

Chairman's Letter

Dear Fellow Stakeholders:

Monumental changes are unfolding in our industry. The historic blackout of August 2003 and concerns about natural gas supply and prices are bringing new attention to the critical issue of energy reliability.

In this environment of great change, the expectations of our customers could not be clearer – they want warmth in the winter, hot water, dry clothes, cooked food and the energy needed to operate their businesses. They are counting on us for reliability, value and comfort. Since we provide a lifeline service to customers, we must be prepared to serve them regardless of circumstances – every day. A lagging economy, changes in our industry or severe weather are not acceptable excuses for failing to meet our customers' expectations. Their expectations are why we must maintain a conservative business strategy.

For over 50 years, we have known that providing customers with safe, reliable and affordable service is the most important thing we do. It is our primary mission, and one we strive to fulfill every day through the dedication and commitment of our team. As you review our results, I think you'll agree that our team has done an outstanding job in meeting that primary expectation. Their commitment to excellence has made us the company we are today. As always, I am grateful to each and every one of our employees, as well as their families, for sharing their talents with us and always doing their best.

Fiscal 2003 was another strong year for New Jersey Resources (NJR). Focusing on our primary mission, we achieved another year of outstanding overall business results, including record financial performance. New Jersey Natural Gas (NJNG), our principal

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subsidiary, and NJR Energy Services (NJRES), our wholesale energy services subsidiary, both had excellent years. We also reached a milestone when our market capitalization, which is the value of our company as determined by the stock market, surpassed \$1 billion for the first time in our history.

Focusing on the Needs of Stakeholders

We recognize that our strength as an organization depends on how well we balance the unique needs of our diverse group of stakeholders. Our Commitment to Stakeholders, which is built upon those needs, guides everything we do each and every day. We developed our Commitment several years ago to define the essential elements of our strategy. You will find it on the inside cover of this Annual Report.

The specific measures we use to monitor our performance are based on our Commitment. Making sure it is right keeps us focused on what matters most. We constantly examine our Commitment to ensure that it captures the expectations of all our stakeholders. Feedback from customers and employees is an essential element of this process. This year's feedback resulted in an expanded focus on reliability for all stakeholders. Our Commitment to Stakeholders reminds us that success is more than just "making the numbers."

Challenges From Wholesale Natural Gas Price Volatility

Over the past several years, our commitment to providing our customers affordable service has been challenged by rising wholesale natural gas prices. At times during the 2002–2003 heating season, prices were more than double last year's levels on the New York Mercantile Exchange (NYMEX). In my view, implementing strategies to address continued market volatility is perhaps the most significant issue facing our industry today.

Persistent price volatility is the by-product of increased demand for natural gas without corresponding growth in supply. This situation underscores the need for strong leadership and collaboration in crafting a comprehensive energy policy for our nation. Natural gas is a clean, environmentally friendly and efficient fuel produced primarily in North America. Although our nation's resource base is plentiful, we still need an energy policy that sensibly increases access to this potential supply, expands our pipeline and distribution infrastructure, and promotes energy efficiency and conservation while respecting the environment.

Without strong leadership, there is little doubt that price volatility will continue, and customers, along with our economy, will pay the price. Working together, we must do all we can to support the development of a balanced national energy policy.

THE STANDARD FOR RELIABILITY – EVERY DAY

Our definition of reliability goes beyond our basic utility service and extends to everything we do on behalf of our stakeholders. Reliability at all levels of our organization is the ultimate measure of our accountability and a commitment we keep every day. Through our efforts, we are setting the standard for reliability in safe and affordable service, growth, people and performance.



Responding to a customer's call.

The Standard for Reliability: Safe and Affordable Service

The delivery of safe and affordable service is fundamental to our organization. It is our most important commitment because it is what our customers expect from us. This past winter's weather, which was 13 percent colder than normal, and 35 percent colder than last year's, challenged us in many ways. Nonetheless, our team met the energy needs of our customers.

Safety

Maintaining the integrity of our physical infrastructure requires sustained investment, year in and year out. Historically, we have spent about \$50 million annually on our system. About half of this amount supports new customer additions, and the balance maintains the integrity of our system. In fact, we invest most of our internally generated cash flow into our system to ensure its safety and reliability.

Decisions regarding the investments we make are based upon many factors, including engineering flow studies and planned new development within our service area. In fiscal 2004, we expect that NJNG's capital budget will increase about 30 percent to approximately \$66 million. In addition to the capital resources needed to support our growth and maintain the security and operational integrity of our system, we will invest increased amounts for new infrastructure and to comply with the new federal pipeline integrity regulations.

