

**WGL HOLDINGS, INC.**  
**USE OF NON-GAAP OPERATING EARNINGS (LOSS)**  
*(Unaudited)*

The attached reconciliations are provided to clearly identify adjustments made to net income calculated in accordance with GAAP to derive non-GAAP operating earnings (loss). Management believes non-GAAP operating earnings (loss) provides a more meaningful representation of our earnings from ongoing operations by adjusting for the effects of: (i) unrealized mark-to-market gains and losses from energy-related derivatives for our regulated utility and retail marketing operations; (ii) certain gains and losses associated with optimizing the utility segment's capacity assets; (iii) changes in the measured value of our inventory for our wholesale energy solutions segment and (iv) certain unusual transactions. This presentation facilitates analysis by providing a consistent and comparable measure to help management, investors and analysts better understand and evaluate our operating results and performance trends, and assist in analyzing period-to-period comparisons. Additionally, we use this non-GAAP measure to report to the board of directors and to evaluate management's performance. The economic substance underlying our adjustments to calculate non-GAAP operating earnings (loss) is as follows:

- We exclude unrealized mark-to-market adjustments for our energy-related derivatives for our regulated utility and retail marketing operations to provide a more transparent and accurate view of the ongoing financial results of our operations and to be consistent with regulatory sharing requirements. For our regulated utility segment, we use derivatives to substantially lock-in a future profit. This profit does not change even though the unrealized fair value of the underlying derivatives may change period-to-period, until settlement. Additionally, for the regulated utility segment, sharing with customers is based on realized profit, and does not factor in unrealized gains and losses. For our retail energy-marketing segment, we use derivatives to lock-in a price for energy supplies to match future retail sales commitments. These derivatives are subject to mark-to-market treatment, while most of the corresponding retail sales contracts are not. With the exception of certain transactions related to the optimization of system capacity assets, as discussed below, when these derivatives settle the economic impact is reflected in our non-GAAP operating results, as we are only removing the interim unrealized mark-to-market amounts that are ultimately reversed when the derivatives are settled.
- We adjust for certain gains and losses associated with the optimization of the regulated utility segment's capacity assets. Transactions to optimize our system storage capacity assets are structured to lock-in a profit that is recognized, for regulatory purposes, as the natural gas is delivered to end-use customers. These transactions may result in gains and losses that consist of: (i) the settlement of physical and financial derivatives related to the management of our storage inventory and (ii) lower-of-cost or market adjustments from the difference between the cost of physical inventory compared to the amount realized through rates when the inventory is ultimately delivered to customers. In our GAAP results, due to timing differences between when the physical and financial transactions settle, and when the natural gas is sold to the end-use customer, gains and losses associated with our storage optimization strategy may be spread across different reporting periods. For purposes of calculating non-GAAP operating earnings (loss), gains and losses associated with these transactions are included in the reporting period when the gas is delivered to the end-use customer and the ultimate profit is realized for regulatory purposes. In addition, losses incurred to terminate long-term contracts affecting transportation capacity optimization margins of future periods are included in the reporting period when the transportation capacity optimization margins earned as a result of the termination are realized. These adjustments reflect a better matching between the economic costs and benefits of the overall optimization strategy.

We also exclude valuation adjustments to the carrying value of non-system natural gas storage inventory in our regulated utility segment. This inventory is held solely to support asset optimization transactions. Valuation adjustments to reflect lower-of-cost or market under current accounting standards may not be representative of the margins that will be realized and shared with our utility ratepayers. Non-GAAP earnings reflect actual margins realized based on the unadjusted historical cost in storage when inventory is withdrawn and sold.

- Our non-utility wholesale energy solutions segment owns natural gas storage inventory in connection with its asset optimization strategies. Certain of this storage inventory is economically hedged with physical sales contracts. We adjust the value of that inventory using the same forward price that is used to calculate the fair value of the related physical sales contracts under derivative accounting requirements. The remaining storage optimization inventory is valued using delivered market prices for the month following the end of the reporting period. Adjusting our storage optimization inventory in this fashion allows our reported non-GAAP earnings to better align with the settlement of both our physical and financial transactions and allows investors and management to better analyze the results of our non-utility asset optimization strategies.
- We exclude certain unusual transactions that may be the result of regulatory or legal decisions, or items that we may deem outside of the ordinary course of business.

There are limits in using non-GAAP operating earnings (loss) to analyze our results, as they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. In addition, using non-GAAP operating earnings (loss) per share to analyze our earnings may have limited value as it excludes certain items that may have a material impact on our reported financial results. We compensate for these limitations by providing investors with the attached reconciliations to net income, the most directly comparable GAAP financial measure.

