



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIOD ENDED JUNE 30, 2016

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
OPERATING REVENUES	\$ 119,206	\$ 116,307	\$ 513,348	\$ 699,737
OPERATING EXPENSES				
Gas purchases	51,337	45,190	182,846	323,320
Operation and maintenance	32,612	30,323	96,122	92,941
Regulatory rider expenses	6,360	8,516	37,203	72,671
Depreciation and amortization	12,297	10,810	35,133	32,002
Energy and other taxes	7,216	6,901	29,874	42,723
Total operating expenses	109,822	101,740	381,178	563,657
OPERATING INCOME	9,384	14,567	132,170	136,080
Other income	1,173	1,364	3,769	3,572
Interest expense, net of capitalized interest	4,935	5,005	14,213	14,002
INCOME BEFORE INCOME TAXES	5,622	10,926	121,726	125,650
Income tax provision	2,015	3,754	38,232	41,698
NET INCOME	\$ 3,607	\$ 7,172	\$ 83,494	\$ 83,952

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Nine Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 83,494	\$ 83,952
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	35,133	32,002
Allowance for funds used during construction	(3,959)	(3,371)
Amortization of deferred charges	386	363
Allowance for bad debt expense	931	1,948
Deferred income taxes	53,826	(1,146)
Manufactured gas plant remediation costs	(5,070)	(4,745)
Cost of removal – asset retirement obligation	(99)	(467)
Contributions to postemployment benefit plans	(32,292)	(2,390)
Tax benefit from stock based compensation	356	291
Changes in:		
Components of working capital	12,740	12,005
Other noncurrent assets	(17,527)	24,751
Other noncurrent liabilities	535	15,884
Cash flows from operating activities	128,454	159,077
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(111,751)	(96,626)
Cost of removal	(21,342)	(19,114)
Withdrawal from (payment to) restricted cash construction fund	989	(1,484)
Cash flows (used in) investing activities	(132,104)	(117,224)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Payments of common stock dividends to parent	—	(19,023)
Proceeds from long-term debt	125,000	150,000
Payments of long-term debt	(8,319)	(7,160)
Proceeds from short-term debt, net of payments	(27,000)	(153,000)
Proceeds from sale-leaseback transaction	7,107	7,216
Cash flows from (used in) financing activities	96,788	(21,967)
Change in cash and cash equivalents	93,138	19,886
Cash and cash equivalents at beginning of period	434	272
Cash and cash equivalents at end of period	\$ 93,572	\$ 20,158
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (6,941)	\$ (36,727)
Inventories	19,070	51,544
Recovery of gas costs	(9,377)	18,109
Accounts payable and other	(17,190)	(4,170)
Gas purchases payable	2,428	32
Prepaid and accrued taxes, net	8,731	6,300
Customers' credit balances and deposits	2,534	(5,769)
Restricted broker margin accounts	6,293	(16,251)
Other current assets	7,192	(1,063)
Total	\$ 12,740	\$ 12,005
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 14,236	\$ 9,034
Income taxes	\$ —	\$ 4,749
Accrued capital expenditures	\$ 8,827	\$ 8,720

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	June 30, 2016	September 30, 2015
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,084,003	\$ 1,908,024
Construction work in progress	87,206	155,553
Total property, plant and equipment	2,171,209	2,063,577
Accumulated depreciation and amortization	(465,839)	(437,097)
Property, plant and equipment, net	1,705,370	1,626,480
CURRENT ASSETS		
Cash and cash equivalents	93,572	434
Customer accounts receivable:		
Billed	46,885	41,130
Unbilled	6,300	6,372
Allowance for doubtful accounts	(4,727)	(5,054)
Regulatory assets	25,122	24,258
Gas in storage, at average cost	48,291	70,209
Materials and supplies, at average cost	8,663	5,815
Prepaid taxes	24,662	33,333
Derivatives, at fair value	1,401	207
Restricted broker margin account	6,701	12,990
Other	22,735	30,926
Total current assets	279,605	220,620
NONCURRENT ASSETS		
Regulatory assets	447,226	410,155
Other	53,179	48,038
Total noncurrent assets	500,763	458,193
Total assets	\$ 2,485,738	\$ 2,305,293

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	June 30, 2016	September 30, 2015
CAPITALIZATION		
Common stock equity	\$ 860,275	\$ 776,781
Long-term debt	742,802	618,595
Total capitalization	1,603,077	1,395,376
CURRENT LIABILITIES		
Current maturities of long-term debt	11,362	11,138
Short-term debt	—	27,000
Gas purchases payable	23,017	20,589
Accounts payable and other	41,123	59,640
Accrued taxes	86	255
Regulatory liabilities	6,572	12,154
New Jersey clean energy program	16,507	14,293
Derivatives, at fair value	6,216	10,163
Customers' credit balances and deposits	23,235	20,701
Total current liabilities	128,118	175,933
NONCURRENT LIABILITIES		
Deferred income taxes	420,206	366,138
Deferred investment tax credits	4,698	4,940
Derivatives, at fair value	22,697	5,153
Manufactured gas plant remediation	175,310	180,400
Postemployment benefit liability	58,366	88,028
Regulatory liabilities	50,664	67,533
Asset retirement obligation	17,460	16,773
Other	5,142	5,019
Total noncurrent liabilities	754,543	733,984
Total capitalization and liabilities	\$ 2,485,738	\$ 2,305,293

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 519,800 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.