Recent changes to the federal tax law, which provide bonus depreciation for certain capital investments, will generate added cash flow to fund a portion of next year's higher capital budget. We are grateful to our trade organization, the American Gas Association (AGA), for its efforts in securing this important legislation.

The substantial investment we consistently make in our system is evident in its performance. Our latest effort to ensure reliable service was the replacement of our Supervisory Control and Data Acquisition (SCADA) system. This state-of-the-art technology monitors natural gas pressures within our pipelines, providing us the tools to identify potential problems sooner, and innovative real-time backup capabilities to enhance our system's reliability. We also use sophisticated technology that proactively identifies areas for replacement or repair to help prevent leaks from occurring in our system.

Our efforts to maintain the security of our system continue to involve working collaboratively with our partners in the public and private sectors to protect our facilities and enhance the overall security of the state. New Jersey is a leader in taking steps to protect our state's communities and critical infrastructure. We are working with the New Jersey Board of Public Utilities (BPU) and the state's other electric and natural gas utilities on this critical area, and we represent the natural gas sector on the Infrastructure Advisory Committee. This year, we implemented best practices for critical infrastructure in our industry, requiring only minimal adjustments in our current security procedures.

We are proud that we had no system-related outages this past winter, which was particularly significant given the cold weather. In January, our system was tested when the temperatures dropped to just 4 degrees above zero. We experienced a record 1-day

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sendout of 606,161 dekatherms (dth), over 5 percent more than our prior record of 575,121 dth, demonstrating our ability to meet our customers' growing needs on the coldest winter day.

It is our employees' dedication that makes reliability a reality. Our team of employees and contractors worked around the clock for 72 hours during the holidays to divert natural gas around a portion of one of our transmission lines that was damaged by a downed electric line. Because of their tireless efforts, we were able to keep natural gas flowing through a line that serves approximately 180,000 customers in Ocean County.

NJNG's efforts and investment in providing safe and reliable service have been acknowledged by AGA through its Best Practices program. In the last two years, we have been recognized for our leak repair process, as well as for our efforts in contractor supervision. These are in addition to previous acknowledgments from AGA for our results in handling third-party damage and regulator repair.

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Affordability

Through survey data and daily contact, we know customers are relying on us for stable prices so they can plan their energy expenses. That is why we work so hard to offer the lowest prices possible. Nationwide, wholesale natural gas prices increased significantly over last year's levels. As a regulated utility, NJNG passes the cost of natural gas directly to customers with no profit. In 2002, we were able to pass along lower wholesale costs and reduce prices by 15 percent. Unfortunately, in 2003, when wholesale prices increased, so did our natural gas costs. We received approval from the BPU for two price increases that together amounted to about 16 percent, compared with the 1-year average price on the NYMEX that increased at times more than 100 percent from last year.

Despite substantial increases in wholesale prices, we have been able to moderate the impact of price volatility on our customers through our team's expertise and the strength of our natural gas purchasing strategies. Managing our storage contracts and effectively using our hedging program allow us to secure fixed prices without compromising reliability. Through our commitment to affordability, we saved over \$60 million in natural gas costs this past winter that otherwise would have been passed on to customers.

Our last increase in traditional base rates was about 10 years ago, which is the longest streak among all natural gas, electric and water utilities in the state. Since then, we have invested over half a billion dollars in our system to enhance its reliability, adding more than 1,200 miles of main and nearly 120,000 heating customers.

Our disciplined focus on affordability has enabled us to remain the lowest-cost natural gas provider in New Jersey for the past year. Additionally, we believe customers need to be aware of the steps they can take to reduce volatility in their energy budget. This year, we reached out through a wide range of communication channels to let customers know how they can save energy, reduce heating costs and apply for assistance in times of need. We also offer customers a convenient payment plan, which enables them to spread their annual natural gas costs evenly throughout the year.

Providing safe and affordable service is a team effort that involves every area of the company. It's also one that we strive to make transparent for our customers because it's their most important expectation. Our customers are relying on us to be there when they need us, and we are, using their expectations for safety and affordability as our guide.

The Standard for Reliability: Growth

Our service area is home to increasing numbers of residents and businesses that are relying on us to meet their natural gas needs. The area's outstanding demographics support a consistent pace of new customer additions. Our team also continues to identify opportunities to expand our wholesale energy services business. New customer additions remain the primary driver of our growth, adding nearly \$6.5 million in margin each year, which provides the foundation of our ability to achieve improved financial performance. Our wholesale energy services business represents an additional opportunity for earnings growth. However, having potential growth opportunities is one thing – translating that potential into profitable performance requires discipline and precise execution at all levels of the organization.

