



## **QUARTERLY FINANCIAL STATEMENTS**

FOR THE THREE AND SIX MONTH PERIODS ENDING MARCH 31, 2008

(Unaudited)

## New Jersey Natural Gas

### STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
<b>OPERATING REVENUES</b>	<b>\$476,818</b>	\$450,811	<b>\$761,178</b>	\$690,218
<b>OPERATING EXPENSES</b>				
Gas purchases	<b>337,988</b>	312,863	<b>528,136</b>	463,856
Operation and maintenance	<b>23,901</b>	22,692	<b>47,780</b>	42,947
Regulatory rider expenses	<b>17,789</b>	18,135	<b>29,954</b>	27,601
Depreciation and amortization	<b>9,332</b>	8,848	<b>18,565</b>	17,586
Energy and other taxes	<b>28,597</b>	29,537	<b>45,930</b>	42,776
Total operating expenses	<b>417,607</b>	392,075	<b>670,365</b>	594,766
<b>OPERATING INCOME</b>	<b>59,211</b>	58,736	<b>90,813</b>	95,452
Other income	<b>1,450</b>	838	<b>2,682</b>	1,885
Interest charges, net	<b>5,376</b>	5,244	<b>11,495</b>	10,637
<b>INCOME BEFORE INCOME TAXES</b>	<b>55,285</b>	54,330	<b>82,000</b>	86,700
Income tax provision	<b>21,115</b>	21,104	<b>31,160</b>	33,566
<b>NET INCOME</b>	<b>\$ 34,170</b>	\$ 33,226	<b>\$ 50,840</b>	\$ 53,134

See Note to Condensed Unaudited Financial Statements

# New Jersey Natural Gas

## STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Six Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 50,840	\$ 53,134
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Depreciation and amortization	18,716	17,737
Allowance for funds used during construction	(755)	—
Deferred income taxes	(650)	(1,230)
Manufactured gas plant remediation costs	(7,960)	(8,814)
Cost of removal – asset retirement obligation	(355)	(488)
Contributions to employee benefit plans	(381)	(300)
Changes in:		
Components of working capital	102,066	60,075
Other noncurrent assets	19,637	23,602
Other noncurrent liabilities	(3,290)	(10,634)
Cash flows from operating activities	177,868	133,082
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for		
Utility plant	(30,140)	(24,540)
Cost of removal	(3,641)	(2,736)
Cash flows used in investing activities	(33,781)	(27,276)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of common stock dividends to parent	(22,202)	(20,605)
Payments of long-term debt	(2,310)	(1,950)
Payments of short-term debt, net of proceeds	(120,629)	(85,400)
Proceeds from sale-leaseback transaction	7,485	5,482
Cash flows used in financing activities	(137,656)	(102,473)
Change in cash and temporary investments	6,431	3,333
Cash and temporary investments at beginning of period	2,078	4,365
Cash and temporary investments at end of period	\$ 8,509	\$ 7,698
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>		
Receivables	\$(148,663)	\$(120,741)
Inventories	161,058	125,651
Overrecovered gas costs	1,351	13,330
Accounts payable and other	(13,659)	122
Gas purchases payable	25,250	24,754
Prepaid and accrued taxes, net	59,982	58,081
Customers' credit balances and deposits	(14,761)	(47,727)
Restricted broker margin accounts	25,846	7,646
Other current assets	5,662	(1,041)
Total	\$ 102,066	\$ 60,075
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid for		
Interest (net of amounts capitalized)	\$9,940	\$ 9,840
Income taxes	\$7,552	\$18,287

See Note to Condensed Unaudited Financial Statements

## New Jersey Natural Gas

### BALANCE SHEETS (Unaudited)

#### ASSETS

<i>(Thousands)</i>	<b>March 31, 2008</b>	September 30, 2007
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Utility plant, at cost	<b>\$1,303,015</b>	\$1,273,928
Construction work in progress	<b>27,594</b>	25,517
	<b>1,330,609</b>	1,299,445
Accumulated depreciation and amortization	<b>(359,267)</b>	(347,418)
Property, plant and equipment, net	<b>971,342</b>	952,027
<b>CURRENT ASSETS</b>		
Cash and temporary investments	<b>8,509</b>	2,078
Restricted cash	—	2,608
Customer accounts receivable		
Billed	<b>108,601</b>	5,583
Unbilled	<b>55,273</b>	8,895
Allowance for doubtful accounts	<b>(3,899)</b>	(3,166)
Regulatory assets	<b>20,691</b>	24,634
Gas in storage, at average cost	<b>30,160</b>	191,460
Materials and supplies, at average cost	<b>4,397</b>	4,155
Prepaid state taxes	—	28,239
Derivatives, at fair value	<b>84,570</b>	13,285
Broker margin account	<b>39</b>	12,345
Other	<b>4,766</b>	3,876
Total current assets	<b>313,107</b>	293,992
<b>NONCURRENT ASSETS</b>		
Regulatory assets	<b>264,147</b>	312,369
Derivatives, at fair value	<b>3</b>	381
Restricted cash	<b>4,200</b>	4,200
Other	<b>9,153</b>	9,460
Total noncurrent assets	<b>277,503</b>	326,410
Total assets	<b>\$1,561,952</b>	\$1,572,429

