

GOLDMAN SACHS GROUP INC

Form 424B2

December 11, 2018

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

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Registration Statement No. 333-219206

Subject to Completion. Dated December 11, 2018.

GS Finance Corp.

\$

Buffered Basket-Linked Notes due

guaranteed by

The Goldman Sachs Group, Inc.

The notes will not bear interest. The amount that you will be paid on your notes on the stated maturity date (expected to be December 16, 2021) is based on the performance of a weighted basket comprised of the S&P 500[®] Index (25% weighting), the EURO STOXX 50[®] Index (22.5% weighting), the iShares[®] MSCI Emerging Markets ETF (22.5% weighting), the S&P MidCap 400[®] Index (15% weighting) and the Russell 2000[®] Index (15% weighting) as measured from the trade date (expected to be December 11, 2018) to and including the determination date (expected to be December 13, 2021).

The return on your notes is linked in part to the performance of the iShares[®] MSCI Emerging Markets ETF (ETF), and not to that of the MSCI Emerging Markets Index (underlying index) on which the ETF is based. The ETF follows a strategy of "representative sampling," which means the ETF's holdings are not the same as those of the underlying index. The performance of the ETF may significantly diverge from that of its underlying index.

The initial basket level is 100 and the final basket level will equal the sum of the products, as calculated for each basket underlier, of: (i) the final underlier level divided by the initial underlier level (set on the trade date) multiplied

by (ii) the applicable initial weighted value for each basket underlier. If the final basket level on the determination date is greater than the initial basket level, the return on your notes will be positive and will equal the basket return, subject to the maximum settlement amount of \$1,400. If the final basket level declines by up to 30% from the initial basket level, you will receive the face amount of your notes. If the final basket level declines by more than 30% from the initial basket level, the return on your notes will be negative and will equal the basket return plus 30%. You could lose a significant portion of the face amount of your notes.

To determine your payment at maturity, we will calculate the basket return, which is the percentage increase or decrease in the final basket level from the initial basket level. At maturity, for each \$1,000 face amount of your notes, you will receive an amount in cash equal to:

if the basket return is positive (the final basket level is greater than the initial basket level), the sum of (i) \$1,000 plus (ii) the product of (a) \$1,000 times (b) the basket return, subject to the maximum settlement amount;
if the basket return is zero or negative but not below -30% (the final basket level is equal to or less than the initial basket level but not by more than 30%), \$1,000; or
if the basket return is negative and is below -30% (the final basket level is less than the initial basket level by more than 30%), the sum of (i) \$1,000 plus (ii) the product of (a) the sum of the basket return plus 30% times (b) \$1,000.
You will receive less than the face amount of your notes.

Declines in one basket underlier may offset increases in the other basket underliers. Due to the unequal weighting of each basket underlier, the performances of the S&P 500[®] Index, the EURO STOXX 50[®] Index and the iShares[®] MSCI Emerging Markets ETF will have a significantly larger impact on your return on the notes than the performances of the S&P MidCap 400[®] Index or the Russell 2000[®] Index.

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page PS-14.

The estimated value of your notes at the time the terms of your notes are set on the trade date is expected to be between \$925 and \$965 per \$1,000 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date: expected to be December 14, 2018 Original issue price: 100% of the face amount
Underwriting discount: % of the face amount Net proceeds to the issuer: % of the face amount

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC

Pricing Supplement No. dated , 2018.

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC or any other affiliate of GS Finance Corp. may use this prospectus in a market-making transaction in a note after its initial sale. Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is expected to be between \$925 and \$965 per \$1,000 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to \$ per \$1,000 face amount).

Prior to , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co.'s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through). On and after , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

Product supplement no. 1,738 dated July 10, 2017

General terms supplement no. 1,734 dated July 10, 2017

Prospectus supplement dated July 10,

2017

Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

SUMMARY INFORMATION

We refer to the notes we are offering by this pricing supplement as the “offered notes” or the “notes”. Each of the offered notes has the terms described below. Please note that in this pricing supplement, references to “GS Finance Corp.”, “we”, “our” and “us” mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to “The Goldman Sachs Group, Inc.”, our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to “Goldman Sachs” mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. Also, references to the “accompanying prospectus” mean the accompanying prospectus, dated July 10, 2017, references to the “accompanying prospectus supplement” mean the accompanying prospectus supplement, dated July 10, 2017, for Medium-Term Notes, Series E, references to the “accompanying general terms supplement no. 1,734” mean the accompanying general terms supplement no. 1,734, dated July 10, 2017, and references to the “accompanying product supplement no. 1,738” mean the accompanying product supplement no. 1,738, dated July 10, 2017, in each case of GS Finance Corp. and The Goldman Sachs Group, Inc. The notes will be issued under the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the “GSFC 2008 indenture” in the accompanying prospectus supplement.

This section is meant as a summary and should be read in conjunction with the section entitled “General Terms of the Underlier-Linked Notes” on page S-35 of the accompanying product supplement no. 1,738 and “Supplemental Terms of the Notes” on page S-16 of the accompanying general terms supplement no. 1,734. Please note that certain features, as noted below, described in the accompanying product supplement no. 1,738 and general terms supplement no. 1,734 are not applicable to the notes. This pricing supplement supersedes any conflicting provisions of the accompanying product supplement no. 1,738 or the accompanying general terms supplement no. 1,734.

Key Terms

Issuer: GS Finance Corp.

Guarantor: The Goldman Sachs Group, Inc.

Basket underliers: the S&P 500[®] Index (Bloomberg symbol, “SPX Index”), as published by S&P Dow Jones Indices LLC; the EURO STOXX 50[®] Index (Bloomberg symbol, “SX5E Index”), as sponsored and maintained by STOXX Limited; the iShares[®] MSCI Emerging Markets ETF (Bloomberg symbol, “EEM UP Equity”); the S&P MidCap 400 Index (Bloomberg symbol, “MID Index”), as published by S&P Dow Jones Indices LLC, and the Russell 2000 Index (Bloomberg symbol, “RTY Index”), as published by FTSE Russell; see “The Basket and the Basket Underliers” on page PS-23

Basket indices: the S&P 500[®] Index, the EURO STOXX 50[®] Index, the S&P MidCap 400[®] Index and the Russell 2000[®] Index

Basket fund: the iShares[®] MSCI Emerging Markets ETF

Underlying index of the basket fund: the MSCI Emerging Markets Index

Specified currency: U.S. dollars (“\$”)

Terms to be specified in accordance with the accompanying product supplement no. 1,738:

type of notes: notes linked to basket of underliers

exchange rates: not applicable

buffer level: yes, as described below

cap level: yes, as described below

averaging dates: not applicable

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interest: not applicable

redemption right or price dependent redemption right: not applicable

Face amount: each note will have a face amount of \$1,000; \$ _____ in the aggregate for all the offered notes; the aggregate face amount of the offered notes may be increased if the issuer, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this pricing supplement

Purchase at amount other than face amount: the amount we will pay you at the stated maturity date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to face amount and hold them to the stated maturity date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at face amount. Also, the stated buffer level would not offer the same measure of protection to your investment as would be the case if you had purchased the notes at face amount. Additionally, the cap level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See “Additional Risk Factors Specific to Your Notes — If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will Be Negatively Affected” on page PS-17 of this pricing supplement

Supplemental discussion of federal income tax consequences: you will be obligated pursuant to the terms of the notes — in the absence of a change in law, an administrative determination or a judicial ruling to the contrary — to characterize each note for all tax purposes as a pre-paid derivative contract in respect of the basket underliers, as described under “Supplemental Discussion of Federal Income Tax Consequences” on page S-41 of the accompanying product supplement no. 1,738. Pursuant to this approach, it is the opinion of Sidley Austin LLP that upon the sale, exchange or maturity of your notes, it would be reasonable for you to recognize capital gain or loss equal to the difference, if any, between the amount of cash you receive at such time and your tax basis in your notes. Pursuant to Treasury regulations, Foreign Account Tax Compliance Act (FATCA) withholding (as described in “United States Taxation—Taxation of Debt Securities—Foreign Account Tax Compliance Act (FATCA) Withholding” in the accompanying prospectus) will generally apply to obligations that are issued on or after July 1, 2014; therefore, the notes will generally be subject to FATCA withholding. However, according to published guidance, the withholding tax described above will not apply to payments of gross proceeds from the sale, exchange or other disposition of the notes made before January 1, 2019.

Cash settlement amount: for each \$1,000 face amount of your notes, we will pay you on the stated maturity date an amount in cash equal to:

if the final basket level is greater than or equal to the cap level, the maximum settlement amount;

if the final basket level is greater than the initial basket level but less than the cap level, the sum of (1) \$1,000 plus (2) the product of (i) \$1,000 times (ii) the upside participation rate times (iii) the basket return;

if the final basket level is equal to or less than the initial basket level but greater than or equal to the buffer level, \$1,000; or

if the final basket level is less than the buffer level, the sum of (1) \$1,000 plus (2) the product of (i) \$1,000 times (ii) the buffer rate times (iii) the sum of the basket return plus the buffer amount

Initial basket level: 100

Initial weighted value: the initial weighted value for each of the basket underliers is expected to equal the product of the initial weight of such basket underlier times the initial basket level. The initial weight of each basket underlier is shown in the table below:

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Basket Underlier	Initial Weight in Basket
S&P 500 [®] Index	25%
EURO STOXX 50 [®] Index	22.5%
iShares [®] MSCI Emerging Markets ETF	22.5%
S&P MidCap 400 [®] Index	15%
Russell 2000 [®] Index	15%

Initial S&P 500[®] Index level (to be set on the trade date):

Initial EURO STOXX 50[®] Index level (to be set on the trade date):

Initial iShares[®] MSCI Emerging Markets ETF level (to be set on the trade date):

Initial S&P MidCap 400[®] Index level (to be set on the trade date):

Initial Russell 2000[®] Index level (to be set on the trade date):

Final S&P 500[®] Index level: the closing level of such basket underlier on the determination date, except in the limited circumstances described under “Supplemental Terms of the Notes — Consequences of a Market Disruption Event or a Non-Trading Day” on page S-23 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under “Supplemental Terms of the Notes — Discontinuance or Modification of an Underlier” on page S-27 of the accompanying general terms supplement no. 1,734

Final EURO STOXX 50[®] Index level: the closing level of such basket underlier on the determination date, except in the limited circumstances described under “Supplemental Terms of the Notes — Consequences of a Market Disruption Event or a Non-Trading Day” on page S-23 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under “Supplemental Terms of the Notes — Discontinuance or Modification of an Underlier” on page S-27 of the accompanying general terms supplement no. 1,734

Final iShares[®] MSCI Emerging Markets ETF level: the closing level of such basket underlier on the determination date, except in the limited circumstances described under “Supplemental Terms of the Notes — Consequences of a Market Disruption Event or a Non-Trading Day” on page S-23 of the accompanying general terms supplement no. 1,734, subject to anti-dilution adjustments as described under “Supplemental Terms of the Notes — Anti-dilution Adjustments for Exchange-Traded Funds” on page S-28 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under “Supplemental Terms of the Notes — Discontinuance or Modification of an Underlier” on page S-27 of the accompanying general terms supplement no. 1,734

Final S&P MidCap 400[®] Index level: the closing level of such basket underlier on the determination date, except in the limited circumstances described under “Supplemental Terms of the Notes — Consequences of a Market Disruption Event or a Non-Trading Day” on page S-23 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under “Supplemental Terms of the Notes — Discontinuance or Modification of an Underlier” on page S-27 of the accompanying general terms supplement no. 1,734

Final Russell 2000[®] Index level: the closing level of such basket underlier on the determination date, except in the limited circumstances described under “Supplemental Terms of the Notes — Consequences of a Market Disruption Event or a Non-Trading Day” on page S-23 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under “Supplemental Terms of the Notes — Discontinuance or Modification of an Underlier” on page S-27 of the accompanying general terms supplement no. 1,734

Final basket level: the sum of the following: (1) the final S&P 500[®] Index level divided by the initial S&P 500[®] Index level, multiplied by the initial weighted value of the S&P 500[®] Index plus (2) the final EURO STOXX 50[®] Index level divided by the initial EURO STOXX 50[®] Index level, multiplied by the initial weighted value of the EURO STOXX 50[®] Index plus (3) the final iShares[®] MSCI Emerging Markets ETF level divided by the initial iShares[®] MSCI Emerging Markets ETF level, multiplied by the initial weighted value of the iShares[®] MSCI Emerging Markets ETF plus (4) the final S&P MidCap 400[®] Index level divided by the initial S&P MidCap 400[®] Index level, multiplied by the initial weighted value of the S&P

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MidCap 400[®] Index plus (5) the final Russell 2000[®] Index level divided by the initial Russell 2000[®] Index level, multiplied by the initial weighted value of the Russell 2000[®] Index

Basket return: the quotient of (1) the final basket level minus the initial basket level divided by (2) the initial basket level, expressed as a percentage

Upside participation rate: 100%

Cap level: 140% of the initial basket level

Maximum settlement amount: \$1,400

Buffer level: 70% of the initial basket level

Buffer amount: 30%

Buffer rate: 100%

Trade date: expected to be December 11, 2018

Original issue date (settlement date) (to be set on the trade date): expected to be December 14, 2018

Stated maturity date (to be set on the trade date): expected to be December 16, 2021, subject to adjustment as described under “Supplemental Terms of the Notes — Stated Maturity Date” on page S-16 of the accompanying general terms supplement no. 1,734

Determination date (to be set on the trade date): expected to be December 13, 2021, subject to adjustment as described under “Supplemental Terms of the Notes — Determination Date” on page S-17 of the accompanying general terms supplement no. 1,734

No interest: the offered notes will not bear interest

No listing: the offered notes will not be listed on any securities exchange or interdealer quotation system

No redemption: the offered notes will not be subject to redemption right or price dependent redemption right

Closing level: as described under “Supplemental Terms of the Notes — Special Calculation Provisions — Closing Level” on page S-31 of the accompanying general terms supplement no. 1,734.

Business day: as described under “Supplemental Terms of the Notes — Special Calculation Provisions — Business Day” on page S-30 of the accompanying general terms supplement no. 1,734

Trading day: as described under “Supplemental Terms of the Notes — Special Calculation Provisions — Trading Day” on page S-31 of the accompanying general terms supplement no. 1,734

Use of proceeds and hedging: as described under “Use of Proceeds” and “Hedging” on page S-40 of the accompanying product supplement no. 1,738

ERISA: as described under “Employee Retirement Income Security Act” on page S-48 of the accompanying product supplement no. 1,738

Supplemental plan of distribution; conflicts of interest: as described under “Supplemental Plan of Distribution” on page S-49 of the accompanying product supplement no. 1,738 and “Plan of Distribution – Conflicts of Interest” on page 94 of the accompanying prospectus; GS Finance Corp. estimates that its share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately \$.

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GS Finance Corp. expects to agree to sell to Goldman Sachs & Co. LLC (“GS&Co.”), and GS&Co. expects to agree to purchase from GS Finance Corp., the aggregate face amount of the offered notes specified on the front cover of this pricing supplement. GS&Co. proposes initially to offer the notes to the public at the original issue price set forth on the cover page of this pricing supplement, and to certain securities dealers at such price less a concession not in excess of % of the face amount. GS&Co. is an affiliate of GS Finance Corp. and The Goldman Sachs Group, Inc. and, as such, will have a “conflict of interest” in this offering of notes within the meaning of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121. Consequently, this offering of notes will be conducted in compliance with the provisions of FINRA Rule 5121. GS&Co. will not be permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

We expect to deliver the notes against payment therefor in New York, New York on December 14, 2018. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify alternative settlement arrangements to prevent a failed settlement.

We have been advised by GS&Co. that it intends to make a market in the notes. However, neither GS&Co. nor any of our other affiliates that makes a market is obligated to do so and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes.

Calculation agent: GS&Co.

CUSIP no.: 40056EMY1

ISIN no.: US40056EMY13

FDIC: the notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank

HYPOTHETICAL EXAMPLES

The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical basket closing levels or hypothetical closing levels of the basket underliers, as applicable, on the determination date could have on the cash settlement amount at maturity assuming all other variables remain constant.

The examples below are based on a range of final basket levels and closing levels of the basket underliers that are entirely hypothetical; no one can predict what the level of the basket will be on any day throughout the life of your notes, and no one can predict what the final basket level will be on the determination date. The basket underliers have been highly volatile in the past — meaning that the levels of the basket underliers have changed considerably in relatively short periods — and their performances cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below such as interest rates, the volatility of the basket underliers, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS & Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see “Additional Risk Factors Specific to Your Notes — The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS & Co.) Is Less Than the Original Issue Price Of Your Notes” on page PS-14 of this pricing supplement. The information in the examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions

Face amount	\$1,000
Upside participation rate	100%
Initial basket level	100
Cap level	140% of the initial basket level
Maximum settlement amount	\$1,400
Buffer level	70% of the initial basket level
Buffer rate	100%
Buffer amount	30%

Neither a market disruption event nor a non-trading day occurs on the originally scheduled determination date

No change in or affecting (i) any of the underlier stocks, (ii) the methods by which any underlier sponsor calculates the basket index or the underlying index for the basket fund or (iii) the policies of the investment advisor of the basket fund

Notes purchased on original issue date at the face amount and held to the stated maturity date

Moreover, we have not yet set the initial S&P 500[®] Index level, the initial EURO STOXX 50[®] Index level, the initial iShares[®] MSCI Emerging Markets ETF level, the initial S&P MidCap 400[®] Index level or the initial Russell 2000[®] Index level that will serve as the baselines for determining the basket return and

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the amount that we will pay on your notes at maturity. We will not do so until the trade date. As a result, the actual initial S&P 500[®] Index level, the actual initial EURO STOXX 50[®] Index level, the actual initial iShares[®] MSCI Emerging Markets ETF level, the actual initial S&P MidCap 400[®] Index level and the actual initial Russell 2000[®] Index level may differ substantially from the current level of such basket underlier prior to the trade date. They may also differ substantially from the level of such basket underlier at the time you purchase your notes.

For these reasons, the actual performance of the basket over the life of your notes, as well as the amount payable at maturity, may bear little relation to the hypothetical examples shown below or to the historical level of each basket underlier shown elsewhere in this pricing supplement. For information about the historical level of each basket underlier during recent periods, see “The Basket and the Basket Underliers — Historical Closing Levels of the Basket Underliers” below. Before investing in the offered notes, you should consult publicly available information to determine the level of the basket underliers between the date of this pricing supplement and the date of your purchase of the offered notes.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the basket underliers.

