



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED JUNE 30, 2017

(Unaudited)

New Jersey Natural Gas Company

CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
OPERATING REVENUES	\$ 121,362	\$ 119,206	\$ 602,464	\$ 513,348
OPERATING EXPENSES				
Gas purchases	49,448	51,337	229,357	182,846
Operation and maintenance	34,807	32,612	101,793	96,122
Regulatory rider expenses	5,216	6,360	37,710	37,203
Depreciation and amortization	12,425	12,297	36,718	35,133
Energy and other taxes	7,115	7,216	37,202	29,874
Total operating expenses	109,011	109,822	442,780	381,178
OPERATING INCOME	12,351	9,384	159,684	132,170
Other income, net	1,390	1,173	3,240	3,769
Interest expense, net of capitalized interest	6,294	4,935	19,510	14,213
INCOME BEFORE INCOME TAXES	7,447	5,622	143,414	121,726
Income tax provision	1,496	2,015	46,882	38,232
NET INCOME	\$ 5,951	\$ 3,607	\$ 96,532	\$ 83,494

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months Ended
June 30,
2017 2016

(Thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 96,532	\$ 83,494
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	36,718	35,133
Allowance for funds used during construction	(2,738)	(3,959)
Amortization of deferred charges	402	386
Allowance for bad debt expense	688	931
Deferred income taxes	37,930	53,826
Manufactured gas plant remediation costs	(6,923)	(5,070)
Cost of removal – asset retirement obligation	(363)	(99)
Contributions to postemployment benefit plans	(4,602)	(32,292)
Tax benefit from stock based compensation	200	356
Changes in:		
Components of working capital	33,928	12,740
Other noncurrent assets	25,641	(17,527)
Other noncurrent liabilities	(28)	1,151
Cash flows from operating activities	217,385	129,070
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(92,833)	(111,751)
Cost of removal	(23,001)	(21,342)
Withdrawal from restricted cash construction fund	1,302	989
Cash flows (used in) investing activities	(114,532)	(132,104)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	—	125,000
Payments of long-term debt	(43,453)	(8,319)
Proceeds from short-term debt, net of payments	—	(27,000)
Proceeds from sale-leaseback transaction	9,587	7,107
Payments of common stock dividends to parent	(44,071)	—
Tax withholding payments related to net settled stock compensation	(708)	(616)
Cash flows (used in) from financing activities	(78,645)	96,172
Change in cash and cash equivalents	24,208	93,138
Cash and cash equivalents at beginning of period	35,172	434
Cash and cash equivalents at end of period	\$ 59,380	\$ 93,572
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (27,228)	\$ (6,941)
Inventories	24,089	19,070
Recovery of gas costs	(4,610)	(9,377)
Accounts payable and other	18,498	(17,190)
Gas purchases payable	13,985	2,428
Prepaid and accrued taxes, net	21,592	8,731
Customers' credit balances and deposits	(12,785)	2,534
Restricted broker margin accounts	457	6,293
Other current assets	(70)	7,192
Total	\$ 33,928	\$ 12,740
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid (received) for:		
Interest (net of amounts capitalized)	\$ 18,894	\$ 14,236
Income taxes	\$ (15,858)	\$ —
Accrued capital expenditures	\$ 9,623	\$ 8,827

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CONDENSED BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	June 30, 2017	September 30, 2016
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 2,199,762	\$ 2,107,375
Construction work in progress	110,627	122,268
Total property, plant and equipment	2,310,389	2,229,643
Accumulated depreciation and amortization	(481,213)	(467,702)
Property, plant and equipment, net	1,829,176	1,761,941
CURRENT ASSETS		
Cash and cash equivalents	59,380	35,172
Customer accounts receivable:		
Billed	56,302	30,951
Unbilled	6,953	5,744
Allowance for doubtful accounts	(4,647)	(4,627)
Regulatory assets	57,039	54,286
Gas in storage, at average cost	51,379	75,758
Materials and supplies, at average cost	9,375	9,085
Prepaid taxes	25,357	34,602
Restricted broker margin account	4,178	4,822
Other	24,125	24,983
Total current assets	289,441	270,776
NONCURRENT ASSETS		
Regulatory assets	388,767	441,294
Other	46,554	43,390
Total noncurrent assets	435,321	484,684
Total assets	\$ 2,553,938	\$ 2,517,401

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	June 30, 2017	September 30, 2016
CAPITALIZATION		
Common stock equity	\$ 905,346	\$ 852,885
Long-term debt	573,481	730,891
Total capitalization	1,478,827	1,583,776
CURRENT LIABILITIES		
Current maturities of long-term debt	136,307	11,452
Gas purchases payable	32,808	18,823
Accounts payable and other	67,704	42,874
Accrued taxes	12,408	61
Regulatory liabilities	76	9,469
New Jersey clean energy program	15,363	14,232
Derivatives, at fair value	9,534	4,133
Customers' credit balances and deposits	19,959	32,745
Total current liabilities	294,159	133,789
NONCURRENT LIABILITIES		
Deferred income taxes	486,599	448,427
Deferred investment tax credits	4,377	4,619
Manufactured gas plant remediation	161,016	172,000
Postemployment benefit liability	78,469	80,855
Regulatory liabilities	20,050	41,411
Asset retirement obligation	24,118	23,521
Derivatives, at fair value	—	23,459
Other	6,323	5,544
Total noncurrent liabilities	780,952	799,836
Total capitalization and liabilities	\$ 2,553,938	\$ 2,517,401

See Note to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

Notes to Unaudited Condensed Financial Statements

1. GENERAL

New Jersey Natural Gas (the Company) is a local natural gas distribution company that provides regulated retail natural gas service to approximately 528,600 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 wholly-owned regulated utility subsidiary of New Jersey Resources Corporation. The Company maintains its accounts in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities (BPU) and in accordance with the *Regulated Operations* Topic of the Financial Accounting Standards Board Accounting Standards Codification. 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 on 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.