Customer Growth

Our service territory sets us apart from most of our peers. NJNG remains one of the fastest-growing local distribution companies in the country, with an average annual customer growth rate over the last 10 years of about 3 percent. In fiscal 2003, we added a projected 2.1 billion cubic feet (Bcf) of new firm sales, assuming normal weather and average use, by adding 11,044 new customers and converting 1,266 existing customers to natural gas heat. Residents and businesses moving into our service area and existing homes and businesses converting to natural gas from other fuels, such as oil or electricity, are the main drivers of our growth.

Customers prefer the advantages of natural gas as a clean, affordable, dependable and environmentally friendly fuel source. In fact, an estimated 95 percent of the new homes and businesses constructed in our service area use natural gas. We carefully monitor trends in our service territory to identify potential changes, such as in demographics. Based upon independent market research on both the new construction and conversion markets in our service territory, we remain optimistic about our prospects for continued growth.

Profitable growth requires a proper balance between customers from new construction and from conversions along our mains. There is a lower capital cost associated with adding customers who are already located on our mains. We target a mix of approximately 65 percent of our customer additions from new construction and 35 percent from conversions. Achieving this goal involves a balanced marketing strategy and coordination across all areas of our organization. This integrated approach allows us to translate our growth into value without relying on traditional base rate increases. In addition, we employ a disciplined capital allocation process that compares the expected margin from the new customer additions with the cost of the incremental capital being employed, to ensure that our customer growth is profitable.



Meeting our customers' natural gas needs.

In fiscal 2003, we experienced a 12 percent increase in conversions over the prior year. Using market research on customer attitudes toward natural gas, our sales and marketing campaigns generated 5,144 conversions from other fuel sources to natural gas. Although slowed somewhat by the colder winter, new construction continued its strong position in the marketplace, as did the installation of additional gas products such as pool heaters and natural gas log fireplaces.

New Sources of Growth

Beyond the growth in our predominantly residential and small commercial customer base, we are pursuing other initiatives, including the conversion of facilities at two military bases in our service area, NAVAIR Lakehurst in Ocean County this year, and Picatinny Arsenal in Morris County next year. At NAVAIR Lakehurst, we converted an oil-fired power plant for steam generation and several buildings that previously used propane. At Picatinny Arsenal, we will provide natural gas for heat and hot water for more than 150 buildings. Also, during fiscal 2003, NJNG received BPU approval of a 10-year transportation agreement with Ocean Peaking Power, LLC, to provide service to a new natural gas-fired electric generation plant in Lakewood, New Jersey. The 330-megawatt plant will use natural gas during the summer months, when our demand is typically lower, which will benefit our customers through credits that will reduce their natural gas bills.

We also support Governor McGreevey's Smart Growth initiative, which is geared toward planning for future growth through the best use of New Jersey's vast infrastructure and resources. NJNG proposed a pilot program to support major redevelopment activities in two targeted growth areas, Asbury Park and Long Branch. The proposed program will allow us to upgrade a significant portion of our system in these areas with new infrastructure that will facilitate redevelopment and support their economic revitalization. We hope the program will be approved in fiscal 2004.

On-site generation of electricity through distributed generation (DG) technologies continues to be a logical response to the increasing demand for reliable electric power. DG technologies fueled by natural gas, such as fuel cells and microturbines, have the potential to improve the overall efficiency of our distribution system because electricity use for cooling is highest when demand for heating is lowest. We remain optimistic about the longer-term prospects of this market as a natural complement to our core business. Two facilities in our service area, the Sheraton Parsippany Hotel and Ocean County College, recently installed 250-kilowatt (kW) fuel cells to provide a portion of their electric energy needs. We hope these two installations will encourage growth in the DG market in our service territory.

Wholesale Energy Services Growth

Providing wholesale energy services through NJNG and NJRES is a critical element in our overall growth strategy, benefiting both our customers and shareowners. In 1992, the Federal Energy Regulatory Commission issued Order 636, which set the stage for local distribution companies such as NJNG to assume greater responsibility for their supply and transportation contracts. Our team has used this regulatory framework as an

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opportunity to expand into markets that were previously unavailable. Since then, our energy deliveries and natural gas under management have grown from about 50 Bcf to 422 Bcf this year, a more than eightfold increase.

The expansion of our wholesale energy services business is a deregulation success story, providing savings and new choices for customers while increasing our earnings per share. Through our off-system sales and capacity management programs, NJNG sells pipeline capacity and natural gas to retail aggregators, merchant power generators, industrial companies, electric and natural gas utilities and other wholesale energy marketers in states outside New Jersey and in Canada.