**WGL HOLDINGS, INC. (Consolidating by Segment)**  
**RECONCILIATION OF GAAP NET INCOME (LOSS) TO**  
**NON-GAAP OPERATING EARNINGS (LOSS)**  
*(Unaudited)*

**Three Months Ended December 31, 2011**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Commercial Energy Systems	Wholesale Energy Solutions	Other Activities	Consolidated
<b>GAAP net income (loss)</b>	\$ 44,406	\$ 845	\$ 305	\$ 5,237	\$ (355)	\$ 50,438
Adjusted for (items shown after-tax):						
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	(212)	12,209	-	-	-	11,997
Storage optimization program (b)	138	-	-	-	-	138
Weather derivative products (c)	(228)	-	-	-	-	(228)
Change in measured value of inventory (d)	-	-	-	(4,238)	-	(4,238)
<b>Non-GAAP operating earnings (loss)</b>	\$ 44,104	\$ 13,054	\$ 305	\$ 999	\$ (355)	\$ 58,107
<b>GAAP diluted earnings (loss) per average common share (51,533 shares)</b>	\$ 0.86	\$ 0.02	\$ 0.01	\$ 0.10	\$ (0.01)	\$ 0.98
Per share effect of non-GAAP adjustments	-	0.23	-	(0.08)	-	0.15
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 0.86	\$ 0.25	\$ 0.01	\$ 0.02	\$ (0.01)	\$ 1.13

**Three Months Ended December 31, 2010 (f)**

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Commercial Energy Systems	Wholesale Energy Solutions	Other Activities	Consolidated
<b>GAAP net income (loss)</b>	\$ 40,684	\$ 24,935	\$ (2)	\$ 59	\$ (444)	\$ 65,232
Adjusted for (items shown after-tax):						
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	5,930	(18,126)	-	-	-	(12,196)
Storage optimization program (b)	(1,720)	-	-	-	-	(1,720)
Weather derivative products (c)	(182)	-	-	-	-	(182)
Change in measured value of inventory (d)	-	-	-	1,878	-	1,878
Amortization of derivative contract termination (e)	(429)	-	-	-	-	(429)
<b>Non-GAAP operating earnings (loss)</b>	\$ 44,283	\$ 6,809	\$ (2)	\$ 1,937	\$ (444)	\$ 52,583
<b>GAAP diluted earnings (loss) per average common share (51,143 shares)</b>	\$ 0.80	\$ 0.49	\$ -	\$ -	\$ (0.01)	\$ 1.28
Per share effect of non-GAAP adjustments	0.07	(0.36)	-	0.04	-	(0.25)
<b>Non-GAAP operating earnings (loss) per share</b>	\$ 0.87	\$ 0.13	\$ -	\$ 0.04	\$ (0.01)	\$ 1.03

*(Footnote references are described on the following page.)*

**WGL HOLDINGS, INC. (Consolidated by Quarter)**  
**RECONCILIATION OF GAAP NET INCOME (LOSS) TO**  
**NON-GAAP OPERATING EARNINGS (LOSS)**

(Unaudited)

Fiscal Year 2012

(In thousands, except per share data)	Quarterly Period Ended				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
<b>GAAP net income</b>	\$ 50,438				\$ 50,438
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss on energy-related derivatives (a)	11,997				11,997
Storage optimization program (b)	138				138
Weather derivative products (c)	(228)				(228)
Change in measured value of inventory (d)	(4,238)				(4,238)
<b>Non-GAAP operating earnings</b>	<b>\$ 58,107</b>				<b>\$ 58,107</b>
<b>Diluted average common shares outstanding</b>	<b>51,533</b>				<b>51,533</b>
<b>GAAP diluted earnings per average common share</b>	<b>\$ 0.98</b>				<b>\$ 0.98</b>
Per share effect of non-GAAP adjustments	0.15				0.15
<b>Non-GAAP operating earnings per share</b>	<b>\$ 1.13</b>				<b>\$ 1.13</b>

Fiscal Year 2011 (f)

(In thousands, except per share data)	Quarterly Period Ended				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
<b>GAAP net income</b>	\$ 65,232				\$ 65,232
Adjusted for (items shown after-tax):					
Unrealized mark-to-market gain on energy-related derivatives (a)	(12,196)				(12,196)
Storage optimization program (b)	(1,720)				(1,720)
Weather derivative products (c)	(182)				(182)
Change in measured value of inventory (d)	1,878				1,878
Amortization of derivative contract termination (e)	(429)				(429)
<b>Non-GAAP operating earnings</b>	<b>\$ 52,583</b>				<b>\$ 52,583</b>
<b>Diluted average common shares outstanding</b>	<b>51,143</b>				<b>51,143</b>
<b>GAAP diluted earnings per average common share</b>	<b>\$ 1.28</b>				<b>\$ 1.28</b>
Per share effect of non-GAAP adjustments	(0.25)				(0.25)
<b>Non-GAAP operating earnings per share</b>	<b>\$ 1.03</b>				<b>\$ 1.03</b>

