BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application by City Gas Company of Florida, a division of NUI Utilities, Inc., for Authority to Issue Debt Security Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, and Request for Expedited Consideration.

Docket No. 040893-GU

Filed: August 18, 2004

APPLICATION BY CITY GAS COMPANY OF FLORIDA, A DIVISION OF NUI UTILITIES, INC., FOR AUTHORITY TO ISSUE DEBT SECURITY PURSUANT TO SECTION 366.04, FLORIDA STATUTES, AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE AND REQUEST FOR EXPEDITED CONSIDERATION

City Gas Company of Florida, a division of NUI Utilities, Inc., (the "Applicant"), by and through undersigned counsel, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, hereby files this application for authority to enter into a secured credit facility and to extend certain existing unsecured credit facilities, and respectfully requests expedited consideration of this application. In support, the Applicant states:

1. **Applicant Information:** The name and principal business address of the Applicant are NUI Utilities, Inc., One Elizabethtown Plaza, Union, New Jersey 07083. The Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its City Gas Company of Florida division, the Applicant Company supplies natural gas to customers in Maimi-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, and Brevard Counties, Florida. Accordingly, it is regulated as a "public utility" by the Florida Public Service Commission ("Commission") under Chapter 366, Florida Statutes.

2. **Incorporation and Domestication**: The Applicant was incorporated under the laws of the New Jersey in 1969. As noted above, the Applicant does business in the states of New Jersey, Florida and Maryland.

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3. **Persons Authorized To Receive Notices and Communications:** The names and addresses of the persons authorized to receive notices and communications with respect to this application are as follows:

Gary V. Perko
Hopping Green & Sams, P.A.
123 South Calhoun Street (32301)
P.O. Box 6526
Tallahassee, Florida 32314
(850) 425-2359

Mary Patricia Keefe, Esq.
Vice President, Regulatory
Affairs & General Counsel
NUI Utilities, Inc.
One Elizabethtown Plaza
Union, New Jersey 07083

4. **Capital Stock and Funded Debt:** As of July 31, 2004 NUI Corporation's capital stock included the following:

Authorized shares:	30,000,000
Issued shares:	16,187,855
Treasury shares:	218,742
Outstanding shares:	15,969,113

5. **Proposed Transaction:**

(a) Kind and Nature of Security:

The Applicant seeks authority to enter into a $75 million senior secured credit facility ("Bridge Facility") with Credit Suisse First Boston. The Bridge Facility will be secured by a first priority security interest in the Applicant's accounts receivable. The Bridge Facility will provide additional liquidity through the close of the sale of the Applicant's parent company, NUI Corporation ("NUI") to AGL Resources Inc. ("AGLR"), and can be utilized to purchase gas for the upcoming winter heating season and for general corporate purposes. It is assumed that the Bridge Facility will be fully drawn commencing September 30, 2004 until the closing of the sale of the company. The Bridge Facility will mature on May 15, 2004.

The Applicant also requests authority to extend certain short-term, unsecured financial facilities. Specifically, on November 24, 2003, Petitioner executed agreements providing for a

Term Loan of $50 million, a $50 million Revolver, and a $50 million Delayed Draw Term Loan (collectively, the "Unsecured Credit Facilities"). The term of the Unsecured Credit Facilities was for a period of 364 days, with one option to renew for an additional 364 day period. Due to the pending sale of the Applicant's corporate parent, the Applicant wishes to exercise its renewal option, thus bringing the Unsecured Credit Facilities to a period in excess of one year.

(b) Maximum Principal Amount: The maximum principal amount of the Secured Facility is $75 million. The maximum principal amount of the Unsecured Credit Facilities is a total of $150 million.

(c) Present Estimate of Interest Rate:

The Bridge Facility will be secured by a first priority security interest in the Applicant's accounts receivable. The interest rate on the Secured Facility will be, at the option of the Applicant, (i) Adjusted LIBOR plus 4.75% or (ii) ABR plus 3.75%. Adjusted LIBOR is the London Interbank Offered Rate; ABR is the Alternate Base Rate, which is the highest of (i) CSFB's Prime Rate, (ii) the Federal Funds Effective Rate plus ½ of 1% and (iii) 3% per annum.

The Applicant anticipates that the interest rate on the Unsecured Credit Facilities will be approximately 7% at the time the extension option is exercised.

6. Purpose For Which the Secured Debt Will Be Incurred: The purpose for entering the Secured Facility it to provide the Applicant access to additional financial resources before and during the winter heating season.

7. Lawful Object and Purpose: The Applicant is authorized to enter into the Bridge Facility and to extend the Unsecured Credit Facilities by its Articles of Incorporation and applicable law. The credit facilities are consistent with the proper performance by the Applicant of service as a public utility and reasonably necessary and appropriate for such purposes. The

credit facilities are in the public interest because they will permit the Applicant to have access to additional financial resources before and during the winter heating season. In the event of a particularly cold winter, the Bridge Facility will ensure that customers continue to receive safe, adequate and proper utility service.

8. **Counsel Passing On Legality of the Issue**: Counsel who will be passing legality of the debt is:

Joseph Brazil, Esq.
White and Case LLP
1155 Avenue of the Americas
New York, New York 10036

[redacted]

9. **Filings With Other State or Federal Regulatory Bodies**: No filings with federal regulatory bodies are required in order for the Applicant to incur the debt that is the subject of this Application; but approval is required from the New Jersey Board of Public Utilities, whose address is Two Gateway Center, Newark, New Jersey 07102.

10. **Control or Ownership:** There is no measure of control or ownership exercised by or over the Applicant as to any other public utility. The Applicant is a wholly owned subsidiary of its parent holding company, NUI, which has entered into a definitive merger agreement with AGLR, a registered "holding company" under the Public Utility Holding Company Act of 1935, as amended. Under the merger agreement AGLR will acquire all the outstanding shares of NUI.

11. **Exhibits:** Pursuant to Rule 25-8.003, Florida Administrative Code, the Applicant is filing Composite Exhibit "A" with this consists of: NUI's most recent Annual 10-K Report for September 30, 2003, as filed to the U.S. Securities and Exchange Commission

("SEC"); NUI's final Quarterly 10-Q Reports for December 31, 2003, March 31, 2004, and June 30, 2004, as filed with the SEC.

12. **Request for Expedited Disposition:** As discussed above, under the terms of the Secured Facility, the Applicant will draw upon the full amount of the Secured Facility at the closing **on or before September 30, 2004**. Moreover, the Credit Facilities will facilitate the pending sale transaction between the Applicant's corporate parent, NUI, and AGLR. Due to the recent events concerning the overall financial condition of NUI and the Applicant, it is in the best interest of rate-payers for the Commission to grant the Applicant authority to enter the Bridge Facility and to extend the Unsecured Credit Facilities on an expedited basis.

WHEREFORE, City Gas Company of Florida, a division of NUI Utilities, Inc., respectfully requests that the Commission:

(a) consider this application on an expedited basis;

(b) publish notice of intent to grant the application pursuant to Section 366.04(1), Florida Statutes, as soon as possible;

(c) schedule this matter for agenda as early as possible during the month of September, 2004;

(d) authorize NUI Utilities, Inc., to enter into the secured Bridge Facility in the maximum principal amount of $75 million and to extend existing Unsecured Credit Facilities in the principal amount of $150 million.

(e) grant such other relief as the Commission deems appropriate.

Respectfully submitted this 18th day of August, 2004.

HOPPING GREEN & SAMS, P.A.

By: _____

Gary V. Perko
P.O. Box 6526
Tallahassee, FL 32314
(850) 425-2359

Attorneys for NUI UTILITIES, INC., d/b/a
CITY GAS COMPANY OF FLORIDA

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2003

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-16385

NUI CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-3708029**
(State of incorporation)	(IRS employer identification no.)

550 Route 202-206, PO Box 760, Bedminster, New Jersey 07921-0760
(Address of principal executive offices, including zip code)

(908) 781-0500
(Registrant's telephone number, including area code)

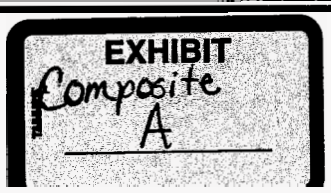
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes ☑ No ☐

The number of shares outstanding of each of the registrant's classes of common stock, as of April 30, 2004: Common Stock, No Par Value: 15,968,345 shares outstanding.



EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to the company's Form 10-Q for the fiscal quarter ended December 31, 2003, as originally filed on May 20, 2004, is being filed to revise the Consolidated Balance Sheet to properly reflect certain prepayments related to gas supply made at the end of the first fiscal quarter which should have been reflected on the Consolidated Balance Sheet as a credit (reduction) to cash and a debit to prepayments. There is no change in our total assets, working capital or net income as of and for the fiscal quarter ended December 31, 2003 as a result of this restatement.

Accordingly, the company's Form 10-Q for the fiscal quarter ended December 31, 2003 has been revised, as follows:

- The Consolidated Balance Sheet as of December 31, 2003 has been restated such that Cash and cash equivalents has been decreased by $6.1 million to $54.1 million, and Prepayments and other has been increased by $6.1 million to $65.7 million.

- The company's Consolidated Statement of Cash Flows for the three months ended December 31, 2003 has been restated to reflect the $6.1 million of prepayments, which reduced our cash flows from operating activities by that amount.

- A new footnote number sixteen has been added, which is titled "Restatement".

- In the Liquidity and Capital Resources section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, we have revised our disclosure of the company's net cash provided by operating activities to make corresponding changes.

- The company has updated Item 4. Disclosure Controls and Procedures, to include a discussion of a deficiency noted in the company's cash reconciliation process, which gave rise to this Amendment No. 1 on Form 10-Q/A, and implementation of a process change to address this issue.

As discussed in Note 2, the company has experienced and expects to continue experiencing significant liquidity problems. However, the $6.1 million of prepayments for gas supply has no impact on statements the company previously made in its Form 10-Q filed on May 20, 2004 regarding the company's anticipated cash flows, as the prepayment obligations were already factored into the company's anticipated cash flows.

Except as described above, no other changes have been made to this report. This Amendment No. 1 does not purport to provide a general update or discussion of any other developments at the company subsequent to the original filing date. The filing of this Amendment No. 1 shall not be deemed an admission that the original filing, when made, included any known untrue statement of material fact or knowingly omitted to state a material fact necessary to make a statement not misleading.

Item 1. Financial Statements

NUI Corporation and Subsidiaries
Consolidated Statement of Income (Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended December 31,	
	2003	2002
Operating Margins		
Operating revenues	$166,503	$171,817
Less – Purchased gas and fuel	101,220	109,023
Cost of sales and services	3,636	3,502
Energy taxes	3,906	3,494
	57,741	55,798
Other Operating Expenses		
Operations and maintenance	39,411	27,850
Restructuring costs	1,146	---
Depreciation and amortization	8,799	8,627
Taxes, other than income taxes	2,396	2,091
	51,752	38,568
Operating Income	5,989	17,230
Equity in earnings of Saltville Gas Storage Company, LLC	377	---
Loss on extinguishment of debt	9,940	---
Other income	679	416
Interest expense	8,879	6,340
Other interest (income)	(731)	(993)
Income (Loss) from Continuing Operations Before Income Taxes	(11,043)	12,299
Income tax expense (benefit)	(3,645)	4,938
Income (Loss) from Continuing Operations	(7,398)	7,361
Discontinued Operations		
Loss from discontinued operations	(1,140)	(349)
Income tax benefit	(376)	(143)
Loss from Discontinued Operations	(764)	(206)
Net Income (Loss)	$(8,162)	$7,155
Basic and Diluted Income (Loss) from Continuing Operations Per Share of Common Stock	$ (0.46)	$ 0.46
Basic and Diluted Net Income (Loss) Per Share of Common Stock	$ (0.51)	$ 0.45
Dividends Per Share of Common Stock	$0.245	$0.245
Weighted Average Number of Shares of Common Stock Outstanding	15,989,740	16,025,353

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

	December 31, 2003 Restated (Unaudited)	September 30, 2003 (*)
ASSETS		
Current Assets		
Cash and cash equivalents	$54,145	$25,209
Accounts receivable (less allowance for doubtful accounts of $6,079 and $7,304, respectively)	91,443	55,575
Fuel inventories, at average cost	57,492	63,852
Unrecovered purchased gas costs	38,635	25,398
Derivative assets	8,855	8,059
Federal income tax receivable	---	3,333
Assets held for sale	---	7,976
Prepayments and other	65,736	31,120
	316,306	220,522
Property, Plant and Equipment		
Property, plant and equipment, at original cost	966,197	954,446
Accumulated depreciation and amortization	(330,899)	(323,370)
Unamortized plant acquisition adjustments, net	13,104	13,372
Assets held for sale	---	147
	648,402	644,595
Funds for Construction Held by Trustee	2,061	2,058
Investment in Saltville Gas Storage Company, LLC	16,834	16,456
Other Investments	195	210
Other Assets		
Regulatory assets	50,329	57,040
Notes receivable from Saltville Gas Storage Company, LLC	18,120	17,575
Other receivable from Saltville Gas Storage Company, LLC	6,661	8,010
Long-term portion of derivative assets	7,416	5,133
Goodwill	8,056	8,056
Assets held for sale	---	1,002
Other assets	37,890	40,106
	128,472	136,922
	$1,112,270	$1,020,763
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Notes payable to banks	$335,000	$164,100
Notes payable	1,400	1,400
Current portion of long term debt and capital lease obligations	1,904	2,167
Accounts payable, customer deposits and accrued liabilities	117,955	125,353
Liabilities held for sale	---	3,150
Federal income and other taxes	8,969	5,166
Current portion of deferred Federal income taxes	7,875	6,705
	473,103	308,041
Other Liabilities		
Capital lease obligations	9,721	9,798
Deferred Federal income taxes	54,461	61,608
Liabilities held for sale	---	19
Unamortized investment tax credits	3,267	3,375
Environmental remediation reserve	33,938	33,941
Regulatory and other liabilities	71,822	64,813
	173,209	173,554
Capitalization		
Common shareholders' equity	216,896	230,115
Long-term debt	249,062	309,053
	465,958	539,168
	$1,112,270	$1,020,763

** Derived from audited financial statements.*
See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)
(Dollars in thousands)

	Three Months Ended December 31,	
	2003 Restated	**2002**
Operating Activities		
Net income (loss)	$(8,162)	$7,155
Less: Loss from discontinued operations, net of tax	(764)	(206)
Net income (loss) from continuing operations	(7,398)	7,361
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,799	8,627
Deferred Federal income taxes	(5,977)	(1,162)
Amortization of deferred investment tax credits	(108)	(188)
Derivative assets and liabilities	4,648	3,457
Regulatory assets and liabilities	4,544	1,914
Other	(1,612)	1,456
Effect of changes in:		
Accounts receivable, net	(35,868)	(81,368)
Fuel inventories	6,360	323
Accounts payable, deposits and accruals	(7,398)	49,286
Under-recovered purchased gas costs	(11,805)	(6,793)
Prepaids and other	(34,616)	10,099
Federal and state income taxes	7,136	4,982
Other	2,174	1,105
Net cash used in continuing operations	(71,121)	(901)
Net cash provided by (used in) discontinued operations	5,537	(5,239)
Net cash used in operating activities	(65,584)	(6,140)
Financing Activities		
Proceeds from sales of common stock, net of treasury stock purchased	138	287
Dividends to shareholders	(3,904)	(3,937)
Payments of long-term debt	(60,000)	---
Principal payments under capital lease obligations	(704)	(670)
Net short-term borrowings	170,900	16,310
Net cash provided by continuing operations	106,430	11,990
Net cash used in discontinued operations	---	(3)
Net cash provided by financing activities	106,430	11,987
Investing Activities		
Cash expenditures for property, plant and equipment	(12,150)	(12,672)
Net proceeds from sale of subsidiaries	---	15,309
Other	585	(173)
Net cash provided by (used in) continuing operations	(11,565)	2,464
Net cash used in discontinued operations	(345)	(2,805)
Net cash used in investing activities	(11,910)	(341)
Net increase in cash and cash equivalents from continuing operations	23,744	13,553
Net increase (decrease) in cash and cash equivalents from discontinued operations	5,192	(8,047)
Net Increase in Cash and Cash Equivalents	$28,936	$ 5,506
Cash and Cash Equivalents		
At beginning of period	$25,209	$ 4,247
At end of period	$54,145	$ 9,753

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include all operating divisions and subsidiaries of NUI Corporation (NUI and, together with its subsidiaries, the company, we, our, or us). NUI is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. NUI's local utility operations are carried out by NUI's wholly-owned subsidiary, NUI Utilities, Inc. (NUI Utilities) and a subsidiary of Virginia Gas Company (VGC), and serve approximately 369,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital Corp. and its subsidiaries. As of April 1, 2004, however, the company's only remaining non-regulated subsidiary with substantial continuing operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The company's other non-regulated subsidiaries have either been sold or are winding down their operations; these subsidiaries include: NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications services subsidiary sold in December 2003 (see Note 4); NUI Energy, Inc. (NUI Energy), an energy retailer; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy trading and portfolio management subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which sold wireless and network telephone services. The company's wholly-owned subsidiary, NUI Saltville Storage, Inc. (NUISS), is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC). SSLLC is a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia. All intercompany accounts and transactions have been eliminated in consolidation.

On September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to the company while it seeks a buyer. As discussed in Note 5, for all periods presented, the company has classified the results of Valley Cities Gas and Waverly Gas, NUI Telecom, and TIC as Discontinued Operations in the Consolidated Statements of Income. The assets and liabilities of NUI Telecom have been classified as Assets Held for Sale and Liabilities Held for Sale in the Consolidated Balance Sheet as of September 30, 2003.

During fiscal 2003, the company discontinued the operations of NUI Energy and TIC. During January 2004, the company began to wind down the trading operations of NUI Energy Brokers and discontinued trading operations altogether at NUI Energy Brokers in March 2004, although NUI Energy Brokers continues to manage its prior contractual obligations under a long-term sales agreement in addition to two long-term gas storage and transportation agreements discussed in Note 12. Effective April 1, 2004, OAS has subcontracted all of its existing services to a third party engineering firm. OAS has notified its customers that upon expiration of their current contracts, their relationship with OAS will terminate.

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation.

The consolidated financial statements contained herein have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for interim periods. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

NUI is a holding company and is exempt from registration under the Public Utility Holding Company Act of 1935. NUI Utilities is subject to regulation as an operating utility by the public utility commissions of the states in which it operates. Certain subsidiaries of VGC are regulated by the Virginia State Corporation Commission. SSLLC is subject to regulation by the Federal Energy Regulatory Commission. Because of the seasonal nature of gas utility operations, the results for interim periods are not necessarily indicative of the company's results for an entire year.

2. Liquidity Issues

As a result of various factors, NUI and NUI Utilities have experienced and expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayment for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the purchased gas adjustment clauses; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004, NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy Marketing & Trading LP (Cinergy), NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the NJBPU.

- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner, this could materially adversely affect NUI's and NUI Utilities' financial condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004 (see Notes 10 and 11 for further discussion on debt covenants). The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its credit and debt financing.

3. Common Shareholders' Equity

The components of common shareholders' equity were as follows (dollars in thousands):

	December 31, 2003	September 30, 2003
Common stock, no par value	$287,453	$288,620
Shares held in treasury	(5,013)	(5,320)
Retained deficit	(61,017)	(48,951)
Unearned employee compensation	(2,310)	(3,589)
Accumulated other comprehensive loss (Note 8)	(2,217)	(645)
Total common shareholders' equity	$216,896	$230,115

4. Sale of NUI Telecom

On October 30, 2003, the company agreed to sell its NUI Telecom subsidiary for $2.0 million. The transaction closed on December 15, 2003. The operating results of NUI Telecom have been classified as discontinued operations in the Consolidated Statements of Income for all periods presented (see Note 5).

5. Discontinued Operations and Assets and Liabilities Held for Sale

The revenues, margins and operating income (losses) of the company's discontinued operations that have been reported as discontinued operations on the Consolidated Statements of Income for the three-month periods ended December 31 are as follows, exclusive of affiliate transactions (in thousands):

	2003	2002
Revenues:		
Distribution Services	$ ---	$ 553
Retail & Business Services	7,077	12,601
Operating Revenues	$7,077	$13,154
Operating Margins:		
Distribution Services	$ ---	$ 250
Retail & Business Services	1,630	4,963
Operating Margins	$1,630	$5,213
Pre-Tax Operating Income (Loss):		
Distribution Services	$ ---	$ 120
Retail & Business Services	(2,492)	154
Pre-Tax Operating Income (Loss)	(2,492)	274
Other Income (Expense)	1,352	(619)
Net Interest Charges	---	4
Pre-Tax Loss from Discontinued Operations	$(1,140)	$(349)

The amounts included above within Distribution Services are for Valley Cities Gas and Waverly Gas, which were sold collectively on November 7, 2002 for approximately $15 million. The amounts included above within Retail and Business Services are for NUI Telecom, which was sold on December 15, 2003 for $2 million, and TIC, whose operations have been discontinued. Both sales were immaterial to the company's results in the respective periods. In addition, the assets and liabilities held for sale on the Consolidated Balance Sheet at September 30, 2003 (not shown here) relate to NUI Telecom.

6. Earnings Per Share

The following table summarizes the company's basic and diluted earnings per share calculations for the three-month periods ended December 31 (amounts are in thousands, except per share amounts):

	2003	2002
Income (loss) from continuing operations	$(7,398)	$7,361
Loss from discontinued operations	(764)	(206)
Net income (loss)	$(8,162)	$7,155
Weighted Average Shares Outstanding	15,990	16,025
Earnings (Loss) Per Share:		
Basic and diluted income (loss) from continuing operations	$(0.46)	$0.46
Basic and diluted loss from discontinued operations	(0.05)	(0.01)
Basic and diluted net income (loss)	$(0.51)	$0.45

The company's weighted average diluted shares outstanding (not shown) includes shares which would be issuable upon the exercise of stock options outstanding under NUI's stock option plan, which is added to weighted average shares outstanding. As of December 31, 2003, unvested stock options having an exercise price less than the market value of the company's shares for the three-month period provided for an additional 393 shares of common stock equivalents outstanding, which had no impact on the calculation of company's diluted earnings per share. The number of shares that could potentially be dilutive to earnings per share in the future that have been excluded in the computation of diluted earnings per share, because to do so would have been antidilutive, are 328,200 and 1,006,500, respectively, as of December 31, 2003 and December 31, 2002.

7. Restructuring Charges and Other Employee Severance Costs

During November 2003, the company commenced a reorganization effort that resulted in workforce reductions. The reorganization efforts resulted in charges of approximately $1.1 million to restructuring costs in the first quarter of fiscal 2004, primarily relating to severance costs for 17 individuals. The company has approximately $1.0 million of unpaid liabilities included in Accounts Payable, Customer Deposits, and Accrued Liabilities on the Consolidated Balance Sheet at December 31, 2003 and expects to pay this amount out over a two-year period.

Further workforce reductions were undertaken during January 2004 and March 2004 resulting in additional charges to restructuring costs of approximately $2.6 million in the second quarter of fiscal 2004, primarily relating to severance costs for 24 individuals.

In January 2004, two executive officers ended their employment with the company. A. Mark Abramovic served as President of the company since September 26, 2003, until his retirement in January 2005. Previously he served as Senior Vice President and Chief Financial Officer since September 1997, and Chief Operating Officer since May 1998. Until his resignation in January 2005, James R. Van Horn served as Chief Administrative Officer since May 1998, and General Counsel and Secretary since 1995. With respect to the departure of these two executives, the company recorded a $2.1 million charge in operations and maintenance expense in the second quarter of fiscal 2004, primarily relating to severance costs.

8. Comprehensive Income

The components of Comprehensive Income for the three-month periods ended December 31 are as follows (amounts in thousands):

	2003	2002
Net income (loss)	$(8,162)	$7,155
Other comprehensive income (loss):		
Derivatives qualifying as hedges, net	(1,572)	---
Total comprehensive income (loss)	$(9,734)	$7,155

Accumulated other comprehensive income (loss), included in Common Shareholders' Equity on the Consolidated Balance Sheets was $(2,217) at December 31, 2003, and $(645) at September 30, 2003. Included in the balance at December 31, 2003, was $(1,404) related to minimum pension liability (net of $976 in taxes) and $(813) related to derivatives qualifying as hedges (net of $565 in taxes).

The $(813) included in other comprehensive income (loss) at December 31, 2003 for derivative hedges is expected to be reclassified into earnings over the next twelve months. However, the actual amount reclassified into earnings could differ based on fluctuations in market prices. At December 31, 2003 there was no hedge ineffectiveness recognized in earnings.

The derivative hedges described above cover various time periods ranging from January 2004 to January 2005.

9. Stock Options

The company measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded.

Had employee compensation expense been recognized based on the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the company's net income and diluted earnings per share for the three-month periods ended December 31 would have been as shown in the following table (in thousands, except for per share amounts):

	2003	2002
Net income (loss) as reported	$(8,162)	$7,155
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(179)	(473)
Pro forma net income (loss)	$(8,341)	$6,682
Earnings Per Share:		
Basic and diluted- as reported	$(0.51)	$0.45
Basic and diluted- pro forma	$(0.52)	$0.42

10. Notes Payable to Banks

On November 24, 2003, NUI and NUI Utilities each entered into new separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash into escrow with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the

proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's new credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of December 31, 2003, NUI has fully drawn all amounts available under its credit agreement. As of May 14, 2004, NUI had overnight cash investments of $28.8 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of December 31, 2003, NUI Utilities had drawn an aggregate of $80.0 million under the $50 million revolver and the $50 million term loan facility. Subsequent to that date, NUI Utilities became fully drawn under the $50 million revolver and the $50 million term loan facility. As of May 14, 2004, NUI Utilities had overnight cash investments of $109.1 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, amended as of May 10, 2004, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement (NJBPU Settlement),

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

At December 31, 2003, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $80.0 million, respectively, at weighted average interest rates of 8.0 percent and 7.1 percent. As of that date, NUI had no unused borrowing capacity under its credit facility and NUI Utilities had $20 million unused borrowing capacity under its credit facility (this amount does not include the available $50 million delayed draw term loan facility). Also, as of December 31, 2003, NUI and NUI Utilities had approximately $33.8 million and $18.9 million, respectively, of cash held as short-term investments, a substantial portion of which may be used toward the repayment of short-term borrowings under the company's credit agreements.

The weighted average daily amounts of borrowings outstanding under NUI's previous and current credit facilities and the weighted average interest rates on those amounts were $145.0 million and $46.9 million at 6.5 percent and 3.4 percent for the three-months ended December 31, 2003 and 2002, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' previous and current credit facilities and the weighted average interest rates on those amounts were $108.6 million and $88.8 million at 4.5 percent and 3.2 percent for the three-months ended December 31, 2003 and 2002, respectively.

Dividend Restrictions Under Short-term Credit Facilities. Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI is also prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

11. Long-term Debt

NUI has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As discussed in Note 10, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded as a charge during the first quarter of fiscal 2004.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at

5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at December 31, 2003 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA will be extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of December 31, 2003, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of NUI's annual report, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarter ended March 31, 2004 and related documentation and officers' certificates. Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to

such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

The company's long-term debt maturities for each of the next five fiscal years are as follows: zero in 2004; $50 million in 2005; $5 million in 2006; zero in 2007; and $15 million in 2008.

Dividend Restrictions Under Long-term Debt Agreements. The payment of cash dividends by NUI Utilities to NUI is restricted pursuant to the SBPA to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, under the amendment to NUI Utilities' credit facility dated as of May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding.

12. Commitments and Contingencies

Focused Audit. On March 20, 2003, the New Jersey Board of Public Utilities (NJBPU) announced the initiation of a focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas. The NJBPU had expressed the belief that recent downgrades of the senior unsecured debt of NUI and NUI Utilities, as well as negative credit rating agency comments, and concerns raised during a recent competitive services audit, substantiated the need for an in-depth review of the financial practices of the company and its subsidiaries. On June 4, 2003, the NJBPU chose The Liberty Consulting Group to perform the audit. The focused audit covered the following areas: corporate governance; strategic planning; financial structure and interaction; accounting and property records; executive compensation and affiliate transactions. An interim audit report was released by the NJBPU on December 17, 2003 and the final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004, at the NJBPU's public agenda meeting. Among other things, the report criticizes NUI for the energy management practices on behalf of NUI Utilities, its financing and cash pooling arrangements, the impact of unprofitable non-utility operations on NUI Utilities, the method used to allocate shared services costs among its business units, and the propriety of rates established in the 2002 Elizabethtown base rate case. NUI filed responsive comments on March 26, 2004 and a settlement was reached with the NJBPU on April 14, 2004. On April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. The company recorded a pre-tax charge of $30 million in fiscal 2003 to reflect the final settlement of the focused audit. Of this amount, $28 million was recorded as the amount to be refunded to customers in New Jersey. The company has also agreed to pay interest at 7.95 percent annually on the unpaid balance.

In addition, the company established a pre-tax reserve of $2.6 million in fiscal 2003 in anticipation of providing refunds to customers in Florida as a result of transactions by the company's NUI Energy Brokers subsidiary.

Default under Credit Agreements. In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended on May 10, 2004 to further extend these deadlines.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable

Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarter ended March 31, 2004, and related documentation and officers' certificates. Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Commitments. On April 30, 2001, the company announced an agreement with a unit of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving the required regulatory approval in February 2003, VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of December 31, 2003, the company has loaned SSLLC an aggregate of approximately $24.8 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected to be funded with internally generated cash flows of the joint venture.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with Duke Energy Gas Transmission (DEGT) for the firm transportation of natural gas on the planned Patriot pipeline. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Guarantees. The company has guarantees of approximately $193.9 million to 44 counterparties as of December 31, 2003, in support of NUI Energy Brokers' trading activities. These guarantees are necessary to facilitate trading with a broad group of potential counterparties, although typically NUI Energy Brokers uses only a fraction of the issued guarantees at any given time. Further, since NUI Energy Brokers has netting agreements in place with most of its counterparties, the guarantees would apply only to net balances owed to its respective counterparties with which it has such agreements. As of December 31, 2003, the amount of purchases covered by outstanding guarantees was approximately $2.5 million.

Environmental Matters. The company owns, or previously owned, certain properties located in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland on which manufactured gas plants (MGP) were operated by the company or by other parties in the past. In New Jersey, the company is currently conducting remedial activities at such properties with oversight from the New Jersey Department of Environmental Protection and anticipates initiation of such activities in the state of North Carolina within the next five years. Although the actual total cost of future environmental investigation and remediation efforts

cannot be reasonably estimated, the company has recorded on an undiscounted basis a total reserve of approximately $33.9 million which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $30.1 million relates to remediation of the New Jersey MGP properties and approximately $3.8 million relates to remediation of the MGP properties located outside the state of New Jersey.

The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $35.8 million, inclusive of interest, as of December 31, 2003, reflecting the future recovery of both incurred costs and future remediation liabilities in the state of New Jersey. The company has also been successful in recovering a portion of MGP remediation costs incurred in New Jersey from the company's insurance carriers and continues to pursue additional recovery. The company sold the net assets of its North Carolina Gas utility division on September 30, 2002 and its Valley Cities Gas and Waverly Gas utility divisions on November 7, 2002. Included in these asset sales were the environmental obligations for two of the company's MGP sites: one in North Carolina and one in Pennsylvania. With respect to costs associated with the MGP properties located outside New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful in recovering a portion of the remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able to express a belief as to the success of additional recovery efforts. The company is working with the regulatory agencies to prudently manage its MGP costs so as to mitigate the impact of such costs on both ratepayers and shareholders.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $59.5 million for the next twelve-month period (this amount includes the company's obligations under two twenty-year agreements to pay annual demand charges for the firm transportation and storage of natural gas, discussed above). The company currently recovers, and expects to continue to recover, the majority of such fixed charges through its purchased gas adjustment clauses. The company also is committed to purchase from a single supplier, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 billion cubic feet per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk reduction in the contracted daily delivery quantity. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

Legal Matters. Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Class Action Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001 and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section

20(a) of the Exchange Act against the company, and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants (i) failed to disclose material facts that would impair the company's current and future earnings, including (a) the allegedly accurate amount and explanation of the company's bad debts, (b) a purportedly illegal practice by the company in "re-terminating" intrastate calls, (c) alleged accounting improprieties in connection with purportedly unearned revenue, and (d) allegedly inaccurate earnings per share information, and (ii) inflated the company's earnings materially by (a) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, (b) allegedly attributing the company's rising costs to incorrect and immaterial factors, and (c) purportedly pursuing illegal telecommunications billing practices. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. Opposition papers to the motion to dismiss were served on December 19, 2003, and reply papers were filed on February 23, 2004. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants. Defendants filed an Answer to the Second Amended Complaint on May 10, 2004. No discovery has occurred yet. Although the company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in June of 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of $83,331.00. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by plaintiff on certain issues. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing. At this time, the company is unable to determine the likelihood of an outcome.

The plaintiffs, James Greiff and TIC Enterprises, Inc., sued the company and three other company related entities, NUI Sales Management, Inc. (NUI Sales), NUI Capital Corp. and TIC, for breach of contract and fraud arising out of the company's purchase of Greiff's interest in TIC Enterprises, LLC. The plaintiffs allege they are entitled to payment on a $3 million promissory note and have made claims arising from the defendants' alleged breach of a 2001 purchase agreement for $22 million in punitive damages for the defendants' alleged fraud and $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs have also alleged a tortious interference claim for $3 million, which the court previously dismissed. The company and the remaining defendants are vigorously defending the lawsuit and deny any liability to the plaintiffs. NUI Sales and defendant TIC have a four-count counterclaim against both plaintiffs for more than $3 million. They are for: (1) breach of the 2001 Purchase Agreement; (2) breach of the 1997 Amended and Restated Limited Liability Company Agreement; (3) fraud in the inducement; and (4) unjust enrichment. This case, originally filed in the Northern District of Georgia, was recently transferred on defendants' motion to the District of Delaware. The parties are in the midst of discovery, and have exchanged written responses and objections to discovery requests along with numerous documents. The parties have also begun taking depositions of the parties and fact witnesses. On May 2, 2004, NUI proposed a settlement to the plaintiffs in which the company agreed

to pay the plaintiffs $1.4 million to completely satisfy NUI's obligation under the note, as well as to resolve all other claims that the company and the plaintiffs had brought against each other. On May 5, 2004, NUI received the plaintiffs' written acceptance of the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under the note from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003.

Other. On November 19, 2003, the company announced that in connection with the focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas initiated by the NJBPU, certain questionable transactions within NUI Energy Brokers were identified. The Attorney General of the State of New Jersey also is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. NUI is cooperating fully with the New Jersey Attorney General's Office.

In November 2003, the SEC advised the company that it is conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the New Jersey Attorney General's Office. On March 1, 2004, the SEC requested the company to voluntarily produce certain documents in furtherance of its informal inquiry. In particular, the SEC is requesting information regarding allegations of inappropriate conduct by employees of NUI Energy Brokers. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The Audit Committee of the Board of Directors of NUI had previously retained independent counsel to conduct an internal investigation into these transactions at NUI Energy Brokers.

The company is involved in various other claims and litigation incidental to its business. In the opinion of management, none of these other claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

13. New Accounting Standards

In June 2002, the Emerging Issues Task Force (EITF) issued EITF 02-03, "Issues Involved in Accounting for Contracts Under Issue 98-10," (EITF 02-03). The purpose of EITF 02-03 is to address certain issues related to energy trading activities, including (a) gross versus net presentation in the income statement, (b) whether the initial fair value of an energy trading contract can be other than the price at which it was exchanged (i.e., whether there is any profit at inception), and (c) additional disclosure requirements for energy trading activities. On October 25, 2002, the EITF reached a consensus on EITF 02-03 that changes the accounting for certain energy contracts. The provisions of EITF 02-03 became effective at certain times, and the provisions that were adopted during fiscal 2003 are as follows:

- The EITF rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10), which was the authoritative accounting followed by NUI Energy Brokers and NUI Energy. Pursuant to EITF 98-10, an entity accounted for energy contracts at fair value with changes in fair value recognized in earnings if the energy contract was determined to be part of an entity's trading activities. In contrast to EITF 98-10, EITF 02-03 prohibits mark-to-market accounting for energy-related contracts that do not meet the definition of a derivative under SFAS 133. Any contracts not meeting the definition of a derivative under SFAS 133 must be accounted for on the accrual basis.
- The consensus applied immediately to non-derivative energy-related contracts executed after October 25, 2002.
- The consensus applies to existing non-derivative energy-related contracts for fiscal periods beginning after December 15, 2002 and the cumulative effect of a change in accounting principle must be reported upon initial application.
- The EITF indicated that an entity should not record unrealized gains or losses at the inception of derivative contracts unless the fair value of each contract in its entirety is evidenced by quoted market prices or other current market transactions for contracts with similar terms and counterparties.

The company continued to mark all existing energy-related contracts to market based on EITF 98-10 during the first quarter of fiscal 2003 prior to applying the new consensus. However, the consensus required NUI to record a cumulative effect adjustment to convert any contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective January 1, 2003.

The primary contracts affected as a result of applying the new consensus are the full requirements natural gas sales contracts associated with NUI Energy and a large natural gas storage contract within NUI Energy Brokers. However, the majority of NUI Energy Brokers' contracts are considered derivatives under SFAS 133 and are marked-to-market through earnings. The cumulative effect adjustment to convert the contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective on January 1, 2003 was a loss of approximately $9.9 million before taxes.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003, issued a revised FIN 46R. The objective of both FIN 46 and FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that, by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities no later than the end of the first reporting period after March 15, 2004. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The company has determined that it does not meet the consolidation requirements with respect to its joint venture with Duke Energy (see Note 12). In addition, the company has not created or obtained any variable interest entities after January 31, 2003. Therefore, the adoption of the consolidation requirements of FIN 46R in March 2004 did not have an impact on the company's financial position or results of operations.

14. Subsequent Events

In January 2004, two executive officers ended their employment with the company. A. Mark Abramovic served as President of the company since September 26, 2003, until his retirement in January 2004. Previously he served as Senior Vice President and Chief Financial Officer since September 1997 and as Chief Operating Officer since May 1998. Until his resignation in January 2004, James R. Van Horn served as Chief Administrative Officer since May 1998 and as General Counsel and Secretary since 1995. With respect to the departure of these two executives, the company recorded a $2.1 million charge in operations and maintenance expense in the second quarter of fiscal 2004 primarily relating to severance costs.

15. Business Segment Information

The company's operations are organized and managed as three primary segments: Distribution Services, Energy Asset Management, and Retail and Business Services. The Distribution Services segment currently distributes natural gas in three states through the company's regulated utility operations, and engages in appliance leasing, repair and maintenance operations, and off-system gas sales. The Energy Asset Management segment reflects the operations of NUI Energy Brokers and all of the VGC subsidiaries. The Retail and Business Services segment reflects the operations of the company's UBS operations and NUI Energy subsidiary. The company also has corporate operations that do not generate any revenues.

During fiscal 2003, the company realigned its reportable business segments as follows: the appliance service businesses in New Jersey and Florida, previously reported within the Retail and Business Services segment, are now included within the Distribution Services segment; off-system sales made by NUI Energy Brokers on behalf of the utility operations, previously reported within the Energy Asset Management segment, are now included within the Distribution Services segment; NUI Telecom, previously reported within the Retail and Business Services segment, was being held for sale at September 30, 2003, and is now reported within

discontinued operations; the operations of TIC are being wound down by the company and have also been reported as discontinued operations; and the operating results of NUI Environmental, previously reported within discontinued operations, are now included as part of the Retail and Business Services segment. The change for NUI Environmental, which was sold in September 2003, was due to the company's potential future involvement in this business under certain ancillary agreements entered into by the company on the date of the sale.

The following table provides information concerning the major segments of the company for the three-month periods ended December 31, 2003 and 2002. Revenues include intersegment sales to affiliated entities, which are eliminated in consolidation. All of the company's operations are in the United States and therefore do not need separate disclosure by geographic region. Certain reclassifications have been made to prior year segment data to conform with the current year's presentation.

(Dollars in thousands)	Three Months Ended December 31, 2003	2002
Revenues:		
Distribution Services	$161,538	$166,186
Energy Asset Management	3,803	4,239
Retail and Business Services	2,334	2,859
Intersegment Revenues	(1,172)	(1,467)
Total Revenues	$166,503	$171,817
Operating Margins:		
Distribution Services	$53,612	$50,745
Energy Asset Management	3,451	3,945
Retail and Business Services	1,152	1,673
Intersegment Operating Margins	(474)	(565)
Total Operating Margins	$57,741	$55,798
Pre-Tax Operating Income:		
Distribution Services	$16,522	$18,187
Energy Asset Management	53	827
Retail and Business Services	(14)	(994)
Total Pre-Tax Operating Income	$16,561	$18,020
Pre-Tax Income (Loss) from Continuing Operations:		
Distribution Services	$12,291	$14,926
Energy Asset Management	(309)	585
Retail and Business Services	(53)	(1,148)
Total Pre-Tax Income (Loss) from Continuing Operations	$11,929	$14,363

A reconciliation of the company's segment pre-tax operating income and income (loss) from continuing operations, to amounts reported on the consolidated financial statements, is as follows:

(Dollars in thousands)	Three Months Ended December 31, 2003	2002
Segment Pre-Tax Operating Income	$16,561	$18,020
Non-segment pre-tax operating income (loss)	(10,572)	(790)
Pre-Tax Operating Income	$ 5,989	$17,230
Segment Pre-Tax Income (Loss) from Continuing Operations	$ 11,929	$14,363
Non-segment pre-tax income (loss) from continuing operations	(22,972)	(2,064)
Pre-Tax Income (Loss) from Continuing Operations	$(11,043)	$12,299

The increase in non-segment pre-tax operating loss for the three months ended December 31, 2003, as compared to the same period in fiscal 2003, is primarily due to increased corporate expenses for outside professional services, bank fees and restructuring charges (see Note 7), which costs have not been allocated to the company's various business units. The increase in non-segment pre-tax loss from continuing operations for the three months ended December 31, 2003, as compared to the same period in fiscal 2003, is primarily due these same factors, plus a pre-tax loss of approximately $9.9 million recorded for the early retirement of debt (see Note 10).

16. Restatement

This Amendment No. 1 on Form 10-Q/A to the company's Form 10-Q for the fiscal quarter ended December 31, 2003, as originally filed on May 20, 2004, is being filed to revise the Consolidated Balance Sheet to properly reflect certain prepayments related to gas supply made at the end of the first fiscal quarter which should have been reflected on the Consolidated Balance Sheet as a credit (reduction) to cash and a debit to prepayments. There is no change in our total assets, working capital or net income as of and for the fiscal quarter ended December 31, 2003 as a result of this restatement.

Accordingly, the company's Form 10-Q for the fiscal quarter ended December 31, 2003 has been revised, as follows:

- The Consolidated Balance Sheet as of December 31, 2003 has been restated such that Cash and cash equivalents has been decreased by $6.1 million to $54.1 million, and Prepayments and other has been increased by $6.1 million to $65.7 million.

- The company's Consolidated Statement of Cash Flows for the three months ended December 31, 2003 has been restated to reflect the $6.1 million of prepayments, which reduced our cash flows from operating activities by that amount.

As discussed in Note 2, the company has experienced and expects to continue experiencing significant liquidity problems. However, the $6.1 million of prepayments for gas supply has no impact on statements the company previously made in its Form 10-Q filed on May 20, 2004 regarding the company's anticipated cash flows, as the prepayment obligations were already factored into the company's anticipated cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of NUI Corporation included elsewhere herein and with the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Recent Developments

The company recently has faced a number of challenges and experienced significant events, including:

- the settlement agreement with the New Jersey Board of Public Utilities (NJBPU) and other regulatory orders issued by the NJBPU;
  the investigations of transactions at NUI Energy Brokers;
  new credit facilities at NUI and NUI Utilities;
  the gas supply contract with Cinergy Marketing and Trading, LP (Cinergy);
  changes in the Boards of Directors of NUI and NUI Utilities and changes in management;
  the pursuit of the sale of the company; and
- the sale of NUI Telecom.

Settlement Agreement with the NJBPU

On April 14, 2004, the company announced that NUI, NUI Utilities and Elizabethtown Gas Company had entered into a settlement agreement with the NJBPU on all issues related to the focused audit performed by Liberty Consulting Group on behalf of the NJBPU, and on April 26, 2004, the NJBPU issued a Final Order accepting and adopting that settlement agreement. Pursuant to the settlement agreement, NUI Utilities agreed to refund $28 million plus interest to Elizabethtown Gas ratepayers and to pay a $2 million penalty to the State of New Jersey over five years. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008. The $2 million penalty shall be paid in $400,000 annual installments in each of NUI's fiscal years 2004 through 2008. The company has the option to make a balloon payment of all outstanding amounts due under the terms of the settlement agreement at any time. In addition, upon the close of a sale of the company, any outstanding balance is required to be paid in full by the company within a period to be determined by the NJBPU. The refund and penalty increased the company's net after-tax loss for fiscal year 2003 by approximately $18.6 million, or $1.16 per share.

In addition to the required monetary refund and penalty, NUI agreed to file a plan with the NJBPU for implementing the recommendations of the Liberty report, as modified by the settlement. The settlement agreement also contains a number of other provisions, including, without limitation:

- The company shall continue to use its existing cost allocation policy until the earlier of the sale of the company or 18 months from the date the settlement agreement was adopted as final;

- The company and the NJBPU agree that an appropriate target equity percentage for Elizabethtown Gas shall be 45 percent and if the average equity percentage for the preceding twelve months falls below 45 percent, the company shall provide the NJBPU with a written plan on how the 45 percent equity capital will be reinstated;

- The company agrees to maintain a separate cash management system for NUI Utilities and is prohibited from commingling cash of Elizabethtown Gas or of NUI Utilities with the cash of NUI or of non-utilities affiliates of NUI;

- The company shall provide the NJBPU with various financial statements of NUI Utilities and Elizabethtown Gas;

- The pre-approval by the NJBPU is required for various intercompany arrangements and for certain financing arrangements and certain other transactions that could impact the assets or operations of Elizabethtown Gas or NUI Utilities;

- NUI Utilities shall have different management and a separate Board of Directors from NUI responsible for utility operations although NUI and NUI Utilities may have up to three common directors; and

- The company agrees to settle all receivables and payables for allowed intercompany transactions on a monthly basis in accordance with a matrix developed by the company and the NJBPU.

The terms of the settlement agreement (1) do not prohibit the transfer of cash between NUI Utilities and NUI for the purpose of the payment of dividends to NUI or the settlement of monthly intercompany balances, (2) do not waive or alter the requirements of any existing Order of the NJBPU and (3) are not binding on any purchaser of the company, except that, upon closing of the sale, any outstanding refund and penalty balance are required to be paid in full by the company within a period of time to be determined by the NJBPU. The company's agreement to the terms of the settlement is not an acknowledgement of non-compliance with any law, regulation or NJBPU Order or requirement. The settlement agreement resolves all issues identified in the final Liberty audit report without acknowledgement or admission by the company as to the correctness of any issue or that any specific issue forms the basis or any part of the basis for the payments described above. The settlement provides that no further civil action shall be taken by the NJBPU. The NJBPU retains the authority to impose any requirements or conditions on a purchaser upon a petition for approval of a sale of the company.

Other Regulatory Orders

On September 16, 2003, the NJBPU, in connection with its approval of a provisional increase in Elizabethtown Gas' Basic Gas Supply Service (BGSS) rate, ordered NUI to provide (1) written assurances that the approved revenues would be used solely for Elizabethtown Gas and (2) an acceptable plan whereby NUI and any other subsidiaries would repay Elizabethtown Gas for any money owed to it. In addition, NUI and NUI Utilities were ordered to continue to cooperate with the focused audit, participate in weekly meetings to review their financial integrity and comply with existing NJBPU Orders, and NUI Utilities was ordered to refrain from issuing any special dividends (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities) without the prior approval of the NJBPU. After the September 26, 2003 announcement by NUI of its intention to sell the company, the NJBPU issued an Order dated October 30, 2003, ordering NUI to: (1) provide information to the NJBPU concerning its compensation packages; (2) provide assurances that Elizabethtown Gas' immediate and short-term liquidity needs would be met; (3) provide the NJBPU with all information necessary to assess the sufficiency of funding of NUI's pension and other post-retirement plans; and (4) present a detailed plan and schedule for preparing the company for sale, for operating during the sale process and for conducting sale activities in order to assure the NJBPU that the process of selling NUI would be transparent, independent, and timely. In addition, the NJBPU ordered NUI to protect the utility employees of Elizabethtown Gas during the sale process, inform the NJBPU of the progress of the 2003 fiscal year-end audit of the company's financial statements being conducted by PricewaterhouseCoopers LLP (PwC) and amend its consulting agreement with FTI Consultants. In October 2003, the company employed FTI Consultants to manage its financial operations and develop new liquidity forecasts.

Pending its review of the interim focused audit report, on December 11, 2003, the NJBPU issued an Order in which NUI Utilities and Elizabethtown Gas were directed to cease purchasing gas from NUI Energy Brokers upon approval of a new gas supply procurement and energy asset management plan, which was to be submitted to the NJBPU by January 2, 2004 for the NJBPU to approve by January 8, 2004. Further, per the Order, NUI Utilities is prohibited from issuing special dividend payments (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities); and Elizabethtown Gas shall not pay any allocated costs of any agreements, retainers or arrangements for professional services and other expenditures incurred in connection with, or as a result of, the focused audit and/or financial difficulties of NUI unless approved by the NJBPU.

In its Order dated January 14, 2004, the NJBPU accepted the plan submitted by NUI Utilities and Elizabethtown Gas which transferred the management of NUI Utilities' and Elizabethtown Gas' gas supply assets to New Jersey Resources, Inc. (NJRES) through March 31, 2004. The NJBPU further directed NUI Utilities to file a procedure with the NJBPU for the competitive procurement of gas supply management services for the period commencing April 1, 2004 through March 31, 2005. In the event NJRES was not

selected to continue to provide services to NUI Utilities as a result of the bid process, the NJBPU directed NUI Utilities to pay an early termination fee.

NUI Utilities filed a procedure for competitive procurement of gas supply management services, which was approved by the NJBPU on February 11, 2004. NUI Utilities instituted a process for receiving bids for gas supply and capacity management services to the company's New Jersey, Florida and Maryland utility divisions. The company requested bidders to provide bids in one of three ways: (1) on the basis of a fixed payment to the company reflecting the value of the company's energy assets, (2) on the basis of sharing credits and/or margins derived from capacity release and off-system sales activities, or (3) on the basis of a fee tied to the volume of capacity in excess of the company's requirements multiplied by a measure of the market value tied to available published indices. The company received multiple bids from nine third-party suppliers. As a result of this process, NUI Utilities selected Cinergy to provide a full requirements gas supply contract with least cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005 and provides a fixed payment to NUI Utilities for the use of NUI Utilities gas and deliverability assets for the twelve months ended March 31, 2005. The NJBPU approved the selection of Cinergy as the company's gas and capacity management services provider on April 14, 2004.

Investigations of Transactions at NUI Energy Brokers

In connection with the focused audit described above, Liberty identified certain questionable transactions involving NUI Energy Brokers. The Audit Committee of the Board of Directors retained independent counsel to conduct an investigation of transactions involving NUI Energy Brokers. A report of the independent counsel's investigation was provided to the company's Audit Committee on April 13, 2004.

The Attorney General of the State of New Jersey is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. In addition, the U.S. Securities and Exchange Commission (SEC) has commenced an informal inquiry relating to NUI Energy Brokers. NUI is fully cooperating with these investigations.

For a description of the investigations of NUI Energy Brokers, see Part II - Other Information- Item 1 Legal Proceedings- Investigations of NUI Energy Brokers.

New Credit Facilities at NUI and NUI Utilities

On November 24, 2003, NUI and NUI Utilities each entered into a separate credit facility with a syndicate of banks. NUI obtained a $255 million term loan facility and NUI Utilities obtained a $150 million credit facility comprised of a $50 million term loan facility, a $50 million revolving credit facility and a $50 million delayed draw term loan facility, which delayed term loan facility may only be used to repay NUI Utilities' 8.35 percent medium term notes. Both the NUI and NUI Utilities credit facilities expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

The delay in delivering audited financial statements for fiscal 2003 and unaudited financial statements for the fiscal quarter ended December 31, 2003, resulted in events of default under NUI's and NUI Utilities' credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements.

Pursuant to these waivers, the deadline for the delivery of NUI's annual report and financial statements for its fiscal quarter ended December 31, 2003 was extended until March 1, 2004. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments on May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

For a description of NUI's and NUI Utilities' credit agreements, including the amendment referred to above and other debt instruments and defaults thereunder, see Liquidity and Capital Resources.

Gas Supply Contract with Cinergy

NUI Utilities has selected Cinergy to provide a full requirements gas supply contract with least-cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005. The gas supply contract with Cinergy requires NUI Utilities to prepay, in varying amounts, for its gas requirements on a monthly basis over the contract period. If NUI Utilities regains investment grade ratings, the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. Cinergy will pay NUI Utilities a fixed amount for the use of NUI Utilities' gas and deliverability assets for the twelve months ended March 31, 2005, which is in lieu of NUI Utilities' opportunity to earn margins on off-system sales transactions. Regarding the fixed amount that NUI Utilities will receive from Cinergy, approximately 80 percent will benefit ratepayers and be credited to the over/under recovery of gas costs, and 20 percent will be retained by NUI Utilities and reflected as an increase in operating margins on the Consolidated Statements of Income.

For a description of the gas supply contract with Cinergy, see Liquidity and Capital Resources.

Changes in Boards of Directors of NUI and NUI Utilities and Changes in Management

NUI

On January 28, 2004, the Board of Directors of NUI announced that it had appointed Craig G. Matthews as the President and Chief Executive Officer of NUI and as a member of its Board of Directors and that it had appointed Steven D. Overly as the Vice President, General Counsel and Secretary of NUI. Mr. Matthews replaced A. Mark Abramovic, who retired and who had previously been appointed President of NUI after John Kean, Jr. stepped down in September 2003. Mr. Overly replaced James R. Van Horn, the former Chief Administrative Officer, General Counsel and Secretary of NUI. In addition, on February 24, 2004, Robert P. Kenney was appointed to the Board of Directors of NUI. James J. Forese was appointed Chairman of the Board of Directors of NUI on April 1, 2004, replacing John Kean, who remains as a director of NUI until his retirement later in 2004.

In October 2003, NUI announced the appointment of Dan Scouler as Chief Financial Officer on an interim basis. Mr. Scouler replaced Mr. Abramovic as Chief Financial Officer upon Mr. Abramovic's appointment in September 2003 as President of NUI. Mr. Scouler is the managing member of Scouler Andrews International, LLC and was previously a Senior Managing Director of FTI Consultants, which the company employed in October 2003 to manage its financial operations and develop new liquidity forecasts.

NUI Utilities

In October 2003, NUI Utilities expanded its existing Board of Directors to include Robert P. Kenney, Barbara Harding, Duncan Ellsworth, Stephen Schachman and Victor A. Fortkiewicz. In February 2004, Craig G. Matthews was appointed to the Board of Directors of NUI Utilities. Mr. Kean is the current Chairman of the Board of Directors of NUI Utilities.

In September 2003, Victor Fortkiewicz was appointed President of NUI Utilities and Mary Patricia Keefe was appointed Vice President, General Counsel and Secretary of NUI Utilities, replacing James R. Van Horn. Nancy J. Sobelson was appointed Vice President, Business and Technical Services in November 2003. Peter E. Maricondo was named Chief Financial Officer of NUI Utilities in December 2003, and replacing him as Controller of NUI Utilities was Donald R. Guarriello. In addition, Elaine A. Kloss was appointed Treasurer of NUI Utilities in January 2004, replacing Charles N. Garber who left the company in November 2003. Mr. Abramovic retired as Vice President of NUI Utilities in January 2004.

Sale of the Company

On September 26, 2003, the company announced that its Board of Directors had decided to pursue the sale of the company. The Board of Directors established a Special Committee to assess the company's options and concluded that pursuing a sale of the company was in the best interests of the company's stakeholders. The decision was made as a result of a number of factors, including the negative impact on the company arising from multiple downgrades of the company's credit ratings during fiscal 2003 and adverse business conditions in general.

The company is continuing to work with its financial advisors on the sale process for the company and hopes to enter into a definitive agreement with a purchaser during the third quarter of calendar 2004. For a discussion of factors that could prevent or delay the sale of the company, see Item 1. Business—Risk Factors—The sale of NUI may not be consummated as discussed in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

The Sale of NUI Telecom

On December 15, 2003, the company completed the sale of NUI Telecom for approximately $2 million.

Forward-Looking Statements

Certain statements contained in this quarterly report are "forward-looking statements" within the meaning of federal securities laws. The company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to NUI's and NUI Utilities' requirements for additional financing and the ability of NUI and NUI Utilities to extend and refinance certain of their outstanding indebtedness, including the credit facilities entered into in November 2003;
- statements as to NUI's and NUI Utilities' expected liquidity needs during fiscal 2004, fiscal 2005 and beyond and statements as to the sources and availability of funds to meet the liquidity needs of NUI and NUI Utilities;
- statements as to expected financial condition, performance, prospects and earnings of the company; and expected liquidity needs and sources of funds;
- statements as to the company's possible settlement with the FPSC;
- estimates as to the amount to be refunded to customers in Florida as a result of the investigation of NUI Energy Brokers;
- statements as to expected rates, gas volumes, gas sales, revenues, margins, expenses and operating results;
- statements as to industry forecasts in markets in which the company has operations;
- statements as to the amount and sources of funding for future capital expenditures and investments of the company, including the company's estimated share of its funding commitments to its joint venture with Duke Energy;

- statements as to the intended operations of the Saltville facility and the company's other storage and pipeline projects, including the timing of the completion and commencement of operations thereof;
- statements as to the timing for seeking regulatory approval for its Florida East-West Pipeline project;
- statements as to the company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the company's equipment, facilities and operations;
- statements as to the sales process for the company, including with respect to the time frame for entering into an agreement for the sale of the company;
- expectations as to the impact of and anticipated settlement of lawsuits filed against the company and the impact of ongoing legal investigations and proceedings, including those described under Part II- Other Information- Item 1. Legal Proceedings;
- statements as to financial projections;
- statements as to the company's plans to pursue recovery of costs associated with the environmental remediation of manufactured gas plants from ratepayers, former owners and operators and/or insurance carriers;
- statements as to expected level of demand on the company's systems for natural gas during the term of the company's gas procurement contracts;
- estimates as to the expected future cash flows for hedges of forecasted transactions;
- statements as to the ability of NUI and NUI Utilities to pay dividends;
- statements as to the company's plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the cost of cash contributions to fund the company's pension plan, including statements as to anticipated rates of return on plan assets;
- statements as to whether the company's internal control weaknesses were addressed by management;
- expectations as to the amount to be paid for professional fees in fiscal 2004;
- expectations as to the expected rate of increase in interest expense as a result of the new credit facilities entered into by NUI and NUI Utilities;
- expectations as to the level of competition that NUI Utilities will face;
- statements as to trends;
- statements as to whether the company's accrued tax liabilities are adequate and as to whether any settlement related to the examination of NUI's Federal income tax returns for 2000 and 2001 by the Internal Revenue Service will have a material impact on NUI's consolidated statement of operations, financial position or cash flow;
- statements as to the amount of the over-recovery balance under City Gas' purchased gas adjustment recovery clause;
- statements as to the company's ability to recover fixed charges under its purchased gas adjustment clauses;
- expectations as to relations between the company and its employees, including relationships with labor unions; and
- expectations as to the company's growth, cash flows and capital expenditures.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the ability of the company to obtain necessary waivers from its lenders;
- the ability of the company to obtain additional financing for the winter heating season;
- the impact and outcome of ongoing investigations and lawsuits;
- the ability of the company to prepay its natural gas obligations;
- the effects of general economic conditions;
- increases in competition in the markets served by the company;
- the effects of deregulation of the energy markets, including industry restructuring and unbundling of services;
- the ability of the company to implement successfully its strategy, including the planned sale of the company;

- the ability of the company to control operating expenses and to achieve efficiencies in its operations;
- the ability of the company to continue to modernize its distribution infrastructure as scheduled and budgeted;
- the willingness of lenders and suppliers to continue to do business with the company;
- the availability and price of insurance;
- the availability of adequate supplies of natural gas;
- the ability of NUI and NUI Utilities to extend their existing credit facilities for an additional 364 days, and the ability of NUI and NUI Utilities to refinance their existing credit facilities upon termination;
- actions taken by government regulators, including decisions on base rate increase requests;
- actions taken by credit rating agencies;
- the ability of the company to recover environmental remediation costs through rates or insurance;
- the ability of the company to attract and retain key executives and employees;
- fluctuations in energy commodity prices;
- weather variations and other natural phenomena;
- acts of war or terrorism; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak as of the date of this quarterly report. The company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this quarterly report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the company's business and results of operations, see Item 1. Business—Risk Factors in our Annual Report filed on Form 10-K for the fiscal year ended September 30, 2003.

Overview

The company is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. Its local utility operations are carried out by NUI Utilities and its operating divisions, as well as through a subsidiary of Virginia Gas Company (VGC). NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital Corp. and its subsidiaries. As of April 1, 2004, however, the company's only remaining non-regulated subsidiary with substantial operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The company's other non-regulated subsidiaries have either been sold or are being discontinued. These subsidiaries include NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications services subsidiary sold in December 2003 (see Note 4 of the Notes to the Consolidated Financial Statements); NUI Energy, Inc. (NUI Energy), an energy retailer; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy trading and portfolio management subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which sold wireless and network telephone services. In addition, through NUI Saltville Storage, Inc. (NUISS), the company is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC), a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia.

The company's growth strategy has not produced the results the company had anticipated and, as a result, the company experienced significant losses and write-offs in its non-utility businesses during fiscal years 2001, 2002 and 2003.

During fiscal 2003, the company considered several alternate financing plans aimed at restoring the credit worthiness of the company, but none of these plans were deemed viable. The company also sold or announced its intention to sell most of its non-core businesses in an attempt to raise capital and reduce losses. Finally, on September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to the company while it seeks a buyer.

On November 24, 2003, NUI and NUI Utilities obtained a $405 million 364-day credit facility financing package. See Liquidity and Capital Resources for a further discussion of the use of these proceeds and the terms of the credit agreements. As described below in Liquidity and Capital Resources and in Note 2 of the Notes to the Consolidated Financial Statements, NUI and NUI Utilities are likely to have additional liquidity needs beginning in the 2004-2005 winter season, as a result of, among other things, the prepayment requirements of NUI Utilities' gas supply, delivery and storage requirements and the NJBPU Settlement. In addition, NUI and NUI Utilities will be required to refinance or extend their respective existing bank indebtedness in November 2004. Even if NUI and NUI Utilities are able to extend their respective existing bank indebtedness in November 2004, NUI and NUI Utilities would still have to refinance their respective existing bank indebtedness in November 2005.

Results of Operations

Consolidated Review of Results of Operations

The following discussion is intended to provide an overview of consolidated results for the three-month periods ended December 31, 2003 and 2002. Following this discussion is a more detailed overview of the results for NUI's three business segments.

Net Income (Loss). NUI had a net loss of $8.2 million, or $0.51 per share, for the three months ended December 31, 2003, as compared with a net income for the three months ended December 31, 2002, of $7.2 million, or $0.45 per share. The decrease in net income during the current three-month period was primarily due to a decrease in income from continuing operations of approximately $14.8 million. This decrease was a result of the following factors (which are more fully discussed below under Income (Loss) from Continuing Operations): (1) increased operating expenses; (2) a pre-tax loss recorded for the early extinguishment of debt of approximately $9.9 million (see Note 10 of the Notes to the Consolidated Financial Statements); (3) increased interest expense; and (4) restructuring charges related to the severance of employees during the three months ended December 31, 2003.

Income (Loss) from Continuing Operations. The company's loss from continuing operations was $7.4 million, or $0.46 per share, for the three-month period ended December 31, 2003, compared with income from continuing operations of $7.4 million, or $0.46 per share, for the same period in fiscal 2003. The current three-month period decrease is due in part to increased operation and maintenance expenses of approximately $11.6 million, which resulted from increased legal and professional fees in conjunction with the focused audit being conducted by the NJBPU, the investigation being conducted involving questionable transactions of the company's NUI Energy Brokers subsidiary, and costs associated with finding a buyer for the company (approximately $7.2 million), and bank fees (approximately $4.2 million). In addition, the company recorded a pre-tax loss of approximately $9.9 million related to the early extinguishment of its $60 million senior notes, which were originally due in varying amounts from August 20, 2006 through August 2011. During the three-month period ended December 31, 2003, interest expense increased approximately $2.8 million as a result of higher average outstanding indebtedness and higher interest rates. The company also recorded restructuring charges of approximately $1.1 million for the severance of employees during the three months ended December 31, 2003. These increases were partially offset by increased operating margins of approximately $1.9 million primarily from base rate increases in the company Distribution Services segment (see discussion which follows), and reduced income tax expenses of approximately $8.6 million during the three-months ended December 31, 2003, as compared to the same period in fiscal 2003, due to the reductions in income previously discussed.

The company anticipates increased costs related to legal, professional, and bank fees while it completes the sale process and continues to address its liquidity needs. Increases are also anticipated in pension and insurance expenses during the remainder of fiscal 2004. The company has created an incentive plan

designed to retain key personnel through the date the company would be sold. The company expects to accrue approximately $2.3 million in retention costs during fiscal 2004. During the three-month period ended December 31, 2003, the company has expensed approximately $0.3 million of this amount, which is included in the increased labor and benefit amounts discussed above.

Discontinued Operations. After-tax losses from discontinued operations for the three-months ended December 31, 2003, were $0.8 million, or $0.05 per share, compared to $0.2 million, or $0.01 per share during the prior fiscal year. The higher losses during fiscal 2004 were due to reduced operating margins of NUI Telecom prior its sale on December 15, 2003 (see Note 4 of the Notes to the Consolidated Financial Statements).

Business Segment Review of Results of Operations

The following is a discussion of the company's business segment results of operations and is presented based on Income from Continuing Operations before Interest and Taxes. Included in operations and maintenance expenses for each of NUI's business segments are allocations of corporate costs related to shared service functions such as human resources, legal, accounting and information technology, which are allocated based on the company's cost allocation policy. In addition, the company's corporate and non-segment operations incurred pre-tax operating expenses of $10.6 million and $0.8 million for the three-month periods ended December 31, 2003 and 2002, respectively, which increased costs relate to outside professional services, bank fees and restructuring charges. These costs are not allocated to our business segment results.

Distribution Services Segment

The company's Distribution Services segment distributes natural gas in three states through the company's regulated natural gas utility operations. These operations are Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). This segment also includes the company's OAS subsidiary, its appliance leasing, repair, maintenance operations and service business as well as off-system sales. The company sold its Valley Cities Gas and Waverly Gas natural gas utilities in November 2002 (see Note 5 of the Notes to the Consolidated Financial Statements). The results for these operations are reflected in Discontinued Operations in the Consolidated Financial Statements for the three months ended December 31, 2002. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended December 31, 2003**	**Three Months Ended December 31, 2002**
Operating Revenues	$161,226	$165,896
Purchased Gas and Fuel	100,899	108,968
Cost of Sales & Services	3,001	2,877
Energy Taxes	3,906	3,494
Operating Margins	53,420	50,557
Operating Expenses:		
Operations & Maintenance Expenses	27,044	23,141
Depreciation & Amortization	7,942	7,673
Taxes Other than Income	1,912	1,556
Total Operating Expenses	36,898	32,370
Pre-Tax Operating Income	16,522	18,187
Other Income & (Expense)	471	152
Net Interest Charges	4,702	3,413
Pre-Tax Income from Continuing Operations	$12,291	$14,926

Operating Revenues. Operating revenues include amounts billed for the cost of purchased gas pursuant to purchased gas adjustment clauses utilized by the company's utility operations. Such clauses enable the company to pass through to its utility customers, via periodic adjustments to customers' bills, changes in costs incurred by the company for purchased gas without affecting operating margins. These purchased gas

adjustments are authorized by regulatory authorities in the states in which the company operates. Since the company's utility operations do not earn a profit on the sale of the gas commodity, the company's level of regulated operating revenues is not necessarily indicative of financial performance.

Distribution Services operating revenues decreased by $4.7 million, or 3 percent, to $161.2 million during the three months ended December 31, 2003, as compared to $165.9 million in the same period in fiscal 2003. The decrease in operating revenues was primarily attributable to reduced off-system sales of approximately $19.4 million during the current three-month period, as compared to the fiscal 2003 period. This decrease is partially offset by the favorable effect of the base rate increase in New Jersey and an increase related to the pass-through of higher gas costs to customers in New Jersey (approximately $11.3 million). Also offsetting the decrease is higher delivered gas volumes in Florida (approximately $1.8 million) and the effect of a rate increase in Florida (approximately $0.4 million).

Operating Margins. Operating margins increased by $2.8 million, or 6 percent, to $53.4 million for the three months ended December 31, 2003, as compared to $50.6 million in the same period in fiscal 2003. As discussed above in operating revenues, the operating margin impact of the base rate increases in New Jersey and Florida contributed approximately $3.5 million, and new customers contributed approximately $0.8 million. This increase was partially offset by approximately $1.1 million, for the adverse impact of weather that was 5 percent warmer than normal, and 11 percent warmer than the same period in fiscal 2002. The company has a weather normalization clause in its New Jersey tariff, which is designed to help stabilize the company's results by increasing amounts charged to customers when weather has been warmer than normal and by decreasing amounts charged when weather has been colder than normal. As a result of weather normalization clauses, operating margins were approximately $0.9 million higher and $0.8 million lower in the fiscal 2004 and 2003 periods, respectively, than they otherwise would have been without such clauses. Operating margins were approximately $0.2 million lower due to the reduced volume of off-system sales during the three months ended December 31, 2003, as compared to the same period in fiscal 2003. Operating margins for OAS and the appliance operations decreased approximately $0.2 million in total, as a result of reduced customer billings for the current three-month period, as compared to same period in fiscal 2003.

With the exception of demand caused by changes in weather, the company does not anticipate any significant change in the economic outlook for natural gas sales in this segment for the remainder of fiscal 2004.

Operating Expenses. Operations and maintenance expenses increased by approximately $3.9 million, or 17 percent, to $27.0 million for the three months ended December 31, 2003, as compared with $23.1 million in the same period in fiscal 2003. The expense increase was mostly due to increases for legal and professional fees (approximately $3.2 million), bank fees (approximately $0.9 million), insurance (approximately $0.9 million) and bad debts (approximately $0.8 million). These increases were partially offset by reduced labor and employee benefits costs (approximately $1.6 million) and rent expense (approximately $0.3 million).

Depreciation and amortization expense increased to $7.9 million for the three months ended December 31, 2003, as compared to $7.7 million in the same period in fiscal 2003, mainly as a result of additional plant-in-service.

Energy Asset Management Segment

The Energy Asset Management segment includes the operations of the company's NUI Energy Brokers subsidiary, and the distribution, storage and pipeline operations of VGC. This segment also includes the company's 50 share of the equity income and losses of SSLLC. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	Three Months Ended December 31, 2003	Three Months Ended December 31, 2002
Operating Revenues	$3,772	$3,845
Purchased Gas and Fuel	321	55
Operating Margins	3,451	3,790
Operating Expenses:		
Operations & Maintenance Expenses	2,576	2,193
Depreciation & Amortization	514	570
Taxes Other than Income	308	200
Total Operating Expenses	3,398	2,963
Pre-Tax Operating Income	53	827
Other Income & (Expense)	577	137
Net Interest Charges	939	379
Pre-Tax Income from Continuing Operations	$(309)	$585

Operating Revenues. Energy Asset Management operating revenues decreased by $0.1 million, or 2 percent, for the three months ended December 31, 2003, as compared the same period in fiscal 2003. The decrease was primarily due to reduced storage revenues of VGC as a result fewer contracts during the current fiscal year period. The operating revenues of NUI Energy Brokers were comparable to the same period a year ago.

Operating Margins. Operating margins decreased approximately $0.3 million, or 9 percent, to $3.5 million for the three months ended December 31, 2003, as compared to $3.8 million in the same period in fiscal 2003. This decrease was primarily attributable to effects of the factors discussed above.

Despite increased volatility of natural gas prices, market conditions in the energy trading industry have been dampened due to fewer creditworthy trading partners. Also, the downgrades of the company's credit ratings during fiscal years 2003 and 2002 (see Liquidity and Capital Resources) had increased the collateral requirements of NUI Energy Brokers, as well as adversely affected the willingness of counterparties to enter into transactions. The company expected that these factors would continue throughout fiscal 2004, and subsequent to the December 11, 2003 NJBPU Order discussed in Regulatory Matters, the company decided to discontinue the trading operations of NUI Energy Brokers. This will result in a substantial reduction of operating margins for this segment for the remainder of fiscal 2004.

Operating Expenses. Operating and maintenance expenses increased by approximately $0.4 million during the three months ended December 31, 2003, as compared to the same period in fiscal 2003, due to increased labor and benefits costs (approximately $0.3 million) and corporate allocations (approximately $0.1 million).

Other Income and Expense. Other income and expense increased by approximately $0.4 million during the three months ended December 31, 2003, as compared to the same period in fiscal 2003, due to the inclusion of approximately $0.4 million of equity income from the company's 50 percent investment in SSLLC. SSLLC's storage operations commenced during August 2003.

Retail and Business Services Segment

The Retail and Business Services segment includes the operations of the company's NUI Energy and UBS subsidiaries. In order to exit the retail and business services segment, the company began winding down the operations of NUI Energy during May 2003 and TIC during June 2003, and sold NUI Telecom on December 15, 2003 (see Note 4 of the Notes to the Consolidated Financial Statements). NUI Telecom, as well as the operations of TIC previously reported in this segment, have been reclassified to discontinued operations. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	Three Months Ended December 31, 2003	Three Months Ended December 31, 2002
Operating Revenues	$1,505	$2,076
Cost of Sales and Services	635	625
Operating Margins	870	1,451
Operating Expenses:		
Operations & Maintenance Expenses	485	1,986
Depreciation & Amortization	327	362
Taxes Other than Income	72	97
Total Operating Expenses	884	2,445
Pre-Tax Operating Loss	(14)	(994)
Other Income & (Expense)	---	34
Net Interest Charges	39	(188)
Pre-Tax Loss from Continuing Operations	$(53)	$(1,148)

Operating Revenues. Retail and Business Services operating revenues decreased by approximately $0.6 million, or 28 percent, to $1.5 million for the three months ended December 31, 2003 from $2.1 million in the same period in fiscal 2003. This decrease was primarily due to reduced revenues by NUI Energy as a result of the company's efforts to wind down its retail energy business. The operating revenues of UBS for the current three-month period were comparable with those of the previous fiscal year.

The company has wound down most of the operations of NUI Energy and does not expect material activity during fiscal 2004, which will result in reduced operating revenues as compared to fiscal 2003.

Operating Margins. Retail and Business Services operating margins decreased by approximately $0.6 million, or 40 percent, during the three months ended December 31, 2003, to $0.9 million as compared with $1.5 million in the same period in fiscal 2003. This decrease was primarily attributable to effects of the factors discussed above.

Operating Expenses. Operations and maintenance expenses, depreciation and amortization, and taxes other than income for the Retail and Business Services segment decreased in total by $1.5 million, or 64 percent, to $0.9 million during the three months ended December 31, 2003, as compared with $2.4 million in the same period in fiscal 2003. The decrease was primarily a result of reduced operating costs of NUI Energy including labor and benefit costs ($0.6 million), legal and professional fees (approximately $0.4 million), bad debt provisions (approximately $0.3 million), rents (approximately $0.1 million), and corporate allocations (approximately $0.1 million).

The company's exiting of the retail energy business is expected to reduce the operating expenses of this segment significantly during fiscal 2004.

Regulatory Matters

On November 22, 2002, Elizabethtown Gas received approval from the NJBPU to increase its base rates by an annual amount of $14.2 million, or approximately 5 percent. The increase was effective immediately and covers a portion of the costs of plant investments and higher operating expenses incurred since the company's last base rate increase twelve years ago. The new rates are based on a return on equity of 10.0 percent and an overall rate of return on rate base of 7.95 percent. The rate order also revised the normal weather pattern upon which base rates and Elizabethtown Gas' Weather Normalization Clause are set from a 30-year to a 20-year weather average to better reflect current weather trends. In addition, the company was allowed to increase service charges to various rate classes of customers to better reflect the cost of providing service to these customers. In its December 11, 2003 Order, the NJBPU stated that it was re-examining this settlement in light of the events surrounding NUI's use of proceeds received in its 2002 equity offering. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to the 2002 rate case.

On September 16, 2003, Elizabethtown Gas received approval from the NJBPU to increase its BGSS rates on a provisional basis by $28.8 million and on October 10, 2003, Elizabethtown Gas was granted approval to increase its Societal Benefits Charge (SBC) by approximately $8.0 million. The BGSS charge covers the cost of natural gas supplies that Elizabethtown Gas purchases for its customers, while the SBC allows Elizabethtown Gas to recover the cost of mandated energy efficiency, low-income assistance, energy education and environmental remediation programs. Both of these charges represent pass-through of costs on which the company does not earn a profit. In its December 11, 2003 Order, the NJBPU stated that it would reconsider the provisional rates approved by the NJBPU pursuant to Elizabethtown Gas' petition for an increase in BGSS rates. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to this BGSS proceeding.

For a discussion of the Orders issued by the NJBPU relating to the focused audit and related matters, see Settlement of Issues Relating to NJBPU Focused Audit and Regulatory Orders Issued by the NJBPU, above.

In response to the Federal Electric Discount and Energy Competition Act, which was signed into law in February 1999, on March 30, 2001, the NJBPU approved a stipulation which enabled all retail customers in New Jersey to choose a natural gas supplier, provided an incentive for these customers to choose an alternate natural gas supplier and required New Jersey gas utilities to continue offering basic gas supply service through December 2002 for those customers not choosing an alternate supplier. On January 17, 2002, the NJBPU issued an Order that continued the obligation of all New Jersey gas utilities to provide basic gas supply service until the NJBPU has had an opportunity to fully investigate major policy issues relating to pricing structure and gas supply reliability. No timetable has been established for completion of such a review. As of December 31, 2003, only a small number of residential customers in Elizabethtown Gas' service territories were receiving gas from an alternative gas supplier.

On January 20, 2004, City Gas received approval from the FPSC to increase its base rates by $6.7 million, effective February 23, 2004. The increase represents a portion of the company's request for a total rate increase of $10.5 million to cover the costs of investments in its customer service and system maintenance and growth, increases in operating expenses, and the impact of the continuing sluggish economy. This new rate level provides for an allowed return on equity of 11.25 percent and an overall allowed rate of return of 7.36 percent.

