

Enduring Strength 

# OUR

path to a clear

# VISION

WGL Holdings, Inc. is a public utility holding company serving the Washington, D.C., metropolitan region.

Our chief subsidiary, Washington Gas, has served the D.C. area for nearly 160 years. Over time, our role has evolved from illuminating the U.S. Capitol with gas lighting to delivering the comfort and convenience of natural gas to more than one million homes and businesses in the District, and in portions of Maryland and Virginia. Other subsidiaries provide energy-related services to the federal and state governments, private industry, businesses and homeowners in the Mid-Atlantic region.

While our role as an energy company has changed and expanded significantly, our vision for the future remains clear and focused: We will be the retail energy company of choice by achieving excellence for customers, investors and employees.




This journey begins with the understanding that enduring strength arises from serving the needs of all of our stakeholders.

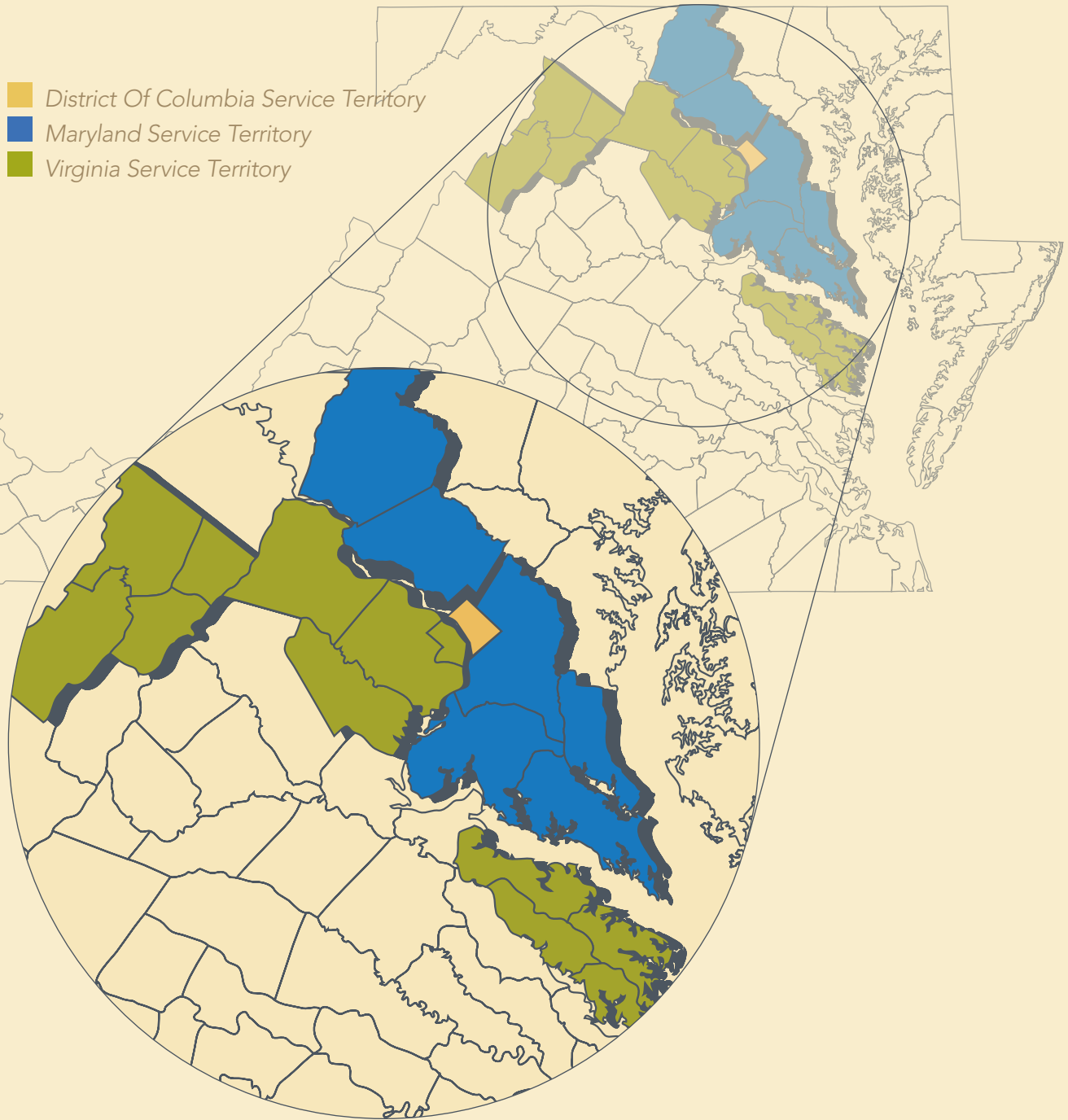
#### What's Inside:

