with the lowest SERs, and 6 identifying companies whose profits are most volatile. We have established industry-specific SER parameters using the most recent seven years of data for companies within each sector. We believe that seven years is generally an adequate number of years to capture a business cycle. (See Appendix B, section 4 for industry-specific SER parameters.) For companies whose business segments cross multiple industries, we evaluate the SER in the context of the organization's most dominant industry—if that industry represents at least two-thirds of the organization's EBITDA, sales, or other relevant metric. If the company is a conglomerate and no dominant industry can be identified, we will evaluate its profit volatility in the context of SER guidelines for all nonfinancial companies.

86. In certain circumstances, the SER derived from historical information may understate—or overstate—expected future volatility, and we may adjust the assessment downward or upward. The scope of possible adjustments depends on certain conditions being met as described below.

87. We might adjust the SER-derived volatility assessment to a worse assessment (i.e., to a higher assessment for greater volatility) by up to two categories if the expected level of volatility isn't apparent in historical numbers, and the company either:

- Has a weighted country risk assessment of 4 or worse, which may, notwithstanding past performance, result in a less stable business environment going forward;
- Operates in a subsector of the industry that may be prone to higher technology or regulation changes, or other potential disruptive risks that have not emerged over the seven year period;
- Is of limited size and scope, which will often result in inherently greater vulnerability to external changes; or
- Has pursued material M&A or internal growth projects that obscure the company's underlying performance trend line. As an example, a company may have consummated an acquisition during the trough of the cycle, masking what would otherwise be a significant decline in performance.

88. The choice of one or two categories depends on the degree of likelihood that the related risks will materialize and our view of the likely severity of these risks.

89. Conversely, we may adjust the SER-derived volatility assessment to a better assessment (i.e., to a lower assessment reflecting lower volatility) by up to two categories if we observe that the conditions historically leading to greater volatility have receded and are misrepresentative. This will be the case when:

- The company grew at a moderately faster, albeit more uneven, pace relative to the industry. Since we measure volatility around a linear trend line, a company growing at a constant percentage of moderate increase (relative to the industry) or an uneven pace (e.g., due to "lumpy" capital spending programs) could receive a relatively unfavorable assessment on an unadjusted basis, which would not be reflective of the company's performance in a steady state. (Alternatively, those companies that grow at a significantly higher-than-average industry rate often do so on unsustainable rates of growth or by taking on high-risk strategies. Companies with these high-risk growth strategies would not receive a better assessment and could be adjusted to a worse assessment;)
- The company's geographic, customer, or product diversification has increased in scope as a result of an acquisition or rapid expansion (e.g. large, long-term contracts wins), leading to more stability in future earnings in our view; or
- The company's business model is undergoing material change that we expect will benefit earnings stability, such as a new regulatory framework or major technology shift that is expected to provide a significant competitive hedge and margin protection over time.

90. The choice of one or two categories depends on the degree of likelihood that the related risks will materialize and our view of the likely severity of these risks.

91. If the company either does not have at least seven years of annual data or has materially changed its business lines or undertaken abnormally high levels of M&A during this time period, then we do not use its SER to assess the volatility of profitability. In these cases, we use a proxy to establish the volatility assessment. If there is a peer company that has, and is expected to continue having, very similar profitability volatility characteristics, we use the SER of that peer entity as a proxy.

92. If no such matching peer exists, or one cannot be identified with enough confidence, we perform an assessment of expected volatility based on the following rules:

- An assessment of 3 if we expect the company's profitability, supported by available historical evidence, will exhibit a volatility pattern in line with, or somewhat less volatile than, the industry average.

- An assessment of 2 based on our confidence, supported by available historical evidence, that the company will exhibit lower volatility in profitability metrics than the industry's average. This could be underpinned by some of the factors listed in paragraph 89, whereas those listed in paragraph 87 would typically not apply.
- An assessment of 4 or 5 based on our expectation that profitability metrics will exhibit somewhat higher (4), or meaningfully higher (5) volatility than the industry, supported by available historical evidence, or because of the applicability of possible adjustment factors listed in paragraph 87.
- Assessments of either 1 or 6 are rarely assigned and can only be achieved based on a combination of data evidence and very high confidence tests. For an assessment of 1, we require strong evidence of minimal volatility in profitability metrics compared with the industry, supported by at least five years of historical information, combined with a very high degree of confidence that this will continue in the future, including no country risk, subsector risk or size considerations that could otherwise warrant a worse assessment as per paragraph 87. For an assessment of 6 we require strong evidence of very high volatility in profitability metrics compared with the industry, supported by at least five years of historical information and very high confidence that this will continue in the future.

93.Next, we combine the level of profitability assessment with the volatility assessment to determine the final profitability assessment using the matrix in Table 15.

**Table 15**

**Profitability Assessment**

Level of profitability assessment	--Volatility of profitability assessment--					
	1	2	3	4	5	6
Above average	1	1	2	3	4	5
Average	1	2	3	4	5	6
Below average	2	3	4	5	6	6

**5. Combining the preliminary competitive position assessment with profitability**

94.The fourth and final step in arriving at a competitive position assessment is to combine the preliminary competitive position assessment with the profitability assessment. We use the combination matrix in Table 16, which shows how the profitability assessment can confirm, strengthen, or weaken (by up to one category) the overall competitive position assessment.

**Table 16**

**Combining The Preliminary Competitive Position Assessment And Profitability Assessment**

	--Preliminary competitive position assessment--					
Profitability assessment	1	2	3	4	5	6
1	1	2	2	3	4	5
2	1	2	3	3	4	5
3	2	2	3	4	4	5
4	2	3	3	4	5	5
5	2	3	4	4	5	6
6	2	3	4	5	5	6

95.We generally expect companies with a strong preliminary competitive position assessment to exhibit strong and less volatile profitability metrics. Conversely, companies with a relatively weaker preliminary competitive position assessment will generally have weaker and/or more volatile profitability metrics. Our analysis of profitability helps substantiate whether management is translating any perceived competitive advantages, diversity benefits, and cost management measures into higher earnings and more stable return on capital and return on sales ratios than the averages for the industry. When profitability differs markedly from what the preliminary/anchor competitive position assessment would otherwise imply, we adjust the competitive position assessment accordingly.

96.Our method of adjustment is biased toward the preliminary competitive position assessment rather than toward the profitability assessment (e.g., a preliminary competitive assessment of 6 and a profitability assessment of 1 will result in a final assessment of 5).

**E. Cash Flow/Leverage**

97.The pattern of cash flow generation, current and future, in relation to cash obligations is often the best indicator of a company's financial risk. The criteria assess a variety of credit ratios, predominately cash flow-based, which complement each other by focusing on the different levels of a company's cash flow waterfall in relation to its obligations (i.e., before and after working capital investment, before and after capital expenditures, before and after dividends), to develop a thorough perspective. Moreover, the criteria identify the ratios that we think are most relevant to measuring a company's credit risk based on its individual characteristics and its business cycle.

98.For the analysis of companies with intermediate or stronger cash flow/leverage assessments (a measure of the relationship between the company's cash flows and its debt obligations as identified in paragraphs 106 and 124), we primarily evaluate cash flows that reflect the considerable flexibility and discretion over outlays that such companies typically possess. For these entities, the starting point in the analysis is cash flows before working capital changes plus capital investments in relation

to the size of a company's debt obligations in order to assess the relative ability of a company to repay its debt. These "leverage" or "payback" cash flow ratios are a measure of how much flexibility and capacity the company has to pay its obligations.

99. For entities with significant or weaker cash flow/leverage assessments (as identified in paragraphs 105 and 124), the criteria also call for an evaluation of cash flows in relation to the carrying cost or interest burden of a company's debt. This will help us assess a company's relative and absolute ability to service its debt. These "coverage"- or "debt service"-based cash flow ratios are a measure of a company's ability to pay obligations from cash earnings and the cushion the company possesses through stress periods. These ratios, particularly interest coverage ratios, become more important the further a company is down the credit spectrum.

### 1. Assessing cash flow/leverage

100. Under the criteria, we assess cash flow/leverage as 1, minimal; 2, modest; 3, intermediate; 4, significant; 5, aggressive; or 6, highly leveraged. To arrive at these assessments, the criteria combine the assessments of a variety of credit ratios, predominately cash flow-based, which complement each other by focusing attention on the different levels of a company's cash flow waterfall in relation to its obligations. For each ratio, there is an indicative cash flow/leverage assessment that corresponds to a specified range of values in one of three given benchmark tables (see tables 17, 18, and 19). We derive the final cash flow/leverage assessment for a company by determining the relevant core ratios, anchoring a preliminary cash flow assessment based on the relevant core ratios, determining the relevant supplemental ratio(s), adjusting the preliminary cash flow assessment according to the relevant supplemental ratio(s), and, finally, modifying the adjusted cash flow/leverage assessment for any material volatility.

### 2. Core and supplemental ratios

#### a) Core ratios

101. For each company, we calculate two core credit ratios--funds from operations (FFO) to debt and debt to EBITDA--in accordance with Standard & Poor's ratios and adjustments criteria (see "[Corporate Methodology: Ratios And Adjustments](#)," published Nov. 19, 2013). We compare these payback ratios against benchmarks to derive the preliminary cash flow/leverage assessment for a company. These ratios are also useful in determining the relative ranking of the financial risk of companies.

#### b) Supplemental ratios

102. The criteria also consider one or more supplemental ratios (in addition to the core ratios) to help develop a fuller understanding of a company's financial risk profile and fine-tune our cash flow/leverage analysis. Supplemental ratios could either confirm or adjust the preliminary cash flow/leverage assessment. The confirmation or adjustment of the preliminary cash flow/leverage assessment will depend on the importance of the supplemental ratios as well as any difference in indicative cash flow/leverage assessment between the core and supplemental ratios as described in section E.3.b.

103. The criteria typically consider five standard supplemental ratios, although the relevant KCF criteria may introduce additional supplemental ratios or focus attention on one or more of the standard supplemental ratios. The standard supplemental ratios include three payback ratios--cash flow from operations (CFO) to debt, free operating cash flow (FOCF) to debt, and discretionary cash flow (DCF) to debt--and two coverage ratios, FFO plus interest to cash interest and EBITDA to interest.

104. The criteria provide guidelines as to the relative importance of certain ratios if a company exhibits characteristics such as high leverage, working capital intensity, capital intensity, or high growth.

105. If the preliminary cash flow/leverage assessment is significant or weaker (see section E.3), then two coverage ratios, FFO plus interest to cash interest and EBITDA to interest, will be given greater importance as supplemental ratios. For the purposes of calculating the coverage ratios, "cash interest" includes only cash interest payments (i.e., interest excludes noncash interest payable on, for example, payment-in-kind [PIK] instruments) and does not include any Standard & Poor's adjusted interest on such items as leases, while "interest" is the income statement figure plus Standard & Poor's adjustments to interest (see "[Corporate Methodology: Ratios And Adjustments](#)," published Nov. 19, 2013).

106. If the preliminary cash flow/leverage assessment is intermediate or stronger, the criteria first apply the three standard supplemental ratios of CFO to debt, FOCF to debt, and DCF to debt. When FOCF to debt and DCF to debt indicate a cash flow/leverage assessment that is lower than the other payback-ratio-derived cash flow/leverage assessments, it signals that the company has either larger than average capital spending or other non-operating cash distributions (including dividends). If these differences persist and are consistent with a negative trend in overall ratio levels, which we believe is not temporary, then these supplemental leverage ratios will take on more importance in the analysis.

107. If the supplemental ratios indicate a cash flow/leverage assessment that is different than the preliminary cash flow/leverage assessment, it could suggest an unusual debt service or fixed charge burden, working capital or capital expenditure profile, or unusual financial activity or policies. In such cases, we assess the sustainability or persistence of these differences. For example, if either working capital or capital expenditures are unusually low, leading to better indicated assessments, we examine the sustainability of such lower spending in the context of its impact on the company's longer term competitive position. If there is a deteriorating trend in the company's asset base, we give these supplemental ratios less weight. If either working capital or capital expenditures are unusually high, leading to weaker indicated assessments, we examine the persistence and need for such higher spending. If elevated spending levels are required to maintain a company's competitive position, for example to maintain the company's asset base, we give more weight to these supplemental ratios.

108. For capital-intensive companies, EBITDA and FFO may overstate financial strength, whereas FOCF may be a more accurate reflection of their cash flow in relation to their financial obligations. The criteria generally consider a capital-intensive company as having ongoing capital spending to sales of greater than 10%, or depreciation to sales of greater than 8%. For these companies, the criteria place more weight on the supplementary ratio of FOCF to debt. Where we place more analytic weight on FOCF to debt, we also seek to estimate the amount of maintenance or full cycle capital required (see Appendix C) under normal conditions (we estimate maintenance or full-cycle capital expenditure required because this is not a reported number). The FOCF figure may be adjusted by adding back estimated discretionary capital expenditures. The adjusted FOCF to debt based on maintenance or full cycle capital expenditures often helps determine how much importance to place on this ratio. If both the FOCF to debt and the adjusted (for estimated discretionary capital spending) FOCF to debt derived assessments are different from the preliminary cash/flow leverage assessment, then these supplemental leverage ratios take on more importance in the analysis.

109. For working-capital-intensive companies, EBITDA and FFO may also overstate financial strength, and CFO may be a more accurate measure of the company's cash flow in relation to its financial risk profile. Under the criteria, if a company has a working capital-to-sales ratio that exceeds 25% or if there are significant seasonal swings in working capital, we generally consider it to be working-capital-intensive. For these companies, the criteria place more emphasis on the supplementary ratio of CFO to debt. Examples of companies that have working-capital-intensive characteristics can be found in the capital goods, metals and mining downstream, or the retail and restaurants industries. The need for working capital in those industries reduces financial flexibility and, therefore, these supplemental leverage ratios take on more importance in the analysis.



110. For all companies, when FOCF to debt or DCF to debt is negative or indicates materially lower cash flow/leverage assessments, the criteria call for an examination of management's capital spending and cash distribution strategies. For high-growth companies, typically the focus is on FFO to debt instead of FOCF to debt because the latter ratio can vary greatly depending on the growth investment the company is undergoing. The criteria generally consider a high-growth company one that exhibits real revenue growth in excess of 8% per year. Real revenue growth excludes price or foreign exchange related growth, under these criteria. In cases where FOCF or DCF is low, there is a greater emphasis on monitoring the sustainability of margins and return on capital and the overall financing mix to assess the likely trend of future debt ratios. In addition, debt service ratio analysis will be important in such situations. For companies with more moderate growth, the focus is typically on FOCF to debt unless the capital spending is short term or is not funded with debt.

111. For companies that have ongoing and well entrenched banking relationships we can reflect these relationships in our cash flow/leverage analysis through the use of the interest coverage ratios as supplemental ratios. These companies generally have historical links and a strong ongoing relationship with their main banks, as well as shareholdings by the main banks, and management influence and interaction between the main banks and the company. Based on their bank relationships, these companies often have lower interest servicing costs than peers, even if the macro economy worsens. In such cases, we generally use the interest coverage ratios as supplemental ratios. This type of banking relationship occurs in Japan, for example, where companies that have the type of bank relationship described in this paragraph tend to have a high socioeconomic influence within their country by way of their revenue size, total debt quantum, number of employees, and the relative importance of the industry.

### c) Time horizon and ratio calculation

112. A company's credit ratios may vary, often materially, over time due to economic, competitive, technological, or investment cycles, the life stage of the company, and corporate or strategic actions. Thus, we evaluate credit ratios on a time series basis with a clear forward-looking bias. The length of the time series is dependent on the relative credit risk of the company and other qualitative factors and the weighting of the time series varies according to transformational events. A transformational event is any event that could cause a material change in a company's financial profile, whether caused by changes to the company's capital base, capital structure, earnings, cash flow profile, or financial policies. Transformational events can include mergers, acquisitions, divestitures, management changes, structural changes to the industry or competitive environment, and/or product development and capital programs. This section provides guidance on the timeframe and weightings the criteria apply to calculate the indicative ratios.

113. The criteria generally consider the company's credit ratios for the previous one to two years, current-year forecast, and the two subsequent forecasted financial years. There may be situations where longer--or even shorter--historical results or forecasts are appropriate, depending on such factors as availability of financials, transformational events, or relevance. For example, a utility company with a long-term capital spending program may lend itself to a longer-term forecast, whereas for a company experiencing a near-term liquidity squeeze even a two-year forecast will have limited value. Alternatively, for most commodities-based companies we emphasize credit ratios based on our forward-looking view of market conditions, which may differ materially from the historical period.