Liquidity and Capital Resources

Overview

As a result of the various factors discussed in this quarterly report, NUI and NUI Utilities have experienced and expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayments for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under purchased gas adjustment charges; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

The company first seeks to meet its capital requirements through cash provided by operating activities and external financings. External financing, depending on the particular company, as discussed below, may consist of public and private capital market debt and equity transactions, bank revolving credit and term loans, and/or project financings. The availability and cost of external capital is affected by many factors, including, but not limited to, the performance of NUI and its subsidiaries, their respective credit ratings and conditions in the company's industry in general. In addition, the NJBPU's holding company order requiring NUI to maintain a certain degree of separation between its utility and non-utility subsidiaries could impact affiliate ratings on consolidated and unconsolidated credit quality. Compliance with applicable financial covenants will depend upon future financial position and levels of earnings and cash flows, as to which no assurances can be given.

In addition, at times NUI utilizes intercompany dividends from NUI Utilities and amounts realized from the settlement of intercompany balances to satisfy various subsidiary needs and to manage short-term cash needs. Historically, NUI Utilities has paid dividends of up to 75 percent of its annual net income to NUI. The Standby Bond Purchase Agreement (SBPA) entered into in connection with the Variable Bonds, which, as described below, are a series of gas facility revenue bonds issued by the New Jersey Economic Development Authority (NJEDA), restricts the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, under the amendment to NUI Utilities' credit facility dated May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding. There are no contractual restrictions on the settlement of intercompany balances in NUI's or NUI Utilities' financing agreements.

On a consolidated basis, the company's net use of cash in operating activities was $65.6 million (as restated—see Note 16 to the Consolidated Financial Statements) and $6.1 million for the three-month periods ended December 31, 2003 and 2002, respectively. The reduction of $59.4 million in operating cash flows for the current period was due in part to the timing of payments to the company's gas suppliers and amounts paid in advance for interest costs on the company's and NUI Utilities' new credit facilities and as collateral for the company's gas procurement needs. The decrease in operating cash flows was partially offset by reductions in accounts receivable for the company's non-regulated businesses during the three-month period ended December 31, 2003, as compared to the same period in fiscal 2003.

In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended as of May 10, 2004 to further extend these deadlines. See Sources of Liquidity – Short Term Debt below for a further description of the November 2003 credit facilities.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004, NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations, based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI is required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy, NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the NJBPU.

- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner, this could materially adversely affect NUI's and NUI Utilities' financial condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004. The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its debt financing. For a further discussion about risks relating to NUI Utilities' liquidity, see Item 1. Business—Risk Factors in the company's annual report on Form 10-K for the fiscal year ended September 30, 2003.

Because the company's business is highly seasonal, short-term debt is used to meet seasonal working capital requirements. NUI also borrows under its bank lines of credit to finance portions of its capital expenditures. As of December 31, 2003, NUI had drawn $255.0 million and NUI Utilities had drawn $80.0 million under their respective short-term credit facilities. On that date, the NUI and NUI Utilities had overnight cash investments of approximately $33.8 million and $18.9 million, respectively.

NUI's and NUI Utilities' debt agreements also contain a number of covenants that significantly limit their respective ability to, among other things, borrow additional money, pay dividends, transfer or sell assets, create liens and enter into a merger or consolidation. In particular, under the amendment to NUI's credit facility as of May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time and is also not likely to be able to pay any dividends in the foreseeable future. The covenants also require both NUI and NUI Utilities to meet certain additional financial tests. If either NUI or NUI Utilities were unable to meet its debt service obligations or to comply with these covenants, there would be a default under one or more of the agreements. Such a default, if not waived by our lenders, could result in acceleration of the repayment of either NUI's or NUI Utilities' debt and have a material adverse effect on each company's financial conditions, results of operations and liquidity.

The company completed the sale of its NUI Telecom subsidiary on December 15, 2003, for approximately $2 million (see Note 4 of the Notes to the Consolidated Financial Statements).

NUI repaid an approximately $85 million outstanding intercompany balance owed to NUI Utilities on November 24, 2003, with the proceeds of a new credit facility entered into on that date (see Short-term Debt discussion which follows).

Credit Rating Actions

During fiscal years 2002, 2003, and 2004, Moody's Investors' Service (Moody's) downgraded NUI's credit rating from Baa-1 to Caa-1 and downgraded NUI Utilities' credit rating from A-3 to B-1. The credit rating downgrades that have occurred in fiscal 2004 are described below.

On October 6, 2003, Moody's downgraded NUI's debt rating from B-1 to B-3. Moody's also downgraded the debt rating of NUI Utilities from Ba-1 to Ba-3. Moody's cited the company's announcement that the company's Board of Directors had placed the entire company up for sale. In addition, Moody's indicated that their action reflects the difficult business conditions affecting the company as well as the limited progress in selling non-core assets, citing that this limited the company's financial flexibility. Moody's also cited the continuing financial relationship between NUI and NUI Utilities, liquidity concerns, and the costs associated with finding a suitable buyer for the company. As a result of these downgrades, NUI Utilities' cost of borrowing under its short-term facilities increased an additional 62.5 basis points or 0.625 percent and the cost of borrowing for NUI was unchanged. In conjunction with the downgrades on October 6, 2003, Moody's

indicated they would monitor the company's liquidity position as well as its progress in selling non-core assets.

On April 6, 2004, Moody's further downgraded NUI's debt rating from B-3 to Caa-1. Moody's also downgraded the debt rating of NUI Utilities from Ba-3 to B-1. Moody's cited (1) the company's recent announcements that it expects lower earnings in the first quarter of fiscal 2004, resulting from severance costs and expenses related to the debt refinancings concluded during November 2003 at substantially higher rates of interest and fees; (2) the continued delay in producing audited financial statements for the fiscal year ended September 30, 2003 and its unaudited first quarter Form 10-Q, because of continuing investigations by the company's Audit Committee of certain questionable transactions of NUI Energy Brokers, the company's wholesale energy trading subsidiary, which required additional waivers from lenders of both NUI and NUI Utilities; (3) the expectation of having to incur a meaningful settlement charge as a result of the focused audit conducted by the NJBPU, which would reduce the company's income and equity for fiscal 2003; (4) the ongoing investigation of the New Jersey Attorney General's Office into NUI Energy Brokers; and (5) the delays in realizing the sale of the company, which is the source of repayment of NUI's $255 million rated debt and a portion of the debt of NUI Utilities. Moody's also cited the financial relationship between NUI and NUI Utilities and that any penalties that may be assessed to the company by the NJBPU may have to be funded from the earnings and cash flows of NUI Utilities. In addition, NUI and NUI Utilities have overlapping lenders that require debt to be serviced by each entity. To the extent NUI does not have the means to discharge its own debt obligations, these lenders may seek dividends from NUI Utilities to help service NUI's debt. The lower rating Moody's assigned to NUI reflects the structural subordination of its debt relative to that of NUI Utilities.

In conjunction with the downgrades on April 6, 2004, Moody's indicated that its outlook for both NUI and NUI Utilities was negative. The negative outlook reflects Moody's belief that it will take time to close on the sale of the company as its assets are diverse and located in various states necessitating multiple regulatory approvals in the states in which the company's regulated entities operate. In the meantime, Moody's expects the company to continue to incur extraordinary operations and maintenance expenses as it employs an array of outside advisors and consultants to help manage its day to day operations, incur additional legal, accounting and financial advisory fees as it seeks to respond to regulatory investigations, and attempts to negotiate settlements with its regulators and searches for a suitable buyer.

On November 21, 2003, Standard & Poor's Rating Services (S&P) lowered its corporate credit rating for NUI Utilities from BBB- to BB and its rating remains on CreditWatch with developing implications. S&P's rating action cited the business and financial challenges the company faces, including an investigation of energy trading transactions by the company's NUI Energy Brokers subsidiary, and the potential for greater regulatory scrutiny in New Jersey, which could impact the sale of NUI. S&P did note the company had addressed its anticipated liquidity needs on an interim basis prior to the sale of the company with separate credit agreements for NUI and NUI Utilities aggregating $405 million, each of which can be extended for another 364 days at the option of the respective borrower (under certain conditions); see discussion of Short-Term Debt for further details. S&P also noted that any negative outcome of the investigation of the trading transactions or possible regulatory action in New Jersey could inhibit the company's ability for a successful sale.

There can be no assurance that additional downgrades by Moody's and/or S&P can be avoided.

Sources of Liquidity

Short-Term Debt. On October 10, 2003, NUI Utilities entered into a bridge loan agreement with a lender for a credit agreement that allowed it to borrow up to $50 million to fund near-term natural gas purchases and to fund other general working capital needs. This credit agreement was scheduled to mature on February 11, 2004, and was terminated upon receipt of the new credit facilities entered into on November 24, 2003. No amounts were ever drawn on this bridge loan agreement.

On November 24, 2003, NUI and NUI Utilities each entered into new separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in the amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of December 31, 2003, NUI had fully drawn all amounts available under its credit agreement. As of May 14, 2004, NUI had overnight cash investments of $28.8 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of December 31, 2003, NUI Utilities had drawn an aggregate of $80.0 million under the $50 million revolver and the $50 million term loan facility. Subsequent to that date, NUI Utilities became fully drawn under the $50 million revolver and the $50 million term loan facility. As of May 14, 2004, NUI Utilities had overnight cash investments of $109.1 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement amended as of May 10, 2004, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

The company's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first

fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated as of May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI also is prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

At December 31, 2003, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $80.0 million, respectively, at weighted average interest rates of 8.0 percent and 7.1 percent, respectively. As of that date, NUI had no unused borrowing capacity and NUI Utilities had $20 million of unused borrowing capacity under their respective credit facilities. Also, as of December 31, 2003, NUI and NUI Utilities had approximately $33.8 million and $18.9 million, respectively, of cash held as short-term investments, a substantial portion of which may be used toward the repayment of short-term borrowings under the company's credit agreements.

The weighted average daily amounts of borrowings outstanding under NUI's credit facility and the weighted average interest rates on those amounts were $145.0 million and $46.9 million at 6.5 percent and 3.4 percent for the three-months ended December 31, 2003 and 2002, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' credit facility and the weighted average interest rates on those amounts were $108.6 million and $88.8 million at 4.5 percent and 3.2 percent for the three-months ended December 31, 2003 and 2002, respectively.

Long-Term Debt. NUI has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As noted under Short-Term Debt above, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to the satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment

premium of approximately $9.4 million to the noteholders, which was recorded during the first quarter of fiscal 2004.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at December 31, 2003 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term SBPA with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA will be extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of December 31, 2003, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report on Form 10-K, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarter ended March 31, 2004, and related documentation and officers' certificates. Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Common Stock. The company periodically issues shares of common stock in connection with NUI Direct, the company's dividend reinvestment and stock purchase plan, and various employee benefit plans.

Capital Expenditures and Commitments

Capital Expenditures. Capital expenditures, which consist primarily of expenditures to expand and upgrade the company's gas distribution systems, were $12.5 million for the three months ended December 31, 2003, and $13.4 million for the three months ended December 31, 2002. The decreased capital spending during the current fiscal period was due to the company's reduction of capital projects at the corporate level and reduced spending for operations being held for sale.

Capital expenditures are expected to be approximately $51 million in fiscal 2004, which will be used primarily for the continued expansion and upkeep of the company's natural gas distribution system and certain information technology projects.

Joint Venture with Duke Energy. On April 30, 2001, the company announced an agreement with a subsidiary of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving the required regulatory approval in February 2003, VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of December 31, 2003, the company has loaned SSLLC an aggregate of approximately $24.8 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected to be funded with internally generated cash flows of the joint venture.

SSLLC plans to expand the present Saltville storage facility from its current capacity of 1 billion cubic feet (Bcf) to approximately 12 Bcf and connect it to Duke Energy Gas Transmission's (DEGT) East Tennessee Natural Gas interstate system and DEGT's Patriot pipeline. At full capacity, the Saltville storage field will be able to deliver up to 500 million cubic feet per day of natural gas to area markets. The Saltville facility features fast-injection and fast-withdrawal capabilities offered by salt cavern storage. The expansion will be completed in phases which began in fiscal 2003, with the Phase I total of 5.3 Bcf of working natural gas storage capacity to be completed by fiscal 2008. The market demand for additional storage will dictate the timing of the other phases of the expansion.

Development of the Saltville facility is intended to create a strategically located energy-trading hub, and enable the company to capitalize on the energy supply and wholesale energy portfolio and risk management opportunities in the rapidly developing Mid-Atlantic region. The additional storage capacity is expected to allow the company to meet the significant demand from local distribution companies as well as power plant development that is underway in the region.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with DEGT for the firm transportation of natural gas on the Patriot pipeline, which was under construction at that time. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Other Storage and Pipeline Projects. The company has acquired options on the land and mineral rights for property located in Richton, Perry County, Mississippi, that the company plans to develop into a natural gas storage facility to help serve the Southeast United States. The land option has a purchase price of approximately $0.5 million and the mineral rights option has a purchase price of $0.9 million. Both options expire on February 15, 2005. Should the options not be exercised, the company's right to make such purchases would expire.

NUI plans to develop a salt dome natural gas storage facility near Richton, Perry County, Mississippi. Like its companion storage facility in Saltville, Richton is expected to offer the high-deliverability capabilities of salt dome storage for natural gas and will have access to a number of major interstate pipelines, including Destin Pipeline and its connections to Gulf South, Gulfstream, FGT, SONAT, Tennessee Natural Gas and Transco. Through its connection to Destin Pipeline, Richton will have direct access to the gas supplies in the Gulf of Mexico, as well to supplies from the interconnected interstate pipelines previously listed. Richton can also serve as a potential storage facility for the various proposed liquefied natural gas (LNG) projects in the Gulf Coast.

The preliminary plan is to develop two caverns with approximately 3.8 Bcf of working gas capacity each. The total gas capacity of both caverns is expected to be approximately 11.6 Bcf. The gas handling facilities are expected to provide an average injection rate of 250,000 thousand cubic feet (Mcf) per day and a maximum withdrawal rate of 600,000 Mcf per day. The facilities will include approximately 18,000 HP of compression and a 14.6 kilometer, 24 inch pipeline connecting the facility to the Destin pipeline. It is anticipated that Richton will be a FERC regulated facility. The preliminary engineering study, conceptual design for the facility and pipeline, water resource analysis, and a successful "open season" have been completed. The total cost of the project is expected to be approximately $85 million over a period of three years, which NUI will seek to fund through project finance debt.

This project is not expected to have any material capital requirements in fiscal 2004 and, if the project proves feasible, will primarily impact the company's capital expenditure program in fiscal years 2005 and 2006 after the funding needs of Phase I of the Saltville facility (discussed above) are essentially satisfied.

During 2001, the company began building a planned gas pipeline intended to cross the state of Florida from West Palm Beach to Fort Myers (the Florida East-West Pipeline Project). Phase I of the pipeline has been completed and is currently in service beginning with a connection to the Florida Gas Transmission Company's pipeline in West Palm Beach and terminating in South Bay. The remaining portions of the project are intended to include an interconnection with the Florida Gas Transmission Company's pipeline in Fort Myers and the Gulfstream Natural Gas System pipeline in Martin County. During October 2003, the company retained a company to provide engineering-related services in support of the expansion of its Florida East-West Pipeline project. The company anticipates a twenty-eight (28) month schedule to complete the pipeline systems inclusive of a state regulatory approval process and construction activities. The company intends to begin the regulatory approval process once suitable customer commitments are obtained. When completed, the pipeline is expected to be capable of transporting up to 300,000 Mcf per day of natural gas. The pipeline is also intended to include direct connection to any of the three LNG pipelines proposed to come onshore in southeast Florida at the ports of Palm Beach and/or Port Everglades. Once completed, the company's pipeline will serve as a transportation hub linking the east and west sides

of the Florida Gas Transmission system to the proposed LNG pipelines and the Gulfstream Natural Gas System as well as the company's proposed West Felda Gas Storage facility.

In conjunction with the expansion of the Florida East-West Pipeline, the company entered into agreements with Plains Resources Inc. (Plains), under which the parties have been validating technical and commercial viability of developing up to 15 Bcf of working gas capacity of natural gas storage in the West Felda Field, located in South Florida. The West Felda Field represents one of five oil-producing properties currently operated by Plains in the oil-producing "Sunniland Trench" in South Florida. The West Felda Field is expected to be serviced by the Florida East-West Pipeline, with an approximate 12-mile pipeline connection to the storage field south of the pipeline. Upon entering into final agreements, the parties intend to begin offering storage services in conjunction with the initiation of service of the pipeline.

Together these projects are expected to provide increased reliability for Florida's natural gas supply and distribution infrastructure and support Florida's rapidly growing demand for natural gas utilized for electricity generation.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $59.5 million for the next twelve-month period (this amount includes the company's obligations under two twenty-year agreements related to the Patriot pipeline discussed above). The company also is committed to purchase, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 Bcf per year or to pay certain costs in the event the minimum quantities are not taken. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage all of its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one-month period. That agreement was superseded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as the NUI Utilities asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, will be secured by a prepayment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI. In light of, among other factors, the requirement that NUI Utilities must prepay its gas requirements under its agreement with Cinergy and its other gas supply, distribution and storage agreements, and the obligation to make payments pursuant to its settlement with the NJBPU, management of the company believes it will need additional financing in order to assure that the company's liquidity needs can be met during the upcoming winter heating season. There is no assurance that any necessary additional financing can be obtained or that the approval of the NJBPU, which is necessary to obtain such financing, will be forthcoming. In addition, the financing, if obtained, could have terms which have a material adverse effect on the company.

Environmental. The company owns or previously owned properties on which former manufactured gas plants (MGP) were operated in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an undiscounted basis a total reserve of approximately $33.9 million, which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $30.1 million relates to the New Jersey MGP properties and approximately $3.8 million relates to the MGP properties located outside the state of New Jersey. The company believes that all costs associated with remediation of the New Jersey MGP properties will be recoverable in rates or from insurance carriers. The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the

company has recorded a regulatory asset of approximately $35.8 million, inclusive of interest, as of December 31, 2003. With respect to costs that may be associated with the MGP properties located outside the state of New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. However, the company is not able, at this time, to express a belief as to whether any or all of these recovery efforts will ultimately be successful.

Contractual Obligations. In the course of its business activities, the company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on NUI's balance sheet while others are commitments, some firm and some based on uncertainties, that are disclosed in the company's underlying consolidated financial statements. There have been no material changes in the company's contractual obligations from those disclosed in the company's annual report on Form 10-K for the year ended September 30, 2003, except for the Cinergy agreement previously discussed.

Off-Balance Sheet Arrangements. The company's off-balance sheet arrangements include commitments under operating leases, guarantees, letters of credit and gas procurement contracts, all of which are normal to the company's operations. See Note 12 of the Notes to the Consolidated Financial Statements for a discussion of the company's guarantees. In addition, the company is a 50 percent member of a joint venture that is developing natural gas storage assets and is required to provide funding toward the development of these assets for their intended purpose. See Capital Expenditures and Commitments—Joint Venture with Duke Energy above for further discussion. NUI is also party to two Standby Letters of Credit secured by cash collateral, as follows:

- a secured Standby Letter of Credit issued on January 16, 2004 by Fleet Bank in the amount of $750,000, in favor of PNC Bank. The letter of credit is intended to support the company's Procurement Card program with PNC Bank. The letter of credit was originally scheduled to expire on May 3, 2004; however, it has since been extended to July 23, 2004.

- a secured Standby Letter of Credit issued on February 1, 2004 by Fleet Bank, originally in the amount of $1,000,000, in favor of National Union Fire Insurance Company and several other insurance companies underwriting the company's workmen's compensation policy. As of April 23, 2004, the amount of the letter of credit has been reduced to $948,000. The letter of credit expires on February 1, 2005.

Application of Critical Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers Critical Accounting Policies to be those that could result in materially different financial statement results if the assumptions regarding application of accounting principles were different. A description of the company's Critical Accounting Policies can be found in the company's Annual Report filed on Form 10-K for the year ended September 30, 2003. Other significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements—Summary of Significant Accounting Policies of the company's Form 10-K. Recently issued accounting standards are also discussed in Note 13 of the Notes to the Consolidated Financial Statements.

Item 4. Disclosure Controls and Procedures

In connection with their audit of the company's fiscal 2002 financial statements, our independent external auditors, PricewaterhouseCoopers LLC (PwC), identified and reported on material weaknesses within our systems of internal control. In a report dated November 22, 2002 to the Audit Committee of the Board of Directors and management of NUI, PwC identified certain conditions that created a material weakness relating to internal control over financial reporting that resulted in the need to restate prior financial statements. The weaknesses identified included, but were not limited to, the following:

- General ledger cash account balances were not being reconciled to the bank statements.

  General ledger account analyses were not being consistently performed.

- A listing of debt covenants was not being maintained.

  Comprehensive and formalized accounting and financial reporting policies and procedures did not exist.

  Instances were noted where management lacked certain technical accounting and tax expertise that resulted in accounting errors.

  The flow of accounting information between business units and corporate accounting was not timely or formalized.

- Accounts payable invoice processing procedures needed to be improved.

- A formal plan and implementation timetable needed to be developed to address compliance with the certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

The company believes that these internal control weaknesses were addressed by management during fiscal 2003. However, in connection with the fiscal 2003 financial statement audit, PwC communicated additional material control weaknesses, which included:

- The contract review process was not formally documented, and appropriate procedures had not been developed to ensure timely review of contracts for accounting implications.

  There was a lack of adherence to policies and procedures for travel and entertainment expense reimbursements and procurement card expenditures.

- The payroll timekeeping and tracking process was manual in nature and prone to errors.

- Information technology had a number of areas where formal, documented policies and procedures had not been developed.

As further discussed in Note 16 to the Consolidated Financial Statements, the company is filing this Amendment No. 1 on Form 10-Q/A for the quarter ending December 31, 2003 because of a deficiency noted in its cash reconciliation process which gave rise to an overstatement of the company's cash balance and an understatement of its prepayment account as of December 31, 2003. This deficiency was related to the company not timely clearing certain identified reconciling items in a cash wire transfer account resulting from end of the quarter cash payments. The cash wire transfer account is included in Cash and cash equivalents on the Consolidated Balance Sheet. As of the date of this filing, the company has implemented a process change in its cash reconciliation process which addresses this issue.

During fiscal 2003, our internal auditors performed internal audits which indicated material weaknesses in internal controls similar to those noted above. We have developed and implemented action plans to address their recommendations, and follow-up audits are being conducted.

Additional internal control issues have been raised and deficiencies have been noted in the March 2004 final audit report relating to the focused audit conducted at the request of the NJBPU.

We have taken specific, immediate steps to address the internal control weaknesses discussed above. In addition, we have undertaken a broader, long-term effort to assess our systems of internal control and to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. These actions include:

- Performing a comprehensive evaluation and developing a remediation plan with respect to internal controls over financial reporting and related processes;

- Hiring additional qualified and experienced employees, specifically in the finance and accounting areas, and increasing technical training in these areas;

- Implementing a redesigned cash management process and adopting more stringent cash management practices and procedures;

- Developing and implementing comprehensive accounting and financial reporting policies and procedures;

- Implementing procedures for performance of account analyses and reconciliations;

- Improving and monitoring controls to increase the reliability of information generated by our information technology processes;

- Educating employees throughout the company as to the importance of compliance with policies and procedures and the significance of a system of sound internal controls; and

- Ensuring executive management's involvement in the oversight and review of the disclosure and reporting process.

The effectiveness of our, or any, systems of disclosure controls and procedures and internal controls is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. Further, the design of systems of control must reflect the fact that there are resource constraints that affect the operation of any such system, and that the benefits of controls must be considered relative to their risks. As a result, there can be no assurance that our systems of disclosure controls, procedures and internal controls will prevent all errors or fraud, or ensure that all material information will be made known to management in a timely fashion.

As required by Rule 13a-15(b) of the Exchange Act, the company has carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its interim Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation examined those disclosure controls and procedures as of December 31, 2003, the end of the period covered by this report. Based upon the evaluation, the company's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, concluded that, as of December 31, 2003, NUI's disclosure controls and procedures were effective, except as described above, at the reasonable assurance level to ensure that information required to be disclosed in NUI's reports filed or submitted under the Exchange Act was accumulated and communicated to NUI's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

SIGNATURE

Pursuant to the requirements 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.

NUI CORPORATION

/s/ DAN SCOULER

DAN SCOULER
Interim Chief Financial Officer

June 17, 2004

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig G. Matthews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 17. 2004

/s/ Craig G. Matthews
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dan Scouler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 17, 2004

/s/ Dan Scouler
Interim Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of NUI Corporation (the "company") for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, Craig G. Matthews, President and Chief Executive Officer of the company, and I, Dan Scouler, Interim Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ Craig G. Matthews
Craig G. Matthews
President and
Chief Executive Officer
June 17, 2004

/s/ Dan Scouler
Dan Scouler
Interim Chief Financial Officer
June 17, 2004

A signed copy of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the company. The foregoing certification is being furnished solely to accompany the report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to_____

Commission File Number 001-16385

NUI CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-3708029**
(State of incorporation)	(IRS employer identification no.)

550 Route 202-206, PO Box 760, Bedminster, New Jersey 07921-0760
(Address of principal executive offices, including zip code)

(908) 781-0500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes ☑ No ☐

The number of shares outstanding of each of the registrant's classes of common stock, as of April 30, 2004: Common Stock, No Par Value: 15,968,345 shares outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A to the company's Form 10-Q for the fiscal quarter ended March 31, 2004, as originally filed on May 25, 2004, is being filed to revise the Consolidated Balance Sheet for a prepayment made under the company's gas procurement contract with Cinergy Marketing & Trading, LP (Cinergy). A prepayment of $15 million was made at the end of the second fiscal quarter which should have been reflected on the Consolidated Balance Sheet as a credit (reduction) to cash and a debit to prepayments. There is no change in our total assets, working capital or net income as of and for the fiscal quarter ended March 31, 2004 as a result of this restatement.

Accordingly, the company's Form 10-Q for the fiscal quarter ended March 31, 2004 has been revised, as follows:

- The Consolidated Balance Sheet as of March 31, 2004 has been restated such that Cash and cash equivalents has been decreased by $15 million to $136.0 million, and Prepayments and other has been increased by $15 million to $63.8 million.

- The company's Consolidated Statement of Cash Flows for the six months ended March 31, 2004 has been restated to reflect the $15 million prepayment to Cinergy, which reduced our cash flows from operating activities by that amount.

- A new footnote number fifteen has been added, which is titled "Restatement".

- In the Liquidity and Capital Resources section of Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, we have revised our disclosure of the company's net cash provided by operating activities to make corresponding changes.

- The company has updated Item 4. Disclosure Controls and Procedures, to include a discussion of a deficiency noted in the company's cash reconciliation process, which gave rise to this Amendment No. 1 on Form 10-Q/A, and implementation of a process change to address this issue.

As discussed in Note 2, the company has experienced and expects to continue experiencing significant liquidity problems. However, the $15 million prepayment to Cinergy has no impact on statements the company previously made in its Form 10-Q filed on May 25, 2004 regarding the company's anticipated cash flows, as the prepayment obligations under the Cinergy contract were already factored into the company's anticipated cash flows.

Except as described above, no other changes have been made to this report. This Amendment No. 1 does not purport to provide a general update or discussion of any other developments at the company subsequent to the original filing date. The filing of this Amendment No. 1 shall not be deemed an admission that the original filing, when made, included any known untrue statement of material fact or knowingly omitted to state a material fact necessary to make a statement not misleading.

Item 1. Financial Statements

NUI Corporation and Subsidiaries
Consolidated Statement of Income (Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Operating Margins				
Operating revenues	$243,356	$249,729	$409,859	$421,546
Less – Purchased gas and fuel	164,256	157,926	265,476	266,949
Cost of sales and services	3,535	3,139	7,171	6,641
Energy taxes	5,507	5,289	9,414	8,783
	70,058	83,375	127,798	139,173
Other Operating Expenses				
Operations and maintenance	42,075	35,737	81,485	63,587
Restructuring costs	990	---	2,136	---
Depreciation and amortization	8,798	9,052	17,596	17,680
Taxes, other than income taxes	2,391	2,476	4,787	4,566
	54,254	47,265	106,004	85,833
Operating Income	15,804	36,110	21,794	53,340
Equity in earnings of Saltville Gas Storage Company, LLC	268	---	645	---
Loss on extinguishment of debt	---	---	9,940	---
Other income	638	246	1,317	662
Interest expense	11,120	7,133	19,999	13,473
Other interest income	(532)	(2,247)	(1,263)	(3,240)
Income (Loss) from Continuing Operations Before Income Taxes	6,122	31,470	(4,920)	43,769
Income tax expense (benefit)	2,025	13,034	(1,619)	17,972
Income (Loss) from Continuing Operations Before Effect of Change in Accounting	4,097	18,436	(3,301)	25,797
Discontinued Operations				
Loss from discontinued operations	(448)	(690)	(1,588)	(1,039)
Income tax benefit	(148)	(277)	(524)	(420)
Loss from Discontinued Operations	(300)	(413)	(1,064)	(619)
Income (Loss) before Effect of Change in Accounting	3,797	18,023	(4,365)	25,178
Effect of change in accounting (net of tax benefit of $4,079 in 2003)	---	(5,870)	---	(5,870)
Net Income (Loss)	$ 3,797	$12,153	$(4,365)	$19,308
Basic and Diluted Income (Loss) from Continuing Operations Per Share of Common Stock	$ 0.26	$ 1.15	$ (0.21)	$ 1.61
Basic and Diluted Net Income (Loss) Per Share of Common Stock	$ 0.24	$ 0.76	$ (0.27)	$ 1.21
Dividends Per Share of Common Stock	$ 0.130	$ 0.245	$ 0.375	$ 0.490
Weighted Average Number of Shares of Common Stock Outstanding	15,969,802	16,072,702	15,979,826	16,048,767

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

	March 31, 2004 Restated (Unaudited)	September 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$136,046	$25,209
Accounts receivable (less allowance for doubtful accounts of $7,671 and $7,304, respectively)	105,665	55,575
Fuel inventories, at average cost	11,425	63,852
Unrecovered purchased gas costs	10,026	25,398
Derivative assets	7,696	8,059
Federal income tax receivable	---	3,333
Assets held for sale	---	7,976
Prepayments and other	63,786	31,120
	334,644	220,522
Property, Plant and Equipment		
Property, plant and equipment, at original cost	969,962	954,446
Accumulated depreciation and amortization	(338,869)	(323,370)
Unamortized plant acquisition adjustments, net	12,838	13,372
Assets held for sale	---	147
	643,931	644,595
Funds for Construction Held by Trustee	2,066	2,058
Investment in Saltville Gas Storage Company, LLC	17,101	16,456
Other Investments	120	210
Other Assets		
Regulatory assets	47,987	57,040
Notes receivable from Saltville Gas Storage Company, LLC	20,732	17,575
Other receivable from Saltville Gas Storage Company, LLC	5,303	8,010
Long-term portion of derivative assets	12,706	5,133
Goodwill	8,056	8,056
Assets held for sale	---	1,002
Other assets	36,073	40,106
	130,857	136,922
	$1,128,719	$1,020,763
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Notes payable to banks	$355,000	$164,100
Notes payable	1,400	1,400
Current portion of long term debt and capital lease obligations	52,005	2,167
Accounts payable, customer deposits and accrued liabilities	101,297	125,353
Liabilities held for sale	---	3,150
Federal income and other taxes	20,053	5,166
Current portion of deferred Federal income taxes	599	6,705
	530,354	308,041
Other Liabilities		
Capital lease obligations	9,378	9,798
Deferred Federal income taxes	61,695	61,608
Liabilities held for sale	---	19
Unamortized investment tax credits	3,159	3,375
Environmental remediation reserve	33,840	33,941
Regulatory and other liabilities	71,568	64,813
	179,640	173,554
Capitalization		
Common shareholders' equity	219,654	230,115
Long-term debt	199,071	309,053
	418,725	539,168
	$1,128,719	$1,020,763

** Derived from audited financial statements.*
See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)
(Dollars in thousands)

	Six Months Ended March 31, 2004 Restated	2003
Operating Activities		
Net income (loss)	$(4,365)	$19,308
Less: Loss from discontinued operations, net of tax	(1,064)	(619)
Effect of change in accounting, net of tax	---	(5,870)
Net income (loss) from continuing operations	(3,301)	25,797
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17,596	17,680
Deferred Federal income taxes	(6,019)	(9,179)
Amortization of deferred investment tax credits	(216)	(293)
Derivative assets and liabilities	4,347	817
Regulatory assets and liabilities	13,434	14,355
Other	(1,019)	2,089
Effect of changes in:		
Accounts receivable, net	(50,090)	(98,066)
Fuel inventories	52,427	28,734
Accounts payable, deposits and accruals	(24,056)	46,971
Under-recovered purchased gas costs	6,155	(7,863)
Prepaids and other	(32,666)	16,275
Federal and state income taxes	18,220	28,720
Other	3,834	2,366
Net cash provided by (used in) operating activities	(1,354)	68,403
Net cash provided by (used in) discontinued operations	4,941	(1,838)
Net cash provided by operating activities	3,587	66,565
Financing Activities		
Proceeds from sales of common stock	276	158
Dividends to shareholders	(5,980)	(7,876)
Payments of long-term debt	(60,000)	---
Funds for construction held by trustee, net	---	1,849
Principal payments under capital lease obligations	(1,352)	(1,281)
Net short-term borrowings	190,900	46,643
Net cash provided by continuing operations	123,844	39,493
Net cash used in discontinued operations	---	(3)
Net cash provided by financing activities	123,844	39,490
Investing Activities		
Cash expenditures for property, plant and equipment	(16,760)	(24,875)
Net proceeds from sale of subsidiaries	---	13,117
Other	215	(8,131)
Net cash used in continuing operations	(16,545)	(19,889)
Net cash used in discontinued operations	(49)	(896)
Net cash used in investing activities	(16,594)	(20,785)
Net increase in cash and cash equivalents from continuing operations	105,945	88,007
Net increase (decrease) in cash and cash equivalents from discontinued operations	4,892	(2,737)
Net increase in cash and cash equivalents	$110,837	$85,270
Cash and Cash Equivalents		
At beginning of period	$ 25,209	$ 4,247
At end of period	$136,046	$89,517

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include all operating divisions and subsidiaries of NUI Corporation (NUI and, together with its subsidiaries, the company, we, our, or us). NUI is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. NUI's local utility operations are carried out by NUI's wholly-owned subsidiary, NUI Utilities, Inc. (NUI Utilities) and a subsidiary of Virginia Gas Company (VGC), and serve approximately 371,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital Corp. and its subsidiaries. As of April 1, 2004, the company's only remaining non-regulated subsidiary with substantial continuing operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The company's other non-regulated subsidiaries have either been sold or are winding down their operations; these subsidiaries include: NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications services subsidiary sold in December 2003; NUI Energy, Inc. (NUI Energy), an energy retailer; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy trading and portfolio management subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which sold wireless and network telephone services. The company's wholly-owned subsidiary, NUI Saltville Storage, Inc. (NUISS), is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC). SSLLC is a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia. All intercompany accounts and transactions have been eliminated in consolidation.

On September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to the company while it seeks a buyer. As discussed in Note 4, for all periods presented, the company has classified the results of Valley Cities Gas and Waverly Gas, NUI Telecom, and TIC as Discontinued Operations in the Consolidated Statements of Income. The assets and liabilities of NUI Telecom have been classified as Assets Held for Sale and Liabilities Held for Sale in the Consolidated Balance Sheet as of September 30, 2003.

During fiscal 2003, the company discontinued the operations of NUI Energy and TIC. During January 2004, the company began to wind down the trading operations of NUI Energy Brokers and discontinued trading operations altogether at NUI Energy Brokers in March 2004, although NUI Energy Brokers continues to manage its prior contractual obligations under a long-term sales agreement in addition to two long-term gas storage and transportation agreements discussed in Note 12. Effective April 1, 2004, OAS has subcontracted all of its existing services to a third party engineering firm. OAS has notified its customers that upon expiration of their current contracts, their relationship with OAS will terminate.

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation.

The consolidated financial statements contained herein have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for interim periods. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

NUI is a holding company and is exempt from registration under the Public Utility Holding Company Act of 1935. NUI Utilities is subject to regulation as an operating utility by the public utility commissions of the states in which it operates. Certain subsidiaries of VGC are regulated by the Virginia State Corporation Commission. SSLLC is subject to regulation by the Federal Energy Regulatory Commission. Because of the seasonal nature of gas utility operations, the results for interim periods are not necessarily indicative of the company's results for an entire year.

2. Liquidity Issues

As a result of various factors, NUI and NUI Utilities have experienced and expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include prepayment for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the purchased gas adjustment clauses; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004, NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy Marketing & Trading LP (Cinergy), NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the New Jersey Board of Public Utilities (NJBPU).

- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner, this could materially adversely affect NUI's and NUI Utilities' financial condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004 (see Notes 9 and 10 for further discussion on debt covenants). The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its credit and debt financing.

3. Common Shareholders' Equity

The components of common shareholders' equity were as follows (dollars in thousands):

	March 31, 2004	September 30, 2003
Common stock, no par value	$287,552	$288,620
Shares held in treasury	(5,113)	(5,320)
Retained deficit	(59,296)	(48,951)
Unearned employee compensation	(2,085)	(3,589)
Accumulated other comprehensive loss (Note 7)	(1,404)	(645)
Total common shareholders' equity	$219,654	$230,115

4. Discontinued Operations and Assets and Liabilities Held for Sale

The revenues, margins and operating income (losses) of the company's discontinued operations that have been reported as discontinued operations on the Consolidated Statements of Income for the three and six-month periods ended March 31 are, as follows, exclusive of affiliate transactions (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Revenues:				
Distribution Services	$ ---	$ ---	$ ---	$ 553
Retail & Business Services	1	13,058	7,078	25,659
Operating Revenues	$ 1	$13,058	$7,078	$26,212
Operating Margins:				
Distribution Services	$ ---	$ ---	$ ---	$ 250
Retail & Business Services	1	4,903	1,631	9,866
Operating Margins	$ 1	$ 4,903	$1,631	$10,116
Pre-Tax Operating Income (Loss):				
Distribution Services	$ ---	$ ---	$ ---	$ 120
Retail & Business Services	(452)	(436)	(2,945)	(281)
Pre-Tax Operating Income (Loss)	(452)	(436)	(2,945)	(161)
Other Income (Expense)	4	(254)	1,357	(874)
Net Interest Charges	---	---	---	4
Pre-Tax Loss from Discontinued Operations	$(448)	$ (690)	$(1,588)	$(1,039)

The amounts included above within Distribution Services are for Valley Cities Gas and Waverly Gas, which were sold collectively on November 7, 2002 for approximately $15 million. The amounts included above within Retail and Business Services are for NUI Telecom, which was sold on December 15, 2003 for $2 million, and TIC, whose operations have been discontinued. Both sales were immaterial to the company's results in the respective periods. In addition, the assets and liabilities held for sale on the Consolidated Balance Sheet at September 30, 2003 (not shown here) relate to NUI Telecom.

5. Earnings Per Share

The following table summarizes the company's basic and diluted earnings per share calculations for the three and six-month periods ended March 31 (amounts are in thousands, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Income (loss) from continuing operations	$4,097	$18,436	$(3,301)	$25,797
Loss from discontinued operations	(300)	(413)	(1,064)	(619)
Effect of change in accounting	---	(5,870)	---	(5,870)
Net income (loss)	$3,797	$12,153	$(4,365)	$19,308
Weighted average shares outstanding	15,970	16,073	15,980	16,049
Earnings (Loss) Per Share:				
Basic and diluted income (loss) from continuing operations	$0.26	$1.15	$(0.21)	$1.61
Basic and diluted loss from discontinued operations	(0.02)	(0.03)	(0.06)	(0.04)
Basic and diluted effect of change in accounting	---	(0.36)	---	(0.36)
Basic and diluted net income (loss)	$0.24	$0.76	$(0.27)	$1.21

The company's weighted average diluted shares outstanding (not shown) includes shares which would be issuable upon the exercise of stock options outstanding under NUI's stock option plan, which is added to weighted average shares outstanding. As of March 31, 2004, unvested stock options having an exercise price less than the market value of the company's shares for the three month period on that date provided for an additional 380 shares of common stock equivalents outstanding, which had no impact on the calculation of the company's diluted earnings per share. As of March 31, 2004, 773 shares of common stock equivalents have been omitted from the calculation of the six month diluted earnings per share, as they would have been antidilutive. The number of shares that could potentially be dilutive to earnings per share in the future that have been excluded in the computation of diluted earnings per share, because to do so would have been antidilutive, are 88,200 and 1,006,500 shares, respectively, as of March 31, 2004 and 2003.

6. Restructuring Charges and Other Employee Severance Costs

During November 2003, the company commenced a reorganization effort that resulted in workforce reductions. These workforce reductions primarily effected the corporate shared services functions and were undertaken to reflect the overall reduction in the size of the company due to the sale, or winding down, of certain NUI businesses. Additional workforce reductions were undertaken during January 2004 and March 2004, primarily related to the company's decision to discontinue the trading operations of NUI Energy Brokers. The company currently has no plans for additional workforce reductions. In addition, none of the employees terminated as a result of the reorganization efforts is required to provide any future service to the company. The reorganization efforts resulted in aggregate charges of approximately $2.1 million to restructuring costs for the six months ended March 31, 2004, primarily relating to severance costs for 41 individuals. A total of approximately $1.0 million has been paid to former employees through March 31, 2004. The company has approximately $1.1 million of unpaid liabilities included in Accounts Payable, Customer Deposits, and Accrued Liabilities on the Consolidated Balance Sheet at March 31, 2004 and expects to pay this amount out over a two-year period ending November 30, 2005.

In January 2004, two executive officers ended their employment with the company. A. Mark Abramovic served as President of the company since September 26, 2003, until his retirement in January 2004. Previously he served as Senior Vice President and Chief Financial Officer since September 1997, and Chief Operating Officer since May 1998. Until his resignation in January 2004, James R. Van Horn served as Chief Administrative Officer since May 1998, and General Counsel and Secretary since 1995. With respect

to the departure of these two executives, the company recorded a $2.1 million charge in operations and maintenance expense in the second quarter of fiscal 2004 primarily relating to severance costs.

7. Comprehensive Income

The components of Comprehensive Income are as follows (amounts in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Net income (loss)	$3,797	$12,153	$(4,365)	$19,308
Other comprehensive income (loss):				
Derivatives qualifying as hedges, net	813	345	(759)	345
Total comprehensive income (loss)	$4,610	$12,498	$(5,124)	$19,653

Accumulated other comprehensive income (loss), included in Common Shareholders' Equity on the Consolidated Balance Sheet was $(1,404) at March 31, 2004, and $(645) at September 30, 2003. Included in the balance at March 31, 2004, was $(1,404) related to minimum pension liability (net of $976 in taxes). There were no derivatives qualifying as hedges on that date.

8. Stock Options

The company measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded.

Had employee compensation expense been recognized based on the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the company's net income and diluted earnings per share for the three and six-month periods ended March 31 would have been as shown in the following table (in thousands, except for per share amounts).

	Three Months Ended March 31,		Six Months Ended March 31,	
	2004	2003	2004	2003
Net income (loss) as reported	$3,797	$12,153	$(4,365)	$19,308
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(91)	(473)	(270)	(947)
Pro forma net income (loss)	$3,706	$11,680	$(4,635)	$18,361
Earnings (Loss) Per Share:				
Basic and diluted- as reported	$0.24	$0.76	$(0.27)	$1.21
Basic and diluted- pro forma	$0.23	$0.73	$(0.29)	$1.14

9. Notes Payable to Banks

On November 24, 2003, NUI and NUI Utilities each entered into new separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash into escrow with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's new credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of March 31, 2004, NUI has fully drawn all amounts available under its credit agreement. As of May 14, 2004, NUI had overnight cash investments of $28.8 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of March 31, 2004, NUI Utilities has fully drawn under the $50 million revolver and the $50 million term loan facility. As of May 14, 2004, NUI Utilities had overnight cash investments of $109.1 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, amended as of May 10, 2004, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004, to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement (NJBPU Settlement),

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

At March 31, 2004, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $100.0 million, respectively, at weighted average interest rates of 8.0 percent and 7.5 percent. As of that date, NUI and NUI Utilities had no unused borrowing capacity under their respective credit facilities. Also, as of March 31, 2004, NUI and NUI Utilities had approximately $23.4 million and $102.0 million, respectively, of cash held as short-term investments.

The weighted average daily amounts of borrowings outstanding under NUI's current credit facility and the weighted average interest rates on those amounts were $255.0 million and $40.8 million at 8.1 percent and 2.8 percent for the three months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI's previous and current credit facilities and the weighted average interest rates on those amounts were $191.7 million and $45.6 million at 7.8 percent and 3.0 percent for the six months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' current credit facility and the weighted average interest rates on those amounts were $94.9 million and $132.8 million at 7.2 percent and 2.6 percent for the three months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' previous and current credit facilities and the weighted average interest rates on those amounts were $105.0 million and $110.9 million at 5.6 percent and 2.5 percent for the six months ended March 31, 2004 and 2003, respectively.

Dividend Restrictions Under Short-term Credit Facilities. Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI is also prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

10. Long-term Debt

NUI Utilities has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As of March 31, 2004, this amount has been reclassified to current liabilities on the Consolidated Balance Sheet. As discussed in Note 9, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In connection with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded as a charge during the first quarter of fiscal 2004. During the first quarter of fiscal 2004, the company also recorded a charge of approximately $0.5 million for unamortized debt expenses related to the senior notes.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at March 31, 2004 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA will be extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of March 31, 2004, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of NUI's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI Utilities has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

The company's long-term debt maturities for each of the next five fiscal years are as follows: zero in 2004; $50 million in 2005; $5 million in 2006; zero in 2007; and $15 million in 2008.

Dividend Restrictions Under Long-term Debt Agreements. The payment of cash dividends by NUI Utilities to NUI is restricted pursuant to the SBPA to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, under the amendment to NUI Utilities' credit facility dated as of May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding.

11. Pension and Post-Retirement Benefits

The company sponsors several qualified and nonqualified pension plans and other post-retirement benefit plans covering the company's current and former employees who meet certain eligibility criteria.

The following table provides the Components of Net Periodic Benefit Costs relating to all qualified and nonqualified pension plan and other post-retirement plans on an aggregate basis.

	Pension Benefits Three Months Ended March 31,		Other Benefits Three Months Ended March 31,	
	2004	2003	2004	2003
Service cost	$1,213	$ 860	$103	$126
Interest cost	1,870	1,704	479	492
Return on plan assets	(2,085)	(2,068)	(148)	(116)
Net amortization and deferral	690	523	103	70
Net Periodic Benefit Costs	$1,688	$1,019	$537	$572

	Pension Benefits Six Months Ended March 31,		Other Benefits Six Months Ended March 31,	
	2004	2003	2004	2003
Service cost	$2,426	$1,719	$206	$252
Interest cost	3,741	3,408	959	984
Return on plan assets	(4,170)	(4,135)	(297)	(232)
Net amortization and deferral	1,379	1,046	205	139
Net Periodic Benefit Costs	$3,376	$2,038	$1,073	$1,143

12. Commitments and Contingencies

Focused Audit. On March 20, 2003, the NJBPU announced the initiation of a focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas. The NJBPU had expressed the belief that recent downgrades of the senior unsecured debt of NUI and NUI Utilities, as well as negative credit rating agency comments, and concerns raised during a recent competitive services audit, substantiated the need for an in-depth review of the financial practices of the company and its subsidiaries. On June 4, 2003, the NJBPU chose The Liberty Consulting Group to perform the audit. The focused audit covered the following areas: corporate governance; strategic planning; financial structure and interaction; accounting and property records; executive compensation and affiliate transactions. An interim audit report was released by the NJBPU on December 17, 2003 and the final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004, at the NJBPU's public agenda meeting. Among other things, the report criticizes NUI for the energy management practices on behalf of NUI Utilities, its financing and cash pooling arrangements, the impact of unprofitable non-utility operations on NUI Utilities, the method used to allocate shared services costs among its business units, and the propriety of rates established in the 2002 Elizabethtown base rate case. NUI filed responsive comments on March 26, 2004 and a settlement was reached with the NJBPU on April 14, 2004. On April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. The company recorded a pre-tax charge of $30 million in the fourth quarter of fiscal 2003 to reflect the final settlement of the focused audit. Of this amount, $28 million was recorded as the amount to be refunded to customers in New Jersey. The company has also agreed to pay interest at 7.95 percent annually on the unpaid balance. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008.

In addition, the company established a pre-tax reserve of $2.6 million in fiscal 2003 in anticipation of providing refunds to customers in Florida as a result of transactions by the company's NUI Energy Brokers subsidiary.

Default under Credit Agreements. In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended on May 10, 2004, to further extend these deadlines.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable

Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI Utilities has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Commitments. On April 30, 2001, the company announced an agreement with a unit of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving the required regulatory approval, in February 2003 VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of March 31, 2004, the company has loaned SSLLC an aggregate of approximately $26.0 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected be funded with internally generated cash flows of the joint venture.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with Duke Energy Gas Transmission (DEGT) for the firm transportation of natural gas on the planned Patriot pipeline. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Guarantees. The company has guarantees of approximately $161.4 million to 42 counterparties as of March 31, 2004, in support of NUI Energy Brokers' trading activities. These guarantees were necessary to facilitate trading with a broad group of potential counterparties, although typically NUI Energy Brokers used only a fraction of the issued guarantees at any given time. Further, since NUI Energy Brokers has netting agreements in place with most of its counterparties, the guarantees would apply only to net balances owed to its respective counterparties with which it has such agreements. As of March 31, 2004, the amount of purchases covered by outstanding guarantees was approximately $4.4 million.

Environmental Matters. The company owns, or previously owned, certain properties located in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland on which manufactured gas plants (MGP) were operated by the company or by other parties in the past. In New Jersey, the company is currently conducting remedial activities at such properties with oversight from the New Jersey Department of Environmental Protection and anticipates initiation of such activities in the state of North Carolina within the next five years. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an

undiscounted basis a total reserve of approximately $33.8 million which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $29.9 million relates to remediation of the New Jersey MGP properties and approximately $3.9 million relates to remediation of the MGP properties located outside the state of New Jersey.

The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $34.6 million, inclusive of interest, as of March 31, 2004, reflecting the future recovery of both incurred costs and future remediation liabilities in the state of New Jersey. The company has also been successful in recovering a portion of MGP remediation costs incurred in New Jersey from the company's insurance carriers and continues to pursue additional recovery. The company sold the net assets of its North Carolina Gas utility division on September 30, 2002 and its Valley Cities Gas and Waverly Gas utility divisions on November 7, 2002. Included in these asset sales were the environmental obligations for two of the company's MGP sites: one in North Carolina and one in Pennsylvania. With respect to costs associated with the MGP properties located outside New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful in recovering a portion of the remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able to express a belief as to the success of additional recovery efforts. The company is working with the regulatory agencies to prudently manage its MGP costs so as to mitigate the impact of such costs on both ratepayers and shareholders.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $60.5 million for the next twelve month period (this amount includes the company's obligations under two twenty-year agreements to pay annual demand charges for the firm transportation and storage of natural gas, discussed above). The company currently recovers, and expects to continue to recover, the majority of such fixed charges through its purchased gas adjustment clauses. The company also is committed to purchase from a single supplier, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 billion cubic feet per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk reduction in the contracted daily delivery quantity. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one-month period. That agreement was superceded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as NUI Utilities' asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, will be secured by a prepayment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI.

Employment Agreements. The company has created an incentive plan designed to retain key personnel through the date the company would be sold. Upon reaching an agreement to sell the company, the company would begin accruing an aggregate of approximately $3.7 million in retention costs through the anticipated closing date for the sale of the company. These retention amounts would be payable thirty days following the closing date of the sale, or on a date before the closing date if the employee is released from his/her employment by the company. In connection with the possible sale of the company, NUI has established a discretionary severance plan for non-bargaining employees. In addition, certain officers and

directors have change in control agreements with NUI, which define the amount of severance that would be payable upon the occurrence of certain events as defined within the agreements.

Legal Matters. Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Class Action Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001 and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act against the company, and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants (i) failed to disclose material facts that would impair the company's current and future earnings, including (a) the allegedly accurate amount and explanation of the company's bad debts, (b) a purportedly illegal practice by the company in "re-terminating" intrastate calls, (c) alleged accounting improprieties in connection with purportedly unearned revenue, and (d) allegedly inaccurate earnings per share information, and (ii) inflated the company's earnings materially by (a) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, (b) allegedly attributing the company's rising costs to incorrect and immaterial factors, and (c) purportedly pursuing illegal telecommunications billing practices. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. Opposition papers to the motion to dismiss were served on December 19, 2003, and reply papers were filed on February 23, 2004. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants. Defendants filed an Answer to the Second Amended Complaint on May 10, 2004. No discovery has occurred yet. Although the company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in June of 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their

claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of $83,331.00. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by plaintiff on certain issues. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing. At this time, the company is unable to determine the likelihood of an outcome.

The plaintiffs, James Greiff and TIC Enterprises, Inc., sued the company and three other company related entities, NUI Sales Management, Inc. (NUI Sales), NUI Capital Corp. and TIC, for breach of contract and fraud arising out of the company's purchase of Greiff's interest in TIC Enterprises, LLC. The plaintiffs allege they are entitled to payment on a $3 million promissory note and have made claims arising from the defendants' alleged breach of a 2001 purchase agreement for $22 million in punitive damages for the defendants' alleged fraud and $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs have also alleged a tortious interference claim for $3 million, which the court previously dismissed. The company and the remaining defendants are vigorously defending the lawsuit and deny any liability to the plaintiffs. NUI Sales and defendant TIC have a four-count counterclaim against both plaintiffs for more than $3 million. They are for: (1) breach of the 2001 Purchase Agreement; (2) breach of the 1997 Amended and Restated Limited Liability Company Agreement; (3) fraud in the inducement; and (4) unjust enrichment. This case, originally filed in the Northern District of Georgia, was recently transferred on defendants' motion to the District of Delaware. The parties are in the midst of discovery, and have exchanged written responses and objections to discovery requests along with numerous documents. The parties have also begun taking depositions of the parties and fact witnesses. On May 2, 2004, NUI proposed a settlement to the plaintiffs in which the company agreed to pay the plaintiffs $1.4 million to completely satisfy NUI's obligation under the note, as well as to resolve all other claims that the company and the plaintiffs had brought against each other. On May 5, 2004, NUI received the plaintiffs' written acceptance of the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under the note from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003.

Other. On November 19, 2003, the company announced that in connection with the focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas initiated by the NJBPU, certain questionable transactions within NUI Energy Brokers were identified. The Attorney General of the State of New Jersey also is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. NUI is cooperating fully with the New Jersey Attorney General's Office.

In November 2003, the SEC advised the company that it is conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the New Jersey Attorney General's Office. On March 1, 2004, the SEC requested the company to voluntarily produce certain documents in furtherance of its informal inquiry. In particular, the SEC is requesting information regarding allegations of inappropriate conduct by employees of NUI Energy Brokers. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The Audit Committee of the Board of Directors of NUI had previously retained independent counsel to conduct an internal investigation into these transactions at NUI Energy Brokers.

The company is involved in various other claims and litigation incidental to its business. In the opinion of management, none of these other claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

13. New Accounting Standards

In June 2002, the Emerging Issues Task Force (EITF) issued EITF 02-03, "Issues Involved in Accounting for Contracts Under Issue 98-10," (EITF 02-03). The purpose of EITF 02-03 is to address certain issues related to energy trading activities, including (a) gross versus net presentation in the income statement, (b) whether the initial fair value of an energy trading contract can be other than the price at which it was exchanged (i.e., whether there is any profit at inception), and (c) additional disclosure requirements for energy trading activities. On October 25, 2002, the EITF reached a consensus on EITF 02-03 that changes the accounting for certain energy contracts. The provisions of EITF 02-03 became effective at certain times, and the provisions that were adopted during fiscal 2003 are as follows:

- The EITF rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10), which was the authoritative accounting followed by NUI Energy Brokers and NUI Energy. Pursuant to EITF 98-10, an entity accounted for energy contracts at fair value with changes in fair value recognized in earnings if the energy contract was determined to be part of an entity's trading activities. In contrast to EITF 98-10, EITF 02-03 prohibits mark-to-market accounting for energy-related contracts that do not meet the definition of a derivative under SFAS 133. Any contracts not meeting the definition of a derivative under SFAS 133 must be accounted for on the accrual basis.
- The consensus applied immediately to non-derivative energy-related contracts executed after October 25, 2002.
- The consensus applies to existing non-derivative energy-related contracts for fiscal periods beginning after December 15, 2002 and the cumulative effect of a change in accounting principle must be reported upon initial application.
- The EITF indicated that an entity should not record unrealized gains or losses at the inception of derivative contracts unless the fair value of each contract in its entirety is evidenced by quoted market prices or other current market transactions for contracts with similar terms and counterparties.

The company continued to mark all existing energy-related contracts to market based on EITF 98-10 during the first quarter of fiscal 2003 prior to applying the new consensus. However, the consensus required NUI to record a cumulative effect adjustment to convert any contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective January 1, 2003.

The primary contracts affected as a result of applying the new consensus are the full requirements natural gas sales contracts associated with NUI Energy and a large natural gas storage contract within NUI Energy Brokers. However, the majority of NUI Energy Brokers' contracts are considered derivatives under SFAS 133 and are marked-to-market through earnings. The cumulative effect adjustment to convert the contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective on January 1, 2003 was a loss of approximately $9.9 million before taxes.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003, issued a revised FIN 46R. The objective of both FIN 46 and FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that, by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities no later than the end of the first reporting period after March 15, 2004. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The company has determined that it does not meet the consolidation requirements with respect to its joint venture with Duke Energy (see Note 12). In addition, the company has not created or obtained any variable interest entities after January

31, 2003. Therefore, the adoption of the consolidation requirements of FIN 46R in March 2004 did not have an impact on the company's financial position or results of operations.

14. Business Segment Information

The company's operations are organized and managed as three primary segments: Distribution Services, Energy Asset Management, and Retail and Business Services. The Distribution Services segment currently distributes natural gas in three states through the company's regulated utility operations, and engages in appliance leasing, repair and maintenance operations and off-system gas sales. The Energy Asset Management segment reflects the operations of NUI Energy Brokers and all of the VGC subsidiaries. The Retail and Business Services segment reflects the operations of the company's UBS operations and NUI Energy subsidiary. The company also has corporate operations that do not generate any revenues.

During fiscal 2003, the company realigned its reportable business segments as follows: the appliance service businesses in New Jersey and Florida, previously reported within the Retail and Business Services segment, are now included within the Distribution Services segment; off-system sales made by NUI Energy Brokers on behalf of the utility operations, previously reported within the Energy Asset Management segment, are now included within the Distribution Services segment; NUI Telecom, previously reported within the Retail and Business Services segment, was being held for sale at September 30, 2003, and is now reported within discontinued operations; the operations of TIC are being wound down by the company and have also been reported as discontinued operations; and the operating results of NUI Environmental, previously reported within discontinued operations, are now included as part of the Retail and Business Services segment. The change for NUI Environmental, which was sold in September 2003, was due to the company's potential future involvement in this business under certain ancillary agreements entered into by the company on the date of the sale.

The following table provides information concerning the major segments of the company for the three and six-month periods ended March 31, 2004 and 2003. The company's management evaluates its segment profit and loss on the basis of pre-tax income (losses) from continuing operations. Revenues include intersegment sales to affiliated entities, which are eliminated in consolidation. All of the company's operations are in the United States and therefore do not need separate disclosure by geographic region. Certain reclassifications have been made to prior year segment data to conform with the current year's presentation.

(Dollars in thousands)	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Revenues:				
Distribution Services	$240,547	$232,257	$402,085	$398,443
Energy Asset Management	1,889	17,187	5,692	21,426
Retail and Business Services	2,412	1,527	4,746	4,386
Intersegment Revenues	(1,492)	(1,242)	(2,664)	(2,709)
Total Revenues	$243,356	$249,729	$409,859	$421,546
Operating Margins:				
Distribution Services	$67,904	$66,678	$121,515	$117,423
Energy Asset Management	1,343	16,622	4,794	20,567
Retail and Business Services	1,174	380	2,326	2,053
Intersegment Operating Margins	(363)	(305)	(837)	(870)
Total Operating Margins	$70,058	$83,375	$127,798	$139,173
Pre-Tax Operating Income (Loss):				
Distribution Services	$29,093	$28,567	$45,614	$46,754
Energy Asset Management	(3,862)	13,188	(3,809)	14,015
Retail and Business Services	52	(4,371)	38	(5,365)
Total Pre-Tax Operating Income	$25,283	$37,384	$41,843	$55,404

(Dollars in thousands)	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Pre-Tax Income (Loss) from Continuing Operations:				
Distribution Services	$23,952	$25,953	$36,243	$40,879
Energy Asset Management	(4,453)	12,607	(4,762)	13,192
Retail and Business Services	3	(4,731)	(49)	(5,880)
Total Pre-Tax Income (Loss) from Continuing Operations	$19,502	$33,829	$31,432	$48,191

A reconciliation of the company's segment pre-tax operating income and income (loss) from continuing operations, to amounts reported on the consolidated financial statements, is as follows:

(Dollars in thousands)	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003	Six Months Ended March 31, 2004	Six Months Ended March 31, 2003
Segment Pre-Tax Operating Income	$25,283	$37,384	$41,843	$55,404
Non-segment pre-tax operating loss	(9,479)	(1,274)	(20,049)	(2,064)
Pre-tax Operating Income	$15,804	$36,110	$21,794	$53,340
Segment Pre-Tax Income (Loss) from Continuing Operations	$19,502	$33,829	$31,432	$48,191
Non-segment pre-tax loss from continuing operations	(13,380)	(2,359)	(36,352)	(4,422)
Pre-Tax Income (Loss) from Continuing Operations	$ 6,122	$31,470	$(4,920)	$43,769

The increase in non-segment pre-tax operating loss for the three and six months ended March 31, 2004, as compared to the same periods in fiscal 2003, is primarily due to increased corporate expenses for outside professional services (approximately $1.9 million and $6.4 million, for the three and six-month periods, respectively), bank fees (approximately $2.4 million and $5.7 million, for the three and six-month periods, respectively), and restructuring and other severance charges (approximately $3.1 million and $4.2 million, for the three and six-month periods, respectively) (see Note 6), which costs have not been allocated to the company's various business units. The increase in non-segment pre-tax loss from continuing operations for the six months ended March 31, 2004, as compared to the same period in fiscal 2003, is primarily due to these same factors, plus a pre-tax loss of approximately $9.9 million recorded for the early retirement of debt (see Note 10).

15. Restatement

This Amendment No. 1 on Form 10-Q/A to the company's Form 10-Q for the fiscal quarter ended March 31, 2004, as originally filed on May 25, 2004, is being filed to revise the Consolidated Balance Sheet for a prepayment made under the company's gas procurement contract with Cinergy Marketing & Trading, LP (Cinergy). A prepayment of $15 million was made at the end of the second fiscal quarter which should have been reflected on the Consolidated Balance Sheet as a credit (reduction) to cash and a debit to prepayments. There is no change in our total assets, working capital or net income as of and for the fiscal quarter ended March 31, 2004 as a result of this restatement.

Accordingly, the company's Form 10-Q for the fiscal quarter ended March 31, 2004 has been revised, as follows:

- The Consolidated Balance Sheet as of March 31, 2004 has been restated such that Cash and cash equivalents has been decreased by $15 million to $136.0 million, and Prepayments and other has been increased by $15 million to $63.8 million.

- The company's Consolidated Statement of Cash Flows for the six months ended March 31, 2004 has been restated to reflect the $15 million prepayment to Cinergy, which reduced our cash flows from operating activities by that amount.

As discussed in Note 2, the company has experienced and expects to continue experiencing significant liquidity problems. However, the $15 million prepayment to Cinergy has no impact on statements the company previously made in its Form 10-Q filed on May 25, 2004 regarding the company's anticipated cash flows, as the prepayment obligations under the Cinergy contract were already factored into the company's anticipated cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of NUI Corporation included elsewhere herein and with the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Recent Developments

The company recently has faced a number of challenges and experienced significant events, including:

the settlement agreement with the New Jersey Board of Public Utilities (NJBPU) and other regulatory orders issued by the NJBPU;
the investigations of transactions at NUI Energy Brokers;
new credit facilities at NUI and NUI Utilities;
the gas supply contract with Cinergy Marketing and Trading, LP (Cinergy);
changes in the Boards of Directors of NUI and NUI Utilities and changes in management;
the pursuit of the sale of the company; and
the sale of NUI Telecom.

Settlement Agreement with the NJBPU

On April 14, 2004, the company announced that NUI, NUI Utilities and Elizabethtown Gas Company had entered into a settlement agreement with the NJBPU on all issues related to the focused audit performed by Liberty Consulting Group on behalf of the NJBPU, and on April 26, 2004, the NJBPU issued a Final Order accepting and adopting that settlement agreement. Pursuant to the settlement agreement, NUI Utilities agreed to refund $28 million plus interest to Elizabethtown Gas ratepayers and to pay a $2 million penalty to the State of New Jersey over five years. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008. The $2 million penalty shall be paid in $400,000 annual installments in each of NUI's fiscal years 2004 through 2008. The company has the option to make a balloon payment of all outstanding amounts due under the terms of the settlement agreement at any time. In addition, upon the close of a sale of the company, any outstanding balance is required to be paid in full by the company within a period to be determined by the NJBPU. The refund and penalty increased the company's net after-tax loss for fiscal year 2003 by approximately $18.6 million, or $1.16 per share.

In addition to the required monetary refund and penalty, NUI agreed to file a plan with the NJBPU for implementing the recommendations of the Liberty report, as modified by the settlement. The settlement agreement also contains a number of other provisions, including, without limitation:

- The company shall continue to use its existing cost allocation policy until the earlier of the sale of the company or 18 months from the date the settlement agreement was adopted as final;

- The company and the NJBPU agree that an appropriate target equity percentage for Elizabethtown Gas shall be 45 percent and if the average equity percentage for the preceding twelve months falls below 45 percent, the company shall provide the NJBPU with a written plan on how the 45 percent equity capital will be reinstated;

- The company agrees to maintain a separate cash management system for NUI Utilities and is prohibited from commingling cash of Elizabethtown Gas or of NUI Utilities with the cash of NUI or of non-utilities affiliates of NUI;

- The company shall provide the NJBPU with various financial statements of NUI Utilities and Elizabethtown Gas;

- The pre-approval by the NJBPU is required for various intercompany arrangements and for certain financing arrangements and certain other transactions that could impact the assets or operations of Elizabethtown Gas or NUI Utilities;

- NUI Utilities shall have different management and a separate Board of Directors from NUI responsible for utility operations although NUI and NUI Utilities may have up to three common directors; and

- The company agrees to settle all receivables and payables for allowed intercompany transactions on a monthly basis in accordance with a matrix developed by the company and the NJBPU.

The terms of the settlement agreement (1) do not prohibit the transfer of cash between NUI Utilities and NUI for the purpose of the payment of dividends to NUI or the settlement of monthly intercompany balances, (2) do not waive or alter the requirements of any existing Order of the NJBPU and (3) are not binding on any purchaser of the company, except that, upon the closing of the sale, any outstanding refund and penalty balance are required to be paid in full by the company within a period of time to be determined by the NJBPU. The company's agreement to the terms of the settlement is not an acknowledgement of non-compliance with any law, regulation or NJBPU Order or requirement. The settlement agreement resolves all issues identified in the final Liberty audit report without acknowledgement or admission by the company as to the correctness of any issue or that any specific issue forms the basis or any part of the basis for the payments described above. The settlement provides that no further civil action shall be taken by the NJBPU. The NJBPU retains the authority to impose any requirements or conditions on a purchaser upon a petition for approval of a sale of the company.

Other Regulatory Orders

On September 16, 2003, the NJBPU, in connection with its approval of a provisional increase in Elizabethtown Gas' Basic Gas Supply Service (BGSS) rate, ordered NUI to provide (1) written assurances that the approved revenues would be used solely for Elizabethtown Gas and (2) an acceptable plan whereby NUI and any other subsidiaries would repay Elizabethtown Gas for any money owed to it. In addition, NUI and NUI Utilities were ordered to continue to cooperate with the focused audit, participate in weekly meetings to review their financial integrity and comply with existing NJBPU Orders, and NUI Utilities was ordered to refrain from issuing any special dividends (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities) without the prior approval of the NJBPU. After the September 26, 2003 announcement by NUI of its intention to sell the company, the NJBPU issued an Order dated October 30, 2003, ordering NUI to: (1) provide information to the NJBPU concerning its compensation packages; (2) provide assurances that Elizabethtown Gas' immediate and short-term liquidity needs would be met; (3) provide the NJBPU with all information necessary to assess the sufficiency of funding of NUI's pension and other post-retirement plans; and (4) present a detailed plan and schedule for preparing the company for sale, for operating during the sale process and for conducting sale activities in order to assure the NJBPU that the process of selling NUI would be transparent, independent, and timely. In addition, the NJBPU ordered NUI to protect the utility employees of Elizabethtown Gas during the sale process, inform the NJBPU of the progress of the 2003 fiscal year-end audit of the company's financial statements being conducted by PricewaterhouseCoopers LLP (PwC) and amend its consulting agreement with FTI Consultants. In October 2003, the company employed FTI Consultants to manage its financial operations and develop new liquidity forecasts.

Pending its review of the interim focused audit report, on December 11, 2003, the NJBPU issued an Order in which NUI Utilities and Elizabethtown Gas were directed to cease purchasing gas from NUI Energy Brokers upon approval of a new gas supply procurement and energy asset management plan, which was to be submitted to the NJBPU by January 2, 2004 for the NJBPU to approve by January 8, 2004. Further, per the Order, NUI Utilities is prohibited from issuing special dividend payments (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities); and Elizabethtown Gas shall not pay any allocated costs of any agreements, retainers or arrangements for professional services and other expenditures incurred in connection with, or as a result of, the focused audit and/or financial difficulties of NUI unless approved by the NJBPU.

In its Order dated January 14, 2004, the NJBPU accepted the plan submitted by NUI Utilities and Elizabethtown Gas which transferred the management of NUI Utilities' and Elizabethtown Gas' gas supply assets to New Jersey Resources, Inc. (NJRES) through March 31, 2004. The NJBPU further directed NUI Utilities to file a procedure with the NJBPU for the competitive procurement of gas supply management services for the period commencing April 1, 2004 through March 31, 2005. In the event NJRES was not

selected to continue to provide services to NUI Utilities as a result of the bid process, the NJBPU directed NUI Utilities to pay an early termination fee.

NUI Utilities filed a procedure for competitive procurement of gas supply management services, which was approved by the NJBPU on February 11, 2004. NUI Utilities instituted a process for receiving bids for gas supply and capacity management services to the company's New Jersey, Florida and Maryland utility divisions. The company requested bidders to provide bids in one of three ways: (1) on the basis of a fixed payment to the company reflecting the value of the company's energy assets, (2) on the basis of sharing credits and/or margins derived from capacity release and off-system sales activities, or (3) on the basis of a fee tied to the volume of capacity in excess of the company's requirements multiplied by a measure of the market value tied to available published indices. The company received multiple bids from nine third-party suppliers. As a result of this process, NUI Utilities selected Cinergy to provide a full requirements gas supply contract with least cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005 and provides a fixed payment to NUI Utilities for the use of NUI Utilities' gas and deliverability assets for the twelve months ended March 31, 2005. The NJBPU approved the selection of Cinergy as the company's gas and capacity management services provider on April 14, 2004.

Investigations of Transactions at NUI Energy Brokers

In connection with the focused audit described above, Liberty identified certain questionable transactions involving NUI Energy Brokers. The Audit Committee of the Board of Directors retained independent counsel to conduct an investigation of transactions involving NUI Energy Brokers. A report of the independent counsel's investigation was provided to the company's Audit Committee on April 13, 2004.

The Attorney General of the State of New Jersey is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. In addition, the U.S. Securities and Exchange Commission (SEC) has commenced an informal inquiry relating to NUI Energy Brokers. NUI is fully cooperating with these investigations.

For a description of the investigations of NUI Energy Brokers, see Part II - Other Information- Item 1. Legal Proceedings- Investigations of NUI Energy Brokers.

New Credit Facilities at NUI and NUI Utilities

On November 24, 2003, NUI and NUI Utilities each entered into a separate credit facility with a syndicate of banks. NUI obtained a $255 million term loan facility and NUI Utilities obtained a $150 million credit facility comprised of a $50 million term loan facility, a $50 million revolving credit facility and a $50 million delayed draw term loan facility, which delayed draw term loan facility may only be used to repay NUI Utilities' 8.35 percent medium term notes. Both the NUI and NUI Utilities credit facilities expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

The delay in delivering audited financial statements for fiscal 2003 and unaudited financial statements for the fiscal quarter ended December 31, 2003, resulted in events of default under NUI's and NUI Utilities' credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements.

Pursuant to these waivers, the deadline for the delivery of NUI's annual report and financial statements for its fiscal quarter ended December 31, 2003 was extended until March 1, 2004. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments on May 10, 2004, to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

For a description of NUI's and NUI Utilities' credit agreements, including the amendment referred to above and other debt instruments and defaults thereunder, see Liquidity and Capital Resources.

Gas Supply Contract with Cinergy

NUI Utilities has selected Cinergy to provide a full requirements gas supply contract with least-cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005. The gas supply contract with Cinergy requires NUI Utilities to prepay, in varying amounts, for its gas requirements on a monthly basis over the contract period. If NUI Utilities regains investment grade ratings, the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. Cinergy will pay NUI Utilities a fixed amount for the use of NUI Utilities' gas and deliverability assets for the twelve months ended March 31, 2005, which is in lieu of NUI Utilities' opportunity to earn margins on off-system sales transactions. Regarding the fixed amount that NUI Utilities will receive from Cinergy, approximately 80 percent will benefit ratepayers and be credited to the over/under recovery of gas costs, and 20 percent will be retained by NUI Utilities and reflected as an increase in operating margins on the Consolidated Statements of Income.

For a description of the gas supply contract with Cinergy, see Liquidity and Capital Resources.

Changes in Boards of Directors of NUI and NUI Utilities and Changes in Management

NUI

On January 28, 2004, the Board of Directors of NUI announced that it had appointed Craig G. Matthews as the President and Chief Executive Officer of NUI and as a member of its Board of Directors and that it had appointed Steven D. Overly as the Vice President, General Counsel and Secretary of NUI. Mr. Matthews replaced A. Mark Abramovic, who retired and who had previously been appointed President of NUI after John Kean, Jr. stepped down in September 2003. Mr. Overly replaced James R. Van Horn, the former Chief Administrative Officer, General Counsel and Secretary of NUI. In addition, on February 24, 2004, Robert P. Kenney was appointed to the Board of Directors of NUI. James J. Forese was appointed Chairman of the Board of Directors of NUI on April 1, 2004, replacing John Kean, who remains as a director of NUI until his retirement later in 2004.

In October 2003, NUI announced the appointment of Dan Scouler as Chief Financial Officer on an interim basis. Mr. Scouler replaced Mr. Abramovic as Chief Financial Officer upon Mr. Abramovic's appointment in September 2003 as President of NUI. Mr. Scouler is the managing member of Scouler Andrews International, LLC and was previously a Senior Managing Director of FTI Consultants, which the company employed in October 2003 to manage its financial operations and develop new liquidity forecasts.

NUI Utilities

In October 2003, NUI Utilities expanded its existing Board of Directors to include Robert P. Kenney, Barbara Harding, Duncan Ellsworth, Stephen Schachman and Victor A. Fortkiewicz. In February 2004, Craig G. Matthews was appointed to the Board of Directors of NUI Utilities. Mr. Kean is the current Chairman of the Board of Directors of NUI Utilities.

In September 2003, Victor Fortkiewicz was appointed President of NUI Utilities and Mary Patricia Keefe was appointed Vice President, General Counsel and Secretary of NUI Utilities, replacing James R. Van Horn. Nancy J. Sobelson was appointed Vice President, Business and Technical Services in November 2003. Peter E. Maricondo was named Chief Financial Officer of NUI Utilities in December 2003, and replacing him as Controller of NUI Utilities was Donald R. Guarriello. In addition, Elaine A. Kloss was appointed Treasurer of NUI Utilities in January 2004, replacing Charles N. Garber who left the company in November 2003. Mr. Abramovic retired as Vice President of NUI Utilities in January 2004.

Sale of the Company

On September 26, 2003, the company announced that its Board of Directors had decided to pursue the sale of the company. The Board of Directors established a Special Committee to assess the company's options and concluded that pursuing a sale of the company was in the best interests of the company's stakeholders. The decision was made as a result of a number of factors, including the negative impact on the company arising from multiple downgrades of the company's credit ratings during fiscal 2003 and adverse business conditions in general.

The company is continuing to work with its financial advisors on the sale process for the company and hopes to enter into a definitive agreement with a purchaser during the third quarter of calendar 2004. For a discussion of factors that could prevent or delay the sale of the company, see Item 1. Business—Risk Factors—The sale of NUI may not be consummated, as discussed in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

The Sale of NUI Telecom

On December 15, 2003, the company completed the sale of NUI Telecom for approximately $2 million.