- **Aligned Interests:** *Achieving Excellence for Customers, Investors and Employees*
- **Our Face to the World:** *Civic Responsibility Benefits All*
- **Building on a Firm Legacy:** *Setting Public Priorities for Today and Tomorrow*



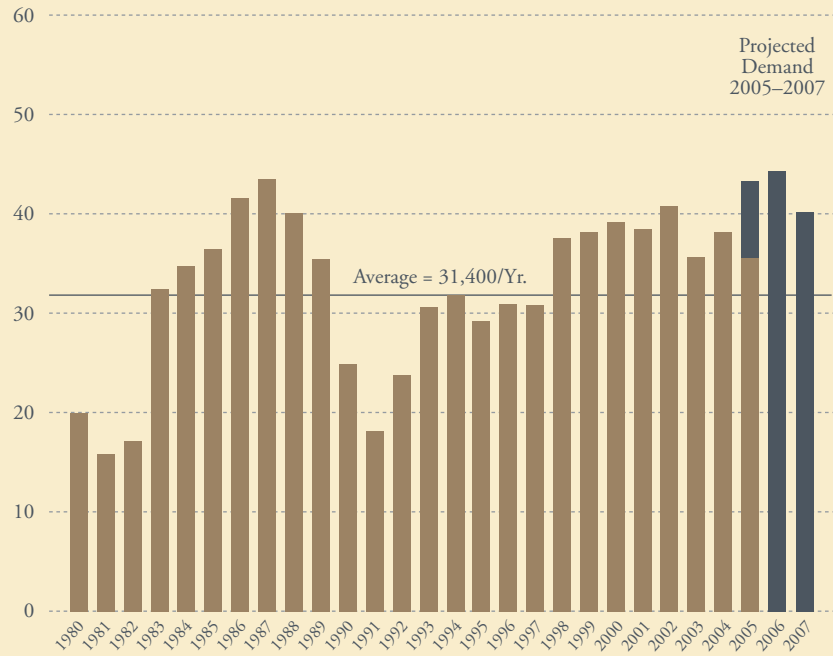
*WGL Holdings headquarters, located on Capitol Hill in Washington, D.C., is one of nine metropolitan area locations staffed with Washington Gas employees.*

-  District Of Columbia Service Territory
-  Maryland Service Territory
-  Virginia Service Territory

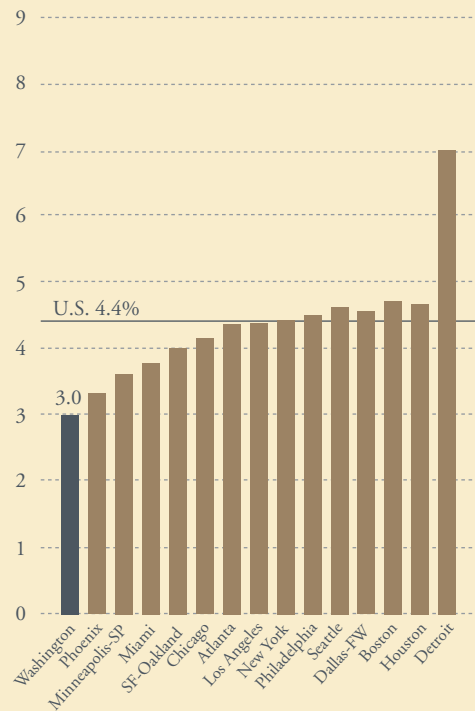


**Serving a Growing Region.** Fueled by attractive demographics and regional growth that exceeds national averages, Washington Gas has increased the number of active meters by adding an average of over 20,000 new customers per year for the past several years. Our service territory, shown here, spans the District of Columbia, and portions of Maryland and Virginia.