Under an incentive program developed in partnership with the BPU and the Office of the Ratepayer Advocate (RPA), the margin from these sales is shared between customers and shareowners. Since these programs began in 1992, we have saved customers more than \$205 million, and we continue to achieve annual savings of about 5 percent on their bills. Earnings of more than \$1.20 per share have been generated for shareowners. Our regulators recently approved a 3-year extension to these programs and a new storage management incentive on a pilot basis for one year. We expect these programs to continue providing benefits to customers and shareowners. Both the BPU and the RPA have shown great leadership and foresight in allowing us to use every available tool to manage our natural gas costs and achieve the best possible prices for customers.

By leveraging both our knowledge of the natural gas supply and capacity markets and our relationships with interstate pipelines, NJRES has continued to expand, following a strategy of sustained growth. Our unregulated wholesale energy services activities are supported by strong risk management guidelines and internal controls. NJRES has developed a significant presence in the energy services market from the Gulf Coast to Canada, and is a major customer on the El Paso and Duke interstate pipeline systems. Working closely with our interstate pipelines has been a key element in the results we have achieved in this business.

Fiscal 2003 results for NJRES benefited from cold winter weather and wholesale price volatility. Driven primarily by growth in our natural gas supply, pipeline capacity and storage management activities, earnings for NJRES increased by 79 percent from last year.

NJRES' business focuses on pipeline capacity trading, storage management and marketing services, and on providing natural gas management services to cogenerators. Future growth will come from opportunities that include NJRES' role as the marketing agent for the Stagecoach storage field, a 12 Bcf storage facility located in central New York, along with the acquisition of additional storage and pipeline capacity assets and portfolio management services. We expect that our combined wholesale energy services activities will comprise about 20 percent of total earnings.

Added Services for the Home

Our unregulated appliance sales and services subsidiary, NJR Home Services (NJRHS), is positioned to benefit from growth opportunities in the home appliance sales, installation and services business. Service contracts are the core of this business.

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The addition of sales, installations and related services has been well received by customers. Sales of air conditioning contracts to existing customers present an excellent opportunity for expansion.

We estimate that over 50 percent of sales for replacement equipment are generated by a service visit. As a result, we expect this market to grow as additional homeowners become familiar with NJRHS products and services. We are promoting these products and services on the recently redesigned NJRHS Web site at njliving.com, which uses a retail catalog model. We plan to continue building this business sensibly and look for a steady contribution to earnings from NJRHS as it grows. Most importantly, NJRHS provides services that our customers value.

The Standard for Reliability: People

Our greatest competitive strength lies in the people who are the heart of our business. We recognize that our work with regulators and policymakers benefits our stakeholders by helping to create a balanced competitive framework. We also know the importance of contributing to the quality of life and economic landscape in the communities we serve as a responsible corporate citizen.

Valuing Employees

We strive to create an environment where everyone views themselves as a leader. Our definition of leadership is based upon learning, teaching and sharing with each other while always looking to make a difference in the lives of others. The concept of everyone being viewed as a leader may seem unusual to some, but we have learned that leadership is everyone's responsibility. Think about it – on a cold winter night, if a customer calls needing our help to restore heat, who are the true leaders? It's not the CEO or senior management. It's the women and men who work as a team to meet that customer's needs. There are countless examples of how employees from all areas of our organization demonstrate this type of leadership every day. Their ability to be leaders truly sets us apart.

Our employees' drive for excellence and continuous improvement is the basis for our progress, and it is important that we offer professional and personal development opportunities to help them succeed. Our performance review process is aligned with our Commitment to Stakeholders, and reinforces how each employee's actions are critical to meeting our goals. As part of this process, we provide individual development plans that offer specific guidance on the skills necessary for professional growth.

Through NJR University, we offer employees learning opportunities, from technical training and personal development to courses that support our Commitment to Stakeholders. Our curriculum is guided by employee feedback, industry direction and regulatory requirements. We also offer ongoing opportunities for candid dialogue with our senior leaders in open, informal sessions. This approach has proven highly effective in eliciting feedback on our company, the industry and issues that are important to our employees.

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Evidence of our continuing partnership between management and our labor team was this year's negotiation of a new 4-year contract for NJRHS employees. By addressing the needs of our customers and employees, the contract positions us for future growth in this business.

Recognizing that the highest quality of ideas comes from multiple perspectives, our diversity initiative is focused on integrating diversity into everything we do. The richness of thought we achieve through teamwork and respect for diverse perspectives is one of the cornerstones of our longstanding tradition of excellent service. Our commitment to learn from each other is a vital part of our continued progress as an organization.

Partnering With Our Regulators to Bring Value to Customers

Our ability to work effectively with our regulators is an important element of our business strategy. It begins with a shared vision of the expectations of customers, namely providing safe and affordable service. Working within this framework, we support policy-making initiatives that facilitate the development of programs and services that are aligned with both the energy goals of our state and the needs of our customers.