Forward-Looking Statements

Certain statements contained in this quarterly report are "forward-looking statements" within the meaning of federal securities laws. The company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to NUI's and NUI Utilities' requirements for additional financing and the ability of NUI and NUI Utilities to extend and refinance certain of their outstanding indebtedness, including the credit facilities entered into in November 2003;
- statements as to NUI's and NUI Utilities' expected liquidity needs during fiscal 2004, fiscal 2005 and beyond and statements as to the sources and availability of funds to meet the liquidity needs of NUI and NUI Utilities;
- statements as to expected financial condition, performance, prospects and earnings of the company; and expected liquidity needs and sources of funds;
- statements as to the company's possible settlement with the Florida Public Service Commission (FPSC);
- estimates as to the amount to be refunded to customers in Florida as a result of the investigation of NUI Energy Brokers;
- statements as to expected rates, gas volumes, gas sales, revenues, margins, expenses and operating results;
- statements as to industry forecasts in markets in which the company has operations;
- statements as to the amount and sources of funding for future capital expenditures and investments of the company, including the company's estimated share of its funding commitments to its joint venture with Duke Energy;

- statements as to the intended operations of the Saltville facility and the company's other storage and pipeline projects, including the timing of the completion and commencement of operations thereof;
- statements as to the timing for seeking regulatory approval for its Florida East-West Pipeline project;
- statements as to the company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the company's equipment, facilities and operations;
- statements as to the sales process for the company, including with respect to the time frame for entering into an agreement for the sale of the company;
- expectations as to the impact of and anticipated settlement of lawsuits filed against the company and the impact of ongoing legal investigations and proceedings, including those described under Part II- Other Information- Item 1. Legal Proceedings;
- statements as to financial projections;
- statements as to the company's plans to pursue recovery of costs associated with the environmental remediation of manufactured gas plants from ratepayers, former owners and operators and/or insurance carriers;
- statements as to expected level of demand on the company's systems for natural gas during the term of the company's gas procurement contracts;
- estimates as to the expected future cash flows for hedges of forecasted transactions;
- statements as to the ability of NUI and NUI Utilities to pay dividends;
- statements as to the company's plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the cost of cash contributions to fund the company's pension plan, including statements as to anticipated rates of return on plan assets;
- statements as to whether the company's internal control weaknesses were addressed by management;
- expectations as to the amount to be paid for professional fees in fiscal 2004;
- expectations as to the expected rate of increase in interest expense as a result of the new credit facilities entered into by NUI and NUI Utilities;
- expectations as to the level of competition that NUI Utilities will face;
- statements as to trends;
- statements as to whether the company's accrued tax liabilities are adequate and as to whether any settlement related to the examination of NUI's Federal income tax returns for 2000 and 2001 by the Internal Revenue Service will have a material impact on NUI's consolidated statement of operations, financial position or cash flow;
- statements as to the amount of the over-recovery balance under City Gas' purchased gas adjustment recovery clause;
- statements as to the company's ability to recover fixed charges under its purchased gas adjustment clauses;
- expectations as to relations between the company and its employees, including relationships with labor unions; and
- expectations as to the company's growth, cash flows and capital expenditures.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the ability of the company to obtain necessary waivers from its lenders;
- the ability of the company to obtain additional financing for the winter heating season;
- the impact and outcome of ongoing investigations and lawsuits;
- the ability of the company to prepay its natural gas obligations;
- the effects of general economic conditions;
- increases in competition in the markets served by the company;
- the effects of deregulation of the energy markets, including industry restructuring and unbundling of services;
- the ability of the company to implement successfully its strategy, including the planned sale of the company;

the ability of the company to control operating expenses and to achieve efficiencies in its operations;
the ability of the company to continue to modernize its distribution infrastructure as scheduled and budgeted;
the willingness of lenders and suppliers to continue to do business with the company;
the availability and price of insurance;
the availability of adequate supplies of natural gas;
the ability of NUI and NUI Utilities to extend their existing credit facilities for an additional 364 days, and the ability of NUI and NUI Utilities to refinance their existing credit facilities upon termination;
actions taken by government regulators, including decisions on base rate increase requests;
actions taken by credit rating agencies;
the ability of the company to recover environmental remediation costs through rates or insurance;
the ability of the company to attract and retain key executives and employees;
fluctuations in energy commodity prices;
weather variations and other natural phenomena;
acts of war or terrorism; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak as of the date of this quarterly report. The company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this quarterly report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the company's business and results of operations, see Item 1. Business—Risk Factors in our Annual Report filed on Form 10-K for the fiscal year ended September 30, 2003.

Overview

The company is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. Its local utility operations are carried out by NUI Utilities and its operating divisions, as well as through a subsidiary of Virginia Gas Company (VGC) and serve approximately 371,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital and its subsidiaries. As of April 1, 2004, however, the company's only remaining non-regulated subsidiary with substantial operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The company's other non-regulated subsidiaries have either been sold or are being discontinued. These subsidiaries include NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications services subsidiary sold in December 2003; NUI Energy, Inc. (NUI Energy), an energy retailer; NUI Energy Brokers, Inc. (NUI Energy Brokers); a wholesale energy trading and portfolio management subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which sold wireless and network telephone services. In addition, through NUI Saltville Storage, Inc. (NUISS), the company is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC), a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia.

The company's growth strategy has not produced the results the company had anticipated and, as a result, the company experienced significant losses and write-offs in its non-utility businesses during fiscal years 2001, 2002 and 2003.

During fiscal 2003, the company considered several alternate financing plans aimed at restoring the creditworthiness of the company, but none of these plans were deemed viable. The company also sold or announced its intention to sell most of its non-core businesses in an attempt to raise capital and reduce losses. Finally, on September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to the company while it seeks a buyer.

On November 24, 2003, NUI and NUI Utilities obtained a $405 million 364-day credit facility financing package. See Liquidity and Capital Resources for a further discussion of the use of these proceeds and the terms of the credit agreements.

As described below in Liquidity and Capital Resources and in Note 2 of the Notes to the Consolidated Financial Statements, NUI and NUI Utilities are likely to have additional liquidity needs beginning in the 2004-2005 winter season, as a result of, among other things, the prepayment requirements of NUI Utilities' gas supply, delivery and storage requirements and the NJBPU Settlement. In addition, NUI and NUI Utilities will be required to refinance or extend their respective existing bank indebtedness in November 2004. Even if NUI and NUI Utilities are able to extend their respective existing bank indebtedness in November 2004, NUI and NUI Utilities would still have to refinance their respective existing bank indebtedness in November 2005.

Results of Operations

Consolidated Review of Results of Operations

The following discussion is intended to provide an overview of consolidated results for the three and six-month periods ended March 31, 2004 and 2003. Following this discussion is a more detailed overview of the results for NUI's three business segments.

Net Income (Loss). NUI had net income of $3.8 million, or $0.24 per share, for the three months ended March 31, 2004, as compared to $12.2 million, or $0.76 per share, for the three months ended March 31, 2003. The decrease in net income of $8.4 million during the current three-month period was due to reduced income from continuing operations of approximately $14.3 million, which was primarily due to (1) reduced operating margins of approximately $15.3 million by NUI Energy Brokers; (2) increased net interest charges of approximately $5.7 million, which resulted from both higher weighted average indebtedness and increased interest rates during the current three-month period; (3) increased operation and maintenance expenses of approximately $6.3 million (see discussion under Income (Loss) from Continuing Operations); and (4) additional restructuring expenses of approximately $1.0 million during the current three-month period. Lower charges for changes in accounting of approximately $5.9 million partially offset the increased net loss.

NUI had net loss of $4.4 million, or $0.27 per share, for the six months ended March 31, 2004, as compared to net income of $19.3 million, or $1.21 per share, for the six months ended March 31, 2003. The decrease in net income of $23.7 million during the current six-month period was primarily due to reduced income from continuing operations of approximately $29.1 million. This decrease was a result of the following factors (which are more fully discussed below under Income (Loss) from Continuing Operations): (1) increased operating expenses; (2) reduced operating margins by NUI Energy Brokers; (3) a pre-tax loss recorded for the early extinguishment of debt (see Note 10 of the Notes to the Consolidated Financial Statements); (4) increased net interest charges; and (5) restructuring charges related to the severance of employees. Losses from discontinued operations increased by approximately $0.5 million during the current six-month period. Lower charges for changes in accounting of approximately $5.9 million partially offset the increased net loss.

Income (Loss) from Continuing Operations. Income from continuing operations was $4.1 million, or $0.26 per share, for the three-month period ended March 31, 2004, compared to $18.4 million, or $1.15 per share, for the same period in fiscal 2003. The current three-month period decrease is primarily due to (1) reduced operating margins of approximately $15.3 million by NUI Energy Brokers, which resulted from the company scaling back its energy trading operation in conjunction with the focused audit being conducted by the NJBPU and an investigation of its trading practices; (2) increased interest expense of

approximately $5.7 million, which resulted from both higher weighted average indebtedness and increased interest rates during the current three-month period; (3) increased operation and maintenance expenses of approximately $6.3 million and (4) additional restructuring expenses related to severance payments to employees of approximately $1.0 million during the current three-month period. These decreases in income from continuing operations were partially offset by higher equity and other income (approximately $0.7 million) and reduced income tax expenses (approximately $11.0 million) during the current three-month period, as compared to the prior fiscal period. The increased operating expenses were due primarily to increased legal and professional fees in conjunction with the focused audit conducted by the NJBPU, the investigation conducted involving questionable transactions by NUI Energy Brokers, and costs associated with finding a buyer for the company (approximately $4.7 million), bank fees (approximately $2.7 million), insurance (approximately $0.8 million), costs incurred to wind-down NUI Energy Brokers (approximately $0.7 million), labor and employee benefits, primarily due to severance paid to the company's former Chief Executive Officer and General Counsel (approximately $0.7 million), and increased pension costs (approximately $0.6 million). These increases were partially offset by reduced bad debts, mainly as a result of the winding-down of NUI Energy during fiscal 2003 (approximately $3.6), and rent expenses (approximately $0.3 million) during the three-month period ended March 31, 2004.

Loss from continuing operations was $3.3 million, or $0.21 per share, for the six-month period ended March 31, 2004, compared with income from continuing operations of $25.8 million, or $1.61 per share, for the same period in fiscal 2003. The current six-month period decrease is primarily due to (1) increased operation and maintenance expenses of approximately $17.9 million; (2) approximately $15.3 million of reduced operating margins by NUI Energy Brokers as a result of the winding-down of its trading operations following the focused audit conducted by the NJBPU and the subsequent investigation of its transactions; (3) a pre-tax loss of approximately $9.9 million recorded for the early extinguishment of debt; (4) increased net interest charges of approximately $8.5 million as a result of both higher weighted average indebtedness and increased interest rates during the current six-month period; and (5) restructuring charges of approximately $2.1 million related to the payment of employee severance costs. These decreases in income from continuing operations were partially offset by higher equity and other income (approximately $1.3 million) and reduced income tax expenses (approximately $19.6 million) during the current six-month period, as compared to the prior fiscal period. The increased operating expenses were due primarily to increased legal and professional fees in conjunction with the focused audit conducted by the NJBPU, the investigation conducted involving questionable transactions by the company's NUI Energy Brokers subsidiary, and costs associated with finding a buyer for the company (approximately $12.0 million), bank fees (approximately $6.9 million), insurance (approximately $1.4 million), increased pension costs (approximately $1.2 million), and costs incurred to wind-down NUI Energy Brokers (approximately $0.7 million). These increases were partially offset by reduced bad debts, mainly as a result of the winding-down of NUI Energy during the fiscal 2003 (approximately $3.1), rent expenses (approximately $0.8 million), and labor and employee benefits (approximately $0.4 million) during the six-month period ended March 31, 2004.

The company anticipates increased costs related to legal, professional, and bank fees while it completes the sale process and continues to address its liquidity needs. Increases are also anticipated in pension and insurance expenses during the remainder of fiscal 2004.

Discontinued Operations. After-tax losses from discontinued operations for the three months ended March 31, 2004, were $0.3 million, or $0.02 per share, compared to $0.4 million, or $0.03 per share during the prior fiscal year.

After-tax losses from discontinued operations for the six months ended March 31, 2004, were $1.1 million, or $0.06 per share, compared to $0.6 million, or $0.04 per share during the prior fiscal year. The increased losses during fiscal 2004 were primarily due to losses of NUI Telecom prior to the sale on December 15, 2003, as well as the costs of winding-down the operations of TIC.

Business Segment Review of Results of Operations

The following is a discussion of the company's business segment results of operations and is presented based on Income from Continuing Operations before Taxes. Included in operations and maintenance expenses for each of NUI's business segments are allocations of corporate costs related to shared service functions such as human resources, legal, accounting and information technology, which are allocated based on the company's cost allocation policy. In addition, the company has corporate operations that incurred operating expenses of $9.5 million and $1.3 million for the three-month periods ended March 31, 2004 and 2003, respectively, and $20.1 million and $2.1 million for the six-month periods ended March 31, 2004 and 2003, respectively. The increases during the fiscal 2004 periods relate to increased costs related to outside professional services, bank fees, and restructuring charges. These costs are not allocated to our business segment results.

Distribution Services Segment

The company's Distribution Services segment distributes natural gas in three states through the company's regulated natural gas utility operations. These operations are Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). This segment also includes the company's OAS subsidiary, its appliance leasing, repair, maintenance operations and service business as well as off-system sales. The company sold its Valley Cities Gas and Waverly Gas natural gas utilities in November 2002 (see Note 4 of the Notes to the Consolidated Financial Statements). The results for these operations are reflected in Discontinued Operations in the Consolidated Financial Statements for the three and six-month periods ended March 31, 2003 and 2002. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended March 31, 2004**	**Three Months Ended March 31, 2003**	**Six Months Ended March 31, 2004**	**Six Months Ended March 31, 2003**
Operating Revenues	$240,341	$231,967	$401,567	$397,863
Purchased Gas and Fuel	164,134	157,662	265,033	266,630
Cost of sales and services	2,876	2,516	5,877	5,393
Energy Taxes	5,507	5,289	9,414	8,783
Operating Margins	67,824	66,500	121,243	117,057
Operating Expenses:				
Operations & Maintenance Expenses	28,745	27,959	55,789	51,100
Depreciation & Amortization	7,935	8,054	15,877	15,727
Taxes Other than Income	2,051	1,920	3,963	3,476
Total Operating Expenses	38,731	37,933	75,629	70,303
Pre-Tax Operating Income	29,093	28,567	45,614	46,754
Other Income & (Expense)	367	165	838	317
Net Interest Charges	5,508	2,778	10,211	6,191
Pre-Tax Income from Continuing Operations	$23,952	$25,954	$36,241	$40,880

Operating Revenues. Operating revenues include amounts billed for the cost of purchased gas pursuant to purchased gas adjustment clauses (BGSS in New Jersey and PGA in Florida) utilized by the company's utility operations. Such clauses enable the company to pass through to its utility customers, via periodic adjustments to customers' bills, changes in costs incurred by the company for purchased gas without affecting operating margins. These purchased gas adjustments are authorized by regulatory authorities in the states in which the company operates. Since the company's utility operations do not earn a profit on the sale of the gas commodity, the company's level of regulated operating revenues is not necessarily indicative of financial performance. Similarly, the Societal Benefits Charge (SBC) is a clause which enables Elizabethtown Gas to pass through to its customers the costs of certain NJBPU-mandated programs and environmental remediation programs.

Distribution Services operating revenues increased by $8.3 million, or 4 percent, to $240.3 million during the three months ended March 31, 2004, as compared to $232.0 million in the same period in fiscal 2003.

The increase in operating revenues was primarily attributable to an increase in BGSS and PGA rates charged to customers in New Jersey and Florida, respectively, (approximately $24.5 million) and an increase in Elizabethtown Gas' SBC (approximately $3.0 million). A base rate increase in Florida (approximately $1.2 million) also contributed to the increase in operating revenues. (See Regulatory Matters for a further discussion of rate increases.) These increases were partially offset by reduced off-system sales (approximately $22.6 million).

Distribution Services operating revenues increased by $3.7 million, or 1 percent, to $401.5 million during the six months ended March 31, 2004, as compared to $397.8 million in the same period in fiscal 2003. The increase in operating revenues was primarily attributable to an increase in the BGSS and PGA rates charged to customers in New Jersey and Florida, respectively, (approximately $33.9 million) and an increase in Elizabethtown Gas' SBC (approximately $4.5 million). Base rate increases in New Jersey (approximately $3.1 million) and Florida (approximately $1.6 million) also contributed to the increase in operating revenues. These increases were partially offset by reduced off-system sales (approximately $42.0 million).

Operating Margins. Operating margins increased by $1.3 million, or 2 percent, to $67.8 million for the three months ended March 31, 2004, as compared to $66.5 million in the same period in fiscal 2003. Of the factors previously discussed in operating revenues, the operating margin impact of the rate increases contributed approximately $1.1 million, and the colder weather contributed approximately $1.5 million. Total operating margins from off-system gas sales were $0.5 million less for the three months ended March 31, 2004, compared to the same period in fiscal 2003. The company has a weather normalization clause in its New Jersey tariff, which is designed to help stabilize the company's results by increasing amounts charged to customers when weather has been warmer than normal and by decreasing amounts charged when weather has been colder than normal. As a result of weather normalization clauses, operating margins were approximately $3.0 million and $4.0 million lower in the fiscal 2004 and 2003 periods, respectively, than they otherwise would have been without such clauses. Operating margins for the appliance services businesses decreased approximately $0.7 million lower for the current three-month period as a result of increased costs of providing services. Operating margins for OAS during the three-months ended March 31, 2004, were consistent with the prior fiscal year.

Operating margins increased by $4.2 million, or 4 percent, to $121.2 million for the six months ended March 31, 2004, as compared to $117.0 million in the same period in fiscal 2003. Of the factors previously discussed in operating revenues, the rate increases contributed approximately $4.7 million, the operating margin impact of the colder weather contributed approximately $0.6 million, and new customers contributed approximately $0.4 million. Total operating margins from off-system gas sales were approximately $0.6 million lower during the six months ended March 31, 2004 as compared to the same period in fiscal 2003. As a result of weather normalization clauses, operating margins were approximately $2.1 million and $4.8 million lower in the fiscal 2004 and 2003 periods, respectively, than they otherwise would have been without such clauses. Operating margins for the appliance services businesses decreased approximately $0.8 million lower for the current six-month period as a result of increased costs of providing services. Operating margins for OAS during the six-months ended March 31, 2004, were consistent with the prior fiscal year.

With the exception of demand caused by changes in weather, the company does not anticipate any significant change in the economic outlook for natural gas sales in this segment for the remainder of fiscal 2004.

Operating Expenses. Operations and maintenance expenses increased by $0.8 million, or 3 percent, to $28.7 million for the three months ended March 31, 2004, as compared with $27.9 million in the same period in fiscal 2003. This was mainly due to increases in legal and professional fees (approximately $2.4 million), insurance costs for general liability (approximately $1.5 million), pension expenses due to lower discount rate and asset return assumptions (approximately $0.5 million), materials and supplies costs used by the appliance operations (approximately $0.3 million), telephone (approximately $0.3 million), and bank fees (approximately $0.3 million). These increases were partially offset by reduced labor and employee benefits (approximately $3.4 million), bad debts (approximately $0.9 million), and rent expense (approximately $0.1 million).

Operations and maintenance expenses increased by $4.7 million, or 9 percent, to $55.8 million for the six months ended March 31, 2004, as compared with $51.1 million in the same period in fiscal 2003. This was

mainly due to increases in legal and professional fees (approximately $5.6 million), insurance costs for general liability (approximately $2.4 million), bank fees (approximately $1.2 million), pension expenses due to lower discount rate and asset return assumptions (approximately $1.1 million), and telephone (approximately $0.8 million). These increases were partially offset by reduced labor and employee benefit costs (approximately $5.2 million), rent expense (approximately $0.5 million), and bad debts (approximately $0.1 million).

The company anticipates increased costs related to legal, professional, and bank fees while it completes the process of finding a buyer and continues to address its liquidity needs. Increases are also anticipated in pension and insurance expenses during the remainder of fiscal 2004.

Other Income and Expense. Other income increased by approximately $0.2 million, for the three months ended March 31, 2004, as compared to the same period in fiscal 2003. The increase in the current three-month period was due to additional interest income earned on the cash held as overnight investments during the current fiscal period.

Other income increased by approximately $0.5 million, for the six months ended March 31, 2004, as compared to the same period in fiscal 2003. The increase in the current six-month period was primarily due to the effect of the factor discussed above regarding the current three-month fiscal period.

Net Interest Charges. Net interest charges increased by approximately $2.7 million, or 98 percent, to $5.5 million for the three months ended March 31, 2004 from $2.8 million in the same period in fiscal 2003. The increase during the current three-month period is primarily a result of higher weighted average indebtedness and increased interest rates of NUI Utilities during the current three-month period (see additional discussion under Liquidity and Capital Resources- Sources of Liquidity- Short-term Debt).

Net interest charges increased by approximately $4.0 million, or 65 percent, to $10.2 million for the six months ended March 31, 2004 from $6.2 million in the same period in fiscal 2003. The increase during the current six-month period was primarily due to the effect of the factor discussed above regarding the current three-month fiscal period.

The company expects the higher amount of weighted average indebtedness and interest rates to continue for the remainder of fiscal 2004. See Liquidity and Capital Resources for further discussion.

Energy Asset Management Segment

The Energy Asset Management segment includes the operations of the company's NUI Energy Brokers subsidiary, and the distribution, storage and pipeline operations of VGC. This segment also includes the company's 50 percent share of equity income and losses of SSLLC. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended March 31, 2004**	**Three Months Ended March 31, 2003**	**Six Months Ended March 31, 2004**	**Six Months Ended March 31, 2003**
Operating Revenues	$1,465	$17,041	$5,237	$20,886
Purchased Gas and Fuel	122	264	443	319
Operating Margins	1,343	16,777	4,794	20,567
Operating Expenses:				
Operations & Maintenance Expenses	4,501	2,804	7,077	4,997
Depreciation & Amortization	513	591	1,027	1,162
Taxes Other than Income	191	194	499	393
Total Operating Expenses	5,205	3,589	8,603	6,552
Pre-Tax Operating Income (Loss)	(3,862)	13,188	(3,809)	14,015
Other Income & (Expense)	453	98	1,030	235
Net Interest Charges	1,044	679	1,983	1,058
Pre-Tax Income (loss) from Continuing Operations	$(4,453)	$12,607	$(4,762)	$13,192

Operating Revenues. Energy Asset Management operating revenues decreased approximately $15.5 million, or 91 percent, to $1.5 million for the three months ended March 31, 2004, as compared to $17.0 million in the same period in fiscal 2003. The decrease was primarily due to reduced operating revenues of approximately $15.3 million by NUI Energy Brokers as the company began to wind down its trading operations following the investigation of the certain transactions during earlier years. The operating revenues of VGC were down approximately $0.2 million primarily as a result of reduced storage revenues due to fewer contracts during the current fiscal period.

Operating revenues decreased approximately $15.7 million, or 75 percent, to $5.2 million for the six months ended March 31, 2004, as compared to $20.9 million in the same period in fiscal 2003. The decrease was due to the approximately $15.3 million of reduced operating margins recorded by NUI Energy Brokers as a result of the company winding down its trading operations during the current fiscal period. The operating revenues of VGC decreased approximately $0.4 million as a result of reduced storage revenues due to fewer contracts during the six-month period ended March 31, 2004, as compared to the same period in fiscal 2003.

The company's decision to discontinue the trading operations of NUI Energy Brokers will result in a substantial reduction in operating revenues and operating margins for the Energy Asset Management segment during fiscal 2004.

Operating Margins. Operating margins decreased approximately $15.5 million, or 92 percent, to $1.3 million for the three months ended March 31, 2004, as compared to $16.8 million in the same period in fiscal 2003. Of this decrease, approximately $15.3 million was attributable to NUI Energy Brokers and approximately $0.2 million was attributable to VGC, and was primarily due to the effect of the factors discussed above regarding operating revenues.

Operating margins decreased approximately $15.8 million, or 77 percent, to $4.8 million for the six months ended March 31, 2004, as compared to $20.6 million in the same period in fiscal 2003. Of this decrease, approximately $15.3 million was attributable to NUI Energy Brokers and approximately $0.5 million was attributable to VGC, and was primarily due to the effect of the factors discussed above regarding operating revenues.

Operating Expenses. Operating and maintenance expenses increased by approximately $1.7 million during the three months ended March 31, 2004, as compared to the same period in fiscal 2003 due to increases in labor and benefit costs, including severance paid to former employees of NUI Energy Brokers (approximately $0.8 million), costs to expense abandoned assets of NUI Energy Brokers (approximately $0.8 million), legal and professional costs (approximately $0.4 million) and pension costs (approximately $0.1 million). These increases were partially offset by reduced bad debts (approximately $0.1 million) and allocated corporate expenses (approximately $0.1 million).

Operating and maintenance expenses increased by approximately $2.1 million during the six months ended March 31, 2004, as compared to the same period in fiscal 2003 due to increased labor and benefit costs, including severance paid to former employees of NUI Energy Brokers (approximately $1.0 million), costs to expense abandoned assets of NUI Energy Brokers (approximately $0.8 million), legal and professional costs (approximately $0.4 million), and pension costs (approximately $0.3 million). These increases were partially offset by reduced bad debts (approximately $0.1 million).

As previously noted, the company anticipates increased costs during fiscal 2004 related to the winding down the trading operations of NUI Energy Brokers.

Other Income and Expense. Other income increased by approximately $0.4 million, for the three months ended March 31, 2004, as compared to the same period in fiscal 2003. The increase in the current three-month period was due to approximately $0.4 million of equity income of SSLLC, which began operations during August 2003.

Other income increased by approximately $0.8 million, for the six months ended March 31, 2004, as compared to the same period in fiscal 2003. The increase in the current six-month period was due to

approximately $0.6 million of equity income of SSLLC, and increased interest income during the current fiscal period.

Net Interest Charges. Net interest charges increased by approximately $0.3 million, to $1.0 million for the three months ended March 31, 2004 from $0.7 million in the same period in fiscal 2003. The increase during the current three-month period is primarily due to increased allocated interest costs of NUI, which resulted in higher weighted average indebtedness and increased interest rates during the current three-month period (see additional discussion under Liquidity and Capital Resources- Sources of Liquidity-Short-term Debt).

Net interest charges increased by approximately $0.9 million, to $2.0 million for the six months ended March 31, 2004 from $1.1 million in the same period in fiscal 2003. The increase during the current six-month period was primarily due to the effect of the factors discussed above regarding the current three-month fiscal period.

Retail and Business Services Segment

The Retail and Business Services segment includes the operations of the company's NUI Energy and UBS subsidiaries. In order to exit the retail and business services segment, the company began winding down the operations of NUI Energy during May 2003 and TIC during June 2003, and sold NUI Telecom on December 15, 2003 (see Note 4 of the Notes to the Consolidated Financial Statements). NUI Telecom, as well as the operations of TIC previously reported in this segment, have been reclassified to discontinued operations. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended March 31, 2004**	**Three Months Ended March 31, 2003**	**Six Months Ended March 31, 2004**	**Six Months Ended March 31, 2003**
Operating Revenues	$1,550	$721	$3,055	$2,797
Cost of sales and services	659	623	1,294	1,248
Operating Margins	891	98	1,761	1,549
Operating Expenses:				
Operations & Maintenance Expenses	449	3,995	934	5,981
Depreciation & Amortization	334	384	661	746
Taxes Other than Income	56	90	128	187
Total Operating Expenses	839	4,469	1,723	6,914
Pre-Tax Operating Income (Loss)	52	(4,371)	38	(5,365)
Other Income & (Expense)	---	---	---	34
Net Interest Charges	48	360	87	549
Pre-Tax Income (Loss) from Continuing Operations	$4	$(4,731)	$(49)	$(5,880)

Operating Revenues. Retail and Business Services operating revenues increased by approximately $0.8 million, or 115 percent, to $1.5 million for the three months ended March 31, 2004 from $0.7 million in the same period in fiscal 2003. This increase was primarily due to negative operating revenues of approximately $0.9 million that were recorded during the three-month period ended March 31, 2003, which did not recur during the same period in fiscal 2004. The negative margins recorded during the fiscal 2003 period were a result of the company's efforts to wind down its retail energy business. Operating revenues for UBS during the three-months ended March 31, 2004, were consistent with the prior fiscal year.

Operating revenues increased by approximately $0.3 million, or 9 percent, to $3.1 million for the six months ended March 31, 2004 from $2.8 million in the same period in fiscal 2003. This increase was primarily due to negative operating revenues of approximately $0.3 million that were recorded during the six-month period ended March 31, 2003, which did not recur during the same period in fiscal 2004. Operating revenues for UBS during the six-months ended March 31, 2004, were consistent with the prior fiscal year.

The company has wound down most of the operations of NUI Energy and does not expect material activity during fiscal 2004, which will result in reduced operating revenues as compared to fiscal 2003.

Operating Margins. Retail and Business Services operating margins increased by approximately $0.8 million during the three months ended March 31, 2004, to $0.9 million, as compared with $0.1 million in the same period in fiscal 2003. This increase was primarily attributable to the effects of the factors previously discussed in operating revenues.

Operating margins increased by approximately $0.2 million during the six months ended March 31, 2004, to $1.7 million as compared with $1.5 million in the same period in fiscal 2003, which was primarily attributable to the effects of the reasons previously discussed in operating revenues.

Operating Expenses. Operations and maintenance expenses, depreciation and amortization, and taxes other than income for the Retail and Business Services segment decreased in total by $3.6 million, or 81 percent, to $0.8 million during the three months ended March 31, 2004, as compared with $4.4 million in the same period in fiscal 2003. This was mainly due to reduced expenses of NUI Energy during the current fiscal year period, which was a result of the company's efforts to wind down the its retail energy business during the previous fiscal year. The operating expenses of UBS for the three months ended March 31, 2004 were consistent with those of the prior fiscal year period.

Operations and maintenance expenses, depreciation and amortization, and taxes other than income decreased in total by $5.2 million, or 75 percent, to $1.7 million during the six months ended March 31, 2004, as compared with $6.9 million in the same period in fiscal 2003. The decrease was consistent with effects of the reasons previously discussed for the three-month period ended March 31, 2004. The operating expenses of UBS for the six months ended March 31, 2004 were consistent with those of the prior fiscal year period.

The company's exiting of the retail energy business is expected to reduce the operating expenses of this segment significantly during fiscal 2004.

Net Interest Charges. Net interest charges decreased by approximately $0.3 million, to $0.1 million for the three months ended March 31, 2004 from $0.4 million in the same period in fiscal 2003. The decrease during the current three-month period is primarily due to decreased allocated interest costs of NUI as a result of the company's decision to wind down the operations of its retail energy business during the prior fiscal year.

Net interest charges decreased by approximately $0.4 million, to $0.1 million for the six months ended March 31, 2004 from $0.5 million in the same period in fiscal 2003. The decrease during the current six-month period was primarily due to the effect of the factors discussed above regarding the current three-month fiscal period.

Regulatory Matters

On November 22, 2002, Elizabethtown Gas received approval from the NJBPU to increase its base rates by an annual amount of $14.2 million, or approximately 5 percent. The increase was effective immediately and covers a portion of the costs of plant investments and higher operating expenses incurred since the company's last base rate increase twelve years ago. The new rates are based on a return on equity of 10.0 percent and an overall rate of return on rate base of 7.95 percent. The rate order also revised the normal weather pattern upon which base rates and Elizabethtown Gas' Weather Normalization Clause are set from a 30-year to a 20-year weather average to better reflect current weather trends. In addition, the company was allowed to increase service charges to various rate classes of customers to better reflect the cost of providing service to these customers. In its December 11, 2003 Order, the NJBPU stated that it was re-examining this settlement in light of the events surrounding NUI's use of proceeds received in its 2002 equity offering. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to the 2002 rate case.

On September 16, 2003, Elizabethtown Gas received approval from the NJBPU to increase its BGSS rates on a provisional basis by $28.8 million and on October 10, 2003, Elizabethtown Gas was granted approval to increase its SBC by approximately $8.0 million. The BGSS charge covers the cost of natural gas supplies

that Elizabethtown Gas purchases for its customers, while the SBC allows Elizabethtown Gas to recover the cost of mandated energy efficiency, low-income assistance, energy education and environmental remediation programs. Both of these charges represent pass-through of costs on which the company does not earn a profit. In its December 11, 2003 Order, the NJBPU stated that it would reconsider the provisional rates approved by the NJBPU pursuant to Elizabethtown Gas' petition for an increase in BGSS rates. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to this BGSS proceeding.

For a discussion of the Orders issued by the NJBPU relating to the focused audit and related matters, see Settlement of Issues Relating to NJBPU Focused Audit and Regulatory Orders Issued by the NJBPU, above.

In response to the Federal Electric Discount and Energy Competition Act which was signed into law in February 1999, on March 30, 2001, the NJBPU approved a stipulation which enabled all retail customers in New Jersey to choose a natural gas supplier, provided an incentive for these customers to choose an alternate natural gas supplier and required New Jersey gas utilities to continue offering basic gas supply service through December 2002 for those customers not choosing an alternate supplier. On January 17, 2002, the NJBPU issued an Order that continued the obligation of all New Jersey gas utilities to provide basic gas supply service until the NJBPU has had an opportunity to fully investigate major policy issues relating to pricing structure and gas supply reliability. No timetable has been established for completion of such a review. As of March 31, 2004, only a small number of residential customers in Elizabethtown Gas' service territories were receiving gas from an alternative gas supplier.

On January 20, 2004, City Gas received approval from the FPSC to increase its base rates by $6.7 million, effective February 23, 2004. The increase represents a portion of the company's request for a total rate increase of $10.5 million to cover the costs of investments in its customer service and system maintenance and growth, increases in operating expenses, and the impact of the continuing sluggish economy. This new rate level provides for an allowed return on equity of 11.25 percent and an overall allowed rate of return of 7.36 percent.

Liquidity and Capital Resources

Overview

As a result of the various factors discussed in this quarterly report, NUI and NUI Utilities have experienced and expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayments for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under purchased gas adjustment clauses; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

The company first seeks to meet its capital requirements through cash provided by operating activities and external financings. External financing, depending on the particular company, as discussed below, may consist of public and private capital market debt and equity transactions, bank revolving credit and term loans, and/or project financings. The availability and cost of external capital is affected by many factors, including, but not limited to, the performance of NUI and its subsidiaries, their respective credit ratings and conditions in the company's industry in general. In addition, the NJBPU's holding company order requiring NUI to maintain a certain degree of separation between its utility and non-utility subsidiaries could impact affiliate ratings on consolidated and unconsolidated credit quality. Compliance with applicable financial covenants will depend upon future financial position and levels of earnings and cash flows, as to which no assurances can be given.

In addition, at times NUI utilizes intercompany dividends from NUI Utilities and amounts realized from the settlement of intercompany balances to satisfy various subsidiary needs and to manage short-term cash needs. Historically, NUI Utilities has paid dividends of up to 75 percent of its annual net income to NUI. The Standby Bond Purchase Agreement (SBPA) entered into in connection with the Variable Bonds,

which, as described below, are a series of gas facility revenue bonds issued by the New Jersey Economic Development Authority (NJEDA), restricts the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, under the amendment to NUI Utilities' credit facility dated May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding. There are no contractual restrictions on the settlement of intercompany balances in NUI's or NUI Utilities' financing agreements.

On a consolidated basis, the company's net cash provided by operating activities was $3.6 (as restated—see Note 15 to the Consolidated Financial Statements) million and $66.6 million for the six-month periods ended March 31, 2004 and 2003, respectively. The decrease of $63.0 million in operating cash flows for the current period was due in part to the timing of payments to the company's gas suppliers, including a $15 million prepayment for gas on March 31, 2004 under the company's new gas supply contract with Cinergy, and amounts paid in advance for interest costs on NUI's and NUI Utilities' new credit facilities and as collateral for the company's gas procurement needs. The decrease in operating cash flows was partially offset by reductions in accounts receivable for the company's non-regulated businesses during the six-month period ended March 31, 2004, as compared to the same period in fiscal 2003.

In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended as of May 10, 2004 to further extend these deadlines. See Sources of Liquidity – Short Term Debt below for a further description of the November 2003 credit facilities.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004, NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations, based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy, NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the NJBPU.

- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner,

this could materially adversely affect NUI's and NUI Utilities' financial condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004. The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its debt financing. For a further discussion about risks relating to NUI Utilities' liquidity, see Item 1. Business—Risk Factors in the company's annual report on Form 10-K for the fiscal year ended September 30, 2003.

Because the company's business is highly seasonal, short-term debt is used to meet seasonal working capital requirements. NUI also borrows under its bank lines of credit to finance portions of its capital expenditures. As of March 31, 2004, NUI had drawn $255.0 million and NUI Utilities had drawn $100.0 million under their respective short-term credit facilities. On that date, NUI and NUI Utilities had overnight cash investments of approximately $23.4 million and $102.0 million, respectively.

NUI's and NUI Utilities' debt agreements also contain a number of covenants that significantly limit their respective ability to, among other things, borrow additional money, pay dividends, transfer or sell assets, create liens and enter into a merger or consolidation. In particular, under the amendment to NUI's credit facility as of May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time and is also not likely to be able to pay any dividends in the foreseeable future. The covenants also require both NUI and NUI Utilities to meet certain additional financial tests. If either NUI or NUI Utilities were unable to meet its debt service obligations or to comply with these covenants, there would be a default under one or more of the agreements. Such a default, if not waived by our lenders, could result in acceleration of the repayment of either NUI's or NUI Utilities' debt and have a material adverse effect on each company's financial conditions, results of operations and liquidity.

The company completed the sale of its NUI Telecom subsidiary on December 15, 2003, for approximately $2 million.

NUI repaid an approximately $85 million outstanding intercompany balance owed to NUI Utilities on November 24, 2003, with the proceeds of a new credit facility entered into on that date (see Short-term Debt discussion which follows).

Credit Rating Actions

During fiscal years 2002, 2003, and 2004, Moody's Investors' Service (Moody's) downgraded NUI's credit rating from Baa-1 to Caa-1 and downgraded NUI Utilities' credit rating from A-3 to B-1. The credit rating downgrades that have occurred in fiscal 2004 are described below.

On October 6, 2003, Moody's downgraded NUI's debt rating from B-1 to B-3. Moody's also downgraded the debt rating of NUI Utilities from Ba-1 to Ba-3. Moody's cited the company's announcement that the company's Board of Directors had placed the entire company up for sale. In addition, Moody's indicated that their action reflects the difficult business conditions affecting the company as well as the limited progress in selling non-core assets, citing that this limited the company's financial flexibility. Moody's also cited the continuing financial relationship between NUI and NUI Utilities, liquidity concerns, and the costs associated with finding a suitable buyer for the company. As a result of these downgrades, NUI Utilities' cost of borrowing under its short-term facilities increased an additional 62.5 basis points or 0.625 percent and the cost of borrowing for NUI was unchanged. In conjunction with the downgrades on October 6, 2003, Moody's indicated they would monitor the company's liquidity position as well as its progress in selling non-core assets.

On April 6, 2004, Moody's further downgraded NUI's debt rating from B-3 to Caa-1. Moody's also downgraded the debt rating of NUI Utilities from Ba-3 to B-1. Moody's cited (1) the company's recent announcements that it expects lower earnings in the first quarter of fiscal 2004, resulting from severance costs and expenses related to the debt refinancings concluded during November 2003 at substantially higher rates of interest and fees; (2) the continued delay in producing audited financial statements for the fiscal year ended September 30, 2003 and its unaudited first quarter Form 10-Q, because of continuing investigations by the company's Audit Committee of certain questionable transactions of NUI Energy Brokers, the company's wholesale energy trading subsidiary, which required additional waivers from lenders of both NUI and NUI Utilities; (3) the expectation of having to incur a meaningful settlement charge as a result of the focused audit conducted by the NJBPU, which would reduce the company's income and equity for fiscal 2003; (4) the ongoing investigation of the New Jersey Attorney General's Office into NUI Energy Brokers; and (5) the delays in realizing the sale of the company, which is the source of repayment of NUI's $255 million rated debt and a portion of the debt of NUI Utilities. Moody's also cited the financial relationship between NUI and NUI Utilities and that any penalties that may be assessed to the company by the NJBPU may have to be funded from the earnings and cash flows of NUI Utilities. In addition, NUI and NUI Utilities have overlapping lenders that require debt to be serviced by each entity. Moody's further cited that to the extent NUI does not have the means to discharge its own debt obligations, these lenders may seek dividends from NUI Utilities to help service NUI's debt. The lower rating Moody's assigned to NUI reflects the structural subordination of its debt relative to that of NUI Utilities.

In conjunction with the downgrades on April 6, 2004, Moody's indicated that its outlook for both NUI and NUI Utilities was negative. The negative outlook reflects Moody's belief that it will take time to close on the sale of the company as its assets are diverse and located in various states necessitating multiple regulatory approvals in the states in which the company's regulated entities operate. In the meantime, Moody's expects the company to continue to incur extraordinary operations and maintenance expenses as it employs an array of outside advisors and consultants to help manage its day to day operations, incur additional legal, accounting and financial advisory fees as it seeks to respond to regulatory investigations, and attempts to negotiate settlements with its regulators and searches for a suitable buyer.

On November 21, 2003, Standard & Poor's Rating Services (S&P) lowered its corporate credit rating for NUI Utilities from BBB- to BB and its rating remains on CreditWatch with developing implications. S&P's rating action cited the business and financial challenges the company faces, including an investigation of energy trading transactions by the company's NUI Energy Brokers subsidiary, and the potential for greater regulatory scrutiny in New Jersey, which could impact the sale of NUI. S&P did note the company had addressed its anticipated liquidity needs on an interim basis prior to the sale of the company with separate credit agreements for NUI and NUI Utilities aggregating $405 million, each of which can be extended for another 364 days at the option of the respective borrower (under certain conditions); see discussion of Short-Term Debt for further details. S&P also noted that any negative outcome of the investigation of the trading transactions or possible regulatory action in New Jersey could inhibit the company's ability for a successful sale.

There can be no assurance that additional downgrades by Moody's and/or S&P can be avoided.

Sources of Liquidity

Short-Term Debt. On November 24, 2003, NUI and NUI Utilities each entered into new separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in the amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of March 31, 2004, NUI had fully drawn all amounts available under its credit agreement. As of May 14, 2004, NUI had overnight cash investments of $28.8 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of March 31, 2004, NUI Utilities had fully drawn all amounts available under the $50 million revolver and the $50 million term loan facility. As of May 14, 2004, NUI Utilities had overnight cash investments of $109.1 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement amended as of May 10, 2004, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004, to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI also is prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

At March 31, 2004, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $100.0 million, respectively, at weighted average interest rates of 8.0 percent and 7.5 percent. As of that date, NUI and NUI Utilities had no unused borrowing capacity under their credit facilities. Also, as of March 31, 2004, NUI and NUI Utilities had approximately $23.4 million and $102.0 million, respectively, of cash held as short-term investments.

The weighted average daily amounts of borrowings outstanding under NUI's credit facility and the weighted average interest rates on those amounts were $255.0 million and $40.8 million at 8.1 percent and 2.8 percent for the three months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI's previous and current credit facilities and the weighted average interest rates on those amounts were $191.7 million and $45.6 million at 7.8 percent and 3.0 percent for the six months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' credit facility and the weighted average interest rates on those amounts were $94.9 million and $132.8 million at 7.2 percent and 2.6 percent for the three months ended March 31, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' previous and current credit facilities and the weighted average interest rates on those amounts were $105.0 million and $110.9 million at 5.6 percent and 2.5 percent for the six months ended March 31, 2004 and 2003, respectively.

Long-Term Debt. NUI Utilities has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As of March 31, 2004, this amount has been reclassified to current liabilities on the Consolidated Balance Sheet. As noted under Short-Term Debt above, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to the satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded as a charge during the first quarter of fiscal 2004. During the first quarter of fiscal 2004, the company also recorded a charge of approximately $0.5 million for unamortized debt expenses related to the senior notes.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5

million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at March 31, 2004 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term SBPA with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities, thereby allowing for the payment of dividends by NUI Utilities to NUI at this time. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA will be extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of March 31, 2004, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI Utilities has obtained all necessary waivers and extended the respective deadlines for delivery of all

information required pursuant to such bond facility to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Common Stock. The company periodically issues shares of common stock in connection with NUI Direct, the company's dividend reinvestment and stock purchase plan, and various employee benefit plans.

Capital Expenditures and Commitments

Capital Expenditures. Capital expenditures, which consist primarily of expenditures to expand and upgrade the company's gas distribution systems, were $17.6 million for the six months ended March 31, 2004, and $26.6 million for the six months ended March 31, 2003. The decreased capital spending during the current fiscal period was due to the company's reduction of capital projects at the corporate level.

Capital expenditures are expected to be approximately $51 million in fiscal 2004, which will be used primarily for the continued expansion and upkeep of the company's natural gas distribution system and certain information technology projects.

Joint Venture with Duke Energy. On April 30, 2001, the company announced an agreement with a subsidiary of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving the required regulatory approval, in February 2003 VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of March 31, 2004, the company has loaned SSLLC an aggregate of approximately $26.0 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected to be funded with internally generated cash flows of the joint venture.

SSLLC plans to expand the present Saltville storage facility from its current capacity of 1 billion cubic feet (Bcf) to approximately 12 Bcf and connect it to Duke Energy Gas Transmission's (DEGT) East Tennessee Natural Gas interstate system and DEGT's Patriot pipeline. At full capacity, the Saltville storage field will be able to deliver up to 500 million cubic feet per day of natural gas to area markets. The Saltville facility features fast-injection and fast-withdrawal capabilities offered by salt cavern storage. The expansion will be completed in phases starting in fiscal 2003, with the Phase I total of 5.3 Bcf of working natural gas storage capacity to be completed by fiscal 2008. The market demand for additional storage will dictate the timing of the other phases of the expansion.

Development of the Saltville facility is intended to create a strategically located energy-trading hub, and enable the company to capitalize on the energy supply and wholesale energy portfolio and risk management opportunities in the rapidly developing Mid-Atlantic region. The additional storage capacity is expected to allow the company to meet the significant demand from local distribution companies as well as power plant development that is underway in the region.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with DEGT for the firm transportation of natural gas on the Patriot pipeline, which was under construction at that time. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Other Storage and Pipeline Projects. The company has acquired options on the land and mineral rights for property located in Richton, Perry County, Mississippi, that the company plans to develop into a natural gas storage facility to help serve the Southeast United States. The land option has a purchase price of approximately $0.5 million and the mineral rights option has a purchase price of $0.9 million. Both options expire on February 15, 2005. Should the options not be exercised, the company's right to make such purchases would expire.

NUI plans to develop a salt dome natural gas storage facility near Richton, Perry County, Mississippi. Like its companion storage facility in Saltville, Richton is expected to offer the high-deliverability capabilities of salt dome storage for natural gas and will have access to a number of major interstate pipelines, including Destin Pipeline and its connections to Gulf South, Gulfstream, FGT, SONAT, Tennessee Natural Gas and Transco. Through its connection to Destin Pipeline, Richton will have direct access to the gas supplies in the Gulf of Mexico, as well as to supplies from the interconnected interstate pipelines previously listed. Richton can also serve as a potential storage facility for the various proposed liquefied natural gas (LNG) projects in the Gulf Coast.

The preliminary plan is to develop two caverns with approximately 3.8 Bcf of working gas capacity each. The total gas capacity of both caverns is expected to be approximately 11.6 Bcf. The gas handling facilities are expected to provide an average injection rate of 250,000 thousand cubic feet (Mcf) per day and a maximum withdrawal rate of 600,000 Mcf per day. The facilities will include approximately 18,000 HP of compression and a 14.6 kilometer, 24 inch pipeline connecting the facility to the Destin pipeline. It is anticipated that Richton will be a FERC regulated facility. The preliminary engineering study, conceptual design for the facility and pipeline, water resource analysis, and a successful "open season" have been completed. The total cost of the project is expected to be approximately $85 million over a period of three years, which NUI will seek to fund through project finance debt.

This project is not expected to have any material capital requirements in fiscal 2004 and, if the project proves feasible, will primarily impact the company's capital expenditure program in fiscal years 2005 and 2006 after the funding needs of Phase I of the Saltville facility (discussed above) are essentially satisfied.

During 2001, the company began building a planned gas pipeline intended to cross the state of Florida from West Palm Beach to Fort Myers (the Florida East-West Pipeline Project). Phase I of the pipeline has been completed and is currently in service beginning with a connection to the Florida Gas Transmission Company's pipeline in West Palm Beach and terminating in South Bay. The remaining portions of the project are intended to include an interconnection with the Florida Gas Transmission Company's pipeline in Fort Myers and the Gulfstream Natural Gas System pipeline in Martin County. During October 2003, the company retained a company to provide engineering-related services in support of the expansion of its Florida East-West Pipeline project. The company anticipates a twenty-eight (28) month schedule to complete the pipeline systems inclusive of a state regulatory approval process and construction activities.

The company intends to begin the regulatory approval process once suitable customer commitments are obtained. When completed, the pipeline is expected to be capable of transporting up to 300,000 Mcf per day of natural gas. The pipeline is also intended to include direct connection to any of the three LNG pipelines proposed to come onshore in southeast Florida at the ports of Palm Beach and/or Port Everglades. Once completed, the company's pipeline will serve as a transportation hub linking the east and west sides of the Florida Gas Transmission system to the proposed LNG pipelines and the Gulfstream Natural Gas System as well as the company's proposed West Felda Gas Storage facility.

In conjunction with the expansion of the Florida East-West Pipeline, the company entered into agreements with Plains Resources Inc. (Plains), under which the parties have been validating technical and commercial viability of developing up to 15 Bcf of working gas capacity of natural gas storage in the West Felda Field, located in South Florida. The West Felda Field represents one of five oil-producing properties currently operated by Plains in the oil-producing "Sunniland Trench" in South Florida. The West Felda Field is expected to be serviced by the Florida East-West Pipeline, with an approximate 12-mile pipeline connection to the storage field south of the pipeline. Upon entering into final agreements, the parties intend to begin offering storage services in conjunction with the initiation of service of the pipeline.

Together these projects are expected to provide increased reliability for Florida's natural gas supply and distribution infrastructure and support Florida's rapidly growing demand for natural gas utilized for electricity generation.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $60.5 million for the next twelve-month period (this amount includes the company's obligations under two twenty-year agreements related to the Patriot pipeline discussed above). The company also is committed to purchase, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 Bcf per year or to pay certain costs in the event the minimum quantities are not taken. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one-month period. That agreement was superseded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as NUI Utilities' asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, will be secured by a prepayment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI. In light of, among other factors, the requirement that NUI Utilities must prepay its gas requirements under its agreement with Cinergy and its other gas supply, distribution and storage agreements, and the obligation to make payments pursuant to its settlement with the NJBPU, management of the company believes it will need additional financing in order to assure that the company's liquidity needs can be met during the upcoming winter heating season. There is no assurance that any necessary additional financing can be obtained or that the approval of the NJBPU, which is necessary to obtain such financing, will be forthcoming. In addition, the financing, if obtained, could have terms which have a material adverse effect on the company.

Demand on our Elizabethtown Gas system in New Jersey fluctuates due to weather variations because of the many seasonal heating customers that are served by that system. As a result, we are subject to seasonal variations in working capital because we purchase and store natural gas supplies in the summer months for the upcoming winter heating season; however, we do not generate significant cash flows from the sale of this gas until the winter months when demand for natural gas is at its peak.

Environmental. The company owns or previously owned properties on which former manufactured gas plants (MGP) were operated in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an undiscounted basis a total reserve of approximately $33.8 million, which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $29.9 million relates to the New Jersey MGP properties and approximately $3.9 million relates to the MGP properties located outside the state of New Jersey. The company believes that all costs associated with remediation of the New Jersey MGP properties will be recoverable in rates or from insurance carriers. The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $34.6 million, inclusive of interest, as of March 31, 2004. With respect to costs that may be associated with the MGP properties located outside the state of New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. However, the company is not able, at this time, to express a belief as to whether any or all of these recovery efforts will ultimately be successful.

Contractual Obligations. In the course of its business activities, the company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on NUI's balance sheet while others are commitments, some firm and some based on uncertainties, that are disclosed in the company's underlying consolidated financial statements. There have been no material changes in the company's contractual obligations from those disclosed in the company's annual report on Form 10-K for the year ended September 30, 2003, except for the Cinergy agreement previously discussed.

Off-Balance Sheet Arrangements. The company's off-balance sheet arrangements include commitments under operating leases, guarantees, letters of credit and gas procurement contracts, all of which are normal to the company's operations. See Note 12 of the Notes to the Consolidated Financial Statements for a discussion of the company's guarantees. In addition, the company is a 50 percent member of a joint venture that is developing natural gas storage assets and is required to provide funding toward the development of these assets for their intended purpose. See Capital Expenditures and Commitments—Joint Venture with Duke Energy above for further discussion. NUI is also party to two Standby Letters of Credit secured by cash collateral, as follows:

- a secured Standby Letter of Credit issued on January 16, 2004 by Fleet Bank in the amount of $750,000, in favor of PNC Bank. The letter of credit is intended to support the company's Procurement Card program with PNC Bank. The letter of credit was originally scheduled to expire on May 3, 2004; however, it has since been extended to July 23, 2004.

  a secured Standby Letter of Credit issued on February 1, 2004 by Fleet Bank, originally in the amount of $1,000,000, in favor of National Union Fire Insurance Company and several other insurance companies underwriting the company's workmen's compensation policy. As of April 23, 2004, the amount of the letter of credit has been reduced to $948,000. The letter of credit expires on February 1, 2005.

Application of Critical Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers Critical Accounting Policies to be those that could result in materially different financial statement results if the assumptions regarding application of accounting principles were different. A description of the company's Critical Accounting Policies can be found in the company's Annual Report filed on Form 10-K for the year ended September 30, 2003. Other significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements— Summary of Significant Accounting Policies of the company's Form 10-K. Recently issued accounting standards are also discussed in Note 13 of the Notes to the Consolidated Financial Statements.

Item 4. Disclosure Controls and Procedures

In connection with their audit of the company's fiscal 2002 financial statements, our independent external auditors, PricewaterhouseCoopers LLC (PwC), identified and reported on material weaknesses within our systems of internal control. In a report dated November 22, 2002 to the Audit Committee of the Board of Directors and management of NUI, PwC identified certain conditions that created a material weakness relating to internal control over financial reporting that resulted in the need to restate prior financial statements. The weaknesses identified included, but were not limited to, the following:

- General ledger cash account balances were not being reconciled to the bank statements.
- General ledger account analyses were not being consistently performed.
- A listing of debt covenants was not being maintained.

  Comprehensive and formalized accounting and financial reporting policies and procedures did not exist.

  Instances were noted where management lacked certain technical accounting and tax expertise that resulted in accounting errors.
- The flow of accounting information between business units and corporate accounting was not timely or formalized.
- Accounts payable invoice processing procedures needed to be improved.

  A formal plan and implementation timetable needed to be developed to address compliance with the certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

The company believes that these internal control weaknesses were addressed by management during fiscal 2003. However, in connection with the fiscal 2003 financial statement audit, PwC communicated additional material control weaknesses, which included:

The contract review process was not formally documented, and appropriate procedures had not been developed to ensure timely review of contracts for accounting implications.

- There was a lack of adherence to policies and procedures for travel and entertainment expense reimbursements and procurement card expenditures.
- The payroll timekeeping and tracking process was manual in nature and prone to errors.
- Information technology had a number of areas where formal, documented policies and procedures had not been developed.

As further discussed in Note 15 to the Consolidated Financial Statements, the company is filing this Amendment No. 1 on Form 10-Q/A for the quarter ending March 31, 2004 because of a deficiency noted in its cash reconciliation process which gave rise to an overstatement of the company's cash balance and an understatement of its prepayment account as of March 31, 2004. This deficiency was related to the company not timely clearing an identified reconciling item in a cash wire transfer account resulting from an end of the quarter cash payment. The cash wire transfer account is included in Cash and cash equivalents on the Consolidated Balance Sheet. As of the date of this filing, the company has implemented a process change in its cash reconciliation process which addresses this issue.

During fiscal 2003, our internal auditors performed internal audits which indicated material weaknesses in internal controls similar to those noted above. We have developed and implemented action plans to address their recommendations, and follow-up audits are being conducted.

Additional internal control issues have been raised and deficiencies have been noted in the March 2004 final audit report relating to the focused audit conducted at the request of the NJBPU.

We have taken specific, immediate steps to address the internal control weaknesses discussed above. In addition, we have undertaken a broader, long-term effort to assess our systems of internal control and to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. These actions include:

- Performing a comprehensive evaluation and developing a remediation plan with respect to internal controls over financial reporting and related processes;

- Hiring additional qualified and experienced employees, specifically in the finance and accounting areas, and increasing technical training in these areas;

- Implementing a redesigned cash management process and adopting more stringent cash management practices and procedures;

- Developing and implementing comprehensive accounting and financial reporting policies and procedures;

- Implementing procedures for performance of account analyses and reconciliations;

- Improving and monitoring controls to increase the reliability of information generated by our information technology processes;

- Educating employees throughout the company as to the importance of compliance with policies and procedures and the significance of a system of sound internal controls; and

- Ensuring executive management's involvement in the oversight and review of the disclosure and reporting process.

The effectiveness of our, or any, systems of disclosure controls and procedures and internal controls is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. Further, the design of systems of control must reflect the fact that there are resource constraints that affect the operation of any such system, and that the benefits of controls must be considered relative to their risks. As a result, there can be no assurance that our systems of disclosure controls, procedures and internal controls will prevent all errors or fraud, or ensure that all material information will be made known to management in a timely fashion.

As required by Rule 13a-15(b) of the Exchange Act, the company has carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its interim Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation examined those disclosure controls and procedures as of March 31, 2004, the end of the period covered by this report. Based upon the evaluation, the company's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, concluded that, as of March 31, 2004, NUI's disclosure controls and procedures were effective, except as described above, at the reasonable assurance level to ensure that information required to be disclosed in NUI's reports filed or submitted under the Exchange Act was accumulated and communicated to NUI's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned thereunto duly authorized.

NUI CORPORATION

/s/ DAN SCOULER

DAN SCOULER
Interim Chief Financial Officer

June 17, 2004

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig G. Matthews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 17, 2004

/s/ Craig G. Matthews
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dan Scouler certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 17, 2004

/s/ Dan Scouler
Interim Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of NUI Corporation (the "company") for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, Craig G. Matthews, President and Chief Executive Officer of the company, and I, Dan Scouler, Interim Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ Craig G. Matthews
Craig G. Matthews
President and
Chief Executive Officer
June 17, 2004

/s/ Dan Scouler
Dan Scouler
Interim Chief Financial Officer
June 17, 2004

A signed copy of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the company. The foregoing certification is being furnished solely to accompany the report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-16385

NUI CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-3708029**
(State of incorporation)	(IRS employer identification no.)

550 Route 202-206, PO Box 760, Bedminster, New Jersey 07921-0760
(Address of principal executive offices, including zip code)

(908) 781-0500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes ☑ No ☐

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2004: Common Stock, No Par Value: 15,969,113 shares outstanding.

Item 1. Financial Statements

NUI Corporation and Subsidiaries
Consolidated Statement of Income (Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Operating Margins				
Operating revenues	$98,944	$135,293	$508,803	$556,839
Less – Purchased gas and fuel	51,297	85,987	316,773	352,936
Cost of sales and services	3,374	2,977	10,545	9,618
Energy taxes	2,558	2,426	11,972	11,209
	41,715	43,903	169,513	183,076
Other Operating Expenses				
Operations and maintenance	36,328	35,032	117,813	98,618
Restructuring costs	587	---	2,723	---
Depreciation and amortization	9,125	7,844	26,721	25,524
Taxes, other than income taxes	1,778	933	6,565	5,500
	47,818	43,809	153,822	129,642
Operating Income (Loss)	(6,103)	94	15,691	53,434
Equity in earnings of Saltville Gas Storage Company, LLC	156	---	801	---
Loss on extinguishment of debt	---	---	(9,940)	---
Other income	1,238	200	2,555	862
Interest expense	11,336	6,260	30,368	17,755
Other interest income	(101)	(281)	(397)	(1,543)
Income (Loss) from Continuing Operations Before Income Taxes	(15,944)	(5,685)	(20,864)	38,084
Income tax expense (benefit)	(4,395)	(2,036)	(6,014)	15,936
Income (Loss) from Continuing Operations	(11,549)	(3,649)	(14,850)	22,148
Discontinued Operations				
Pre-Tax Income (loss) from discontinued operations	492	(26,032)	(1,095)	(27,071)
Income tax expense (benefit)	1,704	(4,611)	1,181	(5,031)
Loss from Discontinued Operations	(1,212)	(21,421)	(2,276)	(22,040)
Income (Loss) before Effect of Change in Accounting	(12,761)	(25,070)	(17,126)	108
Effect of change in accounting (net of tax benefit of $4,079 in 2003)	---	---	---	(5,870)
Net Loss	$(12,761)	$(25,070)	$(17,126)	$(5,762)
Basic and Diluted Income (Loss) from Continuing Operations Per Share of Common Stock	$ (0.72)	$ (0.23)	$ (0.93)	$ 1.38
Basic and Diluted Net Loss Per Share of Common Stock	$ (0.80)	$ (1.57)	$ (1.07)	$(0.36)
Dividends Per Share of Common Stock	$ ---	$ 0.245	$ 0.375	$0.735
Weighted Average Number of Shares of Common Stock Outstanding	15,968,692	16,021,477	15,976,128	16,039,573

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Balance Sheet
(Dollars in thousands)

	June 30, 2004 (Unaudited)	September 30, 2003 (*)
ASSETS		
Current Assets		
Cash and cash equivalents	$111,426	$25,209
Accounts receivable (less allowance for doubtful accounts of $6,022 and $7,304, respectively)	50,233	55,575
Fuel inventories, at average cost	31,812	63,852
Under-recovered purchased gas costs	---	25,398
Derivative assets	14,038	8,059
Federal income tax receivable	---	3,333
Assets held for sale	---	7,976
Prepayments and other	71,931	31,120
	279,440	220,522
Property, Plant and Equipment		
Property, plant and equipment, at original cost	978,820	954,446
Accumulated depreciation and amortization	(344,485)	(323,370)
Unamortized plant acquisition adjustments, net	12,570	13,372
Assets held for sale	---	147
	646,905	644,595
Funds for Construction Held by Trustee	---	2,058
Investment in Saltville Gas Storage Company, LLC	17,257	16,456
Other Investments	---	210
Other Assets		
Regulatory assets	57,625	57,040
Notes receivable from Saltville Gas Storage Company, LLC	23,509	17,575
Other receivable from Saltville Gas Storage Company, LLC	3,869	8,010
Long-term portion of derivative assets	5,477	5,133
Goodwill	8,056	8,056
Assets held for sale	---	1,002
Other assets	34,286	40,106
	132,822	136,922
	$1,076,424	$1,020,763
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Notes payable to banks	$355,000	$164,100
Notes payable	---	1,400
Current portion of long-term debt and capital lease obligations	51,593	2,167
Accounts payable, customer deposits and accrued liabilities	62,018	125,353
Over-recovered purchased gas costs	9,620	---
Liabilities held for sale	---	3,150
Federal income and other taxes	13,048	5,166
Current portion of deferred Federal income taxes	1,263	6,705
	492,542	308,041
Other Liabilities		
Capital lease obligations	9,182	9,798
Deferred Federal income taxes	57,579	61,608
Liabilities held for sale	---	19
Unamortized investment tax credits	3,051	3,375
Environmental remediation reserve	33,815	33,941
Regulatory and other liabilities	74,105	64,813
	177,732	173,554
Capitalization		
Common shareholders' equity	207,070	230,115
Long-term debt	199,080	309,053
	406,150	539,168
	$1,076,424	$1,020,763

** Derived from audited financial statements.*
See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statement of Cash Flows (Unaudited)
(Dollars in thousands)

	Nine Months Ended June 30,	
	2004	2003
Operating Activities		
Net income (loss)	$(17,126)	$ (5,762)
Less: Loss from discontinued operations, net of tax	(2,276)	(22,040)
Effect of change in accounting, net of tax	---	(5,870)
Net income (loss) from continuing operations	(14,850)	22,148
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	26,721	25,524
Deferred Federal income taxes	(9,471)	(12,283)
Amortization of deferred investment tax credits	(324)	(398)
Derivative assets and liabilities	5,018	3,084
Regulatory assets and liabilities	10,213	16,058
Other	(1,038)	1,557
Effect of changes in:		
Accounts receivable, net	5,342	(22,905)
Fuel inventories	32,040	2,228
Accounts payable, deposits and accruals	(63,336)	(14,234)
Under- or Over-recovered purchased gas costs	22,151	6,711
Prepaids and other	(40,810)	(5,194)
Federal and state income taxes	11,215	20,525
Other	3,768	2,600
Net cash provided by (used in) operating activities	(13,361)	45,421
Net cash provided by (used in) discontinued operations	3,729	(355)
Net cash provided by (used in) operating activities	(9,632)	45,066
Financing Activities		
Proceeds from sales of common stock	325	633
Dividends to shareholders	(5,980)	(11,801)
Payments of long-term debt	(60,000)	---
Funds for construction held by trustee, net	2,068	1,852
Principal payments under capital lease obligations	(2,122)	(1,948)
Net short-term borrowings	190,900	20,910
Net cash provided by continuing operations	125,191	9,646
Net cash used in discontinued operations	---	(3)
Net cash provided by financing activities	125,191	9,643
Investing Activities		
Cash expenditures for property, plant and equipment	(27,273)	(31,919)
Investment in Saltville Gas Storage Company, LLC	---	(9,180)
Net proceeds from sale of subsidiaries	---	13,117
Other	(2,020)	(2,377)
Net cash used in continuing operations	(29,293)	(30,359)
Net cash used in discontinued operations	(49)	(1,801)
Net cash used in investing activities	(29,342)	(32,160)
Net increase in cash and cash equivalents from continuing operations	82,537	24,708
Net increase (decrease) in cash and cash equivalents from discontinued operations	3,680	(2,159)
Net increase in cash and cash equivalents	$86,217	$22,549
Cash and Cash Equivalents		
At beginning of period	$ 25,209	$ 4,247
At end of period	$111,426	$26,796

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include all operating divisions and subsidiaries of NUI Corporation (NUI and, together with its subsidiaries, the company, we, our, or us). NUI is an energy company that primarily operates natural gas utilities and businesses involved in natural gas storage and pipeline activities. NUI's local utility operations are carried out by NUI's wholly-owned subsidiary, NUI Utilities, Inc. (NUI Utilities) and a subsidiary of Virginia Gas Company (VGC), and serve approximately 371,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital Corp. and its subsidiaries. As of April 1, 2004, the company's only remaining non-regulated subsidiary with substantial continuing operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The company's other non-regulated subsidiaries have either been sold or are winding down their operations. These subsidiaries include: NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications subsidiary sold in December 2003; NUI Energy, Inc. (NUI Energy), an energy retailer which is being wound down; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy trading and portfolio management subsidiary which is being wound down; OAS Group, Inc. (OAS), the company's digital mapping operation which is being wound down; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which is being wound down. The company's wholly-owned subsidiary, NUI Saltville Storage, Inc. (NUISS), is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC). SSLLC is a joint venture with a subsidiary of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia. All intercompany accounts and transactions have been eliminated in consolidation.

On September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company, and the company engaged two investment banks to serve as financial advisors to the company during the sales process. On July 15, 2004, NUI announced that it had entered into an Agreement and Plan of Merger (Merger Agreement) with AGL Resources Inc. (AGL) which provides for AGL to acquire all of the outstanding shares of common stock of NUI for $13.70 per share in cash, or $220 million in the aggregate, based on approximately 16 million shares of outstanding NUI common stock, and the assumption of NUI's outstanding debt at closing (see Note 15 for a further discussion of the merger).

In addition, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in additional credit facilities intended to provide NUI and NUI Utilities with additional liquidity through the close of the sale of the company (see Notes 2, 9 and 15). If the proposed new financing is not completed by September 30, 2004, or upon the occurrence of certain other events, AGL has the right to terminate the Merger Agreement.

As discussed in Note 4, for all periods presented, the company has classified the results of Valley Cities Gas and Waverly Gas (which were sold collectively on November 7, 2002), NUI Telecom, and TIC as Discontinued Operations in the Consolidated Statements of Income. The assets and liabilities of NUI Telecom have been classified as Assets Held for Sale and Liabilities Held for Sale in the Consolidated Balance Sheet as of September 30, 2003.

During fiscal 2003, the company discontinued the operations of NUI Energy and TIC. During January 2004, the company began to wind down the trading operations of NUI Energy Brokers and discontinued trading operations altogether at NUI Energy Brokers in March 2004, although NUI Energy Brokers continues to manage its prior contractual obligations under a long-term sales agreement in addition to two long-term gas storage and transportation agreements discussed in Note 12. Effective April 1, 2004, OAS has subcontracted all of its existing services to a third party engineering firm. OAS has notified its customers that, upon expiration of their current contracts, their relationship with OAS will terminate.

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation. Because of the seasonal nature of gas utility operations, the results for interim periods are not necessarily indicative of the company's results for an entire year.

The consolidated financial statements contained herein have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for interim periods. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

NUI is a holding company and is exempt from registration under the Public Utility Holding Company Act of 1935. NUI Utilities is subject to regulation as an operating utility by the public utility commissions of the states in which it operates. Certain subsidiaries of VGC are regulated by the Virginia State Corporation Commission. SSLLC is subject to regulation by the Federal Energy Regulatory Commission.

2. Liquidity Issues

As a result of various factors, NUI and NUI Utilities have experienced and, in the event the merger does not occur or the anticipated $95 million of senior credit facilities are not obtained, expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include prepayment for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the purchased gas adjustment clauses; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. In the event the company is successful in securing an aggregate of $95 million in senior credit facilities, as described in Note 15, both NUI and NUI Utilities believe that they will have sufficient liquidity to meet their financial obligations through the fiscal year ending September 30, 2005. These additional credit facilities require the approval of the lenders and the New Jersey Board of Public Utilities (NJBPU). However, in the event the company is not successful in securing these additional credit facilities, NUI and NUI Utilities believe that, subsequent to September 30, 2004, they may not have sufficient liquidity to meet their continuing obligations based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20.4 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy Marketing & Trading LP (Cinergy), NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations.

- On July 15, 2004, NUI announced that it had entered into the Merger Agreement with AGL which provides for AGL to acquire all of the outstanding shares of common stock of NUI. If we are unable to sell the company, or if a sale is not completed in a timely manner, NUI's and NUI Utilities' financial condition, results of operations and liquidity could be materially adversely affected (see Note 15 for further information on the sale of the company).

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004 (see Notes 9 and 10 for further discussion on debt covenants). The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining an aggregate of $95 million in additional financing.

On July 14, 2004, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities (the Bridge Facilities), which are intended to provide NUI and NUI Utilities with additional liquidity fiscal year 2005 and can be utilized to purchase gas for the upcoming winter heating season and for working capital and general corporate purposes. This commitment is comprised of a $75 million senior secured credit facility to be made available to NUI Utilities and secured by NUI Utilities' (i) accounts receivable, (ii) contracts and (iii) cash proceeds of the foregoing, and a $20 million senior unsecured credit facility to be made available to NUI (see Note 15 for further discussion of the Bridge Facilities).

If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its credit and debt financing. In the event the Bridge Facilities are not obtained and/or the merger with AGL is not consummated, the company would be unable to meet its maturing debt obligations, and would be forced to seek strategic alternatives, which may include a reorganization and/or bankruptcy filing.

3. Common Shareholders' Equity

The components of common shareholders' equity were as follows (dollars in thousands):

	June 30, 2004	September 30, 2003
Common stock, no par value	$287,513	$288,620
Shares held in treasury	(5,121)	(5,320)
Retained deficit	(72,057)	(48,951)
Unearned employee compensation	(1,861)	(3,589)
Accumulated other comprehensive loss (Note 7)	(1,404)	(645)
Total common shareholders' equity	$207,070	$230,115

4. Discontinued Operations and Assets and Liabilities Held for Sale

The revenues, margins and operating income (losses) of the company's discontinued operations that have been reported as discontinued operations on the Consolidated Statements of Income for the three and nine-month periods ended June 30 are, as follows, exclusive of affiliate transactions (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Distribution Services	$ ---	$ ---	$ ---	$ 553
Retail & Business Services	48	12,923	7,126	38,583
Operating Revenues	$ 48	$ 12,923	$7,126	$ 39,136
Operating Margins:				
Distribution Services	$ ---	$ ---	$ ---	$ 250
Retail & Business Services	48	3,806	1,679	13,672
Operating Margins	$ 48	$ 3,806	$1,679	$ 13,922

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Pre-Tax Income (Loss):				
Distribution Services	$ ---	$ ---	$ ---	$ 120
Retail & Business Services	(108)	(26,031)	(3,053)	(26,312)
Operating Income (Loss)	(108)	(26,031)	(3,053)	(26,192)
Other Income (Expense)	600	(1)	1,958	(875)
Net Interest Charges	---	---	---	4
Pre-Tax Income (Loss) from Discontinued Operations	$ 492	$(26,032)	$(1,095)	$(27,071)

The amounts included above within Distribution Services are for Valley Cities Gas and Waverly Gas, which were sold collectively on November 7, 2002 for approximately $15 million. The amounts included above within Retail and Business Services are for NUI Telecom, which was sold on December 12, 2003 for $2 million, and TIC, whose operations have been discontinued. Both sales were immaterial to the company's results in the respective periods. In addition, the assets and liabilities held for sale on the Consolidated Balance Sheet at September 30, 2003 (not shown here) relate to NUI Telecom.

5. Earnings Per Share

The following table summarizes the company's basic and diluted earnings per share calculations for the three and nine-month periods ended June 30 (amounts are in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Income (loss) from continuing operations	$(11,549)	$ (3,649)	$(14,850)	$22,148
Loss from discontinued operations	(1,212)	(21,421)	(2,276)	(22,040)
Effect of change in accounting	---	---	---	(5,870)
Net loss	$(12,761)	$(25,070)	$(17,126)	$(5,762)
Weighted average shares outstanding	15,969	16,021	15,976	16,040
Earnings (Loss) Per Share:				
Basic and diluted income (loss) from continuing operations	$(0.72)	$(0.23)	$(0.93)	$1.38
Basic and diluted net income (loss) from discontinued operations	(0.08)	(1.34)	(0.14)	(1.38)
Basic and diluted effect of change in accounting	---	---	---	(0.36)
Basic and diluted net loss	$(0.80)	$(1.57)	$(1.07)	$(0.36)

The company's weighted average diluted shares outstanding (not shown) includes shares which would be issuable upon the exercise of stock options outstanding under NUI's stock option plan, which is added to weighted average shares outstanding. As of June 30, 2004, unvested stock options having an exercise price less than the market value of the company's shares for the three- and nine-month periods ended on that date provided for an additional 621 shares and 596 shares of common stock equivalents outstanding, respectively; however, these shares of common stock equivalents have been omitted from the calculation of the three- and nine-month diluted earnings per share as they would have been antidilutive, since the company had a loss in both periods. The number of shares that could potentially be dilutive to earnings per share in the future that have been excluded in the computation of diluted earnings per share, because to do so would have been antidilutive, is 88,200 and 492,600 shares, respectively, as of June 30, 2004 and 2003.

6. Restructuring Charges and Other Employee Severance Costs

During November 2003, the company commenced a reorganization effort that resulted in workforce reductions. These workforce reductions primarily affected the corporate shared services functions and were undertaken to reflect the overall reduction in the size of the company due to the sale or winding down of certain NUI businesses. Additional workforce reductions were undertaken during the 2004 calendar year, primarily related to the company's decision to discontinue the trading operations of NUI Energy Brokers. One employee was requested to provide additional services for a limited period subsequent to his termination date; the remainder of the employees terminated as a result of the reorganization efforts are not required to provide any future service to the company. The reorganization efforts resulted in aggregate charges of approximately $2.7 million to restructuring costs for the nine months ended June 30, 2004, primarily relating to severance costs for 47 individuals. A total of approximately $1.7 million has been paid to former employees through June 30, 2004. The company has approximately $1.0 million of unpaid liabilities included in Accounts Payable, Customer Deposits, and Accrued Liabilities on the Consolidated Balance Sheet at June 30, 2004 relating to these severance costs.

In January 2004, two executive officers ended their employment with the company. A. Mark Abramovic served as President of the company since September 26, 2003, until his retirement in January 2004. He previously had served as Senior Vice President and Chief Financial Officer since September 1997, and Chief Operating Officer since May 1998. Until his resignation in January 2004, James R. Van Horn served as Chief Administrative Officer since May 1998, and General Counsel and Secretary since 1995. With respect to the departure of these two executives, the company recorded a $2.1 million charge in operations and maintenance expense in the second quarter of fiscal 2004 primarily relating to severance costs.

7. Comprehensive Income

The components of Comprehensive Income are as follows (amounts in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net loss	$(12,761)	$(25,070)	$(17,126)	$(5,762)
Other comprehensive income (loss):				
Derivatives qualifying as hedges, net	---	(274)	(759)	106
Total comprehensive loss	$(12,761)	$(25,344)	$(17,885)	$(5,656)

Accumulated other comprehensive loss, included in Common Shareholders' Equity on the Consolidated Balance Sheet was $(1,404,000) at June 30, 2004, and $(645,000) at September 30, 2003. Included in the balance at June 30, 2004, was $(1,404,000) related to minimum pension liability (net of $976,000 in taxes). There were no derivatives qualifying as hedges on that date.

8. Stock Options

The company measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded.

Had employee compensation expense been recognized based on the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the company's net income and diluted earnings per share for the three and nine-month periods ended June 30 would have been as shown in the following table (in thousands, except for per share amounts).

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net loss as reported	$(12,761)	$(25,070)	$(17,126)	$(5,762)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(39)	(436)	(309)	(1,383)
Pro forma net loss	$(12,800)	$(25,506)	$(17,435)	$(7,145)
Loss Per Share:				
Basic and diluted- as reported	$(0.80)	$(1.57)	$(1.07)	$(0.36)
Basic and diluted- pro forma	$(0.80)	$(1.59)	$(1.09)	$(0.45)

9. Notes Payable to Banks

On November 24, 2003, NUI and NUI Utilities each entered into new separate term and revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of June 30, 2004, NUI has fully drawn all amounts available under its credit agreement. As of August 9, 2004, NUI had overnight cash investments of $42.7 million.

NUI's facility may be extended for one 364-day period if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, has been extended to a date no earlier than June 30, 2006 or the notes have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash into escrow with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20.4 million, (iv) no default exists under such facility at the time of such extension and (v) all applicable regulatory approvals required for such extension have been obtained.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of June 30, 2004, NUI Utilities has fully drawn under the $50 million revolver and the $50 million term loan facility. As of August 9, 2004, NUI Utilities had overnight cash investments of $57.9 million.

NUI Utilities' facility may be extended for one 364-day term if (i) all applicable regulatory approvals required for such extension have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, has been extended to a date no earlier than June 30, 2006 or the notes have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, amended as of May 10, 2004, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities. The terms of NUI's and NUI Utilities' credit facilities would have to be further amended in connection with the anticipated $95 million of Bridge Facilities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004, to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement (NJBPU Settlement),

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of certain gas pipeline assets (see Note 12 for further information on the asset purchase),

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

At June 30, 2004, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $100.0 million, respectively, at weighted average interest rates of 8.1 percent and 7.1 percent. As of that date, NUI and NUI Utilities had no unused borrowing capacity under their respective credit facilities (except for NUI Utilities' delayed draw term loan). Also, as of June 30, 2004, NUI and NUI Utilities had approximately $42.2 million and $66.6 million, respectively, of cash held as short-term investments.

The weighted average daily amounts of borrowings outstanding under NUI's current credit facility and the weighted average interest rates on those amounts were $255.0 million and $18.6 million at 8.1 percent and 2.8 percent for the three months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI's previous and current credit facilities and the weighted average interest rates on those amounts were $210.7 million and $35.8 million at 8.0 percent and 3.0 percent for the nine months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' current credit facility and the weighted average interest rates on those amounts were $100.0 million and $126.8 million at 7.3 percent and 2.8 percent for the three months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' previous and current credit facilities and the weighted average interest rates on those amounts were $103.5 million and $114.2 million at 6.1 percent and 2.7 percent for the nine months ended June 30, 2004 and 2003, respectively.