114. Historical patterns in cash flow ratios are informative, particularly in understanding past volatility, capital spending, growth, accounting policies, financial policies, and business trends. Our analysis starts with a review of these historical patterns in order to assess future expected credit quality. Historical patterns can also provide an indication of potential future volatility in ratios, including that which results from seasonality or cyclicity. A history of volatility could result in a more conservative assessment of future cash flow generation if we believe cash flow will continue to be volatile.

115. The forecast ratios are based on an expected base-case scenario developed by Standard & Poor's, incorporating current and near-term economic conditions, industry assumptions, and financial policies. The prospective cyclical and longer-term volatility associated with the industry in which the issuer operates is addressed in the industry risk criteria (see section B) and the longer-term directional influence or event risk of financial policies is addressed in our financial policy criteria (see section H).

116. The criteria generally place greater emphasis on forecasted years than historical years in the time series of credit ratios when calculating the indicative credit ratio. For companies where we have five years of ratios as described in section E.3, generally we calculate the indicative ratio by weighting the previous two years, the current year, and the forecasted two years as 10%, 15%, 25%, 25%, and 25%, respectively.

117. This weighting changes, however, to place even greater emphasis on the current and forecast years when:

- The issuer meets the characteristics described in paragraph 113, and either shorter- or longer-term forecasts are applicable. The weights applied will generally be quite forward weighted, particularly if a company is undergoing a transformational event and there is moderate or better cash flow certainty.
- The issuer is forecast to generate negative cash flow available for debt repayment, which we believe could lead to deteriorating credit metrics. Forecast negative cash flows could be generated from operating activities as well as capital expenditures, share buybacks, dividends, or acquisitions, as we forecast these uses of cash based on the company's track record, market conditions, or financial policy. The weights applied will generally be 30%, 40%, and 30% for the current and two subsequent years, respectively.
- The issuer is in an industry that is prospectively volatile or that has a high degree of cash flow uncertainty. Industries that are prospectively volatile are industries whose competitive risk and growth assessments are either high risk (5) or very high risk (6) or whose overall industry risk assessments are either high risk (5) or very high risk (6). The weights applied will generally be 50% for the current year and 50% for the first subsequent forecast year.

118. When the indicative ratio(s) is borderline (i.e., less than 10% different from the threshold in relative terms) between two assessment thresholds (as described in section E.3 and tables 17, 18, and 19) and the forecast points to a switch in the ratio between categories during the rating timeframe, we will weigh the forecast even more heavily in order to prospectively capture the trend.

119. For companies undergoing a transformational event, the weighting of the time series could vary significantly.

120. For companies undergoing a transformational event and with significant or weaker cash flow/leverage assessments, we place greater weight on near-term risk factors. That's because overemphasis on longer-term (inherently less predictable) issues could lead to some distortion when assessing the risk level of a speculative-grade company. We generally analyze a company using the arithmetic mean of the credit ratios expected according to our forecasts for the current year (or pro forma current year) and the subsequent financial year. A common example of this is when a private equity firm acquires a company using additional debt leverage, which makes historical financial ratios meaningless. In this scenario, we weight or focus the majority of our analysis on the next one or two years of projected credit measures.

## 3. Determining the cash flow/leverage assessment

### a) Identifying the benchmark table

121. Tables 17, 18, and 19 provide benchmark ranges for various cash flow ratios we associate with different cash flow/leverage assessments for standard volatility, medial volatility, and low volatility industries. The tables of benchmark ratios differ for a given ratio and cash flow/leverage assessment along two dimensions: the starting point for the ratio range and the width of the ratio range.

122. If an industry exhibits low volatility, the threshold levels for the applicable ratios to achieve a given cash flow/leverage assessment are less stringent than those in the medial or standard volatility tables, although the range of the ratios is narrower. Conversely, if an industry exhibits medial or standard levels of volatility, the threshold for the applicable ratios to achieve a given cash flow/leverage assessment are elevated, albeit with a wider range of values.

123. The relevant benchmark table for a given company is based on our assessment of the company's associated industry and country risk volatility, or the CICRA (see section A, table 1). The low volatility table (table 19) will generally apply when a company's CICRA is 1, unless otherwise indicated in a sector's KCF criteria. The medial volatility table (table 18) will be used under certain circumstances for companies with a CICRA of 1 or 2. Those circumstances are described in the respective sectors' KCF criteria. The standard volatility table (table 17) serves as the relevant benchmark table for companies with a CICRA of 2 or worse, and we will always use it for companies with a CICRA of 1 or 2 and whose competitive position is assessed 5 or 6. Although infrequent, we will use the low volatility table when a company's CICRA is 2 for companies that exhibit or are expected to exhibit low levels of volatility. The choice of volatility tables for companies with a CICRA of 2 is addressed in the respective sector's KCF article.

**Table 17**

**Cash Flow/Leverage Analysis Ratios--Standard Volatility**

	--Core ratios--		--Supplementary coverage ratios--		--Supplementary payback ratios--		
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest(x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	60+	Less than 1.5	More than 13	More than 15	More than 50	40+	25+
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly leveraged	Less than 12	Greater than 5	Less than 2	Less than 2	Less than 10	Less than 5	Less than 2

**Table 18**

**Cash Flow/Leverage Analysis Ratios--Medial Volatility**

	--Core ratios--		--Supplementary coverage ratios--		--Supplementary payback ratios--		
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	50+	less than 1.75	10.5+	14+	40+	30+	18+
Modest	35-50	1.75-2.5	7.5-10.5	9-14	27.5-40	17.5-30	11-18
Intermediate	23-35	2.5-3.5	5-7.5	5-9	18.5-27.5	9.5-17.5	6.5-11
Significant	13-23	3.5-4.5	3-5	2.75-5	10.5-18.5	5-9.5	2.5-6.5
Aggressive	9-13	4.5-5.5	1.75-3	1.75-2.75	7-10.5	0-5	(11)-2.5
Highly leveraged	Less than 9	Greater than 5.5	Less than 1.75	Less than 1.75	Less than 7	Less than 0	Less than (11)

**Table 19**

**Cash Flow/Leverage Analysis Ratios--Low Volatility**

	--Core ratios--		--Supplementary coverage ratios--		--Supplementary payback ratios--		
	FFO/debt (%)	Debt/EBITDA (x)	FFO/cash interest (x)	EBITDA/interest (x)	CFO/debt (%)	FOCF/debt (%)	DCF/debt (%)
Minimal	35+	Less than 2	More than 8	More than 13	More than 30	20+	11+
Modest	23-35	2-3	5-8	7-13	20-30	10-20	7-11
Intermediate	13-23	3-4	3-5	4-7	12-20	4-10	3-7

Significant	9-13	4-5	2-3	2.5-4	8-12	0-4	0-3
Aggressive	6-9	5-6	1.5-2	1.5-2.5	5-8	(10)-0	(20)-0
Highly leveraged	Less than 6	Greater than 6	Less than 1.5	Less than 1.5	Less than 5	Less than (10)	Less than (20)

**b) Aggregating the credit ratio assessments**

124. To determine the final cash flow/leverage assessment, we make these calculations:

1) First, calculate a time series of standard core and supplemental credit ratios, select the relevant benchmark table, and determine the appropriate time weighting of the credit ratios.

- Calculate the two standard core credit ratios and the five standard supplemental credit ratios over a five-year time horizon.
- Consult the relevant industry KCF article (if applicable), which may identify additional supplemental ratio(s). The relevant benchmark table for a given company is based on our assessment of the company's associated industry and country risk volatility, or the CICRA.
- Calculate the appropriate weighted average cash flow/leverage ratios. If the company is undergoing a transformational event, then the core and supplemental ratios will typically be calculated based on Standard & Poor's projections for the current and next one or two financial years.

2) Second, we use the core ratios to determine the preliminary cash flow assessment.

- Compare the core ratios (FFO to debt and debt to EBITDA) to the ratio ranges in the relevant benchmark table.
- If the core ratios result in different cash flow/leverage assessments, we will select the relevant core ratio based on which provides the best indicator of a company's future leverage.

3) Third, we review the supplemental ratio(s).

- Determine the importance of standard or KCF supplemental ratios based on company-specific characteristics, namely, leverage, capital intensity, working capital intensity, growth rate, or industry.

4) Fourth, we calculate the adjusted cash flow/leverage assessment.

- If the cash flow/leverage assessment(s) indicated by the important supplemental ratio(s) differs from the preliminary cash flow/leverage assessment, we might adjust the preliminary cash flow/leverage assessment by one category in the direction of the cash flow/leverage assessment indicated by the supplemental ratio(s) to derive the adjusted cash flow/leverage assessment. We will make this adjustment if, in our view, the supplemental ratio provides the best indicator of a company's future leverage.
- If there is more than one important supplemental ratio and they result in different directional deviations from the preliminary cash flow/leverage assessment, we will select one as the relevant supplemental ratio based on which, in our opinion, provides the best indicator of a company's future leverage. We will then make the adjustment outlined above if the selected supplemental ratio differs from the preliminary cash flow/leverage assessment and the selected supplemental ratio provides the best overall indicator of a company's future leverage.

5) Lastly, we determine the final cash flow/leverage assessment based on the volatility adjustment.

- We classify companies as stable for these cash flow criteria if cash flow/leverage ratios are expected to move up by one category during periods of stress based on their business risk profile. The final cash flow/leverage assessment for these companies will not be modified from the adjusted cash flow/leverage assessment.
- We classify companies as volatile for these cash flow criteria if cash flow/leverage ratios are expected to move one or two categories worse during periods of stress based on their business risk profiles. Typically, this is equivalent to EBITDA declining about 30% from its current level. The final cash flow/leverage assessment for these companies will be modified to one category weaker than the adjusted cash flow/leverage assessment; the adjustment will be eliminated if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already.
- We classify companies as highly volatile for these cash flow criteria if cash flow/leverage ratios are expected to move two or three categories worse during periods of stress, based on their business risk profiles. Typically, this is equivalent to EBITDA declining about 50% from its current level. The final cash flow/leverage assessment for these companies will be modified to two categories weaker than the adjusted cash flow/leverage assessment; the adjustment will be eliminated or reduced to one category if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already.

125. The volatility adjustment is the mechanism by which we factor a "cushion" of medium-term variance to current financial performance not otherwise captured in either the near-term base-case forecast or the long-term business risk assessment. We make this adjustment based on the following:

- The expectation of any potential cash flow/leverage ratio movement is both prospective and dependent on the current business or economic conditions.
- Stress scenarios include, but are not limited to, a recessionary economic environment, technology or competitive shifts, loss or renegotiation of major contracts or customers, and key product or input price movements, as typically defined in the company's industry risk profile and competitive position assessment.
- The volatility adjustment is not static and is company specific. At the bottom of an economic cycle or during periods of stressed business conditions, already reflected in the general industry risk or specific competitive risk profile, the prospect of weakening ratios is far less than at the peak of an economic cycle or business conditions.
- The expectation of prospective ratio changes may be formed by observed historical performance over an economic, business, or product cycle by the company or by peers.
- The assessment of which classification to use when evaluating the prospective number of scoring category moves will be guided by how close the current ratios are to the transition point (i.e. "buffer" in the current scoring category) and the corresponding amount of EBITDA movement at each scoring transition.

## F. Diversification/Portfolio Effect

126. Under the criteria, diversification/portfolio effect applies to companies that we regard as conglomerates. They are companies that have multiple core business lines that may be operated as separate legal entities. For the purpose of these criteria, a conglomerate would have at least three business lines, each contributing a material source of earnings and cash flow.

127. The criteria aim to measure how diversification or the portfolio effect could improve the anchor of a company with multiple business lines. This approach helps us determine how the credit strength of a corporate entity with a given mix of business lines could improve based on its diversity. The competitive position factor assesses the benefits of diversity within individual lines of business. This factor also assesses how poorly performing businesses within a conglomerate affect the organization's overall business risk profile.

128. Diversification/portfolio effect could modify the anchor depending on how meaningful we think the diversification is, and on the degree of correlation we find in each business line's sensitivity to economic cycles. This assessment will have either a positive or neutral impact on the anchor. We capture any potential factor that weakens a company's diversification, including poor management, in our management and governance assessment.

129. We define a conglomerate as a diversified company that is involved in several industry sectors. Usually the smallest of at least three distinct business segments/lines would contribute at least 10% of either EBITDA or FOCF and the largest would contribute no more than 50% of EBITDA or FOCF, with the long-term aim of increasing shareholder value by generating cash flow. Industrial conglomerates usually hold a controlling stake in their core businesses, have highly identifiable holdings, are deeply involved in the strategy and management of their operating companies, generally do not frequently roll over or reshuffle their holdings by buying and selling companies, and therefore have high long-term exposure to the operating risks of their subsidiaries.

130. In rating a conglomerate, we first assess management's commitment to maintain the diversified portfolio over a longer-term horizon. These criteria apply only if the company falls within our definition of a conglomerate.

### 1. Assessing diversification/portfolio effect

131. A conglomerate's diversification/portfolio effect is assessed as 1, significant diversification; 2, moderate diversification; or 3, neutral. An assessment of moderate diversification or significant diversification potentially raises the issuer's anchor. To achieve an assessment of significant diversification, an issuer should have uncorrelated diversified businesses whose breadth is among the most comprehensive of all conglomerates'. This assessment indicates that we expect the conglomerate's earnings volatility to be much lower through an economic cycle than an undiversified company's. To achieve an assessment of moderate diversification, an issuer typically has a range of uncorrelated diversified businesses that provide meaningful benefits of diversification with the expectation of lower earnings volatility through an economic cycle than an undiversified company's.

132. We expect that a conglomerate will also benefit from diversification if its core assets consistently produce positive cash flows over our rating horizon. This supports our assertion that the company diversifies to take advantage of allocating capital among its business lines. To this end, our analysis focuses on a conglomerate's track record of successfully deploying positive discretionary cash flow into new business lines or expanding capital-hungry business lines. We assess companies that we do not expect to achieve these benefits as neutral.

### 2. Components of correlation and how it is incorporated into our analysis

133. We determine the assessment for this factor based on the number of business lines in separate industries (as described in table 27) and the degree of correlation between these business lines as described in table 20. There is no rating uplift for an issuer with a small number of business lines that are highly correlated. By contrast, a larger number of business lines that are not closely correlated provide the maximum rating uplift.

Table 20

#### Assessing Diversification/Portfolio Effect

Degree of correlation of business lines	--Number of business lines--		
	3	4	5 or more
High	Neutral	Neutral	Neutral
Medium	Neutral	Moderately diversified	Moderately diversified
Low	Moderately diversified	Significantly diversified	Significantly diversified

134. The degree of correlation of business lines is high if the business lines operate within the same industry, as defined by the industry designations in Appendix B, table 27. The degree of correlation of business lines is medium if the business lines operate within different industries, but operate within the same geographic region (for further guidance on defining geographic regions, see Appendix A, table 26). An issuer has a low degree of correlation across its business lines if these business lines are both a) in different industries and b) either operate in different regions or operate in multiple regions.

135. If we believe that a conglomerate's various industry exposures fail to provide a partial hedge against the consolidated entity's volatility because they are highly correlated through an economic cycle, then we assess the diversification/portfolio effect as neutral.

## G. Capital Structure

136. Standard & Poor's uses its capital structure criteria to assess risks in a company's capital structure that may not show up in our standard analysis of cash flow/leverage. These risks may exist as a result of maturity date or currency mismatches between a company's sources of financing and its assets or cash flows. These can be compounded by outside risks, such as volatile interest rates or currency exchange rates.

### 1. Assessing capital structure

137. Capital structure is a modifier category, which adjusts the initial anchor for a company after any modification due to diversification/portfolio effect. We assess a number of subfactors to determine the capital structure assessment, which can then raise or lower the initial anchor by one or more notches--or have no effect in some cases. We assess capital structure as 1, very positive; 2, positive; 3, neutral; 4, negative; or 5, very negative. In the large majority of cases, we believe that a firm's capital structure will be assessed as neutral. To assess a company's capital structure, we analyze four subfactors:

- Currency risk associated with debt,
- Debt maturity profile (or schedule),
- Interest rate risk associated with debt, and
- Investments.

138. Any of these subfactors can influence a firm's capital structure assessment, although some carry greater weight than others, based on a tiered approach:

- Tier one risk subfactors: Currency risk of debt and debt maturity profile, and
- Tier two risk subfactor: Interest rate risk of debt.

139. The initial capital structure assessment is based on the first three subfactors (see table 21). We may then adjust the preliminary assessment based on our assessment of the fourth subfactor, investments.