As a channel to customers and the marketplace, we play a key role in implementing important state programs that promote energy conservation, expand the use of renewable energy sources and provide energy assistance to customers in need. It is our firm belief that the role of a regulated utility includes both active participation in the policy-setting process and the creation of programs that will support these policies.

This year, we worked together with the BPU and the RPA on several key initiatives aimed at providing better service and more value to customers. Among them is our incentive pricing plan for natural gas to fuel DG technologies such as fuel cells and microturbines that will encourage customers to invest in alternative energy sources.

Corporate Citizenship

We are proud to contribute to our communities. It is a privilege to make a difference in the lives of our neighbors by supporting education, reaching out to those who rely on us for assistance, preserving our environment and helping our communities be the best they can be. It is also our belief that the better we perform as a company, the more we can give back to support our communities, our state and those in need, while benefiting our shareowners and all our stakeholders.

Energy for Education

Working with area schools, particularly those in our urban neighborhoods, we are helping to create a better tomorrow for today's students through our Energy for Education program. From donating school supplies and books to pairing students with employee mentors and improving library technologies, we take a hands-on approach to enhancing educational opportunities. We believe the resources we dedicate to education are among the most important investments we can make in the future of our communities.



Our kit to help customers save energy.

Through our expanded Project Venture mentoring program, 27 middle school students from Asbury Park and Lakewood were paired with employee mentors to learn about the business world and the value of a good education. Our objective in the Project Venture program, which has been in place for 15 years, is straightforward: We want to give students a glimpse of what the future may hold for them. Our newly launched Job-Shadowing Program, developed in partnership with the Ocean County Vocational Technical School, provides lessons in the heating, ventilation and air conditioning field to vocational students who accompany NJRHS employees at work.

By sponsoring a Scholastic Aptitude Test preparation course, we helped a group of 11th-grade students from Asbury Park High School and Academy Charter High School in South Belmar increase their scores an average of 26 points on the math section and 20 points on the verbal section of the national college entrance examination. Our sponsorship of Governor McGreevey's Book Club is encouraging students in grades K-3 to discover the joy of reading. We are helping to promote this important literacy initiative with a link on our Web site to the monthly book selections. The Governor's Book Club has helped thousands of children throughout our state since its creation.

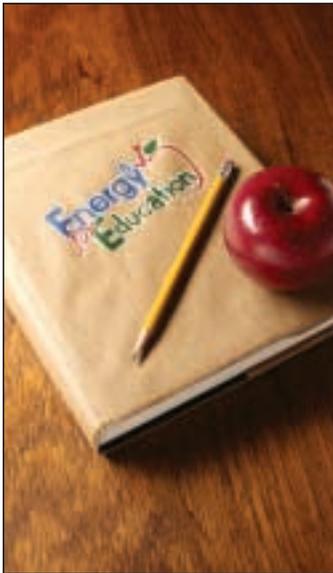
We also pledged our support for the Military Survivors Scholarship Fund, which will benefit family members of New Jersey military personnel who are disabled or die in action. We cannot do enough to express our gratitude to the brave women and men, including the members of our team, who are defending our freedom in Iraq, Afghanistan and throughout the world.

Help With Heating Costs

Once again this year, the generous contributions of our customers, employees and shareowners helped families in our neighborhoods through our Gift of Warmth fund. We raised approximately \$228,000 this year to help nearly 1,000 families. Since the fund was established in 1988, over \$3.2 million has been contributed to help more than 13,000 families stay warm during the winter months. Our customers also can receive assistance from NJ SHARES, a statewide nonprofit fuel fund that helps pay energy bills. We collected over \$91,000, including a contribution from NJNG, in our solicitation for NJ SHARES this year. Customers with limited incomes also may qualify for assistance from the BPU's Universal Service Fund. We are actively involved in implementing this new statewide program for our customers.

Safety at Home

We firmly believe in promoting safety at home and doing all we can to help others. Education about carbon monoxide (CO) has always been an important part of our commitment to customers' safety. This year, to help relieve the burden of the cost of a CO detector for families with limited incomes, we provided approximately 18,000 detectors directly to customers who received heating assistance. We also provided 2,500 vouchers for free CO detectors to be distributed by local organizations to others in the community who could benefit from our help in acquiring a detector.



Promoting education in our communities.