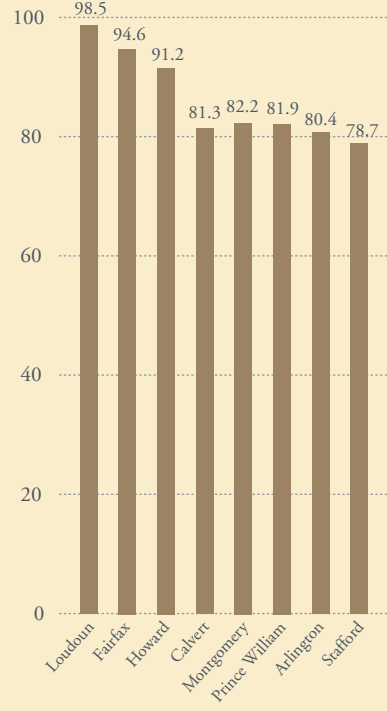
Metropolitan Statistical Area: Total Housing Unit Permits  
1980-2007



15 Largest Job Markets Ranked by  
Unemployment Rate  
September 2006 (in percent) (data not seasonally adjusted)



Median Household Income in the  
D.C. Area's Wealthiest Counties  
2005 (in thousands of dollars)



Source: Center for Regional Analysis

## To Our Readers:

Once again, our company has demonstrated a commitment to achieving solid results by working effectively for the interests of customers, investors and employees.

Whether they make a financial investment, contribute as employees or develop an interest in us through some other relationship with our business, all of our constituents have a unique perspective that must be considered as we manage the company.

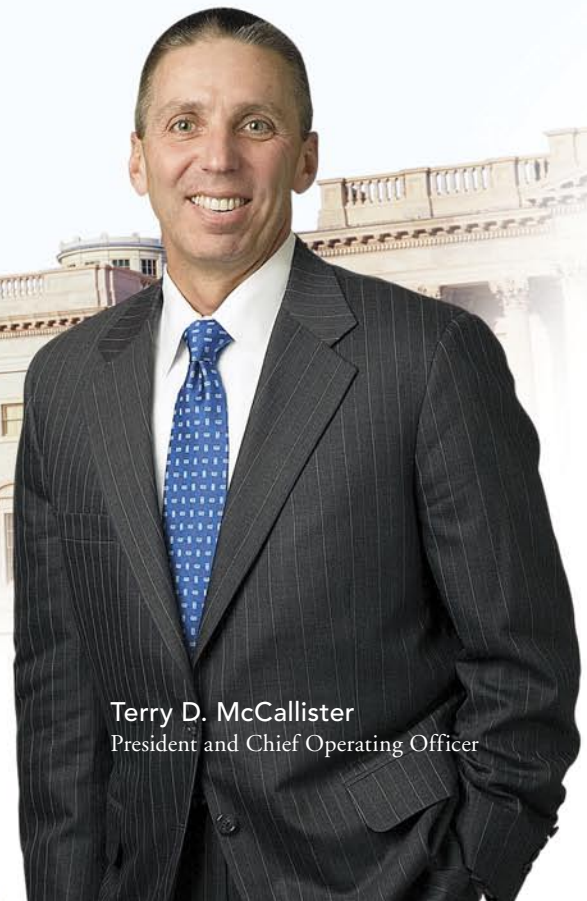
We deliver on our commitments through thoughtful process review and rigorous planning. We follow a disciplined methodology for developing meaningful goals and monitoring results.

We aim not only to sustain excellence, but also to retain the confidence of our stakeholders that our commitment and capability to deliver consistent success form the foundation of our approach to the business.

This proven approach to doing business reflects our enduring strength as a corporation. In addition to providing safe, reliable gas service at a reasonable cost to customers in the metropolitan



**James H. DeGraffenreidt, Jr.**  
Chairman and Chief Executive Officer



**Terry D. McCallister**  
President and Chief Operating Officer

**Producing Results:** Our vision is to be the retail energy company of choice by achieving excellence for customers, investors and employees.