**Table 21**

**Preliminary Capital Structure Assessment**

**Preliminary capital structure assessment    Subfactor assessments**

Neutral	No tier one subfactor is negative.
Negative	One tier one subfactor is negative, and the tier two subfactor is neutral.
Very negative	Both tier one subfactors are negative, or one tier one subfactor is negative and the tier two subfactor is negative.

140. Tier one subfactors carry the greatest risks, in our view, and, thus, could have a significant impact on the capital structure assessment. This is because, in our opinion, these factors have a greater likelihood of affecting credit metrics and potentially causing liquidity and refinancing risk. The tier two subfactor is important in and of itself, but typically less so than the tier one subfactors. In our view, in the majority of cases, the tier two subfactor in isolation has a lower likelihood of leading to liquidity and default risk than do tier one subfactors.

141. The fourth subfactor, investments, as defined in paragraph 153, quantifies the impact of a company's investments on its overall financial risk profile. Although not directly related to a firm's capital structure decisions, certain investments could provide a degree of asset protection and potential financial flexibility if they are monetized. Thus, the fourth subfactor could modify the preliminary capital structure assessment (see table 22). If the subfactor is assessed as neutral, then the preliminary capital structure assessment will stand. If investments is assessed as positive or very positive, we adjust the preliminary capital structure assessment upward (as per table 22) to arrive at the final assessment.

**Table 22**

**Final Capital Structure Assessment**

**--Investments subfactor assessment--**

Preliminary capital structure assessment	Neutral	Positive	Very positive
Neutral	Neutral	Positive	Very positive
Negative	Negative	Neutral	Positive
Very negative	Very negative	Negative	Negative

**2. Capital structure analysis: Assessing the subfactors**

**a) Subfactor 1: Currency risk of debt**

142. Currency risk arises when a company borrows without hedging in a currency other than the currency in which it generates revenues. Such an unhedged position makes the company potentially vulnerable to fluctuations in the exchange rate between the two currencies, in the absence of mitigating factors. We determine the materiality of any mismatch by identifying situations where adverse exchange-rate movements could weaken cash flow and/or leverage ratios. We do not include currency mismatches under the following scenarios:

- The country where a company generates its cash flows has its currency pegged to the currency in which the company has borrowed, or vice versa (or the currency of cash flows has a strong track record and government policy of stability with the currency of borrowings), examples being the Hong Kong dollar which is pegged to the U.S. dollar, and the Chinese renminbi which is managed in a narrow band to the U.S. dollar (and China's foreign currency reserves are mainly in U.S. dollars). Moreover, we expect such a scenario to continue for the foreseeable future;
- A company has the proven ability, through regulation or contract, to pass through changes in debt servicing costs to its customers; or
- A company has a natural hedge, such as where it may sell its product in a foreign currency and has matched its debt in that same currency.

143. We also recognize that even if an entity generates insufficient same-currency cash flow to meet foreign currency-denominated debt obligations, it could have substantial other currency cash flows it can convert to meet these obligations. Therefore, the relative amount of foreign denominated debt as a proportion of total debt is an important factor in our analysis. If foreign denominated debt, excluding fully hedged debt principal, is 15% or less of total debt, we assess the company as

neutral on currency risk of debt. If foreign-denominated debt, excluding fully hedged debt principal, is greater than 15% of total debt, and debt to EBITDA is greater than 3.0x, we evaluate currency risks through further analysis.

144. If an entity's foreign-denominated debt in a particular currency represents more than 15% of total debt, and if its debt to EBITDA ratio is greater than 3.0x, we identify whether a currency-specific interest coverage ratio indicates potential currency risk. The coverage ratio divides forecasted operating cash flow in each currency by interest payments over the coming 12 months for that same currency. It is often easier to ascertain the geographic breakdown of EBITDA as opposed to operating cash flow. So in situations where we don't have sufficient cash flow information, we may calculate an EBITDA to interest expense coverage ratio in the relevant currencies. If neither cash flow nor EBITDA information is disclosed, we estimate the relevant exposures based on available information.

145. In such an instance, our assessment of this subfactor is negative if we believe any appropriate interest coverage ratio will fall below 1.2x over the next 12 months.

#### **b) Subfactor 2: Debt maturity profile**

146. A firm's debt maturity profile shows when its debt needs to be repaid, or refinanced if possible, and helps determine the firm's refinancing risk. Lengthier and more evenly spread out debt maturity schedules reduce refinancing risk, compared with front-ended and compressed ones, since the former give an entity more time to manage business- or financial market-related setbacks.

147. In evaluating debt maturity profiles, we measure the weighted average maturity (WAM) of bank debt and debt securities (including hybrid debt) within a capital structure, and make simplifying assumptions that debt maturing beyond year five matures in year six.  $WAM = (Maturity1/Total\ Debt)*tenor1 + (Maturity2/Total\ Debt)*tenor2 + \dots (Thereafter/Total\ Debt)*tenor6$

148. In evaluating refinancing risk, we consider risks in addition to those captured under the 12-month to 24-month time-horizons factored in our liquidity criteria (see "[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#)," published Nov. 19, 2013). While we recognize that investment-grade companies may have more certain future business prospects and greater access to capital than speculative-grade companies, all else being equal, we view a company with a shorter maturity schedule as having greater refinancing risk compared to a company with a longer one. In all cases, we assess a company's debt maturity profile in conjunction with its liquidity and potential funding availability. Thus, a short-dated maturity schedule alone is not a negative if we believe the company can maintain enough liquidity to pay off debt that comes due in the near term.

149. Our assessment of this subfactor is negative if the WAM is two years or less, and the amount of these near-term maturities is material in relation to the issuer's liquidity so that under our base-case forecast, we believe the company's liquidity assessment will become less than adequate or weak over the next two years due to these maturities. In certain cases, we may assess a debt maturity profile as negative regardless of whether or not the company passes the aforementioned test. We expect such instances to be rare, and will include scenarios where we believed a concentration of debt maturities within a five-year time horizon poses meaningful refinancing risk, either due to the size of the maturities in relation to the company's liquidity sources, the company's leverage profile, its operating trends, lender relationships, and/or credit market standings.

#### **c) Subfactor 3: Interest rate risk of debt**

150. The interest rate risk of debt subfactor analyzes the company's mix of fixed-rate and floating-rate debt. Generally, a higher proportion of fixed-rate debt leads to greater predictability and stability of interest expense and therefore cash flows. The exception would be companies whose operating cash flows are to some degree correlated with interest rate movements—for example, a regulated utility whose revenues are indexed to inflation—given the typical correlation between nominal interest rates and inflation.

151. The mix of fixed versus floating-rate debt is usually not a significant risk factor for companies with intermediate or better financial profiles, strong profitability, and high interest coverage. In addition, the interest rate environment at a given point in time will play a role in determining the impact of interest rate movements. Our assessment of this subcategory will be negative if a 25% upward shift (e.g., from 2.0% to 2.5%) or a 100 basis-point upward shift (e.g., 2% to 3%) in the base interest rate of the floating rate debt will result in a breach of interest coverage covenants or interest coverage rating thresholds identified in the cash flow/leverage criteria (see section E.3).

152. Many loan agreements for speculative-grade companies contain a clause requiring a percentage of floating-rate debt to be hedged for a period of two to three years to mitigate this risk. However, in many cases the loan matures after the hedge expires, creating a mismatched hedge. We consider only loans with hedges that match the life of the loan to be—effectively—fixed-rate debt.

#### **d) Subfactor 4: Investments**

153. For the purposes of the criteria, investments refer to investments in unconsolidated equity affiliates, other assets where the realizable value isn't currently reflected in the cash flows generated from those assets (e.g. underutilized real-estate property), we do not expect any additional investment or support to be provided to the affiliate, and the investment is not included within Standard & Poor's consolidation scope and so is not incorporated in the company's business and financial risk profile analysis. If equity affiliate companies are consolidated, then the financial benefits and costs of these investments will be captured in our cash flow and leverage analysis. Similarly, where the company's ownership stake does not qualify for consolidation under accounting rules, we may choose to consolidate on a pro rata basis if we believe that the equity affiliates' operating and financing strategy is influenced by the rated entity. If equity investments are strategic and provide the company with a competitive advantage, or benefit a company's scale, scope, and diversity, these factors will be captured in our competitive position criteria and will not be used to assess the subfactor investments as positive. Within the capital structure criteria, we aim to assess nonstrategic financial investments that could provide a degree of asset protection and financial flexibility in the event they are monetized. These investments must be noncore and separable, meaning that a potential divestiture, in our view, has no impact on the company's existing operations.

154. In many instances, the cash flows generated by an equity affiliate, or the proportional share of the associate company's net income, might not accurately reflect the asset's value. This could occur if the equity affiliate is in high growth mode and is currently generating minimal cash flow or net losses. This could also be true of a physical asset, such as real estate. From a valuation standpoint, we recognize the subjective nature of this analysis and the potential for information gaps. As a result, in the absence of a market valuation or a market valuation of comparable companies in the case of minority interests in private entities, we will not ascribe value to these assets.

155. We assess this subfactor as positive or very positive if three key characteristics are met. First, an estimated value can be ascribed to these investments based on the presence of an existing market value for the firm or comparable firms in the same industry. Second, there is strong evidence that the investment can be monetized over an intermediate timeframe—in the case of an equity investment, our opinion of the marketability of the investment would be enhanced by the presence of an existing market value for the firm or comparable firms, as well as our view of market liquidity. Third, monetization of the investment, assuming proceeds would be used to repay debt, would be material enough to positively move existing cash flow and leverage ratios by at least one category and our view on the company's financial policy, specifically related to financial discipline, supports the assessment that the potential proceeds would be used to pay down debt. This subfactor is assessed as positive if debt repayment from the investment sale has the potential to improve cash flow and leverage ratios by one category. We assess



investments as very positive if proceeds upon sale of the investment have the potential to improve cash flow and leverage ratios by two or more categories. If the three characteristics are not met, this subfactor will be assessed as neutral and the preliminary capital structure assessment will stand.

156. We will not assess the investments subfactor as positive or very positive when the anchor is 'b+' or lower unless the three conditions described in paragraph 155 are met, and:

- For issuers with less than adequate or weak liquidity, the company has provided a credible near-term plan to sell the investment.
- For issuers with adequate or better liquidity, we believe that the company, if needed, could sell the investment in a relatively short timeframe.

#### H. Financial Policy

157. Financial policy refines the view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage assessment (see section E). Those assumptions do not always reflect or entirely capture the short-to-medium term event risks or the longer-term risks stemming from a company's financial policy. To the extent movements in one of these factors cannot be confidently predicted within our forward-looking evaluation, we capture that risk within our evaluation of financial policy. The cash flow/leverage assessment will typically factor in operating and cash flows metrics we observed during the past two years and the trends we expect to see for the coming two years based on operating assumptions and predictable financial policy elements, such as ordinary dividend payments or recurring acquisition spending. However, over that period and, generally, over a longer time horizon, the firm's financial policies can change its financial risk profile based on management's or, if applicable, the company's controlling shareholder's (see Appendix E, paragraphs 254-257) appetite for incremental risk or, conversely, plans to reduce leverage. We assess financial policy as 1) positive, 2) neutral, 3) negative, or as being owned by a financial sponsor. We further identify financial sponsor-owned companies as "FS-4", "FS-5", "FS-6", or "FS-6 (minus)" (see section H.2).

#### 1. Assessing financial policy

158. First, we determine if a company is owned by a financial sponsor. Given the intrinsic characteristics and aggressive nature of financial sponsor's strategies (i.e. short- to intermediate-term holding periods and the use of debt or debt-like instruments to maximize shareholder returns), we assign a financial risk profile assessment to a firm controlled by a financial sponsor that reflects the likely impact on leverage due to these strategies and we do not separately analyze management's financial discipline or financial policy framework.

159. If a company is not controlled by a financial sponsor, we evaluate management's financial discipline and financial policy framework. Management's financial discipline measures its tolerance for incremental financial risk or, conversely, its willingness to maintain the same degree of financial risk or to lower it compared with recent cash flow/leverage metrics and our projected ratios for the next two years. The company's financial policy framework assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies. We do not assess these factors for financial sponsor controlled firms.

160. The financial discipline assessments can have a positive or negative influence on an enterprise's overall financial policy assessment, or can have no net effect. Conversely, the financial policy framework assessment cannot positively influence the overall financial policy assessment. It can constrain the overall financial policy assessment to no greater than neutral.

161. The separate assessments of a company's financial policy framework and financial discipline determine the financial policy adjustment.

162. We assess management's financial discipline as 1, positive; 2, neutral; or 3, negative. We determine the assessment by evaluating the predictability of an entity's expansion plans and shareholder return strategies. We take into account, generally, management's tolerance for material and unexpected negative changes in credit ratios or, instead, its plans to rapidly decrease leverage and keep credit ratios within stated boundaries.

163. A company's financial policy framework assessment is: 1, supportive or 2, non-supportive. We make the determination by assessing the comprehensiveness of a company's financial policy framework and whether financial targets are clearly communicated to a large number of stakeholders, and are well defined, achievable, and sustainable.

Table 23

#### Financial Policy Assessments

Assessment	What it means	Guidance
Positive	Indicates that we expect management's financial policy decisions to have a positive impact on credit ratios over the time horizon, beyond what can be reasonably built in our forecasts on the basis of normalized operating and cash flow assumptions. An example would be when a credible management team commits to dispose of assets or raise equity over the short to medium term in order to reduce leverage. A company with a 1 financial risk profile will not be assigned a positive assessment.	If financial discipline is positive, and the financial policy framework is supportive
Neutral	Indicates that, in our opinion, future credit ratios won't differ materially over the time horizon beyond what we have projected, based on our assessment of management's financial policy, recent track record, and operating forecasts for the company. A neutral financial policy assessment effectively reflects a low probability of "event risk," in our view.	If financial discipline is positive, and the financial policy framework is non-supportive. Or when financial discipline is neutral, regardless of the financial policy framework assessment.
Negative	Indicates our view of a lower degree of predictability in credit ratios, beyond what can be reasonably built in our forecasts, as a result of management's financial discipline (or lack of it). It points to high event risk that management's financial policy decisions may depress credit metrics over the time horizon, compared with what we have already built in our forecasts based on normalized operating and cash flow assumptions.	If financial discipline is negative, regardless of the financial policy framework assessment
Financial Sponsor*	We define a financial sponsor as an entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short to intermediate time frame. Accordingly, the financial risk profile we assign to companies that are controlled by financial sponsors	We define financial sponsor-owned companies as companies that are owned 40% or more by a financial sponsor or a group of three or less financial sponsors and where we consider that the

ordinarily reflects our presumption of some deterioration in credit quality in the medium term. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons.

sponsor(s) exercise control of the company solely or together.

\*Assessed as FS-4, FS-5, FS-6, or FS-6 (minus).

## 2. Financial sponsor-controlled companies

164. We define a financial sponsor as an entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short-to-intermediate time frame. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons.

165. We define financial sponsor-owned companies as companies that are owned 40% or more by a financial sponsor or a group of three or less financial sponsors and where we consider that the sponsor(s) exercise control of the company solely or together.

166. We differentiate between financial sponsors and other types of controlling shareholders and companies that do not have controlling shareholders based on our belief that short-term ownership—such as exists in private equity sponsor-owned companies—generally entails financial policies aimed at achieving rapid returns for shareholders typically through aggressive debt leverage.

167. Financial sponsors often dictate policies regarding risk-taking, financial management, and corporate governance for the companies that they control. There is a common pattern of these investors extracting cash in ways that increase the companies' financial risk by utilizing debt or debt like instruments. Accordingly, the financial risk profile we assign to companies that are controlled by financial sponsors ordinarily reflect our presumption of some deterioration in credit quality or steadily high leverage in the medium term.

168. We assess the influence of financial sponsor ownership as "FS-4", "FS-5", "FS-6", and "FS-6 (minus)" depending on how aggressive we assume the sponsor will be and assign a financial risk profile accordingly (see table 24).

169. Generally, financial sponsor-owned issuers will receive an assessment of "FS-6" or "FS-6 (minus)", leading to a financial risk profile assessment of '6', under the criteria. A "FS-6" assessment indicates that, in our opinion, forecasted credit ratios in the medium term are likely to be consistent with a '6' financial risk profile, based on our assessment of the financial sponsor's financial policy and track record. A "FS-6 (minus)" will likely be applied to companies that we forecast to have near-term credit ratios consistent with a '6' financial risk profile, but we believe the financial sponsor to be very aggressive and that leverage could increase materially even further from our forecasted levels.

