

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; (ii) certain gains and losses associated with optimizing the utility segment's capacity assets and (iii) 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 to provide a more transparent and accurate view of the ongoing financial results of our operations. 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. 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. 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.

- 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)

Fiscal Year Ended September 30, 2011

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
GAAP net income (loss)	\$ 69,172	\$ 48,817	\$ 464	\$ (1,403)	\$ 117,050
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	7,932	(14,684)	-	(4,274)	(11,026)
Storage optimization program (b)	(1,305)	-	-	301	(1,004)
Amortization of derivative contract termination (c)	(1,065)	-	-	-	(1,065)
Weather derivative products (d)	290	-	-	-	290
Competitive service provider imbalance cash settlement (e)	3,205	-	-	-	3,205
Regulatory asset write-off -- outsourcing implementation costs (f)	3,291	-	-	-	3,291
Regulatory asset write-off -- tax effect Medicare Part D(g)	4,720	-	-	-	4,720
Non-GAAP operating earnings (loss)	\$ 86,240	\$ 34,133	\$ 464	\$ (5,376)	\$ 115,461
GAAP diluted earnings (loss) per average common share (51,295 shares)	\$ 1.35	\$ 0.95	\$ 0.01	\$ (0.03)	\$ 2.28
Per share effect of non-GAAP adjustments	0.33	(0.28)	-	(0.08)	(0.03)
Non-GAAP operating earnings (loss) per share	\$ 1.68	\$ 0.67	\$ 0.01	\$ (0.11)	\$ 2.25

Fiscal Year Ended September 30, 2010

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities^	Consolidated
GAAP net income (loss)	\$ 101,698	\$ 11,124	\$ (635)	\$ (2,302)	\$ 109,885
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	(7,234)	11,719	-	(812)	3,673
Storage optimization program (b)	204	-	-	-	204
Amortization of derivative contract termination (c)	(964)	-	-	-	(964)
Weather derivative products (d)	110	-	-	-	110
Partial settlement of the Supplemental Executive Retirement Program (h)	2,140	-	-	-	2,140
Non-GAAP operating earnings (loss)	\$ 95,954	\$ 22,843	\$ (635)	\$ (3,114)	\$ 115,048
GAAP diluted earnings (loss) per average common share (50,765 shares)	\$ 2.00	\$ 0.22	\$ (0.01)	\$ (0.05)	\$ 2.16
Per share effect of non-GAAP adjustments	(0.11)	0.23	-	(0.01)	0.11
Non-GAAP operating earnings (loss) per share	\$ 1.89	\$ 0.45	\$ (0.01)	\$ (0.06)	\$ 2.27

Three Months Ended September 30, 2011

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
GAAP net income (loss)	\$ (38,424)	\$ 6,029	\$ 302	\$ 1,531	\$ (30,562)
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	2,079	5,718	-	(3,157)	4,640
Storage optimization program (b)	523	-	-	301	824
Amortization of derivative contract termination (c)	9	-	-	-	9
Weather derivative products (d)	441	-	-	-	441
Competitive service provider imbalance cash settlement (e)	3,205	-	-	-	3,205
Regulatory asset write-off -- outsourcing implementation costs (f)	3,291	-	-	-	3,291
Regulatory asset write-off -- tax effect Medicare Part D(g)	4,720	-	-	-	4,720
Non-GAAP operating earnings (loss)	\$ (24,156)	\$ 11,747	\$ 302	\$ (1,325)	\$ (13,432)
GAAP diluted earnings (loss) per average common share (51,324 shares)	\$ (0.75)	\$ 0.12	\$ 0.01	\$ 0.02	\$ (0.60)
Per share effect of non-GAAP adjustments	0.28	0.11	-	(0.05)	0.34
Non-GAAP operating earnings (loss) per share	\$ (0.47)	\$ 0.23	\$ 0.01	\$ (0.03)	\$ (0.26)

Three Months Ended September 30, 2010

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities^	Consolidated
GAAP net loss	\$ (19,550)	\$ (5,689)	\$ (255)	\$ (649)	\$ (26,143)
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	929	11,628	-	(812)	11,745
Storage optimization program (b)	(554)	-	-	-	(554)
Weather derivative products (d)	111	-	-	-	111
Non-GAAP operating earnings (loss)	\$ (19,064)	\$ 5,939	\$ (255)	\$ (1,461)	\$ (14,841)
GAAP diluted loss per average common share (50,871 shares)	\$ (0.38)	\$ (0.11)	\$ (0.01)	\$ (0.01)	\$ (0.51)
Per share effect of non-GAAP adjustments	0.01	0.23	-	(0.02)	0.22
Non-GAAP operating earnings (loss) per share	\$ (0.37)	\$ 0.12	\$ (0.01)	\$ (0.03)	\$ (0.29)

* Other Activities for fiscal year 2011 include the results of operations of Capitol Energy Ventures and include non-GAAP adjustments for net unrealized losses (gains) on energy-related derivatives. Per share amounts may include adjustments for rounding.

^ Other Activities for fiscal year 2010 may include adjustments for rounding in its per share amounts.