The levels in the left column of the table below represent hypothetical final basket levels and are expressed as percentages of the initial basket level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final basket level (expressed as a percentage of the initial basket level), and are expressed as percentages of the face amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 100.000% means that the value of the cash payment that we would deliver for each \$1,000 of the outstanding face amount of the offered notes on the stated maturity date would equal 100.000% of the face amount of a note, based on the corresponding hypothetical final basket level (expressed as a percentage of the initial basket level) and the assumptions noted above.

Hypothetical Final Basket Level (as Percentage of Initial Basket Level)	Hypothetical Cash Settlement Amount (as Percentage of Face Amount)
175.000%	140.000%
150.000%	140.000%
140.000%	140.000%
130.000%	130.000%
115.000%	115.000%
100.000%	100.000%
90.000%	100.000%
80.000%	100.000%
70.000%	100.000%
50.000%	80.000%
25.000%	55.000%
0.000%	30.000%

If, for example, the final basket level were determined to be 25.000% of the initial basket level, the cash settlement amount that we would deliver on your notes at maturity would be 55.000% of the face amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the face amount and held them to the stated maturity date, you would lose 45.000% of your investment (if you purchased your notes at a

premium to face amount you would lose a correspondingly higher percentage of your investment). In addition, if the final basket level were determined to be 175.000% of the initial basket level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum settlement amount, or 140.000% of each \$1,000 face amount of your notes, as shown in the table above. As a result, if you held your notes to the stated maturity date, you would not benefit from any increase in the final basket level over 140.000% of the initial basket level.

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The following chart also shows a graphical illustration of the hypothetical cash settlement amounts (expressed as a percentage of the face amount of your notes) that we would pay on your notes on the stated maturity date, if the final basket level (expressed as a percentage of the initial basket level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical final basket level (expressed as a percentage of the initial basket level) of less than 70.000% (the section left of the 70.000% marker on the horizontal axis) would result in a hypothetical cash settlement amount of less than 100.000% of the face amount of your notes (the section below the 100.000% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical final basket level (expressed as a percentage of the initial basket level) of greater than or equal to 140.000% (the section right of the 140.000% marker on the horizontal axis) would result in a capped return on your investment.

The following examples illustrate the hypothetical cash settlement amount at maturity for each note based on hypothetical final levels of the basket underliers, calculated based on the key terms and assumptions above. The levels in Column A represent hypothetical initial levels for each basket underlier, and the levels in Column B represent hypothetical final levels for each basket underlier. The percentages in Column C represent hypothetical final levels for each basket underlier in Column B expressed as percentages of the corresponding hypothetical initial levels in Column A. The amounts in Column D represent the applicable initial weighted value for each basket underlier, and the amounts in Column E represent the products of the percentages in Column C times the corresponding amounts in Column D. The final basket level for each example is shown beneath each example, and will equal the sum of the products shown in Column E. The basket return for each example is shown beneath the final basket level for such example, and will equal the quotient of (i) the final basket level for such example minus the initial basket level divided by (ii) the initial basket level, expressed as a percentage. The values below have been rounded for ease of analysis.

Example 1: The final basket level is greater than the cap level. The cash settlement amount equals the maximum settlement amount.

	Column A	Column B	Column C	Column D	Column E
					Column C x
Basket Underlier	Hypothetical Initial Level	Hypothetical Final Level	Column B / Column A	Initial Weighted Value	Column D
S&P 500 [®] Index	2,650.00	3,975.00	150.00%	25.00	37.50
EURO STOXX 50 [®] Index	3,000.00	4,500.00	150.00%	22.50	33.75
iShares [®] MSCI Emerging Markets ETF	\$40.00	\$60.00	150.00%	22.50	33.75
S&P MidCap 400 [®] Index	1,750.00	2,625.00	150.00%	15.00	22.50
Russell 2000 [®] Index	1,450.000	2,175.000	150.00%	15.00	22.50
				Final Basket Level:	150.00
				Basket Return:	50.00%

In this example, all of the hypothetical final levels for the basket underliers are greater than the applicable hypothetical initial levels, which results in the hypothetical final basket level being greater than the initial basket level of 100.00. Since the hypothetical final basket level was determined to be 150.00, the hypothetical cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum settlement amount of \$1,400 for each \$1,000 face amount of your notes (i.e. 140.000% of each \$1,000 face amount of your notes).

Example 2: The final basket level is greater than the initial basket level but less than the cap level.

	Column A	Column B	Column C	Column D	Column E
					Column C x
Basket Underlier	Hypothetical Initial Level	Hypothetical Final Level	Column B / Column A	Initial Weighted Value	Column D
S&P 500 [®] Index	2,650.00	2,782.50	105.00%	25.00	26.25
EURO STOXX 50 [®] Index	3,000.00	3,150.00	105.00%	22.50	23.625
iShares [®] MSCI Emerging Markets ETF	\$40.00	\$42.00	105.00%	22.50	23.625
S&P MidCap 400 [®] Index	1,750.00	1,837.50	105.00%	15.00	15.75
Russell 2000 [®] Index	1,450.000	1,522.500	105.00%	15.00	15.75
				Final Basket Level:	105.00
				Basket Return:	5.00%

In this example, all of the hypothetical final levels for the basket underliers are greater than the applicable hypothetical initial levels, which results in the hypothetical final basket level being greater than the initial basket level of

100.00. Since the hypothetical final basket level was determined to be 105.00, the hypothetical cash settlement amount for each \$1,000 face amount of your notes will equal:

$$\text{Cash settlement amount} = \$1,000 + (\$1,000 \times 100.00\% \times 5.00\%) = \$1,050.00$$

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Example 3: The final basket level is less than the initial basket level, but greater than the buffer level. The cash settlement amount equals the \$1,000 face amount.

	Column A	Column B	Column C	Column D	Column E
					Column C x
Basket Underlier	Hypothetical Initial Level	Hypothetical Final Level	Column B / Column A	Initial Weighted Value	Column D
S&P 500 [®] Index	2,650.00	2,517.50	95.00%	25.00	23.75
EURO STOXX 50 [®] Index	3,000.00	2,850.00	95.00%	22.50	21.375
iShares [®] MSCI Emerging Markets ETF	\$40.00	\$38.00	95.00%	22.50	21.375
S&P MidCap 400 [®] Index	1,750.00	1,662.50	95.00%	15.00	14.25
Russell 2000 [®] Index	1,450.000	1,377.500	95.00%	15.00	14.25
				Final Basket Level:	95.000
				Basket Return:	-5.00%

In this example, all of the hypothetical final levels for the basket underliers are less than the applicable hypothetical initial levels, which results in the hypothetical final basket level being less than the initial basket level of 100.00. Since the hypothetical final basket level of 95.00 is greater than the buffer level of 70.00% of the initial basket level but less than the initial basket level of 100, the hypothetical cash settlement amount for each \$1,000 face amount of your notes will equal the face amount of the note, or \$1,000.

Example 4: The final basket level is less than the buffer level. The cash settlement amount is less than the \$1,000 face amount.

	Column A	Column B	Column C	Column D	Column E
					Column C x
Basket Underlier	Hypothetical Initial Level	Hypothetical Final Level	Column B / Column A	Initial Weighted Value	Column D
S&P 500 [®] Index	2,650.00	795.00	30.00%	25.00	7.50
EURO STOXX 50 [®] Index	3,000.00	900.00	30.00%	22.50	6.75
iShares [®] MSCI Emerging Markets ETF	\$40.00	\$12.00	30.00%	22.50	6.75
S&P MidCap 400 [®] Index	1,750.00	1,925.00	110.00%	15.00	16.50
Russell 2000 [®] Index	1,450.000	1,595.000	110.00%	15.00	16.50
				Final Basket Level:	54.00
				Basket Return:	-46.00%

In this example, the hypothetical final levels of the S&P 500[®] Index, the EURO STOXX 50[®] Index and the iShares[®] MSCI Emerging Markets ETF are less than their applicable hypothetical initial levels, while the hypothetical final levels of the S&P MidCap 400[®] Index and the Russell 2000[®] Index are greater than their applicable hypothetical

initial levels.

Because the basket is unequally weighted, increases in the lower weighted basket underliers will be offset by a decrease in the more heavily weighted basket underliers. In this example, the large declines in the S&P 500[®] Index, the EURO STOXX 50[®] Index and the iShares[®] MSCI Emerging Markets ETF result in the hypothetical final basket level being less than the buffer level of 70.00% of the initial basket level even though the S&P MidCap 400[®] Index and the Russell 2000[®] Index increased.

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Since the hypothetical final basket level of 54.00 is less than the buffer level of 70.00% of the initial basket level, the hypothetical cash settlement amount for each \$1,000 face amount of your notes will equal:

$$\text{Cash settlement amount} = \$1,000 + (\$1,000 \times 100.00\% \times (-46.00\% + 30.00\%)) = \$840.00$$

Example 5: The final basket level is less than the buffer level. The cash settlement amount is less than the \$1,000 face amount.

	Column A	Column B	Column C	Column D	Column E
					Column C x
	Hypothetical Initial Level	Hypothetical Final Level	Column B / Column A	Initial Weighted Value	Column D
Basket Underlier					
S&P 500® Index	2,650.00	1,325.00	50.00%	25.00	12.50
EURO STOXX 50® Index	3,000.00	1,500.00	50.00%	22.50	11.25
iShares® MSCI Emerging Markets ETF	\$40.00	\$20.00	50.00%	22.50	11.25
S&P MidCap 400® Index	1,750.00	875.00	50.00%	15.00	7.50
Russell 2000® Index	1,450.000	725.000	50.00%	15.00	7.50
				Final Basket Level:	50.00
				Basket Return:	-50.00%

In this example, the hypothetical final levels for all of the basket underliers are less than the applicable hypothetical initial levels, which results in the hypothetical final basket level being less than the initial basket level of 100.00. Since the hypothetical final basket level of 50.00 is less than the buffer level of 70.00% of the initial basket level, the hypothetical cash settlement amount for each \$1,000 face amount of your notes will equal:

$$\text{Cash settlement amount} = \$1,000 + (\$1,000 \times 100.00\% \times (-50.00\% + 30.00\%)) = \$800.00$$

The cash settlement amounts shown above are entirely hypothetical; they are based on levels of the basket underliers that may not be achieved on the determination date and on assumptions that may prove to be erroneous. The actual market value of your notes on the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical cash settlement amounts on notes held to the stated maturity date in the examples above assume you purchased your notes at their face amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the face amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read

“Additional Risk Factors Specific to the Underlier-Linked Notes — The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors” on page S-32 of the accompanying product supplement no. 1,738.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of an interest-bearing bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this pricing supplement.

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We cannot predict the actual final basket level on the determination date, nor can we predict the relationship between the level of each basket underlier and the market value of your notes at any time prior to the stated maturity date. The actual amount that a holder of the offered notes will receive on the stated maturity date and the rate of return on the offered notes will depend on the initial level of each basket underlier, which we will set on the trade date, and the actual basket return determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes on the stated maturity date may be very different from the hypothetical cash settlement amounts shown in the examples above.

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ADDITIONAL RISK FACTORS SPECIFIC TO YOUR NOTES

An investment in your notes is subject to the risks described below, as well as the risks and considerations described in the accompanying prospectus, in the accompanying prospectus supplement, under “Additional Risk Factors Specific to the Notes” in the accompanying general terms supplement no. 1,734 and under “Additional Risk Factors Specific to the Underlier-Linked Notes” in the accompanying product supplement no. 1,738. You should carefully review these risks and considerations as well as the terms of the notes described herein and in the accompanying prospectus, the accompanying prospectus supplement, the accompanying general terms supplement no. 1,734 and the accompanying product supplement no. 1,738. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in the basket underlier stocks, i.e., with respect to a basket underlier to which your notes are linked, the stocks comprising such basket underlier. You should carefully consider whether the offered notes are suited to your particular circumstances.

The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes

The original issue price for your notes exceeds the estimated value of your notes as of the time the terms of your notes are set on the trade date, as determined by reference to GS&Co.’s pricing models and taking into account our credit spreads. Such estimated value on the trade date is set forth above under “Estimated Value of Your Notes”; after the trade date, the estimated value as determined by reference to these models will be affected by changes in market conditions, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor, and other relevant factors. The price at which GS&Co. would initially buy or sell your notes (if GS&Co. makes a market, which it is not obligated to do), and the value that GS&Co. will initially use for account statements and otherwise, also exceeds the estimated value of your notes as determined by reference to these models. As agreed by GS&Co. and the distribution participants, this excess (i.e., the additional amount described under “Estimated Value of Your Notes”) will decline to zero on a straight line basis over the period from the date hereof through the applicable date set forth above under “Estimated Value of Your Notes”. Thereafter, if GS&Co. buys or sells your notes it will do so at prices that reflect the estimated value determined by reference to such pricing models at that time. The price at which GS&Co. will buy or sell your notes at any time also will reflect its then current bid and ask spread for similar sized trades of structured notes.

In estimating the value of your notes as of the time the terms of your notes are set on the trade date, as disclosed above under “Estimated Value of Your Notes”, GS&Co.’s pricing models consider certain variables, including principally our credit spreads, interest rates (forecasted, current and historical rates), volatility, price-sensitivity analysis and the time to maturity of the notes. These pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, the actual value you would receive if you sold your notes in the secondary market, if any, to others may differ, perhaps materially, from the estimated value of your notes determined by reference to our models due to, among other things, any differences in pricing models or assumptions used by others. See “Additional Risk Factors Specific to the Underlier-Linked Notes — The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors” on page S-32 of the accompanying product supplement no. 1,738.

The difference between the estimated value of your notes as of the time the terms of your notes are set on the trade date and the original issue price is a result of certain factors, including principally the underwriting discount and commissions, the expenses incurred in creating, documenting and marketing the notes, and an estimate of the difference between the amounts we pay to GS&Co. and the amounts GS&Co. pays to us in connection with your notes. We pay to GS&Co. amounts based on what we would pay to holders of a non-structured note with a similar maturity. In return for such payment, GS&Co. pays to us the amounts we owe under your notes.

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In addition to the factors discussed above, the value and quoted price of your notes at any time will reflect many factors and cannot be predicted. If GS&Co. makes a market in the notes, the price quoted by GS&Co. would reflect any changes in market conditions and other relevant factors, including any deterioration in our creditworthiness or perceived creditworthiness or the creditworthiness or perceived creditworthiness of The Goldman Sachs Group, Inc. These changes may adversely affect the value of your notes, including the price you may receive for your notes in any market making transaction. To the extent that GS&Co. makes a market in the notes, the quoted price will reflect the estimated value determined by reference to GS&Co.'s pricing models at that time, plus or minus its then current bid and ask spread for similar sized trades of structured notes (and subject to the declining excess amount described above).

Furthermore, if you sell your notes, you will likely be charged a commission for secondary market transactions, or the price will likely reflect a dealer discount. This commission or discount will further reduce the proceeds you would receive for your notes in a secondary market sale.

There is no assurance that GS&Co. or any other party will be willing to purchase your notes at any price and, in this regard, GS&Co. is not obligated to make a market in the notes. See "Additional Risk Factors Specific to the Underlier-Linked Notes — Your Notes May Not Have an Active Trading Market" on page S-31 of the accompanying product supplement no. 1,738.

The Notes Are Subject to the Credit Risk of the Issuer and the Guarantor

Although the return on the notes will be based on the performance of the basket underliers, the payment of any amount due on the notes is subject to the credit risk of GS Finance Corp., as issuer of the notes, and the credit risk of The Goldman Sachs Group, Inc. as guarantor of the notes. The notes are our unsecured obligations. Investors are dependent on our ability to pay all amounts due on the notes, and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. Similarly, investors are dependent on the ability of The Goldman Sachs Group, Inc., as guarantor of the notes, to pay all amounts due on the notes, and therefore are also subject to its credit risk and to changes in the market's view of its creditworthiness. See "Description of the Notes We May Offer — Information About Our Medium-Term Notes, Series E Program — How the Notes Rank Against Other Debt" on page S-4 of the accompanying prospectus supplement and "Description of Debt Securities We May Offer — Guarantee by The Goldman Sachs Group, Inc." on page 42 of the accompanying prospectus.

The Amount Payable on Your Notes Is Not Linked to the Level of Each Basket Underlier at Any Time Other than the Determination Date

The final basket level will be based on the closing levels of the basket underliers on the determination date (subject to adjustment as described elsewhere in this pricing supplement). Therefore, if the closing levels of the basket underliers dropped precipitously on the determination date, the cash settlement amount for your notes may be significantly less than it would have been had the cash settlement amount been linked to the closing levels of the basket underliers prior to such drop in the levels of the basket underliers. Although the actual levels of the basket underliers on the stated maturity date or at other times during the life of your notes may be higher than the closing levels of the basket underliers on the determination date, you will not benefit from the closing levels of the basket underliers at any time other than on the determination date.

You May Lose a Substantial Portion of Your Investment in the Notes

You can lose a substantial portion of your investment in the notes. The cash payment on your notes on the stated maturity date will be based on the performance of a weighted basket comprised of the S&P 500[®] Index, the EURO STOXX 50[®] Index, the iShares[®] MSCI Emerging Markets ETF, the S&P MidCap 400[®] Index and the Russell 2000[®]

Index as measured from the initial basket level of 100 to the final basket level on the determination date. If the final basket level for your notes is less than the buffer level, you will have a loss for each \$1,000 of the face amount of your notes equal to the product of (i) the buffer rate times (ii) the sum of the basket return plus the buffer amount times (iii) \$1,000. Thus, you may lose a substantial portion of your investment in the notes, which would include any premium to face amount you paid when you purchased the notes.

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Also, the market price of your notes prior to the stated maturity date may be significantly lower than the purchase price you pay for your notes. Consequently, if you sell your notes before the stated maturity date, you may receive far less than the amount of your investment in the notes.

Your Notes Do Not Bear Interest

You will not receive any interest payments on your notes. As a result, even if the cash settlement amount payable for your notes on the stated maturity date exceeds the face amount of your notes, the overall return you earn on your notes may be less than you would have earned by investing in a non-indexed debt security of comparable maturity that bears interest at a prevailing market rate.

