

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 Generally Accepted Accounting Principles in the United States of America (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) warmer-than-normal/colder-than-normal weather for our regulated utility segment; (ii) unrealized mark-to-market gains and losses from energy-related derivatives; (iii) certain gains and losses associated with optimizing the utility segment's system storage capacity assets 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 the effects of warmer-than-normal/colder-than-normal weather to “normalize” weather for our regulated utility segment. During the three months ended December 31, 2008, the regulated utility segment had a weather protection strategy designed to neutralize the estimated financial effects of variations from normal weather on its net income. During the three months ended December 31, 2007, this strategy allowed Washington Gas to retain the benefit from colder-than-normal weather in certain jurisdictions. Utilization of normal weather is an industry standard, and it is our practice to evaluate our rate-regulated revenues by utilizing normal weather and to provide estimates and guidance on the basis of normal weather;
- 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 the corresponding retail sales commitments are not. With the exception of certain transactions related to the optimization of system storage 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 which 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 system storage capacity assets. Transactions to optimize our 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 (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. This reflects a better matching between the economic costs and benefits of the overall optimization strategy.
- 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 TO
NON-GAAP OPERATING EARNINGS (LOSS)
(Unaudited)

Quarter Ended December 31, 2008

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
GAAP net income (loss)	\$ 50,936	\$ 450	\$ 832	\$ (374)	\$ 51,844
Adjusted for (items shown after-tax):					
Unrealized mark-to-market loss (gain) on energy-related derivatives (a)	(6,293)	5,333	-	-	(960)
Loss on settled derivatives — storage optimization (b)	776	-	-	-	776
Prior period lower-of-cost or market adjustment — storage optimization (c)	(524)	-	-	-	(524)
Prior period gain on settled derivatives — storage optimization (d)	515	-	-	-	515
Non-GAAP operating earnings (loss)	\$ 45,410	\$ 5,783	\$ 832	\$ (374)	\$ 51,651
GAAP diluted earnings (loss) per average common share (50,208 shares)	\$ 1.01	\$ 0.01	\$ 0.02	\$ (0.01)	\$ 1.03
Per share effect of non-GAAP adjustments	(0.11)	0.11	-	-	-
Non-GAAP operating earnings (loss) per share	\$ 0.90	\$ 0.12	\$ 0.02	\$ (0.01)	\$ 1.03

Quarter Ended December 31, 2007

<i>(In thousands, except per share data)</i>	Regulated Utility	Retail Energy- Marketing	Design-Build Energy Systems	Other Activities*	Consolidated
GAAP net income (loss)	\$ 44,202	\$ 3,281	\$ 273	\$ (559)	\$ 47,197
Adjusted for:					
Reversal of costs related to business process outsourcing (e)	(1,139)	-	-	-	(1,139)
Unrealized mark-to-market loss on energy-related derivatives (a)	1,643	970	-	-	2,613
Other regulatory adjustments (f)	(1,242)	-	-	-	(1,242)
Non-GAAP operating earnings (loss)	\$ 43,464	\$ 4,251	\$ 273	\$ (559)	\$ 47,429
GAAP diluted earnings (loss) per average common share (49,645 shares)	\$ 0.89	\$ 0.07	\$ 0.01	\$ (0.02)	\$ 0.95
Per share effect of non-GAAP adjustments	(0.01)	0.02	-	-	0.01
Non-GAAP operating earnings (loss) per share	\$ 0.88	\$ 0.09	\$ 0.01	\$ (0.02)	\$ 0.96

* Per share amounts for "Other Activities" may include adjustments for rounding

(Footnote references are described on the following page)

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

Fiscal Year 2009

<i>(In thousands, except per share data)</i>	Quarterly Period Ended (g)				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Year-To-Date
GAAP net income	\$ 51,844				\$ 51,844
Adjusted for (items shown after-tax):					
Unrealized mark-to-market gain on energy-related derivatives (a)	(960)				(960)
Loss on settled derivatives — storage optimization (b)	776				776
Prior period lower of cost or market adjustment — storage optimization (c)	(524)				(524)
Prior period gain on settled derivatives — storage optimization (d)	515				515
Non-GAAP operating earnings	\$ 51,651				\$ 51,651
Diluted average common shares outstanding	50,208				50,208
GAAP diluted earnings per average common share	\$ 1.03				\$ 1.03
Per share effect of non-GAAP adjustments	-				-
Non-GAAP operating earnings per share	\$ 1.03				\$ 1.03