170. In a small minority of cases, a financial sponsor-owned entity could receive an assessment of "FS-5". This assessment will apply only when we project that the company's leverage will be consistent with a '5' (aggressive) financial risk profile (see tables 17, 18, and 19), we perceive that the risk of releveraging is low based on the company's financial policy and our view of the owner's financial risk appetite, and liquidity is at least adequate.

171. In even rarer cases, we could assess the financial policy of a financial sponsor-owned entity as "FS-4". This assessment will apply only when all of the following conditions are met: other shareholders own a material (generally, at least 20%) stake, we expect the sponsor to relinquish control over the intermediate term, we project that leverage is currently consistent with a '4' (significant) financial risk profile (see tables 17, 18, and 19), the company has said it will maintain leverage at or below this level, and liquidity is at least adequate.



Table 24

### Financial Risk Profile Implications For Sponsor-Owned Issuers

Assessment	What it Means	Guidance
FS-4	Financial risk profile set at '4'	<p>Issuer must meet all of the following conditions:</p> <ul style="list-style-type: none"> <li>• Other shareholders must own a material (no less than 20%) stake;</li> <li>• We anticipate that the sponsor will relinquish control over the medium term;</li> <li>• For issuers subject to Table 17 (standard volatility), debt to EBITDA is less than 4x, and we estimate that it will remain less than 4x. For issuers that are subject to Table 18 (medial volatility), debt to EBITDA is below 4.5x and we forecast it to remain below that level. Or for issuers subject to Table 19 (low volatility), debt to EBITDA is less than 5x and our estimation is it will remain below that level;</li> <li>• The company has indicated a financial policy stipulating a level of leverage consistent with a significant or better financial risk profile (that is, debt to EBITDA of less than 4x when applying standard volatility tables, 4.5x when applying medial volatility tables, or less than 5x when applying low volatility tables) and</li> <li>• We assess liquidity to be at least adequate, with adequate covenant headroom.</li> </ul>
FS-5	Financial risk profile set at '5'	<p>Issuer must meet all of the following conditions:</p> <ul style="list-style-type: none"> <li>• For issuers subject to the standard volatility table, debt to EBITDA is less than 5x, and we estimate that it will remain less than 5x. For issuers that are subject to the medial volatility table, debt to EBITDA is below 5.5x and we forecast it to remain below that level. Or for issuers subject to the low volatility table, debt to EBITDA is less than 6x and our estimation is it will remain below that level;</li> <li>• We believe the risk of releveraging beyond 5x (standard volatility issuer), 5.5x (medial volatility issuer), or 6x (low volatility issuer) is low; and</li> <li>• We assess liquidity to be at least adequate, with adequate covenant headroom.</li> </ul>
FS-6	Financial risk profile set at '6'	Standard & Poor's debt to EBITDA is greater than 5x (when applying the standard volatility table), greater than 5.5x (when applying the medial volatility table), or greater than 6x (when applying the low volatility table). However, we believe leverage is unlikely to increase meaningfully beyond these levels.
FS-6 (minus)	Financial risk profile set at '6', and anchor reduced by one notch (unless this results in a final rating below 'B-')	In determining the anchor the financial risk profile is a '6', but we believe the track record of the financial sponsor indicates that leverage could increase materially from already high levels.

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### 3. Companies not controlled by a financial sponsor

172. For companies not controlled by a financial sponsor we evaluate management's financial discipline and financial policy framework to determine the influence on an entity's financial risk profile beyond what is implied by recent credit ratios and our cash flow and leverage forecasts. This influence can be positive, neutral, or negative.

173. We do not distinguish between management and a controlling shareholder that is not a financial sponsor when assessing these subfactors, as the controlling shareholder usually has the final say on financial policy.

#### a) Financial discipline

174. The financial discipline assessment is based on management's leverage tolerance and the likelihood of event risk. The criteria evaluate management's potential appetite to incur unforeseen, higher financial risk over a prolonged period and the associated impact on credit measures. We also assess management's capacity and commitment to rapidly decrease debt leverage to levels consistent with its credit ratio targets.

175. This assessment therefore seeks to determine whether unforeseen actions by management to increase, maintain, or reduce financial risk are likely to occur during the next two to three years, with either a negative or positive effect, or none at all, on our baseline forecasts for the period.

176. This assessment is based on the leverage tolerance of a company's management, as reflected in its plans or history of acquisitions, shareholder remuneration, and organic growth strategies (see Appendix E, paragraphs 258 to 263).

177. We assess financial discipline as positive, neutral, or negative, based on its potential impact on our forward-looking assessment of a firm's cash flow/leverage, as detailed in table 25. For example, a neutral assessment for leverage tolerance reflects our expectation that management's financial policy will unlikely lead to significant deviation from current and forecasted credit ratios. A negative assessment acknowledges a significant degree of event risk of increased leverage relative to our base-case forecast, resulting from the company's acquisition policy, its shareholder remuneration policy, or its organic growth strategy. A positive assessment

indicates that the company is likely to take actions to reduce leverage, but we cannot confidently incorporate these actions into our baseline forward-looking assessment of cash flow/leverage.

178.A positive assessment indicates that management is committed and has the capacity to reduce debt leverage through the rapid implementation of credit enhancing measures, such as asset disposals, rights issues, or reductions in shareholder returns. In addition, management's track record over the past five years shows that it has taken actions to rapidly reduce unforeseen increases in debt leverage and that there have not been any prolonged periods when credit ratios were weaker than our expectations for the rating. Management, even if new, also has a track record of successful execution. Conversely, a negative assessment indicates management's financial policy allows for significant increase in leverage compared with both current levels and our forward-looking forecast under normal operating/financial conditions or does not have observable time limits or stated boundaries. Management has a track record of allowing for significant and prolonged peaks in leverage and there is no commitment or track record of management using mitigating measures to rapidly return to credit ratios consistent with our expectations.

179.As evidence of management's leverage tolerance, we evaluate its track record and plans regarding acquisitions, shareholder remuneration, and organic growth strategies (see Appendix E, paragraphs 258 to 263). Acquisitions could increase the risk that leverage will be higher than our base-case forecast if we view management's strategy as opportunistic or if its financial policy (if it exists) provides significant headroom for debt-financed acquisitions. Shareholder remuneration could also increase the risk of leverage being higher than our base-case forecast if management's shareholder reward policies are not particularly well defined or have no clear limits, management has a tolerance for shareholder returns exceeding operating cash flow, or has a track record of sustained cash returns despite weakening operating performance or credit ratios. Organic growth strategies can also result in leverage higher than our base-case forecast if these plans have no clear focus or investment philosophy, capital spending is fairly unpredictable, or there is a track record of overspending or unexpected or rapid shifts in plans for new markets or products.

180.We also take into account management's track record and level of commitment to its stated financial policies, to the extent a company has a stated policy. Historical evidence and any deviations from stated policies are key elements in analyzing a company's leverage tolerance. Where material and unexpected deviation in leverage may occur (for example, on the back of operating weakness or acquisitions), we also assess management's plan to restore credit ratios to levels consistent with previous expectations through rapid and proactive non-organic measures. Management's track record to execute its deleveraging plan, its level of commitment, and the scope and timeframe of debt mitigating measures will be key differentiators in assessing a company's financial policy discipline.

Table 25

#### Assessing Financial Discipline

Descriptor	What it means	Guidance
Positive	Management is likely to take actions that result in leverage that is lower than our base-case forecast, but can't be confidently included in our base-case assumptions. Event risk is low.	Management is committed and has capacity to reduce debt leverage and increase financial headroom through the rapid implementation of credit enhancing measures, in line with its stated financial policy, if any. This relates primarily to management's careful and moderate policy with regard to acquisitions and shareholder remuneration as well as to its organic growth strategy. The assessments are supported by historical evidence over the past five years of not showing any prolonged weakening in the company's credit ratios, or relative to our base-case credit metrics' assumptions. Management, even if new, has a track record of successful execution.
Neutral	Leverage is not expected to deviate materially from our base-case forecast. Event risk is moderate.	Management's financial discipline with regard to acquisitions, shareholder remuneration, as well as its organic growth strategy does not result in significantly different leverage as defined in its stated financial policy framework.
Negative	Leverage could become materially higher than our base-case forecast. Event risk is high.	Management's financial policy framework does not explicitly rule out a significant increase in leverage compared to our base-case assumptions, possibly reflecting a greater event risk with regard to its M&A and shareholder remuneration policy as well as to its organic growth strategy. These points are supported by historical evidence over the past five years of allowing for significant and prolonged peaks in leverage, which remained unmitigated by credit supporting measures by management.

#### b) Financial policy framework

181.The company's financial policy framework assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies (see Appendix E, paragraphs 264-268). This will help determine whether there is a satisfactory degree of visibility into the issuer's future financial risk profile. Companies that have developed and sustained a comprehensive set of financial policies are more likely to build long-term, sustainable credit quality than those that do not.

182.We will assess a company's financial policy framework as supportive or non-supportive based on evidence that supports the characteristics listed below. In order for an entity to receive a supportive assessment for financial policy framework, there must be sufficient evidence of management's financial policies to back that assessment.

183.A company assessed as supportive will generally exhibit the following characteristics:

- Management has a comprehensive set of financial policies covering key areas of financial risk, including debt leverage and liability management. Financial targets are well defined and quantifiable.
- Management's financial policies are clearly articulated in public forums (such as public listing disclosures and investor presentations) or are disclosed to a limited number of key stakeholders such as main creditors or to the credit rating agencies. The company's adherence to these policies is satisfactory.
- Management's articulated financial policies are considered achievable and sustainable. This assessment takes into consideration historical adherence to articulated policies, existing financial risk profile, capacity to sustain capital structure through nonorganic means, demands of key stakeholders, and the stability of financial policy parameters over time.

184.A company receives a non-supportive assessment if it does not meet all the conditions for a supportive assessment. We expect a non-supportive assessment to be uncommon.

## I. Liquidity

185. Our assessment of liquidity focuses on monetary flows--the sources and uses of cash--that are the key indicators of a company's liquidity cushion. The analysis assesses the potential for a company to breach covenant tests related to declines in EBITDA, as well as its ability to absorb high-impact, low-probability events, the nature of the company's bank relationships, its standing in credit markets, and how prudent (or not) we believe its financial risk management to be (see "[Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#)," published Nov. 19, 2013).

## J. Management And Governance

186. The analysis of management and governance addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance. Stronger management of important strategic and financial risks may enhance creditworthiness (see "[Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#)," published Nov. 13, 2012).

## K. Comparable Ratings Analysis

187. The comparable ratings analysis is our last step in determining a SACP on a company. This analysis can lead us to raise or lower our anchor, after adjusting for the modifiers, on a company by one notch based on our overall assessment of its credit characteristics for all subfactors considered in arriving at the SACP. This involves taking a holistic review of a company's stand-alone credit risk profile, in which we evaluate an issuer's credit characteristics in aggregate. A positive assessment leads to a one-notch upgrade, a negative assessment leads to a one-notch downgrade, and a neutral assessment indicates no change to the anchor.

188. The application of comparable ratings analysis reflects the need to "fine-tune" ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be common rather than exceptional.

189. We consider our assessments of each of the underlying subfactors to be points within a possible range. Consequently, each of these assessments that ultimately generate the SACP can be at the upper or lower end, or at the mid-point, of such a range:

- A company receives a positive assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be at the higher end of the range;
- A company receives a negative assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be at the lower end of the range;
- A company receives a neutral assessment if we believe, in aggregate, its relative ranking across the subfactors typically to be in line with the middle of the range.

190. The most direct application of the comparable ratings analysis is in the following circumstances:

- Business risk assessment. If we expect a company to sustain a position at the higher or lower end of the ranges for the business risk category assessment, the company could receive a positive or negative assessment, respectively.
- Financial risk assessment and financial metrics. If a company's actual and forecasted metrics are just above (or just below) the financial risk profile range, as indicated in its cash flow/leverage assessment, we could assign a positive or negative assessment.

191. We also consider additional factors not already covered, or existing factors not fully captured, in arriving at the SACP. Such factors will generally reflect less frequently observed credit characteristics, may be unique, or may reflect unpredictability or uncertain risk attributes, both positive and negative.

192. Some examples that we typically expect could lead to a positive or negative assessment using comparable ratings analysis include:

- Short operating track record. For newly formed companies or companies that have experienced transformational events, such as a significant acquisition, a lack of an established track record of operating and financial performance could lead to a negative assessment until such a track record is established.
- Entities in transition. A company in the midst of changes that we anticipate will strengthen or weaken its creditworthiness and that are not already fully captured elsewhere in the criteria could receive a positive or negative assessment. Such a transition could occur following major divestitures or acquisitions, or during a significant overhaul of its strategy, business, or financial structure.
- Industry or macroeconomic trends. When industry or macroeconomic trends indicate a strengthening or weakening of the company's financial condition that is not already fully captured elsewhere in the criteria, the company could receive a positive or negative assessment, respectively.
- Unusual funding structures. A company with exceptional financial resources that the criteria do not capture in the traditional ratio or liquidity analysis, or in capital structure analysis, could receive a positive assessment.
- Contingent risk exposures. How well (or not) a company identifies, manages, and reserves for contingent risk exposures that can arise if guarantees are called, derivative contract break clauses are activated, or substantial lawsuits are lost could lead to a negative assessment.

## SUPERSEDED CRITERIA FOR ISSUERS WITHIN THE SCOPE OF THESE CRITERIA

- [Companies Owned By Financial Sponsors: Rating Methodology](#), March 21, 2013
- [Methodology: Business Risk/Financial Risk Matrix Expanded](#), Sept. 18, 2012
- [How Stock Prices Can Affect An Issuer's Credit Rating](#), Sept. 26, 2008
- [2008 Corporate Criteria: Analytical Methodology](#), April 15, 2008
- [Credit FAQ: Knowing The Investors In A Company's Debt And Equity](#), April 4, 2006

## RELATED CRITERIA

- [Methodology: Industry Risk](#), Nov. 19, 2013
- [Corporate Criteria: Ratios And Adjustments](#), Nov. 19, 2013

- [Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Nov. 19, 2013
- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), Nov. 13, 2012
- [Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#), Oct. 1, 2012
- [Principles Of Credit Ratings](#), published Feb. 16, 2011
- [Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010
- [Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt](#), Aug. 10, 2009
- [2008 Corporate Criteria: Rating Each Issue](#), April 15, 2008

## APPENDIXES

### A. Country Risk

Table 26

#### Country And Regional Risk

##### Region

Western Europe

Southern Europe

Western + Southern Europe

East Europe

Central Europe

Eastern Europe and Central Asia

Middle East

Africa

North America

Central America

Latin America

The Caribbean

Asia-Pacific

Central Asia

East Asia

Australia NZ

Country	Region	GDP weighting (%)
South Africa	Africa	30.2
Egypt	Africa	28.0
Nigeria	Africa	23.5
Morocco	Africa	8.9
Tunisia	Africa	5.4

Senegal	Africa	1.4
Mozambique	Africa	1.4
Zambia	Africa	1.2
Indonesia	Asia-Pacific	27.1
Taiwan	Asia-Pacific	20.1
Thailand	Asia-Pacific	14.4
Malaysia	Asia-Pacific	11.0
Philippines	Asia-Pacific	9.5
Vietnam	Asia-Pacific	7.1
Bangladesh	Asia-Pacific	6.8
Sri Lanka	Asia-Pacific	2.8
Laos	Asia-Pacific	0.4
Papua New Guinea	Asia-Pacific	0.4
Mongolia	Asia-Pacific	0.3
Australia	Australia NZ	88.2
New Zealand	Australia NZ	11.8
Guatemala	Central America	40.5
Costa Rica	Central America	30.2
Panama	Central America	29.3
India	Central Asia	86.5
Pakistan	Central Asia	9.3
Kazakhstan	Central Asia	4.2
Poland	Central Europe	46.3
Czech Republic	Central Europe	16.6
Hungary	Central Europe	11.3
Slovakia	Central Europe	7.7
Bulgaria	Central Europe	6.0
Croatia	Central Europe	4.6
Lithuania	Central Europe	3.8
Latvia	Central Europe	2.1
Estonia	Central Europe	1.6
China	East Asia	64.5
Japan	East Asia	23.6
Korea	East Asia	8.4
Hong Kong	East Asia	1.9