The Potential for the Value of Your Notes to Increase Will Be Limited

Your ability to participate in any change in the value of the basket over the life of your notes will be limited because of the cap level. The maximum settlement amount will limit the amount in cash you may receive for each of your notes at maturity, no matter how much the level of the basket may rise beyond the cap level over the life of your notes. Accordingly, the amount payable for each of your notes may be significantly less than it would have been had you invested directly in the basket or any of the basket underliers.

The Lower Performance of One Basket Underlier May Offset an Increase in the Other Basket Underliers

Declines in the level of one basket underlier may offset increases in the levels of the other basket underliers. As a result, any return on the basket — and thus on your notes — may be reduced or eliminated, which will have the effect of reducing the amount payable in respect of your notes at maturity. In addition, because the basket underliers are not equally weighted, increases in the lower weighted basket underliers may be offset by even small decreases in the more heavily weighted basket underliers. In particular, due to the weightings of the S&P 500[®] Index, the EURO STOXX 50[®] Index and the iShares[®] MSCI Emerging Markets ETF in the basket relative to the other basket underliers, any decrease in the S&P 500[®] Index, the EURO STOXX 50[®] Index or the iShares[®] MSCI Emerging Markets ETF will have a significantly larger impact on your return on the notes than any proportional increase in the other basket underliers.

The Return on Your Notes Will Not Reflect Any Dividends Paid on the Basket Underliers or the Basket Underlier Stocks, as Applicable

The underlier sponsors of the basket indices calculate the value of applicable basket index by reference to the prices of its basket underlier stocks, without taking account of the value of dividends paid on those stocks. Therefore, the return on your notes will not reflect the return you would realize if you actually owned the basket underlier stocks and received the dividends paid on those stocks. In addition, the return on your notes will not reflect the return you would realize if you actually owned the basket fund and received the dividends paid on the shares of the basket fund. You will not receive any dividends that may be paid on any of the basket underlier stocks by the basket underlier stock issuers or on the shares of the basket fund. See “— You Have No Shareholder Rights or Rights to Receive Any Shares of a Basket Underlier or Any Basket Underlier Stocks” below for additional information.

You Have No Shareholder Rights or Rights to Receive Any Shares of a Basket Underlier or Any Basket Underlier Stocks

Investing in your notes will not make you a holder of any shares of any basket underlier or any basket underlier stocks. Neither you nor any other holder or owner of your notes will have any rights with respect to a basket underlier or its basket underlier stocks, including any voting rights, any right to receive dividends or other distributions, any

rights to make a claim against the basket underlier or its basket underlier stocks or any other rights of a holder of any shares of a basket underlier or its basket underlier stocks. Your notes will be paid in cash and you will have no right to receive delivery of any basket underlier or any basket underlier stocks.

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We May Sell an Additional Aggregate Face Amount of the Notes at a Different Issue Price

At our sole option, we may decide to sell an additional aggregate face amount of the notes subsequent to the date of this pricing supplement. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the issue price you paid as provided on the cover of this pricing supplement.

If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will Be Negatively Affected

The cash settlement amount will not be adjusted based on the issue price you pay for the notes. If you purchase notes at a price that differs from the face amount of the notes, then the return on your investment in such notes held to the stated maturity date will differ from, and may be substantially less than, the return on notes purchased at face amount. If you purchase your notes at a premium to face amount and hold them to the stated maturity date the return on your investment in the notes will be lower than it would have been had you purchased the notes at face amount or a discount to face amount. In addition, the impact of the buffer level and the cap level on the return on your investment will depend upon the price you pay for your notes relative to the face amount. For example, if you purchase your notes at a premium to face amount, the cap level will only permit a lower positive return on your investment in the notes than would have been the case for notes purchased at face amount or a discount to the face amount. Similarly, the buffer level, while still providing some protection for the return on the notes, will allow a greater percentage decrease in your investment in the notes than would have been the case for notes purchased at face amount or a discount to face amount.

The Policies of an Underlier Sponsor and Changes that Affect a Basket Index or An Underlying Index or the Underlier Stocks Comprising a Basket Underlier or an Underlying Index, Could Affect the Cash Settlement Amount on the Stated Maturity Date and the Market Value of Your Notes

The policies of an underlier sponsor concerning the calculation of the level of a basket index and each underlying index, additions, deletions or substitutions of the underlier stocks comprising such basket index or the underlying index, and the manner in which changes affecting the underlier stocks or their issuers, such as stock dividends, reorganizations or mergers, are reflected in the level of a basket index or the underlying index, could affect the level of the applicable basket index or the underlying index and, therefore, the amount payable on your notes on the stated maturity date and the market value of your notes before that date. The amount payable on your notes and their market value could also be affected if an underlier sponsor changes these policies, for example, by changing the manner in which it calculates the level of the applicable basket index or the underlying index, or if any underlier sponsor discontinues or suspends calculation or publication of the level of the applicable basket index or the underlying index, in which case it may become difficult to determine the market value of your notes. If events such as these occur on the determination date, the calculation agent — which initially will be GS&Co., our affiliate — may determine the closing level of the applicable basket index or the underlying index on the determination date — and thus the amount payable on the stated maturity date — in a manner it considers appropriate, in its sole discretion. We describe the discretion that the calculation agent will have in determining the levels of the basket underliers on the determination date and the amount payable on your notes more fully under “Supplemental Terms of the Notes — Discontinuance or Modification of a Basket Underlier” on page S-27 and “— Role of Calculation Agent” on page S-28 of the accompanying general terms supplement no. 1,734.

The Policies of the Investment Advisor of the Basket Fund, Blackrock Fund Advisors, and the Sponsor of the Underlying Index of the Basket Fund, MSCI, Could Affect the Amount Payable on Your Notes and Their Market Value

The investment advisor of the basket fund, Blackrock Fund Advisors (“BFA”), may from time to time be called upon to make certain policy decisions or judgments with respect to the implementation of policies concerning the calculation of the net asset value of the basket fund, additions, deletions or substitutions of securities in the basket fund and the manner in which changes affecting the underlying index for the basket fund are reflected in the basket fund that could affect the market price of the shares

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of the basket fund, and therefore, the amount payable on your notes on the stated maturity date. The amount payable on your notes and their market value could also be affected if the investment advisor changes these policies, for example, by changing the manner in which it calculates the net asset value of the basket fund, or if the investment advisor discontinues or suspends calculation or publication of the net asset value of the basket fund, in which case it may become difficult or inappropriate to determine the market value of your notes.

If events such as these occur, the calculation agent — which initially will be GS&Co. — may determine the closing level of the basket fund on the determination date — and thus the amount payable on the stated maturity date — in a manner, in its sole discretion, it considers appropriate. We describe the discretion that the calculation agent will have in determining the levels of the basket underliers on the determination date and the amount payable on your notes more fully under “Supplemental Terms of the Notes — Discontinuance or Modification of a Basket Underlier” on page S-27 and “— Role of Calculation Agent” on page S-28 of the accompanying general terms supplement no. 1,734.

In addition, MSCI, the underlier sponsor of the underlying index of the basket fund, owns the underlying index and is responsible for the design and maintenance of the underlying index. The policies of the underlier sponsor concerning the calculation of the underlying index, including decisions regarding the addition, deletion or substitution of the equity securities included in the underlying index, could affect the level of the underlying index and, consequently, could affect the market prices of shares of the related basket fund and, therefore, the cash settlement amount payable on your notes and their market value.

There Are Risks Associated With the Basket Fund

Although the shares of the basket fund are listed for trading on the NYSE Arca, Inc. (the “NYSE Arca”), a number of similar products have been traded on the NYSE Arca or other securities exchanges for varying periods of time, and there is no assurance that an active trading market will continue for the shares of the basket fund or that there will be liquidity in the trading market.

In addition, the basket fund is subject to management risk, which is the risk that the basket fund investment advisor’s investment strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. For example, the basket fund investment advisor may select a portion of the basket fund’s assets to be invested in securities that are not included in its underlying index. The basket fund is also not actively managed and may be affected by a general decline in market segments relating to the underlying index. The basket fund investment advisor invests in securities included in, or representative of, the underlying index regardless of their investment merits. The basket fund investment advisor does not attempt to take defensive positions in declining markets.

In addition, the basket fund is subject to custody risk, which refers to the risks in the process of clearing and settling trades and to the holding of securities by local banks, agents and depositories. Low trading volumes and volatile prices in less developed markets make trades harder to complete and settle, and governments or trade groups may compel local agents to hold securities in designated depositories that are not subject to independent evaluation. The less developed a country’s securities market is, the greater the likelihood of custody problems.

Further, under continuous listing standards adopted by the NYSE Arca, the basket fund will be required to confirm on an ongoing basis that the components of its underlying index satisfy the applicable listing requirements. In the event that its underlying index does not comply with the applicable listing requirements, the basket fund would be required to rectify such non-compliance by requesting that the underlying index sponsor modify such underlying index, adopting a new underlying index or obtaining relief from the Securities and Exchange Commission. There can be no assurance that the underlying index sponsor would so modify the underlying index or that relief would be obtained from the Securities and Exchange Commission and, therefore, non-compliance with the continuous listing standards may result in the basket fund being delisted by the NYSE Arca.

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The Basket Fund and its Underlying Index are Different and the Performance of the Basket Fund May Not Correlate With the Performance of its Underlying Index

The basket fund uses a representative sampling strategy (more fully described under “The Basket Underliers — iShares® MSCI Emerging Markets ETF”) to attempt to track the performance of its underlying index. The basket fund may not hold all or substantially all of the equity securities included in its underlying index and may hold securities or assets not included in its underlying index. Therefore, while the performance of the basket fund is generally linked to the performance of its underlying index, the performance of the basket fund is also linked in part to shares of equity securities not included in its underlying index and to the performance of other assets, such as futures contracts, options and swaps, as well as cash and cash equivalents, including shares of money market funds affiliated with its underlier investment advisor.

Imperfect correlation between the basket fund’s portfolio securities and those in its underlying index, rounding of prices, changes to its underlying index and regulatory requirements may cause tracking error, which is the divergence of the basket fund’s performance from that of its underlying index.

In addition, the performance of the basket fund will reflect additional transaction costs and fees that are not included in the calculation of its underlying index and this may increase the tracking error of the basket fund. Also, corporate actions with respect to the sample of equity securities (such as mergers and spin-offs) may impact the performance differential between the basket fund and its underlying index. Finally, because the shares of the basket fund are traded on the NYSE Arca and are subject to market supply and investor demand, the market value of one share of the basket fund may differ from the net asset value per share of the basket fund.

For all of the foregoing reasons, the performance of the basket fund may not correlate with the performance of its underlying index. Consequently, the cash settlement amount payable on your notes will not be the same as investing directly in the basket fund or in its underlying index or in any of the underlier stocks or in any of the underlying index stocks, and will not be the same as investing in a debt security with a payment at maturity linked to the performance of the underlying index.

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	404,825
	439,168
Materials and supplies, at average cost	5,436
	5,033
Prepaid state taxes	9,229
	28,034
Derivatives, at fair value	

	127,699
	138,986
Broker margin account	
	8,590
	12,345
Other	
	15,122
	8,353
Total current assets	
	937,122
	799,866
NONCURRENT ASSETS	
Investments in equity investees	
	89,902
	86,743
Regulatory assets	
	305,832
	312,369
Derivatives, at fair value	
	39,213
	44,306
Restricted cash	
	4,200
	4,200
Other	
	12,779
	36

	12,390
Total noncurrent assets	
	451,926
	460,008
Total assets	
	\$
\$	2,367,755
	2,230,745

See Notes to Condensed Unaudited Consolidated Financial Statements

Table of ContentsNew Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

(Thousands)	December 31, 2007	September 30, 2007
CAPITALIZATION		
Common stock equity	\$ 668,969	\$ 644,797
Long-term debt	359,165	383,184
Total capitalization	1,028,134	1,027,981
CURRENT LIABILITIES		
Current maturities of long-term debt	34,905	4,338
Short-term debt	289,026	256,479
Gas purchases payable	314,553	218,336
Accounts payable and other	55,341	64,386
Dividends payable	11,101	10,633
Deferred and accrued taxes	24,064	9,031
Regulatory liabilities	—	9,583
New Jersey clean energy program	10,945	8,832
Derivatives, at fair value	62,120	79,243
Broker margin account	1,917	15,143
Customers' credit balances and deposits	34,561	27,262
Total current liabilities	838,533	703,266
NONCURRENT LIABILITIES		
Deferred income taxes	216,553	216,258
Deferred investment tax credits	7,434	7,513
Deferred revenue	9,631	9,806
Derivatives, at fair value	40,474	38,085
Manufactured gas plant remediation	105,340	105,340
Postemployment benefit liability	27,170	25,743
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	8,179	7,596
Total noncurrent liabilities	501,088	499,498
Total capitalization and liabilities	\$ 2,367,755	\$ 2,230,745

See Notes to Condensed Unaudited Consolidated Financial Statements

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NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS

1. GENERAL

The condensed consolidated financial statements have been prepared without audit, as of December 31, 2007 and for three months ended December 31, 2007 and 2006, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2007 balance sheet data is derived from the audited financial statements of New Jersey Resources Corporation (NJR or the Company). These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2007 Annual Report on Form 10-K.

The condensed consolidated financial statements include the accounts of NJR and its subsidiaries, New Jersey Natural Gas (NJNG), NJR Energy Services (NJRES), NJR Retail Holdings (Retail Holdings), NJR Energy Investment (NJREI) and NJR Service Company (NJR Service). Intercompany transactions and accounts have been eliminated. Retail Holdings' two principal subsidiaries are NJR Home Services (NJRHS) and Commercial Realty & Resources (CR&R). NJREI's primary subsidiaries are NJR Energy and NJR Steckman Ridge Storage Company. NJR Energy invests primarily in energy-related ventures through its subsidiary, NJNR Pipeline (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois). NJR Steckman Ridge Storage Company holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that was acquired and is being developed with a partner in western Pennsylvania.

In the opinion of management, the information furnished reflects all adjustments necessary for a fair presentation of the results of the interim periods. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ending September 30, 2008.

Current Assets

Included in Other current assets is \$2.6 million of restricted cash related to NJNG natural gas purchases.

New Accounting Standards

Recently Adopted

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which alters the framework for recognizing income tax contingencies. Previously, under Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, the focus was on the subsequent liability recognition for estimated losses from tax contingencies where such losses were probable and the related amounts could be reasonably estimated. Under this new interpretation, a contingent tax asset (i.e., an uncertain tax position) may only be recognized if it is more likely than not that it will ultimately be sustained upon audit. The Company adopted FIN 48 on October 1, 2007. The Company has evaluated its tax positions for all jurisdictions and all years for which the statute of limitations remains open and in accordance with the provisions of FIN 48, recorded an additional liability for unrecognized tax benefits and interest of approximately \$4.3 million and

an increase in retained earnings as of October 1, 2007 of approximately \$1.2 million.. For additional information on the effect of adoption, see Note 11. Adoption of FIN 48.

Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value as the amount that would be exchanged to sell an asset or transfer a liability, in an orderly transaction between market participants, and establishes a fair value hierarchy of quotes and unobservable data that should be used to develop pricing assumptions. In addition, for assets and liabilities that are not actively traded, for example, certain kinds of derivatives, SFAS 157 requires that a fair value measurement include an adjustment for risks

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inherent in a valuation technique and/or inputs, such as those used in pricing models. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company will adopt the provisions of the statement prospectively and is evaluating the effect on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to elect to measure eligible items at fair value as an alternative to hedge accounting and to mitigate volatility in earnings. A company can either elect the fair value option according to a pre-existing policy, when the asset or liability is first recognized or when it enters into an eligible firm commitment. Changes in the fair value of assets and liabilities that the Company chooses to apply the fair value option to, are reported in earnings at each reporting date. SFAS 159 also provides guidance on disclosures that are intended to provide comparability to other companies' assets and liabilities that have different measurement attributes and to other companies with similar financial assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact on its statement of financial position and results of operations.

In June 2007, the FASB Emerging Issues Task Force (EITF) reached consensus on EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 applies to share-based payment arrangements that entitle employees to receive dividends or dividend equivalents and provides that the tax benefit related to dividends on certain share-based awards be recognized as an increase to additional paid-in capital and should be included in the pool of excess tax benefits available to absorb future tax deficiencies on share-based payment awards. EITF 06-11 will be applied prospectively to the income tax benefits of applicable dividends declared by the Company for fiscal years beginning after December 15, 2007. The Company is currently evaluating the effect of adoption on its statement of financial position and results of operations.

On December 4, 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 is an amendment of Accounting Research Bulletin (ARB) No. 51 and was issued to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and that a parent company must recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. The Company is currently evaluating the potential impact on its statement of financial position and results of operations.

On April 10, 2007, the FASB issued FASB Staff Position No. FIN 39-1 (FSP FIN 39-1), Amendment of FASB Interpretation No. 39. FSP FIN 39-1 provides additional guidance for parties that are subject to master netting arrangements. Specifically, for transactions that are executed with the same counterparty, it permits companies to offset the fair value amounts recognized for derivatives as well as the related fair value amounts of cash collateral receivables or payables, when certain conditions apply. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted. The Company's policy is to present its derivative positions and any receivables or payables with the same counterparty on a gross basis, therefore, NJR does not anticipate that FSP

FIN 39-1 will have an impact on its statement of financial position and results of operations.

Restatement

Subsequent to the issuance of December 31, 2006 interim financial statements, the Company determined that certain derivative financial instruments at NJRES and NJR Energy were incorrectly accounted for as cash flow hedges. As a result, NJR concluded that the change in fair value of these derivative instruments should be recorded as a component of Gas purchases, or Operating revenues, as appropriate, in the Condensed Consolidated Statements of Income and not in Other comprehensive income, which is a component of Common Stock Equity, where they had been previously reported in the Company's Quarterly Report on Form 10-Q as of and for the three-month period ended December 31, 2006.