Partners in Our Communities

A longstanding tradition of service to our communities is the hallmark of the NJR family of companies. Our record of service is supported by employees and retirees who generously volunteer their time and talent through our Volunteers Inspiring Service in Our Neighborhoods (VISION) community outreach program. In fiscal 2003, current and retired employees, along with families and friends, volunteered almost 2,500 hours of their personal time to help others as VISION volunteers. From collecting clothing and food donations to participating in walk-a-thons and beach cleanups, our VISION volunteers assisted over 260 organizations. These efforts are enthusiastically supported by our retirees, who carry on our tradition of service even after their time on the job has ended.

Through *njliving.com*, we supported over 175 communities and nonprofit organizations in fiscal 2003 that used our interactive Web site to post information on community events and fund-raising activities.

We also work with our partners in the community to help revitalize neighborhoods and strengthen businesses. Through our home ownership program with Interfaith Neighbors, which began in 1996, we have transformed nine unused properties into homes for qualified families. This year, we brought the benefits of solar technology to one of the homes by installing photovoltaic (PV) cells that can reduce electricity costs by 25 percent. Our economic development program, which provides incentives for businesses in designated parts of our service area, helped 29 new or expanding businesses and created 353 jobs. Our economic development program also supports Governor McGreevey's Smart Growth initiative.

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The Standard for Reliability: Performance

Our fundamental business strategy, which is built upon the core strengths of our company, continues to generate outstanding financial results and value for all stakeholders. But the true measure of our performance goes far beyond our financial results – it is also evident in our high levels of customer satisfaction, our ability to provide quality service through continuous improvement and our record of environmental responsibility.

Superior Return

This year, we marked our 12th consecutive year of earnings growth, a record of consistency that, to our knowledge, is unparalleled among all electric and natural gas utilities in the nation. Twelve consecutive years – what a strong testament to our team's ability to reliably achieve consistent performance.

Our earnings per share of \$2.41 in fiscal 2003 represented a 13.7 percent increase over last year. Return on shareowner equity was 15.9 percent. Our earnings growth rate this year was higher than the average 7.5 percent we have delivered over the past five years, reflecting the unusually cold winter weather. We remain committed to a long-term earnings growth rate that will place us in the top 10 percent of our peer group.

In fiscal 2003, our shareowners enjoyed a total return on investment of 13.3 percent, including both share price appreciation and dividends. NJR's year-end closing share price of \$36.04, which was higher for the ninth consecutive year, represented a 9.5 percent increase over last year. Consider this: If you invested \$10,000 in NJR stock on April 1, 1995, when the transformation of our company began, and reinvested all dividends, your investment would now be worth over \$35,000. During this time, we have been the top performer in terms of total return compared with our peer group, which includes 26 other major natural gas and electric utilities.

Our team's efforts continue to gain the attention of an ever-widening audience. This was NJR's second year on the *Fortune 1000* list, which ranks the largest U.S. companies by revenue. We also received the distinction of being named this past January to the *Forbes Platinum 400* list of the best-performing companies in the nation.

Our strong financial performance has allowed us to increase our annual dividend rate nine times in the past eight years, including an increase of 4.8 percent, or \$.06 per share, effective January 2004. It is a vote of confidence that our shareowners choose to reinvest about a third of the dividends we pay through our Dividend Reinvestment program. These proceeds, combined with the portion of earnings we retain, allow us to maintain a strong financial profile.

New tax laws that were put in place in 2003 lowered the federal tax rate on dividends, increasing their value for many shareowners. This change, coupled with our dividend strategy, will enhance our ability to provide shareowners with an attractive current return that is sustainable over the long term. Our share repurchase program is another tool that allows us to improve our return to shareowners. Once again, AGA played a key role in the passage of this legislation.

NJNG received upgrades in its corporate credit ratings from two independent firms, Moody's Investors Services (Moody's) and Standard & Poor's (S&P). As of September 2003, NJNG was the only natural gas utility to receive an upgrade from Moody's during the year, while S&P had upgraded only one other. Recently, credit quality has been on the decline in our industry. We have not lost sight of the importance of a strong financial profile, which allows us to access the financial resources needed to provide safe and affordable service regardless of economic conditions.

Following a conservative financial strategy based on strong fundamentals, our team has generated consistent earnings growth while maintaining the strength of our balance sheet. Their efforts have resulted in a return to shareowners that has consistently outperformed our peer group and earned our company a well-deserved reputation for reliable performance.

Customer Satisfaction

Being there when our customers need us is the principal driver of customer satisfaction. We measure our performance in responding to our customers in a variety of ways. For the 11th consecutive year, NJNG achieved the lowest number of inquiries to the BPU per 1,000 customers among the state's major electric and natural gas utilities. We use surveys and meet with customers to learn how they view our service and what is important to them. Thousands of surveys are completed each year by customers

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receiving service from our call center, marketing team, appliance technicians and field staff. In fiscal 2003, we received an overall customer satisfaction rating of 94.4 percent, an accomplishment we point to with pride. This level was achieved in spite of the unusually cold weather and higher natural gas prices experienced throughout the year. We are pleased with our customers' acknowledgement of our reliable service, but we know there is always room to do better. The information we receive from the surveys helps us make improvements, and we appreciate our customers' willingness to share their thoughts with us.