Singapore	East Asia	1.7
Greece	East Europe	77.5
Slovenia	East Europe	16.0
Cyprus	East Europe	6.5
Russia	Eastern Europe and Central Asia	80.4
Ukraine	Eastern Europe and Central Asia	10.8
Belarus	Eastern Europe and Central Asia	4.8
Azerbaijan	Eastern Europe and Central Asia	3.2
Georgia	Eastern Europe and Central Asia	0.9
Brazil	Latin America	35.3
Mexico	Latin America	26.3
Argentina	Latin America	11.1
Colombia	Latin America	7.5
Venezuela	Latin America	6.0
Peru	Latin America	4.9
Chile	Latin America	4.8
Ecuador	Latin America	2.0
Uruguay	Latin America	0.8
El Salvador	Latin America	0.7
Paraguay	Latin America	0.6
Belize	Latin America	0.0
Turkey	Middle East	42.8
Saudi Arabia	Middle East	28.2
Israel	Middle East	9.4
Qatar	Middle East	7.2
Kuwait	Middle East	6.3
Oman	Middle East	3.4
Jordan	Middle East	1.5
Bahrain	Middle East	1.2
United States	North America	91.5
Canada	North America	8.5
Italy	Southern Europe	52.6
Spain	Southern Europe	40.4
Portugal	Southern Europe	7.0
Dominican Republic	The Caribbean	75.4

Jamaica	The Caribbean	19.2
Barbados	The Caribbean	5.4
Germany	Western Europe	28.7
United Kingdom	Western Europe	21.3
France	Western Europe	20.7
Netherlands	Western Europe	6.5
Belgium	Western Europe	3.9
Sweden	Western Europe	3.6
Switzerland	Western Europe	3.3
Austria	Western Europe	3.3
Norway	Western Europe	2.6
Denmark	Western Europe	1.9
Finland	Western Europe	1.8
Ireland	Western Europe	1.8
Luxembourg	Western Europe	0.4
Iceland	Western Europe	0.1
Malta	Western Europe	0.1

#### B. Competitive Position

**Table 27**

#### List Of Industries, Subsectors, And Standard Competitive Position Group Profiles

Industry	Subsector	Competitive position group profile
Transportation cyclical	Airlines	Capital or asset focus
	Marine	Capital or asset focus
	Trucking	Capital or asset focus
Auto OEM	Automobile and truck manufacturers	Capital or asset focus
Metals and mining downstream	Aluminum	Commodity focus/cost driven
	Steel	Commodity focus/cost driven
Metals and mining upstream	Coal and consumable fuels	Commodity focus/cost driven
	Diversified metals and mining	Commodity focus/cost driven
	Gold	Commodity focus/cost driven
	Precious metals and minerals	Commodity focus/cost driven
Homebuilders and developers	Homebuilding	Capital or asset focus
Oil and gas refining and marketing	Oil and gas refining and marketing	Commodity focus/scale driven
Forest and paper products	Forest products	Commodity focus/cost driven
	Paper products	Commodity focus/cost driven

Building Materials	Construction materials	Capital or asset focus
Oil and gas integrated, exploration and production	Integrated oil and gas	Commodity focus/scale driven
	Oil and gas exploration and production	Commodity focus/scale driven
Agribusiness and commodity foods	Agricultural products	Commodity focus/scale driven
Real estate investment trusts (REITs)	Diversified REITs	Real-estate specific*
	Health care REITs	Real-estate specific*
	Industrial REITs	Real-estate specific*
	Office REITs	Real-estate specific*
	Residential REITs	Real-estate specific*
	Retail REITs	Real-estate specific*
	Specialized REITs	Not applicable**
	Self-storage REITs	Real-estate specific*
	Net lease REITs	Real-estate specific*
	Real estate operating companies	Real-estate specific*
Leisure and sports	Casinos and gaming	Services and product focus
	Hotels, resorts, and cruise lines	Services and product focus
	Leisure facilities	Services and product focus
Commodity chemicals	Commodity chemicals	Commodity focus/cost driven
	Diversified chemicals	Commodity focus/cost driven
	Fertilizers and agricultural chemicals	Commodity focus/cost driven
Auto suppliers	Auto parts and equipment	Capital or asset focus
	Tires and rubber	Capital or asset focus
	Vehicle-related suppliers	Capital or asset focus
Aerospace and defense	Aerospace and defense	Services and product focus
Technology hardware and semiconductors	Communications equipment	Capital or asset focus
	Computer hardware	Capital or asset focus
	Computer storage and peripherals	Capital or asset focus
	Consumer electronics	Capital or asset focus
	Electronic equipment and instruments	Capital or asset focus
	Electronic components	Capital or asset focus
	Electronic manufacturing services	Capital or asset focus
	Technology distributors	Capital or asset focus
	Office electronics	Capital or asset focus
	Semiconductor equipment	Capital or asset focus
	Semiconductors	Capital or asset focus



Specialty Chemicals	Industrial gases	Capital or asset focus
	Specialty chemicals	Capital or asset focus
Capital Goods	Electrical components and equipment	Capital or asset focus
	Heavy equipment and machinery	Capital or asset focus
	Industrial componentry and consumables	Capital or asset focus
	Construction equipment rental	Capital or asset focus
	Industrial distributors	Services and product focus
Engineering and construction	Construction and engineering	Services and product focus
Railroads and package express	Railroads	Capital or asset focus
	Package express	Services and product focus
	Logistics	Services and product focus
Business and consumer services	Consumer services	Services and product focus
	Distributors	Services and product focus
	Facilities services	Services and product focus
	General support services	Services and product focus
	Professional services	Services and product focus
Midstream energy	Oil and gas storage and transportation	Commodity focus/scale driven
Technology software and services	Internet software and services	Services and product focus
	IT consulting and other services	Services and product focus
	Data processing and outsourced services	Services and product focus
	Application software	Services and product focus
	Systems software	Services and product focus
	Consumer software	Services and product focus
Consumer durables	Home furnishings	Services and product focus
	Household appliances	Services and product focus
	Housewares and specialties	Services and product focus
	Leisure products	Services and product focus
	Photographic products	Services and product focus
	Small appliances	Services and product focus
Containers and packaging	Metal and glass containers	Capital or asset focus
	Paper packaging	Capital or asset focus
Media and entertainment	Ad agencies and marketing services companies	Services and product focus
	Ad-supported internet content platforms	Services and product focus
	Broadcast TV networks	Services and product focus
	Cable TV networks	Services and product focus

	Consumer and trade magazines	Services and product focus
	Data/professional publishing	Services and product focus
	Directories	Services and product focus
	E-Commerce (services)	Services and product focus
	Educational publishing	Services and product focus
	Film and TV programming production	Capital or asset focus
	Miscellaneous media and entertainment	Services and product focus
	Motion picture exhibitors	Services and product focus
	Music publishing	Services and product focus
	Music recording	Services and product focus
	Newspapers	Services and product focus
	Outdoor advertising	Services and product focus
	Printing	Commodity focus/scale driven
	Radio broadcasters	Services and product focus
	Trade shows	Services and product focus
	TV stations	Services and product focus
Oil and gas drilling, equipment and services	Onshore contract drilling	Commodity focus/scale driven
	Offshore contract drilling	Capital or Asset Focus
	Oil and gas equipment and services (oilfield services)	Commodity focus/scale driven
Retail and restaurants	Catalog retail	Services and product focus
	Internet retail	Services and product focus
	Department stores	Services and product focus
	General merchandise stores	Services and product focus
	Apparel retail	Services and product focus
	Computer and electronics retail	Services and product focus
	Home improvement retail	Services and product focus
	Specialty stores	Services and product focus
	Automotive retail	Services and product focus
	Home furnishing retail	Services and product focus
Health care services	Health care services	Commodity focus/scale driven
Transportation infrastructure	Airport services	National industries and utilities
	Highways	National industries and utilities
	Railtracks	National industries and utilities
	Marine ports and services	National industries and utilities
Environmental services	Environmental and facilities services	Services and product focus

Regulated utilities	Electric utilities	National industries and utilities
	Gas utilities	National industries and utilities
	Multi-utilities	National industries and utilities
	Water utilities	National industries and utilities
Unregulated power and gas	Independent power producers and energy traders	Capital or asset focus
	Merchant power	Capital or asset focus
Pharmaceuticals	Branded pharmaceuticals	Services and product focus
	Generic pharmaceuticals	Commodity focus/scale driven
Health care equipment	High-tech health care equipment	Product focus/scale driven
	Low-tech health care equipment	Commodity focus/scale driven
Branded nondurables	Brewers	Services and product focus
	Distillers and vintners	Services and product focus
	Soft drinks	Services and product focus
	Packaged foods and meats	Services and product focus
	Tobacco	Services and product focus
	Household products	Services and product focus
	Apparel, footwear, accessories, and luxury goods	Services and product focus
	Personal products	Services and product focus
Telecommunications and cable	Cable and satellite	Services and product focus
	Alternative carriers	Services and product focus
	Integrated telecommunication services	Services and product focus
	Wireless towers	Capital or asset focus
	Data center operators	Capital or asset focus
	Fiber-optic carriers	Capital or asset focus
	Wireless telecommunication services	Services and product focus

\*See "Key Credit Factors For The Real Estate Industry," published Nov. 19, 2013. \*\*For specialized REITs, there is no standard CPGP, as the CPGP will vary based on the underlying industry exposure (e.g. a forest and paper products REIT).

#### 1. Analyzing subfactors for competitive advantage

193. Competitive advantage is the first component of our competitive position analysis. Companies that possess a sustainable competitive advantage are able to capitalize on key industry factors or mitigate associated risks more effectively. When a company operates in more than one business, we analyze each segment separately to form an overall view of its competitive advantage. In assessing competitive advantage, we evaluate the following subfactors:

- Strategy;
- Differentiation/uniqueness, product positioning/bundling;
- Brand reputation and marketing;
- Product/service quality;
- Barriers to entry, switching costs;
- Technological advantage and capabilities, technological displacement; and
- Asset profile.

#### a) Strategy

194. A company's business strategy will enhance or undermine its market entrenchment and business stability. Compelling business strategies can create a durable competitive advantage and thus a relatively stronger competitive position. We form an opinion as to the source and sustainability (if any) of the company's competitive advantage relative to its peers'. The company may have a differentiation advantage (i.e., brand, technology, regulatory) or a cost advantage (i.e., lower cost producer/servicer at the same quality level), or a combination.

195. Our assessment of a company's strategy is informed by a company's historical performance and how realistic we view its forward-looking business objectives to be. These may include targets for market shares, the percentage of revenues derived from new products, price versus the competition's, sales or profit growth, and required investment levels. We evaluate these objectives in the context of industry dynamics and the attractiveness of the markets in which the company participates.

#### b) Differentiation/uniqueness, product positioning/bundling

196. The attributes of product or service differentiation vary by sector, and may include product or services features, performance, durability, reliability, delivery, and comprehensiveness, among other measures. The intensity of competition may be lower where buyers perceive the product or service to be highly differentiated or to have few substitutes. Conversely, products and services that lack differentiation, or offer little value-added in the eyes of customers, are generally commodity-type products that primarily compete on price. Competition intensity will often be highest where limited or moderate investment (R&D, capital expenditures, or advertising) or low employee skill levels (for service businesses) are required to compete. Independent market surveys, media commentaries, market share trends, and evidence of leading or lagging when it comes to raising or lowering prices can indicate varying degrees of product differentiation.

197. Product positioning influences how companies are able to extend or protect market shares by offering popular products or services. A company's abilities to replace aging products with new ones, or to launch product extensions, are important elements of product positioning. In addition, the ability to sell multiple products or services to the same customer, known as bundling or cross-selling, (for instance, offering an aftermarket servicing contract together with the sale of a new appliance) can create a competitive advantage by increasing customers' switching costs and fostering loyalty.

#### c) Brand reputation and marketing

198. Brand equity measures the price premium a company receives based on its brand relative to the generic equivalent. High brand equity typically translates into customer loyalty, built partially via marketing campaigns. One measure of advertising effectiveness can be revenue growth compared with the increase in advertising expenses.

199. We also analyze re-investment and advertising strategies to anticipate potential strengthening or weakening of a company's brand. A company's track record of boosting market share and delivering attractive margins could indicate its ability to build and maintain brand reputation.

#### d) Product/service level quality

200. The strength and consistency of a value proposition is an important factor contributing to a sustainable competitive advantage. Value proposition encompasses the key features of a product or a service that convince customers that their purchase has the right balance between price and quality. Customers generally perceive a product or a service to be good if their expectations are consistently met. Quality, both actual and perceived, can help a company attract and retain customers. Conversely, poor product and service quality may lead to product recalls, higher-than-normal product warnings, or service interruptions, which may reduce demand. Measures of customer satisfaction and retention, such as attrition rates and contract renewal rates, can help trace trends in product/service quality.

201. Maintaining the value proposition requires consistency and adaptability around product design, marketing, and quality-related operating controls. This is pertinent where product differentiation matters, as is the case in most noncommodity industries, and especially so where environmental or human health (concerns for the chemical, food, and pharmaceutical industries) adds a liability dimension to the quality and value proposition. Similarly, regulated utilities (which often do not set their own prices) typically focus on delivering uninterrupted service, often to meet the standards set by their regulator.

#### e) Barriers to entry, switching costs

202. Barriers to entry can reduce or eliminate the threat of new market entrants. Where they are effective, these barriers can lead to more predictable revenues and profits, by limiting pricing pressures and customer losses, lowering marketing costs, and improving operating efficiency. While barriers to entry may enable premium pricing, a dominant player may rationally choose pricing restraint to further discourage new entrants.

203. Barriers to entry can be one or more of: a natural or regulatory monopoly; supportive regulation; high transportation costs; an embedded customer base that would incur high switching costs; a proprietary product or service; capital or technological intensiveness.

204. A natural monopoly may result from unusually high requirements for capital and operating expenditures that make it uneconomic for a market to support more than a single, dominant provider. The ultimate barrier to entry is found among regulated utilities, which provide an essential service in their 'de juris' monopolies and receive a guaranteed rate of return on their investments. A supportive regulatory regime can include rules and regulations with high hurdles that discourage competitors, or mandate so many obligations for a new entrant as to make market entry financially unviable.

205. In certain industrial sectors, proprietary access to a limited supply of key raw materials or skilled labor, or zoning laws that effectively preclude a new entrant, can provide a strong barrier to entry. Factors such as relationships, long-term contracts or maintenance agreements, or exclusive distribution agreements can result in a high degree of customer stickiness. A proprietary product or service that's protected by a copyright or patent can pose a significant hurdle to new competitors.

#### f) Technological advantage and capabilities, technological displacement

206. A company may benefit from a proprietary technology that enables it to offer either a superior product or a commodity-type product at a materially lower cost. Proven research and development (R&D) capabilities can deliver a differentiated, superior product or service, as in the pharmaceutical or high tech sectors. However, optimal R&D strategies or the importance or effectiveness of patent protection differ by industry, stage of product development, and product lifecycle.

207. Technological displacement can be a threat in many industries; new technologies or extensions of current ones can effectively displace a significant portion of a company's products or services.

#### g) Asset profile

208. A company's asset profile is a reflection of its reinvestment, which creates tangible or intangible assets, or both. Companies in similar sectors and industries usually have similar reinvestment options and, thus, their asset profiles tend to be comparable. The reinvestment in "heavy" industries, such as oil and gas, metals and mining, and automotive, tends to produce more tangible assets, whereas the reinvestment in certain "light" industries, such as services, media and entertainment, and retail, tends to produce more intangible assets.

209. We evaluate how a company's asset profile supports or undermines its competitive advantage by reviewing its manufacturing or service creation capabilities and investment requirements, its distribution capabilities, and its track record and commitment to reinvesting in its asset base. This may include a review of the company's ability to attract and retain a talented workforce; its degree of vertical integration and how that may help or hinder its ability to secure supply sources, control the value-added part of its production chain, or adjust to technological developments; or its ability develop a broad and strong distribution network.

## 2. Analyzing subfactors for scale, scope, and diversity

210. In assessing the relative strength of this component, we evaluate four subfactors:

- Diversity of product or service range;
- Geographic diversity;
- Volumes, size of markets and revenues, and market shares; and
- Maturity of products or services.

211. In a given industry, entities with a broader mix of business activities are typically lower risk, and entities with a narrower mix are higher risk. High concentration of business volumes by product, customer, or geography, or a concentration in the production footprint or supplier base, can lead to less stable and predictable revenues and profits. Comparatively broader diversity helps a company withstand economic, competitive, or technological threats better than its peers.

