



**New Jersey  
Natural Gas**

**QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTH PERIODS ENDING MARCH 31, 2007

(Unaudited)

**NEW JERSEY NATURAL GAS**

**STATEMENTS OF INCOME**

**THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 (Unaudited)**

<i>(Thousands)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
<b>OPERATING REVENUES</b>	\$450,811	\$471,406	\$690,218	\$865,752
<b>OPERATING EXPENSES</b>				
Gas purchases	312,863	346,650	463,856	651,782
Operation and maintenance	22,692	21,083	42,947	40,950
Regulatory rider expenses	18,135	12,405	27,601	21,863
Depreciation and amortization	8,848	8,477	17,586	16,900
Energy and other taxes	29,537	25,277	42,776	43,296
Total operating expenses	392,075	413,892	594,766	774,791
<b>OPERATING INCOME</b>	58,736	57,514	95,452	90,961
Other income	838	715	1,885	1,540
Interest charges, net	5,244	3,990	10,637	7,774
<b>INCOME BEFORE INCOME TAXES</b>	54,330	54,239	86,700	84,727
Income tax provision	21,104	20,730	33,566	32,535
<b>NET INCOME</b>	\$ 33,226	\$ 33,509	\$ 53,134	\$ 52,192

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED MARCH 31, 2007 AND 2006(Unaudited)**

*(Thousands)*

Six Months Ended March 31,	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 53,134	\$ 52,192
Adjustments to reconcile net income to cash flows		
Depreciation and amortization	17,586	16,304
Amortization of deferred charges	151	151
Deferred income taxes	(1,230)	352
Manufactured gas plant remediation costs	(8,814)	(16,457)
Asset retirement obligation - cost of removal	(488)	-
Contribution to postretirement employee benefit	(300)	(300)
Changes in:		
Working capital	60,075	(68,834)
Other non-current assets	23,602	26,239
Other non-current liabilities	(10,634)	(2,892)
Cash flows from (used in) operating activities	133,082	6,755
<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	(1,950)	(22,483)
Payments of common stock dividends	(20,605)	(18,587)
Net proceeds related to short-term debt	(85,400)	15,000
Cash flows from financing activities	(102,473)	13,820
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(24,540)	(21,913)
Cost of removal	(2,736)	(2,154)
Investment in restricted cash construction fund	-	(12,500)
Cash flows used in investing activities	(27,276)	(36,567)
Net change in cash and temporary investments	3,333	(15,992)
Cash and temporary investments at September 30,	4,365	23,194
Cash and temporary investments at March 31,	\$ 7,698	\$ 7,202
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$(120,741)	\$(133,826)
Inventories	125,651	76,287
Overrecovered gas costs	13,330	67,315
Gas purchases payable	24,754	(14,602)
Prepaid and accrued taxes, net	58,081	30,388
Customers credit balances and deposits	(47,727)	(8,475)
Accounts payable and other	122	(14,942)
Restricted broker margin accounts	7,646	(62,675)
Other current assets and liabilities	(1,041)	(8,304)
Total	\$ 60,075	\$(68,834)
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$ 9,845	\$ 6,561
Income taxes	\$ 18,287	\$ 25,553

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
BALANCE SHEETS  
AS OF MARCH 31, 2007 AND SEPTEMBER 30, 2006 (unaudited)**