On July 14, 2004, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities (also referred to as the Bridge Facilities), which are intended to provide NUI and NUI Utilities with additional liquidity through fiscal year 2005 and can be utilized to purchase gas for the upcoming winter heating season and for working capital and general corporate purposes. This commitment is comprised of a $75 million senior secured credit facility to be made available to NUI Utilities and secured by NUI Utilities' (i) accounts receivable, (ii) contracts and (iii) cash proceeds of the foregoing, and a $20 million senior unsecured credit facility to be made available to NUI. The NUI Utilities facility would mature on May 15, 2005, and the NUI facility would mature on November 21, 2005 (see Note 15 for further discussion of the Bridge Facilities).

Dividend Restrictions Under Short-term Credit Facilities. Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. In addition, the terms of the Merger Agreement prevent NUI from paying any cash dividends, regardless of financial results. Therefore, NUI is unable to pay any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI is also prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

Under the amendment to NUI Utilities' credit facility dated as of May 10, 2004, NUI Utilities is prohibited from paying dividends to NUI Corporation exceeding $35 million in the aggregate while the NUI Utilities credit facility is outstanding.

10. Long-term Debt

NUI Utilities has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As of June 30, 2004, this amount has been reclassified to current liabilities on the Consolidated Balance Sheet. As discussed in Note 9, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to satisfaction of the terms and conditions contained therein, to repay these medium term notes. The draw down of the $50 million delayed draw term loan to finance the medium term notes is a condition precedent to obtaining the new aggregate $95 million Bridge Facilities (as discussed in Note 15).

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In connection with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded as a charge during the first quarter of fiscal 2004. During the first quarter of fiscal 2004, the company also recorded a charge of approximately $0.5 million for unamortized debt expenses related to the senior notes.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In

accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York further amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA was extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

The SBPA would have to be further amended to permit the proposed $75 million NUI Utilities' senior secured credit facility.

As of June 30, 2004, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with the delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of NUI's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

In addition, defaults would have occurred under NUI Utilities' 5.70 percent bonds if the company did not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 (by no later than 120 days after the fiscal year end) and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004 (by no later than 60 days after the fiscal quarter ends). However, NUI Utilities obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. No defaults ever occurred under NUI Utilities' 5.70 percent bond facility since NUI Utilities was able to provide all of the required information by the extended deadline of June 30, 2004.

The company's long-term debt maturities for each of the next five fiscal years are as follows: $50 million in fiscal year 2005 and zero in fiscal years 2006 through 2009.

Dividend Restrictions Under Long-term Debt Agreements. The payment of cash dividends by NUI Utilities to NUI is restricted pursuant to the SBPA to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. As of June 30, 2004, NUI Utilities was permitted to pay up to $39.3 million in dividends pursuant to the SBPA. However, the amendment to NUI Utilities' short-term credit facility dated May 10, 2004, limits the dividends that NUI Utilities may pay to NUI Corporation to $35 million in the aggregate while NUI Utilities' credit facility is outstanding.

11. Pension and Post-Retirement Benefits

The company sponsors several qualified and nonqualified pension plans and other post-retirement benefit plans covering the company's current and former employees who meet certain eligibility criteria.

The following table provides the Components of Net Periodic Benefit Costs relating to all qualified and nonqualified pension plan and other post-retirement plans on an aggregate basis.

	Pension Benefits		Other Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Service cost	$1,213	$ 860	$103	$126
Interest cost	1,870	1,704	479	492
Return on plan assets	(2,085)	(2,068)	(148)	(116)
Net amortization and deferral	690	523	103	70
Net Periodic Benefit Costs	$1,688	$1,019	$537	$572
	Nine Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Service cost	$3,638	$2,579	$309	$378
Interest cost	5,611	5,111	1,438	1,476
Return on plan assets	(6,254)	(6,203)	(445)	(347)
Net amortization and deferral	2,069	1,570	308	208
Net Periodic Benefit Costs	$5,064	$3,057	$1,610	$1,715

The company has a retirement plan for eligible members of its board of directors, including both active and retired members. As of June 30, 2004, the company has a liability of approximately $1.5 million recorded on its Consolidated Balance Sheet related to this retirement plan. Upon a change in control of the company, each participant in the plan is entitled to receive a lump sum payment from the plan equal to the present value of the future annual retirement benefits they would be paid or would be eligible to be paid should they have retired on such a date. As of June 30, 2004, the total lump sum amount that would payable to plan participants under the plan's change of control provision is approximately $2.0 million.

12. Commitments and Contingencies

Focused Audit. On March 20, 2003, the NJBPU announced the initiation of a focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas. The NJBPU had expressed the belief that recent downgrades of the senior unsecured debt of NUI and NUI Utilities, as well as negative credit rating agency comments, and concerns raised during a recent competitive services audit, substantiated the need for an in-depth review of the financial practices of the company and its subsidiaries. On June 4, 2003, the NJBPU chose The Liberty Consulting Group to perform the audit. The focused audit covered the following areas: corporate governance; strategic planning; financial structure and interaction; accounting and property

records; executive compensation and affiliate transactions. An interim audit report was released by the NJBPU on December 17, 2003 and the final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004, at the NJBPU's public agenda meeting. Among other things, the report criticizes NUI for the energy management practices on behalf of NUI Utilities, its financing and cash pooling arrangements, the impact of unprofitable non-utility operations on NUI Utilities, the method used to allocate shared services costs among its business units, and the propriety of rates established in the 2002 Elizabethtown base rate case. NUI filed responsive comments on March 26, 2004 and a settlement was reached with the NJBPU on April 14, 2004. On April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. The company recorded a pre-tax charge of $30 million in the fourth quarter of fiscal 2003 to reflect the final settlement of the focused audit. Of this amount, $28 million was recorded as the amount to be refunded to customers in New Jersey. The company has also agreed to pay interest at 7.95 percent annually on the unpaid balance. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008. On July 8, 2004, the NJBPU approved the company's request to refund the first installment of $7 million plus accrued interest as bill credits to customers in September 2004.

In addition, the company established a pre-tax reserve of $2.6 million in fiscal 2003 in anticipation of providing refunds to customers in Florida as a result of transactions by the company's NUI Energy Brokers subsidiary.

Default under Credit Agreements. In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended on May 10, 2004, to further extend these deadlines.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

In addition, defaults would have occurred under NUI Utilities' 5.70 percent bonds if the company did not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 (by no later than 120 days after the fiscal year end) and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004 (by no later than 60 days after the fiscal quarter ends). However, NUI Utilities obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. No defaults ever occurred under NUI Utilities' 5.70 percent bond facility since NUI Utilities was able to provide all of the required information by the extended deadline of June 30, 2004.

Commitments. On April 30, 2001, the company announced an agreement with a subsidiary of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. In February 2003, after receiving the required regulatory approval, VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital

required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of June 30, 2004, the company has loaned SSLLC an aggregate of approximately $27 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected be funded with internally generated cash flows of the joint venture.

In conjunction with the development of an energy hub around the Saltville facility, during December 2002, the company entered into a twenty-year agreement with Duke Energy Gas Transmission (DEGT) for the firm transportation of natural gas on the planned Patriot pipeline. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

On July 22, 2004, NUI Utilities and Penn-Jersey Pipeline Company (Penn-Jersey) entered into an Asset Purchase Agreement (APA) pursuant to which NUI Utilities will purchase, among other things, the pipeline facilities of Penn-Jersey, subject to the satisfaction of certain conditions contained in the APA, including the receipt of necessary authorizations from the Federal Energy Regulatory Commission (FERC). The purchase price is $315,000 plus the depreciated cost of any necessary capital expenditures made by Penn-Jersey subsequent to January 31, 2003. Penn-Jersey is a small interstate natural gas pipeline that delivers natural gas from an interconnection with Columbia Gas Transmission Corp. in Pennsylvania to NUI Utilities' distribution system in New Jersey.

Guarantees. The company has guarantees of approximately $74.3 million to 16 counterparties as of June 30, 2004, in support of NUI Energy Brokers' trading activities. These guarantees were necessary to facilitate trading with a broad group of potential counterparties, although typically NUI Energy Brokers used only a fraction of the issued guarantees at any given time. Further, since NUI Energy Brokers has netting agreements in place with most of its counterparties, the guarantees would apply only to net balances owed to its respective counterparties with which it has such agreements. Due to the winding down of NUI Energy Brokers' trading operations, as of June 30, 2004, there were no purchases covered by outstanding guarantees.

Environmental Matters. The company owns, or previously owned, certain properties located in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland on which manufactured gas plants (MGP) were operated by the company or by other parties in the past. In New Jersey, the company is currently conducting remedial activities at such properties with oversight from the New Jersey Department of Environmental Protection and anticipates initiation of such activities in the state of North Carolina within the next five years. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an undiscounted basis a total reserve of approximately $33.8 million which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $29.9 million relates to remediation of the New Jersey MGP properties and approximately $3.9 million relates to remediation of the MGP properties located outside the state of New Jersey.

The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $34.1 million, inclusive of interest, as of June 30, 2004, reflecting the future recovery of both incurred costs and future remediation liabilities in the

state of New Jersey. The company has also been successful in recovering a portion of MGP remediation costs incurred in New Jersey from the company's insurance carriers and continues to pursue additional recovery. The company sold the net assets of its North Carolina Gas utility division on September 30, 2002 and its Valley Cities Gas and Waverly Gas utility divisions on November 7, 2002. Included in these asset sales were the environmental obligations for two of the company's MGP sites: one in North Carolina and one in Pennsylvania. With respect to costs associated with the MGP properties located outside New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful in recovering a portion of the remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able to express a belief as to the success of additional recovery efforts.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $62.3 million for the next twelve-month period (this amount includes the company's obligations under two twenty-year agreements to pay annual demand charges for the firm transportation and storage of natural gas, discussed above). The company currently recovers, and expects to continue to recover, the majority of such fixed charges through its purchased gas adjustment clauses. The company also is committed to purchase from a single supplier, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 billion cubic feet per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk reduction in the contracted daily delivery quantity. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one-month period. That agreement was superceded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as NUI Utilities' asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, are secured by a prepayment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI.

Employment Agreements. The company has created an incentive plan designed to retain key personnel through the date the company would be sold. The estimated liability for employee retention costs is approximately $3.8 million; however, no liability has been recorded as of June 30, 2004, since the payment of retention amounts is dependent upon the successful sale of the company. These retention amounts would be payable at certain dates within the sixty day period following the closing date of the sale (pursuant to individual employment agreements), or on a date before the closing date if the employee is released from his/her employment by the company. In connection with the possible sale of the company, NUI has established a discretionary severance plan for non-bargaining employees. In addition, certain officers and directors have change in control agreements with NUI, which define the amount of severance that would be payable upon the occurrence of certain events as defined within the agreements.

Legal Matters.

Securities Litigation. Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions

were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Class Action Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001 and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act against the company and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants failed to disclose material facts and materially inflated the company's earnings by (i) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, and (ii) recording revenues from a purportedly illegal "reterminating" billing practice allegedly engaged in by its former subsidiary. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants. Defendants filed an Answer to the Second Amended Complaint on May 10, 2004 denying any wrong doing and asserting affirmative defenses. Discovery has recently commenced. Although the company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

Joseph Pietrangelo, on behalf of himself and a class of persons similarly situated v. NUI Corporation, John Kean, John Kean Jr., Mark Abramovic, James R. Van Horn, Thomas W. Williams, Charles N. Garber, James J. Forese, Dr. Vera King Farris, J. Russell Hawkins, Bernard S. Lee, R. V. Whisnand, and John Winthrop. On or about July 8, 2004, a complaint for breach of fiduciary duty under the Employee Retirement Income Security Act (ERISA) was filed in the United States District Court for the District of New Jersey, in which Plaintiff alleges that the company and twelve current or former officers and/or directors breached alleged fiduciary duties owed to the employee participants of the NUI Corporation Savings and Investment Plan for Collective Bargaining Employees and the NUI Corporation Savings and Investment Plan for other company employees (collectively, the Plans). Specifically, Plaintiff alleges that Defendants failed to disclose, and made false and misleading statements concerning, the true level of the company's bad debt, the true level of the company's earnings per share, the accurate status and contribution of the company's energy trading business and other allegedly material operating and accounting issues, all of which allegedly caused the company's stock to trade at artificially inflated prices. As a result, Plaintiff alleges, Defendants breached various fiduciary duties allegedly owed to participants of the Plans under ERISA, and engaged in a prohibited transaction under Section 404 of ERISA, by purportedly: (i) selecting and maintaining a stock fund consisting of company shares (the NUI Stock Fund) as an investment alternative in the Plans when it allegedly was no longer suitable and prudent, (ii) encouraging employees to invest in the NUI Stock Fund, (iii) continuing to invest in, and failing to divest the Plans from, the NUI Stock Fund when it allegedly became an imprudent investment, (iv) abdicating a purported duty to review, evaluate and monitor the suitability of the Plans' investment in the NUI Stock Fund and (v) failing to provide accurate, material information to the Plans' participants concerning the NUI Stock Fund. Plaintiff purports to bring a putative class action on behalf of all participants or beneficiaries of the Plans from November 11, 2001 through and including September 26, 2003. The company has not yet been served

formally with the complaint. Although the company intends to vigorously defend the lawsuit, it is not possible at this time to determine a likely outcome.

Flint Energy Construction Co., Inc. v. Virginia Gas Pipeline Company. Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in September 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc. v. TIC Enterprises, LLC, Nortel Networks, Inc. and Sherry Hutto Walton. Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of $83,331.00. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by plaintiff on certain issues. On July 2, 2004, plaintiffs filed an Amended Petition that adds a claim for conspiracy to fraudulently induce and seeks exemplary damages in connection with the fraud claim. Also on July 2, 2004, plaintiffs filed Amended Responses to Defendant Nortel Network's Request for Disclosure that includes damage estimates ranging from approximately $2.12 million to $2.32 million (of which approximately $1.46 million to $1.66 million is for lost profits) plus exemplary damages.

A mediation was held in 2003 and settlement discussions ensued. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing and pursuant to a Second Amended Order Setting Schedule signed on August 4, 2004, trial has been set for February 28, 2005. At this time, the company is unable to determine the likelihood of an outcome.

James Greiff and TIC Enterprises, Inc. v. TIC Enterprises, LLC, NUI Capital Corp., NUI Sales and NUI Corporation. This case, originally filed in Georgia State Court, then removed by defendants to the United States District Court for the Northern District of Georgia, was transferred on the defendants' motion to the District of Delaware. The plaintiffs, James Greiff and TIC Enterprises, Inc. sued the company and three other company related entities, NUI Sales Management, Inc., NUI Capital Corp. and TIC, for breach of contract and fraud. The plaintiffs alleged they were entitled to (i) $3 million arising from the defendants' alleged breach of contract; (ii) an amount to be proven at trial arising from the defendants' alleged breach of a 2001 Purchase Agreement; (iii) $22 million and punitive damages for the defendants' alleged fraud; and (iv) $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs also alleged a tortious interference claim for $3 million. On May 5, 2004, NUI received the plaintiffs' written acceptance of the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under a promissory note held by the plaintiffs from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003. The final Settlement Agreement was executed on June 4, 2004, general releases were exchanged and the company paid the plaintiffs $1.4 million to fully and finally settle all claims between the parties. On June 15, 2004, the court ordered dismissal of the case pursuant to a Stipulation of Voluntary Dismissal With Prejudice filed by the parties.

United States Postal Service Investigation and Claims. TIC entered into a contract with the United States Postal Service (USPS) relating to TIC's promotion of certain USPS products. In January 2003, TIC filed with the USPS contracting officer a claim for "breakaway fees" that were provided for in the contract. In the near future, TIC intends to file its remaining claims against USPS for unpaid commissions and accounts and lost profits. The USPS Office of the Inspector General has been conducting an investigation of TIC, and it appears that the Inspector General's investigation relates to allegedly false claims submitted by TIC to USPS for the payment of commissions under the contract, which could result in civil and criminal liability for TIC. TIC has been fully cooperating with the Inspector General's investigation and has provided documents, data,

and technical assistance to the Inspector General. Although the investigation has been opened for more than a year, the Inspector General has not produced any evidence showing any civil or criminal wrongdoing by TIC, and counsel for TIC has advised that no evidence of false claims by TIC has surfaced. To date, USPS has only mentioned false claims for amounts totaling less than $800,000, plus fines and penalties, but TIC has since shown USPS that such false claims have no merit. At this time, the company is unable to determine the likely outcome.

Other

Investigations of NUI Energy Brokers. On November 19, 2003, the company announced that in connection with the focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas initiated by the NJBPU, certain questionable transactions within NUI Energy Brokers were identified. In connection with this matter, since November 2003, the company, NUI Energy Brokers and Elizabethtown Gas Company have been the subjects of subpoenas issued by the New Jersey State Grand Jury. The Grand Jury was seeking diverse operational, structural, financial and personnel records relative to such entities together with documentation relating to the purchase and sale of gas on behalf of either NUI Energy Brokers or Elizabethtown Gas for the period of October 1, 1998 through the end of 2003. Documents in the latter category were also requested by the NJBPU.

On June 30, 2004, NUI Energy Brokers entered into a plea agreement (the Plea Agreement) with the New Jersey Attorney General's Office (NJAG) relating to these questionable transactions at NUI Energy Brokers. Pursuant to the Plea Agreement, NUI Energy Brokers will pay a $500,000 fine, of which $200,000 has been paid as of June 30, 2004, and the remaining amount is expected to be paid in the first quarter of fiscal 2005. On June 30, 2004, the company entered into a letter agreement with the NJAG pursuant to which the company has agreed to develop, fund and operate certain community service programs. This concludes the investigation by the NJAG of NUI and its subsidiaries with respect to these matters.

In November 2003, the SEC advised the company that it is conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the NJAG. On March 1, 2004, the SEC requested the company to voluntarily produce certain documents in furtherance of its informal inquiry. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The company is involved in various other claims and litigation incidental to its business. In the opinion of management, none of these other claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

13. New Accounting Standards

In June 2002, the Emerging Issues Task Force (EITF) issued EITF 02-03, "Issues Involved in Accounting for Contracts Under Issue 98-10" (EITF 02-03). The purpose of EITF 02-03 is to address certain issues related to energy trading activities, including (a) gross versus net presentation in the income statement, (b) whether the initial fair value of an energy trading contract can be other than the price at which it was exchanged (i.e., whether there is any profit at inception), and (c) additional disclosure requirements for energy trading activities. On October 25, 2002, the EITF reached a consensus on EITF 02-03 that changes the accounting for certain energy contracts. The provisions of EITF 02-03 became effective at certain times, and the provisions that were adopted during fiscal 2003 are as follows:

- The EITF rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10), which was the authoritative accounting followed by NUI Energy Brokers and NUI Energy. Pursuant to EITF 98-10, an entity accounted for energy contracts at fair value with changes in fair value recognized in earnings if the energy contract was determined to be part of an entity's trading activities. In contrast to EITF 98-10, EITF 02-03 prohibits mark-to-market accounting for energy-related contracts that do not meet the definition of a derivative under SFAS 133. Any contracts not meeting the definition of a derivative under SFAS 133 must be accounted for on the accrual basis.
- The consensus applied immediately to non-derivative energy-related contracts executed after October 25, 2002.

- The consensus applies to existing non-derivative energy-related contracts for fiscal periods beginning after December 15, 2002 and the cumulative effect of a change in accounting principle must be reported upon initial application.
  The EITF indicated that an entity should not record unrealized gains or losses at the inception of derivative contracts unless the fair value of each contract in its entirety is evidenced by quoted market prices or other current market transactions for contracts with similar terms and counterparties.

The company continued to mark all existing energy-related contracts to market based on EITF 98-10 during the first quarter of fiscal 2003 prior to applying the new consensus. However, the consensus required NUI to record a cumulative effect adjustment to convert any contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective January 1, 2003.

The primary contracts affected as a result of applying the new consensus are the full requirements natural gas sales contracts associated with NUI Energy and a large natural gas storage contract within NUI Energy Brokers. However, the majority of NUI Energy Brokers' contracts are considered derivatives under SFAS 133 and are marked-to-market through earnings. The cumulative effect adjustment to convert the contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective on January 1, 2003 was a loss of approximately $9.9 million before taxes.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003, issued a revised FIN 46R. The objective of both FIN 46 and FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that, by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities no later than the end of the first reporting period after March 15, 2004. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The company has determined that it does not meet the consolidation requirements with respect to its joint venture with Duke Energy (see Note 12). In addition, the company has not created or obtained any variable interest entities after January 31, 2003. Therefore, the adoption of the consolidation requirements of FIN 46R in March 2004 did not have an impact on the company's financial position or results of operations.

14. Business Segment Information

The company's operations are organized and managed as three primary segments: Distribution Services, Energy Asset Management, and Retail and Business Services. The Distribution Services segment currently distributes natural gas in three states through the company's regulated utility operations, and engages in appliance leasing, repair and maintenance operations and off-system gas sales. The Energy Asset Management segment reflects the operations of NUI Energy Brokers and all of the VGC subsidiaries. The Retail and Business Services segment reflects the operations of the company's UBS operations and NUI Energy subsidiary. The company also has corporate operations that do not generate any revenues.

During fiscal 2003, the company realigned its reportable business segments as follows: the appliance service businesses in New Jersey and Florida, previously reported within the Retail and Business Services segment, are now included within the Distribution Services segment; off-system sales made by NUI Energy Brokers on behalf of the utility operations, previously reported within the Energy Asset Management segment, are now included within the Distribution Services segment; NUI Telecom, previously reported within the Retail and Business Services segment, was being held for sale at September 30, 2003, and is now reported within discontinued operations; the operations of TIC are being wound down by the company and have also been reported as discontinued operations; and the operating results of NUI Environmental, previously reported

within discontinued operations, are now included as part of the Retail and Business Services segment. The change for NUI Environmental, which was sold in September 2003, was due to the company's potential future involvement in this business under certain ancillary agreements entered into by the company on the date of the sale.

The following table provides information concerning the major segments of the company for the three and nine-month periods ended June 30, 2004 and 2003. The company's management evaluates its segment profit and loss on the basis of pre-tax income (losses) from continuing operations. Revenues include intersegment sales to affiliated entities, which are eliminated in consolidation. All of the company's operations are in the United States and therefore do not need separate disclosure by geographic region. Certain reclassifications have been made to prior year segment data to conform with the current year's presentation.

(Dollars in thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003
Revenues:				
Distribution Services	$95,284	$127,770	$497,369	$526,212
Energy Asset Management	2,519	3,245	8,211	24,671
Retail and Business Services	2,377	5,423	7,123	9,809
Intersegment Revenues	(1,236)	(1,145)	(3,900)	(3,853)
Total Revenues	$98,944	$135,293	$508,803	$556,839
Operating Margins:				
Distribution Services	$38,612	$37,245	$160,127	$154,666
Energy Asset Management	2,220	2,871	7,014	23,438
Retail and Business Services	1,199	4,280	3,525	6,332
Intersegment Operating Margins	(316)	(493)	(1,153)	(1,360)
Total Operating Margins	$41,715	$43,903	$169,513	$183,076
Pre-Tax Operating Income (Loss):				
Distribution Services	$3,627	$2,749	$49,241	$49,502
Energy Asset Management	(743)	(612)	(4,552)	13,405
Retail and Business Services	(86)	(1,607)	(48)	(6,971)
Total Pre-Tax Operating Income	$2,798	$ 530	$44,641	$55,936
Pre-Tax Income (Loss) from Continuing Operations:				
Distribution Services	$(1,488)	$ (947)	$34,753	$39,933
Energy Asset Management	(1,254)	(778)	(6,016)	12,415
Retail and Business Services	(122)	(1,863)	(171)	(7,741)
Total Pre-Tax Income (Loss) from Continuing Operations	$(2,864)	$(3,588)	$28,566	$44,607

A reconciliation of the company's segment pre-tax operating income and income (loss) from continuing operations, to amounts reported on the consolidated financial statements, is as follows:

(Dollars in thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003
Segment Pre-Tax Operating Income	$2,798	$ 530	$44,641	$55,936
Non-segment pre-tax operating loss	(8,901)	(436)	(28,950)	(2,502)
Pre-tax Operating Income	$(6,103)	$ 94	$15,691	$53,434
Segment Pre-Tax Income (Loss) from Continuing Operations	$(2,864)	$(3,588)	$28,566	$44,607
Non-segment pre-tax loss from continuing operations	(13,080)	(2,097)	(49,430)	(6,523)
Pre-Tax Income (Loss) from Continuing Operations	$(15,944)	$(5,685)	$(20,864)	$38,084

The increase in non-segment pre-tax operating loss for the three and nine months ended June 30, 2004, as compared to the same periods in fiscal 2003, is primarily due to increased corporate expenses for outside professional services (approximately $2.2 million and $12.4 million, for the three and nine-month periods, respectively), bank fees (approximately $5.3 million and $12.2 million, for the three and nine-month periods, respectively), and restructuring and other severance charges (approximately $2.5 million for the nine-month period), which costs have not been allocated to the company's various business units. The increase in non-segment pre-tax loss from continuing operations for the three and nine months ended June 30, 2004, as compared to the same period in fiscal 2003, is primarily due to these same factors, plus increased interest expense (approximately $2.5 million and $6.5 million, for the three and nine-month periods, respectively) and, in the nine-month period, a pre-tax loss of approximately $9.9 million recorded for the early retirement of debt (see Note 10).

15. Recent Developments

On July 15, 2004, NUI announced that it had entered into the Merger Agreement with AGL, which provides for AGL to acquire all of the outstanding shares of common stock of NUI for $13.70 per share in cash, or $220 million in the aggregate based on approximately 16 million shares of outstanding NUI common stock. The Boards of Directors of both companies have unanimously approved the Merger Agreement. The merger is subject to the approval of NUI shareholders, regulatory agencies in the states of New Jersey, Maryland and Virginia and the SEC, the expiration of the Hart-Scott-Rodino (Federal Trade Commission) waiting period, and various other closing conditions. In addition, the Merger Agreement grants financing-related termination rights, including AGL's right to terminate the Merger Agreement upon the acceleration of the company's or NUI Utilities' existing indebtedness or in the event of payment defaults under such indebtedness, or if, by September 30, 2004, the company fails to obtain $95 million in senior credit facilities (referred to below), extend and amend NUI's and NUI Utilities' existing $405 million credit facilities or finance NUI Utilities' $50 million medium term notes. The conditions to AGL's obligations to complete the merger generally include, among others, that neither NUI nor any of its subsidiaries have been indicted or criminally charged for a felony criminal offense relating to certain specified matters; that, subject to certain qualifications, neither NUI nor any of its subsidiaries are the subject of an active investigation by a governmental entity relating to the matters that are the subject of the NJBPU settlement order; and that the final approvals from the applicable regulatory bodies include certain agreed upon terms, except to the extent that the failure to include any such agreed upon terms, or the inclusion of other terms, would not reasonably be expected to have a material adverse effect, individually or in the aggregate, on any of NUI, NUI Utilities or AGL, after taking into account any of the agreed upon terms that are actually included in the final approvals. In accordance with the Merger Agreement, the Merger Agreement is terminable if the merger has not been completed on or prior to April 13, 2005, subject to an automatic 90-day extension for obtaining the required regulatory approvals. Upon closing, which is currently anticipated in the December 2004 to March 2005 timeframe, NUI will become a wholly-owned subsidiary of AGL.

On July 14, 2004, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities (the Bridge Facilities). This commitment is comprised of a $75 million

senior secured credit facility to be made available to NUI Utilities and secured by NUI Utilities' (i) accounts receivable, (ii) contracts and (iii) cash proceeds of the foregoing, and a $20 million senior unsecured credit facility to be made available to NUI. The NUI Utilities facility would mature on May 15, 2005, and the NUI facility would mature on November 21, 2005. The Bridge Facilities are intended to provide NUI and NUI Utilities with additional liquidity through fiscal 2005 and can be utilized to purchase gas for the upcoming winter heating season and for working capital and general corporate purposes. The loan commitment is subject to various conditions, including the extension of the existing credit facilities of NUI and NUI Utilities to November 21, 2005, the amendment of certain terms of such facilities to allow the new financing and the draw down by NUI Utilities of its $50 million delayed draw term loan to repay its $50 million medium term notes. Approval from the NJBPU and from the lenders under NUI's and NUI Utilities' existing credit facilities will be required to consummate the proposed financing.

On June 30, 2004, NUI Energy Brokers entered into a plea agreement (the Plea Agreement) with the NJAG relating to certain questionable transactions at NUI Energy Brokers. Pursuant to the Plea Agreement, NUI Energy Brokers will pay a $500,000 fine, of which $200,000 has been paid as of June 30, 2004, and the remaining amount is expected to be paid in the first quarter of fiscal 2005. On June 30, 2004, the company entered into a letter agreement with the NJAG pursuant to which the company has agreed to develop, fund and operate certain community service programs. This concludes the investigation by the NJAG of NUI and its subsidiaries with respect to these matters.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of NUI Corporation included elsewhere herein and with the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Recent Developments

The company recently has faced a number of challenges and experienced significant events, including:

- the pending sale of the company to AGL Resources Inc. (AGL);
- the settlement agreement with the New Jersey Board of Public Utilities (NJBPU) and other regulatory orders issued by the NJBPU;
- the investigations of transactions at NUI Energy Brokers and the settlement agreements with the New Jersey Attorney General's Office (NJAG);
- new credit facilities at NUI and NUI Utilities;
- the gas supply contract with Cinergy Marketing and Trading, LP (Cinergy);
- changes in the Boards of Directors of NUI and NUI Utilities and changes in management; and
- the sale of NUI Telecom.

The Pending Sale of the Company to AGL

On September 26, 2003, the company announced that its Board of Directors had decided to pursue the sale of the company and the company engaged two investment banks to serve as financial advisors to the company during the sales process. The Board of Directors established a Special Committee to assess the company's options and concluded that pursuing a sale of the company was in the best interests of the company's stakeholders. The decision was made as a result of a number of factors, including the negative impact on the company arising from multiple downgrades of the company's credit ratings during fiscal 2003 and adverse business conditions in general.

On July 15, 2004, NUI announced that it had entered into an Agreement and Plan of Merger (Merger Agreement) with AGL, which provides for AGL to acquire all of the outstanding shares of common stock of NUI for $13.70 per share in cash, or $220 million in the aggregate based on approximately 16 million shares of outstanding NUI common stock. The Boards of Directors of both companies have unanimously approved the Merger Agreement. The merger is subject to the approval of NUI shareholders, regulatory agencies in the states of New Jersey, Maryland and Virginia and the Securities and Exchange Commission (SEC), the expiration of the Hart-Scott-Rodino (Federal Trade Commission) waiting period, and various other closing conditions. In addition, the Merger Agreement grants financing-related termination rights, including AGL's right to terminate the Merger Agreement upon the acceleration of the company's or NUI Utilities' existing indebtedness or in the event of payment defaults under such indebtedness, or if, by September 30, 2004, the company fails to obtain $95 million in senior credit facilities (referred to below), extend and amend NUI's and NUI Utilities' existing $405 million credit facilities or finance NUI Utilities' $50 million medium term notes. The conditions to AGL's obligations to complete the merger generally include, among others, that neither NUI nor any of its subsidiaries have been indicted or criminally charged for a felony criminal offense relating to certain specified matters; that, subject to certain qualifications, neither NUI nor any of its subsidiaries are the subject of an active investigation by a governmental entity relating to the matters that are the subject of the NJBPU settlement order; and that the final approvals from the applicable regulatory bodies include certain agreed upon terms, except to the extent that the failure to include any such agreed upon terms, or the inclusion of other terms, would not reasonably be expected to have a material adverse effect, individually or in the aggregate, on any of NUI, NUI Utilities or AGL, after taking into account any of the agreed upon terms that are actually included in the final approvals. In accordance with the Merger Agreement, the Merger Agreement is terminable if the merger has not been completed on or prior to April 13, 2005, subject to an automatic 90-day extension for obtaining the required regulatory approvals. Upon closing, which is currently anticipated in the December 2004 to March 2005 timeframe, NUI will become a wholly-owned subsidiary of AGL.

In addition, in July 2004 NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities intended to provide NUI and NUI Utilities with additional liquidity through the close of the sale of the company (see Liquidity and Capital Resources). If the proposed new financing is not completed by September 30, 2004, AGL has the right to terminate the Merger Agreement.

For a discussion of factors that could prevent or delay the sale of the company, see Item 1. Business—Risk Factors—The sale of NUI may not be consummated, as discussed in the company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Settlement Agreement with the NJBPU

On April 14, 2004, the company announced that NUI, NUI Utilities and Elizabethtown Gas Company (Elizabethtown Gas) had entered into a settlement agreement with the NJBPU on all issues related to the focused audit performed by Liberty Consulting Group on behalf of the NJBPU, and on April 26, 2004, the NJBPU issued a Final Order accepting and adopting that settlement agreement. Pursuant to the settlement agreement, NUI Utilities agreed to refund $28 million plus interest to Elizabethtown Gas ratepayers and to pay a $2 million penalty to the State of New Jersey over five years. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008. The $2 million penalty shall be paid in $400,000 annual installments in each of NUI's fiscal years 2004 through 2008. On July 8, 2004, the NJBPU approved the company's request to refund the first installment of $7 million plus accrued interest as bill credits to customers in September 2004. The company has the option to make a balloon payment of all outstanding amounts due under the terms of the settlement agreement at any time. In addition, upon the close of a sale of the company, any outstanding balance is required to be paid in full by the company within a period to be determined by the NJBPU. The refund and penalty increased the company's net after-tax loss for fiscal year 2003 by approximately $18.6 million, or $1.16 per share.

In addition to the required monetary refund and penalty, NUI agreed to file a plan with the NJBPU for implementing the recommendations of the Liberty report, as modified by the settlement. The settlement agreement also contains a number of other provisions, including, without limitation:

- The company shall continue to use its existing cost allocation policy until the earlier of the sale of the company or 18 months from the date the settlement agreement was adopted as final;

- The company and the NJBPU agree that an appropriate target equity percentage for Elizabethtown Gas shall be 45 percent and if the average equity percentage for the preceding twelve months falls below 45 percent, the company shall provide the NJBPU with a written plan on how the 45 percent equity capital will be reinstated;

- The company agrees to maintain a separate cash management system for NUI Utilities and is prohibited from commingling cash of Elizabethtown Gas or of NUI Utilities with the cash of NUI or of non-utility affiliates of NUI;

- The company shall provide the NJBPU with various financial statements of NUI Utilities and Elizabethtown Gas;

- The pre-approval by the NJBPU is required for various intercompany arrangements and for certain financing arrangements and certain other transactions that could impact the assets or operations of Elizabethtown Gas or NUI Utilities;

- NUI Utilities shall have different management and a separate Board of Directors from NUI responsible for utility operations, although NUI and NUI Utilities may have up to three common directors; and

- The company agrees to settle all receivables and payables for allowed intercompany transactions on a monthly basis in accordance with a matrix developed by the company and the NJBPU.

The terms of the settlement agreement (1) do not prohibit the transfer of cash between NUI Utilities and NUI for the purpose of the payment of dividends to NUI or the settlement of monthly intercompany balances, (2) do not waive or alter the requirements of any existing Order of the NJBPU and (3) are not binding on any purchaser of the company, except that, upon the closing of the sale, any outstanding refund and penalty balance are required to be paid in full by the company within a period of time to be determined by the NJBPU. The company's agreement to the terms of the settlement is not an acknowledgement of non-compliance with any law, regulation or NJBPU Order or requirement. The settlement agreement resolves all issues identified in the final Liberty audit report without acknowledgement or admission by the company as to the correctness of any issue or that any specific issue forms the basis or any part of the basis for the payments described above. The settlement provides that no further civil action shall be taken by the NJBPU. The NJBPU retains the authority to impose any requirements or conditions on a purchaser upon a petition for approval of a sale of the company.

Other Regulatory Orders

On September 16, 2003, the NJBPU, in connection with its approval of a provisional increase in Elizabethtown Gas' Basic Gas Supply Service (BGSS) rate, ordered NUI to provide (1) written assurances that the approved revenues would be used solely for Elizabethtown Gas and (2) an acceptable plan whereby NUI and any other subsidiaries would repay Elizabethtown Gas for any money owed to it. In addition, NUI and NUI Utilities were ordered to continue to cooperate with the focused audit, participate in weekly meetings to review their financial integrity and comply with existing NJBPU Orders, and NUI Utilities was ordered to refrain from issuing any special dividends (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities) without the prior approval of the NJBPU. After the September 26, 2003 announcement by NUI of its intention to sell the company, the NJBPU issued an Order dated October 30, 2003, ordering NUI to: (1) provide information to the NJBPU concerning its compensation packages; (2) provide assurances that Elizabethtown Gas' immediate and short-term liquidity needs would be met; (3) provide the NJBPU with all information necessary to assess the sufficiency of funding of NUI's pension and other post-retirement plans; and (4) present a detailed plan and schedule for preparing the company for sale, for operating during the sale process and for conducting sale activities in order to assure the NJBPU that the process of selling NUI would be transparent, independent, and timely. In addition, the NJBPU ordered NUI to protect the utility employees of Elizabethtown Gas during the sale process, inform the NJBPU of the progress of the 2003 fiscal year-end audit of the company's financial statements being conducted by PricewaterhouseCoopers LLP (PwC) and amend its consulting agreement with FTI Consultants. In October 2003, the company had employed FTI Consultants to manage its financial operations and develop new liquidity forecasts.

Pending its review of the interim focused audit report, on December 11, 2003, the NJBPU issued an Order in which NUI Utilities and Elizabethtown Gas were directed to cease purchasing gas from NUI Energy Brokers upon approval of a new gas supply procurement and energy asset management plan, which was to be submitted to the NJBPU by January 2, 2004 for the NJBPU to approve by January 8, 2004. Further, per the Order, NUI Utilities is prohibited from issuing special dividend payments (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities); and Elizabethtown Gas shall not pay any allocated costs of any agreements, retainers or arrangements for professional services and other expenditures incurred in connection with, or as a result of, the focused audit and/or financial difficulties of NUI unless approved by the NJBPU.

In its Order dated January 14, 2004, the NJBPU accepted the plan submitted by NUI Utilities and Elizabethtown Gas which transferred the management of NUI Utilities' and Elizabethtown Gas' gas supply assets to New Jersey Resources, Inc. (NJRES) through March 31, 2004. The NJBPU further directed NUI Utilities to file a procedure with the NJBPU for the competitive procurement of gas supply management services for the period commencing April 1, 2004 through March 31, 2005. In the event NJRES was not selected to continue to provide services to NUI Utilities as a result of the bid process, the NJBPU directed NUI Utilities to pay an early termination fee.

NUI Utilities filed a procedure for competitive procurement of gas supply management services, which was approved by the NJBPU on February 11, 2004. NUI Utilities instituted a process for receiving bids for gas supply and capacity management services to the company's New Jersey, Florida and Maryland utility divisions. As a result of this process, NUI Utilities selected Cinergy to provide a full requirements gas

supply contract with least cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005 and provides a fixed payment to NUI Utilities for the use of NUI Utilities' gas and deliverability assets for the twelve months ended March 31, 2005. The NJBPU approved the selection of Cinergy as the company's gas and capacity management services provider on April 14, 2004.

Investigations of Transactions at NUI Energy Brokers and Settlement Agreements with the NJAG

Regarding the focused audit described above, Liberty identified certain questionable transactions involving NUI Energy Brokers. The Audit Committee of the Board of Directors retained independent counsel to conduct an investigation of transactions involving NUI Energy Brokers. A report of the independent counsel's investigation was provided to the company's Audit Committee on April 13, 2004.

In connection with this matter, since November 2003, the company, NUI Energy Brokers and Elizabethtown Gas have been the subjects of subpoenas issued by the New Jersey State Grand Jury. On June 30, 2004, NUI Energy Brokers entered into a plea agreement (the Plea Agreement) with the NJAG relating to certain questionable transactions at NUI Energy Brokers. Pursuant to the Plea Agreement, NUI Energy Brokers will pay a $500,000 fine, of which $200,000 has been paid as of June 30, 2004, and the remaining amount is expected to be paid in the first quarter of fiscal 2005. On June 30, 2004, the company entered into a letter agreement with the NJAG pursuant to which the company has agreed to develop, fund and operate certain community service programs. This concludes the investigation by the NJAG of NUI and its subsidiaries relating to these matters.

In addition, the SEC has commenced an informal inquiry relating to NUI Energy Brokers. NUI is fully cooperating with the SEC investigation.

For a description of the investigations of NUI Energy Brokers, see Part II - Other Information- Item 1. Legal Proceedings- Investigations of NUI Energy Brokers.

New Credit Facilities at NUI and NUI Utilities

On November 24, 2003, NUI and NUI Utilities each entered into a separate credit facility with a syndicate of banks. NUI obtained a $255 million term loan facility and NUI Utilities obtained a $150 million credit facility comprised of a $50 million term loan facility, a $50 million revolving credit facility and a $50 million delayed draw term loan facility, which delayed draw term loan facility may only be used to repay NUI Utilities' 8.35 percent medium term notes. Both the NUI and NUI Utilities credit facilities expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

The delay in delivering audited financial statements for fiscal 2003 and unaudited financial statements for the fiscal quarter ended December 31, 2003, resulted in events of default under NUI's and NUI Utilities' credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements.

Pursuant to these waivers, the deadline for the delivery of NUI's annual report and financial statements for its fiscal quarter ended December 31, 2003 was extended until March 1, 2004. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments on May 10, 2004, to their respective credit agreements. For a description of NUI's and NUI Utilities' credit agreements, including the May 10, 2004 amendments and other debt instruments and defaults thereunder, see Liquidity and Capital Resources.

Gas Supply Contract with Cinergy

NUI Utilities has selected Cinergy to provide a full requirements gas supply contract with least-cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005. The gas supply contract with Cinergy requires NUI Utilities to prepay, in varying amounts, for its gas requirements on a monthly basis over the contract period. If NUI Utilities regains investment grade ratings, the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. Cinergy will pay NUI Utilities a fixed amount for the use of NUI Utilities' gas and deliverability assets for

the twelve months ended March 31, 2005, which is in lieu of NUI Utilities' opportunity to earn margins on off-system sales transactions. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI.

For a description of the gas supply contract with Cinergy, see Liquidity and Capital Resources.

Changes in Boards of Directors of NUI and NUI Utilities and Changes in Management

NUI

On January 28, 2004, the Board of Directors of NUI announced that it had appointed Craig G. Matthews as the President and Chief Executive Officer of NUI and as a member of its Board of Directors and that it had appointed Steven D. Overly as the Vice President, General Counsel and Secretary of NUI. Mr. Matthews replaced A. Mark Abramovic, who retired and who had previously been appointed President of NUI after John Kean, Jr. stepped down in September 2003. Mr. Overly replaced James R. Van Horn, the former Chief Administrative Officer, General Counsel and Secretary of NUI. In addition, on February 24, 2004, Robert P. Kenney was appointed to the Board of Directors of NUI. James J. Forese was appointed Chairman of the Board of Directors of NUI on April 1, 2004, replacing John Kean, who remains as a director of NUI until his retirement later in 2004.

In October 2003, NUI announced the appointment of Dan Scouler as Chief Financial Officer on an interim basis. Mr. Scouler replaced Mr. Abramovic as Chief Financial Officer upon Mr. Abramovic's appointment in September 2003 as President of NUI. Mr. Scouler is the managing member of Scouler Andrews International, LLC and was previously a Senior Managing Director of FTI Consultants, which the company had employed in October 2003 to manage its financial operations and develop new liquidity forecasts. In June 2004, Steven D. Overly was appointed Chief Financial Officer, replacing Mr. Scouler. In addition to holding the title of Chief Financial Officer, Mr. Overly maintains his other positions in the organization.

NUI Utilities

In October 2003, NUI Utilities expanded its existing Board of Directors to include Robert P. Kenney, Barbara Harding, Duncan Ellsworth, Stephen Schachman and Victor A. Fortkiewicz. In February 2004, Craig G. Matthews was appointed to the Board of Directors of NUI Utilities. Mr. Kean is the current Chairman of the Board of Directors of NUI Utilities.

In September 2003, Victor Fortkiewicz was appointed President of NUI Utilities and Mary Patricia Keefe was appointed Vice President, General Counsel and Secretary of NUI Utilities, replacing James R. Van Horn. Nancy J. Sobelson was appointed Vice President, Business and Technical Services in November 2003. Peter E. Maricondo was named Chief Financial Officer of NUI Utilities in December 2003, and replacing him as Controller of NUI Utilities was Donald R. Guarriello. In addition, Elaine A. Kloss was appointed Treasurer of NUI Utilities in January 2004, replacing Charles N. Garber who left the company in November 2003. Mr. Abramovic retired as Vice President of NUI Utilities in January 2004.

The Sale of NUI Telecom

On December 12, 2003, the company completed the sale of NUI Telecom for approximately $2 million.

Forward-Looking Statements

Certain statements contained in this quarterly report are "forward-looking statements" within the meaning of federal securities laws. The company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to NUI's ability to satisfy the conditions in the Merger Agreement;
- statements as to NUI's and NUI Utilities' requirements for additional financing and the ability of NUI and NUI Utilities to extend and refinance certain of their outstanding indebtedness, including the credit facilities entered into in November 2003;

statements as to NUI's and NUI Utilities' expected liquidity needs during fiscal 2004, fiscal 2005 and beyond and statements as to the sources and availability of funds to meet the liquidity needs of NUI and NUI Utilities;

statements as to the ability of NUI and NUI Utilities to satisfy the conditions precedent to obtaining the Bridge Facilities;

statements as to expected financial condition, performance, prospects and earnings of the company; and expected liquidity needs and sources of funds;

statements as to the company's possible settlement with the Florida Public Service Commission (FPSC);

estimates as to the amount to be refunded to customers in Florida as a result of the investigation of NUI Energy Brokers;

- statements as to expected rates, gas volumes, gas sales, revenues, margins, expenses and operating results;
- statements as to industry forecasts in markets in which the company has operations;
- statements as to the amount and sources of funding for future capital expenditures and investments of the company, including the company's estimated share of its funding commitments to its joint venture with Duke Energy;
- statements as to the intended operations of the Saltville facility and the company's other storage and pipeline projects, including the timing of the completion and commencement of operations thereof;

statements as to the timing for seeking regulatory approval for its Florida East-West Pipeline project;

statements as to the company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;

- statements as to the safety and reliability of the company's equipment, facilities and operations;
- statements as to the sales process for the company, including with respect to the time frame for obtaining the necessary consents and approvals and closing the transaction;
- expectations as to the impact of and anticipated settlement of lawsuits filed against the company and the impact of ongoing legal investigations and proceedings, including those described under Part II- Other Information- Item 1. Legal Proceedings;

statements as to financial projections;

statements as to the company's plans to pursue recovery of costs associated with the environmental remediation of manufactured gas plants from ratepayers, former owners and operators and/or insurance carriers;

- statements as to expected level of demand on the company's systems for natural gas during the term of the company's gas procurement contracts;
- estimates as to the expected future cash flows for hedges of forecasted transactions;
- statements as to the ability of NUI and NUI Utilities to pay dividends;
- expectations as to the cost of cash contributions to fund the company's pension plan, including statements as to anticipated rates of return on plan assets;
- statements as to whether the company's internal control weaknesses were addressed by management;
- expectations as to the amount to be paid for professional fees in fiscal 2004;
- expectations as to the expected rate of increase in interest expense as a result of the new credit facilities entered into by NUI and NUI Utilities;
- expectations as to the level of competition that NUI Utilities will face;
- statements as to trends;
- statements as to whether the company's accrued tax liabilities are adequate and as to whether any settlement related to the examination of NUI's Federal income tax returns for 2000 and 2001 by the Internal Revenue Service will have a material impact on NUI's consolidated statement of operations, financial position or cash flow;
- statements as to the amount of the over-recovery balance under City Gas' purchased gas adjustment recovery clause;
- statements as to the company's ability to recover fixed charges under its purchased gas adjustment clauses;
- expectations as to relations between the company and its employees, including relationships with labor unions; and
- expectations as to the company's growth, cash flows and capital expenditures.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the ability of the company to obtain necessary waivers and/or amendments from its lenders;
- the ability of the company to obtain additional financing for the winter heating season;
- the ability of the company to maintain its exemption from regulation under the SEC Public Utility Holding Company Act of 1935;
- the impact and outcome of ongoing investigations and lawsuits;
- the ability of the company to prepay its natural gas obligations;
- the effects of general economic conditions;
- increases in competition in the markets served by the company;
- the effects of deregulation of the energy markets, including industry restructuring and unbundling of services;
- the ability of the company to implement successfully its strategy, including the planned sale of the company;
- the ability of the company to control operating expenses and to achieve efficiencies in its operations;
- the ability of the company to continue to modernize its distribution infrastructure as scheduled and budgeted;
- the willingness of lenders and suppliers to continue to do business with the company;
- the availability and price of insurance;
- the availability of adequate supplies of natural gas;
- the ability of NUI and NUI Utilities to extend their existing credit facilities for an additional 364 days, and the ability of NUI and NUI Utilities to refinance their existing credit facilities upon termination;
- actions taken by government regulators, including decisions on base rate increase requests;
- actions taken by credit rating agencies;
- the ability of the company to recover environmental remediation costs through rates or insurance;
- the ability of the company to attract and retain key executives and employees;
- fluctuations in energy commodity prices;
- weather variations and other natural phenomena;
- acts of war or terrorism; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak as of the date of this quarterly report. The company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this quarterly report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the company's business and results of operations, see Item 1. Business—Risk Factors in our Annual Report filed on Form 10-K for the fiscal year ended September 30, 2003.

Overview

The company is an energy company that primarily operates natural gas utilities and businesses involved in natural gas storage and pipeline activities. Its local utility operations are carried out by NUI Utilities and its operating divisions, as well as through a subsidiary of Virginia Gas Company (VGC) and serve approximately 371,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company's non-regulated businesses are carried out by NUI Capital and its subsidiaries. As of April 1, 2004, the company's only remaining non-regulated subsidiary with substantial operations is Utility Business Services, Inc. (UBS), a billing and customer information systems and services subsidiary. The

company's other non-regulated subsidiaries have either been sold or are being discontinued. These subsidiaries include NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary sold in September 2003; NUI Telecom, Inc. (NUI Telecom), a telecommunications subsidiary sold in December 2003; NUI Energy, Inc. (NUI Energy), an energy retailer which is being wound down; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy trading and portfolio management subsidiary which is being wound down; OAS Group, Inc. (OAS), the company's digital mapping operation which is being wound down; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which is being wound down. In addition, through NUI Saltville Storage, Inc. (NUISS), the company is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC), a joint venture with a subsidiary of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia.

The company's growth strategy has not produced the results the company had anticipated and, as a result, the company experienced significant losses and write-offs in its non-utility businesses during fiscal years 2001, 2002 and 2003.

During fiscal 2003, the company considered several alternate financing plans aimed at restoring the creditworthiness of the company, but none of these plans were deemed viable. The company also sold or announced its intention to sell most of its non-core businesses in an attempt to raise capital and reduce losses. Finally, on September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. For further information on the pending sale of the company to AGL, see Recent Developments.

On November 24, 2003, NUI and NUI Utilities obtained a $405 million 364-day credit facility financing package. In addition, in July 2004, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities intended to provide NUI and NUI Utilities with additional liquidity through the close of the sale of the company. See Liquidity and Capital Resources for a further discussion of the use of these proceeds and the terms of the credit agreements.

As described below in Liquidity and Capital Resources and in Note 2 of the Notes to the Consolidated Financial Statements, NUI and NUI Utilities are likely to have additional liquidity needs beginning in the 2004-2005 winter season, as a result of, among other things, the prepayment requirements of NUI Utilities' gas supply, delivery and storage requirements and the NJBPU Settlement. In addition, NUI and NUI Utilities will be required to refinance or extend their respective existing bank indebtedness in November 2004. Even if NUI and NUI Utilities are able to extend their respective existing bank indebtedness in November 2004, NUI and NUI Utilities would still have to refinance their respective existing bank indebtedness in November 2005. In the event the merger with AGL is not consummated, the company may be unable to meet its maturing debt obligations, and may be forced to seek strategic alternatives, which may include a reorganization and/or bankruptcy filing.

Results of Operations

Consolidated Review of Results of Operations

The following discussion is intended to provide an overview of consolidated results for the three and nine-month periods ended June 30, 2004 and 2003. Following this discussion is a more detailed overview of the results for NUI's three business segments.

NUI recorded a $12.3 million reduction in net loss for the third quarter of fiscal 2004, as compared to the third quarter of last year. The company's net loss for the third quarter ended June 30, 2004, was $12.8 million, or $0.80 per share, compared to a net loss of $25.1 million, or $1.57 per share, for the third quarter last year.

The net loss from continuing operations was $11.6 million, or $0.72 per share, compared to a net loss of $3.7 million, $0.23 per share, in the third quarter of fiscal 2003. The $7.9 million increased loss from continuing operations was primarily the result of (1) reduced operating margins of approximately $2.2 million, primarily due to exiting the retail energy marketing and wholesale energy trading businesses; (2) increased operating expenses of approximately $4.0 million for the reasons described below; and (3) increased net interest expense of approximately $5.3 million, which resulted from both higher weighted

average indebtedness and increased interest rates during the third quarter of fiscal 2004. The $4.0 million increase in operating expenses was due primarily to higher operation and maintenance expense of $1.3 million; higher restructuring costs of $0.6 million; higher depreciation and amortization of $1.3 million; and higher general taxes of $0.8 million. The decrease in income from continuing operations was partially offset by higher other income of $1.0 million and a reduction in income taxes of $2.4 million as compared to the same period last year.

Net loss from discontinued operations decreased by approximately $20.2 million to $1.2 million, or $0.08 per share, in the third quarter of fiscal 2004, compared to a net loss of $21.4 million, or $1.34 per share, in the third quarter of fiscal 2003. The fiscal 2003 quarterly results included the $20.3 million impairment charge related to the company's decision to seek a buyer for its NUI Telecom unit in June 2003. The pre-tax income from discontinued operations of $0.5 million for the three months ended June 30, 2004 resulted from revised estimated reserves for legal claims filed against TIC. Income tax expense for the same period reflects the reversal of deferred tax benefits for TIC, which are not expected to be realized.

For the nine months ended June 30, 2004, NUI recorded a net loss of $17.1 million, or $1.07 per share, compared to a net loss of $5.8 million, or $0.36 per share for the nine months ended June 30, 2003. The fiscal 2003 third quarter loss includes a $5.9 million after-tax charge for the effect of a change in accounting. The net loss from continuing operations was $14.8 million, or $0.93 per share, for the nine months ended June 30, 2004, compared to net income of $22.1 million, $1.38 per share, in the same period of fiscal 2003.

The $36.9 million reduction in income from continuing operations was primarily the result of (1) reduced operating margins of approximately $13.6 million, primarily due to the winding down of the company's wholesale energy trading subsidiary; (2) increased operation and maintenance expense of $19.2 million for the reasons described below; (3) restructuring charges of approximately $2.7 million related to employee severance costs; (4) a prepayment penalty of approximately $9.9 million for the early extinguishment of debt; and (5) increased net interest charges of approximately $13.8 million, which resulted from both higher weighted average indebtedness and increased interest rates during the nine month period of fiscal 2004. A reduction in income tax expense of $22.0 million partially offset the increase in the year-to-date loss as compared to last year.

The $19.2 million increase in operation and maintenance expense in the nine-month period was due primarily to (1) increased legal and professional fees of $13.7 million related to the Focused Audit conducted by the New Jersey Board of Public Utilities (which has concluded), the cost of an internal investigation into the company's wholesale energy trading subsidiary, and costs associated with finding a buyer for the company and (2) bank fees of approximately $11.2 million. These increases were partially offset by reduced bad debt expense of approximately $6.0 million, mainly as a result of winding down the company's retail energy marketing business during fiscal 2003.

Net loss from discontinued operations decreased by approximately $19.7 million during the current nine-month period to $2.3 million, or $0.14 per share, as compared to the $22.0 million net loss, or $1.38 per share, for same period of fiscal 2003. As discussed above, the NUI Telecom impairment charge in June 2003 was the major factor for the change in comparative loss from discontinued operations, as well as the costs of winding down the operations of TIC.

Business Segment Review of Results of Operations

The following is a discussion of the company's business segment results of operations and is presented based on Income from Continuing Operations before Taxes. Included in operations and maintenance expenses for each of NUI's business segments are allocations of corporate costs related to shared service functions such as human resources, legal, accounting and information technology, which are allocated based on the company's cost allocation policy. In addition, the company has corporate operations that incurred operating expenses of $8.9 million and $0.4 million for the three-month periods ended June 30, 2004 and 2003, respectively, and $29.0 million and $2.5 million for the nine-month periods ended June 30, 2004 and 2003, respectively. The increases during the fiscal 2004 periods are primarily due to increased corporate expenses for outside professional services (approximately $2.2 million and $12.4 million, for the three and nine-month periods, respectively), bank fees (approximately $5.3 million and $12.2 million, for the

three and nine-month periods, respectively), and restructuring and other severance charges (approximately $2.5 million for the nine-month period). These costs are not allocated to our business segment results.

Distribution Services Segment

The company's Distribution Services segment distributes natural gas in three states through the company's regulated natural gas utility operations. These operations are Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). This segment also includes the company's OAS subsidiary, its appliance leasing, repair, maintenance and service businesses, as well as off-system sales. The company sold its Valley Cities Gas and Waverly Gas natural gas utilities in November 2002 (see Note 4 of the Notes to the Consolidated Financial Statements) and reflects the results for these operations in Discontinued Operations in the Consolidated Financial Statements for the nine-month period ended June 30, 2003. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended June 30, 2004**	**Three Months Ended June 30, 2003**	**Nine Months Ended June 30, 2004**	**Nine Months Ended June 30, 2003**
Operating Revenues	$94,933	$127,480	$496,500	$525,343
Purchased Gas and Fuel	50,998	85,624	316,031	352,255
Cost of sales and services	2,765	2,382	8,642	7,775
Energy Taxes	2,558	2,426	11,972	11,209
Operating Margins	38,612	37,048	159,855	154,104
Operating Expenses:				
Operations & Maintenance Expense	25,202	26,766	80,991	77,867
Depreciation & Amortization	8,262	7,155	24,139	22,881
Taxes Other than Income	1,521	378	5,484	3,854
Total Operating Expenses	34,985	34,299	110,614	104,602
Pre-Tax Operating Income	3,627	2,749	49,241	49,502
Other Income & (Expense)	984	82	1,822	399
Net Interest Charges	6,099	3,778	16,310	9,968
Pre-Tax Income from Continuing Operations	$(1,488)	$ (947)	$34,753	$39,933

Operating Revenues. Operating revenues include amounts billed for the cost of purchased gas pursuant to purchased gas adjustment clauses (BGSS in New Jersey and PGA in Florida and Maryland) utilized by the company's utility operations. Such clauses enable the company to pass through to its utility customers, via periodic adjustments to customers' bills, changes in costs incurred by the company for purchased gas without affecting operating margins. These purchased gas adjustments are authorized by regulatory authorities in the states in which the company operates. Since the company's utility operations do not earn a profit on the sale of the gas commodity, the company's level of regulated operating revenues is not necessarily indicative of financial performance. Similarly, the Societal Benefits Charge (SBC) is a clause which enables Elizabethtown Gas to pass through to its customers the costs of certain NJBPU-mandated programs and environmental remediation programs.

Distribution Services operating revenues decreased by $32.6 million, or 26 percent, to $94.9 million during the three months ended June 30, 2004, as compared to $127.5 million in the same period in fiscal 2003. The decrease in operating revenues was primarily attributable to reduced off-system sales (approximately $27.6 million) and warmer New Jersey weather (approximately $9.0 million). These decreases were partially offset by an increase in Elizabethtown Gas' SBC revenues (approximately $2.1 million) and a base rate increase in Florida (approximately $1.9 million). (See Regulatory Matters for a further discussion of rate increases.)

Distribution Services operating revenues decreased by $28.8 million, or 5 percent, to $496.5 million during the nine months ended June 30, 2004, as compared to $525.3 million in the same period in fiscal 2003. The decrease in operating revenues was primarily attributable to reduced off-system sales (approximately $67.5 million) and warmer New Jersey weather (approximately $36.1 million). These decreases were partially offset by an increase in gas cost recovery and SBC charges to customers in New Jersey (approximately

$51.9 million). Base rate increases and growth in New Jersey (approximately $16.1 million) and Florida (approximately $5.0 million) also offset the decrease in operating revenues.

Operating Margins. Operating margins increased by $1.6 million, or 4 percent, to $38.6 million for the three months ended June 30, 2004, as compared to $37.0 million in the same period in fiscal 2003. Of the factors previously discussed in operating revenues, the operating margin impact of the City Gas base rate increase contributed approximately $1.9 million. The company has a weather normalization clause in its New Jersey tariff, which is designed to help stabilize the company's results by increasing amounts charged to customers when weather has been warmer than normal and by decreasing amounts charged when weather has been colder than normal. As a result of the weather normalization clause, operating margins were approximately $0.8 million higher in the fiscal 2004 quarter and $1.2 million lower in the fiscal 2003 quarter than they otherwise would have been without the clause. Operating margins for the appliance services businesses decreased approximately $0.5 million for the current three-month period as a result of increased costs of providing services.

Operating margins increased by $5.8 million, or 4 percent, to $159.9 million for the nine months ended June 30, 2004, as compared to $154.1 million in the same period in fiscal 2003. Of the factors previously discussed in operating revenues, the primary drivers were the base rate increases (approximately $6.6 million) and customer growth (approximately $2.0 million). These increases were partially offset by reduced off-system gas sales (approximately $0.9 million) and warmer New Jersey weather (approximately $0.8 million). As a result of the weather normalization clause, operating margins were approximately $1.3 million and $6.1 million lower in the fiscal 2004 and 2003 periods, respectively, than they otherwise would have been without the clause. Operating margins for the appliance services businesses decreased approximately $1.2 million for the current nine-month period as a result of increased costs of providing services.

The company does not anticipate any significant change in the economic outlook for natural gas sales in this segment for the remainder of fiscal 2004.

Operating Expenses. Operations and maintenance expense decreased by $1.6 million, or 6 percent, to $25.2 million for the three months ended June 30, 2004, as compared with $26.8 million in the same period in fiscal 2003, primarily due to reductions in bad debt expense (approximately $1.6 million).

Operations and maintenance expense increased by $3.1 million, or 4 percent, to $81.0 million for the nine months ended June 30, 2004, as compared with $77.9 million in the same period in fiscal 2003. This was mainly due to increases in legal and professional fees (approximately $2.1 million) and insurance costs for general liability (approximately $2.7 million), partially offset by a reduction in bad debt expense (approximately $1.7 million).

The $1.1 million, or 15%, increase in depreciation and amortization expense to $8.3 million for the quarter ended June 30, 2004, as compared to $7.2 million for the same period in 2003, reflects an adjustment to depreciation expense in the third quarter of 2003 due to a change in estimates.

Taxes, other than income taxes, increased to $1.5 million for the three months ended June 30, 2004, as compared to $0.4 million in the same period in fiscal 2003, as a result of a revision to a regulatory assessment in the third quarter of 2003.

Other Income and Expense. Other income increased by approximately $0.9 million and approximately $1.4 million for the three- and nine-month periods ended June 30, 2004, respectively, as compared to the same periods in fiscal 2003. The increase in both periods was primarily due to additional interest income earned on cash held as overnight investments during the current fiscal period.

Net Interest Charges. Net interest charges increased by approximately $2.3 million, or 61 percent, to $6.1 million for the three months ended June 30, 2004 from $3.8 million in the same period in fiscal 2003. Net interest charges increased by approximately $6.3 million, or 64 percent, to $16.3 million for the nine months ended June 30, 2004 from $10.0 million in the same period in fiscal 2003. The increase during both periods is primarily a result of higher weighted average indebtedness and increased interest rates of NUI Utilities during the current three-month period (see additional discussion under Liquidity and Capital Resources- Sources of Liquidity- Short-term Debt).

The company expects the higher amount of weighted average indebtedness and interest rates to continue for the remainder of fiscal 2004. See Liquidity and Capital Resources for further discussion.

Energy Asset Management Segment

The Energy Asset Management segment includes the operations of NUI Energy Brokers, and the distribution, storage and pipeline operations of VGC. This segment also includes the company's 50 percent share of equity income and losses of SSLLC. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Three Months Ended June 30, 2004**	**Three Months Ended June 30, 2003**	**Nine Months Ended June 30, 2004**	**Nine Months Ended June 30, 2003**
Operating Revenues	$2,519	$3,234	$7,756	$24,119
Purchased Gas and Fuel	299	363	742	681
Operating Margins	2,220	2,871	7,014	23,438
Operating Expenses:				
Operations & Maintenance Expense	2,289	2,998	9,366	7,994
Depreciation & Amortization	511	268	1,538	1,429
Taxes Other than Income	163	217	662	610
Total Operating Expenses	2,963	3,483	11,566	10,033
Pre-Tax Operating Income (Loss)	(743)	(612)	(4,552)	13,405
Other Income & (Expense)	432	121	1,462	356
Net Interest Charges	943	287	2,926	1,346
Pre-Tax Income (Loss) from Continuing Operations	$(1,254)	$(778)	$(6,016)	$12,415

Operating Revenues. Energy Asset Management operating revenues decreased approximately $0.7 million, or 22 percent, to $2.5 million for the three months ended June 30, 2004, as compared to $3.2 million in the same period in fiscal 2003. The decrease was primarily due to reduced operating revenues of approximately $0.5 million by NUI Energy Brokers as the company began to wind down its trading operations following the investigation of the certain transactions during earlier years. The operating revenues of VGC were down approximately $0.2 million primarily as a result of reduced storage revenues due to fewer contracts during the current fiscal period.

Operating revenues decreased approximately $16.4 million, or 68 percent, to $7.7 million for the nine months ended June 30, 2004, as compared to $24.1 million in the same period in fiscal 2003. The decrease was due to approximately $15.8 million of reduced operating margins recorded by NUI Energy Brokers as a result of the company winding down its trading operations during the current fiscal period. The operating revenues of VGC decreased approximately $0.6 million as a result of reduced storage revenues due to fewer contracts during the nine-month period ended June 30, 2004, as compared to the same period in fiscal 2003.

The company's decision to discontinue the trading operations of NUI Energy Brokers will result in a substantial reduction in operating revenues and operating margins for the Energy Asset Management segment during fiscal 2004.

Operating Margins. Operating margins decreased approximately $0.7 million, or 23 percent, to $2.2 million for the three months ended June 30, 2004, as compared to $2.9 million in the same period in fiscal 2003. Of this decrease, approximately $0.6 million was attributable to NUI Energy Brokers and approximately $0.1 million was attributable to VGC, and was primarily due to the effect of the factors discussed above regarding operating revenues.

Operating margins decreased approximately $16.4 million, or 70 percent, to $7.0 million for the nine months ended June 30, 2004, as compared to $23.4 million in the same period in fiscal 2003. Of this decrease, approximately $15.8 million was attributable to NUI Energy Brokers and approximately $0.6

million was attributable to VGC, and was primarily due to the effect of the factors discussed above regarding operating revenues.

Operating Expenses. Operations and maintenance expense decreased by approximately $0.7 million during the three months ended June 30, 2004, primarily due to a reduction of bad debt expense.

Operations and maintenance expense increased by approximately $1.4 million during the nine months ended June 30, 2004, as compared to the same period in fiscal 2003 due to increased labor and benefit costs, including severance paid to former employees of NUI Energy Brokers (approximately $0.8 million), costs to expense abandoned assets of NUI Energy Brokers (approximately $0.8 million), and a fine pursuant to NUI Energy Brokers' plea agreement with the New Jersey Attorney General's Office ($0.5 million; see Note 12 of the Notes to the Consolidated Financial Statements). These increases were partially offset by reduced bad debt expense (approximately $0.7 million).

As previously noted, the company anticipates increased costs during fiscal 2004 related to winding down the trading operations of NUI Energy Brokers.

Other Income and Expense. Other income increased by approximately $0.3 million for the three months ended June 30, 2004, as compared to the same period in fiscal 2003. The increase in the current three-month period was due to approximately $0.4 million of equity income of SSLLC, which began operations during August 2003.

Other income increased by approximately $1.1 million for the nine months ended June 30, 2004, as compared to the same period in fiscal 2003. The increase in the current nine-month period was due to approximately $1.4 million of equity income of SSLLC, partially offset by a decrease in interest income during the current fiscal period (approximately $0.3 million).

Net Interest Charges. Net interest charges increased by approximately $0.6 million, to $0.9 million for the three months ended June 30, 2004 from $0.3 million in the same period in fiscal 2003. Net interest charges increased by approximately $1.6 million, to $2.9 million for the nine months ended June 30, 2004 from $1.3 million in the same period in fiscal 2003. The increase during both periods is primarily due to increased allocated interest costs of NUI, which resulted in higher weighted average indebtedness and increased interest rates during the current three-month period (see additional discussion under Liquidity and Capital Resources- Sources of Liquidity- Short-term Debt).

Retail and Business Services Segment

The Retail and Business Services segment includes the operations of the company's UBS and NUI Energy subsidiaries. In order to exit the retail and business services segment, the company began winding down the operations of NUI Energy during May 2003 and TIC during June 2003, and sold NUI Telecom on December 12, 2003 (see Note 4 of the Notes to the Consolidated Financial Statements). As a result, NUI Telecom, as well as the operations of TIC previously reported in this segment, have been reclassified to discontinued operations. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Nine Months Ended June 30, 2004	Nine Months Ended June 30, 2003
Operating Revenues	$1,491	$4,579	$4,546	$7,377
Cost of sales and services	609	595	1,903	1,843
Operating Margins	882	3,984	2,643	5,534
Operating Expenses:				
Operations & Maintenance Expense	582	5,119	1,516	11,100
Depreciation & Amortization	332	400	993	1,147
Taxes Other than Income	54	72	182	258
Total Operating Expenses	968	5,591	2,691	12,505
Pre-Tax Operating Income (Loss)	(86)	(1,607)	(48)	(6,971)
Other Income & (Expense)	(5)	15	(5)	49
Net Interest Charges	31	271	118	819
Pre-Tax Income (Loss) from Continuing Operations	$(122)	$(1,863)	$(171)	$(7,741)

Operating Revenues. Retail and Business Services operating revenues decreased by approximately $3.1 million, or 67 percent, to $1.5 million for the three months ended June 30, 2004 from $4.6 million in the same period in fiscal 2003. This decrease was primarily due to the company's exit from its retail energy business. Operating revenues for UBS during the three-months ended June 30, 2004, were consistent with the prior fiscal year.

Operating revenues decreased by approximately $2.8 million, or 38 percent, to $4.5 million for the nine months ended June 30, 2004 from $7.3 million in the same period in fiscal 2003. This decrease was primarily due to the company's exit from its retail energy business. Operating revenues for UBS during the nine-months ended June 30, 2004, were consistent with the prior fiscal year.

The company has wound down most of the operations of NUI Energy and does not expect material activity during the remainder of fiscal 2004, which will result in reduced operating revenues as compared to fiscal 2003.

Operating Margins. Retail and Business Services operating margins decreased by approximately $3.1 million during the three months ended June 30, 2004, to $0.9 million, as compared to $4.0 million in the same period in fiscal 2003. This decrease was primarily attributable to the effects of the factors previously discussed in operating revenues.

Operating margins decreased by approximately $2.9 million during the nine months ended June 30, 2004, to $2.6 million, as compared to $5.5 million in the same period in fiscal 2003, which was primarily attributable to the effects of the factors previously discussed in operating revenues.

Operating Expenses. Operations and maintenance expense, depreciation and amortization, and taxes other than income for the Retail and Business Services segment decreased in total by $4.6 million, or 83 percent, to $1.0 million during the three months ended June 30, 2004, as compared to $5.6 million in the same period in fiscal 2003. This was mainly due to reduced expenses of NUI Energy during the current fiscal year period, which was a result of the company's efforts to wind down its retail energy business during the previous fiscal year (approximately $4.9 million), partially offset by increased operating expenses at UBS.

Operations and maintenance expense, depreciation and amortization, and taxes other than income decreased in total by $9.8 million, or 78 percent, to $2.7 million during the nine months ended June 30, 2004, as compared to $12.5 million in the same period in fiscal 2003. This was mainly due to reduced expenses of NUI Energy during the current fiscal year period, which was a result of the company's efforts to wind down its retail energy business during the previous fiscal year (approximately $10.3 million), partially offset by increased operating expenses at UBS.

The company's exiting of the retail energy business is expected to reduce the operating expenses of this segment significantly during the remainder of fiscal 2004.

Net Interest Charges. Net interest charges decreased by approximately $0.2 million, to $0.1 million for the three months ended June 30, 2004 from $0.3 million in the same period in fiscal 2003. Net interest charges decreased by approximately $0.7 million, to $0.1 million for the nine months ended June 30, 2004 from $0.8 million in the same period in fiscal 2003. The decrease during both periods is primarily due to decreased allocated interest costs of NUI as a result of the company's decision to wind down the operations of its retail energy business during the prior fiscal year.

Regulatory Matters

On November 22, 2002, Elizabethtown Gas received approval from the NJBPU to increase its base rates by an annual amount of $14.2 million, or approximately 5 percent. The increase was effective immediately and covers a portion of the costs of plant investments and higher operating expenses incurred since the company's last base rate increase twelve years ago. The new rates are based on a return on equity of 10.0 percent and an overall rate of return on rate base of 7.95 percent. The rate order also revised the normal weather pattern upon which base rates and Elizabethtown Gas' Weather Normalization Clause are set from a 30-year to a 20-year weather average to better reflect current weather trends. In addition, the company was allowed to increase service charges to various rate classes of customers to better reflect the cost of providing service to these customers. In its December 11, 2003 Order, the NJBPU stated that it was re-examining this settlement in light of the events surrounding NUI's use of proceeds received in its 2002 equity offering. The company's settlement of its focused audit with the NJBPU on April 14, 2004 resolved all issues related to the 2002 rate case.

On September 16, 2003, Elizabethtown Gas received approval from the NJBPU to increase its BGSS rates on a provisional basis by $28.8 million and on October 10, 2003, Elizabethtown Gas was granted approval to increase its SBC by approximately $8.0 million. The BGSS charge covers the cost of natural gas supplies that Elizabethtown Gas purchases for its customers, while the SBC allows Elizabethtown Gas to recover the cost of mandated energy efficiency, low-income assistance, energy education and environmental remediation programs. Both of these charges represent the pass-through of costs on which the company does not earn a profit. In its December 11, 2003 Order, the NJBPU stated that it would reconsider the provisional rates approved by the NJBPU pursuant to Elizabethtown Gas' petition for an increase in BGSS rates. The company's settlement of its focused audit with the NJBPU on April 14, 2004 resolved all issues related to this BGSS proceeding.

For a discussion of the Orders issued by the NJBPU relating to the focused audit and related matters, see Settlement of Issues Relating to NJBPU Focused Audit and Regulatory Orders Issued by the NJBPU, above.

In response to the Electric Discount and Energy Competition Act, which was signed into law in February 1999, the NJBPU approved a stipulation in March 2001 which enabled all retail customers in New Jersey to choose a natural gas supplier, provided an incentive for these customers to choose an alternate natural gas supplier and required New Jersey gas utilities to continue offering basic gas supply service through December 2002 for those customers not choosing an alternate supplier. On January 17, 2002, the NJBPU issued an Order that continued the obligation of all New Jersey gas utilities to provide basic gas supply service until the NJBPU has had an opportunity to fully investigate major policy issues relating to pricing structure and gas supply reliability. No timetable has been established for completion of such a review. As of June 30, 2004, only a small number of residential customers in Elizabethtown Gas' service territories were receiving gas from an alternate gas supplier.

On January 20, 2004, City Gas received approval from the FPSC to increase its base rates by $6.7 million, effective February 23, 2004. The increase represents a portion of the company's request for a total rate increase of $10.5 million to cover the costs of investments in its customer service assets, system maintenance and growth, increases in operating expenses, and the impact of the continuing sluggish economy. This new rate level provides for an allowed return on equity of 11.25 percent and an overall allowed rate of return of 7.36 percent.

On June 1, 2004, Elizabethtown Gas filed a petition with the NJBPU requesting an increase in its BGSS rates to recover approximately $18.8 million of higher gas costs. The increase equates to approximately 4.2 percent of an average residential customer's bill. The company proposed that this rate increase become effective October 1, 2004. The company also renewed its proposal that the GCUA, approved by the

NJBPU in its March 30, 2001 Order, be authorized to remain in effect beyond November 30, 2004 to ensure full recovery of the company's GCUA balance.

Liquidity and Capital Resources

Overview

As a result of the various factors discussed in this quarterly report, NUI and NUI Utilities have experienced significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayments for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under purchased gas adjustment clauses; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

The company first seeks to meet its capital requirements through cash provided by operating activities and external financings. External financing, depending on the particular company, as discussed below, may consist of public and private capital market debt and equity transactions, bank revolving credit and term loans, and/or project financings. The availability and cost of external capital is affected by many factors, including, but not limited to, the risks associated with the sale of the company, the performance of NUI and its subsidiaries, their respective credit ratings and conditions in the company's industry in general. In addition, the NJBPU's holding company order requiring NUI to maintain a certain degree of separation between its utility and non-utility subsidiaries could impact affiliate ratings on consolidated and unconsolidated credit quality. Compliance with applicable financial covenants will depend upon future financial position and levels of earnings and cash flows, as to which no assurances can be given.

In addition, at times NUI utilizes intercompany dividends from NUI Utilities and amounts realized from the settlement of intercompany balances to satisfy various subsidiary needs and to manage short-term cash needs. Historically, NUI Utilities has paid dividends of up to 75 percent of its annual net income to NUI. The Standby Bond Purchase Agreement (SBPA) entered into in connection with the Variable Bonds, which, as described below, are a series of gas facility revenue bonds issued by the New Jersey Economic Development Authority (NJEDA), restricts the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. As of June 30, 2004, NUI Utilities was permitted to pay up to $39.3 million in dividends pursuant to the SBPA. However, the amendment to NUI Utilities' short-term credit facility dated May 10, 2004, limits the dividends that NUI Utilities may pay to NUI Corporation to $35 million in the aggregate while NUI Utilities' credit facility is outstanding. There are no contractual restrictions on the settlement of intercompany balances in NUI's or NUI Utilities' financing agreements.

On a consolidated basis, the company's net cash used in operating activities was $9.6 million for the nine-month period ended June 30, 2004, and net cash provided by operating activities was $45.1 million for the nine-month period ended June 30, 2003. The decrease of $54.7 million in operating cash flows for the current period was due in part to the timing of payments to the company's gas suppliers and amounts paid in advance for interest costs on NUI's and NUI Utilities' existing credit facilities and as collateral for the company's gas procurement needs. The decrease in operating cash flows was partially offset by reductions in fuel inventories and accounts receivable for the company's non-regulated businesses during the nine-month period ended June 30, 2004, as compared to the same period in fiscal 2003.