Fiscal Year 2008

<i>(In thousands, except per share data)</i>	Quarterly Period Ended (g)				
	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Year-To-Date
GAAP net income	\$ 47,197				\$ 47,197
Adjusted for (items shown after-tax):					
Reversal of costs related to business process outsourcing (e)	(1,139)				(1,139)
Unrealized mark-to-market loss on energy-related derivatives (a)	2,613				2,613
Other regulatory adjustments (f)	(1,242)				(1,242)
Non-GAAP operating earnings	\$ 47,429				\$ 47,429
Diluted average common shares outstanding	49,645				49,645
GAAP diluted earnings per average common share	\$ 0.95				\$ 0.95
Per share effect of non-GAAP adjustments	0.01				0.01
Non-GAAP operating earnings per share	\$ 0.96				\$ 0.96

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 are recorded directly to income.
- (b) Adjustment relates to the current period settlement of physical and financial derivatives resulting from the optimization of the regulated utility segment's system storage capacity assets.
- (c) Adjustment removing the effects of a lower of cost or market adjustment to reflect the delivery of gas in storage to end-use customers.
- (d) Recognition of prior period gains on the settlement of physical and financial derivatives to reflect the delivery of gas in storage to end-use customers. These gains resulted from the optimization of the regulated utility segment's system storage capacity assets.
- (e) Represents the reversal of expenses that were incurred in prior fiscal years for initial implementation costs allocable to the District of Columbia associated with our business process outsourcing plan. These costs were recorded to a regulatory asset in the first quarter of fiscal year 2008 upon approval of 10-year amortization accounting by the District of Columbia Public Service Commission in a December 28, 2007 Final Order.
- (f) Represents favorable regulatory adjustments made during the first quarter of fiscal year 2008 applicable to prior fiscal years due to revised treatment for hexane costs in Maryland and certain shared revenues in the District of Columbia.
- (g) 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, 2009

Consolidated

	Low	High
GAAP Earnings Per Share Guidance Range	\$ 2.41	\$ 2.53
Adjusted for:		
Unrealized mark-to-market gain on energy-related derivatives (a)	(0.03)	(0.03)
Loss on settled derivatives – storage optimization (b)	0.02	0.02
Prior period lower of cost or market adjustment – storage optimization (c)	(0.03)	(0.03)
Prior period gain on settled derivatives – storage optimization (d)	0.04	0.04
Non-GAAP Operating Earnings Per Share Guidance Range	\$ 2.41	\$ 2.53

Regulated Utility Segment

	Low	High
GAAP Earnings Per Share Guidance Range	\$ 1.97	\$ 2.03
Adjusted for:		
Unrealized mark-to-market gain on energy-related derivatives (a)	-	-
Loss on settled derivatives – storage optimization (b)	0.02	0.02
Prior period lower of cost or market adjustment – storage optimization (c)	(0.03)	(0.03)
Prior period gain on settled derivatives – storage optimization (d)	0.04	0.04
Non-GAAP Operating Earnings Per Share Guidance Range	\$ 2.00	\$ 2.06

Unregulated Business Segments

	Low	High
GAAP Earnings Per Share Guidance Range	\$ 0.44	\$ 0.50
Adjusted for:		
Unrealized mark-to-market gain on energy-related derivatives (a)	(0.03)	(0.03)
Non-GAAP Operating Earnings Per Share Guidance Range	\$ 0.41	\$ 0.47

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 2009. 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 are recorded directly to income.
- (b) Adjustment relates to the current period settlement of physical and financial derivatives resulting from the optimization of the regulated utility segment's system storage capacity assets.
- (c) Adjustment removing the effects of a lower of cost or market adjustment to reflect the delivery of gas in storage to end-use customers.
- (d) Recognition of prior period gains on the settlement of physical and financial derivatives to reflect the delivery of gas in storage to end-use customers. These gains resulted from the optimization of the regulated utility segment's system storage capacity assets.