Washington, D.C., area for nearly 160 years, we have established ourselves as an active and involved neighbor and a trusted employer for several generations. We have grown profitable energy-related businesses that are managed to reflect our values and support our efforts to achieve our vision.

These messages should sound and feel familiar to those who have followed our corporation and our annual performance reporting for the past several years. Each year, we present our successes and reiterate our corporate philosophy in a way that seeks to engage all of our stakeholders. We try also to offer insights into how we view the business and discuss the opportunities that we see ahead of us.

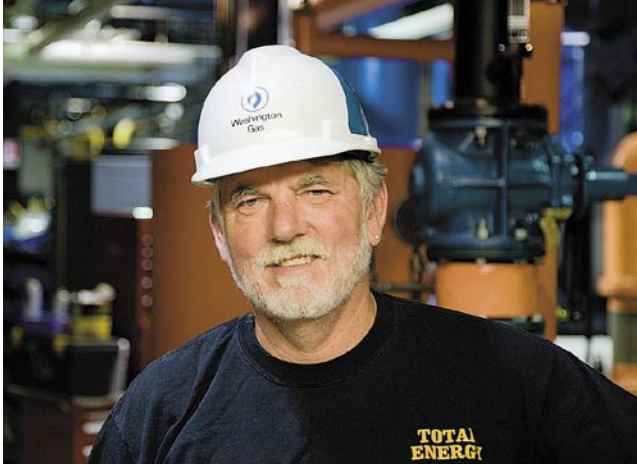
This year, we offer a slightly different presentation of our corporate results.

New and changing financial reporting requirements encourage us to find different and effective ways of reporting fully, clearly and concisely on all matters regarding our company. Our solution this year: produce two year-end corporate reports that provide a comprehensive discussion of our business. Our **2006 Corporate Financial Report** is published under separate cover and provides a complete analysis of the year's financial results. This publication

constitutes our first **Corporate Performance Report** and discusses the many ways that we advance the interests of our various constituents.

Although this publication itself is new, the work and achievements documented here long have been staples in our pursuit of excellence. Our story begins with a simple premise: Our actions always have been and always must be carefully considered and carried out if we are to achieve sustainable results for everyone with an interest in our continued success. The evidence that our approach works well rests with the results that we achieve and in the awards that our efforts garner.

Our persistent strides to achieve excellence and to deliver consistent success led us to develop a profitable energy-related subsidiary, Washington Gas Energy Services, which celebrated its ten-year anniversary in 2006 and has consistently contributed significantly to net income. *Public Utilities Fortnightly*, an industry trade journal, recognized our corporate performance by naming WGL Holdings to its list of top energy companies, the Fortnightly 40, in 2006. We also were honored as one of the "100 Best Corporate Citizens" by *Business Ethics* magazine for a third year in a row.



**Corporate Longevity.** *Dedicated to serving the homes and businesses of the Washington, D.C., region, WGL Holdings employees, like those pictured above, have maintained the warmth, comfort and convenience of natural gas.*

It is gratifying for us to know that our efforts are recognized. Many of our rigorous standards have existed as matter of course for years at WGL Holdings. We have enjoyed the recognition that we receive for our results. However, we clearly understand that the values, processes and metrics that we observe—the attributes that gained WGL Holdings notice and award—must continue to drive and inform our approach to doing business.

Central to all of our efforts is the dedication and commitment of our employees. Whether during their daily work or by contributing time and energy throughout the region to benefit those less fortunate, the men and women of WGL Holdings exhibit a commitment to service—to our customers and to the community. We continue to foster a high-performance culture—a workplace that rewards and inspires excellence by offering challenge, support and growth. We maintain a sharp, consistent focus on organizational effectiveness and the issues important to our employees now and in the future.

We are proud that our strength has endured, to the benefit of the divergent interests who monitor our progress. We know that continued success depends on reinforcing the confidence that you place in our company. We also understand that we achieve this only by making consistent, measurable progress toward achieving excellence for customers, investors and employees.