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Accordingly, the following table sets forth the effects of the restatement on affected line items in the Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Cash Flows for the three-month period ended December 31, 2006. Also included in the adjustment column, and as separate line items in the tables below, are certain immaterial corrections that the Company made to Other income and Equity in earnings of equity investees, net of tax for first quarter of fiscal 2007.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Thousands)	As Previously Reported	Adjustment	As Restated
Operating revenue	\$ 741,465	\$ (4,064)	\$ 737,401
Gas purchases	\$ 628,685	\$ (6,750)	\$ 621,935
Total operating expenses	\$ 689,321	\$ (6,750)	\$ 682,571
Operating Income	\$ 52,144	\$ 2,686	\$ 54,830
Other income	\$ 1,989	\$ (693)	\$ 1,296
Income before income taxes and equity in earnings of affiliates	\$ 46,258	\$ 1,993	\$ 48,251
Income tax provision	\$ 18,134	\$ 1,100	\$ 19,234
Equity in earnings, net of tax	\$ —	\$ 417	\$ 417
Net Income	\$ 28,124	\$ 1,310	\$ 29,434
Basic earnings per share	\$ 1.01	\$ 0.05	\$ 1.06
Diluted earnings per share	\$ 1.01	\$ 0.04	\$ 1.05

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	As Previously Reported	Adjustment	As Restated
Net Income	\$ 28,124	\$ 1,310	\$ 29,434
Unrealized loss (gain) on derivative instruments, net of tax	\$ 120	\$ (2,189)	\$ (2,069)
Equity in earnings from investments, net of distributions	\$ —	\$ (417)	\$ (417)
Other noncurrent assets	\$ 1,218	\$ 417	\$ 1,635
Other noncurrent liabilities	\$ (9,703)	\$ 879	\$ (8,824)

2.

REGULATION

Filed Base Rate Case

As a result of increases in NJNG's operating, maintenance and capital costs, NJNG petitioned the New Jersey Board of Public Utilities (BPU), on November 20, 2007, to increase base rates for delivery service by approximately \$58.4 million, which includes a return on NJNG's equity component of 11.375 percent. This petition is consistent with NJNG's objectives of providing safe and reliable service to its customers and earning a market-based return on its regulated investments. Preliminary matters and timelines are being established among NJNG, the BPU and Division

of Rate Counsel (Rate Counsel) before the Office of the Administrative Law Judge. Based upon statutory time frames and potential regulatory lag, it is unlikely that any modification to NJNG's delivery rates would become effective during fiscal 2008.

Conservation Incentive Program (CIP)

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such utility gross margin variations (filed for annually and recovered one year following the end of the CIP usage year) is subject to additional conditions, including an earnings test and an evaluation of Basic Gas Supply Service (BGSS) related savings.

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In October 2007, the BPU provisionally approved the implementation of NJNG's initial CIP recovery rates, based upon program information NJNG included in an Amendment to its Petition for Annual Review, which was filed with the BPU in August 2007. The approved rates add 1.7 percent to the average residential heating customer's bill and are designed to recover approximately \$15.6 million of previously accrued amounts.

In conjunction with the CIP, NJNG incurs costs related to its obligation to fund programs that promote customer conservation efforts during the pilot program. As of December 31, 2007, NJNG had a remaining liability of \$1.2 million related to these programs.

Basic Gas Supply Service

BGSS is a BPU approved rate mechanism designed to allow for the recovery of natural gas commodity costs. NJNG periodically adjusts its rates to its residential and small commercial customers to reflect increases or decreases in the cost of natural gas sold to customers. The following are NJNG's BGSS filings and related rate adjustments or refunds during the first quarter of fiscal 2008:

- On October 3, 2007, the BPU provisionally approved a decrease to NJNG's BGSS rate effective October 4, 2007, which results in a 3.6 percent decrease to the average residential customer bill.
- On November 26, 2007, NJNG notified the BPU that it would provide refunds and subsequently issued a credit to customers of \$32 million in December 2007, as a result of the decrease in the anticipated costs of wholesale natural gas prices.

Other Incentive Programs

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include off-system sales, capacity release, storage incentive and financial risk management (FRM) programs. In October 2007, the BPU approved an extension of the utility gross margin-sharing programs mentioned above through October 31, 2008. Concurrently, the BPU reduced the sharing percentage of the margin generated by the FRM program that will be retained by NJNG from 20 percent to 15 percent effective November 1, 2007. The incentive programs are subject to revisions in NJNG's base rate case and remain in effect as currently established until it is resolved.

Societal Benefits Clause (SBC) and Weather Normalization Clause (WNC)

The SBC is comprised of three primary components: a Universal Service Fund rider (USF), a Manufactured Gas Plant Remediation Adjustment Clause (RAC), and the New Jersey Clean Energy Program (NJCEP).

In October 2007, the BPU approved the following adjustments to recovery rates associated with the SBC programs:

SBC

- \$14.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through June 30, 2006;
- an increase in the recovery of NJCEP funding requirements from \$6.3 million to \$13.0 million for fiscal year 2008 due to the gradual increase in NJNG's obligation to the State of New Jersey and a prior underrecovery, (NJNG's liability as of December 31, 2007 was \$11 million); and,
- a decrease to the statewide USF recovery rate, which will have a negligible impact on customer rates.

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In addition, the BPU approved an increase of \$8.1 million, or 0.9 percent to the WNC rate, to recover the net amounts deferred relating to weather related margin variations during the 2004-2005 and 2005-2006 winter periods.

Regulatory Assets & Liabilities

The Company had the following regulatory assets, all related to NJNG, on the Condensed Consolidated Balance Sheets:

(Thousands)	December 31, 2007	September 30, 2007	Recovery Period
Regulatory assets—current			
Underrecovered gas costs	\$ 9,300	—	Less than one year (1)
WNC	5,860	8,105	Less than one year (2)
CIP	14,085	16,529	Less than one year (3)
Total current	\$ 29,245	\$ 24,634	
Regulatory assets—noncurrent			
Remediation costs (Note 12)			
Expended, net	\$ 85,533	\$ 85,071	(4)
Liability for future expenditures	105,340	105,340	(5)
CIP	4,191	—	(6)
Deferred income and other taxes	13,815	13,979	Various(7)
Derivatives (Note 3)	45,354	51,861	(8)
Postemployment benefit costs (Note 9)	33,614	33,988	(9)
SBC	17,985	22,130	Various (10)
Total noncurrent	\$305,832	\$312,369	

- (1) Recoverable, subject to BPU approval, through BGSS, without interest.
- (2) Recoverable as a result of BPU approval in October 2007, without interest. This balance reflects the net results for the winter periods of 2004-2005 and 2005-2006. No new WNC activity is being recorded due to the existence of the CIP. All previously deferred amounts related to the WNC have been approved for recovery.
- (3) Recoverable or refundable, subject to BPU annual approval, without interest. Balance includes approximately \$7.0 million relating to the weather component of the calculation and approximately \$7.1 million relating to the customer usage component of the calculation. Recovery from customers is designed to be one year from date of rate approval by the BPU.
- (4) Recoverable, subject to BPU approval, with interest over rolling 7-year periods.
- (5) Estimated future expenditures. Recovery will be requested when actual expenditures are incurred.

- (6) Recoverable or refundable, subject to BPU annual approval, without interest. Balance includes approximately \$1.8 million relating to the weather component of the calculation and approximately \$2.4 million relating to the customer usage component of the calculation.
- (7) Recoverable without interest, subject to BPU approval.
- (8) Recoverable, subject to BPU approval, through BGSS, without interest.
- (9) Recoverable or refundable, subject to BPU approval, without interest. Includes unrecognized service costs recorded in accordance with SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postemployment Plans that NJNG has determined are recoverable in rates charged to customers (see Note 9. Employee Benefit Plans).
- (10) Recoverable with interest, subject to BPU approval.

If there are any changes in regulatory positions that indicate the recovery of regulatory assets is not probable, the related cost would be charged to income in the period of such determination.

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The Company had the following regulatory liabilities, all related to NJNG, on the Condensed Consolidated Balance Sheets:

(Thousands)	December 31, 2007	September 30, 2007
Regulatory liability—current		
Overrecovered gas costs	—	\$ 9,583
Total current	—	\$ 9,583
Regulatory liabilities—noncurrent		
Cost of removal obligation (1)	\$61,012	\$60,094
Market development fund (MDF) (2)	—	1,176
Total-noncurrent	\$61,012	\$61,270

(1) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately \$19.9 million, including accretion of \$350,000 for the three-month period ended December 31, 2007, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of December 31, 2007 (see Note 10. Asset Retirement Obligations).

(2) The MDF provided financial incentives to encourage customers to switch to third party suppliers and has supported other unbundling related initiatives. The MDF funding obligations terminated as of October 31, 2006 and the remaining balance was credited back to customers through the BGSS in October 2007.

3. DERIVATIVE INSTRUMENTS

The Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To manage the risk of such fluctuations, the Company and its subsidiaries enter into futures contracts, option agreements and swap agreements to economically hedge future purchases and sales of natural gas.

On October 1, 2007, the Company changed the treatment of its physical commodity contracts at NJRES, such that all contracts entered into after September 30, 2007 are now recognized as derivative instruments, and are not accounted for using the “normal purchase normal sales” scope exception of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended and interpreted, SFAS 133). All NJRES physical commodity contracts entered into after September 30, 2007, are accounted for at fair value on the Condensed Consolidated Balance Sheets, with changes in fair value being reflected as a component of Operating revenues on the Condensed Consolidated Statements of Income. All physical commodity contracts at NJRES that were in existence prior to October 1, 2007, which were previously designated as meeting the normal purchase normal sales scope exception of SFAS 133, as well as physical commodity contracts at NJNG and NJR Energy, which also meet the normal purchase normal sale scope exception, continue to be accounted for under accrual accounting.

All of the Company's financial instruments (financial futures, options or swaps), are accounted for as derivatives in accordance with SFAS 133 and recorded at fair value in the Condensed Consolidated Balance Sheets. Changes in fair value are recorded as a component of Gas purchases or Operating revenues, for NJRES and NJR Energy, respectively, in the Condensed Consolidated Statements of Income as unrealized gains or losses. Changes in fair value of NJNG's financial derivative instruments are recorded as a component of Regulatory assets or liabilities in the Condensed Consolidated Balance Sheets, as these amounts will be recovered through future BGSS amounts as an increase or reduction to the cost of natural gas in NJNG's tariff.

When certain financial derivative instruments at NJRES settle prior to the actual sale of the natural gas inventory purchases that they were designed to economically hedge, NJRES records realized gains or losses as a component of Gas purchases in the Condensed Consolidated Statements of Income.

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Unrealized gains (losses) and realized gains (losses) at NJRES related to financial derivative instruments that are included as a component of Gas purchases, and unrealized gains (losses) at NJR Energy related to financial derivative instruments and unrealized gains (losses) at NJRES related to physical commodity contracts that are included as a component of Operating revenues, for the three months ended December 31, 2007 and 2006 are as follows:

(Thousands)	December 31,	
	2007	2006
NJRES:		
Unrealized gains – Physical Commodity Contracts	\$ 2,044	—
Unrealized (losses) gains – Financial Instruments	(6,966)	8,039
Realized (losses) – Financial Instruments	(5,163)	(1,289)
Subtotal NJRES	\$(10,085)	\$ 6,750
NJR Energy		
Unrealized gains (losses) – Financial Instruments	(305)	(4,064)
Total NJRES and NJR Energy unrealized and realized (losses) gains	\$(10,390)	\$ 2,686

Generally, exchange-traded futures contracts require a deposit of margin cash, the amount of which is subject to change based on market price movements and in accordance with exchange rules. The Company maintains broker margin accounts for NJNG and NJRES. The balances are as follows:

(Thousands)	December 31,	September 30,
	2007	2007
NJNG broker margin deposit	\$ 39	\$ 12,345
NJNG broker margin (liability)	\$(1,917)	—
NJRES broker margin deposit (liability)	\$ 8,551	\$(15,143)

4. INVESTMENTS IN EQUITY INVESTEEES

NJR's Investments in equity investees include the following investments:

(Thousands)	December 31,	September 30,
	2007	2007
Steckman Ridge	\$60,881	\$56,726
Iroquois	20,844	22,073
Other	8,177	7,944
Total	\$89,902	\$86,743

NJR uses the equity method of accounting for its investments in Steckman Ridge and Iroquois.

Other investments represent investments in equity securities of publicly traded energy companies, all of which are immaterial on an individual basis, and are accounted for as available for sale securities, with any change in the value of such investments recorded as Accumulated other comprehensive income, a component of Common stock equity.

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The following is summarized financial information for Iroquois, as of and for the three-month periods as indicated below:

(Thousands)	December 31,	
	2007	2006
Operating revenues	\$ 38,754	\$ 39,519
Operating income	\$ 19,298	\$ 20,021
Net income	\$ 7,582	\$ 7,473

(Millions)	December	September 30,
	31, 2007	2007
Total assets	\$791.0	\$814.3

5. EARNINGS PER SHARE

The following table presents the calculation of the Company's basic and diluted earnings per share:

(Thousands, except per share amounts)	Three Months Ended December 31,	
	2007	2006
Net Income, as reported	\$30,185	\$29,434
Basic earnings per share		
Weighted average shares of common stock outstanding—basic	27,785	27,713
Basic earnings per common share	\$1.09	\$1.06
Diluted earnings per share		
Weighted average shares of common stock outstanding—basic	27,785	27,713
Incremental shares (1)	167	191
Weighted average shares of common stock outstanding—diluted	27,952	27,904
Diluted earnings per common share	\$1.08	\$1.05

(1) Incremental shares consist of stock options, stock awards and performance units.

On January 23, 2008 the Company announced a three for two stock split payable on March 3, 2008 with fractional shares paid in cash. The amounts above do not include the effect of this proposed stock split. The following table shows the impact of the planned stock split on the number of shares outstanding and calculated basic and diluted earnings per share as if it occurred at the beginning of the earliest period presented:

(Thousands, except per share amounts)	Pro- Forma Three Months Ended December 31,	
	2007	2006
Net Income	\$30,185	\$29,434
Basic earnings per share		
Weighted average shares of common stock outstanding—basic	41,678	41,570

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Basic earnings per common share	\$0.72	\$0.71
Diluted earnings per share		
Weighted average shares of common stock outstanding—basic	41,678	41,570
Incremental shares	250	287
Weighted average shares of common stock outstanding—diluted	41,928	41,857
Diluted earnings per common share	\$0.72	\$0.70

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New Jersey Resources Corporation
Part I

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL
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6. DEBT

NJR

On December 13, 2007, NJR refinanced its prior senior credit facility for a new \$325 million, five-year, revolving, unsecured credit facility. The new credit facility permits the borrowing of amounts under a revolving basis, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$5 million increments up to a maximum \$100 million. The new credit facility refinances an earlier credit facility that provided for \$325 million in revolving credit that was scheduled to expire on December 16, 2007. The Company used the initial borrowings under the new credit facility to refinance its prior credit facility and pay all related fees and expenses. Depending on borrowing levels and credit ratings, NJR's interest rate can either be, at its discretion, the London inter-bank offered rate ("LIBOR") or the Federal Funds Open Rate plus an applicable spread and facility fee. As of December 31, 2007, NJR's effective rate was 5.18% on outstanding borrowings of \$92.6 million under this credit facility.

As of December 31, 2007, NJR had four letters of credit outstanding, totaling \$17.5 million, on behalf of NJRES. Two letters of credit, totaling \$4.5 million, are used in conjunction with a long-term natural gas storage agreement and expire on December 31, 2008. The other two letters of credit, totaling \$13 million, are used for margin and collateral requirements for natural gas transactions and expire on March 31, 2008.

NJR also has a \$675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 31, 2008. The letter of credit is in place to support development activities.

These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties and they will be renewed as necessary.

NJNG

In August 2007, the BPU approved NJNG's petition requesting authorization to issue and sell, in one or more series, an aggregate of \$125 million in medium-term notes through July 31, 2010. The notes may be issued on a secured or unsecured basis and maturities can range from one to forty years. The proceeds from the issuance of the notes will be used to refinance short-term debt, which has been incurred to fund capital expenditure requirements and pension and other post-employment benefit programs. NJNG is currently seeking approval to revise the market yield spread conditions of the BPU's prior approval to reflect current credit market conditions. Provided that such approval is granted by the BPU, the notes are anticipated to be issued during the second quarter of fiscal 2008.

NJNG received \$7.5 million and \$5.5 million in December 2007 and 2006, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to be continued on an annual basis.

At December 31, 2007, NJNG had a stand alone letter of credit in the amount of \$3 million, which will expire on December 31, 2008. This letter of credit does not reduce the amount available to be borrowed under NJNG's credit

facility. NJNG does not anticipate that this letter of credit will be drawn upon by the counterparty, and it will be renewed as necessary, upon its expiration.

Neither NJNG nor the results of its operations are obligated or pledged to support the NJR or NJRES credit facilities.

NJRES

As of December 31, 2007 NJRES had a 3-year \$30 million committed credit facility that expires in October 2009 with a multinational financial institution. There were no borrowings under this facility as of December 31, 2007.

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Consolidated

There were no issuances or redemptions of long-term debt securities for NJR, NJNG or NJRES during the three months ended December 31, 2007

A summary of NJR's and NJNG's long-term debt, committed credit facilities which require commitment fees on the unused amounts, and NJRES' committed facility that does not require a fee, are as follows:

(Thousands)	December 31, 2007	September 30, 2007
NJR		
Long - term debt (1)	\$75,000	\$75,000
Bank credit facilities	\$325,000	\$325,000
Amount outstanding at end of period	\$92,600	\$40,250
Weighted average interest rate at end of period	5.18%	6.17%
NJNG (2)		
Long - term debt (1)	\$254,800	\$254,800
Bank credit facilities	\$250,000	\$250,000
Amount outstanding at end of period	\$190,100	\$175,700
Weighted average interest rate at end of period	4.48%	5.19%
NJRES		
Bank credit facilities	\$30,000	\$30,000
Amount outstanding at end of period	—	\$30,000
Weighted average interest rate at end of period	—	5.78%

(1) Long-term debt excludes lease obligations of \$59.3 million and \$53.3 million at December 31, 2007 and September 30, 2007, respectively.

(2) The table includes only committed credit facilities for short-term borrowings. Also included in short-term debt on the Condensed Consolidated balance sheet as of December 31, 2007 and September 30, 2007, are \$6.3 and \$10.5 million, respectively, related to an uncommitted credit facility.

7. CAPITALIZED FINANCING COSTS AND DEFERRED INTEREST

Allowance for Funds Used During Construction, (AFUDC) included in Utility plant, and capitalized interest included in Real estate properties and other and Investments in equity investees on the Condensed Consolidated Balance Sheets, are as follows:

(\$ in thousands)	Three Months Ended December 31,	
	2007	2006
AFUDC – Utility plant	\$535	\$379
Weighted average rate	8.31%	5.36%

Capitalized interest – Real estate properties and other	\$36	\$ 43
Weighted average interest rates	5.08%	5.55%
Capitalized interest – Investments in equity investees	\$855	—
Weighted average interest rates	5.98%	—

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Commencing on October 1, 2007, NJNG is including a capitalized cost of equity, at its currently allowed return on equity rate of 11.5 percent, for its utility plant construction as a component of AFUDC. Amounts shown in the table above for the three months ended December 31, 2006 represent an interest cost component only.