We were able to learn even more about what our customers think of us from the J.D. Power and Associates inaugural study of customer satisfaction for residential gas utility service in 2002. NJNG's performance in the 2002 J.D. Power and Associates customer satisfaction study showed that our customers believe we are honest and ethical, our system is safe, our billing is accurate and our pricing is fair. We are using the study to further align our surveys and other measurements with our customers' expectations. In the 2003 study, NJNG was ranked second in overall customer satisfaction and achieved the highest score on Price and Value in the Eastern Region.

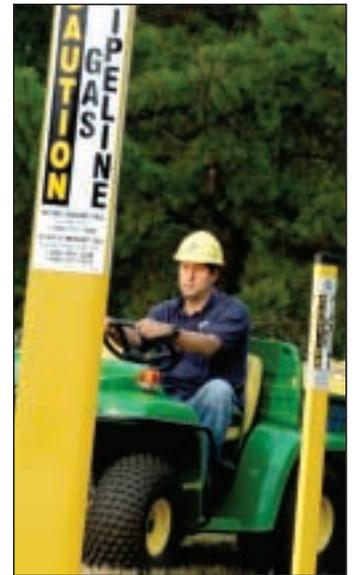
We find *njliving.com* is an important channel to our customers, particularly those who prefer to serve themselves online. For greater convenience, our customers can now submit their meter reads online to the My Account Services section of our Web site. The most popular self-serve option remains electronic bill payment, which was introduced last year. We also offer parallel services by phone for customers who do not have access to the Internet or prefer to do business over the phone. Customers choosing to do so can pay their bills and get information about their accounts by phone. In 2004, we expect to offer a new self-serve option to provide a meter read by phone through an automated service. Other upcoming enhancements include the ability to accept credit card payments both online and by phone.

Satisfying customers is a team effort that reflects our employees' commitment to excellence and their willingness to learn from customers while exceeding their expectations. Through our employees' never-ending commitment, we continue to raise the bar for our performance by listening to what customers are telling us as our guide for improving service.

Quality

Our Excellence in Operations (EIO) quality initiative provides a framework for looking at everything we do and asking ourselves, "Can we do better?" By establishing a consistent structure for problem solving, which incorporates core values such as diversity and teamwork, EIO is an investment in our employees that is helping drive our business transformation and expanded focus on reliability.

This year, EIO continued to evolve with a greater emphasis on process management and statistical analysis skills, enabling us to use more real-time information in decision-making. We are learning from our experiences to set a path for future progress. Using the principles contained in the national Malcolm Baldrige quality program as our guide, we performed a self-assessment and began improvements based on the recommendations.



A quality approach to maintaining the integrity of our pipelines.

Through EIO, employees at all levels of our organization are working together to improve performance. In fiscal 2003, we estimated saving more than \$1.2 million in operating and maintenance expenses as a result of EIO. Our employees, including members of Local 1820 of the International Brotherhood of Electrical Workers (IBEW), which represents almost two-thirds of our workforce, share in the benefits of these improvements through incentive-based compensation.

The benefits of EIO go beyond expense savings and extend to providing better service to customers. For example, we recently created a new process for how we assign service calls for NJRHS customers, increasing the number of appointments we can complete in one day. We've enabled our workload supervisors to optimize our scheduling to bring technicians into our customers' homes sooner. Through another of our quality team's recommendations, we are able to cover more ground in our efforts to ensure pipeline safety by using all-terrain vehicles in our inspections.

Identifying ways to work "smarter" benefits all our stakeholders. By making the pursuit of quality a part of everything we do, EIO is helping us achieve even higher standards of performance.

Protecting Our Environment

As a responsible corporate citizen, we promote environmental stewardship. We emphasize responsibility among employees and outside contractors and work with regulatory agencies to protect our natural resources.

Protecting the environment is essential to the quality of life for present and future generations. It is also fundamental to our business. Working to develop innovative ways to support the state's plans for protecting the environment is the responsibility of all New Jersey's utilities.

We commend the BPU for their leadership in creating the New Jersey Clean Energy Program, which encourages energy conservation through funding and education. Over 8,000 NJNG customers benefited from the state program this year, which reflects about a 25 percent increase in customer rebates over last year. NJNG is the first utility in New Jersey to implement a new state initiative that offers utility customers the option of making voluntary contributions to the New Jersey Clean Energy Program to help encourage the use of clean-energy technologies. Customers will be able to contribute through their NJNG bills, and NJNG will match 50 cents for every dollar donated up to \$50,000.