In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited

financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended as of May 10, 2004 to further extend these deadlines. See Sources of Liquidity – Short Term Debt below for a further description of the November 2003 credit facilities.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. In the event the company is successful in securing an aggregate of $95 million in senior credit facilities described below, both NUI and NUI Utilities believe that they will have sufficient liquidity to meet their financial obligations through the fiscal year ending September 30, 2005. These additional credit facilities require the approval of the lenders and the NJBPU. However, in the event the company is not successful in securing the additional credit facilities, NUI and NUI Utilities believe that, subsequent to September 30, 2004, they may not have sufficient liquidity to meet their continuing obligations, based upon the following:

- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20.4 million.

- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy, NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations.

- On July 15, 2004, NUI announced that it had entered into the Merger Agreement with AGL which provides for AGL to acquire all of the outstanding shares of common stock of NUI. If we are unable to sell the company, or if a sale is not completed in a timely manner, NUI's and NUI Utilities' financial condition, results of operations and liquidity could be materially adversely affected.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004. The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining an aggregate of $95 million in additional financing.

On July 14, 2004, NUI and NUI Utilities received a commitment from a lender for an aggregate of $95 million in senior credit facilities (the Bridge Facilities). This commitment is comprised of a $75 million senior secured credit facility to be made available to NUI Utilities and secured by NUI Utilities' (i) accounts receivable, (ii) contracts and (iii) cash proceeds of the foregoing, and a $20 million senior unsecured credit facility to be made available to NUI. The NUI Utilities facility would mature on May 15, 2005, and the NUI facility would mature on November 21, 2005. The Bridge Facilities are intended to provide NUI and NUI Utilities with additional liquidity through fiscal year 2005 and can be utilized to purchase gas for the upcoming winter heating season and for working capital and general corporate purposes. The loan commitment is subject to various conditions, including the extension of the existing credit facilities of NUI and NUI Utilities to November 21, 2005, the amendment of certain terms of such facilities to allow the new financing and the draw down by NUI Utilities of its $50 million delayed draw

term loan to repay its $50 million medium term notes. Approval from the NJBPU and from the lenders under NUI's and NUI Utilities' existing credit facilities will be required to consummate the proposed financing. If the proposed new financing and the related financing matters described above are not completed by September 30, 2004, AGL has the right to terminate the Merger Agreement.

If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its debt financing. In the event the Bridge Facilities are not obtained and/or the merger with AGL is not consummated, the company may be unable to meet its maturing debt obligations, and may be forced to seek strategic alternatives, which may include a reorganization and/or bankruptcy filing. For a further discussion about risks relating to NUI Utilities' liquidity, see Item 1. Business—Risk Factors in the company's annual report on Form 10-K for the fiscal year ended September 30, 2003.

Because the company's business is highly seasonal, short-term debt is used to meet seasonal working capital requirements. NUI also borrows under its bank lines of credit to finance portions of its capital expenditures. As of June 30, 2004, NUI had drawn $255.0 million and NUI Utilities had drawn $100.0 million under their respective short-term credit facilities. On that date, NUI and NUI Utilities had overnight cash investments of approximately $42.2 million and $66.6 million, respectively.

NUI's and NUI Utilities' debt agreements contain a number of covenants that significantly limit their respective ability to, among other things, borrow additional money, pay dividends, transfer or sell assets, create liens and enter into a merger or consolidation. In particular, under the amendment to NUI's credit facility as of May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. In addition, the terms of the Merger Agreement prevent NUI from paying any cash dividends, regardless of financial results. Therefore, NUI is unable to pay any dividends at this time or in the foreseeable future. The covenants also require both NUI and NUI Utilities to meet certain additional financial tests. If either NUI or NUI Utilities were unable to meet its debt service obligations or to comply with these covenants, there would be a default under one or more of the agreements. Such a default, if not waived by our lenders, could result in acceleration of the repayment of either NUI's or NUI Utilities' debt and have a material adverse effect on each company's financial conditions, results of operations and liquidity. The anticipated $95 million of Bridge Facilities which the company received a commitment from a lender would further amend the terms of NUI's and NUI Utilities' credit facilities.

The company completed the sale of its NUI Telecom subsidiary on December 12, 2003, for approximately $2 million.

NUI repaid an approximately $85 million outstanding intercompany balance owed to NUI Utilities on November 24, 2003, with the proceeds of a new credit facility entered into on that date (see Short-term Debt discussion which follows).

Credit Rating Actions

During fiscal years 2002, 2003 and 2004, Moody's Investors' Service (Moody's) downgraded NUI's credit rating from Baa1 to Caa1 and downgraded NUI Utilities' credit rating from A3 to B1. The credit rating downgrades that have occurred in fiscal 2004 are described below.

On October 6, 2003, Moody's downgraded NUI's debt rating from B1 to B3. Moody's also downgraded the debt rating of NUI Utilities from Ba1 to Ba3. Moody's cited the company's announcement that the company's Board of Directors had placed the entire company up for sale. In addition, Moody's indicated that their action reflects the difficult business conditions affecting the company as well as the limited progress in selling non-core assets, citing that this limited the company's financial flexibility. Moody's also cited the continuing financial relationship between NUI and NUI Utilities, liquidity concerns, and the costs associated with finding a suitable buyer for the company. As a result of these downgrades, NUI Utilities' cost of borrowing under its short-term facilities increased an additional 62.5 basis points or 0.625 percent and the cost of borrowing for NUI was unchanged. In conjunction with the downgrades on October 6, 2003, Moody's indicated they would monitor the company's liquidity position as well as its progress in selling non-core assets.

On April 6, 2004, Moody's further downgraded NUI's debt rating from B3 to Caa1. Moody's also downgraded the debt rating of NUI Utilities from Ba3 to B1. Moody's cited (1) the company's recent announcements that it expects lower earnings in the first quarter of fiscal 2004, resulting from severance costs and expenses related to the debt refinancings concluded during November 2003 at substantially higher rates of interest and fees; (2) the continued delay in producing audited financial statements for the fiscal year ended September 30, 2003 and its unaudited first quarter Form 10-Q, because of continuing investigations by the company's Audit Committee of certain questionable transactions of NUI Energy Brokers, the company's wholesale energy trading subsidiary, which required additional waivers from lenders of both NUI and NUI Utilities; (3) the expectation of having to incur a meaningful settlement charge as a result of the focused audit conducted by the NJBPU, which would reduce the company's income and equity for fiscal 2003; (4) the then ongoing investigation of the NJAG into NUI Energy Brokers; and (5) the delays in realizing the sale of the company, which is the source of repayment of NUI's $255 million rated debt and a portion of the debt of NUI Utilities. Moody's also cited the financial relationship between NUI and NUI Utilities and that any penalties that may be assessed to the company by the NJBPU may have to be funded from the earnings and cash flows of NUI Utilities. In addition, NUI and NUI Utilities have overlapping lenders that require debt to be serviced by each entity. Moody's further cited that to the extent NUI does not have the means to discharge its own debt obligations, these lenders may seek dividends from NUI Utilities to help service NUI's debt. The lower rating Moody's assigned to NUI reflects the structural subordination of its debt relative to that of NUI Utilities.

In conjunction with the downgrades on April 6, 2004, Moody's indicated that its outlook for both NUI and NUI Utilities was negative. On July 15, 2004, following the announcement of the Merger Agreement with AGL, Moody's changed its outlook for both NUI and NUI Utilities from negative to developing. The developing outlook reflects Moody's belief that while the news of the sale is a positive development, the uncertainties surrounding the timing and the conditions that may be imposed on the sale by regulators, as well as material adverse events that could lead AGL to abandon its purchase of NUI, require continued monitoring of the credit rating. In the meantime, Moody's expects the company to continue to incur higher than historical operations and maintenance expenses as it employs an array of outside advisors and consultants to help manage its day to day operations; incurs additional legal, accounting and financial advisory fees as it seeks to respond to regulatory investigations; deals with its shareholder lawsuits; attempts to execute settlements with its regulators; and seeks financial and legal advice on the implementation of the Merger Agreement.

On November 21, 2003, Standard & Poor's Rating Services (S&P) lowered its corporate credit rating for NUI Utilities from BBB- to BB and its rating remains on CreditWatch with developing implications. S&P's rating action cited the business and financial challenges the company faces, including an investigation of energy trading transactions by the company's NUI Energy Brokers subsidiary, and the potential for greater regulatory scrutiny in New Jersey, which could impact the sale of NUI. S&P did note the company had addressed its anticipated liquidity needs on an interim basis prior to the sale of the company with separate credit agreements for NUI and NUI Utilities aggregating $405 million, each of which can be extended for another 364 days at the option of the respective borrower (under certain conditions); see discussion of Short-Term Debt for further details. S&P also noted that any negative outcome of the investigation of the trading transactions or possible regulatory action in New Jersey could inhibit the company's ability for a successful sale.

There can be no assurance that additional downgrades by Moody's and/or S&P can be avoided.

Sources of Liquidity

Short-Term Debt. On November 24, 2003, NUI and NUI Utilities each entered into new separate term and revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6

percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of June 30, 2004, NUI had fully drawn all amounts available under its credit agreement. As of August 9, 2004, NUI had overnight cash investments of $42.7 million.

NUI's facility may be extended for one 364-day term if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, has been extended to a date no earlier than June 30, 2006 or the notes have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in the amount of approximately $20.4 million, (iv) no default exists under such facility at the time of such extension and (v) all applicable regulatory approvals required for such extension have been obtained.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 4 percent. As of June 30, 2004, NUI Utilities had fully drawn all amounts available under the $50 million revolver and the $50 million term loan facility. As of August 9, 2004, NUI Utilities had overnight cash investments of $57.9 million.

NUI Utilities' facility may be extended for one 364-day term if (i) all applicable regulatory approvals required for such extension have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, has been extended to a date no earlier than June 30, 2006 or the notes have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement amended as of May 10, 2004, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities. The terms of NUI's and NUI Utilities' credit facilities would have to be further amended in connection with the anticipated $95 million of Bridge Facilities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004, to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of certain gas pipeline assets (see Note 12 of the Notes to the Consolidated Financial Statements for further information on the asset purchase),

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. In addition, the terms of the Merger Agreement prevent NUI from paying any cash dividends, regardless of financial results. Therefore, NUI is unable to pay any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI also is prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

Under the amendment to NUI Utilities' credit facility dated as of May 10, 2004, NUI Utilities is prohibited from paying dividends to NUI Corporation exceeding $35 million in the aggregate while the credit facility is outstanding.

At June 30, 2004, the outstanding borrowings under NUI's and NUI Utilities' credit facilities were $255.0 million and $100.0 million, respectively, at weighted average interest rates of 8.1 percent and 7.1 percent. As of that date, NUI and NUI Utilities had no unused borrowing capacity under their credit facilities (except for NUI Utilities' delayed draw term loan). Also, as of June 30, 2004, NUI and NUI Utilities had approximately $42.2 million and $66.6 million, respectively, of cash held as short-term investments.

The weighted average daily amounts of borrowings outstanding under NUI's credit facility and the weighted average interest rates on those amounts were $255.0 million and $18.6 million at 8.1 percent and 2.8 percent for the three months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI's previous and current credit facilities and the weighted average interest rates on those amounts were $210.7 million and $35.8 million at 8.0 percent and 3.0 percent for the nine months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' credit facility and the weighted average interest rates on those amounts were $100.0 million and $126.8 million at 7.3 percent and 2.8 percent for the three months ended June 30, 2004 and 2003, respectively. The weighted average daily amounts of borrowings outstanding under NUI Utilities' previous and current credit facilities and the weighted average interest rates on those amounts were $103.5 million and $114.2 million at 6.1 percent and 2.7 percent for the nine months ended June 30, 2004 and 2003, respectively.

Long-Term Debt. NUI Utilities has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As of June 30, 2004, this amount has been reclassified to current liabilities on the Consolidated Balance Sheet. As noted under Short-Term Debt above, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used,

subject to the satisfaction of the terms and conditions contained therein, to repay these medium term notes. The anticipated $95 million of Bridge Facilities for which the company received a commitment from a lender requires that the delayed draw term loan be fully drawn by September 30, 2004.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded as a charge during the first quarter of fiscal 2004. During the first quarter of fiscal 2004, the company also recorded a charge of approximately $0.5 million for unamortized debt expenses related to the senior notes.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term SBPA with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York further amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA will be extended to June 29, 2005.

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

The SBPA would have to be further amended to permit the proposed $75 million NUI Utilities' senior secured credit facility.

As of June 30, 2004, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable

Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of the company's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

In addition, defaults would have occurred under NUI Utilities' 5.70 percent bonds if the company did not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 (by no later than 120 days after the fiscal year end) and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004 (by no later than 60 days after the fiscal quarter ends). However, NUI Utilities obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. No defaults ever occurred under NUI Utilities' 5.70 percent bond facility since NUI Utilities was able to provide all of the required information by the extended deadline of June 30, 2004.

Common Stock. The company has periodically issued shares of common stock in connection with its various stock and employee benefit plans. However, in accordance with the terms of the Merger Agreement, the company is not issuing any new shares of common stock at this time or in the foreseeable future.

Capital Expenditures and Commitments

Capital Expenditures. Capital expenditures, which consist primarily of expenditures to expand and upgrade the company's gas distribution systems, were $28.2 million for the nine months ended June 30, 2004, and $33.2 million for the nine months ended June 30, 2003. The decreased capital spending during the current fiscal period was due to the company's reduction of capital projects at the corporate level.

Capital expenditures are expected to be approximately $51 million in fiscal 2004, which will be used primarily for the continued expansion and upkeep of the company's natural gas distribution system and certain information technology projects.

Joint Venture with Duke Energy. On April 30, 2001, the company announced an agreement with a subsidiary of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. In February 2003, after receiving the required regulatory approval, VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

As of June 30, 2004, the company has loaned SSLLC an aggregate of approximately $27 million toward the development of the Saltville storage facility. The company currently estimates its share of funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years are expected to be funded with internally generated cash flows of the joint venture.

SSLLC plans to expand the present Saltville storage facility from its current capacity of 1 billion cubic feet (Bcf) to approximately 12 Bcf and connect it to Duke Energy Gas Transmission's (DEGT) East Tennessee Natural Gas interstate system and DEGT's Patriot pipeline. The Saltville facility features fast-injection and fast-withdrawal capabilities offered by salt cavern storage. The expansion will be completed in phases starting in fiscal 2003, with the Phase I total of 5.3 Bcf of working natural gas storage capacity to be completed by fiscal 2007. Phase I, at full capacity, will be able to deliver up to 500 million cubic feet per day of natural gas to area markets. The market demand for additional storage will dictate the timing of the other phases of the expansion.

Development of the Saltville facility is intended to create a strategically located energy-trading hub, and enable the company to capitalize on the energy supply and wholesale energy portfolio and risk management opportunities in the rapidly developing Mid-Atlantic region. The additional storage capacity is expected to allow the company to meet the significant demand from local distribution companies as well as power plant development that is underway in the region.

In conjunction with the development of an energy hub around the Saltville facility, during December 2002, the company entered into a twenty-year agreement with DEGT for the firm transportation of natural gas on the Patriot pipeline, which was under construction at that time. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Other Storage and Pipeline Projects. The company has acquired options on the land and mineral rights for property located in Richton, Perry County, Mississippi, that the company plans to develop into a natural gas storage facility to help serve the Southeast United States. The land option has a purchase price of approximately $0.5 million and the mineral rights option has a purchase price of $0.9 million. Both options expire on February 15, 2005. Should the options not be exercised, the company's right to make such purchases would expire.

NUI plans to develop a salt dome natural gas storage facility near Richton, Perry County, Mississippi. Like its companion storage facility in Saltville, Richton is expected to offer the high-deliverability capabilities of salt dome storage for natural gas and will have access to a number of major interstate pipelines, including Destin Pipeline and its connections to Gulf South, Gulfstream, FGT, SONAT, Tennessee Natural Gas and Transco. Through its connection to Destin Pipeline, Richton will have direct access to the gas supplies in the Gulf of Mexico, as well as to supplies from the interconnected interstate pipelines previously listed. Richton can also serve as a potential storage facility for the various proposed liquefied natural gas (LNG) projects in the Gulf Coast.

The preliminary plan is to develop two caverns with approximately 3.8 Bcf of working gas capacity each. The total gas capacity of both caverns is expected to be approximately 11.6 Bcf. The gas handling facilities are expected to provide an average injection rate of 250,000 thousand cubic feet (Mcf) per day and a maximum withdrawal rate of 600,000 Mcf per day. The facilities will include approximately 18,000 HP of compression and a 14.6 kilometer, 24 inch pipeline connecting the facility to the Destin pipeline. It is anticipated that Richton facility will be regulated by the Federal Energy Regulatory Commission (FERC). The preliminary engineering study, conceptual design for the facility and pipeline, water resource analysis, and a successful "open season" have been completed. The total cost of the project is expected to be approximately $85 million over a period of three years, which NUI will seek to fund through project finance debt. This project is not expected to have any material capital requirements in fiscal 2004 and, if the project proves feasible, will primarily impact the company's capital expenditure program in fiscal years 2005 and 2006 after the funding needs of Phase I of the Saltville facility (discussed above) are essentially satisfied.

During 2001, the company began building a planned gas pipeline intended to cross the state of Florida from West Palm Beach to Fort Myers (the Florida East-West Pipeline Project). Phase I of the pipeline has been completed and is currently in service beginning with a connection to the Florida Gas Transmission Company's pipeline in West Palm Beach and terminating in South Bay. The remaining portions of the project are intended to include an interconnection with the Florida Gas Transmission Company's pipeline in Fort Myers and the Gulfstream Natural Gas System pipeline in Martin County. During October 2003, the company retained a company to provide engineering-related services in support of the expansion of its Florida East-West Pipeline project. The company anticipates a twenty-eight (28) month schedule to complete the pipeline systems inclusive of a state regulatory approval process and construction activities.

The company intends to begin the regulatory approval process once suitable customer commitments are obtained. When completed, the pipeline is expected to be capable of transporting up to 300,000 Mcf per day of natural gas. The pipeline is also intended to include direct connection to any of the three LNG pipelines proposed to come onshore in southeast Florida at the ports of Palm Beach and/or Port Everglades. Once completed, the company's pipeline will serve as a transportation hub linking the east and west sides

of the Florida Gas Transmission system to the proposed LNG pipelines and the Gulfstream Natural Gas System as well as the company's proposed West Felda Gas Storage facility.

In conjunction with the expansion of the Florida East-West Pipeline, the company entered into agreements with Plains Resources Inc. (Plains), under which the parties have been validating technical and commercial viability of developing up to 15 Bcf of working gas capacity of natural gas storage in the West Felda Field, located in South Florida. The West Felda Field represents one of five oil-producing properties currently operated by Plains in the oil-producing "Sunniland Trench" in South Florida. The West Felda Field is expected to be serviced by the Florida East-West Pipeline, with an approximate 12-mile pipeline connection to the storage field south of the pipeline. Upon entering into final agreements, the parties intend to begin offering storage services in conjunction with the initiation of service of the pipeline.

Together these projects are expected to provide increased reliability for Florida's natural gas supply and distribution infrastructure and support Florida's rapidly growing demand for natural gas utilized for electricity generation.

On July 22, 2004, NUI Utilities and Penn-Jersey Pipeline Company (Penn-Jersey) entered into an Asset Purchase Agreement (APA), pursuant to which NUI Utilities will purchase, among other things, the pipeline facilities of Penn-Jersey, subject to the satisfaction of certain conditions contained in the APA, including the receipt of necessary authorizations from the FERC. The purchase price is $315,000 plus the depreciated cost of any necessary capital expenditures made by Penn-Jersey subsequent to January 31, 2003. Penn-Jersey is a small interstate natural gas pipeline that delivers natural gas from an interconnection with Columbia Gas Transmission Corp. in Pennsylvania to NUI Utilities' distribution system in New Jersey.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $62.3 million for the next twelve-month period (this amount includes the company's obligations under two twenty-year agreements related to the Patriot pipeline discussed above). The company also is committed to purchase, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 Bcf per year or to pay certain costs in the event the minimum quantities are not taken. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one-month period. That agreement was superseded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as NUI Utilities' asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, will be secured by a prepayment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI. In light of, among other factors, the requirement that NUI Utilities must prepay its gas requirements under its agreement with Cinergy and its other gas supply, distribution and storage agreements, and the obligation to make payments pursuant to its settlement with the NJBPU, management of the company believes it will need additional financing in order to assure that the company's liquidity needs can be met during the upcoming winter heating season. Management hopes to meet its liquidity needs as a result of the new Bridge Facilities; however, there is no assurance that this additional financing can be obtained or that the approval of the NJBPU, which is necessary to obtain such financing, will be forthcoming. In addition, the financing, if obtained, could have terms which have a material adverse effect on the company.

Demand on our Elizabethtown Gas system in New Jersey fluctuates due to weather variations because of the many seasonal heating customers that are served by that system. As a result, we are subject to seasonal

variations in working capital because we purchase and store natural gas supplies in the summer months for the upcoming winter heating season; however, we do not generate significant cash flows from the sale of this gas until the winter months when demand for natural gas is at its peak.

Environmental. The company owns or previously owned properties on which former manufactured gas plants (MGP) were operated in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an undiscounted basis a total reserve of approximately $33.8 million, which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $29.9 million relates to the New Jersey MGP properties and approximately $3.9 million relates to the MGP properties located outside the state of New Jersey. The company believes that all costs associated with remediation of the New Jersey MGP properties will be recoverable in rates or from insurance carriers. The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $34.1 million, inclusive of interest, as of June 30, 2004. With respect to costs that may be associated with the MGP properties located outside the state of New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful in recovering a portion of the remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able, at this time, to express a belief as to the success of additional recovery efforts.

Contractual Obligations. In the course of its business activities, the company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on NUI's balance sheet while others are commitments, some firm and some based on uncertainties, that are disclosed in the company's underlying consolidated financial statements. There have been no material changes in the company's contractual obligations from those disclosed in the company's annual report on Form 10-K for the year ended September 30, 2003, except for the Cinergy agreement previously discussed.

Off-Balance Sheet Arrangements. The company's off-balance sheet arrangements include commitments under operating leases, guarantees, letters of credit and gas procurement contracts, all of which are normal to the company's operations. See Note 12 of the Notes to the Consolidated Financial Statements for a discussion of the company's guarantees. In addition, the company is a 50 percent member of a joint venture that is developing natural gas storage assets and is required to provide funding toward the development of these assets for their intended purpose. See Capital Expenditures and Commitments—Joint Venture with Duke Energy above for further discussion. NUI is also party to a Standby Letter of Credit secured by cash collateral, as follows: a secured Standby Letter of Credit issued on February 1, 2004 by Fleet Bank, originally in the amount of $1,000,000, in favor of National Union Fire Insurance Company and several other insurance companies underwriting the company's workmen's compensation policy. As of April 23, 2004, the amount of the letter of credit has been reduced to $948,000. The letter of credit expires on February 1, 2005.

Application of Critical Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers Critical Accounting Policies to be those that could result in materially different financial statement results if the assumptions regarding application of accounting principles were different. A description of the company's Critical Accounting Policies can be found in the company's Annual Report filed on Form 10-K for the year ended September 30, 2003. Other significant accounting policies are discussed in Note 1 of the Notes to the Consolidated Financial Statements— Summary of Significant Accounting Policies of the company's Form 10-K. Recently issued accounting standards are also discussed in Note 13 of the Notes to the Consolidated Financial Statements.

NUI Corporation and Subsidiaries
Summary Consolidated Operating Data

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Operating Revenues (Dollars in thousands)				
Firm Sales:				
Residential	$45,435	$46,261	$273,201	$241,666
Commercial and Industrial	21,700	20,364	122,344	100,139
Interruptible Sales	11,883	18,330	33,811	49,222
Unregulated Sales	(11)	29,713	14,851	101,519
Transportation Services	11,977	11,427	40,716	39,168
Customer Service, Appliance Leasing and Other	8,009	22,121	31,006	64,260
Total Revenues	98,993	148,216	515,929	595,974
Revenues by Discontinued Operations	(49)	(12,923)	(7,126)	(39,135)
Operating Revenues from Continuing Operations	$98,944	$135,293	$508,803	$556,839
Gas Sold or Transported (MMcf)				
Firm Sales:				
Residential	3,156	3,625	21,988	23,438
Commercial and Industrial	1,737	1,721	10,743	10,272
Interruptible Sales	1,755	2,608	4,914	7,629
Unregulated Sales	1,891	17,287	9,555	75,579
Transportation Services	7,365	7,749	26,291	28,036
Total Gas Sold or Transported	15,904	32,990	73,491	144,954
Gas Sold or Transported by Discontinued Operations	---	---	---	(239)
Gas Sold or Transported by Continuing Operations	15,904	32,990	73,491	144,715
Average Utility Customers Served				
Firm Sales:				
Residential	344,277	341,551	344,347	347,175
Commercial and Industrial	22,804	22,123	22,783	22,961
Interruptible Sales	26	24	25	30
Transportation Services	3,728	4,120	3,745	4,137
Total Average Utility Customers Served	370,835	367,818	370,900	374,303
Average Utility Customers Served by Discontinued Operations	---	---	---	(6,548)
Average Utility Customers Served by Continuing Operations	370,835	367,818	370,900	367,755
Degree Days in New Jersey				
Actual	436	712	4,858	5,400
Normal	553	553	4,795	4,795
Percentage variance from normal	21% warmer	29% colder	1% colder	13% colder
Employees (period end)	936	1,095		

Item 3. Quantitative and Qualitative Disclosure About Market Risk

In March 2004, the company discontinued the trading operations of its NUI Energy Brokers business, although NUI Energy Brokers continues to manage its prior contractual obligations under a long-term gas sales agreement in addition to two long-term gas storage and transportation agreements. Prior to that date, NUI Energy Brokers used derivatives for multiple purposes: i) to hedge price commitments and minimize the risk of fluctuating gas prices, ii) to fulfill its trading strategies and, therefore, ensure favorable prices and margins, and iii) to take advantage of market information and opportunities in the marketplace. These derivative instruments included forwards, futures, options and swaps. The majority of NUI Energy Brokers' positions were short-term in nature (up to 2 years) and could be readily valued using New York Mercantile Exchange settlement prices and those from several other well-established, third-party organizations.

NUI Energy Brokers was also responsible for administration of the NUI Utilities hedge program. This program was established in December 2000 in accordance with the Gas Procurement Strategy and Plan (GPS&P) to help NUI Utilities fulfill its mission to operate its gas distribution system in a safe, reliable and cost effective manner. The focus of the GPS&P was to manage the purchased costs of gas for firm sales customers of NUI Utilities. To meet its objectives of managing gas price risk, NUI Utilities engages in financial hedging activities that include the use of New York Mercantile Exchange traded natural gas futures contracts and options. In April 2004, NUI Utilities adopted a hedging risk management policy that established guidelines and controls to govern its hedge program. In June 2004, Cargill Investor Services (CIS) approved the NUI Utilities' hedging account, and the NJBPU granted the necessary authorizations for NUI Utilities to complete the opening of the hedge account. As of June 30, 2004, all of the NUI Utilities open positions were transferred to the new account, and the GPS&P is now managed by NUI Utilities.

NUI accounts for its hedging and remaining trading activities in accordance with the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivatives be recognized on the balance sheet at fair value with changes in the value of derivatives that are not hedges recorded in earnings.

Further, consistent with the regulatory accounting treatment for NUI Utilities' gas procurement activities and pursuant to the provisions of SFAS 71 "Accounting for the Effects of Certain Types of Regulation," NUI Utilities defers both the realized and unrealized gains/(losses) attributable to the derivative instruments covered by this policy. Realized gains or losses are recorded as adjustments to gas purchase costs and are recovered from customers through the purchased gas adjustment clauses. Unrealized gains or losses are recorded on the balance sheet as a regulatory asset or liability, as applicable.

At June 30, 2004, NUI Energy Brokers had no futures contracts or physical forwards associated with the delivery and sale of natural gas into and from storage designated as cash flow hedges with the objective of fixing an acceptable return. Under SFAS 133, the changes in the value of derivatives designated as hedges that were effective in offsetting the variability in cash flows of a forecasted transaction were recognized in other comprehensive income until the forecasted transactions occur. The ineffective portion of changes in the fair value of derivatives is recognized immediately in earnings.

At June 30, 2004, there was no hedge ineffectiveness recognized in earnings.

Presently, NUI Energy Brokers' only open trading positions are related to a long-term gas sales agreement referred to above. Prior to the company discontinuing the trading operations of NUI Energy Brokers, the risk associated with open positions was closely monitored on a daily basis, and controlled in accordance with NUI Energy Brokers' Risk Management Policy. Utilizing the variance/covariance VaR (value at risk) methodology to measure the risk associated with open positions, NUI Energy Brokers' VaR was $267 and $45,000 at June 30, 2004 and 2003, respectively, using a 95 percent confidence interval and a one-day time horizon.

The following schedule summarizes the changes in derivative assets and liabilities for the nine-month period ended June 30, 2004 (in thousands).

Derivative assets at September 30, 2003	$13,192	
Derivative liabilities at September 30, 2003	---	
Fair value of contracts outstanding at September 30, 2003		$13,192
Contracts realized or settled during the period		(17,264)
Changes in fair value attributable to market pricing		23,587
Derivative assets at June 30, 2004	$19,515	
Derivative liabilities at June 30, 2004	---	
Fair value of contracts outstanding at June 30, 2004		$19,515

Changes in the fair value attributable to market pricing represents the changes in value of the company's unrealized mark-to-market net assets that relate to changes in commodity pricing, volatility of options on commodities, and other market related changes.

The following table summarizes the fair value of the contracts comprising the company's net derivative assets by maturity date (amounts in thousands):

	Fair Value of Contracts at Period-End				
Source of Fair Value	Less than 1 Year	1-3 Years	4-5 Years	In Excess of 5 Years	Total
Prices actively quoted	$13,600	$1,962	$ ---	$ ---	$15,562
Prices based on models and other valuation methods	438	2,239	1,276	---	3,953
Total Fair Value of Contracts	$14,038	$4,201	$1,276	$ ---	$19,515

Changes in the fair value attributable to market pricing represents the changes in value of the company's unrealized mark-to-market net assets that relate to changes in commodity pricing, volatility of options on commodities, and other market related changes.

Item 4. Disclosure Controls and Procedures

In connection with their audit of the company's fiscal 2002 financial statements, our independent external auditors, PricewaterhouseCoopers LLC (PwC), identified and reported on material weaknesses within our systems of internal control. In a report dated November 22, 2002 to the Audit Committee of the Board of Directors and management of NUI, PwC identified certain conditions that created a material weakness relating to internal control over financial reporting that resulted in the need to restate prior financial statements. The weaknesses identified included, but were not limited to, the following:

- General ledger cash account balances were not being reconciled to the bank statements.
- General ledger account analyses were not being consistently performed.
- A listing of debt covenants was not being maintained.
- Comprehensive and formalized accounting and financial reporting policies and procedures did not exist.
- Instances were noted where management lacked certain technical accounting and tax expertise that resulted in accounting errors.
- The flow of accounting information between business units and corporate accounting was not timely or formalized.

- Accounts payable invoice processing procedures needed to be improved.

- A formal plan and implementation timetable needed to be developed to address compliance with the certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

In connection with the fiscal 2003 financial statement audit, PwC communicated additional material control weaknesses, which included:

- The contract review process was not formally documented, and appropriate procedures had not been developed to ensure timely review of contracts for accounting implications.

- There was a lack of adherence to policies and procedures for travel and entertainment expense reimbursements and procurement card expenditures.

- The payroll timekeeping and tracking process was manual in nature and prone to errors.

- Information technology had a number of areas where formal, documented policies and procedures had not been developed.

In June 2004, the company filed Amendments on Form 10-Q/A for each of the first and second fiscal quarters ending March 31, 2004 and December 31, 2003, because of a deficiency noted in its cash reconciliation process which gave rise to an overstatement of the company's cash balance and an understatement of its prepayment account as of March 31, 2004 and December 31, 2003. This deficiency was related to the company not clearing identified reconciling items timely in a cash wire transfer account resulting from certain end of the quarter cash payments. The cash wire transfer account is included in Cash and cash equivalents on the Consolidated Balance Sheet. In June 2004, the company implemented a change in its cash reconciliation process which addresses this issue.

During fiscal 2003, our internal auditors performed internal audits which indicated material weaknesses in internal controls similar to those noted above. During fiscal 2004, our internal auditors performed additional audits which indicated continuing material weaknesses in our internal controls.

Additional internal control issues have been raised and deficiencies have been noted in the March 2004 final audit report relating to the focused audit conducted at the request of the NJBPU.

The company has undertaken a long-term effort to assess our systems of internal control and to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. These actions include:

- Performing a comprehensive evaluation and developing a remediation plan with respect to internal controls over financial reporting and related processes;

  Implementing a redesigned cash management process and adopting more stringent cash management practices and procedures;

  Developing and implementing comprehensive accounting and financial reporting policies and procedures;

  Implementing procedures for performance of account analyses and reconciliations;

  Improving and monitoring controls to increase the reliability of information generated by our information technology processes;

  Educating employees throughout the company as to the importance of compliance with policies and procedures and the significance of a system of sound internal controls; and

  Ensuring executive management's involvement in the oversight and review of the disclosure and reporting process.

The effectiveness of our, or any, systems of disclosure controls and procedures and internal controls is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. Further, the design of systems of control must reflect the fact that there are resource constraints that affect the operation of any such system, and that the benefits of controls must be considered relative to their risks. In addition, the pending sale of the company has resulted in the loss of experienced financial and accounting employees, which has negatively impacted management's implementation of effective disclosure controls, procedures and internal controls. As a result, there can be no assurance that our systems of disclosure controls, procedures and internal controls will prevent all errors or fraud, or ensure that all material information will be made known to management in a timely fashion.

As required by Rule 13a-15(b) of the Exchange Act, the company has carried out an evaluation, under the supervision and with the participation of its management, including its President and Chief Executive Officer and its Vice President, Chief Financial Officer, General Counsel and Secretary, of the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation examined those disclosure controls and procedures as of June 30, 2004, the end of the period covered by this report. Based upon the evaluation, the company's management, including its President and Chief Executive Officer and its Vice President, Chief Financial Officer, General Counsel and Secretary, concluded that, as of June 30, 2004, NUI's disclosure controls and procedures were effective, except as described above, at the reasonable assurance level to ensure that information required to be disclosed in NUI's reports filed or submitted under the Exchange Act was accumulated and communicated to NUI's management, including its President and Chief Executive Officer and its Vice President, Chief Financial Officer, General Counsel and Secretary, as appropriate to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Litigation

Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Class Action Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001 and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act against the company and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants failed to disclose material facts and materially inflated the company's earnings by (i) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, and (ii) recording revenues from a purportedly illegal "reterminating" billing practice allegedly engaged in by its former subsidiary. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants. Defendants filed an Answer to the Second Amended Complaint on May 10, 2004 denying any wrong doing and asserting affirmative defenses. Discovery has recently commenced. Although the company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

James Greiff and TIC Enterprises, Inc. Litigation

This case, originally filed in Georgia State Court, then removed by defendants to the United States District Court for the Northern District of Georgia, was transferred on the defendants' motion to the District of Delaware. The plaintiffs, James Greiff and TIC Enterprises, Inc. sued the company and three other company related entities, NUI Sales Management, Inc., NUI Capital Corp. and TIC, for breach of contract and fraud. The plaintiffs alleged they were entitled to (i) $3 million arising from the defendants' alleged breach of contract; (ii) an amount to be proven at trial arising from the defendants' alleged breach of a 2001 Purchase Agreement; (iii) $22 million and punitive damages for the defendants' alleged fraud; and (iv) $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs also alleged a tortious interference claim for $3 million. On May 5, 2004, NUI received the plaintiffs' written acceptance of

the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under a promissory note held by the plaintiffs from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003. The final Settlement Agreement was executed on June 4, 2004, general releases were exchanged and the company paid the plaintiffs $1.4 million to fully and finally settle all claims between the parties. On June 15, 2004, the court ordered dismissal of the case pursuant to a Stipulation of Voluntary Dismissal With Prejudice filed by the parties.

Joseph Pietrangelo, on behalf of himself and a class of persons similarly situated v. NUI Corporation, John Kean, John Kean Jr., Mark Abramovic, James R. Van Horn, Thomas W. Williams, Charles N. Garber, James J. Forese, Dr. Vera King Farris, J. Russell Hawkins, Bernard S. Lee, R. V. Whisnand, and John Winthrop.

On or about July 8, 2004, a complaint for breach of fiduciary duty under the Employee Retirement Income Security Act (ERISA) was filed in the United States District Court for the District of New Jersey, in which Plaintiff alleges that the company and twelve current or former officers and/or directors breached alleged fiduciary duties owed to the employee participants of the NUI Corporation Savings and Investment Plan for Collective Bargaining Employees and the NUI Corporation Savings and Investment Plan for other company employees (collectively, the Plans). Specifically, Plaintiff alleges that Defendants failed to disclose, and made false and misleading statements concerning, the true level of the company's bad debt, the true level of the company's earnings per share, the accurate status and contribution of the company's energy trading business and other allegedly material operating and accounting issues, all of which allegedly caused the company's stock to trade at artificially inflated prices. As a result, Plaintiff alleges, Defendants breached various fiduciary duties allegedly owed to participants of the Plans under ERISA, and engaged in a prohibited transaction under Section 404 of ERISA, by purportedly: (i) selecting and maintaining a stock fund consisting of company shares (the NUI Stock Fund) as an investment alternative in the Plans when it allegedly was no longer suitable and prudent, (ii) encouraging employees to invest in the NUI Stock Fund, (iii) continuing to invest in, and failing to divest the Plans from, the NUI Stock Fund when it allegedly became an imprudent investment, (iv) abdicating a purported duty to review, evaluate and monitor the suitability of the Plans' investment in the NUI Stock Fund and (v) failing to provide accurate, material information to the Plans' participants concerning the NUI Stock Fund. Plaintiff purports to bring a putative class action on behalf of all participants or beneficiaries of the Plans from November 11, 2001 through and including September 26, 2003. The company has not yet been served formally with the complaint. Although the company intends to vigorously defend the lawsuit, it is not possible at this time to determine a likely outcome.

Flint Energy Construction Co., Inc. and Virginia Gas Pipeline Company Litigation

Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in September 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc. v. TIC, Nortel Networks, Inc. and Sherry Hutto Walton

Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of $83,331.00. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by

plaintiff on certain issues. On July 2, 2004, plaintiffs filed an Amended Petition that adds a claim for conspiracy to fraudulently induce and seeks exemplary damages in connection with the fraud claim. Also on July 2, 2004, plaintiffs filed Amended Responses to Defendant Nortel Network's Request for Disclosure that includes damage estimates ranging from approximately $2.12 million to $2.32 million (of which approximately $1.46 million to $1.66 million is for lost profits) plus exemplary damages.

A mediation was held in 2003 and settlement discussions ensued. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing and pursuant to a Second Amended Order Setting Schedule signed on August 4, 2004, trial has been set for February 28, 2005. At this time, the company is unable to determine the likelihood of an outcome.

United States Postal Service Investigation and Claims

TIC entered into a contract with the United States Postal Service (USPS) relating to TIC's promotion of certain USPS products. In January 2003, TIC filed with the USPS contracting officer a claim for "breakaway fees" that were provided for in the contract. In the near future, TIC intends to file its remaining claims against USPS for unpaid commissions and accounts and lost profits. The USPS Office of the Inspector General has been conducting an investigation of TIC, and it appears that the Inspector General's investigation relates to allegedly false claims submitted by TIC to USPS for the payment of commissions under the contract, which could result in civil and criminal liability for TIC. TIC has been fully cooperating with the Inspector General's investigation and has provided documents, data, and technical assistance to the Inspector General. Although the investigation has been opened for more than a year, the Inspector General has not produced any evidence showing any civil or criminal wrongdoing by TIC, and counsel for TIC has advised that no evidence of false claims by TIC has surfaced. To date, USPS has only mentioned false claims for amounts totaling less than $800,000, plus fines and penalties, but TIC has since shown USPS that such false claims have no merit. At this time, the company is unable to determine the likely outcome.

Investigations of NUI Energy Brokers

Through January 2004, NUI Energy Brokers served as NUI Utilities' and Elizabethtown Gas' agent for purchasing gas and managing their utilization of their pipeline, storage and peaking contracts and assets. NUI Energy Brokers and Elizabethtown Gas were also parties to a contract pursuant to which Elizabethtown Gas purchased certain firm gas supplies from NUI Energy Brokers. NUI Energy Brokers also arranged financial transactions on behalf of Elizabethtown Gas relating to its gas procurement needs.

In early November 2003, as the result of the focused audit conducted by Liberty, the Board of Directors of the company became aware of allegations of inappropriate conduct by employees of NUI Energy Brokers. Some employees of NUI Energy Brokers allegedly had engaged in activities that improperly benefited NUI Energy Brokers at the expense of Elizabethtown Gas. The Audit Committee of the Board of Directors retained an independent outside counsel to assist it in conducting an independent investigation into the allegations and report the findings and conclusions to the Audit Committee.

As a result of its investigation, the independent counsel concluded that while NUI had established NUI Energy Brokers with internal controls designed to protect Elizabethtown Gas' assets, NUI Energy Brokers traders often ignored or circumvented these controls. The NUI Energy Brokers bonus/commission plan created an incentive for NUI Energy Brokers traders and other NUI employees who participated in the bonus/commission plan to engage in conduct that favored NUI Energy Brokers over Elizabethtown Gas or to remain silent if they observed conduct that allowed NUI Energy Brokers to benefit at Elizabethtown Gas' expense. The independent counsel concluded that the maximum amount of lost margin to Elizabethtown Gas as a result of NUI Energy Brokers' failure to obtain for Elizabethtown Gas NUI Energy Brokers' best or weighted average price of the day for comparable transactions was approximately $6.5 million over a five year period. The independent counsel also concluded that NUI Energy Brokers recorded as income a discount of $1.3 million that a counterparty gave for an early settlement of a deferred payment transaction. In addition, the independent counsel concluded that the maximum amount of lost margin to City Gas as a result of NUI Energy Brokers' failure to obtain for City Gas the best or weighted average price of the day for comparable transactions was approximately $2.6 million, for which amount the company recorded a pre-tax reserve in September 2003. The independent counsel also reached conclusions

with respect to the conduct of various employees. Based upon these conclusions, the Audit Committee recommended that the Board of Directors of NUI take certain personnel actions, which recommendation the NUI Board of Directors effected.

Since November 2003, the company, NUI Energy Brokers and Elizabethtown Gas have been the subjects of subpoenas issued by the New Jersey State Grand Jury. The Grand Jury was seeking diverse operational, structural, financial and personnel records relative to such entities together with documentation relating to the purchase and sale of gas on behalf of either NUI Energy Brokers or Elizabethtown Gas for the period of October 1, 1998 through the end of 2003. Documents in the latter category were also requested by the New Jersey Board of Public Utilities (NJBPU). On June 30, 2004, NUI Energy Brokers entered into a plea agreement (the Plea Agreement) with the New Jersey Attorney General's Office (NJAG) relating to these questionable transactions at NUI Energy Brokers. Pursuant to the Plea Agreement, NUI Energy Brokers will pay a $500,000 fine, of which $200,000 has been paid as of June 30, 2004, and the remaining amount is expected to be paid in the first quarter of fiscal 2005. On June 30, 2004, the company entered into a letter agreement with the NJAG pursuant to which the company has agreed to develop, fund and operate certain community service programs. This concludes the investigation by the NJAG of NUI and its subsidiaries with respect to these matters.

In November 2003, the SEC advised the company that it is conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the NJAG. On March 1, 2004, the SEC requested the company to voluntarily produce certain documents in furtherance of its informal inquiry. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The company is involved in various other claims and litigation incidental to its business. In the opinion of management, none of these other claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

(1) On June 29, 2004, the company filed a Current Report on Form 8-K dated June 29, 2004, under Items 5 and 7, furnishing a press release announcing that the company had appointed Steven D. Overly as Chief Financial Officer.

(2) On June 30, 2004, the company filed a Current Report on Form 8-K dated June 30, 2004, under Items 5 and 7, furnishing a press release announcing that its wholesale energy trading subsidiary, NUI Energy Brokers, Inc. (NUIEB), had entered into a plea agreement with the New Jersey Attorney General's Office relating to certain transactions at NUIEB.

(3) On July 15, 2004, the company filed a Current Report on Form 8-K dated July 15, 2004, under Items 5 and 7, furnishing a press release announcing that the company had entered into an Agreement and Plan of Merger with AGL Resources Inc. (AGL) which provides for AGL to acquire all of the outstanding shares of common stock of NUI Corporation for $13.70 per share in cash.

(4) On August 12, 2004, the company filed a Current Report on Form 8-K dated August 12, 2004, under Items 7 and 9, furnishing a press release announcing that it had deferred its fiscal 2004 third quarter earnings conference call, and that the company needed to perform a review of its accounting for deferred taxes before it could announce earnings or file its Form 10-Q for the third quarter of fiscal 2004.

SIGNATURES

Pursuant to the requirements 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.

NUI CORPORATION

August 16, 2004

CRAIG G. MATTHEWS
President and Chief Executive Officer

August 16, 2004

STEVEN D. OVERLY
Vice President, Chief Financial Officer,
General Counsel and Secretary

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig G. Matthews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2004

/s/ Craig G. Matthews
President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven D. Overly certify that:

1. I have reviewed this quarterly report on Form 10-Q of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2004

/s/ Steven D. Overly
Vice President, Chief Financial Officer,
General Counsel and Secretary

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of NUI Corporation (the "company") for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, Craig G. Matthews, President and Chief Executive Officer of the company, and I, Steven D. Overly, Vice President, Chief Financial Officer, General Counsel and Secretary, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ Craig G. Matthews
Craig G. Matthews
President and
Chief Executive Officer
August 16, 2004

/s/ Steven D. Overly
Steven D. Overly
Vice President, Chief Financial Officer,
General Counsel and Secretary
August 16, 2004

A signed copy of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the company. The foregoing certification is being furnished solely to accompany the report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

10kWIZARD
SEC POWER SEARCH

Form 10-K

NUI CORP /NJ/ - NUI

Filed: May 13, 2004 (period: September 30, 2003)

Annual report which provides a comprehensive overview of the company for the past year

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PART IV

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EX-10 (Material contracts)

EX-10 (Material contracts)

EX-10 (Material contracts)

EX-10 (Material contracts)

EX-10 (Material contracts)

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EX-10 (Material contracts)

EX-10 (Material contracts)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)
X **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to_____

Commission File Number 001-16385

NUI CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey	**22-3708029**
(State of incorporation)	(IRS employer identification no.)

550 Route 202-206, P. O. Box 760, Bedminster, New Jersey 07921-0760
(Address of principal executive offices, including zip code)

(908) 781-0500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of each exchange on which registered:
Common Stock, No ParValue	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes X No

Indicate by check mark if disclosure of delinquent filers, pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to the Form 10-K:

X

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act):

Yes X No

The aggregate market value of 16,269,561 shares of common stock held by non-affiliates of the registrant calculated using the $14.60 per share closing price on March 31, 2003 was $237,535,591

The number of shares outstanding for each of the registrant's classes of common stock, as of April 30, 2004:

Common Stock, No Par Value: 15,968,345 shares outstanding.

Documents incorporated by reference: None.

NUI Corporation

Annual Report on Form 10-K For The Fiscal Year Ended September 30, 2003

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NUI Corporation

Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2003

PART I

Item 1. Business

Company Background

NUI Corporation (NUI and, together with its subsidiaries, the company or we) was incorporated in New Jersey on February 8, 2000

On March 1, 2001, NUI reorganized as a holding company that is exempt from registration under the Public Utility Holding Company Act of 1935. NUI was originally incorporated in New Jersey in 1969, as National Utilities and Industries Corp.

As part of the holding company reorganization on March 1, 2001, the company's regulated gas distribution utility operations became a subsidiary of NUI and were renamed NUI Utilities, Inc. (NUI Utilities), while the entities providing the company's non-utility services were reorganized as subsidiaries of NUI Capital Corp. (NUI Capital). The company's local utility operations serve more than 367,000 customers in four states along the eastern seaboard of the United States. During fiscal 2003, the company's utility operations were carried out by NUI Utilities and its operating divisions as well as through Virginia Gas Distribution Company, a subsidiary of Virginia Gas Company (VGC). NUI Utilities' operating divisions are comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, Elkton Gas (Maryland), and Valley Cities Gas and Waverly Gas (VCW). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. During fiscal 2002, NUI Utilities also operated North Carolina Gas (NC), which was sold in September 2002. The company sold VCW in November 2002 and certain subsidiaries of VGC in October 2001 and March 2002. During fiscal 2003, the company's utility operations accounted for 94 percent of the company's total operating revenues.

During fiscal 2003, the company's non-regulated businesses included: NUI Energy, Inc. (NUI Energy), an energy retailer subsidiary; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy portfolio and risk management subsidiary; Utility Business Services, Inc. (UBS), a geospatial, billing and customer information systems and services subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; NUI Telecom, Inc. (NUI Telecom), a non-facilities based telecommunications services subsidiary; and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary which sold wireless and network telephone services. The company's wholly-owned subsidiary, NUI Saltville Storage, Inc. (NUISS), is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC). SSLLC is a joint venture with Duke Energy Saltville Gas Storage, LLC that is developing a natural gas storage facility in Saltville, Virginia. During fiscal 2003, the company sold NUI Environmental, Inc. (NUI Environmental), an environmental project development subsidiary, and the company discontinued the operations of NUI Energy and TIC, and began seeking a buyer for NUI Telecom. During January 2004, the company began to wind down the trading operations of NUI Energy Brokers and discontinued trading operations at NUI Energy Brokers in March 2004.

On September 26, 2003, NUI's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to assist in the sale.

The principal executive offices of NUI are located at 550 Route 202-206, Box 760, Bedminster, New Jersey 07921-0760; telephone: **(908) 781-0500.**

Recent Developments

The company recently has faced a number of challenges and experienced significant events, including:

-- **the settlement of issues relating to the focused audit and regulatory orders issued by the New Jersey Board of Public Utilities** (NJBPU);

-- the investigations of transactions at NUI Energy Brokers;

-- new credit facilities at NUI and NUI Utilities;

-- the gas supply contract with Cinergy Marketing and Trading, LP (Cinergy);

-- changes in the Boards of Directors of NUI and NUI Utilities and changes in management;

-- the pursuit of the sale of the company; and

-- additional sales of non-core businesses.

Settlement of Issues Relating to Focused Audit and Regulatory Orders Issued by the NJBPU

As a result of NUI's and NUI Utilities' credit downgrades during 2003, as well as concerns raised during a routine competitive services audit of Elizabethtown Gas by the NJBPU, in March 2003, the NJBPU ordered a focused audit of NUI, NUI Utilities and Elizabethtown Gas in six key areas: (1) strategic planning; (2) affiliate transactions; (3) financial structure and interaction; (4) accounting and property records; (5) corporate governance; and (6) executive compensation. The NJBPU retained The Liberty Consulting Group (Liberty) as the auditors for the focused audit.

On March 17, 2004, the NJBPU released the final report of the focused audit, which, among other things, cited weaknesses in each of the foregoing six areas. On March 26, 2004, the company filed its response to Liberty's final report.

On April 14, 2004, the company announced that NUI, NUI Utilities and Elizabethtown Gas Company had entered into a settlement agreement with the NJBPU on all issues related to the focused audit, and on April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. Pursuant to the settlement agreement, NUI Utilities agreed to refund $28.0 million plus interest to Elizabethtown Gas ratepayers and to pay a $2.0 million penalty to the State of New Jersey over five years. The refund and penalty increased the company's net after-tax loss for fiscal 2003 by approximately $18.6 million, or $1.16 per share.

The NJBPU also issued a series of orders to NUI, NUI Utilities, and Elizabethtown Gas during calendar 2003 and 2004, concerning, among other things, a number of the issues which were the subject of the focused audit. These regulatory orders are discussed in more

detail below under Distribution Services Segment.

For a description of the focused audit ordered by the NJBPU and focused audit report of Liberty, the company's response thereto and the settlement agreement, see Item 3. Legal Proceedings-NJBPU Focused Audit and Regulatory Orders.

Investigations of Transactions at NUI Energy Brokers

In connection with the focused audit described above, Liberty identified certain questionable transactions involving NUI Energy Brokers. The Audit Committee of the Board of Directors retained independent counsel to conduct an investigation of transactions involving NUI Energy Brokers. A report of the independent counsel's investigation was provided to the company's Audit Committee on April 13, 2004.

The Attorney General of the State of New Jersey is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. In addition, the U.S. Securities and Exchange Commission (SEC) has commenced an informal inquiry relating to NUI Energy Brokers. NUI is fully cooperating with these investigations.

For a description of the investigations of NUI Energy Brokers, see Item 3. Legal Proceedings-Investigations of NUI Energy Brokers.

New Credit Facilities at NUI and NUI Utilities

On November 24, 2003, NUI and NUI Utilities each entered into a separate credit facility with a syndicate of banks. NUI obtained a $255 million term loan facility and NUI Utilities obtained a $150 million credit facility comprised of a $50 million term loan facility, a $50 million revolving credit facility and a $50 million delayed draw term loan facility, which delayed term loan facility may only be used to repay NUI Utilities' 8.35 percent medium term notes. Both the NUI and NUI Utilities credit facilities expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

The delay in delivering audited financial statements for fiscal 2003 and unaudited financial statements for the fiscal quarter ended December 31, 2003, resulted in events of default under NUI's and NUI Utilities' credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements.

Pursuant to these waivers, the deadline for the delivery of NUI's annual report and financial statements for its fiscal quarter ended December 31, 2003 was extended until March 1, 2004. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments on May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the Settlement with the NJBPU and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

For a description of NUI's and NUI Utilities' credit agreements, including the amendments referred to above, and other debt instruments and defaults thereunder, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

Gas Supply Contract with Cinergy

NUI Utilities has selected Cinergy to provide a full requirements gas supply contract with least-cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005. The gas supply contract with Cinergy requires NUI Utilities to pre-pay, in varying amounts, for its gas requirements on a monthly basis over the contract period, until NUI regains investment grade ratings. Cinergy will pay NUI Utilities a fixed amount for the use of NUI Utilities' gas and deliverability assets for the twelve months ended March 31, 2005.

For a description of the gas supply contract with Cinergy and the impact of the pre-payment requirement thereunder, see Distribution Services Segment-Gas Supply and Operations below and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

Changes in Boards of Directors of NUI and NUI Utilities and Changes in Management

NUI

On January 28, 2004, the Board of Directors of NUI announced that it had appointed Craig G. Matthews as the President and Chief Executive Officer of NUI and as a member of its the Board of Directors and that it had appointed Steven D. Overly as the Vice President, General Counsel and Secretary of NUI. Mr. Matthews replaced A. Mark Abramovic, who retired and who had previously been appointed President of NUI after John Kean, Jr. stepped down in September 2003. Mr. Overly replaced James R. Van Horn, the former Chief Administrative Officer, General Counsel and Secretary of NUI. In addition, on February 24, 2004, Robert P. Kenney was appointed to the Board of Directors of NUI. James J. Forese was appointed Chairman of the Board of Directors of NUI on April 1, 2004, replacing John Kean, who remains as a director of NUI until his retirement later in 2004.

In October 2003, NUI announced the appointment of Dan Scouler as Chief Financial Officer on an interim basis. Mr. Scouler replaced Mr. Abramovic as Chief Financial Officer upon Mr. Abramovic's appointment in September 2003 as President of NUI. Mr Scouler is the managing member of Scouler Andrews International, LLC (Scouler Andrews) and was previously a Senior Managing Director of FTI Consultants, which the company employed in October 2003 to manage its financial operations and develop new liquidity forecasts.

NUI Utilities

In October 2003, NUI Utilities expanded its existing Board of Directors to include Robert P. Kenney, Barbara Harding, Duncan Ellsworth, Stephen Schachman and Victor A. Fortkiewicz. In February 2004, Craig G. Matthews was appointed to the Board of Directors of NUI Utilities. Mr. Kean is the current Chairman of the Board of Directors of NUI Utilities. In September 2003, Victor Fortkiewicz was appointed President of NUI Utilities and Mary Patricia Keefe was appointed Vice President, General Counsel and Secretary of NUI Utilities, replacing James R. Van Horn. Nancy J. Sobelson was appointed Vice President, Business and Technical Services in November 2003. Peter E. Maricondo was named Chief Financial Officer of NUI Utilities in December 2003, and replacing him as Controller of NUI Utilities was Donald R. Guarriello. In addition, Elaine A. Kloss was appointed Treasurer of NUI Utilities in January 2004, replacing Charles N. Garber who left the company in November 2003, and Mr. Abramovic retired as Vice President of NUI Utilities in January 2004.

Sale of the Company

On September 26, 2003, the company announced that its Board of Directors had decided to pursue the sale of the company. The Board of Directors established a Special Committee to assess the company's options and concluded that pursuing a sale of the company was in the best interests of the company's stakeholders. The decision was made as a result of a number of factors, including the negative impact on the company arising from multiple downgrades of the company's credit ratings during fiscal 2003 and adverse business conditions in general.

The company is continuing to work with its financial advisors on the sale process for the company and hopes to enter into a definitive agreement with a purchaser during the third quarter of calendar 2004. For a discussion of factors that could prevent or delay the sale of the company, see Risk Factors-The sale of NUI may not be consummated.

Additional Sales of Non-Core Businesses

On December 15, 2003, the company completed the sale of NUI Telecom for approximately $2 million.

See Sales of Non-Core Businesses below for a further discussion.

Business Segments

The company's operations are organized and managed under three primary segments: Distribution Services, Energy Asset Management (formerly Wholesale Energy Marketing and Trading), and Retail and Business Services. The company also has corporate operations that do not generate operating revenues. During fiscal 2003, the company realigned its reportable business segments as follows: the appliance service businesses in New Jersey and Florida, previously reported within the Retail and Business Services segment, are now included within the Distribution Services segment; off-system sales made by NUI Energy Brokers on behalf of the utility operations, previously reported within the Energy Asset Management segment, are now included within the Distribution Services segment; NUI Telecom, previously reported within the Retail and Business Services segment, was being held for sale at September 30, 2003, and is now reported within discontinued operations; the operations of TIC are being wound down by the company and have also been reported as discontinued operations; and the operating results of NUI Environmental, previously reported within discontinued operations, are now included as part of the Retail and Business Services segment. The change for NUI Environmental, which was sold in September 2003, was due to the company's potential future involvement in this business under certain ancillary agreements entered into by the company on the date of the sale. Reference is made to Note 21 of the Notes to the Consolidated Financial Statements for a discussion regarding the business segments of the company. See also Item 6. Selected Financial Data-Summary Consolidated Operating Data for summary information by customer class with respect to operating revenues, gas volumes sold or transported and average number of utility customers served. A discussion of the business of each segment follows.

Distribution Services Segment

Products and Services

The company's Distribution Services segment consists of the operations that distribute natural gas through the company's regulated utility operations, conduct appliance services and engage in off-system sales. In fiscal 2003, the businesses in the Distribution Services segment included Elizabethtown Gas, City Gas, Elkton Gas and VCW. Since the 2002 fiscal year-end, the company has sold its VCW utility operations. See Valley Cities Gas and Waverly Gas below.

During fiscal 2003, the Distribution Services segment distributed natural gas in five states through the company's regulated utility operations, including utilities in two states which were sold during the fiscal year. These distribution services are regulated as to price, rate of return and safety by the regulatory commissions of the states in which the company operates (see Regulation below). During fiscal 2003, the Distribution Services segment served more than 374,000 customers, of which 70 percent were in New Jersey and 30 percent were in other states (this includes approximately 6,500 customers of discontinued operations). Most of the company's utility customers are residential and commercial customers that purchase gas primarily for space heating. Distribution Services' operating revenues from continuing operations were $615.5 million in fiscal 2003, $484.8 million in fiscal 2002, and $616.4 million in fiscal 2001. In fiscal 2003, this segment represented 94 percent of the total operating revenues of the company. Of this amount, 73 percent was generated by utility operations in New Jersey and 27 percent was generated by utility operations in other states. Gas volumes are measured in Mcf (a basic unit of measurement for natural gas comprising 1,000 cubic feet of gas), MMcf (a basic unit of measurement for natural gas comprising 1,000 Mcf of gas), and Bcf (a basic unit of measurement for natural gas comprising one million Mcf of gas). Total utility gas volumes sold or transported by continuing operations in fiscal 2003 amounted to 81.8 Bcf, of which 86 percent was sold or transported in New Jersey and 14 percent was sold or transported in other states. Distribution Services' operating revenues from discontinued operations during fiscal 2003 amounted to approximately $0.6 million. Gas volumes sold or transported by discontinued operations in fiscal 2003 amounted to 0.2 Bcf. A description of each of the company's utility operations follows.

The company has appliance service businesses in New Jersey and Florida that complement NUI's natural gas utility service in those states. The appliance service businesses had previously been reported within the Retail and Business Services segment. These businesses sell and install heating units, such as furnaces and gas boilers, air conditioners and water heaters, as well as repair and install gas-fired appliances such as ranges, grills, pool heaters and gas lamps. The New Jersey division offers service contracts that cover the cost of repairs for most of these types of appliances. In addition, the Florida appliance business also provides leasing and financing for gas appliances. The appliance group generated operating revenues of $15.4 million in fiscal 2003, $14.4 million in fiscal 2002, and $13.3 million in fiscal 2001. The appliance service businesses had operating margins of $5.7 million in fiscal 2003, $5.2 million in fiscal 2002, and $4.0 million in fiscal 2001.

The Distribution Services segment also utilizes assets under contract from interstate pipelines to make off-system sales to non-jurisdictional customers. Such assets include interstate pipeline and storage capacity. During fiscal 2003, NUI Energy Brokers served as agent for NUI Utilities and arranged the off-system sales on behalf of the utility operations. Pursuant to state regulatory orders, the company is able to retain a portion of the margins from these off-system sales in percentages that vary by state. Off-system sales margins retained by the company totaled $1.3 million in fiscal 2003, $1.6 million in fiscal 2002 and $0.9 million in fiscal 2001.

NUI Utilities terminated its agency contract with NUI Energy Brokers in accordance with an NJBPU Order dated December 11, 2003, in which the NJBPU directed Elizabethtown Gas to cease purchasing gas from its affiliate, NUI Energy Brokers. In a NJBPU Order dated January 14, 2004, the NJBPU approved a plan by NUI Utilities to enter into a Gas Asset Management Agreement with New Jersey Resources, Inc. (NJRES) to serve as NUI Utilities' agent for purchasing gas and managing its gas supply assets. However, in its January 14, 2004 Order, the NJBPU also directed Elizabethtown Gas to conduct a competitive bid for the procurement of gas supply management services for the period commencing April 1, 2004 through March 31, 2005. NUI Utilities entered into an agreement with NJRES to serve as NUI Utilities' gas purchasing agent for a term ending March 31, 2005, subject to a right of early termination. NUI Utilities conducted a competitive bidding process in February and March 2004 as directed by the NJBPU. As a result, NUI Utilities terminated its contract with NJRES effective March 31, 2004, and contracted with Cinergy to procure the gas supply requirements necessary to fulfill NUI Utilities' public utility obligations for the period commencing April 1, 2004 through March 31, 2005. For a discussion of the impact of this agreement on the company's liquidity see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.

Elizabethtown Gas Company (Elizabethtown Gas). Elizabethtown Gas, which began operations in 1855, provides natural gas service to approximately 260,000 customers in franchised territories within seven counties in central and northwestern New Jersey. Elizabethtown Gas' service territories cover approximately 1,300 square miles and have a total population of approximately 1.1 million. Most of Elizabethtown Gas' customers are located in densely populated central New Jersey, where increases in the number of customers primarily result from conversions to gas heating from alternative forms of heating. In the rapidly growing northwest region of the state, new customer additions are driven primarily by new construction.

Elizabethtown Gas' regulated gas volumes sold or transported and customers served for the past three fiscal years ended September 30 were as follows:

Regulated Gas Volumes Sold or Transported (in thousands of Mcf)

	2003	2002	2001
Firm Sales:			
Residential	23,357	17,994	21,475

Commercial and Industrial	8,652	6,440	8,897
Interruptible Sales	9,721	9,905	12,641
Transportation Services	28,883	29,893	26,459
Total	70,613	64,232	69,472

Utility Customers Served (twelve-month average)

	2003	2002	2001
Firm Sales:			
Residential - Heating	187,615	184,224	180,605
Residential - Non-heating	52,508	53,694	54,563
Commercial and Industrial	17,939	17,609	17,243
Interruptible Sales	20	21	25
Transportation Services	2,304	2,333	2,475
Total	260,386	257,881	254,911

Gas volumes sold to Elizabethtown Gas' firm sales customers (i.e., those that are covered by base rates) are sensitive to the weather in New Jersey. In fiscal 2003, the weather in New Jersey was 12 percent colder than normal and 36 percent colder than the prior year. Additionally, weather in fiscal 2002 was 23 percent warmer than normal and 21 percent warmer than fiscal 2001. While the effect of variations in weather conditions impacts sales to heating customers, Elizabethtown Gas' tariff contains a weather normalization clause that is designed to help stabilize the company's results by increasing amounts charged to customers when weather has been warmer than normal and decreasing amounts charged when weather has been colder than normal. As a result of weather normalization clauses, operating margins were approximately $6.1 million lower in fiscal 2003, and $8.5 million higher in fiscal 2002, than they would have been without such clauses. For a further discussion on variations in revenues, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Results of Operations.

Determination of Rates Charged to Customers

Elizabethtown Gas' customers currently have the ability to utilize transportation service from the company and purchase their gas from other suppliers. The rate charged to transportation customers remains regulated as to price and returns. Tariffs for transportation service have been designed to provide the same margins as bundled sales tariffs. Therefore, except for the regulatory risk of full recovery of gas costs, Elizabethtown Gas is financially indifferent as to whether it transports gas or sells gas and transportation together.

On November 22, 2002, the company settled Elizabethtown Gas' 2002 base rate case with the NJBPU. Under the terms of this settlement, Elizabethtown Gas immediately received an annual base rate increase of approximately $14.2 million. The new rate level provides for an allowed return on equity of 10.0 percent and an overall rate of return of 7.95 percent. In its December 11, 2003 Order, the NJBPU stated that it was re-examining this settlement in light of the events surrounding NUI's use of proceeds received in its 2002 equity offering. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to the 2002 rate case.

On September 16, 2003, Elizabethtown Gas received approval from the NJBPU to increase its Basic Gas Supply Service (BGSS) rates on a provisional basis by $28.8 million and on October 10, 2003, Elizabethtown Gas was granted approval to increase its Societal Benefits Charge (SBC) by approximately $8.0 million. The BGSS covers the cost of natural gas supplies that Elizabethtown Gas purchases for its customers, while the SBC allows Elizabethtown Gas to recover the cost of mandated energy efficiency, low-income assistance, energy education and environmental remediation programs. Both of these charges represent the pass-through of costs on which the company does not earn a profit. The NJBPU stated that it would re-examine the provisional rates approved by the NJBPU pursuant to Elizabethtown Gas' petition for an increase in BGSS rates. The company's settlement with the NJBPU on April 14, 2004 resolved all issues related to this BGSS proceeding.

In response to the federal Electric Discount and Energy Competition Act, which was signed into law in February 1999, on March 30, 2001, the NJBPU approved a stipulation which enabled all retail customers in New Jersey to choose a natural gas supplier, provided an incentive for these customers to choose an alternate natural gas supplier and required New Jersey gas utilities to continue offering basic gas supply service through December 2002 for those customers not choosing an alternate supplier. On January 17, 2002, the NJBPU issued an Order that continued the obligation of all New Jersey gas utilities to provide basic gas supply service until the NJBPU has had an opportunity to fully investigate major policy issues relating to pricing structure and gas supply reliability. No timetable has been established for completion of such a review. As of September 30, 2003, only six residential customers in Elizabethtown Gas' service territory were receiving gas from an alternate gas supplier.

Elizabethtown Gas' interruptible customers have alternative energy sources and use gas on an as available basis. Variations in the volume of gas sold or transported to these customers do not have a significant effect on the company's earnings because, in accordance with New Jersey regulatory requirements, 80 percent of the margins that otherwise would be realized on gas sold or transported to interruptible customers are credited to firm customers.

Recovery of Purchased Gas Costs

On March 30, 2001, the NJBPU issued an Order allowing Elizabethtown Gas to begin recording interest on its under-recovered gas cost balance, and to establish a new Gas Cost Under-recovery Adjustment (GCUA) to recover the gas cost under-recovery balance as

of October, 31, 2001 over a three-year period from December 1, 2001 through November 30, 2004. In addition, pursuant to the Order, the company was required to make a filing on November 15, 2001, to establish a new BGSS rate designed to recover purchased gas costs for the period November 1, 2001 through September 30, 2002. In that filing, the company requested approval to decrease its BGSS rate and implement its GCUA rate, with a net effect representing a decrease of 12.7 percent in residential customer bills. The NJBPU approved the company's request and these changes became effective on December 1, 2001.

City Gas Company of Florida (City Gas). City Gas is the second largest natural gas utility in Florida, supplying gas to more than 101,000 customers in Miami-Dade, Martin, Broward and Palm Beach Counties in south Florida, and in Brevard, Indian River and St. Lucie Counties in central Florida. City Gas' service areas cover approximately 3,000 square miles and have a population of approximately 2.3 million.

City Gas' regulated gas volumes sold or transported and customers served for the past three fiscal years ended September 30 were as follows:

Regulated Gas Volumes Sold or Transported (in thousands of Mcf)

	2003	2002	2001
Firm Sales:			
Residential	1,767	1,738	1,930
Commercial and Industrial	1,827	1,836	2,323
Interruptible Sales	7	30	66
Transportation Services	6,377	6,098	5,156
Total	9,978	9,702	9,475

Utility Customers Served (twelve-month average)

	2003	2002	2001
Firm Sales:			
Residential	95,846	96,085	95,963
Commercial and Industrial	3,789	3,762	3,992
Interruptible Sales	1	3	5
Transportation Services	1,703	1,656	1,313
Total	101,339	101,506	101,273

City Gas' residential customers purchase gas primarily for heating water, drying clothes and cooking. Some customers, principally in central Florida, also purchase gas to provide space heating during the relatively mild winter season.

City Gas' commercial and industrial customers consist primarily of schools, businesses and public facilities. As with its residential markets, the company is seeking to maximize the utilization of its existing mains by emphasizing marketing efforts toward potential commercial businesses along these lines.

Certain commercial and industrial customers have changed their natural gas service from a supply and transportation basis to only transportation. City Gas' transportation tariff provides margins on transportation services that are substantially the same as margins earned on gas sales. Therefore, except for the regulatory risk of full recovery of gas costs, City Gas is financially indifferent as to whether it transports gas or sells gas and transportation together.

Determination of Rates Charged to Customers

On January 16, 2001, City Gas received approval from the Florida Public Service Commission (FPSC) to increase its annual base rates by $5.13 million to cover the cost of service enhancements and reliability improvements since City Gas' last base rate increase in 1996. This rate level provided for an allowed return on equity of 11.5 percent and an overall rate of return of 7.88 percent.

On October 7, 2003, City Gas received approval from the FPSC to increase its base rates by $2.9 million. The increase represents a portion of the company's request for a total rate increase of $10.5 million to recover the costs of investments in its customer service and system maintenance and growth, increases in operating expenses, and the impact of the continuing sluggish economy. On January 20, 2004, City Gas received approval from the FPSC to increase its base rates by $6.7 million, effective February 23, 2004. This includes the interim rate increase of $2.9 million approved in October. This new rate level provides for an allowed return on equity of 11.25 percent and an overall allowed rate of return of 7.36 percent.

City Gas recovers all of its gas costs through a Purchased Gas Adjustment charge (PGA). The PGA recovery period is the twelve-month period beginning January 1 and ending December 31 of each year. Gas costs and recoveries are reconciled on an annual basis with any imbalance charged or credited in the following year. Interest is added to both over-recovered and under-recovered balances. In May 2004, City Gas expects to file for an over-recovery imbalance of approximately $800,000, including interest, under its purchased gas adjustment recovery clause covering the 2003 calendar year.

Elkton Gas (Elkton). Elkton provides gas service to approximately 5,400 customers in franchised territories comprising approximately 14 square miles within Cecil County, Maryland. During fiscal 2003, Elkton sold approximately 974,000 Mcf of gas as follows: 30 percent sold to residential customers and 70 percent sold to commercial and industrial customers. The current rates and tariffs for Maryland were authorized in June 1992.

Valley Cities Gas and Waverly Gas (VCW). The company sold its VCW utility operations on November 7, 2002. VCW provided gas service to approximately 6,500 customers in franchised territories comprising 114 square miles within Bradford County, Pennsylvania and the Village of Waverly, New York and surrounding areas. During fiscal 2003, the regulated operations of VCW sold or transported approximately 239,000 Mcf of gas as follows: 8 percent sold to residential customers, 6 percent sold to commercial and industrial customers, and 86 percent transported to commercial and industrial customers. The rates and tariffs for the Pennsylvania and New York operations during fiscal 2003 were authorized between October 1988 and September 1995.

Gas Supply and Operations

In recent years, the gas industry has been undergoing structural changes designed to increase competition in response to policies of the Federal Energy Regulatory Commission (FERC) and state regulatory commissions. Traditionally, interstate pipelines were wholesalers of natural gas to local distribution companies and generally did not provide separate transportation or other services for specific customers. In 1992, the FERC issued Order No. 636 that, among other things, mandated the separation or "unbundling" of interstate pipeline sales, transportation and storage services and established guidelines for capacity management effective in 1993. In fiscal 1995, the NJBPU unbundled the services provided and the rates charged to New Jersey commercial and small industrial customers and in calendar 2001, the NJBPU approved a stipulation that extended unbundled transportation services to all retail customers. The transition to more competitive rates and services has the effect of increasing the opportunity for local gas distribution companies, and customers, to purchase natural gas from alternative sources, while increasing the potential business and regulatory risk borne by a local gas distribution company with respect to the acquisition and management of natural gas services.

The company endeavors to utilize its pipeline capacity efficiently by matching capacity to its load profile to the extent feasible. To this end, the company has had a broad unbundled service tariff for certain of its customers since 1987. The company continues to avail itself of opportunities to improve the utilization of its pipeline capacity by pursuing broad-based customer growth, including off-peak markets and utilizing capacity release and off-system sales opportunities afforded by Order No. 636 when operationally feasible.

The company's gas supply for its utility operations during fiscal 2003 came from the following sources: approximately 7 percent from long-term purchase contracts; approximately 78 percent from seasonal or monthly purchase contracts; and approximately 15 percent from daily purchases made in the spot market. The company manages its gas supply portfolio with the aim of assuring a diverse, reliable and secure supply of natural gas at the lowest reasonable cost. In fiscal 2003, the company's largest single supplier accounted for approximately 14 percent of the company's total gas purchases.

The company has a long-term gas purchase contract for the supply of natural gas for its New Jersey system. Under this contract, the company has a right to purchase, on a firm year-round basis, up to 3.7 Bcf of natural gas annually with a maximum of approximately 10,000 Mcf per day. The company is committed to purchase, at market-related prices, minimum quantities of gas that total approximately 2.1 Bcf per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk a reduction in the contracted daily delivery quantity. During the fiscal year ended September 30, 2003, the company's continuing utility operations purchased a total of 50.1 Bcf, and accordingly the company expects that minimum demand on its systems for the duration of this contract will continue to exceed this minimum purchase obligation. The company also has seasonal and monthly firm supply contracts and access to spot market gas through the interstate pipeline system to supplement or replace, on a short-term basis, portions of its long-term gas purchase contracts when such actions can reduce overall gas costs or are necessary to supply interruptible customers. In fiscal 1995, the company, along with seven other Northeastern and Mid-Atlantic gas distribution companies, formed the East Coast Natural Gas Cooperative LLC (the Co-op). The Co-op was formed with the goal of jointly managing certain portions of the members' gas supply portfolios, to increase reliability and reduce costs of service to customers, and to improve the competitive position of the member companies. The company terminated its membership in the Co-op effective March 31, 2004 as part of the discontinuation of NUI Energy Brokers' trading operations.

In order to have available sufficient quantities of gas during the heating season, the company stores gas during non-peak periods and purchases supplemental gas, including propane, liquefied natural gas (LNG), and gas available under contracts with certain large cogeneration customers, as it deems necessary. The storage contracts provide the company with an aggregate of 9.9 Bcf of natural gas storage capacity and the right to receive a maximum daily quantity of 176,636 Mcf. The contracts with cogeneration customers provide 22,600 Mcf of daily gas supply to meet peak loads by allowing the company to take back capacity and supply that otherwise is dedicated to serve those customers.

The company has a LNG storage and vaporization facility in New Jersey for handling peak gas demand. It has a daily delivery capacity of 24,200 Mcf and storage capacity of 131,000 Mcf. The company's maximum daily sendout in fiscal 2003 was approximately 408,000 Mcf in New Jersey, including approximately 89,000 Mcf delivered by third party suppliers for transportation customers, and 59,300 Mcf in its other service territories combined. The company maintains sufficient gas supply and delivery capacity for a maximum daily sendout capacity for firm sales for New Jersey of approximately 400,000 Mcf and approximately 75,000 Mcf for the other service territories combined.

The company has long-term gas delivery contracts with seven interstate pipeline companies. Under these contracts, the company has a right to deliver, on a firm year-round basis, up to 80.9 Bcf of natural gas annually with a maximum of approximately 235,000 Mcf per day. Both the price and conditions of service under these contracts are regulated by the FERC.

Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amounted to approximately $60.1 million in fiscal 2004 (this amount includes the company's obligations under two twenty-year agreements to pay

annual demand charges for the firm transportation and storage of natural gas). The company currently recovers, and expects to continue to recover, a majority of such fixed charges through its purchased gas adjustment clauses.

During fiscal 2003, NUI Energy Brokers served as NUI Utilities' agent for gas supply procurement and asset management. Pursuant to the December 11, 2003 NJBPU Order, NUI Utilities terminated its agency relationship with NUI Energy Brokers. NUI Utilities contracted with Cinergy to procure the gas supply requirements necessary to fulfill NUI Utilities' public utility obligations and to manage its gas supply and deliverability assets from April 1, 2004 through March 31, 2005.

The company distributes gas through approximately 6,200 miles of steel, cast iron and plastic mains. The company has physical interconnections with five interstate pipelines in New Jersey and a single interstate pipeline in both Maryland and Florida. Common interstate pipelines along the company's operating system provide the company with greater flexibility in managing pipeline capacity and supply, and thereby optimizing system utilization.

Sales of Non-Core Businesses

The company's growth strategy did not achieve the results that the company had anticipated. As a result, the company experienced increasing significant losses and write-offs in its non-utility businesses during fiscal years 2001, 2002 and 2003. In late fiscal 2002, a series of defaults under the then-existing credit facilities of NUI and NUI Utilities resulted in the refinancing of such debt and the company began exploring the sale of its non-core businesses as a means of raising capital and cutting costs.

