



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIOD ENDED MARCH 31, 2016

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

<i>(Thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
OPERATING REVENUES	\$ 242,536	\$ 374,703	\$ 394,142	\$ 583,430
OPERATING EXPENSES				
Gas purchases	86,266	189,562	131,509	278,130
Operation and maintenance	33,882	32,638	63,510	62,618
Regulatory rider expenses	21,215	42,692	30,843	64,155
Depreciation and amortization	11,598	10,647	22,836	21,192
Energy and other taxes	14,496	23,215	22,658	35,822
Total operating expenses	167,457	298,754	271,356	461,917
OPERATING INCOME	75,079	75,949	122,786	121,513
Other income	1,282	811	2,596	2,208
Interest expense, net of capitalized interest	4,690	4,388	9,278	8,997
INCOME BEFORE INCOME TAXES	71,671	72,372	116,104	114,724
Income tax provision	22,710	23,778	36,573	37,944
NET INCOME	\$ 48,961	\$ 48,594	\$ 79,531	\$ 76,780

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,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 79,531	\$ 76,780
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	22,836	21,192
Allowance for funds used during construction	(2,357)	(2,014)
Amortization of deferred charges	256	235
Allowance for bad debt expense	703	1,558
Deferred income taxes	23,294	(10,556)
Manufactured gas plant remediation costs	(2,656)	(2,089)
Cost of removal – asset retirement obligation	(66)	(403)
Contributions to postemployment benefit plans	(32,145)	(2,344)
Changes in:		
Components of working capital	5,439	(29,957)
Other noncurrent assets	(10,756)	40,784
Other noncurrent liabilities	752	1,642
Cash flows from operating activities	84,831	94,828
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(76,326)	(58,657)
Cost of removal	(20,080)	(11,334)
Withdrawal from (payment to) restricted cash construction fund	1,007	(1,484)
Cash flows (used in) investing activities	(95,399)	(71,475)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Payments of common stock dividends to parent	—	(19,023)
Tax benefit from stock options exercised	—	291
Payments of long-term debt	(5,769)	(4,468)
Proceeds from short-term debt, net of payments	10,000	(7,000)
Proceeds from sale-leaseback transaction	7,107	7,216
Cash flows from (used in) financing activities	11,338	(22,984)
Change in cash and cash equivalents	770	369
Cash and cash equivalents at beginning of period	434	272
Cash and cash equivalents at end of period	\$ 1,204	\$ 641
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$ (47,751)	\$ (149,499)
Inventories	39,646	79,876
Recovery of gas costs	(20,396)	15,734
Accounts payable and other	(19,145)	(14,906)
Gas purchases payable	3,324	20,717
Prepaid and accrued taxes, net	49,049	58,243
Customers' credit balances and deposits	225	(5,807)
Restricted broker margin accounts	(7,252)	(28,434)
Other current assets	7,739	(5,881)
Total	\$ 5,439	\$ (29,957)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 10,668	\$ 9,428
Income taxes	\$ —	\$ 4,749
Accrued capital expenditures	\$ 4,043	\$ 7,254

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	March 31, 2016	September 30, 2015
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$ 1,982,080	\$ 1,908,024
Construction work in progress	150,437	155,553
Total property, plant and equipment	2,132,517	2,063,577
Accumulated depreciation and amortization	(453,924)	(437,097)
Property, plant and equipment, net	1,678,593	1,626,480
CURRENT ASSETS		
Cash and cash equivalents	1,204	434
Customer accounts receivable:		
Billed	67,080	41,130
Unbilled	27,144	6,372
Allowance for doubtful accounts	(4,728)	(5,054)
Regulatory assets	32,638	24,258
Gas in storage, at average cost	27,976	70,209
Materials and supplies, at average cost	8,403	5,815
Prepaid taxes	—	33,333
Derivatives, at fair value	2,310	207
Restricted broker margin account	20,235	12,990
Other	22,188	30,926
Total current assets	204,450	220,620
NONCURRENT ASSETS		
Regulatory assets	436,178	410,155
Other	52,812	48,038
Total noncurrent assets	488,990	458,193
Total assets	\$ 2,372,033	\$ 2,305,293

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	March 31, 2016	September 30, 2015
CAPITALIZATION		
Common stock equity	\$ 856,312	\$ 776,781
Long-term debt	619,391	618,595
Total capitalization	1,475,703	1,395,376
CURRENT LIABILITIES		
Current maturities of long-term debt	11,683	11,138
Short-term debt	37,000	27,000
Gas purchases payable	23,913	20,589
Accounts payable and other	32,902	59,640
Accrued taxes	15,971	255
Regulatory liabilities	—	12,154
New Jersey clean energy program	5,586	14,293
Derivatives, at fair value	21,104	10,163
Customers' credit balances and deposits	20,926	20,701
Total current liabilities	169,085	175,933
NONCURRENT LIABILITIES		
Deferred income taxes	389,593	366,138
Deferred investment tax credits	4,779	4,940
Derivatives, at fair value	12,932	5,153
Manufactured gas plant remediation	178,512	180,400
Postemployment benefit liability	57,602	88,028
Regulatory liabilities	61,333	67,533
Asset retirement obligation	17,231	16,773
Other	5,263	5,019
Total noncurrent liabilities	727,245	733,984
Total capitalization and liabilities	\$ 2,372,033	\$ 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 519,100 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.