NJR, through its CR&R subsidiary, capitalizes interest associated with the development and construction of its commercial buildings. Interest is also capitalized associated with the acquisition, development and construction of a natural gas storage facility through NJR's equity investment in Steckman Ridge (see Note 4. Investments in Equity Investees).

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RAC and USF expenditures. Accordingly, Other income included \$738,000 and \$887,000 of deferred interest related to these SBC program costs for period ended December 31, 2007 and 2006, respectively.

8. STOCK-BASED COMPENSATION

On November 14, 2007, the Company granted 41,320 performance units, which are market condition awards and vest in September 2010, and 41,320 shares of restricted stock, which vest in equal installments over three years, subject to certain conditions. On the same date, the Company also granted 23,590 restricted shares that vest immediately. During the first quarter of fiscal 2008, 11,237 shares were issued pursuant to performance units granted in fiscal 2005 that were earned as of September 30, 2007.

During the first three months of fiscal 2008, included in operation and maintenance expense is \$483,000 related to stock based compensation. There is approximately \$5.0 million of deferred compensation expense related to unvested shares, options and performance units that are expected to be recognized over the next 3 years.

9. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

The components of the net periodic cost for pension benefits, including NJR's Pension Equalization Plan, and OPEB costs (principally health care and life insurance) for employees and covered dependents were as follows:

(Thousands)	Pension		OPEB	
	Three Months Ended		Three Months Ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Service cost	\$ 728	\$ 733	\$ 488	\$ 454
Interest cost	1,648	1,554	821	757
Expected return on plan assets	(2,183)	(2,052)	(583)	(541)
Recognized actuarial loss	275	399	262	266

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Prior service cost amortization	14	21	20	20
Transition obligation amortization	—	—	89	89
Net periodic cost	\$ 482	\$ 655	\$1,097	\$1,045

In fiscal 2008, the Company has no minimum pension funding requirements. The Company's funding to its OPEB plans is expected to be approximately \$1.5 million in fiscal 2008 and \$1.1 million annually, over the next four years. Additional contributions may be made based on market conditions and various assumptions.

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10. ASSET RETIREMENT OBLIGATIONS (ARO)

NJR recognizes AROs related to the costs associated with cutting and capping its main and service gas distribution pipelines of NJNG, which is required by New Jersey law when taking such gas distribution pipeline out of service.

The following is an analysis of the change in the ARO liability for the period ended December 31, 2007, in thousands:

Balance at October 1, 2007	\$23,895
Accretion	350
Additions	—
Retirements	(177)
Balance at December 31, 2007	\$24,068

Accretion amounts are not reflected as an expense on NJR's Condensed Consolidated Statements of Income, but rather are deferred as a regulatory asset and netted against NJNG's regulatory liabilities, for presentation purposes, on the Condensed Consolidated Balance Sheet.

11. ADOPTION OF FIN 48

During 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 (FIN 48), which is effective for the Company in fiscal 2008. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS 109) and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it does not have a greater than 50 percent likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, declassification and interest and penalties, among other items.

The Company adopted the provisions of FIN 48 on October 1, 2007. The total amount of FIN 48 liabilities as of the date of adoption was \$6.5 million, including \$4.7 million of uncertain tax liabilities and \$1.8 million of interest and penalties. As a result of the implementation of FIN 48, the Company recognized an additional \$4.3 million as an increase in the liability for unrecognized tax benefits and interest. The previously recorded amount of \$2.2 million, as well as the additional amount recognized associated with the adoption of FIN 48, are included as a component of Deferred and accrued taxes in the Current classification of the Condensed Consolidated Balance Sheets. The following table represents the increase in liability with respect to the adoption of FIN 48:

(\$ in millions)	As of October 1, 2007
Increase in Retained Earnings (cumulative effect)	\$ 1.2

Decrease in Deferred income taxes	\$	(4.3)
Increase in Deferred and accrued taxes (FIN 48 liability)	\$	4.3

There are \$1.7 million of state taxes included in the balance of unrecognized tax benefits as of October 1, 2007. If they were to be recognized, it would affect the effective tax rate, as this amount had previously been fully reserved for, and was fully reflected as a component of current Deferred and accrued taxes in the Condensed Consolidated Balance Sheets.

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There is \$3.1 million included in the balance of unrecognized tax benefits as of October 1, 2007 that relates to a filing position the Company took concerning the depreciable life of certain of its fixed assets at NJNG. The Company filed an automatic change in method of accounting which is currently under audit with the Internal Revenue Service (IRS). The Company anticipates closing the audit and settling this issue within the next 12 months. The settlement of this issue would reduce the FIN 48 reserve by approximately \$3.6 million, which includes associated interest.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as additional tax expense. Upon adoption of FIN 48 on October 1, 2007 the Company had \$1.8 million of accrued interest and penalties related to the above liability computed under FIN 48, which had previously been expensed in the Condensed Consolidated Statements of Income.

The Company and one or more of its subsidiaries files income tax returns in the United States Federal jurisdiction and in the states of New Jersey, New York and Connecticut. The Company neither files in, nor believes it has a filing requirement in, any foreign jurisdictions.

The Company is no longer subject to United States federal income tax examinations for years prior to fiscal 2004. The IRS commenced an examination of the Company's fiscal 2005 federal income tax return during the third quarter of fiscal 2007. The exam is expected to be completed by the end of fiscal 2008.

The Company is not currently under examination in any state but the periods ended September 30, 2003 forward are all statutorily open to examination. In New Jersey, NJNG currently has an open Tax Court case for the periods September 30, 1998 through September 30, 2002, which relates to New Jersey tax apportionment rules. The Company expects a final tax court ruling related to this case during fiscal 2008, and the unrecognized benefit of the \$1.7 million of state taxes that is included as part of the entire initial adoption of FIN 48, as described above.

An unfavorable ruling would result in a tax, interest and penalty expense of approximately \$2.9 million. This liability has previously been reserved for, and the tax and interest would be deductible for federal income tax purposes.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through 2022, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately \$85.7 million at current contract rates and volumes, which are recoverable through the BGSS.

For the purpose of securing adequate storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES, in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally range from one to five years. Demand charges are based on established rates as regulated by the Federal Energy Regulatory Commission (FERC). These demand charges represent commitments to pay storage providers or pipeline companies for the right to store

and transport natural gas utilizing their respective assets. As of December 31, 2007, NJRES had contractual obligations for demand charges related to storage contracts and pipeline capacity contracts of \$32.1 million and \$59.9 million, respectively.

As of December 31, 2007, there were NJR guarantees covering approximately \$352 million of natural gas purchases and demand fee commitments of NJRES and NJNG not yet reflected in Accounts payable on the Condensed Consolidated Balance Sheet.

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Costs for storage and pipeline demand fees, included as a component of Gas purchases on the Condensed Consolidated Statements of Income, are as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
NJRES	\$27.6	\$36.8
NJNG	18.7	19.3
Total	\$46.3	\$56.1

NJNG's capital expenditures are estimated at \$78.6 million for fiscal 2008, of which approximately \$16.4 million has been committed, and consists primarily of its construction program to support customer growth, maintenance of its distribution system and replacement needed under pipeline safety regulations.

The Company's future minimum lease payments under various operating leases are less than \$3.0 million annually for the next five years and \$2.2 million in the aggregate for all years thereafter.

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of three Manufactured Gas Plant (MGP) sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the New Jersey Department of Environmental Protection (NJDEP) with respect to two of the sites, as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to a remediation adjustment clause (RAC) approved by the BPU. In October 2007, the BPU approved \$14.7 million in eligible costs to be recovered annually for MGP remediation expenditures incurred through September 30, 2006. As of December 31, 2007, \$85.5 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in Regulatory assets on the Condensed Consolidated Balance Sheet.

In September 2007, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the three MGP sites for which it is responsible will range from approximately \$105.3 million to \$164.8 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, NJNG expects actual costs to differ from these estimates. Where it is probable that costs will be incurred, but the information is sufficient only to establish a range of

possible liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding Regulatory asset of \$105.3 million on the Condensed Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG is presently investigating the potential settlement of alleged Natural Resource Damage claims that might be brought by the NJDEP concerning the three MGP sites. NJDEP has not made any specific demands for compensation for alleged injury to groundwater or other natural resources. NJNG's evaluation of these potential

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claims is in the early stages, and it is not yet possible to quantify the amount of compensation, if any, that NJDEP might seek to recover. NJNG anticipates any costs associated with this matter would be recoverable through the RAC.

NJNG will continue to seek recovery of MGP-related costs through the RAC. If any future regulatory position indicates that the recovery of such costs is not probable, the related cost would be charged to income in the period of such determination. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery through the RAC or the impact on the Company's results of operations, financial position or cash flows, which could be material.

General

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, other than as disclosed above, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

13. BUSINESS SEGMENT DATA

Information related to the Company's various business segments, which are presented in the Condensed Consolidated Statements of Cash Flows, is detailed below.

The Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations. The Energy Services segment consists of unregulated wholesale energy operations. The Retail and Other segment consists of appliance and installation services, commercial real estate development, investments and other corporate activities.

(Thousands)	Three Months Ended December 31,	
	2007	2006
Operating Revenues		
Natural Gas Distribution	\$ 284,360	\$ 239,407
Energy Services	520,211	495,787
Retail and Other	6,631	2,276
Subtotal	811,202	737,470
Intersegment Revenues (1)	(64)	(69)
Total	\$ 811,138	\$ 737,401
Depreciation and Amortization		
Natural Gas Distribution	\$ 9,233	\$ 8,738
Energy Services	53	54
Retail and Other	117	110
Total	\$ 9,403	\$ 8,902
Operating Income		
Natural Gas Distribution	\$ 31,602	\$ 36,716

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Energy Services	22,563	21,596
Retail and Other	372	(3,482)
Total	\$ 54,537	\$ 54,830
Net Income		
Natural Gas Distribution	\$ 16,670	\$ 19,908
Energy Services	13,150	11,524
Retail and Other	365	(1,998)
Total	\$ 30,185	\$ 29,434

(1) Consists of transactions between subsidiaries that are eliminated in consolidation.

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14. OTHER

At December 31, 2007, there were 27,815,759 shares of common stock outstanding and the book value per share was \$24.01.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Management's Overview

New Jersey Resources Corporation (NJR or the Company) is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in states from the Gulf Coast and Mid-Continent regions to the New England region and Canada through its two principal subsidiaries, New Jersey Natural Gas (NJNG) and NJR Energy Services (NJRES).

Comprising the Natural Gas Distribution segment, NJNG is a natural gas utility that provides regulated retail natural gas service in central and northern New Jersey and also participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU).

NJRES maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts. In addition, NJRES provides wholesale energy services to non-affiliated utility and energy companies. NJRES comprises the Energy Services segment.

The Retail and Other segment includes NJR Home Services (NJRHS), which provides service, sales and installation of appliances; NJR Energy (NJRE), an investor in energy-related ventures, most significantly through NJNR Pipeline, which holds the Company's 5.53 percent interest in Iroquois Gas and Transmission System, LP (Iroquois), a 412-mile natural gas pipeline from the New York-Canadian border to Long Island, New York, and NJR Steckman Ridge Storage Company, which has a 50 percent equity ownership interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a planned 17.7 billion cubic foot (Bcf) natural gas storage facility, with up to 12 Bcf working capacity, that is being jointly developed and constructed with a partner in western Pennsylvania; NJR Investment, which makes energy-related equity investments; Commercial Realty and Resources (CR&R), which holds and develops commercial real estate; and NJR Service Company, which provides support services to the various NJR businesses

NJR has restated the financial statements for the period ended December 31, 2006 related to a change in accounting for certain derivative financial instruments. Refer to Note 1. General, herein.

Net income by business segment is as follows:

Three Months Ended

(\$ in thousands)	December 31,			
	2007		2006	
Net Income				
Natural Gas Distribution	\$16,670	55%	\$19,908	68%
Energy Services	13,150	44	11,524	39
Retail and Other	365	1	(1,998)	(7)
Total	\$30,185	100%	\$29,434	100%

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

NJRES and NJR Energy account for certain of its derivative instruments (financial futures, swaps and options) used to economically hedge the forecasted purchase, sale and transportation of natural gas at fair value, as required under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended and interpreted, SFAS 133). In addition, effective October 1, 2007, NJRES is no longer electing the "normal purchase normal sale" (NPNS) scope exception of SFAS 133 for contracts that result in the physical purchase or sale of natural gas at NJRES. As such, any new contracts to purchase or sell the natural gas commodity are accounted for as derivatives, at fair value, at NJRES.

The change in fair value of these derivative instruments at NJRES and NJR Energy over periods of time, referred to as unrealized gains or losses, can result in substantial volatility in reported net income under generally accepted accounting principles of the United States of America (GAAP). When a financial instrument settles the result is the realization of these gains or losses. NJRES utilizes certain financial instruments to economically hedge inventory placed into storage that will be sold at a later date, all of which were contemplated as part of an entire forecasted transaction. GAAP requires that when a financial instrument that is economically hedging natural gas that has been placed into inventory, but not yet sold, has been settled, the realized gain or loss associated with that settlement must be reflected currently in the income statement. While NJRES will recognize the same economic impact from the entire planned transaction, this also leads to additional volatility in NJRES' earnings.

Unrealized losses and gains at NJRES and NJR Energy are the result of changes in the fair value of natural gas futures and basis swaps, as applicable, used to economically hedge future natural gas sales, purchases and transportation. Additionally NJRES records unrealized gains and losses on physical natural gas commodity contracts entered into after September 30, 2007. Realized gains and losses at NJRES are the result of the settlement of natural gas futures instruments used to economically hedge natural gas purchases in inventory that have not been sold.

Included in Net income in the table above are unrealized (losses) and gains in the Energy Services segment of \$(2.9) million and \$4.5 million, after taxes, for the three-month period ended December 31, 2007 and 2006, respectively. Also included in Net income in the table above are realized (losses) of \$(3.0) million and \$(759,000), after taxes, for the three-month period ended December 31, 2007 and 2006, respectively, related to derivative instruments that have settled that are designed to economically hedge natural gas that is still in storage inventory.

Included in Net income above are unrealized (losses) in the Retail and Other segment of \$(180,000) and \$(2.4) million, after taxes, for the period ended December 31, 2007 and 2006, respectively.

Natural Gas Distribution Segment

Natural Gas Distribution operations have been managed with the goal of growing profitably through several key initiatives including:

- Assessing the market and timing with respect to filing for a base rate increase, which takes into account many factors, including, but not limited to, earning a reasonable rate of return on the investments that have been constructed in the gas distribution system,

as well as recovery of all prudently incurred costs in order to provide reliable service throughout NJNG's service territory.

Based upon increases in NJNG's operating, maintenance and capital costs, NJNG petitioned the BPU, on November 20, 2007, to increase base rates for its natural gas delivery service by approximately \$58.4 million, including a return on NJNG's equity component of 11.375 percent. This base rate case filing is consistent with NJNG's objectives of providing safe and reliable service to its customers and earning a market-based return. Based upon statutory time frames and potential regulatory lag, it is unlikely that any modification to its delivery rates would become effective during fiscal 2008;

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
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- Working with the BPU and New Jersey Department of the Public Advocate, Rate Counsel, for the development of the decoupling of the impact of customer usage on utility gross margin, which has allowed for the implementation of the Conservation Incentive Program (CIP). The CIP allows NJNG to promote conservation programs to its customers while maintaining protection of its utility gross margin associated with reduced customer usage. CIP usage differences are calculated annually and are recovered one year following the end of the CIP usage year;
- Managing its customer growth, which is expected to range from 1.6 to 1.8 percent annually;
- Generating earnings from various BPU-authorized gross margin-sharing incentive programs; and
- Managing the volatility of wholesale natural gas prices through a hedging program designed to keep customers' prices as stable as possible.

In conducting NJNG's business, management focuses on factors it believes may have significant influence on its future financial results. NJNG's policy is to work with all stakeholders, including customers, regulators and policymakers, to achieve favorable results. These factors include the rate of NJNG's customer growth in its service territory, which can be influenced by general economic conditions as well as political and regulatory policies that may impact the new housing market. A portion of NJNG's customer growth comes from the conversion market, which is influenced by the delivered cost of natural gas compared with competing fuels, interest rates and other economic conditions.

The CIP pilot program was implemented effective October 1, 2006 to allow NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such margin variations is subject to additional conditions including an earnings test, which includes a return on equity component of 10.5 percent, and an evaluation of Basic Gas Supply Service (BGSS)-related savings achieved. An annual review of the CIP must be filed in June of each year, coincident with NJNG's annual BGSS filing. In October 2007, the BPU provisionally approved NJNG's initial CIP recovery rates, which are designed to recover approximately \$15.6 million of accrued margin amounts.

In conjunction with the CIP, NJNG is required to administer programs that promote customer conservation efforts. As of December 31, 2007 and September 30, 2007, the obligation to fund these conservation programs was recorded at its present value of \$1.2 million and \$1.4 million, respectively on the Condensed Consolidated Balance Sheets.

Prior to fiscal 2007, the impact of weather was mitigated by a Weather Normalization Clause (WNC), which was suspended with the commencement of the CIP. In October 2007, the BPU approved the full recovery of \$8.1 million of previously deferred amounts related to the WNC.

Energy Services Segment

NJRES provides unregulated wholesale energy services, including base load natural gas, peaking and balancing services, utilizing physical assets it controls through natural gas pipeline transportation and storage contracts, as well as providing asset management services to customers in states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions and Canada.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

NJRES incorporates the following elements to provide for growth, while focusing on maintaining a low-risk operating and counterparty credit profile:

- Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;
- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio;
- Identifying and benefiting from variations in pricing of natural gas transportation and storage assets due to location or timing differences of natural gas prices to generate gross margin; and
- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

NJRES views "financial margin" as its key financial measurement metric. NJRES' financial margin represents revenues earned from the sale of natural gas less costs of natural gas sold, transportation and storage, and excludes any accounting impact from the change in fair value of derivative instruments designed to hedge the economic impact of its transactions that have not been settled, which represent unrealized gains and losses, and realized gains and losses associated with financial instruments economically hedging natural gas in storage and not yet sold.

