



**New Jersey  
Natural Gas**

**QUARTERLY FINANCIAL STATEMENTS**

FOR THE PERIOD ENDING JUNE 30, 2007

(Unaudited)

**NEW JERSEY NATURAL GAS**

**STATEMENTS OF INCOME**

**THREE, NINE AND TWELVE MONTH PERIODS ENDED JUNE 30, 2007 AND 2006 (Unaudited)**

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,		Twelve Months Ended June 30,	
	2007	2006	2007	2006	2007	2006
<b>OPERATING REVENUES</b>	\$180,980	\$163,914	\$871,198	\$1,029,666	\$980,307	\$1,210,139
<b>OPERATING EXPENSES</b>						
Gas purchases	124,867	118,088	588,723	769,870	666,129	918,598
Operation and maintenance	22,716	20,199	65,663	61,149	89,421	80,348
Regulatory rider expenses	6,226	4,005	33,827	25,868	36,546	28,755
Depreciation and amortization	8,940	8,580	26,526	25,480	35,192	33,838
Energy and other taxes	10,669	7,677	53,445	50,973	58,301	55,915
Total operating expenses	173,418	158,549	768,184	933,340	885,589	1,117,454
<b>OPERATING INCOME</b>	7,562	5,365	103,014	96,305	94,718	92,685
Other income	772	980	2,657	2,520	3,585	3,427
Interest charges, net	4,700	3,719	15,337	11,493	20,300	15,079
<b>INCOME BEFORE INCOME TAXES</b>	3,634	2,626	90,334	87,353	78,003	81,033
Income tax provision	1,032	928	34,598	33,463	29,286	30,727
<b>NET INCOME</b>	\$2,602	\$1,698	\$55,736	\$53,890	\$48,717	\$50,306

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED JUNE 30, 2007 AND 2006(Unaudited)**

<i>(Thousands)</i>		
Nine Months Ended June 30,	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$55,736	\$53,890
Adjustments to reconcile net income to cash flows		
Depreciation and amortization	26,527	25,480
Amortization of deferred charges	226	226
Deferred income taxes	7,025	12,270
Manufactured gas plant remediation costs	(15,346)	(17,991)
Asset retirement obligation - cost of removal	(1,461)	-
Contribution to postretirement employee benefit	(450)	(450)
Changes in:		
Working capital	11,409	(72,687)
Other non-current assets	39,712	13,403
Other non-current liabilities	(13,492)	(7,629)
Cash flows from (used in) operating activities	109,886	6,512
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from sale-leaseback transaction	5,482	4,090
Proceeds from long-term debt	-	35,800
Payments of long-term debt	(2,822)	(23,225)
Net (payments)proceeds related to short-term debt	(39,821)	33,600
Payments of common stock dividends	(31,220)	(29,381)
Cash flows (used in) from financing activities	(68,381)	20,884
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(37,235)	(28,992)
Cost of removal	(3,685)	(4,043)
Investment in restricted cash construction fund	-	(12,500)
Cash flows used in investing activities	(40,920)	(45,535)
Net change in cash and temporary investments	585	(18,139)
Cash and temporary investments at September 30,	4,365	23,194
Cash and temporary investments at June 30,	\$4,950	\$5,055
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	(22,250)	11,018
Inventories	33,793	11,529
Overrecovered gas costs	13,113	67,357
Gas purchases payable	23,546	(34,602)
Prepaid and accrued taxes, net	(3,811)	(18,969)
Customers credit balances and deposits	(44,272)	(6,652)
Accounts payable and other	6,885	(15,397)
Restricted broker margin accounts	18,941	(90,724)
Other current assets and liabilities	(14,536)	3,753
Total	\$11,409	\$(72,687)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$13,614	\$9,329
Income taxes	\$14,677	\$35,781

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS**  
**BALANCE SHEETS**  
**AS OF JUNE 30, 2007 AND SEPTEMBER 30, 2006 (unaudited)**

**ASSETS**

<i>(Thousands)</i>	<b>June 30, 2007</b>	<b>September 30, 2006</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$1,256,374	\$1,214,456
Construction work in progress	22,797	29,160
	1,279,171	1,243,616
Accumulated depreciation and amortization	(344,422)	(326,298)
Property, plant and equipment, net	934,749	917,318
<b>CURRENT ASSETS</b>		
Cash and temporary investments	4,950	4,365
Customer accounts receivable	43,920	18,061
Unbilled revenues	9,999	12,543
Allowance for doubtful accounts	(3,744)	(2,679)
Regulatory assets	21,807	8,105
Gas in storage, at average cost	120,553	155,874
Materials and supplies, at average cost	4,316	2,788
Prepaid taxes	39,171	26,343
Derivatives, at fair value	17,968	25,045
Restricted broker margin accounts	11,892	30,833
Other	4,612	3,775
Total current assets	275,444	285,053
<b>NONCURRENT ASSETS</b>		
Regulatory assets	304,377	322,986
Derivatives, at fair value	23	10,431
Restricted cash construction fund	8,500	8,500
Prepaid pension	17,329	18,583
Other Post Employment Benefit	3,980	-
Other	9,233	24,063
Total noncurrent assets	343,442	384,563
Total assets	\$1,553,635	\$1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS**  
**BALANCE SHEETS**  
**JUNE 30, 2007 AND SEPTEMBER 30, 2006 (unaudited)**