In October 2001 and March 2002, the company sold certain subsidiaries of VGC for an aggregate sales price of approximately $4.6 million. On September 30, 2002, the company sold NC for approximately $24 million, and on November 7, 2002, the company completed the sale of VCW for approximately $15 million. NUI Environmental Group was sold on September 3, 2003 for one dollar, to a former officer of NUI. During July 2003, the company announced it was seeking a buyer for NUI Telecom. The company had discontinued two of the four product lines of TIC in July 2002 and also announced in July 2003 that the remaining operations of TIC would be wound down. On December 15, 2003, the company completed the sale of NUI Telecom for approximately $2 million. In addition, in May 2003, the company announced it was exiting the retail energy business, and subsequently paid Houston Energy Services Company, LLC and Amerada Hess Corporation $3.8 million to assume the majority of NUI Energy's contracts for retail sales of gas to customers and is winding down its operations. The operating results of certain of these entities have been classified as Discontinued Operations in the Consolidated Statements of Income, as applicable. The assets and liabilities of certain of these entities have been classified as Assets Held for Sale and Liabilities Held for Sale in the Consolidated Balance Sheets, as applicable. See Note 11 of the Notes to the Consolidated Financial Statements for a further discussion about these operations.

Regulation

The company is subject to regulation with respect to, among other matters, rates, service, accounting and the issuance of securities. The company's natural gas distribution operations are subject to regulation by the public utility commissions of the states in which it operates. The company is also subject to regulation by the United States Department of Transportation under the Natural Gas Pipeline Safety Act of 1968, with respect to the design, installation, testing, construction and maintenance of pipeline facilities. Natural gas purchases, transportation service and storage service provided to the company by interstate pipeline companies are subject to regulation by the FERC (See Distribution Services Segment-Gas Supply and Operations) for a further discussion. In addition, the company is subject to federal, state and local laws and regulation with respect to employee health and safety and environmental matters including, but not limited to, water quality, air quality and solid waste management. At present, the company is working with the New Jersey Department of Environmental Protection and the North Carolina Department of Environment and Natural Resources under Administrative Consent Orders and/or Memoranda of Agreement with respect to property remediation matters.

The company's tariffs for each state in which it operates contain adjustment clauses that enable the company to recover purchased gas costs. The adjustment clauses provide for periodic reconciliations of actual recoverable gas costs with the estimated amounts that have been billed. Under- or over-recoveries at the reconciliation date are recovered from or refunded to customers in subsequent periods.

For a discussion of the orders issued by the NJBPU relating to rates charged by Elizabethtown Gas, the recovery of purchased gas costs by Elizabethtown Gas and to the provision of services by Elizabethtown Gas to customers choosing an alternative natural gas supplier, see Distribution Services Segment-Elizabethtown Gas Company above.

For a discussion of the orders issued by the NJBPU relating to the focused audit and related matters see Item 3. Legal Proceedings-NJBPU Focused Audit and Regulatory Orders.

For a discussion of the decisions made by the FPSC relating to rates charged by City Gas, see Distribution Services Segment-City Gas Company of Florida above.

Franchises

The company holds non-exclusive municipal franchises and other consents which enable it to provide natural gas in the territories it serves. The company intends to seek the renewal of these franchises and consents as they expire.

Seasonal Aspects

Sales of gas to some classes of customers are affected by variations in demand due to changes in weather conditions, including normal seasonal variations throughout the year. The demand for gas for heating purposes is closely related to the severity of the winter heating season. Seasonal variations affect short-term cash requirements. In addition, the company recognizes proportionately higher revenues in the winter months. For a further discussion of our seasonal cash needs and risks related to seasonal demand, see Risk Factors below.

The effect of weather that is above or below normal is partially offset in New Jersey through a weather normalization clause contained in the tariffs in that jurisdiction. The weather normalization clause is designed to help stabilize the company's results by increasing amounts charged to customers when weather has been warmer than normal and decreasing amounts charged when weather has been colder than normal.

Competition

The company competes with distributors of other fuels and forms of energy, including electricity, fuel oil and propane, in all portions of the territories in which it has distribution mains. In addition, in 1992, the FERC issued Order No. 636 that, among other things, mandated the separation or "unbundling" of interstate pipeline sales, transportation and storage services and established guidelines for capacity management effective in 1993. See Distribution Services Segment-Gas Supply and Operations above for a further discussion. Subsequently, initiatives were sponsored in various states, the purposes of which were to unbundle or separate into distinct transactions, the purchase of the gas commodity from the purchase of transportation services for the gas. To that end, several of the company's utility operations have unbundled residential, commercial and industrial gas purchase and transportation rates.

The unbundled sale of gas to customers is subject to competition from unregulated marketers and brokers, which generally do not bear the obligations or costs related to operating a regulated utility. Tariffs for transportation service have generally been designed to provide the same margins as bundled sales tariffs. Therefore, except for the regulatory risk of full recovery of gas costs, the company is financially indifferent as to whether it transports gas, or sells gas and transportation together. The company also faces the risk of loss of transportation service for large industrial customers, which may have the ability to build connections to interstate gas pipelines and bypass the company's distribution system. Gas distributors can also expect increased competition from electricity as deregulation in that industry decreases prices and increases supply sources. Alternatively, opportunities may increase for gas service to fuel generators for large industrial customers, replacing electric utility service.

Environment

Reference is made to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Capital Expenditures and Commitments and Note 22 of the Notes to the Consolidated Financial Statements for information regarding environmental matters affecting the company.

Energy Asset Management Segment (formerly Wholesale Energy Marketing and Trading)

Products and Services

The Energy Asset Management segment reflects the operations of the company's NUI Energy Brokers and VGC subsidiaries. Together, this segment offers wholesale energy sales, energy portfolio management, risk management and utility asset management. In addition, this segment includes the equity income and losses of NUISS, the company's subsidiary which is a fifty-percent member of SSLLC, a joint venture with a subsidiary of Duke Energy. SSLLC was formed in 2001 to develop a natural gas storage facility in Saltville, Virginia. Total operating revenues for the Energy Asset Management segment were $27.1 million in fiscal 2003, $28.1 million in fiscal 2002 and $19.1 million in fiscal 2001. In fiscal 2003, this segment represented 4 percent of the total operating revenues of NUI.

NUI Energy Brokers was formed in 1996 to provide wholesale natural gas supply and trading, brokering, and risk management services. As a result of the NJBPU Order on December 11, 2003, NUI Utilities terminated its gas procurement arrangement with NUI Energy Brokers and, in April 2004, entered into a full requirements gas supply contract with Cinergy. In March 2004, the company discontinued the trading operations of NUI Energy Brokers. Prior to it being discontinued, NUI Energy Brokers traded physical natural gas in four geographic regions: the Northeast, Southeast, Gulf Coast, and Mid-Continent. In addition, NUI Energy Brokers traded natural gas futures, options and swaps on the New York Mercantile Exchange and the over-the-counter market. The risk associated with trading activities was closely monitored on a daily basis and controlled in accordance with the company's Risk Management Policy. As in any commodity brokerage activity, however, there are risks pertaining to market changes and credit exposure that can be managed but not eliminated. For this reason, the earnings from NUI Energy Brokers have the potential to be more volatile than the company's utility distribution business. NUI Energy Brokers' operating margins were $17.4 million in fiscal 2003, $19.5 million in fiscal 2002, and $19.4 million in fiscal 2001. For a further discussion of the risks and activities of NUI Energy Brokers see Item 7A. Quantitative and Qualitative Disclosures About Market Risk. On November 19, 2003, the company announced that an independent investigation into certain questionable transactions involving NUI Energy Brokers had been initiated by NUI's Audit Committee. For a discussion of the investigation see Item 3. Legal Proceedings-Investigations of NUI Energy Brokers.

VGC is a natural gas storage, pipeline, and distribution company with principal operations in Southwestern Virginia. VGC operates two storage facilities, one a high-deliverability salt cavern facility in Saltville, Virginia and the other a depleted reservoir facility in Early Grove, Virginia. Combined, the facilities have approximately 2.6 Bcf of working gas capacity. VGC also owns and operates a 72-mile intrastate pipeline. VGC currently serves as the construction and operations manager for NUI's joint venture with Duke

Energy to initially develop 5.3 Bcf of storage at the Saltville facility. For a further discussion see NUISS below and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Capital Expenditures and Commitments-Joint Venture with Duke Energy. This new storage facility will serve, through new interstate interconnections, the Mid-Atlantic region, an area of high demand growth due to population increases and power generation. All of VGC's businesses are regulated by the Virginia State Corporation Commission except for SSLLC, which is regulated by the FERC. VGC, which was acquired by NUI on March 28, 2001, had operating margins of $8.7 million in fiscal 2003, $9.0 million in fiscal 2002 and $2.6 million in fiscal 2001.

VGC, through Virginia Gas Distribution Company (VGDC), provides gas service to approximately 300 customers in franchised territories within Buchanan and Russell Counties, Virginia. During fiscal 2003, VGDC sold approximately 240,300 Mcf of gas, of which 4 percent was sold to residential customers and 96 percent was sold to commercial and industrial customers.

NUISS is a fifty-percent member of SSLLC. SSLLC plans to expand the present Saltville storage facility from its current capacity of 1 Bcf to approximately 12 Bcf in several phases. The Saltville facility connects to Duke Energy Gas Transmission's (DEGT) East Tennessee Natural Gas interstate system and DEGT's Patriot pipeline and features fast-injection and fast-withdrawal capabilities. After Phase I of the expansion, the Saltville storage field will be able to deliver up to 500 million cubic feet per day of natural gas to area markets and will be able to store approximately 6.0 Bcf of working gas. Phase I is expected to be completed by fiscal 2008. The market demand for additional storage will dictate the timing of the other phases of the expansion. In an Order issued September 11, 2003, the FERC reversed prior rulings and determined that SSLLC does not qualify for a statutory exemption from FERC Natural Gas Act regulation. SSLLC was permitted to continue service on an interim basis but was ordered to submit applications for FERC approval to construct and operate its facilities and to provide service subject to applicable FERC law and regulations. SSLLC is proceeding to comply with this Order, and has filed its application for various FERC authorizations on November 10, 2003. NUISS contributed approximately $0.1 million of equity earnings to NUI in fiscal 2003.

Retail and Business Services Segment

Products and Services

During fiscal 2003, the Retail and Business Services segment included the operations of the company's NUI Energy, UBS and OAS subsidiaries. Prior to September 30, 2003, the operations of OAS were included in UBS. The operations of NUI Telecom, as well as the operations of the network services and wireless divisions of TIC previously reported in this segment, have been reclassified to discontinued operations, and in December 2003 NUI Telecom was sold. See Note 11 of the Notes to the Consolidated Financial Statements. The appliance services business previously reported in this segment is now reported as part of the Distribution Services segment. Operating revenues for this segment, exclusive of discontinued operations, were $9.8 million in fiscal 2003, $7.0 million in fiscal 2002, and $10.4 million in fiscal 2001.

NUI Energy was formed as a full-service energy marketing company serving industrial and commercial clients. During May 2003, the company announced it was exiting the retail energy business and subsequently sold the majority of NUI Energy's contracts and began winding down its operations. NUI Energy offered energy commodity pricing options at competitive rates, secured delivery, and provided account balancing and reconciliation for its customers. NUI Energy Brokers, the company's energy trading and portfolio management affiliate, handled supply acquisition for NUI Energy. Operating revenues and margins for NUI Energy were $2.4 million in fiscal 2003, as compared with $2.5 million in fiscal 2002, and $5.9 million in fiscal 2001.

UBS provides customer information systems and services to investor-owned and municipal utilities, as well as third-party providers in the water, wastewater, and gas markets. Wins CIS®, a premiere customer information system developed and maintained by UBS, is presently serving approximately 50 clients with state-of-the-art capabilities in support of more than 1.5 million customers. United Water, the largest non-affiliated Wins CIS® client for UBS, accounts for approximately 40 percent of UBS' revenue. In addition to generating over 12 million bills in fiscal 2003, UBS continues to assist clients in related areas such as automatic meter reading, payment processing, and account recovery. UBS' operating revenues were $6.1 million in fiscal 2003, $3.5 million in fiscal 2002, and $4.0 million in fiscal 2001. UBS had operating margins of $3.6 million in fiscal 2003, $1.9 million in fiscal 2002, and $2.7 million in fiscal 2001. In addition, UBS provides billing and payment processing services to NUI Utilities under a service agreement that was approved by the NJBPU in the focused audit settlement agreement. In June 2003, the company had approved a plan to sell UBS. However, the September 2003 decision to sell the company reduced the probability that a sale of UBS would occur, given that NUI Utilities is UBS' largest customer and there was no guarantee that NUI Utilities would maintain a long-term relationship with UBS after the company was sold. As a result, as of September 30, 2003, the assets and liabilities of UBS are no longer classified as "held for sale" on the Consolidated Balance Sheets and its results of operations have been included in Income from Continuing Operations on the Consolidated Statements of Income.

OAS, the company's digital mapping operation, currently provides services to eight clients that include geospatial information system (GIS) mapping, pipe network modeling, and work management. Effective April 1, 2004, OAS has subcontracted all of its existing services to a third party engineering firm. OAS has notified its customers that upon expiration of their current contracts, their relationship with OAS will terminate. OAS's operating revenues were $1.3 million in fiscal 2003, $1.0 million in fiscal 2002, and $0.6 million in fiscal 2001. OAS had operating margins of $0.5 million in fiscal 2003, $1.0 million in fiscal 2002, and $0.6 million in fiscal 2001.

NUI Telecom is a non-facilities-based, full service telephone company that provides its customers with a single service solution for all their telecommunications requirements. NUI Telecom, formerly reported within the Retail and Business Services segment, was being held for sale at September 30, 2003 and has been reported as discontinued operations. In December 2003, NUI Telecom was sold.

NUI Telecom's operating revenues were $45.4 million in fiscal 2003, $28.0 million in fiscal 2002, and $11.0 million in fiscal 2001. NUI Telecom generated margins of $14.2 million in fiscal 2003, $7.9 million in fiscal 2002, and $3.3 million in fiscal 2001.

During July 2002, the company ceased the operations of TIC's telephone equipment and United States Postal Service product lines and had classified the operating results of these two product lines as discontinued operations in the Consolidated Statements of Income. TIC's operating revenues were $5.0 million in fiscal 2003, $17.5 million in fiscal 2002, and $11.9 million in fiscal 2001. TIC generated margins of $2.2 million in fiscal 2003, $7.3 million in fiscal 2002, and $3.0 million in fiscal 2001.

Other NUI Operations

NUI Environmental was formed in fiscal 1996 to develop a methodology for treating dredged materials from the New York/New Jersey harbor to increase the accessibility of the harbor to commercial shipping traffic. During September 2002, the company began seeking a buyer for NUI Environmental. In September 2003, the company sold NUI Environmental for one dollar to a former officer of NUI. In addition, NUI has the ability to repurchase shares of NUI Environmental and receive a portion of the proceeds from any sale of NUI Environmental during the five years following the sale. NUI also entered into a license agreement with the buyer of NUI Environmental, whereby the buyer must pay royalties to NUI for the use of proprietary technology until the earlier of January 3, 2022 or the occurrence of certain events. Because of the license agreement, the operating results of NUI Environmental have not been included within discontinued operations on the Consolidated Statements of Income. See Note 11 of the Notes to the Consolidated Financial Statements.

Persons Employed

As of September 30, 2003, the company employed a total of 1,081 persons. In New Jersey, 260 employees were represented by the Utility Workers Union of America (Local 424) and 54 employees were represented by the Communications Workers of America (Local 1023). In addition, 79 employees in Florida were represented by the Teamsters Local 769 and 385. The Utility Workers Union of America collective bargaining agreement with the New Jersey union became effective November 21, 2001, and expires on November 20, 2005. The collective bargaining agreement in Florida, which was negotiated on March 31, 2001 and originally was to expire on March 31, 2004, has been extended through March 31, 2005. The Communications Workers of America contract became effective May 1, 2003 and expires on April 30, 2006.

Persons employed as of September 30, 2003 by segment were as follows: Distribution Services segment-794 persons; Energy Asset Management-87 persons; and Retail and Business Services-64 persons. In addition, the corporate office of NUI employed a total of 111 persons, which employees primarily work in shared services for the entire corporation. The majority of these shared services employees were transferred to NUI Utilities during the first quarter of fiscal 2004. As of September 30, 2003, operations being held for sale employed 25 persons.

Available Information

The company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Any document the company files with the SEC may be read or copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The company's SEC filings are also available at the SEC's Web site at http://www.sec.gov or the company's Web site at http://www.nui.com. The information on NUI's Web site is not incorporated by reference into and is not made a part of this report.

Risk Factors

As a holding company, NUI depends almost entirely on payments and dividends from its subsidiaries to meet its debt and other contractual obligations and to pay dividends.

Under NUI's holding company structure, NUI has no independent operations and conducts substantially all of its operations through its subsidiaries. As a result, NUI depends almost entirely on the earnings and cash flows of, and dividends or distributions (including the settlement of intercompany balances) from, NUI Utilities and its other subsidiaries to provide the funds necessary to meet its debt and other contractual obligations. Furthermore, substantially all of NUI's consolidated assets, earnings and cash flows are derived from the operations of NUI's regulated utility subsidiaries, whose authority to pay dividends or make other distributions to NUI is subject to regulation by state regulatory authorities and is also subject to limitations contained in the NUI Utilities amended credit agreement and the Standby Bond Purchase Agreement, dated June 12, 2001, between NUI Utilities and The Bank of New York. NUI receives payments from NUI Utilities to reimburse NUI for certain amounts expended by NUI on behalf of NUI Utilities, such as amounts for shared services and overhead costs, through the settlement of outstanding intercompany balances. NUI's ability to meet its obligations depends in part on NUI's receipt of funds from NUI Utilities. There are no restrictions on the settlement of intercompany balances in NUI's or NUI Utilities' financing agreements.

Currently, the terms of the Standby Bond Purchase Agreement restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which has been reduced by the NJBPU settlement. There is no capacity under this covenant for further dividends at this time or for the foreseeable future. For a description of this restrictive covenant, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity. In the event that NUI Utilities is unable to obtain a waiver of this covenant, NUI Utilities would not be able to provide funds to NUI (except to settle monthly intercompany balances), and NUI may not be able to meet certain of its obligations.

The ability of NUI and NUI Utilities to meet their liquidity obligations depends upon various factors, including their ability to obtain extensions of their existing credit facilities, to procure additional financing for the upcoming winter heating season and to complete the sale of NUI in a timely manner.

In light of, among other factors, the requirement that NUI Utilities must prepay its gas requirements under its agreement with Cinergy and its other gas supply, distribution and storage agreements and the obligation to make payments pursuant to its settlement with the NJBPU, management of the company believes it will need additional financing in order to assure that the company's liquidity needs can be met during the upcoming winter heating season. There is no assurance that any necessary additional financing can be obtained or that the approval of the NJBPU, which is necessary to obtain such financing, will be forthcoming. In addition, the financing, if obtained, could have terms which have a material adverse effect on the company.

Each of the $255 million existing term loan facility of NUI and the $150 million existing credit facility of NUI Utilities expires on November 22, 2004 and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash into escrow with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

In the event the conditions to extension are not satisfied and the lenders are unwilling to waive such conditions, NUIand NUI Utilities will be required to refinance all of the indebtedness under such facilities. In the event these facilities are required to be refinanced in November 2004 or in the event these facilities are extended until November 2005 and are required to be refinanced in November 2005, there is no assurance that NUI and NUI Utilities will be able to refinance these facilities or that the approval of the NJBPU, which is necessary to obtain such refinancing, will be forthcoming. In addition, the refinancing, if available, could have terms which have a material adverse effect on the company.

In the event the company is unable to reach an agreement to sell the company, it is likely to make it more difficult to obtain additional financing for the upcoming winter heating season and to make it more difficult to refinance the credit facilities when necessary.

The sale of NUI may not be consummated.

On September 26, 2003, NUI announced its intention to sell the company. Although our management currently hopes to enter into an agreement to sell the company in the third quarter of calendar 2004, the sale of the company is subject to numerous uncertainties, in particular:

-- the company may not locate a buyer;

-- the bids received by the company may have insufficient value or contain terms which the company is unable to agree to;

-- even if a buyer is located, the company may be unable to negotiate a definitive agreement with such buyer;

-- the sale may be delayed or prevented by the need to make filings with and/or obtain approval from regulatory authorities, including the SEC and the utility commissions of the states in which NUI conducts its business; and

-- our shareholders may not approve the sale.

In addition, under the terms of NUI's and NUI Utilities' credit facilities, the sale of the company is subject to the approval of the lenders, unless the credit facilities are repaid in connection with such sale.

Because NUI and NUI Utilities no longer maintain investment grade credit ratings, counterparties might require NUI and NUI Utilities to provide increasing amounts of credit support, such as the prepayment of gas procurement obligations.

As a result of credit rating downgrades, NUI Utilities' gas suppliers subject it to prepayments for gas supply and pipeline demand charges. If NUI Utilities is unable to meet any capital calls made by its gas suppliers, NUI Utilities may not be able to obtain sufficient gas to service its customers. Furthermore, NUI's transactions in each of its businesses, especially in its Distribution Services segment, will require greater credit assurances, both to be given from, and received by, NUI to satisfy credit support requirements. Additionally, certain market disruptions or a further downgrade of NUI's or NUI Utilities' credit ratings might further increase their respective cost of future borrowing or further impair their respective ability to obtain additional liquidity or extend the maturity of their respective existing indebtedness or refinance their respective existing indebtedness. Such disruptions could include:

-- capital market conditions generally;

-- market prices for natural gas;

-- terrorist attacks or threatened attacks on our facilities or those of other energy companies; or

-- the overall health of the energy industry, including the bankruptcy of energy companies.

Results of pending and possible future legal proceedings and investigations could have a material adverse effect on our financial condition, results of operations and liquidity.

On March 3, 2003, the NJPBU initiated a focused audit of NUI, NUI Utilities and Elizabethtown Gas. In connection with the focused audit, certain questionable transactions at NUI Energy Brokers, the company's wholesale energy trading subsidiary, were identified. The Audit Committee of the company has conducted an investigation of these questionable trading practices at NUI Energy Brokers. The Attorney General of the State of New Jersey is conducting a criminal investigation relating to these matters, and NUI has received subpoenas in connection with this investigation. The SEC is conducting an informal inquiry relating to NUI Energy Brokers.

Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, which actions have since been consolidated into a single action. The plaintiffs allege, among other things, that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases and in statements to analysts and others.

We are cooperating fully with those investigations and are defending the civil lawsuits filed against us. However, we cannot predict when these investigations or legal proceedings will be completed or the likely outcome of any of the investigations or legal proceedings. It is possible that they could lead to criminal charges, civil enforcement proceedings, additional civil lawsuits, settlements, judgments and/or consent decrees against us (and our subsidiaries), and that, as a result, we will be required to pay fines and damages, consent to injunctions on future conduct, lose the ability to conduct business or suffer other penalties, each of which could have a material adverse effect on our financial condition, results of operations and liquidity.

For a further discussion of these legal proceedings and investigations, see Item 3. Legal Proceedings.

In addition, we may be obligated to indemnify our current and former directors, officers and employees, as well as those of some of our subsidiaries, for fines, liabilities, fees or expenses that they may face as a result of the pending and possible future litigation and investigations, and to advance to or reimburse such persons for defense costs, including attorneys' fees.

The effects and results of these various investigations and legal proceedings, including the ultimate determination regarding our indemnity obligations and the extent of our insurance coverage, could have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

A review of our public filings by the SEC may result in the amendment of our periodic reports, which could have a material adverse effect on the trading price of our common stock and our ability to access the capital markets.

The investigations by the NJPBU and the investigation by the Audit Committee of NUI of certain questionable transactions at NUI Energy Brokers, the company's wholesale energy trading subsidiary, have led to a delay in the filing of this annual report and our first quarter fiscal 2004 report on Form 10-Q. Due to the investigation by the Audit Committee, the company was not able to complete its financial reporting process and its audited financial statements for inclusion in its fiscal 2003 Form 10-K by December 29, 2003, the deadline for filing the Form 10-K. The SEC may provide us with comments on this filing or on the delayed quarterly report after such reports have been filed, which could require us to amend previously filed periodic reports. If we are required to amend our periodic filings, investor confidence may be reduced, our stock price may substantially decrease and our ability to access the capital markets may be seriously limited.

Further downgrading of NUI's and NUI Utilities' credit ratings could make it more difficult and expensive to finance their respective operations and their future operating income could be diminished as a result.

Since September 9, 2002, Moody's has downgraded NUI's debt rating from Baa-1 to Caa-1 and the debt rating of NUI Utilities from A-3 to B-1 and has indicated they would monitor the company's liquidity position as well as its progress in selling non-core assets. Since September 26, 2003, Standard & Poor's Rating Services (S&P) has lowered its corporate credit rating for NUI Utilities from BBB to BB and placed its rating on CreditWatch with developing indications.

NUI and NUI Utilities may be subject to further downgrades in the future. None of NUI's or NUI Utilities' current credit facilities or other debt instruments contain direct events of default that are triggered by such downgrades. However, additional downgrades by either S&P or Moody's could exacerbate liquidity concerns, increase NUI's and NUI Utilities' respective costs of future borrowing, result in NUI Utilities being unable to secure additional financing for the upcoming winter heating season or to refinance NUI's and NUI Utilities' respective existing credit facilities as they become due and could affect their respective ability to make payments on outstanding debt instruments and comply with other existing obligations, which could have a material adverse effect on their respective financial condition, results of operations and liquidity.

For a further discussion of the downgrades, please see the discussion included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Credit Rating Actions of this annual report.

Risks related to the regulation of our businesses, including environmental regulation, could affect the rates we are able to charge, our costs and our profitability. The operation of our businesses might be adversely affected by changes in these regulations or in their interpretation or implementation.

Our businesses are subject to regulation by federal, state and local regulatory authorities. In particular, our natural gas distribution operations are subject to regulation by the regulatory commissions of the states in which the company operates and the United States Department of Transportation and limited regulation by the FERC. These authorities regulate many aspects of our distribution operations, including construction and maintenance of facilities, operations, safety, and the rates that we can charge customers and the rate of return that we are allowed. Our ability to obtain rate increase supplements to maintain our current authorized rate of return depends upon regulatory discretion, and there can be no assurance that we will be able to obtain rate increases that are necessary to earn our current authorized rate of return.

In addition, our operations and properties are subject to extensive environmental regulation pursuant to a variety of federal, state and local laws and regulations. These environmental regulations impose, among other things, restrictions, liabilities and obligations in connection with storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances in the environment. Environmental laws also require that facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed pursuant to applicable regulatory requirements. Our current costs to comply with these laws and regulations are significant to our results of operations and financial condition. In addition, claims against us under environmental laws and regulations could result in material costs and liabilities. With the trend toward stricter standards, greater regulation, more extensive permit requirements and an increase in the number and types of assets operated by us subject to environmental regulation, our environmental expenditures may increase in the future.

Public and regulatory scrutiny of the energy industry and of the capital markets has resulted in increased regulation being either proposed or implemented. Existing regulations might be revised or reinterpreted, new laws and regulations might be adopted or become applicable to us, or our facilities, and future changes in laws and regulations might have a detrimental effect on our business. For example, in 1992, the FERC issued Order No. 636 that, among other things, mandated the separation or "unbundling" of interstate pipeline sales, transportation and storage services and established guidelines for capacity management effective in 1993. Subsequently, initiatives were sponsored in various states, the purposes of which were to "unbundle" or separate into distinct transactions, the purchase of the gas commodity from the purchase of transportation services for the gas. To that end, several of the company's utility operations have unbundled residential, commercial and industrial gas purchase and transportation rates. The unbundled sale of gas to customers is subject to competition from unregulated marketers and brokers, which generally do not bear the obligations or costs related to operating a regulated utility. Tariffs for transportation service have generally been designed to provide the same margins as bundled sales tariffs. Therefore, except for the regulatory risk of full recovery of gas costs, the company is financially indifferent as to whether it transports gas, or sells gas and transportation together. The company also faces the risk of loss of transportation service for large industrial customers, which may have the ability to build connections to interstate gas pipelines and bypass the company's distribution system. Gas distributors can also expect increased competition from electricity as deregulation in that industry decreases prices and increases supply sources. Alternatively, opportunities may increase for gas service to fuel generators for large industrial customers, replacing electric utility service.

Certain restructured markets have recently experienced supply problems and price volatility. These supply problems and volatility had been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some of these markets, proposals have been made by governmental agencies and other interested parties to re-regulate areas of these markets which have previously been deregulated. We cannot assure you that other proposals to re-regulate will not be made or that legislative or other attention to the gas utility restructuring process will not cause the deregulation process to be delayed or reversed. If the current trend towards competitive restructuring of the wholesale and retail power markets is reversed, discontinued or delayed, our business models might be inaccurate and we might face difficulty in accessing capital to refinance our debt and funding for operating and generating revenues in accordance with our current business plans.

Our gas sales, transportation and storage operations are subject to government regulations and rate proceedings that could have an adverse impact on our ability to recover the costs of operating our pipeline facilities.

Our distribution services are regulated as to price, safety and rate of return by the regulatory commissions of the states in which the company operates. In addition, the wholesale gas sales of, and the transmission and storage operations provided to, our Distribution Services segment are subject to the FERC's rules and regulations in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. In the event that FERC's rules and regulations significantly change the opportunity for us to recover costs in the future, such occurrence could have a material impact on the operations and profitability of our businesses.

We might be adversely affected by legal proceedings and governmental investigations related to the energy asset management segment.

Natural gas markets continue to be subject to numerous and far-reaching federal and state proceedings and investigations because of allegations that wholesale price increases resulted from the exercise of market power and collusion of the power generators and sellers such as our Energy Asset Management segment. Discussions by governmental authorities and representatives in several states have ranged from threats of re-regulation to suspension of plans to move forward towards deregulation. The outcomes of these proceedings and investigations might create corporate liability for the company, and directly or indirectly affect our creditworthiness and ability to perform our contractual obligations as well as other market suppliers' creditworthiness and their ability to perform their contractual obligations.

We encounter significant competition in the businesses in which we operate. If we are unable to successfully compete in our business markets, our results of operations will be adversely affected.

We face competition in each of our business segments. Our distribution services businesses compete with distributors of other fuels and forms of energy, including electricity, fuel oil and propane, in all portions of the territories in which we have gas distribution mains. Some of our competitors have greater financial resources and access to larger supplies of natural gas than those available to us. These resources could allow those competitors to price their services more aggressively than we do, which could cause us to lose existing customers or to be unable to attract and acquire new customers.

We expect increased competition in natural gas distribution from participants in the electricity industry as deregulation in that industry decreases prices and increases supply sources. Furthermore, the unbundled sale of natural gas to customers is subject to competition from unregulated marketers and brokers, which generally do not bear the obligations or costs related to operating a regulated utility. We also face the risk of loss of transportation service for large industrial customers that may have the ability to build connections to interstate gas pipelines and bypass our distribution system. The renewal or replacement of the existing long-term contracts with our natural gas customers at rates sufficient to maintain current revenues and cash flows depend upon a number of factors beyond our control, including:

-- competition from other fuels;

-- the price of, and demand for, natural gas in markets served;

-- the viability of our expansion projects; and

-- the general economic impact on the industries we serve.

Our storage operations are subject to seasonality.

Our storage operations have benefited from large price swings and peaking resulting from seasonal price sensitivity through increased withdrawal charges and demand for non-storage hub services. There can be no certainty that the market for natural gas will continue to experience volatility and seasonal price sensitivity in the future at the levels previously seen. If volatility and seasonality in the natural gas industry decrease, because of increased storage capacity throughout the pipeline grid, increased production capacity or otherwise, the demand for our storage services and, therefore, the prices that we will be able to charge for those services, may decline.

We experience quarter-to-quarter fluctuations in our financial results because our natural gas sales and pipeline throughputs are affected by changes in demand for natural gas, primarily because of the weather. In particular, demand on our Elizabethtown Gas system in New Jersey fluctuates due to weather variations because of the many seasonal heating customers that are served by that system. As a result, we are subject to seasonal variations in working capital because we purchase and store natural gas supplies in the summer months for the upcoming winter heating season; however, we do not generate significant cash flows from the sale of this gas until the winter months when demand for natural gas is at its peak.

Our natural gas operations are subject to all of the risks generally associated with the transportation and storage of natural gas, and we could experience losses not covered by insurance if there is any injury or damage as a result of any accident or other incident.

Natural gas is a volatile product, and our gas operations are therefore subject to a variety of risks, including personal injuries and damage to storage facilities, pipelines, related equipment and surrounding properties caused by hurricanes, weather and other acts of God, fires and explosions, subsidence, as well as leakage of natural gas. Our storage facilities incorporate certain primary and backup equipment, which, in the event of mechanical failure, might take some time to replace. Any prolonged disruption to the operations of our distribution and storage facilities, whether due to mechanical failure, labor difficulties, destruction of or damage to such facilities, severe weather conditions, interruption of transportation or utilities service or other reasons, could have a material adverse effect on our business, results of operations and financial condition. Additionally, some of our storage contracts may obligate us to indemnify a customer for any damage or injury occurring during the period in which the customer's natural gas is in our possession. In order to minimize the effects of any such incident, we maintain insurance coverage which includes property, general liability, professional liability, and business interruption insurance; however, there is no assurance that the proceeds of any such insurance would be paid in a timely manner or be in an amount sufficient to meet our needs if such an event were to occur.

We rely on interstate pipelines and third-party natural gas production and any interruption of service or production could affect our ability to supply our customers or store natural gas.

To obtain natural gas, our distribution and storage business depends on the pipelines to which it has access. Many of these pipelines are owned by parties not affiliated with us. Any interruption of service on those pipelines or any adverse change in the terms and conditions of service could have a material adverse effect on our ability (and the ability of our customers) to transport natural gas to and from our facilities and a corresponding material adverse effect on our revenues. In addition, the rates charged by those interconnected pipelines for transportation to and from our facilities may affect the utilization and value of our services. Significant changes in the rates charged by those pipelines or the rates charged by other pipelines with which the interconnected pipelines compete could also have a material adverse effect on our revenues.

Our debt payments are subject to variations in interest rates, which we may not be able to manage.

We are exposed to changes in interest rates as a result of our issuance of variable-rate debt and our short-term bank credit facilities. As a result, our future interest payments may increase significantly if interest rates rise.

Our business is subject to many hazards from which our insurance may not adequately provide protection or coverage.

Our operations are subject to many hazards. These hazards include:

-- damage to pipelines, related equipment and surrounding properties caused by hurricanes, floods, fires and other natural disasters;

-- inadvertent damage from construction and farm equipment;

-- leakage of natural gas and other hydrocarbons;

-- fires and explosions;

-- acts of war or terrorism; and

-- other hazards, including those associated with natural gas, that could also result in personal injury and loss of life, pollution and suspension of our operations.

Although we have insurance to protect against many of these liabilities, this insurance is capped at certain levels and does not provide coverage for all liabilities. Therefore, it is possible that our insurance may not be adequate to cover all losses or liabilities that we might incur in our operations. Moreover, there is no assurance that we will be able to maintain insurance at adequate levels or at reasonable rates, and particular types of coverage may not be available in the future. Should catastrophic conditions occur that interrupt delivery of gas for any reason, such occurrence could have a material impact on the profitability of our operations.

Forward-Looking Statements

Certain statements contained in this annual report are "forward-looking statements" within the meaning of federal securities laws. The company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

-- statements as to NUI's and NUI Utilities' requirements for additional financing and the ability of NUI and NUI Utilities to extend and refinance certain of their outstanding indebtedness, including the credit facilities entered into in November 2003;

-- statements as to NUI's and NUI Utilities' expected liquidity needs during fiscal 2004, fiscal 2005 and beyond and statements as to the sources and availability of funds to meet the liquidity needs of NUI and NUI Utilities;

-- statements as to expected financial condition, performance, prospects and earnings of the company; and expected liquidity needs and sources of funds;

-- statements as to the company's possible settlement with the FPSC;

-- estimates as to the amount to be refunded to customers in Florida as a result of the investigation of NUI Energy Brokers;

-- statements as to expected rates, gas volumes, gas sales, revenues, margins, expenses and operating results;

-- statements as to industry forecasts in markets in which the company has operations;

-- statements as to the amount and sources of funding for future capital expenditures and investments of the company, including the company's estimated share of its funding commitments to its joint venture with Duke Energy;

-- statements as to the intended operations of the Saltville facility and the company's other storage and pipeline projects, including the timing of the completion and commencement of operations thereof;

-- statements as to the timing for seeking regulatory approval for its Florida East-West Pipeline project;

-- statements as to the company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;

-- statements as to the safety and reliability of the company's equipment, facilities and operations;

-- statements as to the sales process for the company, including with respect to the time frame for entering into an agreement for the sale of the company;

-- expectations as to the impact of lawsuits filed against the company and the impact of ongoing and completed legal and regulatory investigations and proceedings, including those described under Item 3. Legal Proceedings;

-- statements as to financial projections;

-- statements as to the company's plans to pursue recovery of costs associated with the environmental remediation of manufactured gas plants from ratepayers, former owners and operators and/or insurance carriers;

-- statements as to expected level of demand on the company's systems for natural gas during the term of the company's gas procurement contracts;

-- estimates as to the amount of the write-off of the company's net regulatory assets at September 30, 2003;

-- estimates as to the expected future cash flows for hedges of forecasted transactions;

-- statements as to the ability of NUI and NUI Utilities to pay dividends;

-- statements as to the company's plans to renew municipal franchises and consents in the territories its serves;

-- expectations as to the cost of cash contributions to fund the company's pension plan, including statements as to anticipated rates of return on plan assets;

-- statements as to whether the company's internal control weaknesses were addressed by management;

-- expectations as to the amount to be paid for professional fees in fiscal 2004;

-- expectations as to the expected rate of increase in interest expense as a result of the new credit facilities entered into by NUI and NUI Utilities;

-- expectations as to the level of competition that NUI Utilities will face;

-- statements as to trends;

-- statements as to whether the company's accrued tax liabilities are adequate and as to whether any settlement related to the examination of NUI's Federal income tax returns for 2000 and 2001 by the Internal Revenue Service will have a material impact on NUI's consolidated statement of operations, financial position or cash flow;

-- statements as to the amount of the over-recovery balance under City Gas' purchased gas adjustment recovery clause;

-- statements as to the company's ability to recover fixed charges under its purchased gas adjustment clauses;

-- expectations as to relations between the company and its employees, including relationships with labor unions; and

-- expectations as to the company's growth, cash flows and capital expenditures.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

-- the ability of the company to obtain necessary waivers from its lenders;

-- the ability of the company to obtain additional financing for the winter heating season;

-- the impact and outcome of ongoing investigations and lawsuits;

-- the ability of the company to prepay its natural gas obligations;

-- the effects of general economic conditions;

-- increases in competition in the markets served by the company;

-- the effects of deregulation of the energy markets, including industry restructuring and unbundling of services;

-- the ability of the company to implement successfully its strategy, including the planned sale of the company;

-- the ability of the company to control operating expenses and to achieve efficiencies in its operations;

-- the ability of the company to continue to modernize its distribution infrastructure as scheduled and budgeted;

-- the willingness of lenders and suppliers to continue to do business with the company;

-- the availability and price of insurance;

-- the availability of adequate supplies of natural gas;

-- the ability of NUI and NUI Utilities to extend their existing credit facilities for an additional 364 days, and the ability of NUI and

NUI Utilities to refinance their existing credit facilities upon termination;

-- actions taken by government regulators, including decisions on base rate-increase requests;

-- actions taken by credit rating agencies;

-- the ability of the company to recover environmental remediation costs through rates or insurance;

-- the ability of the company to attract and retain key executives and employees;

-- fluctuations in energy commodity prices;

-- weather variations and other natural phenomena;

-- acts of war or terrorism; and

-- other factors discussed elsewhere in this annual report.

Many of these factors are beyond the company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak as of the date of this annual report. The company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

Item 2. Properties

The company's utility plant includes approximately 6,200 miles of installed steel, cast iron and plastic gas mains, together with gate stations, meters and other gas equipment in the states where it distributes natural gas. In addition, the company owns peak-shaving plants, including its LNG storage facility which is located in Elizabeth, New Jersey.

The company also owns real property in Union, Middlesex, Mercer, Morris, Warren, Sussex and Hunterdon counties in New Jersey, and in Miami-Dade, Broward, Brevard, Palm Beach, Martin, Indian River and St. Lucie counties in Florida, portions of which are under lease to others. The company's properties include office buildings in Hialeah and Rockledge, Florida that serve as the principal operating offices for the Florida operations. The company also owns various service centers in New Jersey, Florida, and Maryland from which the company dispatches service crews and conducts construction and maintenance activities.

The company leases office space in Bedminster, New Jersey that serves as its corporate headquarters, and leases certain other facilities in New Jersey, Florida, Maryland and Virginia that are operated as customer business offices or operating offices. The company also leases approximately 200,000 square feet in an office building in Union, New Jersey.

Virginia Gas owns approximately 5 acres and SSLLC owns 595 acres, which in total comprise the Saltville facility. The Early Grove Field is situated on land not owned by the company.

Subject to minor exceptions and encumbrances, all other property materially important to the company and all principal plants are owned in fee simple, except that most of the mains and pipes are installed in public streets under franchise or statutory rights or are constructed on rights of way acquired from the apparent owner of the fee.

Item 3. Legal Proceedings

Class Action Litigation

Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001

and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act against the company, and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants (i) failed to disclose material facts that would impair the company's current and future earnings, including (a) the allegedly accurate amount and explanation of the company's bad debts, (b) a purportedly illegal practice by the company in "re-terminating" intrastate calls, (c) alleged accounting improprieties in connection with purportedly unearned revenue, and(d) allegedly inaccurate earnings per share information, and (ii) inflated the company's earnings materially by (a) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, (b) allegedly attributing the company's rising costs to incorrect and immaterial factors, and (c) purportedly pursuing illegal telecommunications billing practices. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. Opposition papers to the motion to dismiss were served on December 19, 2003, and reply papers were filed on February 23, 2004. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants.

No discovery has occurred and defendants' time to answer the complaint has not yet run. Although the company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

James Greiff and TIC Enterprises, Inc. Litigation.

The plaintiffs, James Greiff and TIC Enterprises, Inc., sued the company and three other company related entities, NUI Sales Management, Inc. (NUI Sales), NUI Capital Corp. and TIC, for breach of contract and fraud arising out of the company's purchase of Greiff's interest in TIC Enterprises, LLC. The plaintiffs allege they are entitled to payment on a $3 million promissory note and have made claims arising from the defendants' alleged breach of a 2001 purchase agreement for $22 million in punitive damages for the defendants' alleged fraud and $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs have also alleged a tortious interference claim for $3 million, which the court previously dismissed. The company and the remaining defendants are vigorously defending the lawsuit and deny any liability to the plaintiffs. NUI Sales and defendant TIC have a four-count counterclaim against both plaintiffs for more than $3 million. They are for: (1) breach of the 2001 Purchase Agreement; (2) breach of the 1997 Amended and Restated Limited Liability Company Agreement; (3) fraud in the inducement; and (4) unjust enrichment. This case, originally filed in the Northern District of Georgia, was recently transferred on defendants' motion to the District of Delaware.

The parties are in the midst of discovery, and have exchanged written responses and objections to discovery requests along with numerous documents. The parties have also begun taking depositions of the parties and fact witnesses. On May 2, 2004, NUI proposed a settlement to the plaintiffs in which the company agreed to pay the plaintiffs $1.4 million to completely satisfy NUI's obligation under the note, as well as to resolve all other claims that the company and the plaintiffs had brought against each other. On May 5, 2004, NUI received the plaintiffs' written acceptance of the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under the note from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003.

Flint Energy Construction Co., Inc. and Virginia Gas Pipeline Company Litigation

Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in June of 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc. v. TIC, Nortel Networks, Inc. and Sherry Hutto Walton.

Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of approximately $83,000. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by plaintiff on certain issues. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing. At this time, the company is unable to determine the likelihood of an outcome.

The company is also involved in various other claims and litigation incidental to its business. In the opinion of management, none of these other claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

NJBPU Focused Audit and Regulatory Orders

As a result of NUI and NUI Utilities' credit downgrades during 2003, negative credit rating comments and concerns raised during a routine competitive services audit of Elizabethtown Gas conducted by the NJBPU, in March 2003 the NJBPU ordered a focused audit of NUI, NUI Utilities and Elizabethtown Gas in six key areas: (1) strategic planning; (2) affiliate transactions; (3) financial structure and interaction; (4) accounting and property records; (5) corporate governance; and (6) executive compensation. The NJBPU retained The Liberty Consulting Group (Liberty) as the auditors for the focused audit. On March 17, 2004, the NJBPU released the final report for the focused audit, which, among other things, cited weaknesses in each of the foregoing six areas. Described below under the heading Focused Audit Report is a summary of the final report filed with the NJBPU by Liberty and a summary of the terms of the settlement agreement entered into on April 13, 2004 among NUI, NUI Utilities, Elizabethtown Gas and the NJBPU regarding the issues raised in the focused audit.

In addition, the NJBPU also issued a series of regulatory orders to NUI, NUI Utilities, and Elizabethtown Gas during calendar 2003 and 2004, concerning, among other things, a number of the issues which were the subject of the focused audit. These are discussed in more detail below under the heading Regulatory Orders.

Focused Audit Report

On December 17, 2003, Liberty published an interim audit report which presented the auditors' description of key events and activities, as well as their findings and conclusions through that date. The final audit report was accepted and released by the NJBPU on March 17, 2004. NUI filed responsive comments on March 26, 2004.

The audit report cites weaknesses and areas of concern. However, the report also points out that Elizabethtown Gas consistently provided safe and reliable service to its customers during the period under audit.

Strategic Planning. The audit report states that NUI was too aggressive in planning for non-utility growth, with overly optimistic goals for earnings growth, return on equity and revenues. NUI's decision to enter into various non-utility services areas, in particular telecommunications and environmental, were alleged to be too optimistic and based on incorrect assumptions given the economic climate of the applicable industries, and resulted in significant losses and write-downs. The report also states that NUI did not exercise sufficient control over capital budgeting and reporting for its non-utility investments, that management did not keep directors sufficiently informed about developing financial problems, and that delays and changes to capital and expense budgets adversely affected the management of Elizabethtown Gas.

Affiliate Transactions. The audit report states that the non-utility operations of NUI relied inappropriately on the utilities for funding of operation and support costs. It also discusses problems with the allocation of costs, including costs associated with owned and leased properties; the lack of arms-length negotiations and agreements with affiliates or analysis of marketplace alternatives; the incorrect classification of intercompany accounts and notes payable; and the failure to memorialize or properly document various service agreements or file any such agreements with the NJBPU, as required by the March 1, 2001 holding company order.

The audit report also describes certain questionable transactions involving NUI Energy Brokers, which was the focus of the independent investigation by NUI's Audit Committee, as described below.

Financial Structure and Interaction. The audit report's analysis of NUI Utilities' credit rating problems states that, despite the profitability and stability of NUI Utilities' operations, the lack of proper insulation of NUI's utility businesses from the non-utility businesses caused NUI Utilities' credit ratings to decline, as the result of NUI's non-utility company problems. The audit report states that NUI Utilities' cash had been inappropriately pooled with the cash of other business units of NUI. Also, it states that the company failed to document intercompany cash transfers and failed to settle balances between companies on a regular basis, leading to problems with reconciliation and unreasonable loans from NUI Utilities and its operating divisions to non-utility operations, all in violation of the NJBPU's holding company order. The audit report states that NUI used funds derived from NUI Utilities' credit agreements to fund non-utility investments and operations. In addition, the audit report states that NUI's senior notes placed limitations on NUI Utilities' operating ability and that the various amendments to and refinancing of NUI's credit agreements, which led to onerous provisions in NUI Utilities' credit agreements, were not necessary. The audit report notes that NUI has since reengineered its cash management structure to separate the cash of NUI Utilities from non-utility cash, and has begun to operate under this new structure.

The audit report is generally critical of NUI's weakness in cash forecasting and its general liquidity handling. The audit report also questions NUI's actions surrounding its 2002 equity sale, stating that NUI used the funds therefrom as a means to fund non-utility operating losses and that such funds were inappropriately included in Elizabethtown Gas' capital structure ahead of a base rate hearing, most likely affecting the outcome.

Accounting and Property Records. The audit report states various accounting concerns and weaknesses, in particular:

-- Inappropriate and inaccurate treatment of intercompany payable and receivable balances,

-- Inappropriate use of a common cash pool,

-- Lack of a formal cash management agreement,

-- Weaknesses in internal controls for accounts payable and receivable,

-- Lack of formal or appropriate policies and procedures in certain accounting functions, and

-- The need to audit procedures for fixed asset and continuing property records functions.

Corporate Governance. The audit report states that the Board's committee structure reflects a reasonable division of authority and responsibility for the various Board functions, and a review of committee activities indicates that there has been a focus on relevant matters; Board members have a reasonably substantiated time commitment to NUI matters; director attendance of Board and committee meetings has been good and directors received information to prepare for meetings with sufficient time; and the Audit Committee's practices and procedures were generally in keeping with the requirements or proposed requirements of the Sarbanes-Oxley Act and the securities exchanges. The audit report also notes certain weaknesses: retention of the Board's records has been deficient; the Board was too small and lacked appropriate utility operating and regulatory experience and focus; until recently the Board lacked formal nominating procedures and policies; the Board was not sufficiently informed about Elizabethtown Gas' operations; the oversight of subsidiary boards could have been improved; and the Board relied too heavily on management for evaluating new ventures and for ensuring compliance with the holding company order, which led to several instances of non compliance. In particular, the report states that NUI failed to comply with key provisions of the holding company order and that NUI has demonstrated a lack of understanding of what such order entails.

Executive Compensation. The audit report finds that the structure and administration of executive compensation have been reasonable and the change in control agreements are representative. However, the audit report states that NUI's executive and director compensation has been based on an inappropriate peer group, and as a result compensation became too high. In addition, the audit report finds that the Board has at times overridden the terms of incentive programs and paid bonuses to executives when goals have not been met. The audit report further states that the Board's fees are too high, and the company's consulting agreement with its Chairman, a former NUI executive, which ended on March 31, 2004, has remained in place too long. In addition, the audit report states that Elizabethtown Gas bears too much of executive compensation costs, while compensation of Elizabethtown Gas' advisory board members should be increased. Furthermore, the audit report notes that the company's policy of paying directors in stock instead of cash and requiring directors and executives to own specified minimum amounts of company stock is desirable and helps align the interests of directors and executives with those of stockholders.

Company Response. The company filed its response to the final audit report on March 26, 2004. As indicated in its response, although NUI did not agree with many of the statements and findings in the report, NUI has implemented a number of important changes in areas examined by the audit report including:

-- engaging in a comprehensive process to re-engineer its cash management operations;

-- implementing cash segregation policies and practices as of September 1, 2003 so that the cash of NUI Utilities is no longer pooled with that of NUI's non-utility subsidiaries;

-- conducting monthly reconciliation and payment of intercompany balances, which included the repayment by NUI, in full, on November 24, 2003 of the $85 million intercompany receivable owed to NUI Utilities;

-- strengthening internal controls for accounts payable and receivable;

-- creating a cash management policy with formal policies and procedures in the accounting function; and

-- entering into new credit facilities which eliminated certain provisions limiting NUI Utilities' operating flexibility.

NUI Utilities has expanded its Board and increased its responsibilities to strengthen the independence of the utilities operations. Both NUI and NUI Utilities have also implemented significant changes in senior management.

Summary of Settlement Agreement with the NJBPU

On April 14, 2004, the company announced that NUI, NUI Utilities and Elizabethtown Gas Company had entered into a settlement agreement with the NJBPU on all issues related to the focused audit, and on April 26, 2004, the NJBPU issued a Final Order accepting and adopting that settlement agreement. Pursuant to the settlement agreement, NUI Utilities agreed to refund $28 million plus interest to Elizabethtown Gas ratepayers and to pay a $2 million penalty to the State of New Jersey over five years. The $28 million will be credited to ratepayers as follows: $7 million in NUI's fiscal year 2004, $6 million in NUI's fiscal year 2005 and $5 million in each of NUI's fiscal years 2006, 2007 and 2008. The $2 million penalty shall be paid in $400,000 annual installments in each of NUI's fiscal years 2004 through 2008. The company has the option to make a balloon payment of all outstanding amounts due under the terms of the settlement agreement at any time. In addition, upon the close of a sale of the company, any outstanding balance is required to be paid in full by the company within a period to be determined by the NJBPU. The refund and penalty increased the company's net after-tax loss for fiscal year 2003 by approximately $18.6 million, or $1.16 per share.

In addition to the required monetary refund and penalty, NUI agreed to file a plan with the NJPBU for implementing the recommendations of the Liberty report, as modified by the settlement. The settlement agreement also contains a number of other provisions, including, without limitation:

-- The company shall continue to use its existing cost allocation policy until the earlier of the sale of the company or 18 months from the date the settlement agreement was adopted as final;

-- The company and the NJBPU agree that an appropriate target equity percentage for Elizabethtown Gas shall be 45 percent and if the average equity percentage for the preceding twelve months falls below 45 percent, the company shall provide the NJBPU with a written plan on how the 45 percent equity capital will be reinstated;

-- The company agrees to maintain a separate cash management system for NUI Utilities and is prohibited from commingling cash of Elizabethtown Gas or of NUI Utilities with the cash of NUI or of non-utilities affiliates of NUI;

-- The company shall provide the NJBPU with various financial statements of NUI Utilities and Elizabethtown Gas;

-- The pre-approval by the NJBPU is required for various intercompany arrangements and for certain financing arrangements and certain other transactions that could impact the assets or operations of Elizabethtown Gas or NUI Utilities;

-- NUI Utilities shall have different management and a separate Board of Directors from NUI responsible for utility operations although NUI and NUI Utilities may have up to three common directors; and

-- The company agrees to settle all receivables and payables for allowed intercompany transactions on a monthly basis in accordance with a matrix developed by the company and the NJBPU.

The terms of the settlement agreement (1) do not prohibit the payment of dividends to NUI or the settlement of monthly intercompany balances, (2) do not waive or alter the requirements of any existing Order of the NJBPU and (3) are not binding on any purchaser of the company, except that, upon closing of the sale, any outstanding refund and penalty balance are required to be paid in full by the company within a period of time to be determined by the NJBPU. The company's agreement to the terms of the settlement is not an acknowledgement of non-compliance with any law, regulation or NJBPU Order or requirement. The settlement agreement resolves all issues identified in the final Liberty audit report without acknowledgement or admission by the company as to the correctness of any issue or that any specific issue forms the basis or any part of the basis for the payments described above. The settlement provides that no further civil action shall be taken by the NJBPU. The NJBPU retains the authority to impose any requirements or conditions on a purchaser upon a petition for approval of a sale of the company.

Regulatory Orders

On September 16, 2003, the NJBPU, in connection with its approval of a provisional increase in Elizabethtown Gas' BGSS rate, ordered NUI to provide (1) written assurances that the approved revenues would be used solely for Elizabethtown Gas and (2) an acceptable plan whereby NUI and any other subsidiaries would repay Elizabethtown Gas for any money owed to it. In addition, NUI and NUI Utilities were ordered to continue to cooperate with the focused audit, participate in weekly meetings to review their financial integrity and comply with existing NJBPU Orders, and NUI Utilities was ordered to refrain from issuing any special dividends (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities) without the prior approval of the NJBPU. After the September 26, 2003 announcement by NUI of its intention to sell the company, the NJBPU issued an Order dated October 30, 2003, ordering NUI to: (1) provide information to the NJBPU concerning its compensation packages; (2) provide assurances that Elizabethtown Gas' immediate and short-term liquidity needs would be met; (3) provide the NJBPU with all information necessary to assess the sufficiency of funding of NUI's pension and other post-retirement plans; and (4) present a detailed plan and schedule for preparing the company for sale, for operating during the sale process and for conducting sale activities in order to assure the NJBPU that the process of selling NUI would be transparent, independent, and timely. In addition, the NJBPU ordered NUI to protect the utility employees of Elizabethtown Gas during the sale process, inform the NJBPU of the progress of the 2003 fiscal year-end audit of the company's financial statements being conducted by PricewaterhouseCoopers LLP (PwC) and amend its consulting agreement with FTI Consultants. In October 2003, the company employed FTI Consultants to manage its financial operations and develop new liquidity forecasts.

Pending its review of the interim focused audit report, on December 11, 2003, the NJBPU issued an Order in which NUI Utilities and Elizabethtown Gas were directed to cease purchasing gas from NUI Energy Brokers upon approval of a new gas supply procurement and energy asset management plan, which was to be submitted to the NJBPU by January 2, 2004 for the NJBPU to approve by January 8, 2004. Further, per the Order, NUI Utilities is prohibited from issuing special dividend payments (i.e., extraordinary dividends not in accordance with the historical practices of the Board of Directors of NUI Utilities); and Elizabethtown Gas shall not pay any allocated costs of any agreements, retainers or arrangements for professional services and other expenditures incurred in connection with, or as a result of, the focused audit and/or financial difficulties of NUI unless approved by the NJBPU.

In its Order dated January 14, 2004, the NJBPU accepted the plan submitted by NUI Utilities and Elizabethtown Gas which transferred the management of NUI Utilities' and Elizabethtown Gas' gas supply assets to NJRES through March 31, 2004. The NJBPU further directed NUI Utilities to file a procedure with the NJBPU for the competitive procurement of gas supply management services for the period commencing April 1, 2004 through March 31, 2005. In the event NJRES was not selected to continue to provide services to NUI Utilities as a result of the bid process, the NJBPU directed NUI Utilities to pay an early termination fee.

NUI Utilities filed a procedure for competitive procurement of gas supply management services, which was approved by the NJBPU on February 11, 2004. NUI Utilities instituted a process for receiving bids for gas supply and capacity management services to the company's New Jersey, Florida and Maryland utility divisions. The company requested bidders to provide bids in one of three ways: (1) on the basis of a fixed payment to the company reflecting the value of the company's energy assets, (2) on the basis of sharing

credits and/or margins derived from capacity release and off-system sales activities, or (3) on the basis of a fee tied to the volume of capacity in excess of the company's requirements multiplied by a measure of the market value tied to available published indices. The company received multiple bids from nine third-party suppliers. As a result of this process, NUI Utilities selected Cinergy to provide a full requirements gas supply contract with least cost dispatch rights. The contract covers the period from April 1, 2004 through March 31, 2005 and provides a fixed payment to NUI Utilities for the use of NUI Utilities gas and deliverability assets for the twelve months ended March 31, 2005. The NJBPU approved the selection of Cinergy as the company's gas and capacity management services provider on April 14, 2004.

Investigations of NUI Energy Brokers

Through January 2004, NUI Energy Brokers served as NUI Utilities' and Elizabethtown Gas' agent for purchasing gas and managing their utilization of their pipeline, storage and peaking contracts and assets. NUI Energy Brokers and Elizabethtown Gas were also parties to a contract pursuant to which Elizabethtown Gas purchased certain firm gas supplies from NUI Energy Brokers. NUI Energy Brokers also arranged financial transactions on behalf of Elizabethtown Gas relating to its gas procurement needs.

In early November 2003, as the result of the focused audit conducted by Liberty, the Board of Directors of the company became aware of allegations of inappropriate conduct by employees of NUI Energy Brokers. Some employees of NUI Energy Brokers allegedly had engaged in activities that improperly benefited NUI Energy Brokers at the expense of Elizabethtown Gas. The Audit Committee of the Board retained an independent outside counsel to assist it in conducting an independent investigation into the allegations and report the findings and conclusions to the Audit Committee.

As a result of its investigation, the independent counsel concluded that while NUI had established NUI Energy Brokers with internal controls designed to protect Elizabethtown Gas' assets, NUI Energy Brokers traders often ignored or circumvented these controls. The NUI Energy Brokers bonus/commission plan created an incentive for NUI Energy Brokers traders and other NUI employees who participated in the bonus/commission plan to engage in conduct that favored NUI Energy Brokers over Elizabethtown Gas or to remain silent if they observed conduct that allowed NUI Energy Brokers to benefit at Elizabethtown Gas' expense. The independent counsel concluded that the maximum amount of lost margin to Elizabethtown Gas as a result of NUI Energy Brokers' failure to obtain for Elizabethtown Gas NUI Energy Brokers' best or weighted average price of the day for comparable transactions was approximately $6.5 million over a five year period. The independent counsel also concluded that NUI Energy Brokers recorded as income a discount of $1.3 million that a counterparty gave for an early settlement of a deferred payment transaction. In addition, the independent counsel concluded that the maximum amount of lost margin to City Gas as a result of NUI Energy Brokers' failure to obtain for City Gas the best or weighted average price of the day for comparable transactions was approximately $2.6 million, for which amount the company has recorded a pre-tax reserve at September 2003. The independent counsel also reached conclusions with respect to the conduct of various employees. Based upon these conclusions, the Audit Committee recommended that the Board of Directors of NUI take certain personnel actions, which recommendation the NUI Board of Directors effected.

The Attorney General of the State of New Jersey is conducting a criminal investigation relating to NUI Energy Brokers. In connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. NUI is cooperating fully with the New Jersey Attorney General's Office.

In November 2003, the SEC advised the company that it is conducting an informal inquiry relating to NUI Energy Brokers. On March 1, 2004, the SEC requested NUI to produce voluntarily certain documents in furtherance of its informal inquiry. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was presented for submission to a vote of security holders through the solicitation of proxies or otherwise during the last quarter of fiscal 2003.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Information

NUI common stock is listed on the New York Stock Exchange and is traded under the symbol "NUI". The quarterly cash dividends paid and the reported price range per share of NUI common stock for the two years ended September 30, 2003, were as follows:

	Quarterly Cash Dividend	Price Range High	Low
Fiscal 2003:			
First Quarter	$0.245	$22.25	$9.65
Second Quarter	0.245	17.40	13.13
Third Quarter	0.245	17.17	13.20
Fourth Quarter	0.245	17.40	14.60
Fiscal 2002:			
First Quarter	$0.245	$24.40	$20.18

Second Quarter	0.245	25.00	21.35
Third Quarter	0.245	27.50	24.24
Fourth Quarter	0.245	27.45	15.87

(b) Approximate Number of Holders of Common Stock

There were 4,721 shareholders of record of NUI common stock at April 30, 2004.

(c) Dividends

NUI's dividend policy is reviewed on an ongoing basis and is dependent upon NUI's expectation of future earnings, cash flow, financial condition, capital requirements and other factors. On November 25, 2003, NUI's Board of Directors indicated its intention to permanently reduce the dividend rate on NUI's common stock by 47 percent beginning with the March 2004 dividend payment. On this basis, the quarterly dividend on NUI's common stock would be $0.13 per share, representing an annual dividend rate of $0.52 per share following the reduction. However, under the amendment to NUI's credit facility entered into on May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time and expects to be unable to pay dividends for the foreseeable future.

(d) Sale of Unregistered Securities

Common Stock Issued in Conjunction with Acquisitions. Pursuant to the Stock Purchase Agreement between the company and Mr. H.A. Street and Mrs. Edith Street (the Streets), on October 5, 2001, the company issued to each of the Streets 72,324 (144,648 total) unregistered shares of NUI common stock as partial consideration for each of the Streets' respective 25 percent ownership of VGDC and VGSC. The shares were issued under a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933 under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933. The company did not issue any shares of unregistered securities during fiscal years 2003 or 2001.

Item 6. Selected Financial Data

Selected Consolidated Financial Data
(in thousands, except per share amounts)

	Fiscal Years Ended September 30,				
	2003	2002	2001	2000	1999
Operating Revenues	$652,377	$519,872	$646,006	$494,763	$435,757
Income (Loss) from Continuing Operations	$(11,317)	$16,051	$27,454	$19,483	$23,271
Net Income (Loss)	$(45,149)	$(15,888)	$ 16,313	$20,558	$24,560
Basic and Diluted Income (Loss) from Continuing Operations Per Share	$(0.71)	$ 1.08	$2.05	$1.51	$1.83
Basic and Diluted Net Income (Loss) Per Share	$(2.82)	$(1.06)	$1.22	$1.59	$1.93
Dividends Paid Per Share	$0.98	$ 0.98	$0.98	$0.98	$0.98
Total Assets	$1,020,763	$1,038,982	$1,146,391	$911,268	$844,226
Capital Lease Obligations	$9,798	$10,743	$3,188	$4,191	$2,599
Long-Term Debt	$309,053	$309,017	$308,989	$268,947	$268,911
Common Shareholders' Equity	$230,115	$288,252	$274,727	$250,896	$237,318
Common Shares Outstanding	16,025	15,990	13,755	12,983	12,750

Notes to the Selected Consolidated Financial Data:

Net loss for fiscal 2003 includes impairment charges to adjust the carrying value of assets being held for sale in conjunction with the company's decision to sell its NUI Telecom subsidiary, which decreased net income by approximately $25.5 million (after-tax), or $1.59 per share, and a cumulative effect of a change in accounting charge due to the adoption of EITF 02-03, "Issues Involved in Accounting for Contracts Under EITF 98-10," which decreased net income by $5.9 million (after-tax), or $0.36 per share. The net loss also includes charges recorded in connection with the settlement of the focused audit conducted by the NJBPU, which decreased net income by approximately $18.6 million (after-tax), or $1.16 per share. The company has established a reserve of $1.6 million (after-tax), or $0.10 per share, in anticipation of a similar settlement with the Florida Public Service Commission.

In fiscal 2002, the company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." Accordingly, the results of operations of those NUI entities that have been or will be disposed of and meet the applicable accounting criteria have been reported as discontinued operations for all years presented. See Note 11 of the Notes to the Consolidated Financial Statements for a further discussion of discontinued operations.

Net loss for fiscal 2002 includes a cumulative effect of a change in accounting charge due to the adoption of Statement of Financial

Accounting Standards No. 142, "Goodwill and Intangible Assets," which decreased net income by $17.6 million (after tax), or $1.18 per share.

During fiscal 2002, the company adopted the net basis reporting provision of EITF 02-03, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." See Note 1 of the Notes to the Consolidated Financial Statements.

Net income for fiscal 2000 includes a gain on the sale of assets, which increased net income by $1.7 million (after tax), or $0.13 per share.

Net income for fiscal 1999 includes a pension settlement gain and other non-recurring items. The effect of these items increased net income by $2.3 million (after tax), or $0.18 per share.

Summary Consolidated Operating Data

	Fiscal Years Ended September 30,				
	2003	2002	2001	2000	1999
Operating Revenues (Dollars in thousands)					
Firm Sales:					
Residential	$272,582	$231,698	$272,446	$208,440	$197,799
Commercial and Industrial	112,995	91,872	128,007	94,686	90,979
Interruptible Sales	62,636	41,339	80,804	63,370	49,110
Unregulated Sales	123,536	101,236	135,610	96,296	65,464
Transportation Services	48,675	47,195	40,737	41,594	37,634
Telecommunications, Customer Service and Other	82,864	75,114	46,063	24,271	18,351
Total Revenues	703,288	588,454	703,667	528,657	459,337
Revenues by Discontinued Operations	(50,911)	(68,582)	(57,661)	(33,894)	(23,580)
Operating Revenues from Continuing Operations	$652,377	$519,872	$646,006	$494,763	$435,757
Gas Sold or Transported (MMcf)					
Firm Sales:					
Residential	25,449	21,183	25,148	23,167	22,064
Commercial and Industrial	11,342	9,982	12,984	12,269	12,642
Interruptible Sales	9,790	10,975	13,380	15,929	16,420
Unregulated Sales	86,759	103,718	94,972	145,642	168,748
Transportation Services	35,464	39,558	35,205	35,235	32,602
Total Gas Sold or Transported	168,804	185,416	181,689	232,242	252,476
Gas Sold or Transported by Discontinued Operations	(239)	(6,790)	(6,863)	(8,042)	(7,839)
Gas Sold or Transported by Continuing Operations	168,565	178,626	174,826	224,200	244,637
Average Utility Customers Served					
Firm Sales:					
Residential	346,860	356,933	353,397	348,626	344,448
Commercial and Industrial	22,982	24,322	24,111	23,727	23,574
Interruptible Sales	30	40	47	45	56
Transportation Services	4,065	4,064	3,854	3,787	3,535
Total Average Utility Customers Served	373,937	385,359	381,409	376,185	371,613
Average Utility Customers Served by Discontinued Operations	(6,548)	(20,716)	(20,637)	(20,068)	(20,294)
Average Utility Customers Served by Continuing Operations	367,389	364,643	360,772	356,117	351,319
Degree Days in New Jersey	5,421	3,973	5,036	4,579	4,381
Employees (year-end)	1,081	1,144	1,599	1,078	1,049
Ratio of Earnings to Fixed Charges	0.66(a)	1.85	2.29	2.30	2.58

(a) For the fiscal year ended September 30, 2003, the company's pre-tax earnings were inadequate to cover its fixed charges for the year. The amount of such earnings deficiency for the year was $10.5 million pre-tax.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussions of the company's historical results of operations and financial condition should be read in conjunction with the company's consolidated financial statements and the related notes.

Overview

The company is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. Its local utility operations are carried out by NUI Utilities and its operating divisions, as well as through a subsidiary of Virginia Gas Company (VGC). NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas

Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. The company is also engaged in several non-regulated businesses through NUI Capital and its subsidiaries, which in fiscal 2003 included NUI Energy, NUI Energy Brokers, NUI Environmental, UBS, NUI Telecom and TIC. In addition, through NUISS, the company is a fifty-percent member of SSLLC, a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia.

The company's growth strategy has not produced the results the company had anticipated and, as a result, the company experienced significant losses and write-offs in its non-utility businesses during fiscal years 2001, 2002 and 2003. After a series of defaults under the then existing credit facilities of NUI and NUI Utilities and the resulting refinancing of such debt in early fiscal 2002, the company began selling off or discontinuing the operations of certain non-core businesses as a means of generating liquidity and cutting costs. In February 2003, NUI and NUI Utilities entered into new revolving credit agreements, which were amended in August 2003 as a result of certain defaults.

During fiscal 2003, the company considered several alternate financing plans aimed at restoring the credit worthiness of the company, but none of these plans were deemed viable. The company also sold or announced its intention to sell most of its non-core businesses in an attempt to raise capital and reduce losses. Finally, on September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to assist it in the sale.

On November 24, 2003, NUI and NUI Utilities obtained a $405 million 364-day credit facility financing package. See Liquidity and Capital Resources for a further discussion of the use of these proceeds and the terms of the credit agreements.

As described below in Liquidity and Capital Resources, NUI and NUI Utilities are likely to have additional liquidity needs beginning in the 2004-2005 winter season, as a result of, among other things, the pre-payment requirements of NUI Utilities' gas supply, delivery and storage requirements and the NJBPU settlement. In addition, NUI and NUI Utilities will be required to refinance or extend their respective existing bank indebtedness in November 2004. Even if NUI and NUI Utilities are able to extend their respective existing bank indebtedness in November 2004, NUI and NUI Utilities would still have to refinance their respective existing bank indebtedness in November 2005.

Discussion of Critical Accounting Policies and Assumptions

In preparing our financial statements, the application of certain accounting policies requires difficult, subjective and/or complex judgments. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the impact of matters that are inherently uncertain. Actual effects on our financial position and results of operations may vary significantly from expected results if the judgments and assumptions underlying the estimates prove to be inaccurate. The critical accounting policies requiring such subjectivity are discussed below.

Valuation of Goodwill. NUI records goodwill on purchase transactions, representing the excess of acquisition cost over the fair value of net assets acquired. In testing for goodwill impairment under Statement of Financial Accounting Standards (SFAS) 142 "Goodwill and Other Intangible Assets," significant reliance is placed upon a number of estimates regarding future performance that require broad assumptions and significant judgment by management. A change in the fair value of our investments could cause a significant change in the carrying value of goodwill. The assumptions used to measure the fair value of our investments are the same as those used by us to prepare yearly operating segment and consolidated earnings and cash flow forecasts. In addition, these assumptions are used to set yearly budgetary guidelines.

NUI currently has $8.1 million of goodwill, all of which is recorded at VGC. As permitted under SFAS 142, we can rely on our previous valuations for the annual impairment testing provided that the following criteria are met: (a) the assets and liabilities of VGC have not changed significantly since the most recent fair value determination; and (b) the most recent fair value determination resulted in an amount that exceeded the carrying amount by a substantial margin and there is no economic indication that the carrying value of goodwill may be impaired. In the case of VGC, the above criteria have been met and therefore, there was no impairment to goodwill in fiscal 2003.

In determining the fair value for its investment in VGC, an income valuation and discounted cash flow valuation approach was used to estimate the fair market value for VGC. Under the income valuation approach, the fair value of a company is obtained by discounting the sum of (i) the expected future cash flows of the company; and (ii) the terminal value of a company. The discount factor used in the discounted cash flow calculation is the company's weighted-average cost of capital. NUI was required to make certain significant assumptions in the income approach, specifically the weighted-average cost of capital, short and long-term growth rates and expected future cash flows.

As a result of our valuation, management has determined that the fair value of the assets of VGC adequately exceeds their carrying value and no impairment charge is necessary. Management will continue to review and focus on our overall strategy for this business unit and accordingly will continue to evaluate the related carrying value of the goodwill. While we believe that our assumptions are reasonable, actual results, however, may differ from our projections.

Accounting for the Effects of Rate Regulation on Gas Distribution Operations. The financial statements of the company's regulated gas utility operations reflect the ratemaking policies and orders of the public utility commissions of the states in which the company operates. The regulated gas utilities are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." This statement recognizes the actions of regulators, through the ratemaking process, to create future economic benefits

and obligations affecting rate-regulated companies. SFAS 71 allows for the deferral of expenses and income on the consolidated balance sheet as regulatory assets and liabilities when it is probable that those expenses and income will be allowed in the rate setting process in a period different from the period in which they would have been reflected in the consolidated statements of income of an unregulated company. These deferred regulatory assets and liabilities are then recognized in the consolidated statement of income in the period in which the amounts are reflected in rates.

Rate regulation is undergoing significant change as regulators and customers seek lower prices for utility service and greater competition among energy service providers. In the event that regulation significantly changes the opportunity for us to recover costs in the future, all or a portion of our regulated operations may no longer meet the criteria for the application of SFAS 71. In that event, a write-down of our existing regulatory assets and liabilities could result. If we were unable to continue to apply the provisions of SFAS 71 for any of our rate regulated subsidiaries, we would apply the provisions of SFAS 101 "Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71." We estimate that the write-off of our net regulatory assets at September 30, 2003 would result in a charge to net income of approximately $39.3 million or $2.45 per share, which would be classified as an extraordinary item. In management's opinion, our regulated subsidiaries that currently are subject to the provisions of SFAS 71 will continue to be subject to SFAS 71 for the foreseeable future.

Pension and Other Postretirement Benefits. As discussed in Note 20 to the Consolidated Financial Statements, "Retirement and Other Benefits," NUI participates in both non-contributory defined benefit pension plans, as well as other post-retirement benefit (OPEB) plans (collectively postretirement plans). NUI's reported costs of providing pension and OPEB benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Postretirement costs are impacted by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also impact current and future postretirement costs. Postretirement costs may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the postretirement costs and benefit obligations. For example, holding all other assumptions constant, a one-half percent decrease in the expected return on assets would increase pension expense by approximately $0.5 million. Likewise, a one-half percent decrease in the discount rate would increase pension expense by $1.3 million. Actual results that differ from our assumptions are accumulated and amortized over ten years. The company's gas distribution operations are subject to SFAS 71, and, as a result, changes in postretirement expenses are deferred for future recovery.

For fiscal 2003, the assumed long-term rate of return on our postretirement plans' assets was 9.25 percent (pre-tax), net of expenses. This is an appropriate long-term expected rate of return on assets based on NUI's investment strategy, asset allocation and the historical performance of equity investments over long periods of time. The company's pension fund assets are invested approximately 70 percent in publicly traded equity securities and approximately 30 percent in publicly traded debt securities.

The fiscal year-end September 30, 2003 assumed discount rate used to determine postretirement obligations was 6.0 percent. Our discount rate assumption is based upon the current investment yield associated with rating agency indices that have high quality long-term corporate bonds.

Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. The salary growth assumptions reflect our long-term outlook.

Valuation of Derivative Instruments. The company's NUI Energy Brokers subsidiary marks-to-market through the income statement all trading positions, including forward sales and purchase commitments for energy-related contracts that meet the definition of a derivative under SFAS 133. This subsidiary records operating revenues net of purchased gas costs in accordance with the provisions of EITF 02-03. See Note 1 to the Consolidated Financial Statements-New Accounting Standards for further discussion of EITF 02-03.

For those derivative instruments designated as cash flow hedges under SFAS 133, changes in the market value are recorded in other comprehensive income on the Consolidated Balance Sheet, (in line with effectiveness measurements) and are recorded through earnings at the time of settlement. Hedge effectiveness is dependent upon various factors such as the use of hedge contracts with market points that are different from the underlying transaction, and to the extent hedge contracts are deemed ineffective, that portion will impact earnings. At September 30, 2003, there was no hedge ineffectiveness recognized in earnings.

Elizabethtown Gas utilizes derivative financial instruments to reduce cash flow variability associated with the purchase price for a portion of future natural gas purchases for our regulated gas distribution activities; the accounting for such derivative instruments is subject to SFAS 71. Changes in the market value of these derivative instruments are recorded as regulatory assets and liabilities, as appropriate, on the Consolidated Balance Sheet.

When available, quoted market prices are used to record a derivative contract's fair value. However market values for certain derivative contracts may not be readily available or determinable. If no active market exists for a commodity, a specific contract type, or for the entire term of a contract's duration, fair values are based on pricing models. Such models employ matrix pricing based on contracts with similar terms and risks, including pricing based on broker quotes and industry publications. NUI Energy Brokers validates its internally developed fair values by using forecasted market information and mathematical extrapolation techniques. In addition, for hedges of forecasted transactions, NUI Energy Brokers estimates the expected future cash flows of the forecasted transactions, as well as evaluates the probability of occurrence and timing of such transactions. Changes in market conditions or the occurrence of unforeseen events could affect the timing of recognition of changes in fair value of certain hedging derivatives.

See Note 18 of the Consolidated Financial Statements and Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a

further description of all our derivative instruments.

Commitments and Contingencies. During the normal course of business, the company is subject to proceedings, lawsuits and other claims related to environmental, labor and other matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of liability to be recorded, if any, for these contingencies is made after careful analysis of each individual matter. The liability recorded may change in the future due to new developments in any of such matters.

Effects of Inflation

The company's tariffs associated with its utility operating divisions provide purchased gas adjustment clauses through which rates charged to customers are adjusted for changes in the cost of gas on a reasonably current basis. Increases in other utility costs and expenses not otherwise offset by increases in revenues or reductions in other expenses could have an adverse effect on earnings due to the time lag associated with obtaining regulatory approval to recover such increased costs and expenses, and the uncertainty of whether regulatory commissions will allow full recovery of such increased costs and expenses.