**Footnotes:**

- (a) Adjustments to eliminate the change in the unrealized mark-to-market positions of our energy-related derivatives that were recorded to income during the period. For the regulated utility segment, to the extent that our unrealized mark-to-market gains and losses are not shared with customers, these amounts are recorded directly to income. All unrealized mark-to-market gains and losses for the retail energy-marketing segment and the wholesale energy solutions segment are recorded directly to income.
- (b) Adjustments to shift the timing of storage optimization margins from the periods recognized for GAAP purposes to the periods in which such margins are recognized for regulatory sharing purposes. In addition, lower-of-cost-or-market adjustments related to system and non-system storage optimization are eliminated for non-GAAP reporting, since the margins will be recognized for regulatory purposes when the withdrawals are made at the unadjusted historical cost of storage inventory.
- (c) Represents weather derivatives that are recorded at fair value rather than being valued based on actual variations from normal weather. Thus, any portion of recorded fair value that is not directly offset by an increase/decrease in revenue due to weather is excluded for non-GAAP purposes.
- (d) Adjustments to reflect storage inventory at market or at a value based on the price used to value the physical forward sales contract that is economically hedging the storage inventory.
- (e) During the fourth quarter of fiscal year 2009, Washington Gas terminated a long-term energy-related derivative contract related to its transportation capacity optimization and recognized an associated loss of \$3.9 million for GAAP purposes. For non-GAAP purposes, this loss is being recognized in this period to be matched against the margins earned in the quarters that would have been constrained if the contract had not been terminated.
- (f) Consolidated non-GAAP earnings have been revised to reflect the change in the non-GAAP adjustment methodology in the wholesale energy solutions segment to include unrealized gains and losses of physical and financial purchase and sales contracts in non-GAAP earnings and to value the storage inventory to market value or to the price used in valuing the physical forward sale economically hedging the storage.

**WGL HOLDINGS, INC.**  
**RECONCILIATION OF GAAP EARNINGS GUIDANCE TO**  
**NON-GAAP EARNINGS GUIDANCE**  
**FISCAL YEAR ENDING SEPTEMBER 30, 2012**

**Consolidated**

		Low		High
<b>GAAP Earnings Per Share Guidance Range</b>	<b>\$</b>	2.64	<b>\$</b>	2.76
Adjusted for:				
Unrealized mark-to-market gain on energy-related derivatives <sup>(a)</sup>		(0.08)		(0.08)
Storage optimization program <sup>(b)</sup>		0.01		0.01
Retroactive depreciation expense adjustment <sup>(c)</sup>		(0.03)		(0.03)
Change in measured value of inventory <sup>(d)</sup>		(0.08)		(0.08)
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$</b>	2.46	<b>\$</b>	2.58

**Regulated Utility Segment**

		Low		High
<b>GAAP Earnings Per Share Guidance Range</b>	<b>\$</b>	1.84	<b>\$</b>	1.90
Adjusted for:				
Storage optimization program <sup>(b)</sup>		0.01		0.01
Retroactive depreciation expense adjustment <sup>(c)</sup>		(0.03)		(0.03)
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$</b>	1.82	<b>\$</b>	1.88

**Unregulated Business Segments**

		Low		High
<b>GAAP Earnings Per Share Guidance Range</b>	<b>\$</b>	0.80	<b>\$</b>	0.86
Adjusted for:				
Unrealized mark-to-market gain on energy-related derivatives <sup>(a)</sup>		(0.08)		(0.08)
Change in measured value of inventory <sup>(d)</sup>		(0.08)		(0.08)
<b>Non-GAAP Operating Earnings Per Share Guidance Range</b>	<b>\$</b>	0.64	<b>\$</b>	0.70

**Footnotes:**

- (a) Represents the estimated reversal of certain of our existing unrealized mark-to-market positions related to our energy derivatives that will be recorded to income during fiscal year 2012. For the regulated utility segment, to the extent that our unrealized mark-to-market gains and losses are not shared with customers, these amounts are recorded directly to income. All unrealized mark-to-market gains and losses for the retail-energy marketing segment and the wholesale energy solutions segment in the other activities segment are recorded directly to income.
- (b) Adjustments to shift the timing of storage optimization margins from the periods recognized for GAAP purposes to the periods in which such margins are recognized for regulatory sharing purposes. In addition, lower-of-cost-or-market adjustments related to system and non-system storage optimization are eliminated for non-GAAP reporting, since the margins will be recognized for regulatory purposes when the withdrawals are made at the unadjusted historical cost of storage inventory.
- (c) Represents an adjustment that reduces depreciation expense applicable to the period from January 1, 2010 through September 30, 2011. This adjustment will be recorded upon approval of new depreciation rates by the Virginia State Corporation Commission (SCC of VA).
- (d) Adjustments to reflect storage inventory at market or at a value based on the price used to value the physical forward sales contract that is economically hedging the storage inventory.