**ASSETS**

<i>(Thousands)</i>	<b>March 31, 2007</b>	<b>September 30, 2006</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	\$1,237,447	\$1,214,456
Construction work in progress	29,691	29,160
	1,267,138	1,243,616
Accumulated depreciation and amortization	(338,621)	(326,298)
Property, plant and equipment, net	928,517	917,318
<b>CURRENT ASSETS</b>		
Cash and temporary investments	7,698	4,365
Customer accounts receivable	98,721	18,061
Unbilled revenues	53,915	12,543
Allowance for doubtful accounts	(3,970)	(2,679)
Regulatory assets	8,105	8,105
Gas in storage, at average cost	30,095	155,874
Materials and supplies, at average cost	2,916	2,788
Prepaid taxes	-	26,343
Derivatives, at fair value	16,057	25,045
Restricted broker margin accounts	23,187	30,833
Other	4,819	3,775
Total current assets	241,543	285,053
<b>NONCURRENT ASSETS</b>		
Regulatory assets	311,061	322,986
Derivatives, at fair value	16	10,431
Restricted cash construction fund	8,500	8,500
Prepaid pension	17,598	18,583
Other Post Employment Benefit	4,375	-
Other	9,106	24,063
Total noncurrent assets	350,656	384,563
Total assets	\$1,520,716	\$1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
BALANCE SHEETS  
MARCH 31, 2007 AND SEPTEMBER 30, 2006 (unaudited)**

**CAPITALIZATION AND LIABILITIES**

<i>(Thousands)</i>	March 31, 2007	September 30, 2006
<b>CAPITALIZATION</b>		
Common stock equity	\$ 496,695	\$ 464,742
Long-term debt	310,477	307,332
Total capitalization	807,172	772,074
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	4,126	3,739
Short-term debt	66,100	151,500
Regulatory liabilities	15,040	1,710
Gas purchases payable	63,998	39,244
Accounts payable and other	37,529	36,757
Accrued taxes	32,340	9,076
Derivatives, at fair value	46,734	61,553
Clean energy program	10,775	8,244
Customers credit balances and deposits	13,218	60,945
Total current liabilities	289,860	372,768
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	173,976	166,744
Deferred investment tax credits	7,674	7,835
Derivatives, at fair value	40,174	56,290
Manufactured gas plant remediation	105,400	105,400
Asset retirement obligation	23,461	23,293
Clean energy program	4,897	13,138
Regulatory liabilities	60,488	64,220
Other	7,614	5,172
Total noncurrent liabilities	423,684	442,092
Total capitalization and liabilities	\$ 1,520,716	\$ 1,586,934

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS  
STATEMENTS OF CAPITALIZATION  
AS OF MARCH 31, 2007 AND SEPTEMBER 30, 2006 (Unaudited)**

<i>(Thousands)</i>	<b>March 31, 2007</b>	<b>September 30, 2006</b>
<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	(90)	(73)
Retained earnings	222,688	190,718
<b>Total Common stock equity</b>	<b>496,695</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	30,000
Variable Series AA	August 1, 2030	25,000
Variable Series BB	August 1, 2030	16,000
6.88% Series CC	October 1, 2010	20,000
Variable Series DD	September 1, 2027	13,500
Variable Series EE	January 1, 2028	9,545
Variable Series FF	January 1, 2028	15,000
Variable Series GG	April 1, 2033	18,000
5% Series HH	December 1, 2038	12,000
4.5% Series II	August 1, 2030	10,300
4.6% Series JJ	August 1, 2024	10,500
4.9% Series KK	October 1, 2040	6,500
4.77% Unsecured senior notes	March 15, 2014	60,000
Loan with state authority	October 1, 2040	8,500
Capital lease obligation Buildings	June 1, 2021	27,388
Capital lease obligation Meters	October 1, 2012	32,370
Less: Current maturities of long-term debt		(4,126)
<b>Total Long-term debt</b>		<b>310,477</b>
<b>Total Capitalization</b>		<b>\$807,172</b>
		<b>\$772,074</b>

See Note to Condensed Unaudited Financial Statements

**NEW JERSEY NATURAL GAS**

**STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2007 AND 2006 (Unaudited)**

<i>(Thousands)</i>	Three Months Ended		Six Months Ended	
	March 31, 2007	2006	March 31, 2007	2006
Net income	\$33,226	\$33,509	\$53,134	\$52,192
Other comprehensive income:				
Change in fair value of derivatives, net of tax of \$6, \$(17), \$12 and \$(42)	(8)	25	(17)	61
Other comprehensive income	(8)	25	(17)	61
Comprehensive income	\$33,218	\$33,534	\$53,117	\$52,253

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.