Very truly yours,

**James H. DeGraffenreidt, Jr.**  
*Chairman and Chief Executive Officer*

**Terry D. McCallister**  
*President and Chief Operating Officer*



# The Journey begins



## **Aligned Interests:** *Achieving Excellence for Customers, Investors and Employees*

Striving to be the retail energy company of choice for customers, employees and investors means making decisions that consider and balance their collective needs. Learn more on p. 8.

# 2

## **Our Face to the World:** *Civic Responsibility Benefits All*

WGL Holdings has established a tradition of responsible citizenship and support to the community. On p. 11, find out how we earned a reputation for service.

# 3

## **Building on a Firm Legacy:** *Setting Public Priorities for Today and Tomorrow*

2007 offers WGL Holdings a unique opportunity to advance our business and shape key public policy issues. We outline our busy agenda on p. 14.

# 1 Aligned Interests

Achieving Excellence for Customers, Investors and Employees

Striving to be the retail energy company of choice for our customers, investors and employees means making decisions that consider and balance their collective needs. It also means promoting transparency and capitalizing on opportunities with the potential for lasting benefit for all.

## Competitive Solutions for Customers

When residents in the District of Columbia, Maryland and Delaware learned that electric bills would rise by double-digit percentages as their respective electric utilities removed existing rate caps, Washington Gas Energy Services (WGES), our energy-marketing arm, seized the chance to market a lower-cost alternative. By fiscal year-end, WGES had grown electricity patronage by 75 percent, and enrolled customers collectively stand to save millions of dollars in electricity costs.

## Workplace Excellence

Doing right by employees means taking steps that enhance our workforce now and for years to come. Organizational effectiveness is a key goal for everyone in the company. We develop future leaders and strategies that produce solid results, provide employees with necessary job skills and promote collaborative relationships within our workforce.

By creating clear insights into the company's future and illustrating our employees' roles in achieving our plans, we see steady increases in staff commitment. Each year, more and more of our employees participate in a process that collects their ideas to create strategies for enhancing our workplace. And, thanks to our collaborative labor relations approach, which hinges on building solid relationships to achieve positive results for all parties, our

labor relations team ratified a new contract with Local 2 of the Office and Professional Employees International Union (OPEIU) two months early and inked mutually beneficial contracts with Local 1900 of the International Brotherhood of Electrical Workers (IBEW) and with the IBEW's clerical unit.

## Responsible Management for Customers, Investors

WGL Holdings launched a multiyear replacement and rehabilitation pipeline project in Prince George's County, Md., in 2005 to stem an unusual pattern of leaks caused by the introduction of gas from the Cove Point liquefied natural gas (LNG) terminal. This gas had a different chemical composition from traditional compressed gas. We supplemented the effort in January 2006 when we began conditioning the gas from Cove Point as it entered our system.

Initial results suggest that this may ultimately prove to be a successful approach that preserves the sealing power on the rubber gaskets in the pipe. This has prompted us to modify our rehabilitation plans for the 2006–2007 winter heating season as we collect more data about the benefits of our gas conditioning efforts and perform special leak surveys to confirm our findings. Our experience during the winter may permit us to modify the overall scope and cost of this project.



*Twenty-four hours a day, seven days a week, Washington Gas responds to emergency service calls*



*These Project Weatherization volunteers work to keep the warm air in and keep cold air out of the homes of Washington, D.C., senior citizens.*

# Our Face to the World

Civic Responsibility Benefits All

On July 8, 1848, Congress chartered Washington Gas (which, in 2000, became the chief subsidiary of WGL Holdings) to light the Capitol and its surroundings. As we grew with the Washington, D.C., region, our name became synonymous with light, and later, as gas heating gained popularity, with warmth and comfort.

Today, our role in the community extends far beyond providing natural gas, safely and reliably, now to over one million customers in the region. We enjoy a long-standing tradition of responsible citizenship and support to the community. We integrate philanthropic and community commitment with sound corporate governance and leadership to yield a responsible and effective organization—reward in and of itself. When others notice our dedication to responsible corporate citizenship, it underscores our beliefs and reinforces our hope that our civic responsibility has far-reaching, positive effects on our communities.