NJRES has built a portfolio of customers including local distribution companies, industrial companies, electric generators and retail aggregators. Sales to these customers have allowed NJRES to leverage its transportation and storage capacity and manage sales to these customers in an aggregate fashion. This strategy allows NJRES to extract more value from its portfolio of natural gas storage and pipeline transportation capacity through the arbitrage of pricing differences as a result of locational differences or over different periods of time.

NJRES also focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in states in the Northeast, Gulf Coast, Mid-continent and Appalachian regions and eastern Canada. These assets become more valuable when prices change between these areas and across time periods. NJRES seeks to optimize this process on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation and opportunities to which it has access, to find the most profitable alternative to serve its various commitments. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change as a result of market conditions. NJRES focuses on earning a financial margin on a single original transaction and then utilizing that transaction, and the changes in prices across the regions or across

time periods, as the basis to further improve the initial result.

In a similar manner, NJRES participates in natural gas storage transactions where it seeks to identify pricing differences that occur over time, as prices for future delivery periods at many different delivery points, are readily available. For example, NJRES generates financial margin by locking in the differential between purchasing natural gas at a low current or future price and, in a related transaction, selling that natural gas at a higher current or future price, all within the constraints of its credit and contracts policies. Through the use of transportation and storage services, NJRES is able to generate financial margin through pricing differences that occur over the duration of time the assets are held.

NJRES' portfolio management customers include nonaffiliated utilities and electric generation plants. Services provided by NJRES include optimization of underutilized natural gas assets and basic gas supply functions.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

NJRES also participates in park-and-loan transactions with pipeline counterparties, where NJRES will borrow natural gas when there is an opportunity to capture arbitrage value. In these cases, NJRES evaluates the economics of the transaction to determine if it can capture pricing differentials in the marketplace in order to be able to generate financial margin. In evaluating these transactions NJRES will compare the fixed fee it will pay and the resulting spread it can generate when considering the amount it will receive to sell the borrowed gas to another counterparty in relation to the cost it will incur to purchase the gas at a later date for return back to the pipeline. When the transaction allows NJRES to generate a financial margin, NJRES will fix the financial margin by economically hedging the transaction with natural gas futures.

In conducting its business, NJRES mitigates risk by following formal risk management guidelines, including trading limits, approval processes, segregation of duties, and formal contract and credit review and approval procedures. NJRES continuously monitors and seeks to reduce the risk associated with various counterparties credit exposure. The Risk Management Committee (RMC) of NJR, oversees compliance with these established guidelines.

Retail and Other Segment

In the Retail and Other segment, NJR utilizes a subsidiary, NJR Energy Holdings, to develop its investments in natural gas "mid-stream" assets. Mid-stream assets represent natural gas transportation and storage facilities. NJR believes that acquiring, owning and developing these mid-stream assets, which generally have a regulated rate or tariff structure, can provide a significant growth opportunity for the Company. To that end, NJR has acquired an interest in Iroquois and Steckman Ridge, which is currently under development, and is actively pursuing other potential opportunities that meet its investment and development criteria. Other businesses in the Retail and Other segment include NJRHS, which provides service, sales and installation of appliances to over 149,000 customers, and is focused on growing its installation business and expanding its service contract customer base, and CR&R, which seeks additional opportunities to enhance the value of its undeveloped land.

The financial results of Retail and Other consist primarily of the operating results of NJRHS and equity in earnings attributable to the Company's equity investment in Iroquois as well as to investments made by NJR Energy, an investor in other energy-related ventures through its operating subsidiaries.

As of December 31, 2007, excluding capitalized interest and other direct costs, NJR has invested \$58 million in the Steckman Ridge natural gas storage facility. Project costs related to the development of the storage facility are expected to be approximately \$250 million of which NJR is responsible for 50 percent, or \$125 million. NJR anticipates that Steckman Ridge will be able to secure non-recourse financing for a portion of the construction and development of its facilities, thereby potentially reducing the expected funding obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

Critical Accounting Policies

A summary of NJR's critical accounting policies is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of its Annual Report on Form 10-K for the period ended September 30, 2007. NJR's critical accounting policies have not changed materially from those reported in the 2007 Annual Report

on Form 10-K with the exception of the following:

Derivative Instruments

Derivative activities are recorded in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), under which NJR records the fair value of derivatives held as assets and liabilities. NJR's unregulated subsidiaries record changes in the fair value of its derivative instruments in Gas purchases or Operating revenues, as appropriate, on the Condensed Consolidated Statements of Income.

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In providing its unregulated wholesale energy services, NJRES also enters into physical contracts to buy and sell natural gas. For contracts entered into prior to October 1, 2007, NJRES elected to use the "normal purchase normal sale" scope exception (NPNS or normal) under SFAS 133 since the contracts provided for the purchase or sale of natural gas with the intention of delivering the natural gas in quantities expected to be used or sold by NJRES over a reasonable period of time in the normal course of its business. The Company continues to believe that the conditions that originally qualified these contracts as normal continue to exist, and, accordingly, NJRES will record the related liabilities incurred and assets acquired under these remaining contracts when title to the underlying natural gas commodity passes under accrual based accounting.

Effective October 1, 2007, the Company has decided to discontinue using the NPNS exception for any new physical commodity contracts entered into by NJRES. The criteria for designating contracts as normal includes an assessment of the probability of delivery at inception while considering certain factors such as expected future demand. NJRES will continue to enter into these contracts with the intention of physically delivering the natural gas; however, NJRES has determined that the probability of net settling these contracts for cash may be greater than had previously been experienced. As a result, commencing with contracts entered into subsequent to September 30, 2007, NJRES will treat these contracts as derivatives and record them at fair value in the Condensed Consolidated Balance Sheet, with changes in fair value being recorded as a component of Operating revenues in the Condensed Consolidated Statements of Income.

Capitalized Financing Costs

NJNG capitalizes an allowance for funds used during construction (AFUDC), as a component of Utility plant in the Condensed Consolidated Balance Sheets. Commencing October 1, 2007, in addition to cost of debt, AFUDC also includes the estimated cost of equity funds used to finance construction on its natural gas transmission and distribution system, which is currently established through allowed rates at 11.5 percent. The debt portion of AFUDC is recorded as a reduction to Interest expense and the equity portion is recorded in Other income in the Condensed Consolidated Statements of Income. Under regulatory rate practices and in accordance with SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, NJNG fully recovers both components of AFUDC through base rates.

Recently Issued Accounting Standards

Refer to Note 1. General, for discussion of recently issued accounting standards.

Results of Operations

Consolidated

Net income for the three-month period ended December 31, 2007 increased by 2.6 percent to approximately \$30.2 million, compared with net income of approximately \$29.4 million for the same period in fiscal 2007. Basic and diluted earnings per share increased by 2.8 percent to \$1.09 and \$1.08, compared with \$1.06 and \$1.05, respectively.

The increase in net income was due primarily to the following:

• increased gross margin and lower interest expense at NJRES due to decreased short-term debt levels used to fund natural gas storage purchases for inventory;

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- lower unrealized losses at NJR Energy as a result of fluctuations in market prices and mix of open financial positions economically hedging forecasted natural gas purchases and sales; partially offset by
- lower gross margin from incentive-based programs and increased operation and maintenance expense at NJNG.

The Company's Operating revenues and Gas purchases are as follows:

(\$ in Thousands)	Three Months Ended		
	2007	December 31, 2006	% Change
Operating revenues	\$ 811,138	\$ 737,401	10.0%
Gas purchases	\$ 684,694	\$ 621,935	10.1%

Operating revenues increased \$73.7 million for the three months ended December 31, 2007, compared with the same period of the prior fiscal year due primarily to:

- increased NJNG firm sales as a result of it being 13.4 percent colder than the same period of the prior fiscal year, and lower BGSS customer refunds provided to residential and small commercial customers in fiscal 2008 compared to fiscal 2007; and
- increased revenues at NJRES due to higher sales volumes and prices, along with the commencement of including the change in fair value of physical commodity contracts beginning in fiscal 2008.

These same factors resulted in an increase in Gas purchases of \$62.8 million for the three months ended December 31, 2007, as compared to the same periods in the prior fiscal year, which includes the impact of a decrease of \$19 million in unrealized gains at NJRES that resulted in increased gas purchases.

Natural Gas Distribution Operations

NJNG is a local natural gas distribution company that provides regulated retail energy services 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's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. As a result, NJNG receives most of its gas distribution revenues during the first and second fiscal quarters and is subject to variations in earnings and working capital during the year.

The Electric Discount and Energy Competition Act (EDECA) provides the framework for New Jersey's energy markets, which are open to competition from other energy suppliers. Currently, NJNG's residential markets are open to competition, and its rates are segregated between BGSS (natural gas commodity) and delivery (i.e., transportation) components. NJNG earns no utility gross margin on the commodity portion of its natural gas sales. NJNG earns utility gross margin through the delivery of natural gas to its customers. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state's natural gas utilities.

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NJNG's financial results are as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Utility Gross Margin		
Operating revenues	\$ 284,360	\$ 239,407
Less:		
Gas purchases	190,148	150,993
Energy and other taxes	16,363	12,520
Regulatory rider expense	12,165	9,466
Total Utility Gross Margin	\$ 65,684	\$ 66,428
Utility Gross Margin		
Residential and commercial	\$ 59,196	\$ 58,368
Transportation	4,934	4,566
Total Utility Firm Gross Margin	64,130	62,934
Incentive programs	1,420	3,278
Interruptible	134	216
Total Utility Gross Margin	65,684	66,428
Operation and maintenance expense	23,879	20,255
Depreciation and amortization	9,233	8,738
Other taxes not reflected in utility gross margin	970	719
Operating Income	\$ 31,602	\$ 36,716
Other income	1,232	1,047
Interest charges, net	6,119	5,393
Income tax provision	10,045	12,462
Net Income	\$ 16,670	\$ 19,908

Utility Gross Margin

NJNG's utility gross margin is defined as natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment (TEFA) and regulatory rider expenses. Management believes that utility gross margin provides a more meaningful basis than revenue for evaluating utility operations since natural gas costs, sales tax, TEFA and regulatory rider expenses are included in operating revenue and passed through to customers and, therefore, have no effect on utility gross margin. This definition of utility gross margin may not be comparable to the definition of gross margin used by others in the natural gas distribution business and other industries.

Natural gas costs are charged to operating expenses on the basis of therm sales at the prices in NJNG's BGSS tariff approved by the BPU. The BGSS tariff rate includes projected natural gas costs, net of supplier refunds, the impact of hedging activities and credits from non-firm sales and transportation activities. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff rate in subsequent years.

TEFA, which is included in Energy and other taxes on the Condensed Consolidated Statements of Income, is calculated on a per-therm basis and excludes sales to cogeneration facilities, other utilities and off-system sales. TEFA represents a regulatory allowed assessment imposed on all energy providers in the state of New Jersey, as TEFA has replaced the previously used utility gross receipts tax formula.

Regulatory rider expenses consist of recovery of state-mandated programs and the remediation adjustment clause costs. These expenses are offset by corresponding revenues and are calculated on a per-therm basis.

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NJNG's Operating revenues and Gas purchases for the three months ended December 31, 2007 increased \$45.0 million, and \$39.2 million, respectively, compared with the same period in the prior fiscal year due primarily to weather being 13.4 percent colder than the same period in the prior fiscal year. The increase in Operating revenues and Gas purchases was also affected by the BGSS customer refunds provided to residential and small commercial customers of \$32.1 million and \$55.1 million, inclusive of sales tax refunds of \$2.1 million and \$3.6 million, in December 2007 and December 2006, respectively. In both fiscal years, these customer refunds were the result of anticipated reductions in the cost to acquire wholesale natural gas, as compared to the current established rate included in NJNG's BGSS tariff.

Sales tax and TEFA, which are presented as both components of Revenues and Operating Expenses in the Condensed Consolidated Statements of Income, totaled \$16.4 million and \$12.5 million for the three months ended December 31, 2007 and 2006, respectively. The increase is due primarily to an increase in operating revenue from firm sales of \$42 million for the three months ended December 31, 2007.

Regulatory rider expenses totaled \$12.2 million and \$9.5 million for the three months ended December 31, 2007 and 2006, respectively. The increase in regulatory rider expenses is due primarily to an increase in firm throughput of 2.4 Bcf for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006, which was due primarily to an increase in usage as a result of the previously mentioned colder weather.

Utility gross margin is comprised of three major categories:

- ÿ Utility Firm Gross Margin, which is derived from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs;
- ÿ Incentive programs, where margins generated or savings achieved from BPU-approved off-system sales, capacity release, Financial Risk Management (defined in Incentive Programs, below) or storage incentive programs are shared between customers and NJNG; and
- ÿ Utility gross margin from interruptible customers, which is generated from large commercial and industrial customers who receive non-firm natural gas service at lower rates, and is subject to BPU-approved incentives through October 31, 2007.

Utility Firm Gross Margin

Effective October 1, 2006, the BPU approved the CIP to encourage energy savings while allowing NJNG to recover the necessary costs of operations. The three-year pilot program eliminates the disincentive to promote conservation and energy efficiency, since utility gross margin is no longer directly linked to customer usage. The CIP tariff normalizes NJNG's utility gross margin recoveries for variances not only in weather but also other factors affecting usage, including customer conservation. Recovery of utility gross margin for the non-weather variance through the

CIP is limited to the amount of certain gas supply cost savings achieved, and is subject to an earnings test, which contains a return on equity component of 10.5 percent.

Customers switching between sales service and transportation service affect the components of utility gross margin from firm customers. NJNG's total utility gross margin is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier because its tariff is designed so that no profit is earned on the commodity portion of sales to firm customers. All customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

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Total utility firm gross margin increased \$1.2 million, or 1.9 percent, for the three months ended December 31, 2007, as compared to the same period in the prior fiscal year, due primarily to an increase in residential customers along with a slight increase in transport customer margin. Gross margin from the commercial customers remained relatively consistent with the same period in the prior fiscal year.

The weather for the three months ended December 31, 2007 was 8.2 percent warmer than normal, which resulted in an accrual of utility gross margin under the CIP of \$2.9 million, compared with 18.3 percent warmer than normal weather for the same period last fiscal year, which resulted in an accrual of utility gross margin of \$8.0 million. In addition, customer usage was lower than the established benchmark during fiscal 2008, which resulted in an additional accrual of utility gross margin under the CIP of \$3.2 million compared to \$3.3 million in fiscal 2007.

For the period ended December 31, 2007, NJNG had 9,324 and 8,551 residential customers and 4,889 and 4,319 commercial customers using its transportation service at December 31, 2007 and 2006, respectively. The increase in transportation customers for the period ended December 31, 2007 was due primarily to an increase in marketing activity by third party natural gas service providers in NJNG's service territory.

Utility firm gross margin from transportation service remained relatively flat at \$4.9 million for the three months ended December 31, 2007, as compared to 4.6 million for the three months ended December 31, 2006. NJNG transported 2.8 Bcf for its firm customers in the three months ended December 31, 2007, compared with 2.5 Bcf for the same period ended December 31, 2006.

NJNG added, in total, 1,723 and 2,614 new customers during the three months ended December 31, 2007 and 2006, respectively. In addition, NJNG converted 104 and 69 existing customers to natural gas heat and other services during the same periods for fiscal 2008 and 2007, respectively. This customer growth represents an estimated annual increase of approximately 0.24 Bcf in sales to firm customers, assuming normal weather and usage.

Incentive Programs

To reduce the overall cost of its natural gas supply commitments, NJNG has entered into contracts to sell natural gas to wholesale customers outside its franchise territory when the natural gas is not needed for system requirements. These off-system sales enable NJNG to spread its fixed demand costs, which are charged by pipelines to access their supplies year round, over a larger and more diverse customer base. NJNG also participates in the capacity release market on the interstate pipeline network when the capacity is not needed for its firm system requirements. NJNG retains 15 percent of the utility gross margin from these sales, with 85 percent credited to firm customers through the BGSS.

The Financial Risk Management (FRM) program is designed to provide price stability to NJNG's natural gas supply portfolio. The FRM program includes an incentive mechanism designed to encourage the use of financial instruments to hedge NJNG's natural gas costs. As of November 1, 2007, NJNG retains 15 percent of the utility gross margin, with 85 percent credited to firm customers through the BGSS. Previously, NJNG customers were credited 80 percent and NJNG retained 20 percent of the gains and losses.

The storage incentive program shares gains and losses on an 80 percent and 20 percent basis between customers and NJNG, respectively. This program measures the difference between the actual cost of natural gas injected into storage and a benchmark applicable to the April-through-October injection season.

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NJNG's incentive programs totaled 9.7 Bcf and generated \$1.4 million of utility gross margin for the three months ended December 31, 2007, compared with 10.6 Bcf and \$3.3 million of utility gross margin during the same period last fiscal year. Utility gross margin from incentive programs comprised 2.2 percent of total utility gross margin at December 31, 2007 and 4.9 percent of total utility gross margin for the same period in fiscal 2007, respectively. The decrease in utility gross margin was due primarily to:

- a decrease in margin from the storage program as a result of timing variations of storage incentive transactions;
- a decrease in margin from the FRM program as a result of natural gas option spreads that were lower in the three months ended December 31, 2007 as compared with the three months ended December 31, 2006, coupled with slightly decreased volumes and a decrease in the sharing percentage; slightly offset by
- an increase in higher average sales prices offset by a decrease in sales volumes, which resulted in a net increase in off system sales margin.

New York Mercantile Exchange (NYMEX) settlement prices for natural gas are a general indication of the monthly market movements. NYMEX prices have increased by 6.2 percent to an average of \$6.965/dth for the three months ended December 31, 2007, compared with \$6.557/dth for the same period of the prior fiscal year, while the average off-system price increased by 12 percent to an average of \$7.934/dth during the period ended December 31, 2007 compared to \$7.083/dth in the same period last fiscal year.

Interruptible Tariff Revenues

NJNG serves 45 customers through interruptible sales and/or transportation tariffs. Sales made under the interruptible sales tariff are priced on market-sensitive energy parity rates. Although therms sold and transported to interruptible customers represented 5.4 percent of total throughput for the three months ended December 31, 2007, and 4.0 percent of the total throughput during the same period last fiscal year, they accounted for less than 1 percent of the total utility gross margin in each year due to the sharing formulas that govern these sales through October 2007.