212. There is no minimum size criterion, although size often provides a measure of diversification. Size and scope of operations is important relative to those of industry peers, though not in absolute terms. While relatively smaller companies can enjoy a high degree of diversification, they will likely be, almost by definition, more concentrated in terms of product, number of customers, or geography than their larger peers in the same industry.

213. Successful and continuing diversification supports a stronger competitive position. Conversely, poor diversification weakens overall competitive position. For example, a company will weaken its overall business position if it enters new product lines and countries where it has limited expertise and lacks critical mass to be a real competitor to the incumbent market leaders. The weakness is greater when the new products or markets are riskier than the traditional core business.

214. Where applicable, we also include under scale, scope, and diversity an assessment of the potential benefits derived from unconsolidated (or partially consolidated) investments in strategic assets. The relative significance of such an investment and whether it is in an industry that exhibits high or, conversely, low correlation with the issuer's businesses would be considered in determining its potential benefits to scale, scope, and diversity. This excludes nonstrategic, financial investments, the analysis of which does not fall under the competitive position criteria but, instead, under the capital structure criteria.

### a) Diversity of product or service range

215. The concentration of business volumes or revenues in a particular or comparatively small set of products or services can lead to less stable revenues and profits. Even if this concentration is in an attractive product or service, it may be a weakness. Likewise, the concentration of business volumes with a particular customer or a small group of customers, or the reliance on one or a few suppliers, can expose the company to a potentially greater risk of losing and having to replace related revenues and profits. On the other hand, successful diversification across products, customers, and/or suppliers can lead to more stable and predictable revenues and profits, which supports a stronger assessment of scale, scope, and diversity.

216. The relative contribution of different products or services to a company's revenues or profits helps us gauge its diversity. We also evaluate the correlation of demand between product or services lines. High correlation in demand between seemingly different product or service lines will accentuate volume declines during a weak part of the business cycle.

217. In most sectors, the share of revenue a company receives from its largest five to 10 customers or counterparties reveals how diversified its customer base is. However, other considerations such as the stability and credit quality of that customer base, and the company's ability to retain significant customers, can be mitigating or accentuating factors in our overall evaluation. Likewise, supplier dependency can often be measured based on a supplier's share of a company's operating or capital costs. However, other factors, such as the degree of interdependence between the company and its supplier(s), the substitutability of key supply sources, and the company's presumed ability to secure alternative supply without incurring substantial switching costs, are important considerations. Low switching costs (i.e. limited impact on input price, quality, or delivery times as a result of having to adapt to a new supply chain partner) can mitigate a high level of concentration.

### b) Geographic diversity

218. We assess geographic diversity both from the standpoint of the breadth of the company's served or addressable markets, and from the standpoint of how geographically concentrated its facilities are.

219. The concentration of business volumes and revenues within a particular region can lead to greater exposure to economic factors affecting demand for a company's goods or services in that region. Even if the company's volumes and revenues are concentrated in an attractive region, it may still be vulnerable to a significant drop in demand for its goods and services. Conversely, a company that serves multiple regions may benefit from different demand conditions in each, possibly resulting in greater revenue stability and more consistent profitability than a more focused peer's. That said, we consider geographic diversification in the context of the industry and the size of the local or regional economy. For instance, companies operating in local industries (such as food retailers) may benefit from a well-entrenched local position.

220. Generally, though, geographically concentrated production or service operations can expose a company to the risk of disruption, and damage revenues and profitability. Even when country risks don't appear significant, a company's vulnerability to exogenous factors (for example, natural disasters, labor or political unrest) increases with geographic concentration.

### c) Volumes, size of markets and revenues, market share

221. Absolute sales or unit volumes and market share do not, by themselves, support a strong assessment of scale, scope, and diversity. Yet superior market share is a positive, since it may indicate a broad range of operations, products, or services.

222. We view volume stability (relative to peers') as a positive especially when: a company has demonstrated it during an economic downturn; if it has been achieved without relying on greater price concessions than competitors have made; and when it is likely to be sustained in the future. However, volume stability combined with shrinking market share could be evidence of a company's diminishing prospects for future profitability. We assess the predictability of business volumes and the likely degree of future volume stability by analyzing the company's performance relative to peers' on several industry factors: cyclical; ability to adapt to technological and regulatory threats; the profile of the customer base (stickiness); and the potential life cycle of the company's products or services.

223. Depending on the industry sector, we measure a company's relative size and market share based on unit sales; the absolute amount of revenues; and the percentage of revenues captured from total industry revenues. We also adjust for industry and company specific qualitative considerations. For example, if an industry is particularly fragmented and has a number of similarly sized participants, none may have a particular advantage or disadvantage with respect to market share.

#### **d) Maturity of products or services**

224. The degree of maturity and the relative position on the lifecycle curve of the company's product or service portfolio affect the stability and sustainability of its revenues and margins. It is important to identify the stage of development of a company's products or services in order to measure the life cycle risks that may be associated with key products or services.

225. Mature products or services (e.g. consumer products or broadcast programming) are not necessarily a negative, in our view, if they still contribute reliable profits. If demand is declining for a company's product or service, we examine its track record on introducing new products with staying power. Similarly, a company's track record with product launches is particularly relevant.

### **3. Analyzing subfactors for operating efficiency**

226. In assessing the relative strength of this component, we consider four subfactors:

- Cost structure,
- Manufacturing processes,
- Working capital management, and
- Technology.

227. To the extent a company has high operating efficiency, it should be able to generate better profit margins than peers that compete in the same markets, whatever the prevailing market conditions. The ability to minimize manufacturing and other operational costs and thus maximize margins and cash flow--for example, through manufacturing excellence, cost control, and diligent working capital management--will provide the funds for research and development, marketing, and customer service.

#### **a) Cost structure**

228. Companies that are well positioned from a cost standpoint will typically enjoy higher capacity utilization and be more profitable over the course of the business cycle. Cost structure and cost control are keys to generating strong profits and cash flow, particularly for companies that produce commodities, operate in mature industries, or face pricing pressures. It is important to consider whether a company or any of its competitors has a sustainable cost advantage, which can be based on access to cheaper energy, favorable manufacturing locations, or lower and more flexible labor costs, for example.

229. Where information is available, we examine a company's fixed versus variable cost mix as an indication of operating leverage, a measure of how revenue growth translates into growth in operating income. A company with significant operating leverage may witness dramatic declines in operating profit if unit volumes fall, as during cyclical downturns. Conversely, in an upturn, once revenues pass the breakeven point, a substantial percentage of incremental revenues typically becomes profit.

#### **b) Manufacturing process**

230. Capital intensity characterizes many heavy manufacturing sectors that require minimum volumes to produce acceptable profits, cash flow, and return on assets. We view capacity utilization through the business cycle (combined with the cost base) as a good indication of manufacturers' ability to maintain profits in varying economic scenarios. Our capacity utilization assessment is based on a company's production capacity across its manufacturing footprint. In addition, we consider the direction of a company's capacity utilization in light of our unit sales expectations, as opposed to analyzing it plant-by-plant.

231. Labor relations remain an important focus in our analysis of operating efficiency for manufacturers. Often, a company's labor cost structure is driven by its history of contractual negotiations and the countries in which it operates. We examine the rigidity or flexibility of a company's labor costs and the extent to which it relies on labor rather than automation. We analyze labor cost structure by assessing the extent of union representation, wage and benefit costs as a share of cost of goods sold (when available), and by assessing the balance of capital equipment vs. labor input in the manufacturing process. We also incorporate trends in a company's efforts to transfer labor costs from high-cost to low-cost regions.

#### **c) Working capital management**

232. Working capital management--of current or short-term assets and liabilities--is a key factor in our evaluation of operating efficiency. In general, companies with solid working capital management skills exhibit shorter cash conversion cycles (defined as days' investment in inventory and receivables less days' investment in accounts payable) than their lower-skilled peers. Short cash-conversion cycles could, for instance, demonstrate that a company has a stronger position in the supply chain (for example, requiring suppliers or dealers to hold more of its inventory). This allows a company to direct more capital than its peers can to other areas of investment.

#### **d) Technology**

233. Technology can play an important role in achieving superior operating efficiency through effective yield management (by improving input/output ratios), supply chain automation, and cost optimization.

234. Achieving high yield management is particularly important in industries with limited inventory and high fixed costs, such as transportation, lodging, media, and retail. The most efficient airlines can achieve higher revenue per available seat mile than their peers, while the most efficient lodging companies can achieve a higher revenue per available room than their peers. Both industries rely heavily on technology to effectively allocate inventory (seats and rooms) to maximize sales and profitability.

235. Effective supply chain automation systems enable companies to reduce investments in inventory and better forecast future orders based on current trends. By enabling electronic data interchange between supplier and retailer, such systems help speed orders and reorders for goods by quickly pinpointing which merchandise is selling well and needs restocking. They also identify slow moving inventory that needs to be marked down, making space available for fresh merchandise.

236. Effective use of technology can also help hold down costs by improving productivity via automation and workflow management. This can reduce selling, general, and administrative costs, which usually represent a substantial portion of expenditures for industries with high fixed costs, thus boosting earnings.

## 4. Industry-specific SER parameters

Table 28

## SER Calibration By Industry Based On EBITDA

## --Volatility of profitability assessment\*--

	1	2	3	4	5	6
Transportation cyclical	=<10%	>10%-14%	>14%-22%	>22%-33%	>33%-76%	>76%
Auto OEM	=<25%	>25%-33%	>33%-35%	>35%-40%	>40%-46%	>46%
Metals and mining downstream	=<16%	>16%-31%	>31%-42%	>42%-53%	>53%-82%	>82%
Metals and mining upstream	=<16%	>16%-23%	>23%-28%	>28%-34%	>34%-59%	>59%
Homebuilders and developers	=<19%	>19%-33%	>33%-46%	>46%-65%	>65%-95%	>95%
Oil and gas refining and marketing	=<14%	>14%-21%	>21%-35%	>35%-46%	>46%-82%	>82%
Forest and paper products	=<9%	>9%-18%	>18%-26%	>26%-51%	>51%-114%	>114%
Building materials	=<9%	>9%-16%	>16%-19%	>19%-24%	>24%-33%	>33%
Oil and gas integrated, exploration and production	=<12%	>12%-19%	>19%-22%	>22%-28%	>28%-38%	>38%
Agribusiness and commodity foods	=<12%	>12%-19%	>19%-25%	>25%-39%	>39%-57%	>57%
Real estate investment trusts (REITs)	=<5%	>5%-9%	>9%-13%	>13%-20%	>20%-32%	>32%
Leisure and sports	=<5%	>5%-9%	>9%-12%	>12%-16%	>16%-24%	>24%
Commodity chemicals	=<14%	>14%-19%	>19%-28%	>28%-37%	>37%-51%	>51%
Auto suppliers	=<15%	>15%-20%	>20%-26%	>26%-32%	>32%-45%	>45%
Aerospace and defense	=<6%	>6%-9%	>9%-15%	>15%-24%	>24%-41%	>41%
Technology hardware and semiconductors	=<11%	>11%-15%	>15%-22%	>22%-31%	>31%-58%	>58%
Specialty chemicals	=<5%	>5%-10%	>10%-14%	>14%-23%	>23%-36%	>36%
Capital goods	=<12%	>12%-16%	>16%-21%	>21%-30%	>30%-45%	>45%
Engineering and construction	=<9%	>9%-14%	>14%-20%	>20%-28%	>28%-39%	>39%
Railroads and package express	=<5%	>5%-8%	>8%-10%	>10%-13%	>13%-22%	>22%
Business and consumer services	=<4%	>4%-8%	>8%-11%	>11%-16%	>16%-30%	>30%
Midstream energy	=<5%	>5%-9%	>9%-11%	>11%-15%	>15%-31%	>31%
Technology software and services	=<4%	>4%-9%	>9%-14%	>14%-19%	>19%-33%	>33%
Consumer durables	=<7%	>7%-10%	>10%-13%	>13%-19%	>19%-35%	>35%
Containers and packaging	=<5%	>5%-7%	>7%-12%	>12%-18%	>18%-26%	>26%
Media and entertainment	=<6%	>6%-10%	>10%-14%	>14%-20%	>20%-29%	>29%
Oil and gas drilling, equipment and services	=<16%	>16%-22%	>22%-28%	>28%-44%	>44%-62%	>62%
Retail and restaurants	=<4%	>4%-8%	>8%-11%	>11%-16%	>16%-26%	>26%
Health care services	=<4%	>4%-5%	>5%-9%	>9%-12%	>12%-19%	>19%
Transportation infrastructure	=<2%	>2%-4%	>4%-7%	>7%-12%	>12%-19%	>19%

Environmental services	=<5%	>5%-9%	>9%-13%	>13%-22%	>22%-29%	>29%
Regulated utilities	=<4%	>4%-7%	>7%-9%	>9%-14%	>14%-26%	>26%
Unregulated power and gas	=<7%	>7%-16%	>16%-20%	>20%-29%	>29%-47%	>47%
Pharmaceuticals	=<5%	>5%-8%	>8%-11%	>11%-17%	>17%-32%	>32%
Health care equipment	=<3%	>3%-5%	>5%-6%	>6%-10%	>10%-25%	>25%
Branded nondurables	=<4%	>4%-7%	>7%-10%	>10%-15%	>15%-43%	>43%
Telecommunications and cable	=<3%	>3%-6%	>6%-9%	>9%-13%	>13%-23%	>23%
Overall	=<5%	>5%-9%	>9%-15%	>15%-23%	>23%-43%	>43%

\*The data ranges include the values up to and including the upper bound. As an example, for a range of 5%-9%, a value of 5% is excluded, while a value of 9% is included; the numbers are rounded to the nearest whole number for presentation purposes.

Table 29

SER Calibration By Industry Based On EBITDA Margin

--Volatility of profitability assessment\*--

	1	2	3	4	5	6
Transportation cyclical	=<4%	>4%-8%	>8%-16%	>16%-28%	>28%-69%	>69%
Auto OEM	=<15%	>15%-19%	>19%-29%	>29%-31%	>31%-45%	>45%
Metals and mining downstream	=<10%	>10%-18%	>18%-26%	>26%-36%	>36%-56%	>56%
Metals and mining upstream	=<8%	>8%-10%	>10%-14%	>14%-19%	>19%-31%	>31%
Homebuilders and developers	=<10%	>10%-18%	>18%-30%	>30%-56%	>56%-114%	>114%
Oil and gas refining and marketing	=<12%	>12%-22%	>22%-28%	>28%-42%	>42%-71%	>71%
Forest and paper products	=<8%	>8%-13%	>13%-21%	>21%-41%	>41%-117%	>117%
Building materials	=<4%	>4%-8%	>8%-13%	>13%-18%	>18%-23%	>23%
Oil and gas integrated, exploration and production	=<4%	>4%-6%	>6%-8%	>8%-13%	>13%-22%	>22%
Agribusiness and commodity foods	=<9%	>9%-14%	>14%-18%	>18%-27%	>27%-100%	>100%
Real estate investment trusts (REITs)	=<2%	>2%-5%	>5%-8%	>8%-13%	>13%-34%	>34%
Leisure and sports	=<3%	>3%-5%	>5%-6%	>6%-9%	>9%-18%	>18%
Commodity chemicals	=<9%	>9%-14%	>14%-18%	>18%-25%	>25%-37%	>37%
Auto suppliers	=<9%	>9%-13%	>13%-18%	>18%-23%	>23%-40%	>40%
Aerospace and defense	=<3%	>3%-6%	>6%-7%	>7%-12%	>12%-24%	>24%
Technology hardware and semiconductors	=<7%	>7%-10%	>10%-15%	>15%-21%	>21%-62%	>62%
Specialty chemicals	=<3%	>3%-6%	>6%-10%	>10%-19%	>19%-28%	>28%
Capital goods	=<6%	>6%-9%	>9%-13%	>13%-20%	>20%-33%	>33%
Engineering and construction	=<6%	>6%-8%	>8%-12%	>12%-17%	>17%-26%	>26%
Railroads and package express	=<2%	>2%-6%	>6%-8%	>8%-10%	>10%-17%	>17%
Business and consumer services	=<3%	>3%-5%	>5%-7%	>7%-12%	>12%-22%	>22%



Midstream energy	=<3%	>3%-6%	>6%-9%	>9%-14%	>14%-28%	>28%
Technology software and services	=<3%	>3%-6%	>6%-10%	>10%-15%	>15%-30%	>30%
Consumer durables	=<4%	>4%-8%	>8%-11%	>11%-15%	>15%-26%	>26%
Containers and packaging	=<5%	>5%-7%	>7%-9%	>9%-15%	>15%-22%	>22%
Media and entertainment	=<4%	>4%-6%	>6%-9%	>9%-14%	>14%-24%	>24%
Oil and gas drilling, equipment and services	=<6%	>6%-12%	>12%-16%	>16%-22%	>22%-32%	>32%
Retail and restaurants	=<3%	>3%-5%	>5%-7%	>7%-12%	>12%-21%	>21%
Health care services	=<3%	>3%-5%	>5%-6%	>6%-8%	>8%-15%	>15%
Transportation infrastructure	=<1%	>1%-3%	>3%-5%	>5%-7%	>7%-15%	>15%
Environmental services	=<3%	>3%-4%	>4%-6%	>6%-10%	>10%-24%	>24%
Regulated utilities	=<4%	>4%-7%	>7%-9%	>9%-14%	>14%-24%	>24%
Unregulated power and gas	=<6%	>6%-10%	>10%-15%	>15%-23%	>23%-41%	>41%
Pharmaceuticals	=<4%	>4%-5%	>5%-7%	>7%-10%	>10%-21%	>21%
Health care equipment	=<2%	>2%-4%	>4%-5%	>5%-10%	>10%-16%	>16%
Branded nondurables	=<3%	>3%-6%	>6%-9%	>9%-13%	>13%-28%	>28%
Telecommunications and cable	=<2%	>2%-4%	>4%-5%	>5%-7%	>7%-13%	>13%
Overall	=<3%	>3%-6%	>6%-10%	>10%-16%	>16%-32%	>32%

\*The data ranges include the values up to and including the upper bound. As an example, for a range of 5%-9%, a value of 5% is excluded, while a value of 9% is included; the numbers are rounded to the nearest whole number for presentation purposes.