Diverse sources of recognition include:

- *Business Ethics: The Magazine of Corporate Responsibility*, named WGL Holdings among the 100 best corporate citizens in the nation for the third consecutive year. The publication bestows this honor by evaluating and ranking companies on ethical governance, ethical visibility, social responsibility, and a history of strong financial performance.
- The U.S. Environmental Protection Agency commended Washington Gas for superior leadership in environmental protection following our adoption of aggressive measures to reduce methane emissions and improve air quality.
- GovernanceMetrics International, the independent corporate governance research and ratings agency, gave WGL Holdings a “high” rating for exemplary corporate behavior and social responsibility.
- WGL Holdings debuted at number 21 on *Public Utilities Fortnightly*’s Top 40 list of best energy companies in 2006. Based on independent research, the Fortnightly 40 recognizes energy businesses for their “superior asset management, exceptional cost discipline, and magnificent growth opportunities.”
- At the 9th Annual Greater Washington Business Philanthropy Summit, the *Washington Business Journal* recognized our company among its “Top Corporate Philanthropists” for the third consecutive year, in consideration of our local giving efforts. At the same time, we received the “My Business Cares” seal from Greater DC Cares, the area’s leading coordinator of volunteerism and corporate philanthropy.
- WGES has been recognized for leadership in supporting renewable energy. A Delaware law enacted in 2005 required all electricity suppliers in the state to include renewable sources in their electric supply, beginning with 1 percent in 2007 and increasing each year. WGES already meets the standard for 2013.



*Washington Gas employees volunteered more than 3,400 hours in 2006 on projects ranging from fundraising for cancer research to environmental cleanup to youth education.*

More than 20 years ago, Washington Gas founded the Washington Area Fuel Fund (WAFF) to assist area residents who have exhausted or do not qualify for government energy assistance. Now our flagship philanthropic effort, WAFF, which is administered by The Salvation Army, typifies the aims and goals of our corporate philanthropy and those of our Salvation Army partners—to “do the most good.”

Washington Gas pays all of the fund’s administrative costs so that 100 percent of all donations to the program benefit the neediest families. Since its inception, WAFF has raised nearly \$17 million in donations to assist nearly 205,000 area families.

Beyond WAFF, our corporate philanthropy program donated approximately \$3.5 million to benefit diverse local and regional programs over the last five years. Our employees take great pride in making contributions to local charities through our annual Employee Giving Campaign. This simple and convenient way for employees and their families to donate to community programs also

sparks friendly competition among colleagues to devise new and creative ways to raise these dollars each year. In the last five campaigns, employees have given over a half million dollars to a number of charitable programs.

Employees bring a similar and contagious enthusiasm to our Volunteerism Program. Employee-led Community Service Teams drive our work in our communities, and team leaders organize, coordinate and participate in approximately 30 projects annually. One of the teams’ most popular annual projects is the Leukemia and Lymphoma Society’s Light The Night Walk, this year raising more than \$50,000—the most raised by any group participating in the D.C. event in 2006—for blood cancer research and education. The Junior Achievement Bowl-a-Thon and Christmas in April, a home repair initiative for the elderly, low-income and handicapped, are other popular projects undertaken by our volunteers.

Through these and other initiatives, our Washington Gas volunteers gave more than 3,400 hours of their time last year.

“I support Light The Night for two close friends who have lost parents to blood-related diseases. I’ll continue my support until a cure is found and walks like these are no longer necessary.”

—Bill Garner, Washington Gas employee

“Volunteering connects me to my community and my co-workers.”

—April Bingham, Washington Gas employee

“Washington Gas makes it easy to volunteer, and the volunteers make it fun. It lets me see the compassionate side of my co-workers.”

—Dawn Galloway, Washington Gas employee



*More than one million customers in Delaware, Maryland, Virginia, and Washington, D.C., are served by WGL Holdings subsidiaries.*



# 3 Building on a Firm Legacy

Setting Public Priorities for Today and Tomorrow

2007 offers WGL Holdings a unique opportunity to advance our business and shape key public policy issues. As usual, we will promote our public policy plans to influence outcomes and matters of interest to our company and our stakeholders. This year, James DeGraffenreidt, our chairman and CEO, gives our positions greater voice and visibility through his leadership roles in noted associations.