Under these formulas, NJNG retains 10 percent of the utility gross margin from interruptible sales and 5 percent of the utility gross margin from transportation sales, with 90 percent and 95 percent, respectively, credited to firm sales customers through the BGSS. Interruptible sales were 0.7 Bcf and 0.2 Bcf for the three months ended December 31, 2007 and 2006, respectively. In addition, NJNG transported 0.9 Bcf for each of the three months ended December 31, 2007 and 2006, respectively, for its interruptible customers. The agreement with the BPU approved on October 3, 2007, included the termination of the incentive programs related to interruptible sales, on-system interruptible transportation and sales to certain electric generation facilities effective November 1, 2007.

Operation and Maintenance Expense

Operation and maintenance expense increased \$3.6 million, or 17.9 percent, during the three months ended December 31, 2007, as compared with the same period last fiscal year, due primarily to:

- higher compensation costs of \$2.7 million due primarily to an increases in the number of employees and overtime labor as well as annual wage increases;
- an increase in the bad debt reserves of \$229,000 as a result of an increase in operating revenue that result in a change in the nature of customer accounts receivable; and
- an increase in materials and supplies expense of \$329,000 due primarily to an increase in high pressure meter relocations.

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Operating Income

Operating income decreased \$5.1 million, or 13.9 percent, for the three months ended December 31, 2007 as compared with the same period last fiscal year, due primarily to:

- a decrease in margin from incentive programs of \$1.9 million as discussed above;
- an increase in depreciation expense of \$495,000, as a result of greater utility plant being placed into service; and
- an increase in Operations and maintenance expense in the amount of \$3.6 million, as discussed above; partially offset by
- an increase in firm margin in the amount of \$1.2 million as discussed above.

Interest Charges

Interest charges increased \$726,000 for the three months ended December 31, 2007 compared with the same period last fiscal year, due primarily to:

- an increase in BGSS interest of \$194,000 due to customers balances associated with overrecovered gas costs;
- an increase of \$119,000 in short-term interest due to higher average balances on short-term debt offset by lower average interest rates; and
- an increase of \$217,000 associated with reduced amounts capitalized under NJNG's new AFUDC accounting policy effective October 1, 2007. As a result of now including a cost of equity component in its AFUDC calculation, the amount of interest capitalized for AFUDC purposes is calculated using a lower basis, as compared with the prior period, thereby causing the increase in interest expense.

Net Income

Net income decreased \$3.2 million, or 16.3 percent, to \$16.7 million from \$19.9 million in the three months ended December 31, 2007 and 2006, respectively, primarily as a result of lower operating income of \$5.1 million, as described above, offset by lower income tax expense of \$2.4 million.

Energy Services Operations

NJRES utilizes contractual assets that it controls for natural gas storage and pipeline transportation to meet its various sale and delivery commitments to its customers. NJRES purchases natural gas predominantly in the Gulf region of the

United States and Canada, and transports that gas, through the use of pipeline contracts to which it has reserved capacity through the payment of a fixed demand charge, to either storage facilities that it has reserved, primarily in the Appalachian, Mid-Continent and Gulf regions of the United States and Canada or directly to customers in various market areas including the Northeastern region of the United States and eastern Canada.

NJRES enters into contracts for delivery of physical natural gas and also enters into derivative financial contracts at advantageous prices to establish an initial financial margin for each of its forecasted transactions. Through the use of its contracts for natural gas storage and pipeline capacity, NJRES is able to take advantage of pricing differences between geographic locations, commonly referred to as “locational spreads,” as well as over

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different time periods, for the delivery of natural gas to its customers, thereby improving the initially established financial margin result. NJRES utilizes financial futures, forwards and swap contracts to economically fix and protect the cash flows surrounding these transactions.

Predominantly all of NJRES' purchases and sales result in the physical delivery of natural gas, and therefore, NJRES has elected the "normal purchase normal sale" scope exception of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133), for all physical commodity contracts entered into prior to October 1, 2007, under which related liabilities incurred and assets acquired under these contracts are recorded when title to the underlying commodity passes. For all physical commodity contracts entered into subsequent to September 30, 2007, NJRES has elected to not use the normal purchase normal sale scope exception of SFAS 133, and records these physical commodity contracts at fair value on the Condensed Consolidated Balance Sheets. All changes in the fair value of physical commodity contracts entered into subsequent to October 1, 2007 are recorded as part of Operating revenues in the Condensed Consolidated Statements of Income.

The changes in fair value of NJRES' financial instruments, which are financial futures, options, and swap contracts, are recognized in the Condensed Consolidated Statements of Income, as a component of Gas purchases.

NJRES' financial and physical contracts will result, over time, in earning a gross margin on the entire transaction. For financial reporting purposes under GAAP, the change in fair value associated with derivative instruments used to economically hedge these transactions are recorded as a component of Operating revenues or Gas purchases in the Condensed Consolidated Statements of Income, as appropriate, during the duration of the financial instrument or commodity contract. These changes in fair value are referred to as unrealized gains and losses. In other instances, certain financial contracts designed to economically fix or hedge the price of natural gas that is purchased and placed into storage, to be sold at a later date, settle and result in realized gains, which are recorded as a component of Gas purchases in the Condensed Consolidated Statements of Income.

These unrealized gains or losses from the change in fair value of unsettled financial instruments and physical commodity contracts, or realized gains or losses related to financial instruments that economically hedge natural gas inventory that has not been sold as part of a planned transaction, cause large variations in the reported gross margin and earnings of NJRES. NJRES will continue to earn the same amount of gross margin over the time period of the forecasted transaction; however, gross margin or earnings during periods prior to transaction settlement will not reflect the underlying economic result.

NJRES expenses its demand charges, which represent the right to use natural gas pipeline and storage capacity assets of a third-party for a fixed period of time, ratably over the term of the related natural gas pipeline or storage contract.

NJRES' financial results are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Operating revenues	\$ 520,211	\$ 495,787
Gas purchases	494,546	470,942

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Gross margin	25,665	24,845
Operation and maintenance expense	2,840	3,003
Depreciation and amortization	53	54
Other taxes	209	192
Operating income	22,563	21,596
Other income	130	135
Interest charges, net	877	1,711
Income tax provision	8,666	8,496
Net income	\$ 13,150	\$ 11,524

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Gross margin for the three months ended December 31, 2007 remained relatively consistent in comparison with the same period in the prior fiscal year. NJRES incurred derivative losses of \$(10.1) million and gains of \$6.8 million for the three months ended December 31, 2007 and 2006, respectively, due primarily to fluctuations in market prices and portfolio mix of open trade positions that reduced the unrealized portion of financial derivative gains from \$8.0 million in the prior fiscal year period to an unrealized loss of \$(7.0) million in the current fiscal year period. These losses on financial derivatives were partially offset by the unrealized gains associated with the change in fair value of physical commodity forward positions of \$2.0 million, which commenced in fiscal 2008.

Additionally, management of the Company uses non-GAAP measures when viewing the results of NJRES to monitor the operational results without the impact of unsettled and certain settled derivative instruments. These non-GAAP measures are "financial margin" and "net financial earnings."

Financial margin represents Operating revenues from the sale of natural gas less Gas purchases, and excludes the accounting impacts of unrealized gains and losses from derivative instruments and realized gains and losses of certain derivative instruments related to natural gas inventory. These accounting impacts represent the change in fair value of these financial instruments, which represent futures and swaps designed to economically hedge forecasted natural gas purchases, sales and transportation, and are primarily open positions resulting in unrealized gains or losses and settled derivative positions related to natural gas that is still included in inventory storage. These settled instruments represent realized gains and losses under GAAP, but result in economically hedging the ultimate sale of natural gas. In addition, all of NJRES' physical commodity contracts entered into after September 30, 2007 are being accounted for as derivatives, with the change in fair value recorded as an unrealized gain or loss under GAAP. Net financial earnings represent Net income excluding the accounting impacts of unrealized and realized gains and losses from these derivative instruments, after taxes.

As revenues from the sale of natural gas to its customers, on a wholesale basis, are highly correlated to the wholesale price of natural gas and the economic impact of its derivative instruments will be substantially the same as the accounting results under GAAP upon transaction settlement, management of the Company believes that the net financial margin and net financial earnings measurements represent the economic results of operations of NJRES. While significant volatility is measured on a GAAP basis the ultimate impact of the transaction will yield the same cash flow and economic result upon settlement of the derivative instrument and completion of the forecasted transaction. In viewing the financial margin and net financial earnings of NJRES, management of the Company reviews the results of operations without this volatility to measure the economic impact that NJRES achieved in relation to established benchmarks and goals.

The following table is a computation of Financial margin of NJRES:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Operating revenues	\$ 520,211	\$ 495,787
Gas purchases	494,546	470,942
Add:		
Unrealized loss (gain) on derivative instruments	4,922	(8,039)

Realized loss from derivative instruments related to natural gas inventory	5,163	1,289
Financial margin	\$ 35,750	\$ 18,095

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A reconciliation of Operating income, the closest GAAP financial measurement, to the Financial margin of NJRES is as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Operating income	\$ 22,563	\$ 21,596
Add:		
Operation and maintenance expense	2,840	3,003
Depreciation and amortization	53	54
Other taxes	209	192
Subtotal – Gross margin	\$ 25,665	\$ 24,845
Add:		
Unrealized loss (gain) on derivative instruments	4,922	(8,039)
Realized loss from derivative instruments related to natural gas inventory	5,163	1,289
Financial margin	\$ 35,750	\$ 18,095

A reconciliation of Net income to Net financial earnings is as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Net income (loss)	\$ 13,150	\$ 11,524
Add:		
Unrealized loss (gain) on derivative instruments, net of taxes	2,900	(4,464)
Realized loss from derivative instruments related to natural gas inventory, net of taxes	3,042	759
Net financial earnings	\$ 19,092	\$ 7,819

NJRES' financial margin for the three months ended December 31, 2007 increased \$17.7 million, compared with the same period in prior fiscal year, due primarily to increased availability of capacity assets in the Northeast market region. The additional capacity enabled NJRES to transport higher volumes of natural gas to the Northeast region during the current winter season, when these capacity assets have a greater market value and correspondingly higher locational spread, than in the summer season when demand for natural gas is typically lower. The increase in financial margin was also partially attributable to colder weather in the Northeast and Mid-Continent regions of the U.S., when compared to the same period in the prior fiscal year, which resulted in higher demand levels for natural gas, and enabled NJRES to actively participate in the supply of natural gas to those regions through transaction activities that optimized the value of the existing portfolio of physical assets.

NJRES' operation and maintenance expense decreased \$163,000, during the three months ended December 31, 2007, compared with the same period last fiscal year, due primarily to timing of adjustments related to performance incentives, partially offset by additional shared corporate service costs.

Future results are subject to NJRES' ability to maintain and expand its wholesale marketing activities and are contingent upon many other factors, including an adequate number of appropriate counterparties, volatility in the natural gas market, sufficient liquidity in the energy trading market and continued access to the capital markets.

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Retail and Other Operations

The consolidated financial results of Retail and Other are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2007	2006
Operating revenues	\$ 6,631	\$ 2,276
Operation and maintenance expense	\$ 5,460	\$ 5,058
Other income	\$ 166	\$ 114
Equity in earnings, net of tax	\$ 424	\$ 417
Net income (loss)	\$ 365	\$ (1,998)

NJR Energy has an economic hedge associated with a long-term fixed-price contract to sell gas to a counterparty. Unrealized losses or gains at NJR Energy are the result of the change in value associated with derivative financial instruments (futures contracts) designed to economically hedge the long-term fixed-price contract.

The results of operations include unrealized (losses) associated with these derivative instruments of \$(305,000) and \$(4.1) million for the three months ended December 31, 2007 and 2006, respectively, which are recorded, pre-tax, as a component of Operating revenues. On an after-tax basis, these unrealized (losses) are \$(180,000) and \$(2.4) million for the three months ended December 31, 2007 and 2006, respectively.

Operating revenue for the three months ended December 31, 2007 increased \$4.4 million due primarily to lower unrealized losses at NJR Energy, which are the result of a combination of the partial settlement of these futures contracts, partially offset by an increase in value of the futures contracts in relation to changing market conditions.

Operation and maintenance expenses for the three months ended December 31, 2007 increased \$402,000 due to higher compensation costs due primarily to an increase in the number of employees as well as annual wage increases.

Other income for the three months ended December 31, 2007 remained consistent as compared to the same period in fiscal 2007.

Taxes netted in Equity in earnings from Iroquois are \$282,000 and \$276,000 and are included in the Condensed Consolidated Statements of Income for the three months ended December 31, 2007 and 2006, respectively. Equity in earnings from Iroquois is driven by the underlying performance of natural gas transportation through its existing pipeline, which is based on FERC regulated tariffs.

Net income for the three months ended December 31, 2007 increased \$2.4 million compared to the same period in fiscal 2007 due primarily the reasons noted above.

Liquidity and Capital Resources

NJR's objective is to maintain a consolidated capital structure that reflects the different characteristics of each business segment and provides adequate financial flexibility for accessing capital markets as required.

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NJR's consolidated capital structure was as follows:

	December 31, 2007	September 30, 2007
Common stock equity	49%	50%
Long-term debt	27	30
Short-term debt	24	20
Total	100%	100%

Common stock equity

NJR satisfies its external common equity requirements, if any, through issuances of its common stock, including the proceeds from stock issuances under its Automatic Dividend Reinvestment Plan (DRP) and proceeds from the exercise of options issued under the Company's long-term incentive program. The DRP allows NJR, at its option, to use shares purchased on the open market or newly issued shares.

As of December 31, 2007, the Company had a 4.5 million share repurchase plan that has been approved by its Board of Directors and has repurchased approximately 3.5 million shares under this plan.

Debt

NJR and its unregulated subsidiaries rely on cash flows generated from operating activities and utilization of committed credit facilities to provide liquidity to meet working capital and external debt-financing requirements.

As of December 31, 2007, NJR, NJRES and NJNG had committed credit facilities of \$605 million with approximately \$289 million available under these facilities (see Note 6. Debt).

NJR believes that as of December 31, 2007, NJR, NJNG and NJRES were, and currently are, in compliance with all debt covenants.

NJR believes that existing borrowing availability, its current cash balances and its cash flow from operations will be sufficient to satisfy it and its subsidiaries' working capital, capital expenditure and dividend requirements for the foreseeable future. NJR, NJNG and NJRES currently anticipate that its financing requirements in fiscal 2008 and 2009 will be met through the issuance of short-term and long-term debt and proceeds from the Company's Automatic Dividend Reinvestment Plan. The proposed issuance of up to \$125 million of medium-term debt to satisfy a portion of NJNG's financing requirements is pending BPU review and approval.

NJR

On December 13, 2007, NJR refinanced its prior senior credit facility for a new \$325 million, five-year, revolving, unsecured credit facility. The new credit facility permits the borrowing of amounts under a revolving basis, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$5 million increments up to a maximum \$100 million. The new credit facility refinances an

earlier credit facility that provided for \$325 million in revolving credit that was scheduled to expire on December 16, 2007. NJR used the initial borrowings under the new credit facility to refinance its prior credit facility and pay all related fees and expenses. The new credit facility permits the borrowing of revolving loans and swingline loans, as well as the issuance of letters of credit. In addition, NJR's subsidiaries have guaranteed to the lenders all of NJR's obligations under the new credit facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

Depending on borrowing levels and credit ratings, NJR's interest rate can either be, at its discretion, the London inter-bank offered rate ("LIBOR") or the Federal Funds Open Rate plus an applicable spread and facility fee. As of December 31, 2007, NJR's effective rate was 5.18 percent on outstanding borrowings of \$92.6 million under this credit facility.

In addition, borrowings under NJR's new credit facility are conditioned upon compliance with a maximum leverage ratio, as defined in the new credit facility, of not more than 0.65 to 1.00 at any time.

NJR uses its short term borrowings primarily to finance its share repurchases, to satisfy NJRES' short term liquidity needs and to finance, on an initial basis, unregulated investments. NJRES' use of high-injection, high-withdrawal storage facilities and anticipated pipeline park-and-loan arrangements, combined with related economic hedging activities in the volatile wholesale natural gas market, create significant short-term cash requirements.

NJNG

NJNG satisfies its debt needs by issuing short- and long-term debt based upon its own financial profile. The seasonal nature of NJNG's operations creates large short-term cash requirements, primarily to finance natural gas purchases and customer accounts receivable. NJNG obtains working capital for these requirements, and for the temporary financing of construction and MGP remediation expenditures and energy tax payments, through the issuance of commercial paper and short-term bank loans.

To support the issuance of commercial paper, NJNG has a \$250 million committed credit facility with several banks, with a 5-year term, expiring in December 2009. NJNG had \$109.1 million of commercial paper borrowings supported by the credit facility as of December 31, 2007, and \$175.7 million of commercial paper borrowings as of September 30, 2007.

NJNG has a 3-year, \$30 million uncommitted credit facility with a multinational financial institution. As of December 31, 2007, NJNG had borrowings of \$6.3 million outstanding under this facility. Borrowings under this facility are in addition to the amount available under the NJNG bank credit facility mentioned above.

Neither NJNG nor its assets are obligated or pledged to support the NJR or NJRES facilities.

NJRES

NJRES has a 3-year \$30 million committed credit facility with a multinational financial institution. Borrowings under this facility are guaranteed by NJR. There were no borrowings under this facility as of December 31, 2007.

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Part IITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

Contractual Obligations

The following table is a summary of NJR, NJNG and NJRES contractual cash obligations and financial commitments and their applicable payment due dates as of December 31, 2007.

(Thousands)	Total	Payments Due by Period			
		Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
Long-term debt (1)	\$522,886	\$45,754	\$71,349	\$23,748	\$382,035
Capital lease obligations (1)	91,418	8,813	17,821	19,899	44,885
Operating leases	10,933	3,027	4,021	1,707	2,178
Short-term debt (1)	304,026	304,026	—	—	—
New Jersey Clean Energy Program (1)	10,945	10,945	—	—	—
Construction obligations	3,938	3,938	—	—	—
Remediation expenditures (2)	105,340	19,000	17,900	10,200	58,240
Natural gas supply purchase obligations—NJNG	91,093	71,359	19,734	—	—
Demand fee commitments - NJNG	601,752	85,737	204,600	169,595	141,820
Natural gas supply purchase obligations—NJRES	866,577	537,302	329,275	—	—
Demand fee commitments - NJRES	218,026	92,001	81,764	33,104	11,157
Total contractual cash obligations	\$2,826,934	\$1,181,902	\$746,464	\$258,253	\$640,315

(1) These obligations include an interest component, as defined under the governing agreements.