Results of Operations

Consolidated Review of Results of Operations

The following discussion is intended to provide an overview of consolidated results for fiscal years 2003, 2002 and 2001. Following this discussion is a more detailed overview of the results for NUI's three business segments.

Net Income (Loss). NUI incurred a net loss for fiscal 2003 of $45.1 million, or $2.82 per share, as compared with a net loss of $15.9 million, or $1.06 per share in fiscal 2002, and net income of $16.3 million, or $1.22 per share, in fiscal 2001. The higher net loss of approximately $29.2 million during fiscal 2003, as compared to fiscal 2002, was due to reduced income from continuing operations of $27.4 million, primarily due to the company recording a charge of $30.0 million as a settlement of a focused audit conducted by the NJBPU (see Item 3. Legal Proceedings), a charge of $2.6 million as an estimate of amounts to be refunded to customers in Florida as a result of the investigation of the company's NUI Energy Brokers subsidiary (see Item 3. Legal Proceedings-Investigations of NUI Energy Brokers), and increased losses from discontinued operations of approximately $13.7 million, primarily as a result of non-cash charges to write-down the carrying value of assets being held for sale to their fair market value, in conjunction with the company's decision to sell its NUI Telecom subsidiary (see additional discussion of Discontinued Operations which follows and Notes 9, 10 and 11 to the Notes to the Consolidated Financial Statements). During fiscal 2003, the company had increased operations and maintenance costs of approximately $31.0 million, as compared to fiscal 2002, which was partially offset by increased operating margins of $24.2 million, primarily as a result of the factors discussed under Income from Continuing Operations. Lower charges for changes in accounting of approximately $11.8 million during the current fiscal year period partially offset the increased net loss (see Notes 1 and 9 of the Notes to the Consolidated Financial Statements).

The decrease in net income of $32.2 million during fiscal 2002, as compared to fiscal 2001, was due to the company's adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets," which resulted in a one-time, non-cash transitional impairment charge of $17.6 million (after-tax), or $1.18 per share (see Note 9 to the Notes to the Consolidated Financial Statements), reduced income from continuing operations of approximately $11.4 million (which is discussed further below), and higher losses by discontinued operations of approximately $3.2 million, primarily as a result of losses incurred by certain product lines within TIC.

Income (Loss) from Continuing Operations. Loss from continuing operations was $11.3 million, or $0.71 per share, compared with income from continuing operations of $16.1 million, or $1.08 per share, in fiscal 2002, and $27.5 million, or $2.05 per share, in fiscal 2001. The decrease in income from continuing operations of $27.4 million for fiscal 2003, as compared to the prior fiscal year, was primarily a result of the $30.0 million charge the company recorded in settlement of the focused audit previously discussed, and increased operations and maintenance costs of approximately $31.0 million, which primarily resulted from higher costs during the current fiscal year associated with increased labor, severance and benefit costs (approximately $5.6 million); customer bad debt reserves (approximately $6.1 million); pension costs (approximately $4.6 million); professional fees for auditing, legal, and those related to addressing the requirements of the Sarbanes-Oxley Act (approximately $4.3 million); bank fees (approximately $2.1 million); payments made to the purchasers of certain assets of NUI Energy (approximately $3.8 million); the $2.6 million charge recorded for the estimated amount to be refunded to customers in Florida previously discussed; and insurance costs (approximately $1.8 million). These decreases in income were partially offset by increased operating margins by the company's Distribution Services segment of approximately $25.4 million, mainly due to the effects of weather that was 36 percent colder than fiscal 2002 (approximately $7.4 million); the base rate increase by the company's natural gas distribution company in New Jersey (approximately $13.2 million), and customer growth (approximately $4.8 million). The increased margins of the Distribution Services segment were partially offset by a $0.3 million decrease from off-system sales. These increases in operating margins were also partially offset by reduced operating margins by NUI Energy Brokers (approximately $2.0 million) as a result of the substantially reduced trading opportunities following the multiple downgrades of the company's credit ratings throughout the fiscal year.

The company expects that in fiscal 2004, pension expense will increase from approximately $4.1 million to approximately $6.8 million, reflecting changes in actuarial assumptions, including a lower return on the plan assets assumption. During fiscal 2003, the company made cash contributions of $3.3 million to the pension plan. At this time, the company believes that it may be required to make a cash funding contribution in fiscal 2004, however this will be dependent on the investment returns on the plan assets during

the fiscal year, and accordingly, the company is unable to determine what its potential future funding requirements for fiscal 2004 will be at this time.

The company began winding down the trading operations of NUI Energy Brokers in January 2004 and discontinued trading operations at NUI Energy Brokers in March 2004. This, coupled with the reduction of trading opportunities for NUI Energy Brokers through March 2004, will negatively impact operating margins throughout fiscal 2004.

Due to certain projects that began during fiscal 2003 and that will continue during fiscal 2004, such as addressing the requirements of the Sarbanes-Oxley Act, and the increased costs to be incurred related to selling the company and the various investigations and proceedings, management expects the amount of professional fees for the coming year to be higher than those of fiscal 2003. Bank fees and interest expense are also expected to increase as a result of the company's new credit facilities entered into November 24, 2003, and higher average borrowings during the coming fiscal year. The company is likely to require additional funds in order to meet its obligations during fiscal 2005; however, such funds may not be available and, if they are available, would likely be at higher interest rates than the company is currently paying, and the company could incur substantial fees in order to arrange for any such funds. For a further discussion of funding requirements and risks thereto, see Liquidity and Capital Resources and Item 1. Business-Risk Factors.

Income from continuing operations for fiscal 2002 decreased by approximately $11.4 million, or 41 percent, to $16.1 million as compared to $27.5 million in fiscal 2001. The decrease in income from continuing operations was primarily a result of increased operations and maintenance costs of approximately $9.6 million (primarily resulting from higher costs during fiscal 2002 associated with a $3.8 million lower pension credit), as well as increases in professional fees for auditing and legal services (approximately $1.9 million), labor and employee benefits (approximately $1.0 million), bad debts (approximately $1.0 million), insurance expenses (approximately $0.9 million) and bank fees (approximately $0.7 million). The operating results for fiscal 2002 were also adversely affected by the significantly warmer weather in New Jersey, which was 21 percent warmer than fiscal 2001. The company also recorded a restructuring cost of $1.2 million in fiscal 2002, related to severance costs as a result of workforce reductions. See Note 12 of the Notes to the Consolidated Financial Statements.

As further discussed in Note 20 of the Notes to the Consolidated Financial Statements, the company's pension credit included in operations and maintenance expenses declined significantly from $4.3 million in fiscal 2001 to $0.5 million in fiscal 2002. The decrease in the pension credit from fiscal 2001 to fiscal 2002 was primarily due to a significant decline in the market value of the pension fund assets from $131.3 million at September 30, 2000 to $92.4 million at September 30, 2002, as well as the impact of lower discount rates and actuarial losses.

Earnings per share for fiscal years 2002 and 2001 reflect the effects of dilution as a result of increased shares outstanding. During fiscal 2002, NUI completed a 1.725 million common stock offering and also issued shares related to certain acquisitions and benefit plans. See discussion below of Business Segment Review of Results of Operations and Liquidity and Capital Resources. Shares outstanding increased during fiscal 2001 primarily due to shares issued to acquire Virginia Gas.

Interest Expense. Net interest expense in fiscal 2003 increased by $0.7 million to $22.1 million, as compared to $21.4 million in fiscal 2002, primarily due to less interest recovered on the company's under-collection of gas costs in New Jersey as compared to the prior fiscal year.

As discussed previously, interest expense is expected to increase during fiscal 2004 as a result of the company entering into new credit facilities on November 24, 2003 at higher rates, and higher average borrowings during the coming fiscal year.

Net interest expense in fiscal 2002 decreased by $0.8 million to $21.4 million, as compared to $22.2 million in fiscal 2001, primarily due to lower interest rates on short-term borrowings, and a full year's interest recovery on the company's under-collection of gas costs in New Jersey. See Item 1. Business-Regulation.

Income Taxes. Changes in income tax expense (credit) in each of fiscal 2003, 2002 and 2001 were primarily due to the level of pre-tax income (loss). The tax benefit for fiscal 2003 was impacted by the increased valuation allowance against certain deferred tax assets. The company did not record a tax benefit for $2 million of the NJBPU settlement costs accrued by NUI since this amount is deemed to be a penalty. Income taxes are also included within the net results of discontinued operations and the change in accounting. See Note 19 of the Notes to the Consolidated Financial Statements for a further discussion of the company's Federal and state income taxes.

Discontinued Operations. After-tax losses from discontinued operations during fiscal 2003 were $28.0 million, or $1.75 per share, compared to after-tax losses of $14.3 million, or $0.96 per share during fiscal 2002. The higher losses during fiscal 2003 were primarily due to non-cash charges of approximately $25.5 million, after-tax, or $1.59 per share, to write-down the carrying value of assets being held for sale to their fair market value, in conjunction with the company's decision to sell its NUI Telecom subsidiary. These additional losses were partially offset by reduced losses by TIC as a result of the closure of TIC's telephone equipment and United States Postal Service lines of business during the previous fiscal year. The non-cash charges recorded to adjust the carrying value of assets being held for sale to their fair market value were based on estimates. See Notes 11 and 24 of the Notes to the Consolidated Financial Statements for a further discussion of discontinued operations.

After-tax losses from discontinued operations during fiscal 2002 were $14.3 million, or $0.96 per share, compared to losses of $11.1 million, or $0.83 per share, during fiscal 2001. The higher losses during fiscal 2002 were primarily due to approximately $2.0 million

of higher after-tax losses by TIC mainly as a result of weakness with its telephone equipment and United States Postal Service lines of business and approximately $1.2 million of higher after-tax losses by NUI Telecom as a result of costs incurred to support a larger customer base as compared to the prior fiscal year.

Business Segment Review of Results of Operations

The following is a discussion of the company's business segment results of operations and is presented based on Income from Continuing Operations before Taxes. Included in operations and maintenance expenses for each of NUI's business segments are allocations of corporate costs related to shared service functions such as human resources, legal, accounting and information technology, which are allocated based on the company's cost allocation policy. In addition, the company's corporate and non-segment operations incurred pre-tax operating expenses of $5.5 million, $7.6 million and $4.4 million in fiscal years 2003, 2002, and 2001, respectively, principally related to the company's investment in various business ventures, which have not earned revenues. Fiscal 2003 also includes a $2 million penalty to be paid to the State of New Jersey as a result of the final settlement of the focused audit initiated by the NJBPU. These costs are not allocated to our business segment results.

Distribution Services Segment

The company's Distribution Services segment distributes natural gas in three states through the company's regulated natural gas utility operations. These operations are Elizabethtown Gas, City Gas and Elkton Gas. This segment also includes the company's appliance leasing, repair, maintenance operations and service business as well as off-system sales. The company recently sold three of its natural gas utility operations: NC was sold in September 2002, and VCG (Pennsylvania) and Waverly Gas (New York) were sold in November 2002 (see Note 11 of the Notes to the Consolidated Financial Statements). The results for these three operations are reflected in Discontinued Operations in the Consolidated Financial Statements for fiscal 2003, 2002 and 2001. The Income from Continuing Operations before Taxes for the segment is as follows:

(Dollars in thousands)	**Fiscal 2003**	**Fiscal 2002**	**Fiscal 2001**
Operating Revenues	$615,524	$484,834	$616,457
Purchased Gas and Fuel	402,668	299,962	425,389
Cost of sales and services	9,662	9,225	9,349
Energy Taxes	12,914	10,719	12,907
Operating Margins	190,280	164,928	168,812
Operating Expenses:			
Operations & Maintenance Expenses	113,992	87,255	83,044
Regulatory Settlement Costs	**28,000**	---	---
Depreciation & Amortization	31,119	28,457	25,865
Taxes Other than Income	5,230	5,993	6,284
Total Operating Expenses	178,341	121,705	115,193
Pre-Tax Operating Income	11,939	43,223	53,619
Other Income & (Expense)	505	(84)	5
Net Interest Charges	15,626	14,863	18,751
Pre-Tax Income (Loss) from Continuing Operations	$(3,182)	$28,276	$34,873

Operating Revenues. Operating revenues include amounts billed for the cost of purchased gas pursuant to purchased gas adjustment clauses utilized by the company's utility operations. Such clauses enable the company to pass through to its utility customers, via periodic adjustments during the year to customers' bills, changes in costs incurred by the company for purchased gas without affecting operating margins. These purchased gas adjustments are authorized by regulatory authorities in the states in which the company operates. Since the company's utility operations do not earn a profit on the sale of the gas commodity, the company's level of regulated operating revenues is not necessarily indicative of financial performance.

Distribution Services' operating revenues increased by $130.7 million, or 27 percent, to $615.5 million during fiscal 2003, as compared to $484.8 million in fiscal 2002. The increase in revenues was primarily attributable to the effects of weather in New Jersey, which was 12 percent colder than normal and 36 percent colder than the same period in fiscal 2002; the effect of a base rate increase in New Jersey which went into effect on November 22, 2002 (see Item 1. Business-Distribution Services Segment); increased off-system sales as a result of higher natural gas prices; and customer growth.

On January 20, 2004, City Gas received approval from the FPSC to increase its base rates by $6.7 million. With the exception of the favorable effect of the City Gas base rate increase and demand fluctuations caused by changes in weather, the company does not anticipate any significant changes in the economic outlook for natural gas sales in this segment during fiscal 2004.

Distribution Services' operating revenues decreased by $131.6 million, or 21 percent, to $484.8 million during fiscal 2002, as compared to $616.4 million in fiscal 2001. The decrease in revenues was primarily attributed to lower gas prices charged under purchased gas adjustment clauses during fiscal 2002 (see Item 1. Business-Distribution Services Segment), lower natural gas usage as a result of weather in New Jersey that was 23 percent warmer than normal and 21 percent warmer than the 2001 period, and the impact of the sluggish economy on all customer classes, but especially the commercial and industrial classes in both New Jersey and Florida. These factors were partially offset by an increase in revenues due to customer growth.

Operating Margins. Operating margins increased by $25.4 million, or 15 percent, to $190.3 million in fiscal 2003 as compared to

$164.9 million in fiscal 2002. Of the factors previously discussed in operating revenues, the impact on operating margins of the colder weather contributed approximately $7.4 million, the base rate increase in New Jersey contributed approximately $13.2 million, and customer growth contributed approximately $4.8 million. Operating margins realized from off-system gas sales were $1.3 million and $1.6 million for the fiscal years ended September 30, 2003 and 2002, respectively. The company has a weather normalization clause in its New Jersey tariff, which is designed to help stabilize the company's operating results by increasing amounts charged to customers when weather has been warmer than normal and by decreasing amounts charged when weather has been colder than normal. As a result of weather normalization clauses, operating margins were approximately $6.1 million lower and $8.5 million higher in the fiscal 2003 and 2002 periods, respectively, than they otherwise would have been without such clauses. Historically, the company's weather normalization clause in New Jersey was based on a 30-year weather average. As a result of the new base rate increase in New Jersey referred to above, the weather normalization clause was adjusted to a 20-year weather average to better reflect current weather trends and should provide more stability of operating results and improved cash flows for NUI's New Jersey utility on an ongoing basis. However, as previously noted, with the exception of demand caused by changes in weather, the company does not anticipate any significant changes in the economic outlook for natural gas sales in this segment in fiscal 2004.

Operating margins decreased by $3.9 million, or 2 percent, to $164.9 million in fiscal 2002 as compared to $168.8 million in fiscal 2001, mainly as result of the impact of the warm weather experienced during fiscal 2002 and the weakened economy. As a result of weather normalization clauses, operating margins were approximately $8.5 million and $0.6 million higher in the fiscal 2002 and 2001 periods, respectively, than they otherwise would have been without such clauses.

Operating Expenses. Operation and maintenance expenses increased by approximately $26.8 million, or 31 percent, to $114.0 million in fiscal 2003, as compared with $87.2 million in fiscal 2002. The increase was mainly due to increases in labor costs, wage increases, and additional personnel (approximately $3.4 million); bad debt expenses (approximately $2.9 million); pension expenses due to lower discount rate and asset return assumptions (approximately $2.6 million); insurance costs for general liability (approximately $3.2 million); legal and other professional fees incurred in conjunction with the focused audit conducted by the NJBPU (approximately $2.5 million); a charge for the estimated amount to be refunded to customers in Florida as a result of the investigation of NUI Energy Brokers ($2.6 million); costs for utility programs such as energy conservation and customer education (approximately $0.8 million); and increased allocated corporate expenses (approximately $8.3 million).

Regulatory settlement costs of $28 million represent the amount to be refunded to customers in New Jersey as a final settlement of the focused audit undertaken by the NJBPU.

Depreciation expense increased approximately $2.7 million, to $31.1 million in fiscal 2003, as a result of additional assets placed in service during the current fiscal year and a full year of depreciation on additions that were placed in service during fiscal 2002.

Taxes, other than income taxes, decreased approximately $0.8 million, to $5.2 million during fiscal 2003, as a result of a regulatory assessment during the current fiscal year.

Operations and maintenance expenses increased by $4.2 million, or 5 percent, to $87.2 million in fiscal 2002 as compared with $83.0 million in fiscal 2001. The expense increase during fiscal 2002 was mostly due to a lower pension credit in fiscal 2002 as previously discussed (approximately $2.6 million), higher bad debts as a result of the weakened economy (approximately $0.6 million), and expenses associated with energy conservation programs and the New Jersey base rate case (approximately $0.9 million). These cost increases were partially offset by reduced operations expenses as a result of the warmer than normal weather discussed previously.

Energy Asset Management Segment

The Energy Asset Management segment (formerly Wholesale Energy Marketing and Trading) includes the operations of the company's NUI Energy Brokers subsidiary, and the distribution, storage and pipeline operations of VGC. VGC was acquired by NUI on March 28, 2001 (see Note 3 of the Notes to the Consolidated Financial Statements). This segment also includes the company's 50 percent share of the net income and losses of SSLLC. Off-system gas sales, which were previously reported in this segment, have been included within the Distribution Services segment for all years presented.

(Dollars in thousands)	**Fiscal 2003**	**Fiscal 2002**	**Fiscal 2001**
Operating Revenues	$27,059	$28,071	$19,121
Purchased Gas and Fuel	903	(369)	(2,873)
Energy Taxes	---	---	11
Operating Margins	26,156	28,440	21,983
Operating Expenses:			
Operations & Maintenance Expenses	10,390	10,965	7,601
Depreciation & Amortization	2,040	2,507	697
Taxes Other than Income	838	760	422
Total Operating Expenses	13,268	14,232	8,720
Pre-Tax Operating Income	12,888	14,208	13,263
Other Income & (Expense)	639	286	1,180
Net Interest Charges	2,748	3,496	762
Pre-Tax Income from Continuing Operations	$10,779	$10,998	$13,681

Operating Revenues. As further discussed in Note 1 of the Notes to the Consolidated Financial Statements, operating revenues for

NUI Energy Brokers are recorded according to the provisions of Emerging Issues Task Force (EITF) Opinion 02-03, "Issues Involved in Accounting for Contracts Under Issue 98-10," which requires that all energy companies that previously followed the accounting under EITF 98-10 to reflect their operating revenues on a net basis. In previous periods, NUI Energy Brokers included both the cost of purchased gas and the operating margin earned on all of its physical energy transactions (i.e., physical volumes of gas bought and sold to third parties) in operating revenues and classified the cost of that gas as a component of purchased gas and fuel on the Consolidated Statements of Income. Historically, NUI Energy Brokers had recorded only the operating margin component for all of its financial trades (e.g. futures, options, swaps) and had classified these amounts as a component of purchased gas and fuel on the Consolidated Statements of Income. Adopting the July 2002 netting provision of EITF 02-03 had no net effect on these transactions other than to reclassify them and to present total margins earned as operating revenues rather than purchased gas and fuel. The adoption of net-basis reporting resulted in no change to total operating margins.

The operating revenues of the Energy Asset Management segment decreased approximately $1.0 million, or 4 percent, to $27.1 million for fiscal 2003, as compared to $28.1 million in fiscal 2002. The decrease was due to reduced trading opportunities during the fiscal year as a result of the multiple downgrades of the company's credit ratings during the fiscal year (approximately $5.7 million) and a significant reduction in the mark-to-market valuation of a large storage contract in the NUI Energy Brokers portfolio (approximately $0.9 million). Partially offsetting these decreases were margins recorded by NUI Energy Brokers related to the closing of financial hedged positions associated with forward physical sales contracts by NUI Energy (approximately $5.4 million) and increased VGC operating revenues from its distribution company due to an increase in the cost of natural gas during fiscal 2003, as compared to fiscal 2002 (approximately $0.3 million).

In January 2004, the company began winding down the trading operations of NUI Energy Brokers, and, in March 2004, trading operations were discontinued. This, and reduced trading opportunities through that date, will result in a substantial reduction of operating revenues for this segment during fiscal 2004.

Operating revenues in fiscal 2002 increased approximately $9.0 million, or 47 percent, to $28.1 million as compared to $19.1 million in fiscal 2001, primarily as a result of a full year's inclusion of VGC, as compared to six months in fiscal 2001. The company also acquired the remaining 50 percent it did not already own of VGSC and VGDC on October 4, 2001 (see Note 3 of the Notes to the Consolidated Financial Statements), and began consolidating their results on that date. Operating revenues for NUI Energy Brokers in fiscal 2002 were comparable to fiscal 2001.

Operating Margins. Operating margins decreased approximately $2.3 million, or 8 percent, to $26.1 million for fiscal 2003, as compared to $28.4 million in fiscal 2002. This decrease was primarily attributable to the effects of the factors discussed above in operating revenues as well as increased gas costs of approximately $0.5 million for VGC during fiscal 2003. Despite increased volatility of natural gas prices, market conditions in the energy trading industry have been dampened due to fewer creditworthy trading partners. Also, the downgrades of the company's credit ratings during fiscal years 2003 and 2002 have increased the collateral requirements of NUI Energy Brokers, as well as adversely affected the willingness of counterparties to enter into transactions, which decreased operating margins during fiscal 2003. See - Liquidity and Capital Resources.

The company expected that these factors would continue throughout fiscal 2004, and subsequent to the December 11, 2003 NJBPU Order discussed in Item 3. Legal Proceedings-NJBPU Focused Audit and Regulatory Orders, the company has discontinued the trading operations NUI Energy Brokers. This will result in a substantial reduction of operating margins for this segment during fiscal 2004.

Operating margins increased approximately $6.4 million, or 29 percent, to $28.4 million for fiscal 2002, as compared to $22.0 million in the same period in fiscal 2001. The increase in operating margins is attributable to having a full year's results for VGC and the acquisition of VGSC and VGDC as discussed above. Operating margins for NUI Energy Brokers in fiscal 2002 were comparable to the prior fiscal year.

Operating Expenses. Operations and maintenance expenses, depreciation and amortization, and taxes other than income decreased approximately $1.0 million, or 7 percent, to approximately $13.2 million during fiscal 2003, as compared to $14.2 million in fiscal 2002. This decrease is primarily due to reduced labor expenses for commissions (approximately $2.3 million) and bank fees (approximately $0.3 million). This decrease was partially offset by increases in pension expenses due to lower discount rate and asset return assumptions (approximately $0.4 million); insurance costs for general liability (approximately $0.4 million); as well as increased allocated corporate expenses (approximately $1.0 million).

Operations and maintenance expenses, depreciation and amortization, and taxes other than income all increased in fiscal 2002 as compared to fiscal 2001 due to the inclusion of VGC for a full year.

Other Income and Expense. Other income and expense in fiscal 2001 includes the income from VGC's 50 percent ownership interest in VGDC and VGSC. In October 2001, VGC completed the acquisition of the remaining interest in these entities, which results have been consolidated since that date.

Retail and Business Services Segment

The Retail and Business Services segment includes the operations of the company's NUI Energy and UBS subsidiaries and OAS, the company's digital mapping business, which used to be part of UBS. NUI Telecom, as well as the operations of the network services and wireless divisions of TIC previously reported in this segment, have been reclassified to discontinued operations. The appliance

services business is now reported as part of the Distribution Services segment for all periods presented.

(Dollars in thousands)	**Fiscal 2003**	**Fiscal 2002**	**Fiscal 2001**
Operating Revenues	$9,794	$6,967	$10,428
Cost of Sales and Services	3,280	1,606	1,275
Operating Margins	6,514	5,361	9,153
Operating Expenses:			
Operations & Maintenance Expenses	13,005	5,303	4,264
Depreciation & Amortization	1,395	1,230	591
Taxes Other than Income	410	332	432
Total Operating Expenses	14,810	6,865	5,287
Pre-Tax Operating Income (Loss)	(8,296)	(1,504)	3,866
Other Income & (Expense)	(710)	---	(56)
Net Interest Charges	1,159	877	598
Pre-Tax Income (Loss) from Continuing Operations	$(10,165)	$(2,381)	$3,212

Operating Revenues. Retail and Business Services operating revenues increased by approximately $2.8 million, or 40 percent, to $9.8 million in fiscal 2003, from $7.0 million in fiscal 2002. This increase was primarily due to higher operating revenues by UBS of approximately $2.6 million from a higher volume of customer bills produced during fiscal 2003, as compared to fiscal 2002, and additional operating revenues of approximately $0.2 million by OAS for fiscal 2003, as a result of increased billings for completed third party contracts as compared to fiscal 2002.

Operating revenues decreased by approximately $3.4 million, or 33 percent, to $7.0 million in fiscal 2002 from $10.4 million in fiscal 2001. This decrease was due to decreased revenues by NUI Energy of approximately $3.4 million due to warmer weather and lower average natural gas prices during fiscal 2002 as compared to fiscal 2001, which suppressed customer demand for entering into long-term contracts for future gas supplies. The combined operating revenues of UBS and OAS for fiscal 2002 were comparable to those of fiscal 2001.

The company has wound down most of the trading operations of NUI Energy and does not expect material activity during fiscal 2004. Effective April 1, 2004, the company has outsourced the operations of OAS, and has informed the customers of OAS that as their existing contracts expire, their relationship with OAS will terminate. Accordingly, the company likely will have reduced operating revenues from OAS during fiscal 2004.

Operating Margins. Retail and Business Services operating margins increased by approximately $1.2 million, to $6.5 million for fiscal 2003 from $5.3 million in fiscal 2002. The increase in operating margins was primarily attributable to approximately $1.7 million of increased operating margins at UBS, which resulted from the increased volume of bills produced during the current fiscal year. Partially offsetting the increase were lower operating margins at OAS of $0.5 million.

Operating margins decreased by approximately $3.8 million, to $5.3 million in fiscal 2002 from $9.1 million in fiscal 2001. This was primarily a result of a decrease in operating margins of approximately $3.4 million by NUI Energy, which resulted from changes in the natural gas marketplace and warmer weather in the Northeast United States during fiscal 2002. As a result, NUI Energy sold excess gas supply back to the marketplace at a loss. During fiscal 2001, natural gas prices had climbed to unprecedented highs early in that fiscal year, and when natural gas prices began to decline to more normal levels in the summer of 2001, NUI Energy's customers signed up for longer-term contracts and NUI Energy was able to recognize increased margins. During fiscal 2002, natural gas prices were relatively flat, causing customers to wait to renew their long-term contracts and led to lower operating margins being recorded during that fiscal year. The combined operating margins of UBS and OAS decreased by approximately $0.4 million during fiscal 2002, as compared to fiscal 2001, primarily as a result of a one-time price adjustment to a large customer of UBS, which was partially offset by increased operating margins due to a higher volume of customer bills produced during the fiscal 2002, as compared to fiscal 2001.

Operating Expenses. Operations and maintenance expenses, depreciation and amortization, and taxes other than income increased in total by $7.9 million, to $14.8 million during fiscal 2003, as compared with $6.9 million in fiscal 2002. This was primarily a result of payments made for the purchase of certain NUI Energy assets (approximately $3.8 million), increased bad debt reserves (approximately $3.0 million), labor and benefits, including pension (approximately $1.2 million), legal and professional fees (approximately $0.7 million), and costs related to NUI Energy's billing system (approximately $0.5 million). These increases were partially offset by reduced allocated corporate expenses (approximately $1.5 million) as compared to fiscal 2002.

Operations and maintenance expenses, depreciation and amortization, and taxes other than income increased by approximately $1.6 million in fiscal 2002, as compared to fiscal 2001, primarily as a result of increases in legal and professional costs (approximately $0.7 million) and bad debt reserves (approximately $0.3 million). Depreciation and amortization increased by approximately $0.6 million during fiscal 2002, as compared to fiscal 2001, as a result of additional assets placed in service by UBS during the fiscal year.

Liquidity and Capital Resources

Overview

As a result of the various factors discussed in this annual report, NUI and NUI Utilities have experienced and expect to continue

experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayments for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the BGSS charge; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI and NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

The company first seeks to meet its capital requirements through cash provided by operating activities and external financings. External financing, depending on the particular company, as discussed below, may consist of public and private capital market debt and equity transactions, bank revolving credit and term loans, and/or project financings. The availability and cost of external capital is affected by many factors, including, but not limited to, the performance of NUI and its subsidiaries, their respective credit ratings and conditions in the company's industry in general. In addition, the NJBPU's holding company order requiring NUI to maintain a certain degree of separation between its utility and non-utility subsidiaries could impact affiliate ratings on consolidated and unconsolidated credit quality. Compliance with applicable financial covenants will depend upon future financial position and levels of earnings and cash flows, as to which no assurances can be given.

In addition, at times NUI utilizes intercompany dividends from NUI Utilities and amounts realized from the settlement of intercompany balances to satisfy various subsidiary needs and to manage short-term cash needs. Historically, NUI Utilities has paid dividends of up to 75 percent of its annual net income to NUI. The Standby Bond Purchase Agreement entered into in connection with the Variable Bonds, which, as described below, are a series of gas facility revenue bonds issued by the New Jersey Economic Development Authority (NJEDA), restricts the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which has been reduced by the NJBPU settlement. As a result of this restriction, there is no capacity for further dividend payments by NUI Utilities to NUI at this time or in the foreseeable future. The company intends to seek an amendment to the SBPA to permit the payment of dividends. In addition, under the amendment to NUI Utilities' credit facility dated May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding. There are no contractual restrictions on the settlement of intercompany balances in NUI's or NUI Utilities' financing agreements.

On a consolidated basis, the company had cash provided by operating activities of $54.1 million in fiscal 2003, compared to $60.1 million in fiscal 2002, and net cash used in operating activities of $26.7 million in fiscal 2001. The decrease in the amount of cash provided by operating activities during fiscal 2003 was primarily due to a substantial increase in fuel inventories. This decrease was partially offset by additional cash collected from customer receivables and the under-recovered gas costs and associated interest. The increase in cash provided by operating activities in fiscal 2002, as compared with fiscal 2001, was primarily due to substantial decreases in fuel inventories, a reduction of the amount of margin collateral provided to trading partners, and collections of under-recovered gas costs as a result of the company's ability to collect the large under-recovered gas balance that existed at September 30, 2001 over a period of three years. Included in the cash used by operations for fiscal 2001 was a significant increase in under-recovered gas costs due to the increase in the price of natural gas experienced during the fiscal year.

In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended as of May 10, 2004 to further extend these deadlines. See Sources of Liquidity - Short Term Debt below for a further description of the February and November 2003 credit facilities.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004, NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations, based upon the following: -- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

-- Upon renewal of NUI's revolving credit facility, NUI is required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

-- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy, NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the NJBPU.

-- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner, this could materially adversely affect NUI's and NUI Utilities' financial

condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004. The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its debt financing. For a further discussion about risks relating to NUI Utilities' liquidity, see Item 1. Business-Risk Factors.

Because the company's business is highly seasonal, short-term debt is used to meet seasonal working capital requirements. NUI also borrows under its bank lines of credit to finance portions of its capital expenditures. As of September 30, 2003, NUI had drawn $31.7 million and NUI Utilities had drawn $132.4 million under their respective short-term credit facilities and the company had overnight cash investments of about $23.1 million.

NUI's and NUI Utilities' debt agreements also contain a number of covenants that significantly limit their respective ability to, among other things, borrow additional money, pay dividends, transfer or sell assets, create liens and enter into a merger or consolidation. In particular, under the amendment to NUI's credit facility as of May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time and is also not likely to be able to pay any dividends in the foreseeable future. The covenants also require both NUI and NUI Utilities to meet certain additional financial tests. If either NUI or NUI Utilities were unable to meet its debt service obligations or to comply with these covenants, there would be a default under one or more of the agreements. Such a default, if not waived by our lenders, could result in acceleration of the repayment of either NUI's or NUI Utilities' debt and have a material adverse effect on each company's financial conditions, results of operations and liquidity.

On January 31, 2002, the company filed a shelf registration statement on Form S-3 with the SEC, which enables the company to issue various types and combinations of securities, including common stock, preferred stock and debt, from time to time, up to an aggregate of $150 million. The company sold 1.725 million shares of common stock under the shelf registration statement for net proceeds of approximately $37.0 million during March 2002. The proceeds from the sale were used to pay down short-term debt. As a result of the company's announcement to hold itself for sale, management has no future plans to utilize the remaining $113 million available under the shelf registration statement to raise additional funds.

As discussed previously, the company is pursuing the sale of various non-core businesses. The company completed the sale of its NC subsidiary on September 30, 2002, for approximately $24 million (see Note 11 of the Notes to the Consolidated Financial Statements) and completed the sale of its VCW subsidiaries on November 7, 2002, for approximately $15 million (see Capital Expenditures and Commitments-Sale of Valley Cities Gas and Waverly Gas). The company also completed the sale of its Virginia Gas Propane Company subsidiary on October 11, 2001, for approximately $3.8 million (see Sources of Liquidity-Assets and Liabilities Held for Sale), and completed the sale of its Virginia Gas Exploration Company and Virginia Gas Marketing Company subsidiaries on March 1, 2002, for approximately $0.8 million (see Sources of Liquidity-Assets and Liabilities Held for Sale). The proceeds of these transactions were used to reduce short-term debt.

The company's assets being held for sale are subject to impairment losses if market values are less than carrying values. The company completed the sale of NUI Telecom for $2.0 million on December 15, 2003. As a result of charges in fiscal 2003 totaling approximately $25.5 million, after-tax, which reduced the carrying values of the assets of NUI Telecom (see Note 11 of the Notes to the Consolidated Financial Statements), the completion of this transaction was immaterial to NUI's results for the first quarter of fiscal 2004.

During August 2002, the company completed a sale/leaseback transaction related to gas meters at City Gas, which raised approximately $9 million. This transaction, which was recorded as a capital lease, bears interest at 4.98 percent and will be repaid over 10 years. The proceeds were used toward the repayment of the $20 million of medium-term notes bearing interest at 7.125 percent that matured on August 1, 2002.

The company's off-balance sheet arrangements include commitments under operating leases, guarantees, letters of credit and gas procurement contracts, all of which are normal to the company's operations. The company is a 50 percent member of a joint venture that is developing natural gas storage assets and is required to provide funding toward the development of these assets for their intended purpose. See Capital Expenditures and Commitments-Joint Venture with Duke Energy below for further discussion.

In addition, as of September 30, 2003, approximately $85 million was owed by NUI to NUI Utilities, which was repaid on November 24, 2003, with the proceeds of a new credit facility entered into on that date. Among other things, this payment addressed one of the findings of the focused audit. See Sources of Liquidity-Short-Term Debt discussion which follows.

Credit Rating Actions

During fiscal 2002, 2003, and 2004, Moody's Investors' Service (Moody's) downgraded NUI's credit rating from Baa-1 to Caa-1 and downgraded NUI Utilities' credit rating from A-3 to B-1. As described below, the downgrade of NUI Utilities is tied directly to the

losses at NUI and the lack of differentiation between the company's utility and non-utility finances. Late in calendar 2003, Standard & Poor's Rating Services (S&P) lowered its corporate credit rating for NUI Utilities from BBB to BB citing the impending sale of the company, liquidity concerns and the NJBPU investigation as its primary factors.

On June 6, 2002, Moody's placed the debt ratings of NUI and NUI Utilities on review for possible downgrade. Moody's cited that it would assess NUI's prospects for improving its debt coverage ratios and its financial position as the company redeploys cash from the sales of its utility operations toward debt reduction and toward achieving operating efficiencies. Moody's also indicated that it would monitor progress being made by NUI Utilities' Elizabethtown Gas division in obtaining approval from the NJBPU for a base rate increase the company filed for during April 2002. Additionally, Moody's indicated that it would monitor the progress made by NUI toward selling its TIC Enterprises subsidiary, and in improving the profits and cash flows of its non-utility subsidiaries.

On September 9, 2002, Moody's downgraded NUI's debt rating from Baa-1 to Baa-2. Moody's also downgraded the debt rating of NUI Utilities from A-3 to Baa-1 with negative outlook. As a result of this downgrade, NUI's cost of borrowing under its short-term credit facilities increased 12.5 basis points or 0.125 percent and the cost of borrowing for NUI Utilities increased 10 basis points or 0.10 percent.

On October 21, 2002, Moody's again placed the debt ratings for NUI and NUI Utilities on review for possible downgrade. Moody's cited that it would assess the rate case decision of NUI's Elizabethtown Gas division, which at the time was expected toward the end of calendar 2002; the results of the three-year audit; and management's decisions regarding the future of under-performing non-utility businesses.

On February 3, 2003, Moody's further downgraded NUI's debt rating from Baa-2 to Baa-3. Moody's also downgraded the debt rating of NUI Utilities from Baa-1 to Baa-2. Moody's cited the impact of unfavorable results from most of the company's unregulated businesses (i.e. those in the company's Retail and Business Services segment) during fiscal 2002 and their concerns regarding these operations' potential adverse impact on the company's future performance as factors influencing their rating action. As a result of these downgrades, NUI's cost of borrowing under its short-term facilities increased 12.5 basis points or 0.125 percent and the cost of borrowing for NUI Utilities increased 12.5 basis points or 0.125 percent.

On March 10, 2003, Moody's further downgraded NUI's debt rating from Baa-3 to Ba-2. Moody's also downgraded the debt rating of NUI Utilities from Baa-2 to Baa-3. Moody's cited the impact of unfavorable results from most of the company's unregulated businesses during fiscal 2002, the company's disclosure of defaults under the Note Purchase Agreement dated August 20, 2001, and the quality of the company's internal financial controls as factors influencing their rating action. As a result of these downgrades, NUI's cost of borrowing under its short-term facilities increased an additional 62.5 basis points or 0.625 percent and the cost of borrowing for NUI Utilities was unchanged. Moody's also indicated that NUI and NUI Utilities would remain under review for further possible downgrade. Moody's cited that, in its continuing review, it will assess the progress being made by management to 1) procure the continued support of its bank lenders and senior noteholders; 2) either demonstrate unequivocal turn-around in the under-performing unregulated businesses (i.e. those in the company's Retail and Business Services segment), accomplish substantial cost reductions or exit them altogether; and 3) further improve internal accounting, legal and financial controls.

On May 7, 2003, Moody's further downgraded NUI's debt rating from Ba-2 to B-1. Moody's also downgraded the debt rating of NUI Utilities from Baa-3 to Ba-1. Moody's cited reduced financial flexibility of the company due to under-performance of some of its unregulated businesses, as well as, in the case of NUI's debt rating, the effective subordination of NUI's debtholders to those of NUI Utilities. Moody's also cited the company's continued use of a centrally managed cash process at the corporate level, which effectively ties NUI Utilities' credit more closely to that of NUI's. As a result of these downgrades, NUI Utilities' cost of borrowing under its short-term facilities increased an additional 37.5 basis points or 0.375 percent and the cost of borrowing for NUI was unchanged, since it was already at the highest pricing level provided for under its short-term facility at such time.

On October 6, 2003, Moody's further downgraded NUI's debt rating from B-1 to B-3. Moody's also downgraded the debt rating of NUI Utilities from Ba-1 to Ba-3. Moody's cited the company's announcement that the company's Board of Directors had placed the entire company up for sale. In addition, Moody's indicated that their action reflects the difficult business conditions affecting the company as well as the limited progress in selling non-core assets, citing that this limited the company's financial flexibility. Moody's also cited the continuing financial relationship between NUI and NUI Utilities, liquidity concerns, and the costs associated with finding a suitable buyer for the company. As a result of these downgrades, NUI Utilities' cost of borrowing under its short-term facilities increased an additional 62.5 basis points or 0.625 percent and the cost of borrowing for NUI was unchanged. In conjunction with the downgrades on October 6, 2003, Moody's indicated they would monitor the company's liquidity position as well as its progress in selling non-core assets.

On April 6, 2004, Moody's further downgraded NUI's debt rating from B-3 to Caa-1. Moody's also downgraded the debt rating of NUI Utilities from Ba-3 to B-1. Moody's indicated that its outlook for both entities is negative. Moody's cited (1) the company's recent announcements that it expects lower earnings in the first quarter of fiscal 2004, resulting from severance costs and expenses related to the debt refinancings concluded during November 2003 at substantially higher rates of interest and fees; (2) the continued delay in producing audited financial statements for the fiscal year ended September 30, 2003 and its unaudited first quarter Form 10-Q, because of the investigations by the company's Audit Committee of certain questionable transactions of NUI Energy Brokers, the company's wholesale energy trading subsidiary, which required additional waivers from lenders of both NUI and NUI Utilities; (3) the expectation of having to incur a meaningful settlement charge as a result of the focused audit conducted by the NJBPU, which would reduce the company's income and equity for fiscal 2003; (4) the ongoing investigation of the New Jersey Attorney General's Office into NUI Energy Brokers; and (5) the delays in realizing the sale of the company, which is the source of repayment of NUI's $255

million rated debt and a portion of the debt of NUI Utilities. Moody's also cited the financial relationship between NUI and NUI Utilities and that any penalties that may be assessed to the company by the NJBPU may have to be funded from the earnings and cash flows of NUI Utilities. In addition, NUI and NUI Utilities have overlapping lenders that require debt to be serviced by each entity. To the extent NUI does not have the means to discharge its own debt obligations, these lenders may seek dividends from NUI Utilities to help service NUI's debt. The lower rating Moody's assigned to NUI reflects the structural subordination of its debt relative to that of NUI Utilities.

In conjunction with the downgrades on April 6, 2004, Moody's indicated that its outlook for both NUI and NUI Utilities was negative. The negative outlook reflects Moody's belief that it will take time to close on the sale of the company as its assets are diverse and located in various states necessitating multiple regulatory approvals in the states in which the company's regulated entities operate. In the meantime, Moody's expects the company to continue to incur extraordinary operations and maintenance expenses as it employs an array of outside advisors and consultants to help manage its day to day operations, incur additional legal, accounting and financial advisory fees as it seeks to respond to regulatory investigations, and attempts to negotiate settlements with its regulators and searches for a suitable buyer.

On September 26, 2003, Standard & Poor's Rating Services (S&P) lowered its corporate credit rating for NUI Utilities from BBB to BBB- and had placed its rating on CreditWatch with developing implications. S&P cited the announcement that the company is actively being offered for sale and that net income guidance for the fiscal year ended September 30, 2003, had been revised downward. S&P indicated that the CreditWatch listing with developing implications reflected the potential for the ratings to be raised, lowered or maintained depending upon the credit quality of the eventual buyer. S&P also cited an additional concern regarding the company's ability to meet future liquidity needs during this uncertain period and viewed the renewal of NUI's and NUI Utilities' credit lines, which were set to expire on February 11, 2004, as having some execution risk given the uncertainty regarding the company's sale; however, S&P noted that the company was taking steps to address this issue by working to obtain an additional $50 million line of credit.

On November 21, 2003, S&P further lowered its corporate crediting rating for NUI Utilities from BBB- to BB and its rating remains on CreditWatch with developing implications. S&P's rating action cited the business and financial challenges the company faces, including an investigation of energy trading transactions by the company's NUI Energy Brokers subsidiary, and the potential for greater regulatory scrutiny in New Jersey, which could impact the sale of NUI. S&P did note the company had addressed its anticipated liquidity needs on an interim basis prior to the sale of the company with separate credit agreements for NUI and NUI Utilities aggregating $405 million, each of which can be extended for another 364 days at the option of the respective borrower (under certain conditions outlined below), (see Short-Term Debt discussion for further details). S&P also noted that any negative outcome of the investigation of the trading transactions or possible regulatory action in New Jersey could inhibit the company's ability for a successful sale.

There can be no assurance that additional downgrades by Moody's and/or S&P can be avoided.

Sources of Liquidity

Short-Term Debt. On February 12, 2003, each of NUI and NUI Utilities entered revolving credit facilities that replaced their respective credit facilities. NUI's credit facility consisted of a revolving credit facility that allowed it to borrow up to approximately $38.1 million, and NUI Utilities' revolving credit facilities consisted of a revolving loan and a bridge loan, which collectively allowed NUI Utilities to borrow up to an aggregate of approximately $141.9 million. On June 27, 2003, the NUI Utilities revolving loan became fully subscribed at an aggregate of $141.9 million, and the 364-day bridge loan was terminated. These credit agreements were scheduled to mature on February 11, 2004, and were repaid with a portion of the proceeds from new credit facilities NUI and NUI Utilities entered into on November 24, 2003 (additional discussion of these new credit facilities follows). The February 12, 2003 credit facilities contained certain restrictive covenants and also required NUI and NUI Utilities, respectively, to maintain certain financial ratios. NUI was required to maintain a fixed charge coverage ratio of not less than 1.50x and NUI Utilities was required to maintain a fixed charge coverage ratio of not less than 1.75x. NUI and NUI Utilities each were to maintain leverage ratios of not more than 0.65x from March 1 through August 31 and not more than 0.70x from September 1 through February 28 (or 29, if applicable).

Borrowings under the credit facilities entered into on February 12, 2003, bore interest at a rate equal to either the London Interbank Offered Rate (LIBOR) or the Prime Rate plus, in each case, a margin based on NUI's and NUI Utilities' credit ratings, as the case may be. As of September 30, 2003, the total aggregate outstanding borrowings under NUI's and NUI Utilities' credit facilities were $164.1 million with a combined weighted average interest rate of 3.1 percent. On that date, NUI had outstanding borrowings under its credit facility amounting to $31.7 million and unused borrowing capacity amounting to $6.4 million, and NUI Utilities had outstanding borrowings under its credit facility amounting to $132.4 million and unused borrowing capacity amounting to $9.5 million. Also on that date, the company had available cash in the form of overnight investments of approximately $23.1 million. The weighted average daily amounts of borrowings outstanding under NUI's credit facility and the weighted average interest rates on those amounts were $33.9 million and $97.4 million at 3.1 percent and 3.3 percent, respectively, for the fiscal years ended September 30, 2003 and 2002, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' credit facility and the weighted average interest rates on those amounts were $118.7 million and $66.9 million at 2.7 percent and 2.8 percent, respectively, for the fiscal years ended September 30, 2003 and 2002, respectively.

On March 31, 2003, NUI and the banks amended NUI's 364-day credit facility to approve the increase in interest rates under the senior notes, the guarantees under the senior notes and the execution of the Intercreditor Agreement, as described below. This amendment to NUI's credit facility also provided for a new pricing grid, which increased NUI's cost of borrowing under the credit facility by 25 basis

points (0.25 percent).

In August 2003, NUI Utilities entered into an amendment with the lenders under its credit agreement, which among other things, permitted NUI Utilities to obtain an additional $50 million of indebtedness, as well as to refinance such indebtedness through certain financing transactions. On October 10, 2003, NUI Utilities entered into a bridge loan agreement with a lender for a credit facility that allowed it to borrow up to $50 million to fund near-term natural gas purchases and other general working capital needs. This bridge loan agreement, which was scheduled to mature on February 11, 2004, was terminated by NUI Utilities upon entering into a new credit facility on November 24, 2003. No amounts were ever drawn under this bridge loan agreement.

On November 24, 2003, NUI and NUI Utilities each entered into their current separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by NUI's direct and indirect wholly-owned subsidiaries (subject to certain exceptions). NUI Utilities does not guarantee NUI's obligations under this credit agreement. As of April 26, 2004, NUI had overnight cash investments of $24.5 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) Base Rate (subject to a 3 percent floor) plus 4 percent. NUI Utilities has fully drawn all amounts available under the $50 million revolver and the $50 million term loan facility. As of April 26, 2004, NUI Utilities had overnight cash investments of $114.4 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement amended as of May 10, 2004, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

As noted earlier, the company's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated as of May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI also is prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

Long-Term Debt. NUI has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. As noted under Short-Term Debt above, included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded during the first quarter of fiscal 2004.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at September 30, 2003 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended on June 10, 2003, July 21, 2003 and December 4, 2003, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA on June 30, 2004, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which has been reduced by the NJBPU settlement. There is no capacity under this covenant for further dividends at this time or in the foreseeable future, unless a waiver is obtained from the bondholders.

If the SBPA is not further extended beyond its current expiration date of June 30, 2004, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of September 30, 2003, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable Bonds, (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches will be cured by virtue of NUI Utilities' delivery of this annual report, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarters ended December 31, 2003 and March 31, 2004, and related documentation and officers' certificates. Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Common Stock. The company periodically issues shares of common stock in connection with NUI Direct, the company's dividend reinvestment and stock purchase plan, and various employee benefit plans. From time to time, the company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. As noted above, the company sold 1.725 million shares of its common stock for net proceeds of approximately $37.0 million in March 2002. The total proceeds from all other issuances amounted to approximately $1.2 million in fiscal 2003, $0.7 million in fiscal 2002, and $0.5 million in fiscal 2001. The proceeds were used primarily to reduce outstanding short-term debt.

The company issued stock in conjunction with several acquisitions during fiscal 2002. This included 144,648 shares worth approximately $3.1 million to acquire Virginia Gas Storage and Virginia Gas Distribution (see Note 3 of the Notes to the Consolidated Financial Statements), and 216,039 shares worth approximately $4.2 million to acquire Norcom, Inc. (see Note 6 of the Notes to the Consolidated Financial Statements). In addition, the company issued 47,136 shares to the former owners of NUI Telecom as payment of an incentive of $1.0 million under a provision of the Agreement and Plan of Merger. No stock was issued during fiscal 2003 for acquisitions.

Assets and Liabilities Held for Sale. During June 2003, the company approved a plan to sell NUI Telecom and began actively seeking a buyer. See Notes 11 and 24 of the Notes to the Consolidated Financial Statements. In accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-lived Assets," the company has reclassified the assets and liabilities of NUI Telecom, NC and VCW as Held for Sale on the Consolidated Balance Sheets at September 30, 2003, and 2002.

The company completed the sale of NC on September 30, 2002, and completed the sale of VCW on November 7, 2002 See Note 11 to the Notes to the Consolidated Financial Statements.

On October 11, 2001, the company sold the capital stock of Virginia Gas Propane Company, and on March 1, 2002, the company sold the capital stock of Virginia Gas Exploration Company and Virginia Gas Marketing Company, all of which were subsidiaries of VGC.

Capital Expenditures and Commitments

Capital Expenditures. Capital expenditures, which consist primarily of expenditures to expand and upgrade the company's gas distribution systems, were $41.8 million in fiscal 2003, $55.7 million in fiscal 2002, and $59.4 million in fiscal 2001. The decreased capital spending during the current fiscal year was due to the company's reduction of capital projects at the corporate level and reduced spending for operations being held for sale.

Capital expenditures are expected to be approximately $51 million in fiscal 2004, which will be used primarily for continued expansion and upkeep of the company's natural gas distribution system and certain information technology projects.

Joint Venture with Duke Energy. On April 30, 2001, the company announced an agreement with a subsidiary of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving the required regulatory approval in February 2003, VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

The company has loaned SSLLC approximately $25.6 million toward the development of the Saltville storage facility through September 30, 2003, and currently estimates its share of the future funding to be zero in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent fiscal years are expected to be funded with internally generated cash flows of the joint venture.

SSLLC plans to expand the present Saltville storage facility from its current capacity of 1 Bcf to approximately 12 Bcf and connect it to Duke Energy Gas Transmission's (DEGT) East Tennessee Natural Gas interstate system and DEGT's Patriot pipeline. At full

capacity, the Saltville storage field will be able to deliver up to 500 million cubic feet per day of natural gas to area markets. The Saltville facility features fast-injection and fast-withdrawal capabilities offered by salt cavern storage. The expansion will be completed in phases which began in fiscal 2003, with the Phase I total of 5.3 Bcf of working natural gas storage capacity to be completed by fiscal 2008. The market demand for additional storage will dictate the timing of the other phases of the expansion.

Development of the Saltville facility is intended to create a strategically located energy-trading hub, and enable the company to capitalize on the energy supply and wholesale energy portfolio and risk management opportunities in the rapidly developing Mid-Atlantic region. The additional storage capacity is expected to allow the company to meet the significant demand from local distribution companies as well as power plant development that is underway in the region.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with DEGT for the firm transportation of natural gas on the Patriot pipeline, which was under construction at that time. Upon completion of the pipeline, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the transportation agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline, the company became obligated to pay annual demand charges of $0.3 million over the life of the storage agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum benefit from its rights under these agreements.

Other Storage and Pipeline Projects. The company has acquired options on the land and mineral rights for property located in Richton, Perry County, Mississippi, that the company plans to develop into a natural gas storage facility to help serve the Southeast United States. The land option has a purchase price of approximately $0.5 million and the mineral rights option has a purchase price of $0.9 million. Both options expire on February 15, 2005. Should the options not be exercised, the company's right to make such purchases would expire.

NUI plans to develop a salt dome natural gas storage facility in Richton, Perry County, Mississippi. Like its companion storage facility in Saltville, Richton is expected to offer the high-deliverability capabilities of salt dome storage for natural gas and will have access to a number of major interstate pipelines, including Destin Pipeline and its connections to Gulf South, Gulfstream, FGT, SONAT, Tennessee Natural Gas and Transco. Through its connection to Destin Pipeline, Richton will have direct access to the gas supplies in the Gulf of Mexico, as well to supplies from the interconnected interstate pipelines previously listed. Richton can also serve as a potential storage facility for the various proposed LNG projects in the Gulf Coast.

The preliminary plan is to develop two caverns with approximately 3.8 Bcf of working gas capacity each. The total gas capacity of both caverns is expected to be approximately 11.6 Bcf. The gas handling facilities are expected to provide an average injection rate of 250,000 Mcf per day and a maximum withdrawal rate of 600,000 Mcf per day. The facilities will include approximately 18,000 HP of compression and a 14.6 kilometer, 24 inch pipeline connecting the facility to the Destin pipeline. It is anticipated that Richton will be a FERC regulated facility. The preliminary engineering study, conceptual design for the facility and pipeline, water resource analysis, and a successful "open season" have been completed. The total cost of the project is expected to be approximately $85 million over a period of three years, which NUI will seek to fund through project finance debt.

This project is not expected to have any material capital requirements in fiscal 2004 and, if the project proves feasible, will primarily impact the company's capital expenditure program in fiscal years 2005 and 2006 after the funding needs of Phase I of the Saltville facility (discussed above) are essentially satisfied.

During 2001, the company began building a planned gas pipeline intended to cross the state of Florida from West Palm Beach to Fort Myers (the Florida East-West Pipeline Project). Phase I of the pipeline has been completed and is currently in service beginning with a connection to the Florida Gas Transmission Company's pipeline in West Palm Beach and terminating in South Bay. The remaining portions of the project are intended to include an interconnection with the Florida Gas Transmission Company's pipeline in Fort Myers and the Gulfstream Natural Gas System pipeline in Martin County. During October 2003, the company retained a company to provide engineering-related services in support of the expansion of its Florida East-West Pipeline project. The company anticipates a twenty-eight (28) month schedule to complete the pipeline systems inclusive of a state regulatory approval process and construction activities. The company intends to begin the regulatory approval process once suitable customer commitments are obtained. When completed, the pipeline is expected to be capable of transporting up to 300,000 Mcf per day of natural gas. The pipeline is also intended to include direct connection to any of the three LNG pipelines proposed to come onshore in southeast Florida at the ports of Palm Beach and/or Port Everglades. Once completed, the company's pipeline will serve as a transportation hub linking the east and west sides of the Florida Gas Transmission system to the proposed LNG pipelines and the Gulfstream Natural Gas System as well as the company's proposed West Felda Gas Storage facility.

In conjunction with the expansion of the Florida East-West Pipeline, the company entered into agreements with Plains Resources Inc. (Plains), under which the parties have been validating technical and commercial viability of developing up to 15 Bcf of working gas capacity of natural gas storage in the West Felda Field, located in South Florida. The West Felda Field represents one of five oil-producing properties currently operated by Plains in the oil-producing "Sunniland Trench" in South Florida. The West Felda Field is expected to be serviced by the Florida East-West Pipeline, with an approximate 12-mile pipeline connection to the storage field south

of the pipeline. Upon entering into final agreements, the parties intend to begin offering storage services in conjunction with the initiation of service of the pipeline.

Together these projects are expected to provide increased reliability for Florida's natural gas supply and distribution infrastructure and support Florida's rapidly growing demand for natural gas utilized for electricity generation.

Contractual Obligations. In the course of its business activities, the company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on NUI's balance sheet while others are commitments, some firm and some based on uncertainties, that are disclosed in the company's underlying consolidated financial statements.

The following table summarizes the company's contractual obligations as of September 30, 2003 by payment due date. Each of these obligations is discussed in further detail below (amounts in thousands):

	Payments Due by Period				
Contractual Cash Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (1)	$310,100	$ ---	$55,000	$ 15,000	$240,100
Capital lease obligations (2)	14,467	2,711	4,262	2,376	5,118
Notes payable to banks	164,100	164,100	---	---	---
Notes payable (3)	1,400	1,400	---	---	---
Operating leases	82,630	6,063	11,106	10,941	54,520
Capital expenditures of joint venture (4)	2,500	---	2,500	---	---
Gas procurement contracts	346,013	60,100	81,769	56,232	147,912
Total contractual obligations	$921,210	$234,374	$154,637	$84,549	$447,650

(1) The long-term debt cash obligations exclude $1.0 million of unamortized debt discounts as of September 30, 2003.

(2) Includes $2.5 million of interest to be paid on the capital leases.

(3) This amount represents an unsecured promissory note. See Note 8 of the Notes to the Consolidated Financial Statements.

(4) See discussion under Joint Venture with Duke Energy and Note 22 of the Notes to the Consolidated Financial Statements.

Long-term Debt. The company's long-term debt instruments are scheduled on the Consolidated Statement of Capitalization in the financial statements that follow. In addition, see Note 14 to the Notes to the Consolidated Financial Statements.

Capital Lease Obligations. The company acquires property and equipment under capital leases in the ordinary course of business, and the terms of the agreements vary through 2012. At September 30, 2003, the company had total obligations under capital leases of $11.9 million.

Notes Payable to Banks. Represents outstanding borrowings under NUI's and NUI Utilities' short-term credit facilities at September 30, 2003. In November 2003, these credit facilities were replaced by new credit facilities aggregating $405 million.

Notes Payable. This represents an unsecured promissory note. See Note 8 of the Notes to the Consolidated Financial Statements.

Operating Leases. The company maintains operating leases in the ordinary course of business. These leases include those for office space and office equipment, and the terms of the agreements vary from 2003 through 2022. At September 30, 2003, the company had total commitments under operating leases of $82.6 million. See Note 17 of the Notes to the Consolidated Financial Statements.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amounted to approximately $60.1 million in fiscal 2004 (this amount includes the company's obligations under two twenty-year agreements related to the Patriot pipeline discussed above). The company also is committed to purchase, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 Bcf per year or to pay certain costs in the event the minimum quantities are not taken. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

NUI Utilities has entered into an agreement with Cinergy to manage all of its interstate pipeline assets. NUI Utilities initially entered into an agreement with Cinergy effective March 31, 2004, which covered only a one month period. That agreement was superseded by an agreement effective on April 1, 2004, pursuant to which Cinergy will serve as the NUI Utilities asset manager from April 1, 2004 until March 31, 2005, and will provide NUI Utilities with a full requirements gas supply service to enable NUI Utilities to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply will be provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, NUI Utilities' gas supply and deliverability assets, and Cinergy will pay NUI Utilities a fixed amount for the right to act as NUI Utilities' asset manager for the twelve months ended March 31, 2005. The obligations of NUI Utilities, including all commodity and demand charges, will be secured by a pre-payment obligation unless NUI Utilities' credit rating improves to investment grade, at which time the parties will negotiate other mutually agreeable payment terms based on the improved creditworthiness of NUI Utilities. The

agreement provides NUI Utilities the option to terminate the agreement in the event of a change in control of NUI Utilities or NUI.

Commitments

Environmental. The company owns or previously owned properties on which former manufactured gas plants (MGP) were operated in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded a total reserve of approximately $33.9 million, which the company believes represents the undiscounted probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $30.2 million relates to the New Jersey MGP properties and approximately $3.7 million relates to the MGP properties located outside the state of New Jersey. The company believes that all costs associated with remediation of the New Jersey MGP properties will be recoverable in rates or from insurance carriers. As of September 30, 2003, the company has a regulatory asset of $36.4 million on its Consolidated Balance Sheet for environmental remediation, inclusive of interest, which reflects the future recovery of both incurred costs and future remediation liabilities in the state of New Jersey. In New Jersey, the company has rate recovery of approximately $9.8 million of such costs, of which a portion has been recovered through September 30, 2003. Recovery of an additional $0.7 million is currently pending NJBPU approval. With respect to costs that may be associated with the MGP properties located outside the state of New Jersey, the company is currently or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers.

Off-Balance Sheet Arrangements

The company's off-balance sheet arrangements include commitments under operating leases, guarantees, letters of credit and gas procurement contracts, all of which are normal to the company's operations. As described above, at September 30, 2003, the company had total commitments under non-cancelable operating leases totaling $82.6 million. See Note 22 of the Notes to the Consolidated Financial Statements for a discussion of the company's guarantees. In addition, the company is a 50 percent member of a joint venture that is developing natural gas storage assets and is required to provide funding toward the development of these assets for their intended purpose. See Capital Expenditures and Commitments-Joint Venture with Duke Energy below for further discussion. NUI is also party to two Standby Letters of Credit secured by cash collateral, as follows:

-- a secured Standby Letter of Credit issued on January 16, 2004 by Fleet Bank in the amount of $750,000, in favor of PNC Bank. The letter of credit is intended to support the company's Procurement Card program with PNC Bank. The letter of credit was originally scheduled to expire on May 3, 2004; however, it has since been extended to July 23, 2004.

-- a secured Standby Letter of Credit issued on February 1, 2004 by Fleet Bank, originally in the amount of $1,000,000, in favor of National Union Fire Insurance Company and several other insurance companies underwriting the company's workmen's compensation policy. As of April 23, 2004, the amount of the letter of credit has been reduced to $948,000. The letter of credit expires on February 1, 2005.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In March 2004, the company discontinued the trading operations of its NUI Energy Brokers business, although NUI Energy Brokers continues to manage its prior contractual obligations. Prior to that date, NUI Energy Brokers used derivatives for multiple purposes: i) to hedge price commitments and minimize the risk of fluctuating gas prices, ii) to fulfill its trading strategies and, therefore, ensure favorable prices and margins, and iii) to take advantage of market information and opportunities in the marketplace. These derivative instruments included forwards, futures, options and swaps. The majority of NUI Energy Brokers' positions were short-term in nature (up to 2 years) and could be readily valued using New York Mercantile Exchange settlement prices and those from several other well-established, third-party organizations. At September 30, 2003 NUI Energy Brokers had recorded derivative assets and associated unrealized gains of approximately $7.9 million. The actual amounts realized in subsequent periods could differ based on fluctuation in market pricing.

NUI Energy Brokers was also responsible for administration of the NUI Utilities hedge program. This program was established in December 2000 in accordance with the Gas Procurement Strategy and Plan (GPS&P) to help fulfill its mission to operate its gas distribution system in a safe, reliable and cost effective manner. The focus of the GPS&P is to manage the purchased costs of gas for firm sales customers of NUI Utilities. To meet its objectives of managing gas price risk, NUI Utilities engages in financial hedging activities that include the use of New York Mercantile Exchange traded natural gas futures contracts and options. NUI Utilities plans to transfer the administration of the hedging program from NUI Energy Brokers to NUI Utilities in the third quarter of fiscal 2004. Consistent with this plan, NUI Utilities has adopted a hedging risk management policy that sets guidelines and controls to govern its hedge program.

NUI accounts for its trading and hedging activities in accordance with the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 requires that all derivatives be recognized on the balance sheet at fair value with changes in the value of derivatives that are not hedges recorded in earnings.

Further, consistent with the regulatory accounting treatment for NUI Utilities' gas procurement activities and pursuant to the provisions of FAS 71 "Accounting for the Effects of Certain Types of Regulation," NUI Utilities defers both the realized and unrealized gains/(losses) attributable to the derivative instruments covered by this policy. Realized gains or losses are recorded as adjustments to gas purchase costs and are recovered from customers through the purchased gas adjustment clauses. Unrealized gains or losses are recorded on the balance sheet as a regulatory asset or liability, as applicable.

At September 30, 2003, NUI Energy Brokers had designated certain futures contracts and physical forwards associated with the delivery and sale of natural gas into and from storage as cash flow hedges with the objective of fixing an acceptable return. Under SFAS 133, the changes in the value of derivatives designated as hedges that are effective in offsetting the variability in cash flows of a forecasted transaction are recognized in other comprehensive income until the forecasted transactions occur and the ineffective portion of changes in fair value of derivatives is recognized immediately in earnings.

At September 30, 2003, the value in other comprehensive income associated with these positions is $0.8 million, net of tax, which will be reclassified into earnings over the next twelve months. However, the actual amount reclassified into earnings could differ based on fluctuations in market prices. At September 30, 2003 there was no hedge ineffectiveness recognized in earnings.

The risk associated with open positions is closely monitored on a daily basis, and controlled in accordance with NUI Energy Brokers' Risk Management Policy. This policy has been prepared by senior management and approved by the company's Board of Directors, and dictates policies and procedures for all trading activities. The policy defines both value-at-risk (VaR) and loss limits, and all traders are required to read, sign, and follow this policy. At the end of each day, all trading positions are marked-to-market and a VaR is calculated. In addition, the Risk Management Policy is regularly reviewed by senior management to assure that it is current and responsive to all marketplace risks, with any changes approved by the Board of Directors.

The following schedule summarizes the changes in derivative assets and liabilities for the year ended September 30, 2003 (in thousands). Amounts are shown net of valuation reserves.

Derivative assets at September 30, 2002	$30,441	
Derivative liabilities at September 30, 2002	(852)	
Fair value of contracts outstanding at September 30, 2002		$29,589
Contracts realized or settled during the period		(20,163)
Change in accounting for EITF 02-03		(9,949)
Changes in fair value attributable to market pricing		13,715
Derivative assets at September 30, 2003	$13,192	
Derivative liabilities at September 30, 2003	---	
Fair value of contracts outstanding at September 30, 2003		13,192

Changes in the fair value attributable to market pricing represents the changes in value of the company's unrealized mark-to-market net assets that relate to changes in commodity pricing, volatility of options on commodities, and other market related changes.

The following table summarizes the fair value of the contracts comprising the company's net derivative assets by maturity date (amounts in thousands):

	Fair Value of Contracts at Period-End				
Source of Fair Value	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Prices actively quoted	$5,982	$1,649	$---	$---	$7,631
Prices provided by other external sources	864	---	---	---	864
Prices based on models and other valuation methods, net of valuation reserves	1,213	2,356	1,128	---	4,697
Total Fair Value of Contracts	$8,059	$4,005	$1,128	$---	$13,192

NUI Energy Brokers utilizes the variance/covariance VaR methodology. Using a 95 percent confidence interval and a one-day time horizon, NUI Energy Brokers' VaR was $144,000 and $328,000 at September 30, 2003 and 2002, respectively. The average, high and low values at risk for the year ended September 30, 2003 were $195,000, $743,000 and $22,000, respectively.

Item 8. Financial Statements and Supplementary Data

Consolidated financial statements of the company as of September 30, 2003 and 2002 and for each of the three years in the period ended September 30, 2003, the auditors' report thereon, and the unaudited quarterly financial data for the two-year period ended September 30, 2003, are included herewith as indicated on the Index to Financial Statements and Schedule on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Disclosure Controls and Procedures

In connection with their audit of the company's fiscal 2002 financial statements, our independent external auditors, PricewaterhouseCoopers LLP (PwC), identified and reported on material weaknesses within our systems of internal control. In a report dated November 22, 2002 to the Audit Committee of the Board of Directors and management of NUI, PwC identified certain conditions that created a material weakness relating to internal control over financial reporting that resulted in the need to restate prior

financial statements. The weaknesses identified included, but were not limited to, the following:

-- General ledger cash account balances were not being reconciled to the bank statements.

-- General ledger account analyses were not being consistently performed.

-- A listing of debt covenants was not being maintained.

-- Comprehensive and formalized accounting and financial reporting policies and procedures did not exist.

-- Instances were noted where management lacked certain technical accounting and tax expertise that resulted in accounting errors.

-- The flow of accounting information between business units and corporate accounting was not timely or formalized.

-- Accounts payable invoice processing procedures needed to be improved.

-- A formal plan and implementation timetable needed to be developed to address compliance with the certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

The company believes that these internal control weaknesses were addressed by management during fiscal 2003. However, in connection with the fiscal 2003 financial statement audit, PwC communicated additional material control weaknesses, which included:

-- The contract review process was not formally documented, and appropriate procedures had not been developed to ensure timely review of contracts for accounting implications.

-- There was a lack of adherence to policies and procedures for travel and entertainment expense reimbursements and procurement card expenditures.

-- The payroll timekeeping and tracking process was manual in nature and prone to errors.

-- Information technology had a number of areas where formal, documented policies and procedures had not been developed.

During fiscal 2003, our internal auditors performed internal audits which indicated material weaknesses in internal controls similar to those noted above. We have developed and implemented action plans to address their recommendations, and follow-up audits are being conducted.

Additional internal control issues have been raised and deficiencies have been noted in the March 2004 final audit report relating to the focused audit conducted at the request of the NJBPU.

We have taken specific, immediate steps to address the internal control weaknesses discussed above. In addition, we have undertaken a broader, long-term effort to assess our systems of internal control and to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. These actions include:

-- Performing a comprehensive evaluation and developing a remediation plan with respect to internal controls over financial reporting and related processes;

-- Hiring additional qualified and experienced employees, specifically in the finance and accounting areas, and increasing technical training in these areas;

-- Implementing a redesigned cash management process and adopting more stringent cash management practices and procedures;

-- Developing and implementing comprehensive accounting and financial reporting policies and procedures;

-- Implementing procedures for performance of account analyses and reconciliations;

-- Improving and monitoring controls to increase the reliability of information generated by our information technology processes;

-- Educating employees throughout the company as to the importance of compliance with policies and procedures and the significance of a system of sound internal controls; and

-- Ensuring executive management's involvement in the oversight and review of the disclosure and reporting process.

The effectiveness of our, or any, systems of disclosure controls and procedures and internal controls is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. Further, the design of systems of control must reflect the fact that there are resource constraints that affect the operation of any such system, and that the benefits of controls must be considered relative to their risks. As a result, there can be no assurance that our systems of disclosure controls, procedures and internal controls will prevent all errors or fraud, or ensure that all material information will be made known to management in a timely fashion.

As required by Rule 13a-15(b) of the Exchange Act, the company has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. The evaluation examined those disclosure controls and procedures as of September 30, 2003, the end of the period covered by this report. Based upon the evaluation, the company's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, concluded that, as of September 30, 2003, NUI's disclosure controls and procedures were effective, except as described above, at the reasonable assurance level to ensure that information required to be disclosed in NUI's reports filed or submitted under the Exchange Act was accumulated and communicated to NUI's management, including its President and Chief Executive Officer and its interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Directors of the Registrant

The following table sets forth the names, positions and offices held by the company's directors as of September 30, 2003, and the date of this report, and their ages as of the date of this report.

Current Directors

Name	Age	Positions
John Kean (1)	74	**Retired as** Chairman of the Board of Directors as of April 1, 2004; Member of the Board until the end of term; Member of the Executive and Investment Committees
Dr. Vera King Farris (2)	63	Member of the Compensation, Investment, Nominating and Governance, and Special Committees
J. Russell Hawkins (2)	49	Chairman of the Nominating and Governance Committee; Member of the Audit, Compensation, Executive, Investment and Special Committees
Dr. Bernard S. Lee (1)	69	Chairman of the Compensation Committee; Member of the Audit, Nominating and Governance, and Special Committees
James J. Forese (3)	68	Elected Chairman of the Board as of April 1, 2004; Chairman of the Audit Committee; Member of the Compensation, Executive, Nominating and Governance and Special Committees
R. Van Whisnand (3)	60	Chairman of the Investment Committee; Member of the Compensation, Executive, Nominating and Governance, and Special Committees
Craig G. Matthews (1)	61	Director
Robert P. Kenney (1)	69	Director

(1) Current term expires in 2004.
(2) Current term expires in 2005.
(3) Current term expires in 2006.

Directors as of September 30, 2003

Name	Age	Positions
John Kean (1)	74	Retired as Chairman of the Board of Directors as of April 1, 2004; Member of the Board until the end of term; Member of the Executive and Investment Committees
Dr. Vera King Farris (2)	63	Member of the Compensation, Investment, Nominating and Governance, and Special Committees
J. Russell Hawkins (2)	49	Chairman of the Nominating and Governance Committee; Member of the Audit, Compensation, Executive, Investment and Special Committees
Dr. Bernard S. Lee (1)	69	Chairman of the Compensation Committee; Member of the Audit, Nominating and Governance, and Special Committees
James J. Forese (3)	68	Elected Chairman of the Board as of April 1, 2004; Chairman of the Audit Committee; Member of the Compensation, Executive, Nominating and Governance and Special Committees
R. Van Whisnand (3)	60	Chairman of the Investment Committee; Member of the Compensation, Executive, Nominating and Governance, and Special Committees

(1) Current term expires in 2004.
(2) Current term expires in 2005.
(3) Current term expires in 2006.

Mr. Kean has served as a director since 1969. He served as Chief Executive Officer of the company from 1969 until his retirement in April 1995, holding the positions of Chairman of the Board since October 1994 to April 2004 and President from 1969 until October 1994. Mr. Kean served as President of the International Gas Union, a federation of technical and scientific gas industries associations and he continues to serve as a member of the Executive and Investment Committees.

Dr. Farris has served as a director of the company since 1994. She served as President Emerita and Distinguished Professor of The Richard Stockton College of New Jersey from 1983 to 2003. She also serves as a director of Denny's Corporation, Inc. (previously Advantica Corporation/Flagstar Companies, Inc.) and is a member of the boards of numerous educational and civic organizations and is a distinguished professor at the University of Pennsylvania.

Mr. Hawkins has served as a director of the company since 1998. He currently serves as Senior Vice President of Carrier Access Corporation. Previously, he served as President and Chief Executive Officer of Paragon Networks, Inc. (manufacturer of telecommunications products) from September 1996 to November 2003 and as a director from 1998 until 2003. Prior thereto, he served as Managing Director of Lucent Technologies.

Dr. Lee has served as a director since 1992. He served as President of the Institute of Gas Technology (IGT) and as Chairman of M-C Power Corp., a majority-owned subsidiary of IGT, from 1997 until his retirement in 1999. From 1978 to 1999 he served as President and Chief Executive Officer of IGT. Dr. Lee is also a director of Peerless Mfg. Co. and National Fuel Gas Company.

Mr. Forese has served as a director of the company since 1978 and was appointed Chairman of the Board as of April 1, 2004. He serves as Operating Partner of Thayer Capital Partners (Private Equity Firm) and Chief Operating Officer since September 2003 and was a Senior Advisor from July 2003 until September 2003. He served as Chairman of IKON Office Solutions (office equipment and supply systems) from May 2000 until his retirement in February 2003. He also served as President and Chief Executive Officer from July 1998 until his retirement from such offices in August 2002. From January 1997 through July 1998, he served as Executive Vice President and President, International Operations, IKON Office Solutions. From January 1996 to December 1996, he served as Executive Vice President, Chief Operating Officer and a director of Alco Standard Corp. (office equipment and supply systems). From October 1993 through December 1995, he served as General Manager of Customer Financing for International Business Machines (IBM) and as Chairman of IBM Credit Corporation. Mr. Forese also serves as a director of American Management Systems, Inc., Spherion Corporation, Anheuser Busch Companies, Inc., and IESI Corporation.

Mr. Whisnand has served as a director since 1982. He has served as Managing Partner of Osprey Partners Investment Management, LLC (investment management) since September 1998. From March 1995 through August 1998, he served as principal of Fox Asset Management (investment management). Mr. Whisnand also serves as a director of Rumson-Fair Haven Bank.

Mr. Matthews was elected President and Chief Executive Officer of the company effective February 1, 2004. Mr. Matthews was employed by KeySpan Corporation (previously Brooklyn Union Gas Co.) from 1965 to March 1, 2001, when he retired. He held various positions including Executive Vice President, Chief Financial Officer and President and was Vice Chairman and Chief Operating Officer at the time of his retirement. Mr. Matthews is a member of the Board of Amerada Hess Corporation, Salvation Army of Greater New York (Past Chairman), Brooklyn Philharmonic (Past President), Polytechnic University and an Advisory Board Member of Republic Financial Corporation.

Mr. Kenney has served as a director since February 2004. He has served on the Elizabethtown Gas Company Advisory Board and then the NUI Utilities Board of Directors since his retirement as Elizabethtown Gas President and Chief Executive Officer in 1996, a position he held for five years. Prior to that he held a number of key positions within the company. He has served on the Executive Committee and as past Chairman of the Union County Economic Development Corporation, the Advisory Board of The Occupational Center of Union County and the Board of Directors of Meridian Bank NJ. His past offices include Trustee for the Institute of Gas Technology and Chairman of a variety of utility industry-related organizations.

(b) Executive Officers of the Registrant

The following information is provided with respect to each executive officer of the company as of September 30, 2003, and the date of this report. Officers are elected annually at the first meeting of the Board of Directors following the Annual Meeting. There are no arrangements or understandings between any officer and any other person pursuant to which the officer was elected.

Current Executive Officers

Name	Age	Positions
Craig G. Matthews	61	President and Chief Executive Officer
Dan Scouler	54	Interim Chief Financial Officer
Steven D. Overly	46	Vice President, General Counsel and Secretary
Victor A. Fortkiewicz	52	President- NUI Utilities, Inc.

Executive Officers as of September 30, 2003*

Name	Age	Positions
John Kean, Jr. (1)	46	President and Chief Executive Officer
A. Mark Abramovic (2)	55	**President, Senior Vice President, Chief** Operating Officer and Chief Financial Officer
James R. Van Horn (3)	47	Chief Administrative Officer, General Counsel and Secretary

* As noted below, Mr. Kean, Jr. resigned as President and Chief Executive Officer of the company effective September 25, 2003
(1) Resignation effective September 25, 2003.
(2) Retirement effective January 30, 2004.
(3) Resignation effective January 30, 2004.

