



**New Jersey
Natural Gas**

QUARTERLY FINANCIAL STATEMENTS

FOR THE PERIOD ENDING MARCH 31, 2006

(Unaudited)



May 10, 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 March 31, 2006 and 2005, and the results of its operations and its cash flows for the six months ended March 31, 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 March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
OPERATING REVENUES	\$471,406	\$462,576	\$865,752	\$783,046
OPERATING EXPENSES				
Gas purchases	346,650	334,769	651,782	570,746
Operation and maintenance	21,104	19,268	40,971	39,497
Regulatory rider expenses	12,405	14,786	21,863	23,914
Depreciation and amortization	8,477	8,187	16,900	16,304
Energy and other taxes	25,277	25,213	43,296	40,436
Total operating expenses	413,913	402,223	774,812	690,897
OPERATING INCOME	57,493	60,353	90,940	92,149
Other income	736	658	1,561	1,484
Interest charges, net	3,989	3,678	7,774	7,310
INCOME BEFORE INCOME TAXES	54,240	57,333	84,727	86,323
Income tax provision	20,731	22,075	32,535	33,232
NET INCOME	\$ 33,509	\$ 35,258	\$ 52,192	\$ 53,091

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS

STATEMENTS OF CASH FLOWS (Unaudited)

(Thousands)

Six Months Ended March 31,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 52,192	\$ 53,091
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS		
Depreciation and amortization	16,303	16,304
Amortization of deferred charges	152	151
Deferred income taxes	352	269
Manufactured gas plant remediation costs	(16,457)	(8,862)
Changes in:		
Working capital	(68,834)	97,967
Other non-current assets	26,239	5,603
Other non-current liabilities	(3,192)	5,272
Cash flows from operating activities	6,755	169,795
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	(22,483)	(26,506)
Payments of common stock dividends	(18,587)	(18,487)
Net proceeds (payments) related to short-term debt	15,000	(105,400)
Cash flows from (used in) financing activities	13,820	(145,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(21,913)	(26,190)
Cost of removal	(2,154)	(1,947)
(Investment in) withdrawal from restricted cash construction fund	(12,500)	6,300
Cash flows used in investing activities	(36,567)	(21,837)
Net change in cash and temporary investments	(15,992)	2,469
Cash and temporary investments at September 30,	23,194	4,827
Cash and temporary investments at March 31,	\$ 7,202	\$ 7,296
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(133,826)	\$(154,547)
Inventories	76,287	75,182
Underrecovered gas costs	67,315	65,309
Gas purchases payable	(14,602)	27,643
Prepaid and accrued taxes, net	30,388	52,584
Customers' credit balances and deposits	(8,475)	(7,862)
Accounts payable and other	(14,942)	(235)
Restricted broker margin accounts	(62,675)	34,111
Other current assets	(7,606)	5,175
Other current liabilities	(698)	607
Total	\$ (68,834)	\$ 97,967
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$6,561	\$7,212
Income taxes	\$25,553	\$9,394

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS
BALANCE SHEETS (Unaudited)
ASSETS

<i>(Thousands)</i>	March 31, 2006	March 31, 2005
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,187,974	\$1,138,560
Construction work in progress	27,889	32,954
	1,215,863	1,171,514
Accumulated depreciation and amortization	(315,785)	(296,380)
Property, plant and equipment, net	900,078	875,134
CURRENT ASSETS		
Cash and temporary investments	7,202	7,296
Customer accounts receivable	143,055	170,456
Unbilled revenues	58,003	26,163
Allowance for doubtful accounts	(4,384)	(3,619)
Regulatory assets	4,892	1,841
Gas in storage, at average cost	52,096	18,290
Materials and supplies, at average cost	2,792	3,426
Derivatives	81,383	47,660
Other	5,559	11,337
Total current assets	350,598	282,850
NONCURRENT ASSETS		
Regulatory assets	268,542	198,225
Derivatives	28	25,141
Restricted cash construction fund	12,500	1,500
Other	21,057	29,998
Total noncurrent assets	302,127	254,864
Total assets	\$1,552,803	\$1,412,848

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS

CAPITALIZATION AND LIABILITIES (Unaudited)

<i>(Thousands)</i>	March 31, 2006	March 31, 2005
CAPITALIZATION		
Common stock equity	\$480,556	\$466,492
Long-term debt	309,459	293,678
Total capitalization	790,015	760,170
CURRENT LIABILITIES		
Current maturities of long-term debt	3,405	3,343
Short-term debt	15,000	2,200
Regulatory liability	30,266	-
Gas purchases payable	75,462	70,382
Accounts payable and other	31,166	31,645
Postretirement employee benefit liability	613	1,523
Accrued taxes	9,428	29,469
Derivatives	68,548	25,357
Broker margin accounts	59,569	40,490
Clean energy program	8,002	6,457
Customers credit balances and deposits	13,406	10,660
Total current liabilities	314,865	221,526
NONCURRENT LIABILITIES		
Deferred income taxes	175,770	167,347
Deferred investment tax credits	8,039	8,318
Derivatives	62,806	43,938
Manufactured gas plant remediation	93,920	92,880
Postretirement employee benefit liability	3,161	6,694
Clean energy program	13,092	20,110
Regulatory liabilities	85,347	86,499
Other	5,788	5,366
Total noncurrent liabilities	447,923	431,152
Total capitalization and liabilities	\$ 1,552,803	\$ 1,412,848

See Notes to Condensed Unaudited Financial Statements

NEW JERSEY NATURAL GAS
STATEMENTS OF CAPITALIZATION (Unaudited)

<i>(Thousands)</i>	March 31, 2006	March 31, 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	(9,734)	(10,015)
Retained earnings	216,193	202,410
Total Common stock equity	480,556	466,492
LONG-TERM DEBT		
<i>First mortgage bonds</i>	<i>Maturity date</i>	
5.38% Series W	August 1, 2023	-
6.27% Series X	November 1, 2008	30,000
6.25% Series Y	August 1, 2024	-
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	2,500
4.77% Unsecured senior notes	March 15, 2014	60,000
Loan with state authority	December 1, 2038	-
Loan with state authority	October 1, 2040	12,500
Capital lease obligation Buildings	June 1, 2021	28,002
Capital lease obligation Meters	October 1, 2012	30,017
Less: Current maturities of long-term debt		(3,405)
Total Long-term debt		309,459
Total Capitalization		\$790,015
		\$760,170

See Notes to Condensed Unaudited Financial Statements

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

<i>(Thousands)</i>	Three Months Ended		Six Months Ended	
	March 31, 2006	2005	March 31, 2006	2005
Net income	\$33,509	\$35,258	\$52,192	\$53,091
Other comprehensive income:				
Change in fair value of derivatives, net of tax of \$(17), \$(18), \$(42) and \$(22)	25	27	61	32
Other comprehensive income	25	27	61	32
Comprehensive income	\$33,534	\$35,285	\$52,253	\$53,123

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 2004 Annual Report on Form 10-K, as well as the December 31, 2005 and March 31, 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 to previously reported amounts to conform to current year classifications.