(2) Expenditures are estimated.

In fiscal 2008, the Company has no minimum pension funding requirements. The Company's funding to its OPEB plans is expected to be approximately \$1.5 million in fiscal 2008 and \$1.1 million annually, over the next four years. Additional contributions may be made based on market conditions and various assumptions.

As of December 31, 2007, there were NJR guarantees covering approximately \$352 million of natural gas purchases and demand fee commitments of NJRES and NJNG, included in natural gas supply purchase obligations above, not yet reflected in Accounts payable on the Condensed Consolidated Balance Sheet.

The Company is obligated to fund up to \$125 million associated with the construction and development of Steckman Ridge. Currently, NJR anticipates that Steckman Ridge will secure non-recourse project financing for a portion of its construction activities and therefore potentially reduce NJR's obligation. There can be no assurances that Steckman Ridge will eventually secure such non-recourse project financing.

Total capital expenditures for fiscal 2008 are estimated at \$78.6 million, including expenditures of \$13.5 million incurred during the three months ended December 31, 2007.

Off-Balance-Sheet Arrangements

The Company does not have any off-balance-sheet financing arrangements.

Cash Flow

Operating Activities

As presented in the Condensed Consolidated Statements of Cash Flows, cash flow used in operations totaled \$6.5 million for the three months ended December 31, 2007, compared with cash flow from operations of \$12.4 million for the same period in fiscal 2007. Operating cash flows were primarily impacted by variations in working capital, which are a function of the seasonality of NJR's business and fluctuations in wholesale natural gas prices.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

Changes in working capital more than offset higher net income and deferred income taxes during the first quarter of fiscal 2008. The components of working capital that contributed to the decrease in operating cash flows for the three months ended December 31, 2007 as compared to the same period in fiscal 2007 are as follows:

- ÿ At NJNG, an increase in billed and unbilled accounts receivable of \$48.9 million as a result of colder weather and lower customer credits in fiscal 2008 as compared to fiscal 2007; partially offset by
- ÿ A decrease in inventory at NJNG as a result of increased usage during the heating season; and
- ÿ A decrease in the change in gas purchases payable primarily at NJRES as a result of lower gas storage balances, partially offset by increased natural gas commodity prices.

NJNG's MGP expenditures are currently expected to total \$19.1 million in fiscal 2008 (see Note 12. Commitments and Contingent Liabilities).

Financing Activities

Cash flow from financing activities totaled \$23.1 million for the three months ended December 31, 2007, compared with cash flows from financing activities of \$5.3 million for the same period in the prior fiscal year. The change was due primarily to an increase in short-term borrowings, which typically increase during the winter and was impacted during the first quarter of fiscal 2008 by the increased demand of natural gas as a result of the colder weather as compared with the same period in fiscal 2007, offset by cash payments for treasury stock of \$10.1 million of which \$7.7 million is for settled purchases from the fourth quarter of fiscal 2007.

NJNG received \$7.5 million in the three months ended December 31, 2007, in connection with the sale-leaseback of its gas meters. This sale-leaseback program will continue on an annual basis.

Investing Activities

Cash flows used in investing activities totaled \$17.9 million for the three months ended December 31, 2007, compared with \$12.5 million in the same period in fiscal 2007. The increase was due primarily to an additional equity investment in Steckman Ridge and increased capital expenditures for utility plant offset by cash received from the sale of land at CR&R in the first quarter of fiscal 2007 that did not recur in fiscal 2008.

Retail and Other capital expenditures each year have been made primarily in connection with investments made to preserve the value of real estate holdings. At December 31, 2007, CR&R owned 83 acres of undeveloped land and a 56,400-square-foot building on 5 acres of land.

NJR is obligated to finance 50 percent of the acquisition and development costs of the Steckman Ridge storage facility, up to a maximum of \$125 million, of which \$58 million was expended through December 31, 2007.

NJR's investment in Steckman Ridge is a strategic investment to enter the mid-stream natural gas business. This storage capacity will provide NJR the potential to diversify its revenue stream through another market-based outlet that has a consistent demand and a regulated tariff structure. NJR anticipates a portion of Steckman Ridge to be financed on a non-recourse, or project, basis and for the majority of its revenue to be secured by long-term contracts; however, there can be no assurances that this will occur.

NJRES does not currently anticipate any significant capital expenditures in fiscal 2008.

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Part IITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (Continued)

Credit Ratings

The table below summarizes NJNG's credit ratings issued by two rating entities, Standard and Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) as of December 31, 2007:

	Standard and Poor's	Moody's
Corporate Rating	A+	N/A
Commercial Paper	A-1	P-1
Senior Secured	AA-	Aa3
Ratings Outlook	Negative	Stable

NJNG's S&P and Moody's Senior Secured ratings are investment-grade ratings and represent the sixth highest rating within the investment grade category. Moody's and S&P give NJNG's commercial paper the highest rating within the Commercial Paper investment-grade category.

Investment-grade ratings are generally divided into three groups: high, upper medium and medium. NJNG's senior secured ratings and the commercial paper ratings fall into the high group. NJR is not a rated entity.

NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating. A rating set forth above is not a recommendation to buy, sell or hold the Company's or NJNG's securities and may be subject to revision or withdrawal at any time. Each rating set forth above should be evaluated independently of any other rating.

The timing and mix of any external financings will target a common equity ratio that is consistent with maintaining the Company's current short- and long-term credit ratings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET
RISK

Financial Risk Management

Commodity Market Risks

Natural gas is a nationally traded commodity, and its prices are determined effectively by the New York Mercantile Exchange (NYMEX) and over-the-counter markets. The prices on the NYMEX and over-the-counter markets generally reflect the notional balance of natural gas supply and demand, but are also influenced significantly from time to time by other events.

The regulated and unregulated natural gas businesses of the Company and its subsidiaries are subject to market risk due to fluctuations, in the price of natural gas. To economically hedge against such fluctuations, the Company and its subsidiaries have entered into futures contracts, options agreements and swap agreements. To manage these derivative instruments, the Company has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. The Company's natural gas businesses are conducted through three of its operating subsidiaries. First, NJNG is a regulated utility that uses futures, options and swaps to economically hedge against price fluctuations and its recovery of natural gas costs is governed by the BPU. Second, NJRES uses futures, options and swaps to economically hedge purchases and sales of natural gas. Finally, NJR Energy has entered into two swap transactions related to an 18-year fixed-price contract, expiring in October 2010 to sell remaining volumes of approximately 6.7 Bcf of natural gas (Gas Sales Contract) to an energy marketing company.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The following table reflects the changes in the fair market value of financial derivatives related to natural gas purchases and sales from December 31, 2007:

(Thousands)	Balance September 30, 2007	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2007
NJNG	\$(51,861)	\$(1,942)	\$(8,449)	\$(45,354)
NJRES	89,446	(2,049)	7,820	79,577
NJR Energy	28,353	623	928	28,048
Total	\$ 65,938	\$(3,368)	\$ 299	\$ 62,271

There were no changes in methods of valuations during the year ended December 31, 2007.

The following is a summary of fair market value of financial derivatives related to natural gas purchases and sales at December 31, 2007, by method of valuation and by maturity for each fiscal year period:

(Thousands)	2008	2009	2010-2012	After 2012	Total Fair Value
Price based on NYMEX	\$51,045	\$6,436	\$(3,691)	—	\$53,790
Price based on other external data	5,908	1,865	708	—	8,481
Total	\$56,953	\$8,301	\$(2,983)	—	\$62,271

The following is a summary of financial derivatives by type as of December 31, 2007:

		Volume (Bcf)	Price per Mmbtu	Amounts included in Derivatives (Thousands)
NJNG	Futures	3.4	\$6.93 - \$ 8.80	\$ 5,726
	Swaps	2.5	\$4.19 - \$ 9.70	(49,410)
	Options	6.6	\$7.25 - \$11.00	(1,670)
NJRES	Futures	(6.6)	\$6.94 - \$11.59	4,880
	Swaps	(93.6)	\$6.74 - \$13.03	72,372
	Options	0.6	\$6.75 - \$11.25	2,325
NJR Energy	Swaps	7.2	\$3.22 - \$ 4.41	28,048
Total				\$62,271

The following table reflects the changes in the fair market value of physical commodity contracts from December 31, 2007:

(Thousands)	Balance September 30, 2007	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2007
NJRES	—	\$5,615	\$3,571	\$ 2,044

The Company uses a value-at-risk (VaR) model to assess the market risk of its net futures, options and swap positions. VaR represents the potential loss in value of NJRES' trading portfolio due to adverse market movements over a defined time horizon (NJRES utilizes holding periods of 1 day and 10 days) with a specified confidence level (NJRES utilizes either a 95 percent or 99 percent confidence level). As an example, utilizing a 1 day holding period with a 95 percent confidence level would indicate that there is a 5 percent chance that the liquidation value of the NJRES portfolio would fall below the expected trading value by an amount at least as large as the calculated VaR.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The VaR at December 31, 2007, using the variance-covariance method with a 95 percent confidence level and a 1-day holding period, was \$500,000. The VaR with a 99 percent confidence level and a 10-day holding period was \$2.3 million. The calculated VaR represents an estimate of the potential change in the value of the net positions. These estimates may not be indicative of actual results because actual market fluctuations may differ from forecasted fluctuations.

Wholesale Credit Risk

NJNG, NJRES and NJR Energy engage in wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits, daily communication with traders regarding credit status and the use of credit mitigation measures, such as minimum margin requirements, collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit.

The Company's Risk Management Committee (RMC) continuously monitors NJR's credit risk management policies and procedures. The RMC is comprised of individuals from NJR-affiliated companies that meet twice a month and, among other things, evaluates the effectiveness of existing credit policies and procedures, reviews material transactions and discusses emerging issues.

The following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of December 31, 2007. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for retail natural gas sales and services.

Unregulated counterparty credit exposure as December 31, 2007, is as follows:

(Thousands)	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$ 294,237	\$ 204,835
Noninvestment grade	1,368	—
Internally rated investment grade	19,626	12,323
Internally rated noninvestment grade	3,617	—
Total	\$ 318,848	\$ 217,158

NJNG's counterparty credit exposure as of December 31, 2007, is as follows:

(Thousands)	Gross Credit	Net Credit
-------------	--------------	------------

	Exposure	Exposure
Investment grade	\$ 31,331	\$ 18,556
Noninvestment grade	567	4
Internally rated investment grade	3,962	3,403
Internally rated noninvestment grade	57	—
Total	\$ 35,917	\$ 21,963

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Due to the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss. This loss would comprise the loss on natural gas delivered but not paid for and/or the cost of replacing natural gas not delivered at a price higher than the price in the original contract. Any such loss could have a material impact on the Company's financial condition, results of operations or cash flows.

Interest Rate Risk—Long-Term Debt

At December 31, 2007, the Company (excluding NJNG) had no variable-rate long-term debt.

At December 31, 2007, NJNG had total variable-rate, tax-exempt long-term debt of \$97.0 million. To limit its exposure to variable rates the company purchased interest rate caps. These caps have a strike price of 4.5 percent, expire in July 2009 and reference the USD-BMA Municipal Index.

Effects of Inflation

Although inflation rates have been relatively low to moderate in recent years, any change in price levels has an effect on operating results due to the capital-intensive and regulated nature of the Company's utility subsidiary. The Company attempts to minimize the effects of inflation through cost control, productivity improvements and regulatory actions where appropriate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the Company's preparation of its consolidated financial statements for the fiscal year ended September 30, 2007, the Company reassessed its accounting treatment and disclosures for its derivative instruments under Statement of Financial Accounting Standards 133 Accounting for Derivative Instruments and Hedging Activities (as interpreted and amended, "SFAS 133"). As a result of this accounting assessment, the Company determined that certain of its derivative instruments have not qualified as cash flow hedges under SFAS 133 as they did not meet the definition for "critical-terms-match," as defined under paragraph 65 of SFAS 133 and related authoritative accounting literature issued by various standard setting bodies and their related interpretations for all fiscal periods. As the Company has determined the hedging relationships did not meet the "critical-terms-match," the related derivative instruments did not qualify as cash flow hedges and the unrealized gains or losses on the derivative instruments are required to be reflected in the Consolidated Statement of Income for each period rather than recorded in Comprehensive Income and included as a component of "accumulated other comprehensive

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ITEM 4. CONTROLS AND PROCEDURES (Continued)

income,” a component of Total Common Stock Equity in the Consolidated Balance Sheets, until the forecasted transaction is settled. Therefore, because of this material weakness, the Company amended and restated certain of its historical consolidated financial statements and made appropriate changes in the preparation of its consolidated financial statements for the year ended September 30, 2007, including the Condensed Consolidated Statements of Income and of Cash flows for the three months ended December 31, 2006.

The Company continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. As detailed below, the Company has implemented certain additional controls that it believes will significantly reduce the potential for similar issues to arise in the future.

Changes in Internal Control over Financial Reporting

Management and the Board of Directors are committed to the remediation of the material weakness set forth above as well as the continued improvement of the Company’s overall system of internal control over financial reporting. Management is in the process of actively addressing and remediating the material weakness in internal control over financial reporting described above. During the quarter ended December 31, 2007, in connection with the material weakness in internal control over financial reporting detailed above, the Company implemented or is in the process of implementing the following controls designed to substantially reduce the risk of a similar material weakness occurring in the future:

- improving training, education and accounting reviews for all relevant personnel involved in the accounting treatment and disclosures for the Company’s derivative instruments to ensure compliance with generally accepted accounting principles, including SFAS 133 and its related interpretations;
- ensuring the Company has the accounting technical expertise requirements necessary for compliance with SFAS 133;
- initiating a thorough review of the design of the internal control over financial reporting related to the accounting of derivative instruments, which will incorporate an analysis of the current staffing levels, job assignments and the design of all internal control processes for the accounting for derivative instruments and implement new and improved processes and controls, if warranted; and
- increasing the level of review and discussion of significant accounting matters and supporting documentation with senior finance management.

In addition, as part of the Company’s fiscal 2008 assessment of internal control over financial reporting, management will conduct sufficient testing and evaluation of the controls to be implemented as part of this remediation plan to ascertain that they operate effectively. The Company anticipates that these remediation actions represent ongoing improvement measures. While the Company has taken steps to remediate the material weakness, these steps may not be adequate to fully remediate the material weakness, and additional measures may be required. The effectiveness of its remediation efforts will not be known until the Company can test those controls in connection with the

management tests of internal control over financial reporting that the Company will perform as of September 30, 2008. The Company believes, however, these measures will fully remediate the above identified material weakness in its internal control over financial reporting.

These were the only changes in the Company's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in NJR's Annual Report on Form 10-K for the year ended September 30, 2007, and is set forth in Part I, Item 1, Note 12, Commitment and Contingent Liabilities—Legal Proceedings. No legal proceedings became reportable during the quarter ended December 31, 2007 and there have been no material developments during such quarter regarding any previously reported legal proceedings, which have not been previously disclosed.

ITEM 1A. RISK FACTORS

Part I, Item 1A, "Risk Factors," of NJR's 2007 Annual Report on Form 10-K includes a detailed discussion of NJR's risk factors. There have been no changes to those risk factors during the quarter ended December 31, 2007.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

In 1996, the NJR Board of Directors authorized the repurchase of up to 1 million of the Company's common shares. Since 1996, the repurchase plan has been expanded several times. On November 14, 2007, the NJR Board of Directors authorized an increase to the plan to permit the repurchase, in the open market or in privately negotiated transactions, of 1 million shares, bringing the total permitted repurchases to 4.5 million shares as of that date. As of December 31, 2007, the Company has 960,747 shares of its common stock still available for repurchase.

The following table sets forth NJR's repurchase activity for the quarter ended December 31, 2007:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet be Purchased Under the Plans or Programs
10/1/07 – 10/31/07	—	—	—	8,147
11/1/07 – 11/30/07	—	—	—	1,008,147 (1)
12/1/07 – 12/31/07	47,400	50.082	—	960,747
Total	47,400	50.082	—	960,747

(1) Includes 1 million additional common shares approved to be repurchased by NJR Board of Directors.

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New Jersey Resources Corporation
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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) An annual meeting of shareholders was held on January 23, 2008.

(b) The shareholders voted upon the following matters at the January 23, 2008 annual shareholders meeting:

(i) The election of three directors to the Board of Directors for terms expiring in 2011. The results of the voting were as follows:

DIRECTORS UNTIL 2011	FOR	WITHHELD
Nina Aversano	21,771,028	1,290,463
Jane M. Kenny	22,661,663	399,829
David A. Trice	21,674,820	1,386,671

In addition to the directors elected at the annual meeting, the terms of the following members of NJR's Board of Directors continued after the meeting:

(ii) Approval of the action of the Audit Committee in retaining Deloitte & Touche LLP as NJR's independent registered public accounting firm. The results of the voting were as follows:

FOR	AGAINST	ABSTAIN
22,770,312	223,844	67,335

In addition to the directors elected at the annual meeting, the terms of the following members of NJR's Board of Directors continued after the meeting:

Lawrence R. Codey
Laurence M. Downes
M. William Howard
Alfred C. Koepp
J. Terry Strange
William H. Turner
George R. Zoffinger

There were no broker non-votes in either of the matters voted upon by our shareholders.

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ITEM 6. EXHIBITS

4.9 \$325 million Revolving Credit Facility Credit Agreement by and among the Company, PNC Bank, N.A. as Administrative Agent, the banks party thereto, JPMorgan Chase Bank, N.A. and Bank of America, N.A., as Syndication Agents, Citibank, N.A. and The Bank of Nova Scotia, as Documentation Agents and PNC Capital Markets, LLC, as Lead Arranger, dated as of December 13, 2007.

Certification of the Chief Executive Officer pursuant to section 302 of the
31.1 Sarbanes-Oxley Act

Certification of the Chief Financial Officer pursuant to section 302 of the
31.2 Sarbanes-Oxley Act

Certification of the Chief Executive Officer pursuant to section 906 of the
32.1 Sarbanes-Oxley Act*

Certification of the Chief Financial Officer pursuant to section 906 of the
32.2 Sarbanes-Oxley Act*

*This certificate accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by NJR for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW JERSEY RESOURCES
CORPORATION
(Registrant)

Date: February 6, 2008

By: /s/ Glenn C. Lockwood
Glenn C. Lockwood
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

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