Table 30

SER Calibration By Industry Based On Return On Capital

--Volatility of profitability assessment\*--

	1	2	3	4	5	6
Transportation cyclical	=<14%	>14%-28%	>28%-39%	>39%-53%	>53%-156%	>156%
Auto OEM	=<42%	>42%-64%	>64%-74%	>74%-86%	>86%-180%	>180%
Metals and mining downstream	=<25%	>25%-32%	>32%-43%	>43%-53%	>53%-92%	>92%
Metals and mining upstream	=<22%	>22%-30%	>30%-38%	>38%-45%	>45%-93%	>93%
Homebuilders and developers	=<12%	>12%-31%	>31%-50%	>50%-70%	>70%-88%	>88%
Oil and gas refining and marketing	=<14%	>14%-30%	>30%-48%	>48%-67%	>67%-136%	>136%
Forest and paper products	=<10%	>10%-22%	>22%-40%	>40%-89%	>89%-304%	>304%
Building materials	=<13%	>13%-20%	>20%-26%	>26%-36%	>36%-62%	>62%
Oil and gas integrated, exploration and production	=<16%	>16%-22%	>22%-31%	>31%-43%	>43%-89%	>89%
Agribusiness and commodity foods	=<12%	>12%-15%	>15%-29%	>29%-55%	>55%-111%	>111%
Real estate investment trusts (REITs)	=<8%	>8%-14%	>14%-20%	>20%-26%	>26%-116%	>116%
Leisure and sports	=<11%	>11%-17%	>17%-26%	>26%-34%	>34%-64%	>64%

Commodity chemicals	=<19%	>19%-28%	>28%-41%	>41%-50%	>50%-73%	>73%
Auto suppliers	=<20%	>20%-39%	>39%-50%	>50%-67%	>67%-111%	>111%
Aerospace and defense	=<7%	>7%-13%	>13%-19%	>19%-27%	>27%-61%	>61%
Technology hardware and semiconductors	=<8%	>8%-21%	>21%-34%	>34%-49%	>49%-113%	>113%
Specialty chemicals	=<5%	>5%-18%	>18%-28%	>28%-43%	>43%-64%	>64%
Capital goods	=<15%	>15%-24%	>24%-31%	>31%-45%	>45%-121%	>121%
Engineering and construction	=<12%	>12%-21%	>21%-23%	>23%-33%	>33%-54%	>54%
Railroads and package express	=<3%	>3%-11%	>11%-17%	>17%-20%	>20%-27%	>27%
Business and consumer services	=<9%	>9%-17%	>17%-23%	>23%-40%	>40%-87%	>87%
Midstream energy	=<5%	>5%-11%	>11%-17%	>17%-22%	>22%-34%	>34%
Technology software and services	=<8%	>8%-21%	>21%-35%	>35%-65%	>65%-105%	>105%
Consumer durables	=<8%	>8%-13%	>13%-20%	>20%-35%	>35%-60%	>60%
Containers and packaging	=<6%	>6%-14%	>14%-23%	>23%-35%	>35%-52%	>52%
Media and entertainment	=<9%	>9%-17%	>17%-26%	>26%-40%	>40%-86%	>86%
Oil and gas drilling, equipment and services	=<25%	>25%-33%	>33%-45%	>45%-65%	>65%-90%	>90%
Retail and restaurants	=<6%	>6%-14%	>14%-18%	>18%-26%	>26%-69%	>69%
Health care services	=<6%	>6%-10%	>10%-15%	>15%-25%	>25%-44%	>44%
Transportation infrastructure	=<5%	>5%-9%	>9%-12%	>12%-16%	>16%-27%	>27%
Environmental Services	=<7%	>7%-12%	>12%-24%	>24%-35%	>35%-72%	>72%
Regulated utilities	=<6%	>6%-9%	>9%-13%	>13%-20%	>20%-36%	>36%
Unregulated power and gas	=<14%	>14%-19%	>19%-29%	>29%-55%	>55%-117%	>117%
Pharmaceuticals	=<6%	>6%-8%	>8%-15%	>15%-20%	>20%-33%	>33%
Health care equipment	=<4%	>4%-8%	>8%-19%	>19%-31%	>31%-81%	>81%
Branded nondurables	=<6%	>6%-10%	>10%-17%	>17%-29%	>29%-63%	>63%
Telecommunications and cable	=<7%	>7%-13%	>13%-19%	>19%-26%	>26%-60%	>60%
Overall	=<7%	>7%-15%	>15%-23%	>23%-38%	>38%-81%	>81%

\*The data ranges include the values up to and including the upper bound. As an example, for a range of 5%-9%, a value of 5% is excluded, while a value of 9% is included; the numbers are rounded to the nearest whole number for presentation purposes.

### C. Cash Flow/Leverage Analysis

#### 1. The merits and drawbacks of each cash flow measure

##### a) EBITDA

237. EBITDA is a widely used, and therefore a highly comparable, indicator of cash flow, although it has significant limitations. Because EBITDA derives from the income statement entries, it can be distorted by the same accounting issues that limit the use of earnings as a basis of cash flow. In addition, interest can be a substantial cash outflow for speculative-grade companies and therefore EBITDA can materially overstate cash flow in some cases. Nevertheless, it serves as a useful and common starting point for cash flow analysis and is useful in ranking the financial strength of different companies.

##### b) Funds from operations (FFO)

238. FFO is a hybrid cash flow measure that estimates a company's inherent ability to generate recurring cash flow from its operations independent of working capital fluctuations. FFO estimates the cash flow available to the company before working capital, capital spending, and discretionary items such as dividends, acquisitions, etc.

239. Because cash flow from operations tends to be more volatile than FFO, FFO is often used to smooth period-over-period variation in working capital. We consider it a better proxy of recurring cash flow generation because management can more easily manipulate working capital depending on its liquidity or accounting needs. However, we do not generally rely on FFO as a guiding cash flow measure in situations where assessing working capital changes is important to judge a company's cash flow generating ability and general creditworthiness. For example, for working-capital-intensive industries such as retailing, operating cash flow may be a better indicator than FFO of the firm's actual cash generation.

240. FFO is a good measure of cash flow for well-established companies whose long-term viability is relatively certain (i.e., for highly rated companies). For such companies, there can be greater analytical reliance on FFO and its relation to the total debt burden. FFO remains very helpful in the relative ranking of companies. In addition, more established, healthier companies usually have a wider array of financing possibilities to cover potential short-term liquidity needs and to refinance upcoming maturities. For marginal credit situations, the focus shifts more to free operating cash flow--after deducting the various fixed uses such as working capital investment and capital expenditures--as this measure is more directly related to current debt service capability.

#### **c) Cash flow from operations (CFO)**

241. The measurement and analysis of CFO forms an important part of our ratings assessment, in particular for companies that operate in working-capital-intensive industries or industries in which working capital flows can be volatile. CFO is distinct from FFO as it is a pure measure of cash flow calculated after accounting for the impact on earnings of changes in operating assets and liabilities. CFO is cash flow that is available to finance items such as capital expenditures, repay borrowing, and pay for dividends and share buybacks.

242. In many industries, companies shift their focus to cash flow generation in a downturn. As a result, even though they typically generate less cash from ordinary business activities because of low capacity utilization and relatively low fixed-cost absorption, they may generate cash by reducing inventories and receivables. Therefore, although FFO is likely to be lower in a downturn, the impact on CFO may not be as great. In times of strong growth the opposite will be true, and consistently lower CFO compared to FFO without a corresponding increase in revenue and profitability can indicate an untenable situation.

243. Working capital is a key element of a company's cash flow generation. While there tends to be a need to build up working capital and therefore to consume cash in a growth or expansion phase, changes in working capital can also act as a buffer in case of a downturn. Many companies will sell off inventories and invest a lower amount in raw materials because of weaker business activities, both of which reduce the amount of capital and cash that is tied up in working capital. Therefore, working capital fluctuations can occur both in periods of revenue growth and contraction and analyzing a company's near-term working capital needs is crucial for estimating future cash flow developments.

244. Often, businesses that are capital intensive are not working-capital-intensive: most of the capital commitment is upfront in equipment and machinery, while asset-light businesses may have to invest proportionally more in inventories and receivables. That also affects margins, because capital-intensive businesses tend to have proportionally lower operating expenses (and therefore higher EBITDA margins), while working-capital-intensive businesses usually report lower EBITDA margins. The resulting cash flow volatility can be significant: because all investment is made upfront in a capital-intensive business, there is usually more room to absorb subsequent EBITDA volatility because margins are higher. For example, a capital-intensive company may remain reasonably profitable even if its EBITDA margin declines from 30% to 20%. By contrast, a working-capital-intensive business with a lower EBITDA margin (due to higher operating expenses) of 8% can post a negative EBITDA margin if EBITDA volatility is large.

#### **d) Free operating cash flow (FOCF)**

245. By deducting capital expenditures from CFO, we arrive at FOCF, which can be used as a proxy for a company's cash generated from core operations. We may exclude discretionary capital expenditures for capacity growth from the FOCF calculation, but in practice it is often difficult to discriminate between spending for expansion and replacement. And, while companies have some flexibility to manage their capital budgets to weather down cycles, such flexibility is generally temporary and unsustainable in light of intrinsic requirements of the business. For example, companies can be compelled to increase their investment programs because of strong demand growth or technological changes. Regulated entities (for example, telecommunications companies) might also face significant investment requirements related to their concession contracts (the understanding between a company and the host government that specifies the rules under which the company can operate locally).

246. Positive FOCF is a sign of strength and helpful in distinguishing between two companies with the same FFO. In addition, FOCF is helpful in differentiating between the cash flows generated by more and less capital-intensive companies and industries.

247. In highly capital-intensive industries (where maintenance capital expenditure requirements tend to be high) or in other situations in which companies have little flexibility to postpone capital expenditures, measures such as FFO to debt and debt to EBITDA may provide less valuable insight into relative creditworthiness because they fail to capture potentially meaningful capital expenditures. In such cases, a ratio such as FOCF to debt provides greater analytical insight.

248. A company serving a low-growth or declining market may exhibit relatively strong FOCF because of diminishing fixed and working capital needs. Growth companies, in contrast, exhibit thin or even negative FOCF because of the investment needed to support growth. For the low-growth company, credit analysis weighs the positive, strong current cash flow against the danger that this high level of cash flow might not be sustainable. For the high-growth company, the opposite is true: weighing the negatives of a current cash deficit against prospects of enhanced cash flow once current investments begin yielding cash benefits. In the latter case, if we view the growth investment as temporary and not likely to lead to increased leverage over the long-term, we'll place greater analytical importance on FFO to debt rather than on FOCF to debt. In any event, we also consider the impact of a company's growth environment in our business risk analysis, specifically in a company's industry risk analysis (see section B).

#### **e) Discretionary cash flow (DCF)**

249. For corporate issuers primarily rated in the investment-grade universe, DCF to debt can be an important barometer of future cash flow adequacy as it more fully reflects a company's financial policy, including decisions regarding dividend payouts. In addition, share buybacks and potential M&A, both of which can represent very significant uses of cash, are important components in cash flow analysis.

250. The level of dividends depends on a company's financial strategy. Companies with aggressive dividend payout targets might be reluctant to reduce dividends even under some liquidity pressure. In addition, investment-grade companies are less likely to reduce dividend payments following some reversals--although dividends ultimately are discretionary. DCF is the truest reflection of excess cash flow, but it is also the most affected by management decisions and, therefore, does not necessarily reflect the potential cash flow available.

### **D. Diversification/Portfolio Effect**

#### **1. Academic research**

251. Academic research recently concluded that, during the global financial crisis of 2007-2009, conglomerates had the advantage over single sector-focused firms because they had better access to the credit markets as a result of their debt co-insurance and used the internal capital markets more efficiently (i.e., their core businesses had stronger cash flows). Debt co-insurance is the view that the joining-together of two or more firms whose earnings streams are less-than-perfectly correlated reduces the risk of default of the merged firms (i.e., the co-insurance effect) and thereby increases the "debt capacity" or "borrowing ability" of the combined enterprise. These financing alternatives became more valuable during the crisis. (Source: "Does Diversification Create Value In The Presence Of External Financing Constraints? Evidence From The 2007-2009 Financial Crisis," Venkat Kuppaswamy and Belen Villalonga, Harvard Business School, Aug. 19, 2011.)

252. In addition, fully diversified, focused companies saw more narrow credit default swap spreads from 2004-2010 vs. less diversified firms. This highlighted that lenders were differentiating for risk and providing these companies with easier and cheaper access to capital. (Source: "The Power of Diversified Companies During Crises," The Boston Consulting Group and Leipzig Graduate School of Management, January 2012.)

253. Many rated conglomerates are either country- or region-specific; only a small percentage are truly global. The difference is important when assessing the country and macroeconomic risk factors. Historical measures for each region, based on volatility and correlation, reflect regional trends that are likely to change over time.

## **E. Financial Policy**

### **1. Controlling shareholders**

254. Controlling shareholder(s)--if they exist--exert significant influence over a company's financial risk profile, given their ability to use their direct or indirect control of the company's financial policies for their own benefit. Although the criteria do not associate the presence of controlling shareholder(s) to any predefined negative or positive impact, we assess the potential medium- to long-term implications for a company's credit standing of these strategies. Long-term ownership--such as exists in many family-run businesses--is often accompanied by financial discipline and reluctance to incur aggressive leverage. Conversely, short-term ownership--such as exists in private equity sponsor-owned companies--generally entails financial policies aimed at achieving rapid returns for shareholders typically through aggressive debt leverage.

255. The criteria define controlling shareholder(s) as:

- A private shareholder (an individual or a family) with majority ownership or control of the board of directors;
- A group of shareholders holding joint control over the company's board of directors through a shareholder agreement. The shareholder agreement may be comprehensive in scope or limited only to certain financial aspects; and
- A private equity firm or a group of private equity firms holding at least 40% in a company or with majority control of its board of directors.

256. A company is not considered to have a controlling shareholder if it is publicly listed with more than 50% of voting interest listed or when there is no evidence of a particular shareholder or group of shareholders exerting 'de facto' control over a company.

257. Companies that have as their controlling shareholder governments or government-related entities, infrastructure and asset-management funds, and diversified holding companies and conglomerates are assessed in separate criteria.

### **2. Financial discipline**

#### **a) Leverage influence from acquisitions**

258. Companies may employ more or less acquisitive growth strategies based on industry dynamics, regulatory changes, market opportunities, and other factors. We consider management teams with disciplined, transparent acquisition strategies that are consistent with their financial policy framework as providing a high degree of visibility into the projected evolution of cash flow and credit measures. Our assessment takes into account management's track record in terms of acquisition strategy and the related impact on the company's financial risk profile. Historical evidence of limited management tolerance for significant debt-funded acquisitions provides meaningful support for the view that projected credit ratios would not significantly weaken as a result of the company's acquisition policy. Conversely, management teams that pursue opportunistic acquisition strategies, without well-defined parameters, increase the risks that the company's financial risk profile may deteriorate well beyond our forecasts.