(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 2011

(In thousands, except per share data)	Quarterly Period Ended (i)				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
GAAP net income (loss)	\$ 65,232	\$ 79,428	\$ 2,952	\$ (30,562)	\$ 117,050
Adjusted for (items shown after-tax):					
Unrealized mark-to-market (gain) loss on energy-related derivatives (a)	(10,667)	236	(5,235)	4,640	(11,026)
Storage optimization program (b)	(1,720)	(637)	529	824	(1,004)
Amortization of derivative contract termination (c)	(429)	(645)	-	9	(1,065)
Weather derivative products (d)	(182)	58	(27)	441	290
Competitive Service Provider imbalance cash settlement (e)	-	-	-	3,205	3,205
Regulatory asset write-off -- outsourcing implementation costs (f)	-	-	-	3,291	3,291
Regulatory asset write-off -- tax effect Medicare Part D (g)	-	-	-	4,720	4,720
Non-GAAP operating earnings (loss)	\$ 52,234	\$ 78,440	\$ (1,781)	\$ (13,432)	\$ 115,461
Diluted average common shares outstanding	51,143	51,242	51,314	51,324	51,295
GAAP diluted earnings (loss) per average common share	\$ 1.28	\$ 1.55	\$ 0.06	\$ (0.60)	\$ 2.28
Per share effect of non-GAAP adjustments	(0.26)	(0.02)	(0.09)	0.34	(0.03)
Non-GAAP operating earnings (loss) per share	\$ 1.02	\$ 1.53	\$ (0.03)	\$ (0.26)	\$ 2.25

Fiscal Year 2010

(In thousands, except per share data)	Quarterly Period Ended (i)				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Fiscal Year
GAAP net income (loss)	\$ 47,641	\$ 78,706	\$ 9,681	\$ (26,143)	\$ 109,885
Adjusted for (items shown after-tax):					
Unrealized mark-to-market (gain) loss on energy-related derivatives (a)	2,371	5,147	(15,590)	11,745	3,673
Storage optimization program (b)	385	871	(498)	(554)	204
Amortization of derivative contract termination (c)	(385)	(579)	-	-	(964)
Weather derivative products (d)	786	(1,424)	637	111	110
Partial settlement of the Supplemental Executive Retirement Program (h)	-	-	2,140	-	2,140
Non-GAAP operating earnings (loss)	\$ 50,798	\$ 82,721	\$ (3,630)	\$ (14,841)	\$ 115,048
Diluted average common shares outstanding	50,429	50,572	50,918	50,871	50,765
GAAP diluted earnings (loss) per average common share	\$ 0.94	\$ 1.56	\$ 0.19	\$ (0.51)	\$ 2.16
Per share effect of non-GAAP adjustments	0.07	0.08	(0.26)	0.22	0.11
Non-GAAP operating earnings (loss) per share	\$ 1.01	\$ 1.64	\$ (0.07)	\$ (0.29)	\$ 2.27

Footnotes:

- (a) Represents 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 to Capitol Energy Ventures 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) 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.
- (d) 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.
- (e) Represents a refund to customers ordered by the Public Service Commission of Maryland (PSC of MD) in September 2011 associated with a cash settlement of gas imbalances with competitive service providers. The order remanded the matter to a hearing examiner to determine the amount of the refund as the difference between charges made to customers and the charges that would have been incurred had the imbalances been made up through volumetric adjustments.
- (f) Represents a write-off of a previously approved Maryland regulatory asset established in 2008 for the initial implementation costs associated with our business process outsourcing plan. As a result of the rate case in Maryland, these costs are no longer probable of recovery and therefore do not qualify for regulatory asset treatment.
- (g) In March 2010, the Patient Protection and Affordable Care Act (PPACA) eliminated future Medicare Part D (Med D) tax benefits for Washington Gas' tax years beginning after September 30, 2013. The deferred tax asset related to this benefit was reversed and a regulatory asset was established to reflect the probable recovery of higher future tax expense from customers. Based on positions taken by the Virginia State Corporation Commission (SCC of VA) in Washington Gas' rate case and in other cases, we determined that it was not probable that the SCC of VA would permit recovery of this asset.
- (h) Represents the partial settlement of the Supplemental Employee Retirement Program due to lump sum distributions to certain retired employees that occurred in 2010.
- (i) Quarterly earnings per share may not sum to year-to-date or annual earnings per share as quarterly calculations are based on weighted average common and common equivalent shares outstanding, which may vary for each of those periods.

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

Consolidated

		Low		High
GAAP Earnings Per Share Guidance Range	\$	2.63	\$	2.75
Adjusted for:				
Unrealized mark-to-market gain on energy-related derivatives ^(a)		(0.16)		(0.16)
Storage optimization program ^(b)		0.02		0.02
Retroactive depreciation expense adjustment ^(c)		(0.03)		(0.03)
Non-GAAP Operating Earnings Per Share Guidance Range	\$	2.46	\$	2.58

Regulated Utility Segment

		Low		High
GAAP Earnings Per Share Guidance Range	\$	1.81	\$	1.87
Adjusted for:				
Storage optimization program ^(b)		0.02		0.02
Retroactive depreciation expense adjustment ^(c)		(0.03)		(0.03)
Non-GAAP Operating Earnings Per Share Guidance Range	\$	1.80	\$	1.86

Unregulated Business Segments

		Low		High
GAAP Earnings Per Share Guidance Range	\$	0.82	\$	0.88
Adjusted for:				
Unrealized mark-to-market gain on energy-related derivatives ^(a)		(0.16)		(0.16)
Non-GAAP Operating Earnings Per Share Guidance Range	\$	0.66	\$	0.72

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 to Capitol Energy Ventures 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 SCC of VA.