On Jan. 1, DeGraffenreidt begins his term as chairman of the American Gas Association (AGA). DeGraffenreidt has served as co-chairman of the Board of Directors for the Alliance to Save Energy, and his leadership of the AGA over the next 12 months enhances our ability to promote and leverage smart ideas for the future and maintain our industry's strong positioning.

From our unique vantage point, WGL Holdings will promote a comprehensive agenda in 2007. Our priorities include: advocating fuel diversity for electric power generation; gaining access to new natural gas supply sources; securing increased funding for the Low-Income Home Energy Assistance Program (LIHEAP); promoting alternative sources of energy; and adopting new approaches to utility rate-making. As important as these issues are today, these building-block platforms also support a strong future for our company and for natural gas utilities around the country.

## Managing Costs Through Energy Efficiency and Increased Access to Supplies

Soaring commodity prices sparked a trend among consumers of natural gas in 2006: They are using far less of it. We encourage and commend efficient use both by consumers and in electric power generation. In fact, tapping alternative resources such as clean coal and

nuclear technologies to power electricity generation will improve natural gas availability and ease upward pressure on prices.

We also support energy policy that would increase supplies, thereby helping to meet growing demand while mitigating the upward pressure on prices for natural gas. Experts say that by accessing the nation's abundant reserves in places such as Alaska and the outer continental shelf, we could fuel the growing demand for natural gas for decades. Increasing supply stores here at home helps keep natural gas reasonably priced so that customers continue to enjoy the benefits of this clean-burning fuel without being forced to consider less efficient fuels that may present undesirable environmental consequences.

For some consumers, increased supplies will provide limited relief. They depend on programs such as LIHEAP to keep their homes heated in winter. Last year, some 5.6 million households were eligible for LIHEAP assistance—the highest in 12 years. Fortunately, Congress responded by earmarking an historic high of \$3.2 billion for the program in 2006. As the numbers of needy customers continue rising, we continue to support increased federal funding for this important program, a pivotal resource for those in need.





*WGL Holdings' largest subsidiary—Washington Gas—owns and maintains more than 25,800 miles of pipeline. That's more than enough to travel around the Earth.*



*A Maryland gate station, pictured left, treats natural gas with a hydrocarbon additive, which helps prevent pipe seal shrinkage. Our Washington Gas technicians, such as the gentleman pictured above, routinely visit neighborhoods answering service calls and maintaining system integrity.*

### Supply Diversity

In addition to accessing known stores of domestic natural gas, diversifying the portfolio of available supplies by adding such promising components as domestic and imported liquefied natural gas (LNG) will help to ease the tight supply-demand balance and manage commodity costs. Several years ago, WGL Holdings saw an opportunity to integrate domestic LNG into our supply mix by constructing a storage facility on corporate property in Prince George's County, Md., to meet peak demand on the coldest winter days. From 1933 to 1999, the site served as a natural gas storage facility that helped meet customers' needs.

This planned \$148.6 million investment would yield a state-of-the-art facility with top-notch security and impeccable monitoring systems. It also would give us greater leverage to manage what customers pay for natural gas. By comparison, extending our pipelines and procuring additional sources of gas to flow through those pipes would cost us—and eventually our customers—at least \$500 million. Our lower-cost option illustrates our enduring commitment to keeping costs reasonable for customers.

### Advancing Sound Regulatory Policy Interests

WGL Holdings has invited local regulators to rethink the way that customers pay for the gas they use. Today, most rate-making formulas link a utility's ability to earn its authorized rate of return directly with the amount of gas that customers use. Although we actively support the

wise use of energy, we must work to remove the disincentive for companies such as ours to promote energy efficiency by removing the financial penalty that results from lower usage.

Our solution has been to propose a more balanced approach to rate-making, utilizing special regulatory mechanisms that: 1) encourage advocacy for energy efficiency; 2) encourage ongoing cost savings; 3) share these savings in a timely manner between customers and investors; 4) and provide a reasonable opportunity to earn timely recovery of and return on the costs that we incur to serve utility customers. We won approval for one such rate-making mechanism in Maryland early in fiscal year 2006 and will seek further changes to our overall rate-making formula in this jurisdiction in the spring of 2007. We are evaluating the need to present a similar approach to regulators in the District of Columbia and await the decision of Virginia regulators on a rate-making proposal filed in mid-September 2006.