259. Acquisition funding policies and management's track record in this respect also provide meaningful insight in terms of credit ratio stability. In the criteria, we take into account management's willingness and capacity to mobilize all funding resources to restore credit quality, such as issuing equity or disposing of assets, to mitigate the impact of sizable acquisitions on credit ratios. The financial policy framework and related historical evidence are key considerations in our assessment.

#### **b) Leverage influence from shareholder remuneration policies**

260. A company's approach to rewarding shareholders demonstrates how it balances the interests of its various stakeholders over time. Companies that are consistent and transparent in their shareholder remuneration policies, and exhibit a willingness to adjust shareholder returns to mitigate adverse operating conditions, provide greater support to their long-term credit quality than other companies. Conversely, companies that prioritize cash returns to shareholders in periods of deteriorating economic, operating, or share price performance can significantly undermine long-term credit quality and exacerbate the credit impact of adverse business conditions. In assessing a company's shareholder remuneration policies, the criteria focus on the predictability of shareholder remuneration plans, including how a company builds shareholder expectations, its track record in executing shareholder return policies over time, and how shareholder returns compare with industry peers'.

261. Shareholder remuneration policies that lack transparency or deviate meaningfully from those of industry peers introduce a higher degree of event risk and volatility and will be assessed as less predictable under the criteria. Dividend and capital return policies that function primarily as a means to distribute surplus capital to shareholders based on transparent and stable payout ratios--after satisfying all capital requirements and leverage objectives of the company, and that support stable to improving leverage ratios--are considered the most supportive of long term credit quality.

#### **c) Leverage influence from plans regarding investment decisions or organic growth strategies**

262. The process by which a company identifies, funds, and executes organic growth, such as expansion into new products and/or new markets, can have a significant impact on its long-term credit quality. Companies that have a disciplined, coherent, and manageable organic growth strategy, and have a track record of successful execution are better positioned to continue to attract third-party capital and maintain long-term credit quality. By contrast, companies that allocate significant amounts of capital to numerous, unrelated, large and/or complex projects and often incur material overspending against the original budget can significantly increase their credit risk.

263. The criteria assess whether management's organic growth strategies are transparent, comprehensive, and measurable. We seek to evaluate the company's mid- to long-term growth objectives—including strategic rationales and associated execution risks—as well as the criteria it uses to allocate capital. Effective capital allocation is likely to include guidelines for capital deployment, including minimum return hurdles, competitor activity analysis, and demand forecasting. The company's track record will provide key data for this assessment, including how well it executes large and/or complex projects against initial budgets, cost overruns, and timelines.

### 3. Financial policy framework

#### a) Comprehensiveness of financial policy framework

264. Financial policies that are clearly defined, unambiguous, and provide a tight framework around management behavior are the most reliable in determining an issuer's future financial risk profile. We assess as consistent with a supportive assessment, policies that are clear, measurable, and well understood by all key stakeholders. Accordingly, the financial policy framework must include well-defined parameters regarding how the issuer will manage its cash flow protection strategies and debt leverage profile. This includes at least one key or a combination of financial ratio constraints (such as maximum debt to EBITDA threshold) and the latter must be relevant with respect to the issuer's industry and/or capital structure characteristics.

265. By contrast, the absence of established financial policies, policies that are vague or not quantifiable, or historical evidence of significant and unexpected variation in management's long-term financial targets could contribute to an overall assessment of a non-supportive financial policy framework.

#### b) Transparency of financial policies

266. We assess as supportive financial policy objectives that are transparent and well understood by all key stakeholders and we view them as likely to influence an issuer's financial risk profile over time. Alternatively, financial policies, if they exist, that are not communicated to key stakeholders and/or where there is limited historical evidence to support the company's commitment to these policies, are non-supportive, in our view. We consider the variety of ways in which a company communicates its financial policy objectives, including public disclosures, investor presentation materials, and public commentary.

267. In some cases, however, a company may articulate its financial policy objectives to a limited number of key stakeholders, such as its main creditors or to credit rating agencies. In these situations, a company may still receive a supportive classification if we assess that there is a sufficient track record (more than three years) to demonstrate a commitment to its financial policy objectives.

#### c) Achievability and sustainability of financial policies

268. To assess the achievability and sustainability of a company's financial policies, we consider a variety of factors, including the entity's current and historical financial risk profile; the demands of its key stakeholders (including dividend and capital return expectations of equity holders); and the stability of the company's financial policies that we have observed over time. If there is evidence that the company is willing to alter its financial policy framework because of adverse business conditions or growth opportunities (including M&A), this could support an overall assessment of non-supportive.

### 4. Financial policy adjustments—examples

269. Example 1: A moderately leveraged company has just been sold to a new financial sponsor. The financial sponsor has not leveraged the company yet and there is no stated financial policy at the outset. We expect debt leverage to increase upon refinancing, but we are not able to factor it precisely in our forecasts yet.

Likely outcome: FS-6 financial policy assessment, implying that we expect the new owner to implement an aggressive financial policy in the absence of any other evidence.

270. Example 2: A company has two owners—a family owns 75%, a strategic owner holds the remaining 25%. Although the company has provided Standard & Poor's with some guidance on long-term financial objectives, the overall financial policy framework is not sufficiently structured nor disclosed to a sufficient number of stakeholders to qualify for a supportive assessment. Recent history, however, does not provide any evidence of unexpected, aggressive financial transactions and we believe event risk is moderate.

Likely outcome: Neutral financial policy impact, including an assessment of neutral for financial discipline. Although the company's financial framework does not support long-term visibility, historical evidence and stability of management suggest that event risk is not significant. The unsupportive financial framework assessment, however, prevents the company from qualifying for an overall positive financial policy assessment, should the conditions for positive financial discipline be met.

271. Example 3: A company (not owned by financial sponsors) has stated leverage targets equivalent to a significant financial risk profile assessment. The company continues to make debt-financed acquisitions yet remains within its leverage targets, albeit at the weaker end of these. Our forecasts are essentially built on expectations that excess cash flow will be fully used to fund M&A or, possibly pay share repurchases, but that management will overall remain within its leverage targets.

Likely outcome: Neutral financial policy impact. Although management is fairly aggressive, the company consistently stays within its financial policy targets. We think our forecasts provide a realistic view of the evolution of the company's credit metrics over the next two years. No event risk adjustment is needed.

272. Example 4: A company (not owned by a financial sponsor) has just made a sizable acquisition (consistent with its long-term business strategy) that has brought its credit ratios out of line. Management expressed its commitment to rapidly improve credit ratios back to its long-term ratio targets—representing an acceptable range for the SACP—through asset disposals or a rights issue. We see their disposal plan (or rights issue) as realistic but precise value and timing are uncertain. At the same time, management has a supportive financial policy framework, a positive track record of five years, and assets are viewed as fairly easily tradable.

Likely outcome: Positive financial policy impact. Although forecast credit ratios will remain temporarily depressed, as we cannot fully factor in asset disposals (or rights issue) due to uncertainty on timing/value, or without leaking confidential information, the company's credit risk should benefit from management's positive track record and a supportive financial policy framework. The anchor will be better by one notch if management and governance is at least satisfactory and liquidity is at least adequate.

273. Example 5: A company (not owned by a financial sponsor) has very solid financial ratios, providing it with meaningful flexibility for M&A when compared with management's long-term stated financial policy. Also, its stock price performance is somewhat below that of its closest industry peers. Although we have no recent evidence of any aggressive financial policy steps, we fundamentally believe that, over the long-term term, the company will end up using its financial flexibility for the right M&A opportunity, or alternatively return cash to shareholders.

Likely outcome: Negative financial policy impact. Long-term event risk derived from M&A cannot be built into forecasts nor shareholder returns (share buybacks or one-off dividends) be built into forecasts to attempt aligning projected ratios with stated long-term financial policy levels. This is because our forecasts are based on

realistic and reasonably predictable assumptions for the medium term. The anchor will be adjusted down, by one notch or more, because of the negative financial policy assessment.

#### F. Corporate Criteria Glossary

**Anchor:** The combination of an issuer's business risk profile assessment and its financial risk profile assessment determine the anchor. Additional rating factors can then modify the anchor to determine the final rating or SACP.

**Asset profile:** A descriptive way to look at the types and quality of assets that comprise a company (examples can include tangible versus intangible assets, those assets that require large and continuing maintenance, upkeep, or reinvestment, etc.).

**Business risk profile:** This measure comprises the risk and return potential for a company in the market in which it participates, the country risks within those markets, the competitive climate, and the competitive advantages and disadvantages the company has. The criteria combine the assessments for Corporate Industry and Country Risk Assessment (CICRA), and competitive position to determine a company's business risk profile assessment.

**Capital-intensive company:** A company exhibiting large ongoing capital spending to sales, or a large amount of depreciation to sales. Examples of capital-intensive sectors include oil production and refining, telecommunications, and transportation sectors such as railways and airlines.

**Cash available for debt repayment:** Forecast cash available for debt repayment is defined as the net change in cash for the period before debt borrowings and debt repayments. This includes forecast discretionary cash flow adjusted for our expectations of: share buybacks, net of any share issuance, and M&A. Discretionary cash flow is defined as cash flow from operating activities less capital expenditures and total dividends.

**Competitive position:** Our assessment of a company's: 1) competitive advantage; 2) operating efficiency; 3) scale, scope, and diversity; and 4) profitability.

- **Competitive advantage**--The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- **Operating efficiency**--The quality and flexibility of the company's asset base and its cost management and structure.
- **Scale, scope, and diversity**--The concentration or diversification of business activities.
- **Profitability**--Our assessment of both the company's level of profitability and volatility of profitability.

**Competitive Position Group Profile (CPGP):** Used to determine the weights to be assigned to the three components of competitive position other than profitability. While industries are assigned to one of the six profiles, individual companies and industry subsectors can be classified into another CPGP because of unique characteristics. Similarly, national industry risk factors can affect the weighing. The six CPGPs are:

- Services and product focus,
- Product focus/scale driven,
- Capital or asset focus,
- Commodity focus/cost driven,
- Commodity focus/scale driven, and
- National industry and utilities.

**Conglomerate:** Companies that have at least three distinct business segments, each contributing between 10%-50% of EBITDA or FOCF. Such companies may benefit from the diversification/portfolio effect.

**Controlling shareholders:** Equity owners who are able to affect decisions of varying effect on operations, leverage, and shareholder reward without necessarily being a majority of shareholders.

**Corporate Industry and Country Risk Assessment (CICRA):** The result of the combination of an issuer's country risk assessment and industry risk assessment.

**Debt co-insurance:** The view that the joining-together of two or more firms whose earnings streams are less-than-perfectly correlated reduces the risk of default of the merged firms (i.e., the co-insurance effect) and thereby increases the "debt capacity" or "borrowing ability" of the combined enterprise. These financing alternatives became more valuable during the global financial crisis of 2007-2009.

**Financial headroom:** Measure of deviation tolerated in financial metrics without moving outside or above a pre-designated band or limit typically found in loan covenants (as in a debt to EBITDA multiple that places a constraint on leverage). Significant headroom would allow for larger deviations.

**Financial risk profile:** The outcome of decisions that management makes in the context of its business risk profile and its financial risk tolerances. This includes decisions about the manner in which management seeks funding for the company and how it constructs its balance sheet. It also reflects the relationship of the cash flows the organization can achieve, given its business risk profile, to its financial obligations. The criteria use cash flow/leverage analysis to determine a corporate issuer's financial risk profile assessment.

**Financial sponsor:** An entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short to intermediate time frame. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons.

**Profitability ratio:** Commonly measured using return on capital and EBITDA margins but can be measured using sector-specific ratios. Generally calculated based on a five-year average, consisting of two years of historical data, and our projections for the current year and the next two financial years.

**Shareholder remuneration policies:** Management's stated shareholder reward plans (such as a buyback or dividend amount, or targeted payout ratios).

**Stand-alone credit profile (SACP):** Standard & Poor's opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.



Transfer and convertibility assessment: Standard & Poor's view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

Unconsolidated equity affiliates: Companies in which an issuer has an investment, but which are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the investees are not included in our primary metrics unless dividends are received from the investees.

Upstream/midstream/downstream: Referring to exploration and production, transport and storage, and refining and distributing, respectively, of natural resources and commodities (such as metals, oil, gas, etc.).

Volatility of profitability/SER: We base the volatility of profitability on the standard error of the regression (SER) for a company's historical EBITDA. The SER is a statistical measure that is an estimate of the deviation around a 'best fit' trend line. We combine it with the profitability ratio to determine the final profitability assessment. We only calculate SER when companies have at least seven years of historical annual data, to ensure that the results are meaningful.

Working-capital-intensive companies: Generally a company with large levels of working capital in relation to its sales in order to meet seasonal swings in working capital. Examples of working-capital-intensive sectors include retail, auto manufacturing, and capital goods.

## Frequently Asked Questions

### A. Volatility of cash flows

**If a company exhibits volatile cash flow metrics, does Standard & Poor's capture this in the cash flow volatility adjustment or in the financial policy assessment?**

We capture this in either analytic factor, as appropriate. As per paragraph 125, the volatility adjustment is the mechanism by which we factor a "cushion" of medium-term variance to current financial performance not otherwise captured in either the near-term base-case forecast or the long-term business risk assessment. We make this adjustment based on the following:

- The expectation of any potential cash flow/leverage ratio movement is both prospective and dependent on the current business or economic conditions.
- Stress scenarios include, but are not limited to, a recession, technology or competitive shifts, loss or renegotiation of major contracts or customers, and key product or input price movements, as typically defined in the company's industry risk profile and competitive position assessment.
- The volatility adjustment is not static and is company-specific. At the bottom of an economic cycle or during periods of stressed business conditions, already reflected in the general industry risk or specific competitive risk profile, the prospect of weakening ratios is far less than at the peak of an economic cycle or business conditions.
- The expectation of prospective ratio changes may be formed by observed historical performance over an economic, business, or product cycle by the company or by peers.
- The assessment of which classification to use when evaluating the prospective number of scoring category moves will be guided by how close the current ratios are to the transition point (i.e. "buffer" in the current scoring category) and the corresponding amount of EBITDA movement at each scoring transition.

As per paragraph 157, financial policy refines our view of a company's risks beyond the conclusions arising from the standard assumptions in the cash flow/leverage assessment. Those assumptions do not always reflect or entirely capture the short-to-medium term event risks or the longer-term risks stemming from a company's financial policy. To the extent movements in one of these factors cannot be confidently predicted within our forward-looking evaluation of cash flow/leverage, we capture that risk in our evaluation of financial policy.

### **What constitutes a period of stress when assessing whether a company has a volatile or highly volatile level of cash flow/leverage?**

As guidance, our global default studies demonstrate significant correlation of defaults with weak points in business cycles and banking crises. The 1991 peak default rate occurred after a mild recession in the U.S., a severe but short recession in the U.K., and the Nordic banking crisis. Other developed-market speculative-grade default peaks were the U.S., at 10.6% in 2001 (the U.S. recession) and 11.4% in 2009 (the global banking crisis and recession); and Europe, at 12.3% in 2002 (due in part to the bursting of the technology/Internet bubble and failures of a large number of telecom start-ups). (Sources: "[2012 Annual Global Corporate Default Study](#)," published March 18, 2013, and "[Understanding Standard & Poor's Rating Definitions](#)," published June 3, 2009.)

Additional guidance can be found in "[Methodology: Industry Risk](#)," published Nov. 19, 2013, Appendix 1 where we considered sensitivity to economic cycles, as measured by the historical cyclical peak-to-trough decline in profitability and revenues for major recessions ('BBB' and 'BB' stress) mapped to specific industry sectors.

### B. Profitability

**If a company operates in a region or in a country where local inflation is high, and you believe that this affects the comparability of its profitability measures with industry peers', how do you incorporate this in your assessment?**

When analyzing level of profitability, we use, where available, the numeric guidance provided in key credit factors (KCF) articles. These thresholds apply globally irrespective of the underlying level of inflation, although we also consider trends in the profitability ratio to determine the level of profitability assessment. However, high inflation environments are often associated with exposure to countries with a high country risk, in which case as per paragraph 87 we may adjust the volatility of profitability assessment to account for this exposure. Finally, to the extent not captured elsewhere in the analysis, we may incorporate this factor as part of the comparable ratings analysis.

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

(Watch the related CreditMatters TV segment titled, "Standard & Poor's Launches Its New Corporate Ratings Criteria," dated Nov. 19, 2013.)

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