



**New Jersey
Natural Gas**

QUARTERLY FINANCIAL STATEMENTS

FOR THE PERIOD ENDING JUNE 30, 2006

(Unaudited)



August 9, 2006

In the opinion of management, the following financial statements fairly present the financial position of New Jersey Natural Gas (a subsidiary of New Jersey Resources) as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the nine months ended June 30, 2006 and 2005. These statements were prepared with accounting principles generally accepted in the United States of America and reflect all adjustments necessary for a fair presentation of interim periods.

/s/Timothy C. Hearne
Timothy C. Hearne
Senior Vice President and Treasurer

NEW JERSEY NATURAL GAS
STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES	\$163,914	\$174,761	\$1,029,666	\$957,807
OPERATING EXPENSES				
Gas purchases	118,088	126,900	769,870	697,646
Operation and maintenance	20,199	17,964	61,170	57,461
Regulatory rider expenses	4,005	4,793	25,868	28,707
Depreciation and amortization	8,580	8,243	25,480	24,547
Energy and other taxes	7,677	7,996	50,973	48,432
Total operating expenses	158,549	165,896	933,361	856,793
OPERATING INCOME	5,365	8,865	96,305	101,014
Other income	980	787	2,541	2,271
Interest charges, net	3,719	3,397	11,493	10,707
INCOME BEFORE INCOME TAXES	2,626	6,255	87,353	92,578
Income tax provision	928	2,387	33,463	35,619
NET INCOME	\$ 1,698	\$ 3,868	\$ 53,890	\$ 56,959

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS

STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)

Nine Months Ended June 30,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$53,890	\$56,959
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation and amortization	25,480	24,547
Amortization of deferred charges	226	226
Deferred income taxes	12,270	3,651
Manufactured gas plant remediation costs	(17,991)	(11,644)
Changes in:		
Working capital	(72,687)	79,473
Other noncurrent assets	13,403	8,422
Other noncurrent liabilities	(8,079)	(6,110)
Cash flows from operating activities	6,512	155,524
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale-leaseback transaction	4,090	4,904
Proceeds from long-term debt	35,800	-
Payments of long-term debt	(23,225)	(27,145)
Payments of common stock dividends	(29,381)	(27,820)
Net payments related to short-term debt	33,600	(71,300)
Cash flows from (used in) financing activities	20,884	(121,361)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(28,992)	(38,322)
Cost of removal	(4,043)	(4,235)
(Investment in)/ withdrawal from restricted cash construction fund	(12,500)	6,300
Cash flows used in investing activities	(45,535)	(36,257)
Change in cash and temporary investments	(18,139)	(2,094)
Cash and temporary investments at beginning of period	23,194	4,827
Cash and temporary investments at end of period	\$5,055	\$2,733
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$11,018	\$(46,505)
Inventories	11,529	15,138
Underrecovered gas costs	67,357	52,663
Gas purchases payable	(34,602)	16,632
Prepaid and accrued taxes, net	(18,969)	6,705
Customers' credit balances, and deposits	(6,652)	(6,595)
Accounts payable and other	(15,397)	1,180
Restricted broker margin accounts	(90,724)	27,114
Other current assets	(8,647)	4,055
Other current liabilities	12,400	9,086
Total	\$(72,687)	\$ 79,473
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$9,329	\$9,872
Income taxes	\$35,781	\$21,010

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS
BALANCE SHEETS (Unaudited)
ASSETS

<i>(Thousands)</i>	June 30,	
	2006	2005
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,198,568	\$1,157,424
Construction work in progress	23,989	26,177
	1,222,557	1,183,601
Accumulated depreciation and amortization	(318,290)	(301,420)
Property, plant and equipment, net	904,267	882,181
CURRENT ASSETS		
Cash and temporary investments	5,055	2,733
Customer accounts receivable	44,007	78,718
Unbilled revenue	11,817	9,698
Allowance for doubtful accounts	(3,994)	(3,458)
Regulatory assets	8,067	14,697
Gas in storage, at average cost	116,846	78,216
Materials and supplies, at average cost	2,800	3,544
Prepaid state taxes	44,316	15,760
Derivatives	52,590	36,266
Other	3,425	12,247
Total current assets	284,929	248,421
NONCURRENT ASSETS		
Regulatory assets	288,470	232,532
Derivatives	225	19,339
Restricted cash construction fund	12,500	1,500
Other	29,185	16,250
Total noncurrent assets	330,380	269,621
Total assets	\$1,519,576	\$1,400,223