Together, these efforts comprise a robust and ambitious agenda for WGL Holdings in 2007. Our potential for continued success depends, in part, on our ability to move these important discussions forward and plan future initiatives that build our institution and achieve excellence for customers, investors and employees. We can accomplish this by leveraging favorable prospects today so we are prepared to meet future challenges with thoughtful strategic plans and to reinforce our enduring strength.

## Corporate Information

### Board of Directors

**Michael D. Barnes<sup>(1,4)</sup>**

*Senior Of Counsel  
Covington & Burling LLP  
and President Emeritus  
The Brady Campaign and Brady  
Center to Prevent Gun Violence*

**George P. Clancy, Jr.<sup>(2,3)</sup>**

*Executive Vice President and  
Chief Lending Officer  
Chevy Chase Bank FSB*

**James H. DeGraffenreidt, Jr.<sup>(1)</sup>**

*Chairman of the Board and  
Chief Executive Officer  
WGL Holdings, Inc. and  
Washington Gas*

**James W. Dyke, Jr.<sup>(4)</sup>**

*Partner  
McGuire Woods LLP*

**Melvyn J. Estrin<sup>(1,2,3)</sup>**

*Chairman of the Board and  
Chief Executive Officer  
Estrin International*

**James F. Lafond<sup>(2)</sup>**

*Retired Area Managing Partner  
PricewaterhouseCoopers LLP*

**Debra L. Lee<sup>(3)</sup>**

*Chairman and  
Chief Executive Officer  
BET Holdings, Inc.*

**Karen Hastie Williams<sup>(1,2,4)</sup>**

*Retired Partner  
Crowell & Moring*

### Committee Membership

- (1) Executive*
- (2) Audit*
- (3) Human Resources*
- (4) Governance*

### Officers

**James H. DeGraffenreidt, Jr.**

*Chairman of the Board and  
Chief Executive Officer  
WGL Holdings, Inc. and  
Washington Gas*

**Terry D. McCallister**

*President and  
Chief Operating Officer  
WGL Holdings, Inc. and  
Washington Gas*

**Vincent L. Ammann, Jr.**

*Vice President and  
Chief Financial Officer  
WGL Holdings, Inc. and  
Washington Gas*

**Elizabeth M. Arnold**

*Vice President  
WGL Holdings, Inc. and  
Washington Gas*

**Beverly J. Burke**

*Vice President and General Counsel  
WGL Holdings, Inc. and  
Washington Gas*

**Gautam Chandra**

*Vice President  
WGL Holdings, Inc. and  
Washington Gas*

**Shelley C. Jennings**

*Treasurer  
WGL Holdings, Inc. and  
Washington Gas*

**Mark P. O'Flynn**

*Controller  
WGL Holdings, Inc. and  
Washington Gas*

**Douglas V. Pope**

*Corporate Secretary  
WGL Holdings, Inc. and  
Washington Gas*

**Adrian P. Chapman**

*Vice President  
Washington Gas*

**Lauren A. Foley\***

*Vice President  
Washington Gas*

**Wilma Kumar-Rubock**

*Vice President  
Washington Gas*

**Roberta Willis Sims**

*Vice President  
Washington Gas*

**Douglas A. Staebler\***

*Vice President  
Washington Gas*

**William Zeigler, Jr.**

*Vice President  
Washington Gas*

**Harry A. Warren**

*President  
Washington Gas Energy Services*

*\*Newly named officers in FY06*

### Retired Officers

**Frederic M. Kline**

*Vice President and  
Chief Financial Officer  
WGL Holdings, Inc. and  
Washington Gas*

**Thomas F. Bonner**

*Vice President  
Washington Gas*

**James B. White**

*Vice President  
Washington Gas*

**WGL** Holdings, Inc

101 Constitution Avenue, NW  
Washington, DC 20080  
[www.wglholdings.com](http://www.wglholdings.com)