



**New Jersey
Natural Gas**

QUARTERLY FINANCIAL STATEMENTS

FOR THE PERIOD ENDING DECEMBER 31, 2007

(Unaudited)

New Jersey Natural Gas

STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended	
	December 31, 2007	2006
OPERATING REVENUES	\$284,360	\$239,407
OPERATING EXPENSES		
Gas purchases	190,148	150,993
Operation and maintenance	23,879	20,255
Regulatory rider expenses	12,165	9,466
Depreciation and amortization	9,233	8,738
Energy and other taxes	17,333	13,239
Total operating expenses	252,758	202,691
OPERATING INCOME	31,602	36,716
Other income	1,232	1,047
Interest charges, net	6,119	5,393
INCOME BEFORE INCOME TAXES	26,715	32,370
Income tax provision	10,045	12,462
NET INCOME	\$16,670	\$19,908

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Three Months Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$16,670	\$ 19,908
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation and amortization	9,307	8,813
Allowance for funds used during construction	(373)	—
Deferred income taxes	8,771	1,974
Manufactured gas plant remediation costs	(4,041)	(4,235)
Cost of removal – asset retirement obligation	(177)	(257)
Contributions to employee benefit plans	(150)	(150)
Changes in:		
Components of working capital	(22,635)	(2,959)
Other noncurrent assets	5,084	(39)
Other noncurrent liabilities	(3,111)	(6,361)
Cash flows from operating activities	9,345	16,694
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of common stock dividends to parent	(10,633)	(10,056)
Payments of long-term debt	(937)	(775)
Payments of short-term debt, net of proceeds	10,197	8,300
Proceeds from sale-leaseback transaction	7,485	5,482
Cash flows from financing activities	6,112	2,951
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(13,526)	(13,048)
Cost of removal	(1,208)	(1,283)
Cash flows used in investing activities	(14,734)	(14,331)
Change in cash and temporary investments	723	5,314
Cash and temporary investments at beginning of period	2,078	4,365
Cash and temporary investments at end of period	\$2,801	\$9,679
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	(101,878)	(45,136)
Inventories	29,910	28,716
Underrecovered gas costs	(18,883)	(28,758)
Accounts payable and other	(10,347)	(49)
Gas purchases payable	33,872	29,391
Prepaid and accrued taxes, net	19,652	16,159
Customers' credit balances and deposits	7,299	(10,048)
Restricted broker margin accounts	14,223	6,122
Other current assets	3,517	644
Total	(\$22,635)	(\$2,959)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$5,101	\$5,149
Income taxes	\$1,255	\$6,863

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	December 31, 2007	September 30, 2007
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,282,506	\$1,273,928
Construction work in progress	31,233	25,517
	\$1,313,739	1,299,445
Accumulated depreciation and amortization	(353,874)	(347,418)
Property, plant and equipment, net	959,865	952,027
CURRENT ASSETS		
Cash and temporary investments	2,801	2,078
Restricted cash	2,578	2,608
Customer accounts receivable		
Billed	50,382	5,583
Unbilled	66,177	8,895
Allowance for doubtful accounts	(3,369)	(3,166)
Regulatory assets	29,245	24,634
Gas in storage, at average cost	161,207	191,460
Materials and supplies, at average cost	4,498	4,155
Prepaid state taxes	9,775	28,239
Derivatives, at fair value	9,387	13,285
Broker margin account	—	12,345
Other	5,078	3,876
Total current assets	337,759	293,992
NONCURRENT ASSETS		
Regulatory assets	305,832	312,369
Derivatives, at fair value	2	381
Restricted cash	4,200	4,200
Other	9,286	9,460
Total noncurrent assets	319,320	326,410
Total assets	\$1,616,944	\$1,572,429

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2007	September 30, 2007
CAPITALIZATION		
Common stock equity	\$ 479,587	\$ 472,833
Long-term debt	284,165	308,184
Total capitalization	763,752	781,017
CURRENT LIABILITIES		
Current maturities of long-term debt	34,905	4,338
Short-term debt	196,426	186,229
Gas purchases payable	74,209	40,337
Accounts payable and other	36,439	46,551
Deferred and accrued taxes	10,923	6,940
Regulatory liabilities	—	9,583
New Jersey clean energy program	10,945	8,832
Derivatives, at fair value	23,702	33,293
Broker margin account	1,878	—
Customers' credit balances and deposits	34,481	27,182
Total current liabilities	423,908	363,285
NONCURRENT LIABILITIES		
Deferred income taxes	181,527	176,741
Deferred investment tax credits	7,434	7,513
Derivatives, at fair value	31,039	32,208
Manufactured gas plant remediation	105,340	105,340
Postemployment benefit liability	13,181	12,417
Regulatory liabilities	61,012	61,270
New Jersey clean energy and conservation incentive programs	1,227	3,992
Asset retirement obligation	24,068	23,895
Other	4,456	4,751
Total noncurrent liabilities	429,284	428,127
Total capitalization and liabilities	\$1,616,944	\$1,572,429

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

STATEMENTS OF CAPITALIZATION

<i>(Thousands, except share amounts)</i>	December 31, 2007	September 30, 2007
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	252,800
Accumulated other comprehensive income, net of tax	(66)	(63)
Retained earnings	205,556	192,752
Total common stock equity	479,587	472,833
LONG-TERM DEBT		
New Jersey Natural Gas		
First mortgage bonds:	Maturity date:	
6.27% Series X	November 1, 2008	— 30,000
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 12,000
4.5% Series II	August 1, 2023	10,300 10,300
4.6% Series JJ	August 1, 2024	10,500 10,500
4.9% Series KK	October 1, 2040	15,000 15,000
4.77% Unsecured senior notes	March 15, 2014	60,000 60,000
Capital lease obligation—Buildings	June 1, 2021	26,371 27,063
Capital lease obligation—Meters	October 1, 2012	32,949 30,614
Less: Current maturities of long-term debt		(34,905) (4,338)
Total long-term debt		249,260 308,184
Total capitalization		\$728,847 \$781,017

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Thousands)</i>	Three Months Ended December 31,	
	2007	2006
Net income	\$16,670	\$19,908
Other comprehensive income		
Net unrealized loss on derivatives, net of tax of \$2 and \$6, respectively	(3)	(9)
Other comprehensive income	(3)	(9)
Comprehensive income	\$16,667	\$19,899

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

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 approximately 481,000 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.