



QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDING MARCH 31, 2012

(Unaudited)

New Jersey Natural Gas Company

STATEMENTS OF OPERATIONS (Unaudited)

| <i>(Thousands)</i> | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---------------------------------|-------------------|-------------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| OPERATING REVENUES | \$ 226,023 | \$ 433,248 | \$ 417,397 | \$ 723,924 |
| OPERATING EXPENSES | | | | |
| Gas purchases | 81,667 | 272,948 | 168,154 | 450,599 |
| Operation and maintenance | 26,246 | 26,069 | 52,186 | 51,943 |
| Regulatory rider expenses | 18,443 | 24,304 | 30,986 | 41,002 |
| Depreciation and amortization | 8,749 | 8,235 | 17,381 | 16,458 |
| Energy and other taxes | 15,588 | 28,360 | 28,377 | 47,921 |
| Total operating expenses | 150,693 | 359,916 | 297,084 | 607,923 |
| OPERATING INCOME | 75,330 | 73,332 | 120,313 | 116,001 |
| Other income | 335 | 794 | 659 | 1,098 |
| Interest expense, net of capitalized interest | 3,713 | 3,808 | 7,450 | 7,824 |
| INCOME BEFORE INCOME TAXES | 71,952 | 70,318 | 113,522 | 109,275 |
| Income tax provision | 27,016 | 26,278 | 42,612 | 40,879 |
| NET INCOME | \$ 44,936 | \$ 44,040 | \$ 70,910 | \$ 68,396 |

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, | |
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 70,910 | \$ 68,396 |
| Adjustments to reconcile net income to cash flows from operating activities: | | |
| Depreciation and amortization | 17,381 | 16,458 |
| Allowance for funds used during construction | (139) | (499) |
| Amortization of deferred charges | 364 | 361 |
| Allowance for bad debt expense | 1,493 | 2,491 |
| Deferred income taxes | 16,294 | (14,643) |
| Manufactured gas plant remediation costs | (4,964) | (5,727) |
| Cost of removal – asset retirement obligation | (368) | (456) |
| Contributions to postemployment benefit plans | (22,930) | (3,115) |
| Changes in: | | |
| Components of working capital | (41,707) | 75,750 |
| Other noncurrent assets | 13,723 | 17,850 |
| Other noncurrent liabilities | 6,157 | 4,390 |
| Cash flows from operating activities | 56,214 | 161,256 |
| CASH FLOWS (USED IN) INVESTING ACTIVITIES | | |
| Expenditures for | | |
| Utility plant | (42,380) | (43,581) |
| Cost of removal | (6,765) | (3,605) |
| Withdrawal from restricted cash construction fund | 136 | 38 |
| Cash flows (used in) investing activities | (49,009) | (47,148) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments of common stock dividends to parent | (15,744) | (14,867) |
| Payments of long-term debt | (3,370) | (23,925) |
| Net proceeds from short-term debt | 7,500 | (7,000) |
| Proceeds from sale-leaseback transaction | 6,522 | 5,901 |
| Cash flows from financing activities | (5,092) | (39,891) |
| Change in cash and cash equivalents | 2,113 | 74,217 |
| Cash and cash equivalents at beginning of period | 5 | — |
| Cash and cash equivalents at end of period | \$ 2,118 | \$ 74,217 |
| CHANGES IN COMPONENTS OF WORKING CAPITAL | | |
| Receivables | \$ (26,454) | \$ (89,973) |
| Inventories | 92,038 | 148,979 |
| Underrecovered gas costs | (21,177) | 28,309 |
| Accounts payable and other | (3,110) | (4,705) |
| Gas purchases payable | (5,979) | (2,557) |
| Prepaid and accrued taxes, net | 54,432 | 67,522 |
| Customers' credit balances and deposits | (82,291) | (77,895) |
| Restricted broker margin accounts | (34,639) | (1,454) |
| Other current assets | (14,527) | 7,524 |
| Total | \$ (41,707) | \$ 75,750 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION | | |
| Cash paid for | | |
| Interest (net of amounts capitalized) | \$ 6,161 | \$ 7,048 |
| Income taxes | \$ 1,515 | \$ 17,170 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES | | |
| Accrued capital expenditures | \$ (1,232) | \$ (3,472) |

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

BALANCE SHEETS (Unaudited)

ASSETS

| <i>(Thousands)</i> | March 31, 2012 | September 30, 2011 |
|---|---------------------|-----------------------|
| PROPERTY, PLANT AND EQUIPMENT | | |
| Utility plant, at cost | \$ 1,539,102 | \$ 1,502,451 |
| Construction work in progress | 95,834 | 92,827 |
| | 1,634,936 | 1,595,278 |
| Accumulated depreciation and amortization | (401,938) | (397,267) |
| Property, plant and equipment, net | 1,232,998 | 1,198,011 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 2,118 | 5 |
| Customer accounts receivable: | | |
| Billed | 61,152 | 45,092 |
| Unbilled | 16,428 | 7,333 |
| Allowance for doubtful accounts | (4,666) | (4,472) |
| Regulatory assets | 80,920 | 17,630 |
| Gas in storage, at average cost | 67,104 | 159,328 |
| Materials and supplies, at average cost | 6,309 | 6,123 |
| Prepaid taxes | 3,525 | 39,827 |
| Derivatives, at fair value | 6,049 | 5,424 |
| Restricted broker margin account | 46,361 | 11,722 |
| Deferred taxes | 2,987 | 14,878 |
| Other | 10,334 | 6,501 |
| Total current assets | 298,621 | 309,391 |
| NONCURRENT ASSETS | | |
| Regulatory assets | 410,901 | 434,185 |
| Derivatives, at fair value | 163 | 2 |
| Other | 8,814 | 9,163 |
| Total noncurrent assets | 419,878 | 443,350 |
| Total assets | \$ 1,951,497 | \$ 1,950,752 |

See Notes to Unaudited Condensed Financial Statements

New Jersey Natural Gas Company

CAPITALIZATION AND LIABILITIES

| <i>(Thousands)</i> | March 31, 2012 | September 30, 2011 |
|---|---------------------|-----------------------|
| CAPITALIZATION | | |
| Common stock equity | \$ 687,397 | \$ 648,011 |
| Long-term debt | 379,450 | 376,797 |
| Total capitalization | 1,066,847 | 1,024,808 |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | 8,117 | 7,575 |
| Short-term debt | 34,000 | 26,500 |
| Gas purchases payable | 26,349 | 32,328 |
| Accounts payable and other | 45,929 | 37,650 |
| Deferred and accrued taxes | 18,131 | — |
| Regulatory liabilities | — | 4,633 |
| New Jersey clean energy program | 13,522 | 15,011 |
| Derivatives, at fair value | 49,717 | 13,258 |
| Customers' credit balances and deposits | 31,331 | 113,622 |
| Total current liabilities | 227,096 | 250,577 |
| NONCURRENT LIABILITIES | | |
| Deferred income taxes | 307,328 | 302,764 |
| Deferred investment tax credits | 6,066 | 6,227 |
| Derivatives, at fair value | — | 620 |
| Manufactured gas plant remediation | 182,900 | 182,900 |
| Postemployment benefit liability | 66,183 | 86,750 |
| Regulatory liabilities | 63,391 | 59,837 |
| New Jersey clean energy program | — | 5,133 |
| Asset retirement obligation | 27,537 | 27,026 |
| Other | 4,149 | 4,110 |
| Total noncurrent liabilities | 657,554 | 675,367 |
| Total capitalization and liabilities | \$ 1,951,497 | \$ 1,950,752 |

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 499,500 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 (NJR). 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.