



QUARTERLY FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIODS ENDING MARCH 31, 2014

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
OPERATING REVENUES	\$ 394,528	\$ 351,750	\$ 627,997	\$ 570,599
OPERATING EXPENSES				
Gas purchases	218,065	194,926	333,609	307,087
Operation and maintenance	30,699	28,705	57,951	53,896
Regulatory rider expenses	38,211	23,774	58,043	37,756
Depreciation and amortization	9,972	9,399	19,807	18,676
Energy and other taxes	23,529	23,591	39,232	39,085
Total operating expenses	320,476	280,395	508,642	456,500
OPERATING INCOME	74,052	71,355	119,355	114,099
Other income	604	905	1,107	1,744
Interest expense, net of capitalized interest	3,888	3,549	7,872	7,133
INCOME BEFORE INCOME TAXES	70,768	68,711	112,590	108,710
Income tax provision	23,725	22,794	37,908	37,301
NET INCOME	\$ 47,043	\$ 45,917	\$ 74,682	\$ 71,409

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Six Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 74,682	\$ 71,409
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	19,806	18,676
Allowance for funds used during construction	(603)	(1,333)
Amortization of deferred charges	233	379
Allowance for bad debt expense	1,087	1,238
Deferred income taxes	(12,260)	10,271
Manufactured gas plant remediation costs	(1,845)	(3,254)
Cost of removal – asset retirement obligation	(164)	(137)
Contributions to postemployment benefit plans	(2,505)	(23,058)
Changes in:		
Components of working capital	49,850	23,673
Other noncurrent assets	14,907	7,051
Other noncurrent liabilities	3,028	1,158
Cash flows from operating activities	146,216	106,073
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(59,971)	(51,376)
Cost of removal	(10,914)	(14,323)
Withdrawal from restricted cash construction fund	85	—
Cash flows (used in) investing activities	(70,800)	(65,699)
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Payments of common stock dividends to parent	(17,649)	(16,685)
Proceeds from long-term debt	125,000	—
Payments of long-term debt	(64,767)	(3,833)
Net proceeds from short-term debt	(120,600)	(27,500)
Proceeds from sale-leaseback transaction	7,576	7,076
Cash flows (used in) financing activities	(70,440)	(40,942)
Change in cash and cash equivalents	4,976	(568)
Cash and cash equivalents at beginning of period	1,912	745
Cash and cash equivalents at end of period	\$ 6,888	\$ 177
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (158,477)	\$ (148,172)
Inventories	96,123	126,149
Underrecovered gas costs	6,866	(542)
Accounts payable and other	(7,788)	(7,049)
Gas purchases payable	23,991	18,439
Prepaid and accrued taxes, net	76,597	48,701
Customers' credit balances and deposits	(8,824)	(30,581)
Restricted broker margin accounts	10,793	12,518
Other current assets	23,508	4,210
Other current liabilities	(12,939)	—
Total	\$ 49,850	\$ 23,673
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 7,005	\$ 6,297
Income taxes	\$ (669)	\$ 7,467
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES		
Accrued capital expenditures	\$ 958	\$ (1,963)

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	March 31, 2014	September 30, 2013
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 1,726,124	\$ 1,681,585
Construction work in progress	135,721	114,961
Total property, plant and equipment	1,861,845	1,796,546
Accumulated depreciation and amortization	(395,457)	(383,895)
Property, plant and equipment, net	1,466,388	1,412,651
CURRENT ASSETS		
Cash and cash equivalents	6,888	1,912
Customer accounts receivable:		
Billed	156,272	43,045
Unbilled	53,664	7,429
Allowance for doubtful accounts	(5,429)	(5,287)
Regulatory assets	18,970	34,372
Gas in storage, at average cost	12,582	104,979
Materials and supplies, at average cost	9,281	13,007
Prepaid taxes	—	40,300
Derivatives, at fair value	15,388	3,502
Restricted broker margin account	—	213
Deferred taxes	1,435	—
Other	13,053	10,050
Total current assets	282,104	253,522
NONCURRENT ASSETS		
Regulatory assets	368,319	402,202
Derivatives, at fair value	—	121
Other	40,506	33,313
Total noncurrent assets	408,825	435,636
Total assets	\$ 2,157,317	\$ 2,101,809

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	March 31, 2014	September 30, 2013
CAPITALIZATION		
Common stock equity	\$ 737,281	\$ 697,913
Long-term debt	478,490	362,886
Total capitalization	1,215,771	1,060,799
CURRENT LIABILITIES		
Current maturities of long-term debt	21,526	68,643
Short-term debt	48,000	168,600
Gas purchases payable	54,735	30,744
Accounts payable and other	49,656	39,239
Deferred and accrued taxes	36,997	9,276
Regulatory liabilities	20,360	1,456
New Jersey clean energy program	5,979	14,532
Restricted broker margin account	10,573	—
Derivatives, at fair value	998	2,045
Customers' credit balances and deposits	15,432	24,256
Total current liabilities	264,256	358,791
NONCURRENT LIABILITIES		
Deferred income taxes	330,958	333,046
Deferred investment tax credits	5,423	5,584
Derivatives, at fair value	—	140
Manufactured gas plant remediation	183,600	183,600
Postemployment benefit liability	46,718	47,278
Regulatory liabilities	76,857	79,647
Asset retirement obligation	29,534	28,711
Other	4,200	4,213
Total noncurrent liabilities	677,290	682,219
Total capitalization and liabilities	\$ 2,157,317	\$ 2,101,809

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 503,700 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. The Company is the regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU). As a result of the impact of the ratemaking process and regulatory actions of the BPU, the Company is required to recognize the economic effects of rate regulation. Accordingly, the Company capitalizes or defers certain costs that are expected to be recovered from its customers as regulatory assets and recognizes certain obligations representing probable future expenditures as regulatory liabilities in the Balance Sheets.

Because of the seasonal nature of the the Company's utility operations and other factors, the results of operations for the interim periods presented are not indicative of the results to be expected for the entire year.