See Note to Condensed Unaudited Financial Statements

## New Jersey Natural Gas

### BALANCE SHEETS (Unaudited)

#### CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	<b>March 31, 2008</b>	September 30, 2007
<b>CAPITALIZATION</b>		
Common stock equity	\$ 502,653	\$ 472,833
Long-term debt	282,712	308,184
Total capitalization	785,365	781,017
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	34,985	4,338
Short-term debt	65,600	186,229
Gas purchases payable	65,587	40,337
Accounts payable and other	38,072	46,551
Deferred and accrued taxes	32,438	6,940
Regulatory liabilities	10,934	9,583
New Jersey clean energy program	7,909	8,832
Derivatives, at fair value	65,002	33,293
Broker margin account	13,540	—
Customers' credit balances and deposits	12,421	27,182
Total current liabilities	346,488	363,285
<b>NONCURRENT LIABILITIES</b>		
Deferred income taxes	181,139	176,741
Deferred investment tax credits	7,353	7,513
Derivatives, at fair value	31,486	32,208
Manufactured gas plant remediation	105,340	105,340
Postemployment benefit liability	13,732	12,417
Regulatory liabilities	62,179	61,270
New Jersey clean energy and conservation incentive programs	1,008	3,992
Asset retirement obligation	24,240	23,895
Other	3,622	4,751
Total noncurrent liabilities	430,099	428,127
Total capitalization and liabilities	\$1,561,952	\$1,572,429

See Note to Condensed Unaudited Financial Statements

## New Jersey Natural Gas

### STATEMENTS OF CAPITALIZATION

<i>(Thousands, except share amounts)</i>	<b>March 31, 2008</b>	September 30, 2007
<b>COMMON STOCK EQUITY</b>		
Common stock, \$5 par value; authorized 4,750,000 shares; outstanding 3,214,923 shares	<b>\$ 16,075</b>	\$ 16,075
Premium on common stock	<b>11,269</b>	11,269
Contribution from parent	<b>252,800</b>	252,800
Accumulated other comprehensive income, net of tax	<b>(39)</b>	(63)
Retained earnings	<b>222,548</b>	192,752
<b>Total common stock equity</b>	<b>502,653</b>	472,833
<b>LONG-TERM DEBT</b>		
New Jersey Natural Gas		
First mortgage bonds:	Maturity date:	
6.27% Series X	November 1, 2008	<b>30,000</b>
Variable Series AA	August 1, 2030	<b>25,000</b>
Variable Series BB	August 1, 2030	<b>16,000</b>
6.88% Series CC	October 1, 2010	<b>20,000</b>
Variable Series DD	September 1, 2027	<b>13,500</b>
Variable Series EE	January 1, 2028	<b>9,545</b>
Variable Series FF	January 1, 2028	<b>15,000</b>
Variable Series GG	April 1, 2033	<b>18,000</b>
5% Series HH	December 1, 2038	<b>12,000</b>
4.5% Series II	August 1, 2023	<b>10,300</b>
4.6% Series JJ	August 1, 2024	<b>10,500</b>
4.9% Series KK	October 1, 2040	<b>15,000</b>
4.77% Unsecured senior notes	March 15, 2014	<b>60,000</b>
Capital lease obligation—Buildings	June 1, 2021	<b>26,724</b>
Capital lease obligation—Meters	October 1, 2012	<b>36,128</b>
Less: Current maturities of long-term debt		<b>(34,985)</b>
<b>Total long-term debt</b>		<b>282,712</b>
<b>Total capitalization</b>		<b>\$785,365</b>

See Note to Condensed Unaudited Financial Statements

## New Jersey Natural Gas

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Thousands)</i>	Three Months Ended		Six Months Ended	
	March 31, 2008	2007	March 31, 2008	2007
Net income	<b>\$34,170</b>	\$33,226	<b>\$50,840</b>	\$53,134
Other comprehensive income				
Net unrealized gain (loss) on derivatives, net of tax of \$7, \$6, \$9 and \$12, respectively	<b>27</b>	(8)	<b>24</b>	(17)
Other comprehensive income	<b>27</b>	(8)	<b>24</b>	(17)
Comprehensive income	<b>\$34,197</b>	\$33,218	<b>\$50,864</b>	\$53,117

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 482,000 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.