



**New Jersey
Natural Gas**

QUARTERLY FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDING JUNE 30, 2008

(Unaudited)

New Jersey Natural Gas

STATEMENTS OF INCOME (Unaudited)

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30, 2008	2007	June 30, 2008	2007
OPERATING REVENUES	\$179,511	\$180,980	\$940,689	\$871,198
OPERATING EXPENSES				
Gas purchases	125,060	124,867	653,196	588,723
Operation and maintenance	21,637	22,716	69,417	65,663
Regulatory rider expenses	5,925	6,226	35,879	33,827
Depreciation and amortization	9,488	8,940	28,053	26,526
Energy and other taxes	9,849	10,669	55,779	53,445
Total operating expenses	171,959	173,418	842,324	768,184
OPERATING INCOME	7,552	7,562	98,365	103,014
Other income	(41)	772	2,641	2,657
Interest charges, net	4,146	4,700	15,641	15,337
INCOME BEFORE INCOME TAXES	3,365	3,634	85,365	90,334
Income tax provision	3,218	1,032	34,378	34,598
NET INCOME	\$ 147	\$ 2,602	\$ 50,987	\$ 55,736

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

STATEMENTS OF CASH FLOWS (Unaudited)

<i>(Thousands)</i>	Nine Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 50,987	\$ 55,736
ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Depreciation and amortization	28,822	27,307
Deferred income taxes	9,367	7,025
Manufactured gas plant remediation costs	(13,263)	(15,346)
Cost of removal – asset retirement obligation	(888)	(1,461)
Contributions to employee benefit plans	(521)	(450)
Changes in:		
Components of working capital	73,518	11,409
Other noncurrent assets	23,336	39,158
Other noncurrent liabilities	(2,866)	(13,492)
Cash flows from operating activities	168,492	109,886
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for		
Utility plant	(51,472)	(37,235)
Cost of removal	(5,776)	(3,685)
Withdrawal from (investment in) restricted cash construction fund	2,608	—
Cash flows used in investing activities	(54,640)	(40,920)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of common stock dividends to parent	(33,333)	(31,220)
Payments of long-term debt	(3,977)	(2,822)
Proceeds from long-term debt	125,000	—
Payments of short-term debt, net of proceeds	(186,229)	(39,821)
Proceeds from sale-leaseback transaction	7,485	5,482
Cash flows used in financing activities	(91,054)	(68,381)
Change in cash and temporary investments	22,798	585
Cash and temporary investments at beginning of period	2,078	4,365
Cash and temporary investments at end of period	\$ 24,876	\$ 4,950
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(40,688)	\$(22,250)
Inventories	82,881	33,793
Overrecovered gas costs	(18,037)	13,113
Accounts payable and other	(12,120)	6,885
Gas purchases payable	47,498	23,546
Prepaid and accrued taxes, net	6,135	(3,811)
Customers' credit balances and deposits	(11,630)	(44,272)
Restricted broker margin accounts	17,728	18,941
Other current assets	1,751	(14,536)
Total	\$ 73,518	\$ 11,409
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for		
Interest (net of amounts capitalized)	\$ 12,863	\$ 13,614
Income taxes	\$ 6,729	\$ 14,677

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	June 30, 2008	September 30, 2007
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,325,190	\$1,273,928
Construction work in progress	21,927	25,517
	1,347,117	1,299,445
Accumulated depreciation and amortization	(363,997)	(347,418)
Property, plant and equipment, net	983,120	952,027
CURRENT ASSETS		
Cash and temporary investments	24,876	2,078
Restricted cash	—	2,608
Customer accounts receivable		
Billed	45,523	5,583
Unbilled	10,352	8,895
Allowance for doubtful accounts	(3,875)	(3,166)
Regulatory assets	23,367	24,634
Gas in storage, at average cost	108,348	191,460
Materials and supplies, at average cost	4,385	4,155
Prepaid state taxes	36,570	28,239
Derivatives, at fair value	108,042	13,285
Broker margin account	39	12,345
Other	6,425	3,876
Total current assets	364,052	293,992
NONCURRENT ASSETS		
Regulatory assets	282,020	312,369
Derivatives, at fair value	2	381
Restricted cash	4,200	4,200
Other	9,648	9,460
Total noncurrent assets	295,870	326,410
Total assets	\$1,643,042	\$1,572,429

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	June 30, 2008	September 30, 2007
CAPITALIZATION		
Common stock equity	\$ 491,633	\$ 472,833
Long-term debt	406,613	308,184
Total capitalization	898,246	781,017
CURRENT LIABILITIES		
Current maturities of long-term debt	35,037	4,338
Short-term debt	—	186,229
Gas purchases payable	87,835	40,337
Accounts payable and other	39,861	46,551
Deferred and accrued taxes	25,014	6,940
Regulatory liabilities	—	9,583
New Jersey clean energy program	4,186	8,832
Derivatives, at fair value	98,483	33,293
Customers' credit balances and deposits	15,552	27,182
Total current liabilities	305,968	363,285
NONCURRENT LIABILITIES		
Deferred income taxes	181,326	176,741
Deferred investment tax credits	7,273	7,513
Derivatives, at fair value	39,692	32,208
Manufactured gas plant remediation	105,340	105,340
Postemployment benefit liability	14,374	12,417
Regulatory liabilities	62,232	61,270
New Jersey clean energy and conservation incentive programs	914	3,992
Asset retirement obligation	24,146	23,895
Other	3,531	4,751
Total noncurrent liabilities	438,828	428,127
Total capitalization and liabilities	\$1,643,042	\$1,572,429

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

STATEMENTS OF CAPITALIZATION

<i>(Thousands, except share amounts)</i>	June 30, 2008	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	252,800	252,800
Accumulated other comprehensive income, net of tax	(45)	(65)
Retained earnings	211,534	192,754
Total common stock equity	491,633	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
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
5.00% Series HH	December 1, 2038	12,000
4.50% Series II	August 1, 2023	10,300
4.60% Series JJ	August 1, 2024	10,500
4.90% Series KK	October 1, 2040	15,000
5.60% Series LL	May 15, 2018	125,000
4.77% Unsecured senior notes	March 15, 2014	60,000
Capital lease obligation—Buildings	June 1, 2021	26,724
Capital lease obligation—Meters	October 1, 2012	35,081
Less: Current maturities of long-term debt		(35,037)
Total long-term debt		406,613
Total capitalization		\$898,246
		308,184

See Note to Condensed Unaudited Financial Statements

New Jersey Natural Gas

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Thousands)</i>	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net income	\$147	\$2,602	\$50,987	\$55,736
Other comprehensive income				
Net unrealized gain (loss) on derivatives, net of tax of \$(23), \$(11), \$13 and \$1, respectively	(4)	15	20	(2)
Other comprehensive income	(4)	15	20	(2)
Comprehensive income	\$143	\$2,617	\$51,007	\$55,734

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 483,000 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.