**CAPITALIZATION AND LIABILITIES**

<i>(Thousands)</i>	<b>June 30, 2007</b>	<b>September 30, 2006</b>
<b>CAPITALIZATION</b>		
Common stock equity	\$ 488,663	\$ 464,742
Long-term debt	309,465	307,332
Total capitalization	798,128	772,074
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	4,266	3,739
Short-term debt	111,679	151,500
Regulatory liabilities	14,823	1,710
Gas purchases payable	62,790	39,244
Accounts payable and other	45,965	36,757
Accrued taxes	16,308	9,076
Derivatives, at fair value	51,957	61,553
Clean energy program	9,182	8,244
Customers' credit balances and deposits	16,673	60,945
Total current liabilities	333,643	372,768
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	175,553	166,744
Deferred investment tax credits	7,594	7,835
Derivatives, at fair value	38,505	56,290
Manufactured gas plant remediation	105,400	105,400
Asset retirement obligation	22,816	23,293
Clean energy program	3,341	13,138
Regulatory liabilities	61,625	64,220
Other	7,030	5,172
Total noncurrent liabilities	421,864	442,092
Total capitalization and liabilities	\$1,553,635	\$1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CAPITALIZATION  
AS OF JUNE 30, 2007 AND SEPTEMBER 30, 2006 (Unaudited)**

<i>(Thousands)</i>	June 30, 2007	September 30, 2006
<b>COMMON STOCK EQUITY</b>		
Common stock, \$5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	\$ 16,075	\$ 16,075
Premium on common stock	11,269	11,269
Contribution from parent	246,753	246,753
Accumulated other comprehensive income, net of tax	(75)	(73)
Retained earnings	214,641	190,718
<b>Total Common stock equity</b>	<b>488,663</b>	<b>464,742</b>
<b>LONG-TERM DEBT</b>		
<i>First mortgage bonds</i>		<i>Maturity date</i>
6.27% Series X		November 1, 2008
Variable Series AA	30,000	August 1, 2030
Variable Series BB	25,000	August 1, 2030
6.88% Series CC	16,000	October 1, 2010
Variable Series DD	20,000	September 1, 2027
Variable Series EE	13,500	January 1, 2028
Variable Series FF	9,545	January 1, 2028
Variable Series GG	15,000	April 1, 2033
5% Series HH	18,000	December 1, 2038
4.5% Series II	12,000	August 1, 2030
4.6% Series JJ	10,300	August 1, 2024
4.9% Series KK	10,500	October 1, 2040
4.77% Unsecured senior notes	6,500	March 15, 2014
Loan with state authority	60,000	October 1, 2040
Capital lease obligation Buildings	8,500	June 1, 2021
Capital lease obligation Meters	27,389	October 1, 2012
Less: Current maturities of long-term debt	31,497	28,525
<b>Total Long-term debt</b>	<b>(4,266)</b>	<b>(3,739)</b>
<b>Total Capitalization</b>	<b>309,465</b>	<b>307,332</b>
	<b>\$798,128</b>	<b>\$772,074</b>

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS**

**STATEMENTS OF COMPREHENSIVE INCOME**

**THREE AND NINE MONTH PERIODS ENDED JUNE 30, 2007 AND 2006 (Unaudited)**

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$2,602	\$1,698	\$55,736	\$53,890
Other comprehensive income:				
Change in fair value of derivatives, net of tax of \$(11), \$31, \$1 and \$(73)	15	31	(2)	105
Other comprehensive income	15	31	(2)	105
Comprehensive income	\$2,617	\$1,729	\$55,734	\$53,995

See Note to Condensed Unaudited Financial Statements

## **NOTE TO CONDENSED UNAUDITED FINANCIAL STATEMENTS**

### **1. GENERAL**

New Jersey Natural Gas (NJNG) is a local natural gas distribution company that provides regulated retail natural gas service to more than 477,000 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. NJNG is the regulated utility subsidiary of New Jersey Resources (NJR). NJNG maintains its accounts in accordance with the Uniform System of Accounts as prescribed by the New Jersey Board of Public Utilities. As a result of the ratemaking process, the accounting principles applied by NJNG differ in certain respects from those applied by unregulated businesses.

Because of the seasonal nature of the NJNG'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.