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS

CAPITALIZATION AND LIABILITIES (Unaudited)

<i>(Thousands)</i>	June 30,	
	2006	2005
CAPITALIZATION		
Common stock equity	\$ 472,192	\$ 461,014
Long-term debt	308,813	293,093
Total capitalization	781,005	754,107
CURRENT LIABILITIES		
Current maturities of long-term debt	3,309	3,289
Short-term debt	33,600	36,300
Gas purchases payable	55,462	59,371
Accounts payable and other	31,495	32,947
Postretirement employee benefit liability	13,013	10,014
Accrued taxes	-	781
Derivatives	63,368	20,411
Broker margin accounts	31,520	33,493
Clean energy program	7,736	6,570
Regulatory liabilities	30,308	-
Customers' credit balances and deposits	15,229	11,927
Total current liabilities	285,040	215,103
NONCURRENT LIABILITIES		
Deferred income taxes	192,106	169,298
Deferred investment tax credits	7,916	8,238
Derivatives	56,604	53,086
Manufactured gas plant remediation	93,920	92,880
Clean energy program	11,793	19,062
Regulatory liabilities	85,793	82,986
Other	5,399	5,463
Total noncurrent liabilities	453,531	431,013
Total capitalization and liabilities	\$1,519,576	\$1,400,223

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS
STATEMENTS OF CAPITALIZATION (Unaudited)

<i>(Thousands)</i>	June 30,	
	2006	2005
COMMON STOCK EQUITY		
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	(9,690)	(10,017)
Retained earnings	207,785	196,934
Total Common stock equity	472,192	461,014
LONG-TERM DEBT		
<i>First mortgage bonds</i>	<i>Maturity date</i>	
5.38% Series W	August 1, 2023	- 10,300
6.27% Series X	November 1, 2008	30,000 30,000
6.25% Series Y	August 1, 2024	- 10,500
Variable Series AA	August 1, 2030	25,000 25,000
Variable Series BB	August 1, 2030	16,000 16,000
6.88% Series CC	October 1, 2010	20,000 20,000
Variable Series DD	September 1, 2027	13,500 13,500
Variable Series EE	January 1, 2028	9,545 9,545
Variable Series FF	January 1, 2028	15,000 15,000
Variable Series GG	April 1, 2033	18,000 18,000
5% Series HH	December 1, 2038	12,000 10,500
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	2,500 -
4.77% Unsecured senior notes	March 15, 2014	60,000 60,000
Loan with state authority	December 1, 2038	- 1,500
Loan with state authority	October 1, 2040	12,500 -
Capital lease obligation Buildings	June 1, 2021	28,002 28,567
Capital lease obligation Meters	October 1, 2012	29,275 27,970
Less: Current maturities of long-term debt	(3,309)	(3,289)
Total Long-term debt	308,813	293,093
Total Capitalization	\$781,005	\$754,107

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS**STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

<i>(Thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$1,698	\$3,868	\$53,890	\$56,959
Other comprehensive income:				
Change in fair value of derivatives, net of tax of \$31, \$1, \$(73) and \$(21)	31	(2)	105	30
Other comprehensive income	31	(2)	105	30
Comprehensive income	\$1,729	\$3,866	\$53,995	\$56,989

See Notes to Condensed Unaudited Financial Statements

NOTES 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 468,000 residential and commercial customers in central and northern New Jersey, and participates in the off-system sales and capacity release markets. NJNG is the principal 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.

These financial statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2005 Annual Report on Form 10-K, as well as the June 30, 2006, Quarterly Report on Form 10-Q that are filed with the Securities and Exchange Commission. 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.

Certain reclassifications have been made of previously reported amounts to conform to current year classifications.