We also help our customers with limited incomes conserve energy by distributing energy conservation kits that contain samples of low-cost items, including outlet gaskets, weather stripping, a faucet aerator and thermostats to check temperatures in refrigerators and hot water heaters.

In support of the state's goal of having 20 percent of New Jersey's energy consumption coming from renewable resources by 2020, we are showcasing the benefits of PV cells. PV technology uses panels to convert solar energy into electricity. By reducing the demand for utility-generated electricity, PV systems also contribute to a reduction in emissions, improving the quality of the air we breathe.



Placing solar technology in the spotlight.

This year, we installed a renewable technology, a 20 kW PV system, at NJNG's Maude Service Center in Wall. The PV system can reduce the annual electricity bill of the building by up to 9 percent. We have also installed a demonstration panel at ground level that stores energy generated during the day to help provide lighting at night. The project is supported by the New Jersey Clean Energy Program.

Corporate Governance

Through the guidance of our Board of Directors, NJR has established itself as a leader in the area of corporate governance. This was recently confirmed in a quantitative analysis of our corporate governance practices performed by Institutional Shareholder Services (ISS). NJR's relative ranking was better than 97 percent of other companies in the S&P 600 and 89 percent of other utilities in the ISS analysis. We are currently the highest-rated utility in the S&P 600.

The continued focus on standards for corporate governance is bringing about profound changes in the business world. While it is unfortunate that such measures need to be mandated, we solidly support these controls to prevent unethical actions similar to the ones of those who have violated the fundamental principles of trust and integrity.

Words of Appreciation

We celebrated many milestones in fiscal 2003. Our accomplishments were possible because of our employees' never-ending focus on excellence. Their dedication and commitment are a source of continuing inspiration. I especially thank the IBEW Local 1820 for their contribution to our progress.

On behalf of our team, I extend a special thanks to our customers for the opportunity to be of service. It is a privilege to bring natural gas energy to our customers every day. We are proud to be able to make a difference in so many lives. A special note of gratitude is also in order for all of the community leaders and policymakers who we work with on a regular basis. And, to our shareowners, we pledge to continue to do our best to justify the confidence you have shown in us through your investment in NJR.

As always, I am grateful to the members of our Board of Directors for their steadfast service and guidance. At our Annual Shareowners Meeting, two of our Board members will retire. Joe B. Foster joined our Board in 1994. Joe has had a long and distinguished career in the energy industry, and we have benefited from his willingness to share his talents and years of experience. Hazel S. Gluck joined our Board in 1995 at a time when our company was in the midst of great change. Hazel's experience in government relations and communications, combined with her strong customer focus and commitment to diversity, has enriched us all. On behalf of our employees, I thank Joe and Hazel for their years of service and contributions to our company and wish them and their families the best for many years of health and happiness.

"We celebrated many milestones in fiscal 2003. Our accomplishments were possible because of our employees' never-ending focus on excellence."

Three new members joined our Board this year. Dr. R. Barbara Gitenstein, president of The College of New Jersey, is an active scholar and author with more than 25 years of experience as a college professor and administrator. Alfred C. Koeppel, recently retired president and chief operating officer of Public Service Electric and Gas Company, is a highly respected member of the business community and a leader in our state with experience in all facets of the utility industry. J. Terry Strange, who recently retired as Global Managing Partner of Audit Practice from KPMG, LLP, brings a wealth of knowledge and extensive experience in financial reporting and expertise in all phases of the energy industry. I am honored that they have joined our Board and look forward to their many contributions.

This year, our Annual Shareowners Meeting will be held on January 21, 2004, at the PNC Bank Arts Center in Holmdel, New Jersey. I hope to see you there. In the meantime, I am always interested in your thoughts on how we are doing. Please write, call or send an e-mail to lmdownes@njresources.com.

Looking ahead, as the impacts of recent events in our industry and our world continue to unfold, we recognize that our ultimate accountabilities have not changed. Reliability is at the core of everything we do.

Reliability is not limited to the natural gas we deliver; it runs through all our operations, from the service we provide to the investment decisions we make to our role as a responsible corporate citizen. It is a long-term commitment we make to all our stakeholders.

NJR defines reliability. Setting the standard for reliability and exceeding the expectations of our stakeholders remain our never-ending pursuit – every day.



Laurence M. Downes

Laurence M. Downes
Chairman and CEO

December 1, 2003

Laurence M. Downes was photographed in the historic airship hangar at NAVAIR Lakehurst, a naval facility in Central New Jersey served by NJNG.