Mr. Matthews was elected President and Chief Executive Officer of the company effective February 1, 2004. Mr. Matthews was employed by KeySpan Corporation (previously Brooklyn Union Gas Co.) from 1965 to March 1, 2001, when he retired. He held various positions including Executive Vice President, Chief Financial Officer and President and was Vice Chairman and Chief Operating Officer at the time of his retirement. Mr. Matthews is a member of the Board of Amerada Hess Corporation, Salvation Army of Greater New York (Past Chairman), Brooklyn Philharmonic (Past President), Polytechnic University and an Advisory Board Member of Republic Financial Corporation.

Mr. Scouler has served as interim Chief Financial Officer of the company since October of 2003. He is the managing member of Scouler Andrews. He previously served as Senior Managing Director with FTI Consulting, Inc. from January 2002 to March 2004. In October 2003, the company employed FTI Consultants to manage its financial operations and develop new liquidity forecasts.

Mr. Overly has served as Vice President, General Counsel and Secretary of the company since February 2004. He served as Senior Vice President, General Counsel, Chief Financial Officer and Secretary of Cirrus Logic, Inc., from 2001 to 2003 and as Senior Vice President, General Counsel and Secretary from 2000 to 2001. He also held General Counsel positions at International Wireless Communications Holdings, Corp., Lockheed Martin Telecommunications, Martin Marietta Astro Space and General Electric Astro Space.

Mr. Fortkiewicz has served as President of NUI Utilities since September 2003, prior to that he served as Vice President of NUI Utilities. He served as Vice President, Distribution Services from June 1998 to March 2003 and prior to that appointment, he served as President of Elizabethtown Gas from January 1, 1997. He joined Elizabethtown Gas in 1978.

Mr. Kean, Jr. served as a director of the company from 1995 until September 2003. He served as President and Chief Executive Officer of the company from April 1995 until September 2003. From October 1994 through March 1995, he served as President and Chief Operating Officer.

Mr. Abramovic served as President of the company from September 26, 2003, through the date of his retirement in January 2004. He served as Senior Vice President and Chief Financial Officer from September 1997 through September 2003 and as Chief Operating Officer since May 1998.

Mr. Van Horn served as Chief Administrative Officer of the company from May 1998 through the date of his resignation in January 2004 and as General Counsel and Secretary since 1995.

(c) Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers (as defined therein), and persons who beneficially own more than 10 percent of the company's common stock, to file a report of holdings and transactions in NUI common stock with the SEC and the New York Stock Exchange and to furnish us with copies of all Section 16(a) forms they file. Based on our records and other information furnished to us, the only shareholder who beneficially owns more than 10 percent of the company's common stock is Wellington Management Company, LLP (see Item 12. (a)- Security Ownership of Certain Beneficial Owners and Management). We are not aware of any other director, executive officer or shareholder who beneficially owns more than 10 percent of the company's common stock.

To NUI's knowledge, based solely on a review of information furnished to the company, all Section 16(a) filing requirements applicable to its directors, executive officers and greater than 10 percent beneficial owners were complied with during fiscal 2003.

(d) Code of Ethics

The company has adopted a code of ethics that applies to all of its employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, directors or persons performing similar functions. A copy of the company's code of ethics has been filed as Exhibit 14 to this Report on Form 10-K. A copy of the company's code of ethics will be provided to any person without charge by contacting the Investor Relations department at our corporate offices at (908) 781-0500. The company's code of ethics will also be available on the company's internet website at http://www.nui.com in the near future.

(e) Audit Committee

The company has a separately designated standing audit committee. Each member of the Audit Committee is independent according to the definition of independence provided by the New York Stock Exchange rule and the federal securities laws. The members of the audit committee are identified in the list of directors in (a) above. The company's Board of Directors has determined that James J. Forese, the Chair of the Audit Committee, is an "audit committee financial expert" as such term is defined under federal securities laws.

Item 11. Executive Compensation

(a) Summary Compensation Table

The following Summary Compensation Table presents compensation information about the company's executive officers that were the most highly paid during the fiscal year ended September 30, 2003.

Summary Compensation Table

		Annual Compensation		Long Term Compensation		
Name and Principal Position	Fiscal Year	Salary	Bonus	Restricted Stock Awards (1)(2)	Securities Underlying Options/ SARs	All Other Compensation (3)
John Kean, Jr. (4)	2003	$490,000	$ 0	$ 0	$	$ 1,109,700
Former President and Chief Executive Officer	2002	450,000	0	612,408	0	4,808
	2001	397,500	61,500	691,500	435,000	7,144
A. Mark Abramovic (5)	2003	$305,000	$ 0	$ 0	$ 0	$ 1,207,200
Former President, Senior Vice President, Chief Operating Officer & Chief Financial Officer	2002	285,000	0	219,146	0	7,296
	2001	258,838	66,300	230,500	120,000	6,653
James R. Van Horn (6)	2003	$226,000	$ 0	$ 0	$ 0	$ 807,200
Former Chief Administrative Officer, General Counsel and Secretary	2002	210,950	0	130,587	0	7,033
	2001	194,018	49,000	138,300	75,000	6,692
Robert F. Lurie (7)	2003	$88,100	$ 0	$ 0	$ 0	$ 138,493
Former Vice President-Corporate Development and Planning	2002	172,800	0	78,803	0	5,376
	2001	167,389	25,400	80,675	40,500	4,923
Michael J. Behan (8)	2003	$ 144,000	$ 0	$ 0	$ 0	$ 712,946
Former Vice President-New Ventures	2002	169,100	0	79,553	0	5,260
	2001	164,194	24,800	80,675	40,500	4,382
Victor A. Fortkiewicz *President. NUI Utilities*	2003	$189,900	$ 41,800	$ 0	$ 0	$ 6,324

(1) Shares of restricted stock carry a significant risk of forfeiture. In order to earn all shares, all targeted financial performance objectives must be achieved. The company did not grant any restricted stock awards for fiscal year 2003.

(2) Since the company did not achieve many of its performance objectives in fiscal year 2003, shares of previously granted restricted stock, the vesting of which was contingent upon meeting those objectives, were forfeited. The number and value of shares forfeited by each of the listed officers was as follows: John Kean Jr.,: 2,160 shares ($31,633); A. Mark Abramovic: 15,670 shares ($243,057); James R. Van Horn: 8,290 shares ($128,537); Robert F. Lurie: 924 shares ($14,060); Michael J. Behan 360 shares ($5,272) and Victor A. Fortkiewicz: 5,575 shares ($86,361).

(3) Represents the employer match under qualified savings plans during fiscal year 2003 and additional payments made, or to be made in connection with associated severance agreements.

(4) John Kean Jr.'s "All Other Compensation" total includes $7,200 for the employer match under qualified savings plans and $1,102,500 as part his severance agreement.

(5) A. Mark Abramovic's "All Other Compensation" total includes $7,200 for the employer match under qualified savings plans and $1,200,000 as part his severance agreement.

(6) James R. Van Horn's "All Other Compensation" total includes $7,200 for the employer match under qualified savings plans and $800,000 as part his severance agreement.

(7) Robert F. Lurie's "All Other Compensation" total includes $6,343 for the employer match under qualified savings plans and $132,150 as part his severance agreement.

(8) Michael J. Behan "All Other Compensation" total includes $5,192 for the employer match under qualified savings plans, $372,500 as part his severance agreement and an estimated $335,254 for supplemental retirement benefits.

(b) Stock Options Issued

The company did not issue any options during fiscal year 2003, other than those issued to directors, as discussed in Section (f) Compensation of Directors below.

(c) Options and Stock Appreciation Rights

In November 2001, the company made a grant of stock options to officers, including those executive officers listed in the Summary Compensation Table, in accordance with the NUI Corporation Stock Option, Stock Award and Incentive Plan. The company does not have any outstanding stock appreciation rights (SARs). Information relating to the officers listed in the Summary Compensation Table is set forth below. All options become exercisable in November 2004 and carry a per share exercise price of $22.39. Stock options granted are forfeited upon an employee's separation from the company.

Aggregated Option/SAR Exercises in 2003 Fiscal Year and SAR Values as of September 30, 2003

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at FY-End ($) Exercisable/ Unexercisable
John Kean, Jr.	0	$---	0/0	$---/---
A. Mark Abramovic	0	---	0/120,000	---/---
James R. Van Horn	0	---	0/75,000	
Robert F. Lurie	0	---	0/0	
Michael J. Behan	0	---	0/0	
Victor A. Fortkiewicz	0	---	0/39,600	---/---

(d) Long-term Incentive Awards

The company did not make any long-term incentive awards during fiscal year 2003.

(e) Retirement Plan Benefits

The executive officers of the company earn retirement benefits that may be payable under three separate retirement plans: (1) the company's Retirement Plan, a funded plan in which more than 70 percent of the company's employees are eligible to participate; (2) the ERISA Excess Benefits Plan, an unfunded plan that is designated to provide benefits for those participants in the Retirement Plan for whom benefits are reduced by reason of the limitations imposed under Section 415 of the Internal Revenue Code of 1986, as amended from time to time (the Code); and (3) the Supplemental Retirement Benefits Plan, an unfunded plan that provides additional benefits to certain key executive employees, including those listed in the Summary Compensation Table. While participants in the Retirement Plan and the ERISA Excess Benefits Plan become vested in their entitlement to benefits after 5 years of service, participants in the Supplemental Retirement Benefits Plan are eligible to receive benefits from the plan only if they reach retirement age while working for the company (55 years of age with 10 years of service or 65 years of age with 5 years of service. If retirement is prior to age 60, then NUI's Compensation Committee's consent is required).

The Retirement Plan, which is funded entirely by the company, provides that a participant retiring at or after age 65 (or at or after age 62 with at least 25 years of credited service) will receive an annual retirement benefit equal in amount (when calculated as a life annuity with two years certain) to 1½ percent of the participant's final average compensation (the average of the highest sixty consecutive calendar months' base salary and sales commissions) multiplied by the number of years of credited service. This benefit formula is different for employees who participated in other pension plans that have been merged into the Retirement Plan. Benefits payable to participants in the Retirement Plan may be reduced by reason of the limitations imposed under Section 415 of the Code. The ERISA Excess Benefits Plan will pay the difference between the amount payable to the participant under the Retirement Plan and the amount the participant would have been paid but for the limitations imposed under Section 415 of the Code. Benefits under this plan are subject to the same terms and conditions as the benefits payable to the participant under the company's Retirement Plan.

The unfunded Supplemental Retirement Benefits Plan provides that each eligible employee who reaches retirement age while working for the company may receive a retirement benefit, payable monthly equal in amount (when calculated as a life annuity with two years certain) to two percent of the participant's final average total compensation (the average of the highest 60 consecutive months' earnings, including cash bonuses earned) multiplied by the number of years of credited service up to a maximum of 30 years - yielding a benefit of 60 percent of final average. Benefits otherwise payable under the unfunded Supplemental Retirement Benefits Plan are

reduced by amounts payable under the Retirement Plan and the ERISA Excess Benefits Plan.

The following table shows the maximum aggregate annual retirement benefit payable from all three retirement plans at normal retirement age of 65 for various levels of final average compensation and years of service, assuming payment of benefits in the form of a life annuity with a two-year certain:

	Years of Service			
Remuneration (*)	10 Years	20 Years	30 Years	40 Years
$ 100,000	$ 20,000	$ 40,000	$ 60,000	$ 60,000
200,000	40,000	80,000	120,000	120,000
300,000	60,000	120,000	180,000	180,000
400,000	80,000	160,000	240,000	240,000
500,000	100,000	200,000	300,000	300,000
600,000	120,000	240,000	360,000	360,000
800,000	160,000	320,000	480,000	480,000
1,000,000	200,000	400,000	600,000	600,000

* Average annual compensation utilized for formula purposes includes salary and cash bonus as reported in the Summary Compensation Table. The benefit amounts shown in the preceding table are not subject to any deduction for Social Security benefits, but are subject to offsets from the other NUI retirement plans. The years of service now credited under the Retirement Plan for the participants listed in the Summary Compensation Table are as follows: John Kean, Jr., 19 years; A. Mark Abramovic, 6 years; James R. Van Horn, 8 years; Robert F. Lurie, 9 years; Victor Fortkiewicz, 25 years and Michael J. Behan, 25 years.

(f) Compensation of Directors

The compensation program for directors is designed to closely align the interests of the directors with the interests of shareholders. Each non-employee director of the company is paid a retainer fee in stock that consists of a deferred grant of shares of common stock. The number of shares of common stock to be allocated to the accounts of such non-employee directors is determined by dividing the cash value of the annual Board retainer (plus the annual Committee Chair retainer, if applicable) by the fair market value of the common stock on the date of the annual reorganization meeting of the Board. Currently the cash value of the annual Board retainer for non-employee directors is $25,000 and the annual Committee Chair retainer is $4,000. In addition to these shares, non-employee directors are credited on each common stock dividend payment date with that number of additional shares that could have been purchased had their accrued shares been issued and the dividends reinvested. The shares accrued to a director are issued upon the director's retirement or other termination of the director's service as a member of the Board. As of April 30, 2004, the total deferred grants for non-employee directors provide for the issuance of an aggregate of 57,103 shares of common stock. These shares are issuable as follows: James J. Forese and R. Van Whisnand, 14,312 shares each; Bernard S. Lee, 12,231 shares; Vera King Farris, 10,165 shares; and J. Russell Hawkins, 6,084 shares. In addition to these retainers, non-employee directors are paid $1,000 for attendance at each regular or special meeting of the Board of Directors and any Committee thereof.

Part of the Board's compensation program includes the granting of stock options. Each year, at the annual reorganization meeting of the Board, all non-employee directors receive a grant of options to purchase 1,000 shares of the company's common stock. The per share exercise price for the underlying shares is equal to the fair market value of the common stock as of the date of grant. The options become exercisable one year following the date of grant and expire, if unexercised, 10 years following the date of the grant. As of April 30, 2004, the total number of shares subject to outstanding stock options for each Board member was 2,000, for an aggregate total of 12,000 shares. The exercise price per share for 1,000 of these options is $24.215 and $14.205 for the additional 1,000 options.

The company has in effect a retirement plan for directors. To be eligible for retirement benefits under the plan, a director must have served as a director for at least 10 years, with a minimum of five years of service as a non-employee of the company and its subsidiaries. An eligible participant in the plan will be paid, upon retirement and the attainment of age 65, an annual retirement benefit for life equal to the value of the annual Board retainer in effect at the time of the director's retirement. In May 2002, the Board of Directors terminated the retirement plan for all non-employee directors who become Board members after that date. All current non-employee directors, except for Mr. Kenney, are eligible for retirement benefits under the plan.

James Forese was awarded an annual retainer of $100,000, effective January 1, 2004, to serve as Chairman of the Special Committee of the Board of Directors.

The company is party to a consulting agreement with John Kean, who retired as Chief Executive Officer of the company effective April 1, 1995. The Agreement expired on March 31, 2004. Under the Agreement, Mr. Kean provided consulting services to the company for up to 110 hours each calendar month. The Agreement required Mr. Kean to devote sufficient time and effort to perform such duties as may be assigned by the company or the Board of Directors from time to time. In consideration of the services rendered under the Agreement, the company provided Mr. Kean with an annual fee of $280,000, office space, clerical support and expense reimbursement. Other than amounts paid under the Agreement, Mr. Kean did not receive any compensation for serving on the Board or Committees of the Board of the company, its divisions or subsidiaries.

(g) Compensation Committee Interlocks and Insider Participation

Disclosure rules require the company to report certain relationships involving the company in which members of the Compensation Committee have a direct or indirect material interest. The rules also require disclosure of interlocking relationships among Compensation Committee members and those executive officers of the company, if any, who also serve as members of Compensation Committees or executive officers at other companies. The purpose of these requirements is to allow shareholders to assess the independence of the company's Compensation Committee members in making executive compensation decisions and recommendations. While the company has had transactions with companies and firms with which certain members of the Compensation Committee are, or at some point during fiscal year 2003 were, affiliated as an officer and/or director, there are no such relationships in which members of the Committee have a direct or indirect material interest (see Transactions With Management). In addition, there are no interlocking relationships of the nature described above involving members of the Compensation Committee. The members of the Compensation Committee are Vera King Farris, James J. Forese, J. Russell Hawkins, Bernard S. Lee (Chairman) and R. Van Whisnand.

(h) Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors of NUI Corporation is comprised of five independent, non-employee directors. The Compensation Committee has the responsibility of making recommendations to the Board concerning the company's executive compensation policies, practices and objectives. The authority, responsibility and duties of the Compensation Committee are described in a Compensation Committee Charter, which has been approved by the Board of Directors. The responsibilities and duties of the Committee include, among other things:

-- reviewing from time to time and approving the overall compensation policies of the Company applicable to the company's executive officers, to ensure that the executive officers are rewarded appropriately for their contributions to the company's growth and profitability and that such compensation policies are aligned with the company's objectives and shareholder interests.

-- reviewing and approving corporate goals and objectives relevant to the compensation of the Chief Executive Officer of the company; evaluating the performance of the Chief Executive Officer in light of these goals and objectives; and setting the compensation of the Chief Executive Officer based on the Committee's evaluation and compensation levels of chief executive officers at companies comparable to the Company.

-- reviewing and approving the compensation for the executive officers of the company other than the Chief Executive Officer.

-- reviewing, approving, administering and annually evaluating the company's compensation plans, equity-based plans and benefit plans or programs for executive officers and such other officers as the Compensation Committee deems appropriate, as well as establishing individual targets and ranges under such plans or programs.

-- reviewing, approving and administering the NUI Corporation Employee Stock Purchase Plan and the 1996 Director Stock Purchase Plan (the Director Stock Plan).

-- reviewing and approving equity-based grants to the company's executive officers and other.

-- reviewing, approving and at least annually evaluating the compensation and benefits for the company's non-employee directors.

In discharging its responsibilities, the Compensation Committee draws upon various resources, including but not limited to the varied business experiences and knowledge of Committee members and other non-employee directors in the area of executive compensation and the advice of independent compensation experts. These resources allow the Compensation Committee to stay abreast of current trends and developments in executive compensation and provide valuable guidance to the Compensation Committee in making decisions and in making recommendations to the Board of Directors.

The Compensation Committee recognizes the importance of a strong executive compensation program to attract and retain qualified executives. The Compensation Committee also strongly believes that the executive compensation program should be designed to align the interests of management closely with the interests of shareholders and to tie compensation levels to the performance of the company and the achievement of long-term and short-term goals and objectives.

The Compensation Committee has designed a compensation program to provide executives with competitive base salaries and benefits and a significant incentive to achieve specific short- and long-term business performance objectives. The program includes establishing a target level of company performance in certain categories, such as earnings before interest and taxes, earnings per share, return on invested capital, revenues and debt rating. For officers with responsibility for a business unit, targets tied to the performance of the specific business unit are also established. Short-term targets are set for annual performance periods and long-term targets are set for a three-year performance period. Awards are earned if performance is at the targeted level at the conclusion of the performance period. A reduced award is earned if performance is at a pre-established threshold level but not at the targeted level and an enhanced award is earned if performance exceeds the targeted level to an exceptional award opportunity. If performance falls below the established threshold level then performance awards are not earned.

The components of the executive compensation program are:

-- competitive base salaries that are targeted to be at or near the 50th percentile for the officer's position when compared to competitive market data;

-- retention incentives through the provision of stock options that vest three years from the date of grant;

-- short-term incentives through the payment of cash bonuses and the awarding of performance-based restricted stock;

-- long-term incentives through the provision of cash incentive opportunities that become payable in the event that long-term targeted performance levels are exceeded; and

-- competitive executive benefits.

In making determinations for base salaries, award opportunities to be provided to officers under the compensation program and in establishing short- and long-term performance targets, the Compensation Committee considers data provided by independent compensation experts for the purpose of determining competitive levels of total compensation for each executive. The Compensation Committee's objective is to develop a total compensation program that is competitive in the marketplace and provides significant incentive to increase shareholder value. While the Compensation Committee believes it is important to ensure that total compensation levels for each executive are competitive, it also believes that the mix of compensation should be weighted toward variable components that provide a significant incentive for the achievement of the company's financial performance objectives.

In order to further align management's interest with NUI shareholders, the Board of Directors has implemented the following minimum stock ownership requirements for both officers and members of the Board of Directors of NUI Corporation.

-- the Chief Executive Officer must own Common Stock with a market value equal to a minimum of four times his then current salary;

-- other executive officers must own Common Stock with a market value equal to a minimum of two times their then current base salary;

-- non-executive officers must own Common Stock with a market value equal to their then current base salary;

-- only shares, which are owned outright by these officers, will be included in determining their compliance with these requirements;

-- shares of restricted Common Stock that have not vested, as well as shares that have not yet vested under NUI's benefit plans, are not included in determining compliance;

-- members of the Board of Directors are required to own shares of Common Stock with a market value equal to a minimum of six times the then current value of the Board's annual retainer (this would be equivalent to $150,000 based upon the current retainer of $25,000 in a deferred grant of Common Stock paid to members of the Board); for purposes of determining compliance with this requirement, shares owned outright by directors will be combined with any shares credited to their deferred stock balances.

Officers and directors have six years from the implementation of the program or from the time they join the company (whichever is later) to comply with these minimum stock ownership requirements. In the event that an officer or director does not satisfy this requirement, the Compensation Committee may, in its discretion, take action intended to promote compliance, including the payment of cash incentives in the form of stock. The Compensation Committee regularly monitors the progress of officers and directors toward compliance and, as of the date of this annual report, all of the directors and all but one of the officers who are subject to the minimum stock ownership requirements complied with the applicable requirements.

Consistent with the Compensation Committee's overall objective of aligning the interests of management with the interests of shareholders and providing an incentive for the enhancement of shareholder value, the Compensation Committee has made grants of restricted Common Stock to certain employees of the company, including the executive officers listed in the Summary Compensation Table. The terms of these grants require the company to achieve specific performance targets in order for the recipients to receive all of the granted shares of Common Stock. If minimum performance targets are not met, all shares related to the applicable performance period are forfeited. The Compensation Committee has the authority to make adjustments to these performance objectives if it deems such adjustments appropriate.

As a result of many factors, the company did not achieve the minimum earnings performance levels in fiscal year 2003 necessary for executives to earn the annual restricted stock and all such shares were forfeited. In total, 88,049 shares of NUI Common Stock, with a market value of $1,359,838, were forfeited by the holders of restricted stock. Of this amount, 32,979 shares of Common Stock, with a market value of $508,921, were forfeited by those officers listed in the Summary Compensation Table. In addition, as a result of the company's financial performance in fiscal year 2003, cash incentives were awarded to three officers, which totaled $85,720. Of this amount, one officer listed in the Summary Compensation Table earned $41,800.

In November 2002, the Committee approved a one-time mid-year restricted stock grant that vested on March 31, 2003. The company did achieve the performance levels necessary for executives to earn 80 percent of this restricted stock grant. In total, 60,880 shares of NUI Common Stock, with a market value of $891,588, were awarded to the holders of restricted stock. Of this amount, 19,120 shares of Common Stock, with a market value of $280,012, were awarded to those officers listed in the Summary Compensation Table.

The Compensation Committee of the Board decided not to grant any additional restricted stock to any eligible NUI employees for vesting in the next fiscal year (2004) and only approved cash incentive plans for individual Business Units and none for Corporate.

The compensation paid to John Kean, Jr., President and Chief Executive Officer, with respect to fiscal year 2003 is set forth in the Summary Compensation Table. Mr. Kean's salary increased by 8.9 percent in fiscal year 2003 from the salary he received in fiscal 2002. As a result of the company's financial performance in fiscal year 2003, the Compensation Committee determined that no cash incentive award should be paid to Mr. Kean. On September 25, 2003, Mr. Kean's employment with the company ended. His separation agreement provide that 45,000 shares of restricted common shares related to grants dated November 1999, 2000 and 2002 are deemed vested, with a market value of $235,356. In addition, Mr. Kean did earn 8,640 shares of restricted common stock related to the one-time mid-year restricted stock grant that vested on March 31, 2003, with a market value of $126,533, for fiscal year 2003. The Compensation Committee believes that the executive compensation program is well structured and provides maximum incentive for executives to continually improve the company's financial performance, as well as to attract, retain and motivate key employees, and to enhance shareholder value.

Members of the Compensation Committee

Dr. Bernard S. Lee, Chairman
James J. Forese
J. Russell Hawkins
R. Van Whisnand
Dr. Vera King Farris

Performance Graph

The graph below reflects the performance of the company's Common Stock during the past five fiscal years and compares that performance with the performance of two broad market indices, the S&P 500 and the S&P Utilities. The chart below tracks the performance of an investment of $100 on October 1, 1998, and assumes the reinvestment of dividends.

	1998	1999	2000	2001	2002	2003
NUI	100.0	112.0	141.6	99.6	109.9	80.8
S&P	100.0	98.3	140.8	105.4	68.2	83.5
S&P 500	100.0	127.8	144.7	106.3	84.5	105.1

(i) Employment Contracts and Termination of Employment and Change in Control Arrangements

In connection with the sale of the company, the board of directors initiated a Retention Bonus Program in order to retain key employees during and after the sale. Forty-nine employees were issued a retention incentive letter. The objectives of the plan are to provide for continuity of management during the transition period, transfer technology to the buyer, and assure continued service to the company's existing customer base. The amount of bonus to be paid is based on a ranking value related to the employees' job function to the sale, transition and on-going operations of the company. Under the plan, an employee who has received a retention incentive letter will be entitled to the full retention bonus 30 days following the closing date of the sale, or on a date before the closing date if the employee is released from his/her employment by the company. The retention bonus is in addition to any other benefit to which an employee is entitled including the company's severance plan as of November 2003. If a person leaves the company voluntarily or is terminated for cause at any time prior to 30 days following the closing date of the sale, the employee will not receive the retention bonus.

The company is party to change in control agreements with certain officers and directors The purpose of these agreements is to provide key management personnel with certain financial protection in the event of a change in control of the company and the subsequent termination of the officer's employment. By providing this protection, the company helps to ensure that the efforts of key employees remain focused on the company's performance and the enhancement of shareholder value during rumored, potential or actual change in control situations.

A covered employee becomes entitled to the payments and benefits provided for in his or her agreement if, within 36 months after the change in control:

- **The company (or its successor) terminates the employee other than for cause or as a result of the employee's death or disability;** or

- The employee terminates his or her employment for "Good Reason" (as defined in the agreement).

Under the agreement, the payments to which a covered employee will be entitled in such a termination event vary and at the highest coverage level include a payment of three times the employee's annual base salary plus three times the highest incentive compensation award received by the employee during the preceding 36 months.

Following the termination of employment:

- **the officer will continue to participate** in all employee benefit plans in which the employee was eligible to participate on the date of termination;

- all incentive awards not yet paid will be payable; and

- the spread between the exercise price and the higher of the highest bid price during the twelve months preceding termination or the highest price per share paid in connection with any change in control will be payable in cash in lieu of stock issuable upon the exercise of stock options.

Most change in control agreements provide that in the event that any payment or benefit received under an agreement would be an "excess parachute payment" (within the meaning of Section 280G(b)(1) of the Internal Revenue Code of 1986, as amended from time to time), then the present value of all payments to be received under the Agreement shall be reduced to an amount which maximizes payments but does not result in the payment of an excess parachute payment.

The company entered into a severance agreement with John Kean, Jr., NUI's former Chief Executive Officer and President, in connection with his resignation from the company effective September 25, 2003. In addition to those benefits he would otherwise be entitled to receive in connection with his resignation, under the severance agreement, the company agreed to pay Mr. Kean a severance payment of $1,102,500, payable in monthly installments through December 31, 2005, less applicable withholding taxes, and further agreed to permit Mr. Kean to continue to use a company car and to pay all accrued, but unused, vacation time and certain outplacement services not to exceed $20,000, and to fully vest 45,000 shares of unvested restricted stock held by Mr. Kean .

The company entered into an agreement and general release with A. Mark Abramovic, NUI's former Senior Vice President, Chief Financial Officer and Chief Operating Officer, in connection with his retirement from the company effective January 31, 2004. In addition to those benefits he would otherwise be entitled to receive in connection with his resignation, under the agreement, the company paid Mr. Abramovic a lump-sum severance payment of $1,200,000, less applicable withholding taxes, and further agreed to pay Mr. Abramovic all accrued, but unused, vacation time and for certain outplacement services not to exceed $15,000, and to fully vest 2,500 shares of unvested restricted stock held by Mr. Abramovic.

The company entered into an agreement and general release with James R. Van Horn, NUI's former Chief Administrative Officer, General Counsel and Secretary, in connection with his resignation from the company effective January 31, 2004. In addition to those benefits he would otherwise be entitled to receive in connection with his resignation, under the agreement, the company paid Mr. Van Horn a lump-sum severance payment of $800,000, less applicable withholding taxes, and further agreed to pay Mr. Van Horn all accrued, but unused, vacation time and for certain outplacement services not to exceed $15,000, and to fully vest 875 shares of unvested restricted stock held by Mr. Van Horn.

The company entered into an agreement and general release with Robert F. Lurie, NUI's former Vice President of Corporate Development and Planning, in connection with his resignation from the company effective December 31, 2003. In addition to those benefits he would otherwise be entitled to receive in connection with his resignation, under the Agreement, the company paid Mr. Lurie a lump-sum severance payment of $132,150, less applicable withholding taxes, and further agreed to pay all accrued, but unused, vacation time and certain outplacement services not to exceed $15,000, and to fully vest 5,175 shares of unvested restricted stock held by Mr. Lurie.

The company entered into an agreement and general release with Michael J. Behan, NUI's former Vice President, New Ventures, in connection with his retirement from the company effective July 22, 2003. In addition to those benefits he would otherwise be entitled to receive in connection with his retirement, under the agreement, the company paid Mr. Behan a lump-sum severance payment of $360,000, less applicable withholding taxes, and further agreed to pay all accrued, but unused, vacation time, to reimburse certain outplacement services of $12,500, and to fully vest 6,126 shares of unvested restricted stock held by Mr. Behan.

The company entered into an agreement with Scouler Andrews effective March 1, 2003, pursuant to which Scouler Andrews agreed to provide the services of Dan Scouler as interim Chief Financial Officer of the company. The company agreed to pay Scouler Andrews $200,000, plus reasonable and customary out-of-pocket expenses, for services rendered in March 2004 and to pay Scouler Andrews $75,000, plus reasonable and customary out-of-pocket expenses, on a monthly basis thereafter. Mr. Scouler remains employed by Scouler Andrews and does not receive any compensation directly from the company, nor is he entitled to participate in any employee benefit plans or programs, or any other bonus, incentive compensation, severance, or employee or retiree medical plans.

The company entered into an agreement with Craig G. Matthews to serve as President and Chief Executive Officer of NUI effective February 1, 2004. Mr. Matthews is to be paid an annual base salary of $550,000 with an additional lump sum payment of $550,000 following the sale of the Company provided that he continues to be employed through the sale date. Mr. Matthews is eligible to participate in employee benefits plans and programs available to NUI's Senior Executives but is not eligible for any other bonus, incentive compensation, severance, or employee or retiree medical plans.

The company entered into an employment agreement with Steven D. Overly to serve as Vice President, General Counsel and Secretary of NUI effective February 1, 2004. Mr. Overly is to be paid an annual base salary of $250,000 with an additional lump sum payment of $250,000 following the sale of the company. Mr. Overly is eligible to participate in employee benefit plans and programs available to NUI's Senior Executives and is reimbursed for his commuting expenses, but is not eligible for any other bonus, incentive compensation, severance, or employee or retiree medical plans. Mr. Overly is entitled to six months written notice prior to termination of his employment.

Except as set forth above, the company is not party to any other employment, change in control, or termination agreements with executive officers.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of April 30, 2004, except as noted below, information regarding the beneficial ownership of NUI common stock, restricted stock, and stock options of (i) each director of the company, (ii) each of the company's officers named in the Summary Compensation Table (collectively, the Named Executive Officers), (iii) each person who is known to the company to own beneficially more than 5 percent of the company's common stock, and (iv) all directors and executive officers as a group. Except as otherwise indicated below, each person has the sole voting and investment power with respect to the shares indicated. The address of each of the persons listed in this table is as follows: c/o NUI Corporation, 550 Route 202-206, PO Box 760, Bedminster, New Jersey 07921-0760.

Name and Address of Beneficial Owner	Number of Shares of Common Stock (1)	Restricted Stock (2)	Option Shares	Total Beneficial Ownership	Percent of Class*
Wellington Management Company, LLP (11) 75 State Street Boston, Massachusetts 02109	1,671,340	---	---	1,671,340	10.467%
Barclays Global Investors, NA (11) 45 Fremont Street San Francisco, California 94105	1,384,674	---	---	1,384,674	8.671%
Artisan Partners Limited Partnerships (11) 875 East Wisconsin Avenue, Suite 800 Milwaukee, Wisconsin 53202	1,053,200	---	---	1,053,200	6.596%
State Street Research & Management Company (11) One Financial Center, 31st Floor Boston, Massachusetts 02111	1,006,500	---		1,006,500	6.303%
FleetBoston Financial Corporation (11) 111 Westminster Street Providence, Rhode Island 02903	975,013	---	---	975,013	6.106%
A. Mark Abramovic (3)	17,819	2,500	2,500	20,319	
Michael J. Behan (4)	4,005	6,126	---	10,131	
Vera King Farris	10,706	---	2,000	12,706	
James J. Forese	14,462	---	2,000	16,462	
Victor A. Fortkiewicz	23,623	1,000	39,600	64,223	
J. Russell Hawkins	8,503	---	2,000	10,503	
John Kean (5)	371,876	---	2,000	373,876	2.329%
Robert P. Kenney	3,125	---	---	3,125	
John Kean, Jr. (6)	111,070	45,000	---	156,070	
Bernard S. Lee (7)	21,605	---	2,000	23,605	
Robert F. Lurie (8)	9,490	7,149	---	16,639	
James R. Van Horn (9)	11,048	875	---	11,923	
R. Van Whisnand	17,462	---	2,000	19,462	
All current directors and current executive officers as a group (10)	471,362	1,000	51,600	523,962	2.952%

* Unless otherwise noted, the individuals listed above own less than one percent of the outstanding common stock based upon shares of common stock outstanding at April 30, 2004 of 15,968,345 shares.

(1) This column includes common stock that has been deferred under the company's deferred compensation program. This column

also includes the number of shares of common stock issuable to non-employee directors upon termination of Board service in payment for their annual Board and Committee chair retainers, as follows: James J. Forese and R. Van Whisnand, 14,312 shares each; Bernard S. Lee, 12,231 shares; Vera King Farris, 10,165 shares; J. Russell Hawkins, 6,084 shares; and all directors as a group, 57,103 shares.

(2) This column represents restricted stock held by executive officers over which the officers have voting power, but no investment power. The total number of shares for all directors and officers as a group is.

(3) Mr. Abramovic's holdings are as of January 30, 2004.

(4) Mr. Behan's holdings are as of July 31, 2003.

(5) Includes 128,466 shares over which John Kean has shared voting and investment power as a co-trustee under various trusts for the benefit of members of the Kean family and 500 shares by Mr. Kean's wife.

(6) Mr. John Kean, Jr.'s holdings are as of September 30, 2003.

(7) Includes 1,000 shares held by Dr. Lee's wife.

(8) Mr. Lurie's holdings are as of March 31, 2003.

(9) Mr. Van Horn's holdings are as of January 30, 2004.

(10)Reflects shares owned by directors, nominees and current executive officers. Since Mr. Abramovic, Mr. Behan, Mr. Kean, Jr., Mr. Lurie and Mr. Van Horn ceased to be executive officers of the company on March 31, 2004, their share ownership is not included in these totals.

(11)Holdings based on December 31, 2003 filings with the SEC on Schedule 13D.

(b) Equity Compensation Plan Information

The following table provides information as of April 30, 2004, with respect to shares of NUI common stock that may be issued under the company's existing equity compensation plans.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (3) (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders (1)	94,200	$22.12	1,544,773 (2)
Equity compensation plans not approved by security holders (2)	---	---	---
Total	94,200	$22.12	1,544,773

(1) Consists of the NUI Corporation Stock Option, Stock Award and Incentive Plan; the Director Stock Purchase Plan; and the Employee Plan. Participation in the Employee Plan by executive officers and the Director Stock Purchase Plan by directors is on a voluntary basis. Accordingly, future participation cannot be determined. During fiscal year 2003, the following shares were purchased under the Employee Plan and Director Stock Purchase Plan: Executive Officers, 4,418 shares; all non-Executive Directors, 750 shares; and all other employees, 58,491 shares.

(2) Securities remaining available include (i) 1,332,577 from the Incentive Plan; (ii) 40,918 shares from the Director Stock Purchase Plan and (iii) 171,278 shares from the Employee Plan.

(3) Since the purchase price of shares under the Employee Plan and the Director Stock Purchase Plan is unknown, it has been excluded from the weighted average computation.

Item 13. Certain Relationships and Related Transactions

(a) Transactions with Management and Others

There are companies and firms with which certain directors and executive officers are, or during fiscal 2003 were, affiliated as an officer and/or director that had transactions in the ordinary course of business with the company during fiscal year 2003 and similar transactions are expected to occur in the future. The companies or firms involved in these transactions and the related directors and officers are: National Fuel Gas Supply Corporation (Bernard S. Lee); FTI Consultants and Scouler Andrews (Dan Scouler); and Enjay Realty, LLC (John Kean). Except as discussed in the following paragraphs, none of these directors and officers had a direct or indirect material interest in any such transactions in which the amount involved exceeded $60,000.

The company is party to two gas transportation agreements with National Fuel Gas Supply Corporation (NFGSC). The agreements are under rate Schedule FT dated October 27, 1995 and rate Schedule EFT dated August 1, 1993. Bernard S. Lee is a director of NFGSC.

In fiscal 2003, the company paid $1,662,192 to NFGSC under these agreements.

In October 2003, NUI engaged FTI Consultants, a consulting firm that provides interim management services, to manage its financial operations and develop new liquidity forecasts. Mr. Scouler, a Managing Director of FTI Consultants, became the company's interim Chief Financial Officer. NUI paid $507,318, inclusive of expenses, to FTI Consultants during the first fiscal quarter of 2004. In addition, on March 1, 2004, NUI engaged Scouler Andrews, a firm created by Mr. Scouler, to provide interim management and related services. Scouler Andrews continues to provide the services of Mr. Scouler as interim Chief Financial Officer. Through the second fiscal quarter of 2004, Scouler Andrews has been paid $200,000. For a discussion of the terms of this agreement, please see Item 11. Executive Compensation-Employment Contracts and Termination of Employment and Change of Control Arrangements.

The company is party to a lease agreement with Liberty Hall Joint Venture for the occupancy of a 200,000 square foot office building in Union, New Jersey. The joint Venture participants are Cali Liberty Hall Associates (a New Jersey partnership) and Enjay Realty, LLC (Enjay). John Kean, retired Chairman of the Board and current Board member, is the majority owner of Enjay. All negotiations relative to the lease were conducted between the company and Cali Liberty Hall Associates. In accordance with the lease, the annual base rent was approximately $3.2 million for each of the fiscal years ended September 30, 2003 and 2002. The lease provides for annual base rents of approximately $3.2 million from 2004 and 2005, $3.4 million from 2006 through 2010, $3.6 million from 2011 through 2015, $3.9 million from 2016 through 2020, and $4.2 million from 2021 through 2022.

(b) Certain Business Relationships

John Kean is the father of John Kean, Jr.

Item 14. Principal Accounting Fees and Services

(a) Fees

The accounting firm of PricewaterhouseCoopers LLP (PwC) has been selected by the Audit Committee of the Board of Directors to serve as independent public accountants for the company and its subsidiaries for the fiscal year ending September 30, 2004. PwC was first selected to serve as independent accountants on June 20, 2002, following the termination of Arthur Andersen LLP as the company's independent accountants.

During the company's two most recent fiscal years through the date of PwC's appointment as independent accountants, neither the company nor anyone acting on its behalf consulted with PwC with respect to the application of accounting principles to a specific transaction, either proposed or contemplated, or the type of audit opinion that might be rendered on the company's consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(ii) of Regulation S-K.

The following are the fees paid by the company for the audit and other services provided by PwC for fiscal years 2003 and 2002. The fees set forth for fiscal year 2002 below include PwC relating to a re-audit of the company's financial statements for fiscal years 2000 and 2001.

Audit Fees. Total fees paid for audit services rendered by PwC during 2003 and 2002 were $891,660 and $995,000, respectively. The audit services for 2002 included the audit of the consolidated financial statements of the company and quarterly reviews of its financial statements for fiscal years 2002, 2001, and 2000.

Audit-Related Fees. Total fees paid to PwC for audit-related services rendered during 2003 and 2002 were $215,300 and $54,500, respectively, related primarily to benefit plans, statutory audits and services related to filings made with the SEC.

Tax Fees. Total fees paid to PwC for tax services during 2003 and 2002 were $154,477 and $29,806, respectively, primarily related to domestic tax consultation.

All Other Fees. Total fees paid to PwC for all other services rendered during 2003 and 2002 were $4,900 and $2,607,730, respectively, primarily related to PwC Consulting, an affiliate of PwC, which was sold to a third party effective September 30, 2002, which had provided consulting services during fiscal year 2002, a substantial portion was incurred prior to the appointment of PwC on June 20, 2002.

(b) Audit Committee Pre-Approval Policy

Under policies and procedures adopted by the audit committee of the company's board of directors, the company's principal independent accountant may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, nor may the company's principal independent accountant be engaged to provide any other non-audit service unless it is determined that the engagement of the principal independent accountant provides a business benefit resulting from its inherent knowledge of the company while not impairing its independence. The audit committee or its chairman must pre-approve the engagement of the company's principal independent accountant to provide both audit and permissible non-audit services. If the chairman pre-approves any engagement, he is to make a report to the full audit committee at its next meeting. 100 percent of all services provided by the company's principal independent accountant in 2003 were pre-approved by the audit committee or its chairman.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Consolidated financial statements of the company as of September 30, 2003 and 2002 and for each of the three years in the period ended September 30, 2003 and the auditors' report thereon, and the unaudited quarterly financial data for the two-year period ended September 30, 2003 are included herewith as indicated on the "Index to Financial Statements and Schedule" on page F-1.

(2). Schedule II-Valuation and Qualifying Account for each of the three years in the period ended September 30, 2003. All other schedules are omitted because they are not required, are inapplicable or the information is otherwise shown in the financial statements or notes thereto.

(3) Exhibits:

Exhibit No.	Description	Reference
2(v)	Amendment and Restated Agreement and Plan of Reorganization by and among NUI Corporation, VCC Acquisition, Inc. and Virginia Gas Company, dated as of March 28, 2001	Incorporated by reference to Exhibit 2(v) of NUI's Form 10-K Report for Fiscal Year 2001
2(vi)	Asset Purchase Agreement and Plan of Reorganization by and among NUI Corporation, NUI Telecom, Inc., Norcom Acquisition, LLC, Norcom Inc. and Shareholders of Norcom, Inc. dated as of March 1, 2002	Incorporated by reference to Exhibit 2(vi) of NUI's Form 10-K Report for Fiscal Year 2002
3(i)	Certificate of Incorporation, Amended and Restated as of March 1, 2001; Certificate of Amendment of Restated Certificate of Incorporation as of March 2, 2001	Incorporated by reference to Exhibit 3(i) of NUI's Form 10-Q Report for the quarter ended December 31, 2001
3(ii)	By-Laws, amended and restated as of March 2, 2001	Incorporated by reference to Exhibit 3(ii) of NUI's Form 10-K Report for Fiscal Year 2001
4(i)	Rights Agreement between NUI Corporation and Mellon Securities Trust Company dated November 28, 1995	Incorporated by reference to Exhibit 10.1 of NUI's Form 8-K filed December 1, 1995
4(ii)	First Amendment dated as of February 26, 2001 to Rights Agreement between NUI Corporation and Mellon Securities Trust Company dated as of November 28, 1995	Incorporated by reference to Exhibit 4 to NUI's Form 8-K filed March 2, 2001
4(iii)	Rights Agreement between NUI Corporation and American Stock Transfer & Trust Company, dated as of March 2, 2001	Incorporated by reference to Exhibit 10.1 to NUI's Form 8-A dated March 2, 2001 filed March 6, 2001.
10(i)	Service Agreement by and between Transcontinental Gas Pipe Line Corporation and Elizabethtown Gas Company ("EGC"), dated February 1, 1992 system contract (#0.3686)	Incorporated by reference to Exhibit 10.1 to Registration Statement No. 33-50651
10(ii)	Service Agreement under Rate Schedule GSS by and between Transcontinental Gas Pipe Line Corporation and EGC, dated July 1, 1996	Incorporated by reference to Exhibit 10(ii) of NUI's Form 10-K Report for Fiscal Year 1997
10(iii)	Amendment dated May 15, 1996 to Service Agreement under Rate Schedule LG-A by and between Transcontinental Gas Pipe Line Corporation and EGC, dated January 12, 1971	Incorporated by reference to Exhibit 10(iii) of NUI's Form 10-K Report for Fiscal Year 1999
10(iv)	Service Agreement by and between Transcontinental Gas Pipe Line Corporation and EGC, dated November 1, 1995 (Contract #1.1997)	Incorporated by reference to Exhibit 10(iv) of NUI's Form 10-K Report for Fiscal Year 1996
10(v)	Service Agreement by and between Transcontinental Gas Pipe Line Corporation and EGC, dated November 1, 1995 (Contract #1.1995)	Incorporated by reference to Exhibit 10(vi) of NUI's Form 10-K Report for Fiscal Year 1996
10(vi)	Firm Gas Transportation Agreement by and among Transcontinental Gas Pipe Line Corporation, EGC and National Fuel Gas Supply Corporation, dated November 1, 1984 (Contract #0.0995)	Incorporated by reference to Exhibit 10(vi) to Registration Statement No. 33-50651
10(vii)	Service Agreement by and among Transcontinental Gas Pipe Line Corporation and EGC, dated November 1, 1995 (Contract	Incorporated by reference to Exhibit 10(vii) of NUI's Form 10-K Report for

	#1.1998)	Fiscal Year 1996
10(viii)	Service Agreement under Rate Schedule FTS-7 by and between Texas Eastern Transmission Corporation and EGC, dated October 25, 1994 (Contract #331720)	Incorporated by reference to Exhibit 10(ix) to NUI's Form 10-K Report for Fiscal Year 1994
10(ix)	Service Agreement for Rate Schedule FTS-5 by and between Texas Eastern Transmission Corporation and EGC, dated March 18, 1996 (Contract #331501)	Incorporated by reference to Exhibit 10(x) of NUI's Form 10-K Report for Fiscal Year 1997
10(x)	Service Agreement under Rate Schedule FTS-8 by and between Texas Eastern Transmission Corporation and EGC, dated June 28, 1994 (Contract #331013)	Incorporated by reference to Exhibit 10(xi) to NUI's Form 10-K Report for Fiscal Year 1994
10(xi)	Firm Transportation Service Agreement under FTS-2 Rate Schedule by and between City Gas Company of Florida and Florida Gas Transmission Company, dated August 12, 1993 (Contract #5364)	Incorporated by reference to Exhibit 10(xii) of NUI's Form 10-K Report for Fiscal Year 1997
10(xii)	Service Agreement under NTS Rate Schedule by and between Columbia Gas Transmission Corporation and EGC, dated November 1, 1993 (Contract #39275)	Incorporated by reference to Exhibit 10(xiv) to NUI's Form 10-K Report for Fiscal Year 1993
10(xiii)	Service Agreement under SST Rate Schedule by and between Columbia Gas Transmission Corporation and EGC, dated November 1, 1993 (Contract #38045)	Incorporated by reference to Exhibit 10(xv) to NUI's Form 10-K Report for Fiscal Year 1993
10(xiv)	Service Agreement under FTS Rate Schedule by and between Columbia Gas Transmission Corporation and EGC, dated November 1, 1993 (Contract #37882)	Incorporated by reference to Exhibit 10(xvi) to NUI's Form 10-K Report for Fiscal Year 1993
10(xv)	Gas Transportation Agreement under FT-G Rate Schedule by and between Tennessee Gas Pipeline Company and EGC (Contract #597), dated September 1, 1993	Incorporated by reference to Exhibit 10(xvii) to NUI's Form 10-K Report for Fiscal Year 1993
10(xvi)	Gas Transportation Agreement under FT-G Rate Schedule by and between Tennessee Gas Pipeline Company and EGC (Contract #603), dated September 1, 1993	Incorporated by reference to Exhibit 10(xviii) to NUI's Form 10-K Report for Fiscal Year 1993
10(xvii)	Service Agreement by and between Transcontinental Gas Pipe Line Company and EGC, dated November 1, 1995 (Contract #3832)	Incorporated by reference to Exhibit 10(xix) of NUI's Form 10-K Report for Fiscal Year 1996
10(xviii)	Firm Transportation Service Agreement under FTS-1 Rate Schedule by and between City Gas and Florida Gas Transmission dated October 1, 1993 (Contract # 5034)	Incorporated by reference to Exhibit 10(xx) of NUI's Form 10-K for Fiscal Year 1993
10(xix)	Firm Transportation Service Agreement under FTS-1 Rate Schedule by and between City Gas and Florida Gas Transmission dated October 1, 1993 (Contract #5034) as amended July 26, 2000	Incorporated by reference to Exhibit 10(xx) of NUI's Form 10-K Report for Fiscal Year 2000
10(xx)	Amended and Restated Lease Agreement between NUI Corporation and Liberty Hall Joint Venture, dated April 28, 2000	Incorporated by reference to Exhibit 10(xxi) of NUI's Form 10-K Report for Fiscal Year 2000
10(xxi)	1988 Stock Plan	Incorporated by reference to Exhibit 10(viii) to Registration Statement on Form S-4 No. 33-21525 dated April 28, 1988
10(xxii)	First Amendment to 1988 Stock Plan	Incorporated by reference to Exhibit 10(xxxiii) to Registration Statement on Form S-2 No. 33-46162 dated March 11, 1992
10(xxiii)	Form of Termination of Employment and Change in Control Agreements	Incorporated by reference to Exhibit 10(xxiii) of NUI's Form 10-K Report for Fiscal Year 1995

10(xxiv)	Firm Transportation Service Agreement under FTS-2 Rate Schedule by and between City Gas and Florida Gas Transmission, dated December 12, 1991 and Amendment dated November 12, 1993 (Contract #3608)	Incorporated by reference to Exhibit 10(xxiv) of NUI's Form 10-K Report for Fiscal Year 1994
10(xxv)	1996 Employee Stock Purchase Plan, as amended	Incorporated by reference to Exhibit 4 of Registration Statement on Form S-8 No. 333-49349 dated April 3, 1998
10(xxvi)	1996 Directors Stock Purchase Plan	Incorporated by reference to Exhibit 10(xxix) of NUI's Form 10-K Report for Fiscal Year 1996
10(xxvii)	Service Agreement for Rate Schedule CDS by and between Texas Eastern Transmission Corporation and EGC, dated June 1, 1993 (Contract #800217)	Incorporated by reference to Exhibit 10(xxxvi) of NUI's Form 10-K Report for Fiscal Year 2000
10(xxviii)	Service Agreement for Rate Schedule FT by and between Transcontinental Gas Pipe Line Corporation and EGC (Contract #1.0431) dated April 1, 1995	Incorporated by reference to Exhibit 10(xxxvi) of NUI's Form 10-K Report for Fiscal Year 1995
10(xxix)	Service Agreement for Rate Schedule FT by andbetween Transcontinental Gas Pipe Line Corporation and EGC (Contract #1.0445) dated April 1, 1995	Incorporated by reference to Exhibit 10(xxxvii) of NUI's Form 10-K Report for Fiscal Year 1995
10(xxx)	Service Agreement for Rate Schedule SS-1 by and between Texas Eastern Transmission Corporation and EGC (Contract (#400196) dated September 23, 1994	Incorporated by reference to Exhibit 10(xxxviii) of NUI's Form 10-K Report for Fiscal Year 1995
10(xxxi)	Gas Storage Agreement under Rate Schedule FS by and between Tennessee Gas Pipeline Company and EGC (Contract #8703) dated November 1, 1994	Incorporated by reference to Exhibit 10(xxxix) of NUI's Form 10-K Report for Fiscal Year 1995
10(xxxii)	Consulting Agreement, dated as of March 24, 1995, between NUI Corporation and John Kean	Incorporated by reference to Exhibit 10(xl) of NUI's Form 10-K Report for Fiscal Year 1995
10(xxxiii)	Form of Deferred Compensation Agreement	Incorporated by reference to Exhibit 10(xli) of NUI's Form 10-K Report for Fiscal Year 1999
10(xxxiv)	1996 Stock Option and Stock Award Plan, as amended and restated as of November 26, 2001	Incorporated by reference to Exhibit 10(xliii) of NUI's Form 10-K Report for Fiscal Year 2001
10(xxxv)	Service Agreement under Rate Schedule FT by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #010003)	Incorporated by reference to Exhibit 10(xliii) of NUI's Form 10-K Report for Fiscal Year 1997
10(xxxvi)	Service Agreement under Rate Schedule FT by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #010011)	Incorporated by reference to Exhibit 10(xliv) of NUI's Form 10-K Report for Fiscal Year 1997
10(xxxvii)	Service Agreement under Rate Schedule FT by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #010012)	Incorporated by reference to Exhibit 10(xlv) of NUI's Form 10-K Report for Fiscal Year 1997
10(xxxviii)	Service Agreement under Rate Schedule FT by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #010013)	Incorporated by reference to Exhibit 10(xlvi) of NUI's Form 10-K Report for Fiscal Year 1997
10(xxxix)	Service Agreement under Rate Schedule ST by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #020003)	Incorporated by reference to Exhibit 10(xlvii) of NUI's Form 10-K Report for Fiscal Year 1997
10(xl)	Service Agreement under Rate Schedule ST by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1997 (Contract #020005)	Incorporated by reference to Exhibit 10(xlviii) of NUI's Form 10-K Report for Fiscal Year 1997

10(xli)	Service Agreement under Rate Schedule FT by and between Elkton Gas and Eastern Shore Natural Gas Company, dated as of November 1, 1998 (Contract #010032)	Incorporated by reference to Exhibit 10(xlix) of NUI's Form 10-K Report for Fiscal Year 1999
10(xlii)	Agreement between T.I.C. Enterprises, L.L.C and United States Postal Service	Incorporated by reference to Exhibit 10.1 of NUI's Form 8-K filed 12/15/99.
10(xliii)	Service Agreement under Rate Schedule LNG by and between Transcontinental Gas Pipe Line Corporation and NUI Corporation dated as of October 25, 1999 (Contract #3.2339)	Incorporated by reference to Exhibit 10(lii) of NUI's Form 10-K Report for Fiscal Year 2000
10(xliv)	Gas Transportation Agreement under Rate Schedule FT-A by and between Tennessee Gas Pipeline Company and NUI Corporation, dated as of October 17, 1999 (Contract #31117)	Incorporated by reference to Exhibit 10(liii) of NUI's Form 10-K Report for Fiscal Year 2000
10(xlv)	Asset Sale Agreement between NUI Corporation and C&T Enterprises, Inc., dated as of October 4, 2000	Incorporated by reference to Exhibit 10(liv) of NUI's Form 10-K Report for Fiscal Year 2000
10(xlvi)	Service Agreement under Rate Schedule FT by and between NUI Corporation and Eastern Shore Natural Gas Company, dated as of May 1, 2001 (Contract #010041)	Incorporated by reference to Exhibit 10(lv) of NUI's Form 10-K Report for Fiscal Year 2001
10(xlvii)	Service Agreement for Rate Schedule FT-1 by and between Texas Eastern Transmission LP and NUI Utilities, Inc. (Contract (#910333) dated March 27, 2002	Incorporated by reference to Exhibit 10(lvii) of NUI's Form 10-K Report for Fiscal Year 2002
10(xlviii)	Note Purchase Agreement, dated August 20, 2001, for the issuance of $60 million of Senior Notes at interest rates ranging between 6.60 percent and 7.29 percent, with maturities from August 20, 2006 through August 20, 2011	Incorporated by reference to Exhibit 10.1 of NUI's Form 10-Q Report for the quarter ended 12/31/02
10(xlix)	Credit Agreement dated as of February 12, 2003, by and among NUI Corporation and Fleet National Bank, Citizens Bank of Massachusetts, CIBC, Inc., PNC Bank, NA, and Mellon Bank, NA	Incorporated by reference to Exhibit 10.1 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(l)	Credit Agreement dated as of February 12, 2003, by and among NUI Utilities, Inc. and Fleet National Bank, Citizens Bank of Massachusetts, CIBC, Inc., PNC Bank, NA, and Mellon Bank, NA	Incorporated by reference to Exhibit 10.2 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(li)	Credit Agreement dated as of February 12, 2003, by and among NUI Utilities, Inc. and Fleet National Bank and Fleet Securities	Incorporated by reference to Exhibit 10.3 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(lii)	First amendment dated as of March 31, 2003, to the Credit Agreement dated as of February 12, 2003, by and among NUI Corporation and Fleet National Bank, Citizens Bank of Massachusetts, CIBC, Inc., PNC Bank, NA, and Mellon Bank, NA	Incorporated by reference to Exhibit 10.4 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(liii)	Inter-creditor Agreement dated as of April 1, 2003, among Fleet National Bank, Citizens Bank of Massachusetts, CIBC, Inc., PNC Bank, NA, and Mellon Bank, NA and AIG Life Insurance Company, Sunamerica Life Insurance Company, United of Omaha Life Insurance Company, Pacific Life and Annuity Company and Nationwide Life Insurance Company of America (formerly Provident Mutual Life Insurance Company) filed pursuant to the Note Purchase Agreement dated as of August 20, 2001, between NUI Corporation and AIG Life Insurance Company, Sunamerica Life Insurance Company, United of Omaha Life Insurance Company, Pacific Life and Annuity Company and Mutual Life Insurance Company	Incorporated by reference to Exhibit 10.5 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(liv)	First Amendment and Waiver dated as of February 20, 2003, to the Note Purchase Agreement dated August 20, 2001, between NUI Corporation and AIG Life Insurance Company, Sunamerica Life Insurance Company, United of Omaha Life	Incorporated by reference to Exhibit 10.6 of NUI's Form 10-Q Report for the quarter ended 3/31/03

	Insurance Company, Pacific Life and Annuity Company and Mutual Life Insurance Company	
10(lv)	Second Amendment dated April 1, 2003, to the Note Purchase Agreement dated August 20, 2001, between NUI Corporation and AIG Life Insurance Company, Sunamerica Life Insurance Company, United of Omaha Life Insurance Company, Pacific Life and Annuity Company and Mutual Life Insurance Company.	Incorporated by reference to Exhibit 10.7 of NUI's Form 10-Q Report for the quarter ended 3/31/03
10(lvi)	First Amendment, dated as of August 11, 2003, to Credit Agreement dated as of February 12, 2003, by and among NUI Utilities, Inc., and the Lenders from time to time and parties thereto (the Lenders), Fleet National Bank, as Agent for the Lenders, Citizens Bank of Massachusetts, CIBC, Inc. as Co-Syndication Agents, and PBC Bank, NA, as Documentation Agent	Incorporated by reference to Exhibit 10 of NUI's Form 10-Q Report for the quarter ended 6/30/03
10(lvii)	Revolving Credit Agreement dated as of October 10, 2003 among NUI Utilities, Inc. and Drawbridge Special Opportunities Fund, LP	Incorporated by reference to Exhibit 99.2 to NUI's 8-K filed 10/14/03
10(lviii)	Credit Agreement dated as of November 24, 2003 by and among NUI Corporation and Credit Suisse First Boston	Incorporated by reference to Exhibit 99.1 to NUI's 8-K filed 11/26/03
10(lix)	Credit Agreement dated as of November 24, 2003 by and among NUI Utilities, Inc. and Credit Suisse First Boston	Incorporated by reference to Exhibit 99.2 to NUI's 8-K filed 11/26/03
10(lx)	Letter Agreement between Steven D. Overly and NUI Corporation dated as of January 27, 2004	Filed herewith
10(lxi)	Letter Agreement between Craig Matthews and NUI Corporation dated as of January 27, 2004	Filed herewith
10(lxii)	Agreement between Scouler Andrews International, LLC and NUI Corporation dated as of March 1, 2004	Filed herewith
10(lxiii)	Gas Supply Asset Assignment and Agency Agreement between NUI Utilities, Inc. and Cinergy Marketing & Trading, LP dated as of April 7, 2004 (portions omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment)	Filed herewith
10(lxiv)	Gas Supply Agreement between NUI Utilities, Inc. and Cinergy Marketing & Trading, LP dated as of April 7, 2004 (portions omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment)	Filed herewith
10(lxv)	Amendment No. 2 to Credit Agreement, dated as of May 10, 2004, among NUI Corporation, the lenders party thereto from time to time and Credit Suisse First Boston, acting through its Cayman Island Branch, as administrative agent.	Filed herewith
10(lxvi)	Amendment No. 2 to Credit Agreement, dated as of May 10, 2004, among NUI Utilities, Inc., the lenders party thereto from time to time and Credit Suisse First Boston, acting through its Cayman Island Branch, as administrative agent.	Filed herewith
10(lxvii)	Severance Agreement between John Kean, Jr. and NUI Corporation dated as of September 25, 2003.	**Filed herewith.**
10(lxviii)	Agreement and General Release between A. Mark Abramovic and NUI Corporation dated as of January 27, 2004.	**Filed herewith.**
10(lxix)	Agreement and General Release between James R. Van Horn and NUI Corporation dated as of **January 27, 2004.**	**Filed herewith.**
10(lxx)	Agreement and General Release between Michael J. Behan and	Filed herewith.

	NUI Corporation dated as of October 1, 2003.	
10(lxxi)	Agreement and Release between Robert F. Lurie and NUI Corporation dated as of May 23, 2003.	Filed herewith.
10(lxxii)	Stipulation and Agreement by and among NUI Corporation, NUI Utilities, Inc., Elizabethtown Gas Company and the Board of New Jersey Public Utilities dated April 13, 2004	Incorporated by reference to Exhibit 99.2 to NUI's 8-K filed 4/13/04
12	Consolidated Ratio of Earnings to Fixed Charges	Filed herewith
14	NUI Corporation Code of Ethics	Filed herewith
21	Subsidiaries of NUI Corporation	Filed herewith
23	Consent of Independent Accountants	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith

Exhibits listed above which have heretofore been filed with the SEC pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, and which were designated as noted above and have not been amended, are hereby incorporated by reference and made a part hereof with the same effect as if filed herewith.

The company is a party to various agreements with respect to long-term indebtedness to which the total amount of indebtedness authorized under each agreement, respectively, does not exceed 10 percent of the total assets of the company on a consolidated basis. The company hereby agrees to furnish to the SEC copies of such agreements upon request.

(b) Reports on Form 8-K:

(1) On July 22, 2003, the company filed a Current Report on Form 8-K dated July 22, 2003, under Item 5, announcing the retirement of Michael J. Behan, Vice President, New Ventures, effective July 23, 2003.

(2) On July 31, 2003, the company furnished a Current Report on Form 8-K dated July 31, 2003, under Items 7 and 12, announcing results of operations for the period ending June 30, 2003.

(3) On September 26, 2003, the company filed a Current Report on Form 8-K dated September 26, 2003, under Items 5 and 7, announcing the company's Board of Directors had decided to pursue a sale of the company and the resignation of John Kean, Jr., President and Chief Executive Officer, effective as of that date.

(4) On October 14, 2003, the company filed a Current Report on Form 8-K dated October 14, 2003, under Items 5 and 9, announcing that the company had entered into a revolving credit agreement, and providing a copy of such agreement as an exhibit.

(5) On November 13, 2003, the company furnished a Current Report on Form 8-K dated November 13, 2003, under Items 9 and 12, announcing results of operations for the fiscal year ending September 30, 2003.

(6) On November 17, 2003, the company furnished a Current Report on Form 8-K dated November 12, 2003, under Items 9 and 12, furnishing a transcript of a conference call, which included a discussion of earnings guidance for the fiscal year ended September 30, 2003.

(7) On November 19, 2003, the company furnished a Current Report on Form 8-K dated November 19, 2003, under Item 9, disclosing an investigation of certain transactions of one of its subsidiaries.

(8) On November 24, 2003, the company filed a Current Report on Form 8-K dated November 24, 2003, under Item 5, announcing that the company and its NUI Utilities, Inc. subsidiary had entered into new credit agreements aggregating $405 million.

(9) On November 26, 2003, the company filed a Current Report on Form 8-K dated November 24, 2003, under Items 5 and 7, disclosing the terms of the credit agreements the company and its NUI Utilities, Inc. subsidiary had entered into with Credit Suisse First Boston aggregating $405 million and providing copies of the agreements as an exhibit.

(10) On January 29, 2004, the company filed a Current Report on Form 8-K dated January 28, 2004, under Items 7 and 9, furnishing a press release announcing the company had elected Craig G. Matthews as President and Chief Executive Officer, and Steven D. Overly as Secretary and General Counsel.

(11) On February 10, 2004, the company filed a Current Report on Form 8-K dated February 10, 2004, under Items 7 and 9, furnishing a press release announcing that company would file its quarterly report on Form 10-Q late, its earnings for the first quarter of fiscal 2004, the receipt of the company and NUI Utilities, Inc. from their bank lenders of an extension for the delivery of the company's financial reports, and settlement negotiations with the New Jersey Board of Public Utilities regarding the focused audit of the company, NUI Utilities and Elizabethtown Gas.

(12) On April 16, 2004, the company filed a Current Report on form 8-K dated April 16, 2004, under Items 5 and 7, announcing a settlement with the New Jersey Board of Public utilities regarding all issues related to the focused audit of the company, NUI Utilities, Inc. and Elizabethtown Gas. In addition, the company announced that the NJBPU has approved NUI Utilities' selection of Cinergy Marketing & Trading, LP to procure all of NUI Utilities' gas requirements from April 1, 2004 through March 31, 2005.

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Consolidated Financial Statements of NUI Corporation and Subsidiaries:

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Item 15(a)(1): Consolidated Financial Statements as of September 30, 2003 and 2002 and for each of the Three Years in the Period Ended September 30, 2003..... F-3

Unaudited Quarterly Financial Data for the Two-Year Period Ended September 30, 2003 (Note 25 of the Notes to the Company's Consolidated Financial Statements)..... F-41

Financial Statement Schedule of NUI Corporation and Subsidiaries:

Item 15(a)(2): Schedule II -Valuation and Qualifying Accounts for each of the Three Years in the Period Ended September 30, 2003..... F-42

All other schedules are omitted because they are not required, are inapplicable or the information is otherwise shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of NUI Corporation:

In our opinion, the consolidated financial statements referred to in Item 15(a)(1) present fairly, in all material respects, the financial position of NUI Corporation and its subsidiaries at September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule referred to in Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company has significant liquidity events occurring after September 30, 2004.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for non-derivative energy-related contracts as of January 1, 2003 and changed its method of accounting for goodwill as of October 1, 2001.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
May 11, 2004

NUI Corporation and Subsidiaries
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Years Ended September 30,		
	2003	2002	2001
Operating Margins			
Operating revenues	$652,377	$519,872	$646,006
Less-Purchased gas and fuel	403,571	299,593	422,516
Cost of sales and services	12,942	10,831	10,624
Energy taxes	12,914	10,719	12,918
	222,950	198,729	199,948
Other Operating Expenses			
Operations and maintenance	139,780	108,792	99,203
Depreciation and amortization	34,659	32,282	27,223
Regulatory settlement costs	30,000	---	---
Restructuring and other non-recurring items	---	1,203	---
Taxes, other than income taxes	7,483	8,079	7,177
	211,922	150,356	133,603
Operating Income	11,028	48,373	66,345
Other Income and Expense, Net			
Equity in earnings of Saltville Gas Storage Company, LLC	135	---	---
Other	646	288	1,467
	781	288	1,467
Income from Continuing Operations before Interest and Taxes	11,809	48,661	67,812
Interest expense	27,467	26,965	26,638
Other interest	(5,373)	(5,587)	(4,402)
	22,094	21,378	22,236
Income (Loss) from Continuing Operations before Income Taxes	(10,285)	27,283	45,576
Income taxes	1,032	11,232	18,122
Income (Loss) from Continuing Operations before Effect of Change in Accounting	(11,317)	16,051	27,454
Discontinued Operations			
Loss from discontinued operations	(32,355)	(22,244)	(17,278)
Income tax benefit	(4,393)	(7,947)	(6,137)
Loss from Discontinued Operations	(27,962)	(14,297)	(11,141)
Income (Loss) before Effect of Change in Accounting	(39,279)	1,754	16,313
Effect of change in accounting (net of tax benefits of $4,079 in 2003 and $9,500 in 2002)	(5,870)	(17,642)	---
Net Income (Loss)	$(45,149)	$(15,888)	$16,313
Basic and Diluted Income (Loss) from Continuing Operations Per Share of Common Stock	$ (0.71)	$ 1.08	$ 2.05
Basic and Diluted Net Income (Loss) Per Share of Common Stock	$ (2.82)	$ (1.06)	$ 1.22
Dividends Per Share of Common Stock	$ 0.98	$ 0.98	$ 0.98

Weighted Average Number of Shares			
of Common Stock Outstanding	16,035,441	14,937,755	13,355,573

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$25,209	$4,247
Accounts receivable (less allowance for doubtful accounts of $7,304 in 2003 and $4,267 in 2002)	55,575	74,833
Fuel inventories, at average cost	63,852	37,390
Unrecovered purchased gas costs	25,398	26,756
Derivative assets	8,059	22,540
Federal income tax receivable	3,333	5,509
Assets held for sale	7,976	11,373
Prepayments and other	31,120	33,658
	220,522	216,306
Property, Plant and Equipment		
Property, plant, and equipment, at original cost	954,446	943,084
Accumulated depreciation and amortization	(323,370)	(303,710)
Unamortized plant acquisition adjustments, net	13,372	14,484
Assets held for sale	147	14,932
	644,595	668,790
Funds for Construction Held by Trustee	2,058	3,884
Investment in Saltville Gas Storage Company, LLC	16,456	---
Other Investments	210	117
Other Assets		
Regulatory assets	57,040	75,846
Notes receivable from Saltville Gas Storage Company, LLC	17,575	---
Other receivable from Saltville Gas Storage Company, LLC	8,010	---
Long-term portion of derivative assets	5,133	7,901
Goodwill, net of accumulated amortization	8,056	19,126
Assets held for sale	1,002	979
Other assets	40,106	46,033
	136,922	149,885
	$1,020,763	$1,038,982
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Notes payable to banks	$164,100	$128,690
Notes payable	1,400	3,000
Current portion of long-term debt and capital lease obligations	2,167	2,351
Accounts payable, customer deposits and accrued liabilities	125,353	121,436
Derivative liabilities	---	852
Liabilities held for sale	3,150	4,605
Federal income and other taxes	5,166	7,912
Current portion of deferred Federal income taxes	6,705	16,428
	308,041	285,274
Other Liabilities		
Capital lease obligations	9,798	10,743

Deferred Federal income taxes	61,608	63,149
Liabilities held for sale	19	436
Unamortized investment tax credits	3,375	3,948
Environmental remediation reserve	33,941	33,852
Regulatory and other liabilities	64,813	44,311
	173,554	156,439
Capitalization (See accompanying statements)		
Common shareholders' equity	230,115	288,252
Long-term debt	309,053	309,017
	539,168	597,269
	$1,020,763	$1,038,982

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended September 30,		
	2003	2002	2001
Operating Activities			
Net income (loss)	$(45,149)	$(15,888)	$16,313
Less: Loss from discontinued operations, net of tax	(27,962)	(14,297)	(11,141)
Non-cash adjustment to implement new accounting standard, net of tax	(5,870)	(17,642)	---
Net income (loss) from continuing operations	(11,317)	16,051	27,454
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	34,659	32,282	27,223
Regulatory settlement costs	30,000	---	---
Deferred Federal income taxes	(7,185)	(7,421)	24,456
Amortization of deferred investment tax credits	(490)	(439)	(438)
Derivative assets and liabilities	6,265	(3,821)	(12,715)
Regulatory assets and liabilities	22,825	5,455	5,619
Other	1,490	3,651	8,704
Effects of changes in:			
Accounts receivable, net	19,259	5,409	21,684
Fuel inventories	(26,462)	17,386	(18,776)
Accounts payable, deposits and accruals	(10,483)	(23,670)	5,260
Under-recovered purchased gas costs	1,125	(5,067)	(51,819)
Prepaids and other	2,538	25,660	(24,681)
Federal and state income taxes	(570)	12,746	(20,616)
Other	(1,112)	(1,054)	(7,860)
Net cash provided by (used in) continuing operations	60,542	77,168	(16,505)
Net cash used in discontinued operations	(6,444)	(17,044)	(10,223)
Net cash provided by (used in) operating activities	54,098	60,124	(26,728)
Financing Activities			
Proceeds from sales of common stock, net of treasury stock purchased	1,176	34,592	578
Dividends to shareholders	(15,727)	(14,639)	(13,128)
Proceeds from issuance of long-term debt	---	---	60,000
Payments of long-term debt	---	(20,000)	---
Funds for construction held by trustee, net	1,849	8,868	17,198
Principal payments under capital lease obligations	(2,609)	(2,040)	(2,011)
Net short-term borrowings (repayments)	35,410	(54,069)	42,488
Net cash provided by (used in) continuing operations	20,099	(47,288)	105,125
Net cash provided by (used in) discontinued operations	(3)	2,222	(115)
Net cash provided by (used for) financing activities	20,096	(45,066)	105,010
Investing Activities			
Cash expenditures for property, plant and equipment	(39,189)	(42,289)	(56,265)
Notes receivable from Saltville Gas Storage Company, LLC	(17,575)	---	---
Notes receivable from Virginia Gas	---	---	(13,000)

Other receivable from Saltville Gas Storage Company, LLC	(8,010)	---	
Net proceeds from sales of subsidiaries	13,117	30,681	---
Acquisitions, net of cash acquired	---	(665)	(6,441)
Other	277	2,215	677
Net cash used in continuing operations	(51,380)	(10,058)	(75,029)
Net cash used in discontinued operations	(1,852)	(3,354)	(3,525)
Net cash used in investing activities	(53,232)	(13,412)	(78,554)
Net increase in cash and cash equivalents from continuing operations	29,261	19,822	13,591
Net decrease in cash and cash equivalents from discontinued operations	(8,299)	(18,176)	(13,863)
Net Increase (Decrease) in Cash and Cash Equivalents	$20,962	$ 1,646	$ (272)
Cash and Cash Equivalents			
At beginning of period	$ 4,247	$ 2,601	$ 2,873
At end of period	$25,209	$ 4,247	$ 2,601
Supplemental Disclosures of Cash Flows			
Income taxes paid (refunds received), net	$ 508	$ (3,713)	$ 2,333
Interest paid	$22,038	$ 22,477	$ 25,764

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statements of Capitalization
(Dollars in thousands)

	September 30, 2003	2002
Long-Term Debt		
Gas facilities revenue bonds		
6.35 percent due October 1, 2022	$46,500	$46,500
6.40 percent due October 1, 2024*	20,000	20,000
Variable rate due June 1, 2026	39,000	39,000
5.70 percent due June 1, 2032	54,600	54,600
5.25 percent due November 1, 2033	40,000	40,000
Medium-term notes		
8.35 percent due February 1, 2005	50,000	50,000
Senior notes		
7.10 percent due August 20, 2006	5,000	5,000
7.384 percent due August 20, 2008	15,000	15,000
7.384 percent due August 20, 2011	7,000	7,000
7.79 percent due August 20, 2011	33,000	33,000
	310,100	310,100
Unamortized debt discount	(1,047)	(1,083)
	309,053	309,017
Preferred Stock, 5,000,000 shares authorized; none issued	---	---
Common Shareholders' Equity		
Common Stock, no par value; shares authorized: 30,000,000;		
shares outstanding: 16,025,259 in 2003 and 15,989,906 in 2002	288,620	286,783
Shares held in treasury, at cost: 234,212 in 2003 and 179,201 in 2002	(5,320)	(4,384)
Retained earnings (deficit)	(48,951)	11,925
Unearned employee compensation	(3,589)	(4,949)
Accumulated other comprehensive loss	(645)	(1,123)
	230,115	288,252
Total Capitalization	$539,168	$597,269

* The total unexpended portions of the net proceeds from these bonds, amounting to $2.1 million and $3.9 million as of September 30, 2003, and 2002, respectively, are carried on the company's Consolidated Balance Sheet as Funds for Construction Held by Trustee, including interest earned thereon, until drawn upon for eligible construction expenditures.

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Dollars in thousands)

	Common Stock						
	Shares Outstanding	Paid-in Amount	Held in Treasury	Unearned Employee Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2000	12,982,526	$216,095	$ (2,246)	$ (1,725)	$ 39,267	$ (495)	$250,896
Comprehensive income:							
Net income					16,313		16,313
Minimum pension liability, net of taxes of $281						(405)	(405)
Comprehensive income							15,908
Common stock issued							
-Purchase of Virginia Gas	792,600	22,020					22,020
-Employee benefit plans*	51,055	3,228					3,228
Treasury stock transactions	(71,143)		(1,631)				(1,631)
Cash dividends					(13,128)		(13,128)
Unearned compensation				(2,566)			(2,566)
Balance, September 30, 2001	13,755,038	$241,343	$ (3,877)	$ (4,291)	$ 42,452	$ (900)	$274,727
Comprehensive income:							
Net income					(15,888)		(15,888)
Minimum pension liability, net of taxes of $155						(223)	(223)
Comprehensive income							(16,111)
Common stock issued							
-Acquisitions	407,823	8,275					8,275
-Equity offering	1,725,000	36,974					36,974
-Employee benefit plans*	106,945	191					191
Treasury stock transactions	(4,900)		(507)				(507)
Cash dividends					(14,639)		(14,639)
Unearned compensation				(658)			(658)
Balance, September 30, 2002	15,989,906	$286,783	$ (4,384)	$ (4,949)	$ 11,925	$ (1,123)	$288,252
Comprehensive loss:							
Net loss					(45,149)		(45,149)
Derivative hedges, net of taxes of $527						759	759
Minimum pension liability, net of taxes of $196						(281)	(281)
Comprehensive loss							(44,671)
Common stock issued							
-Employee benefit plans*	90,364	1,754					1,754
Directors stock options		83					83
Treasury stock transactions	(55,011)		(936)				(936)

Cash dividends					(15,727)		(15,727)
Unearned compensation				1,360			1,360
Balance, September 30, 2003	16,025,259	$288,620	$ (5,320)	$ (3,589)	$(48,951)	$(645)	$230,115

* Represents common stock issued in connection with NUI Direct and various employee benefit plans.

See the notes to the consolidated financial statements.

NUI Corporation and Subsidiaries
Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include all operating divisions and subsidiaries of NUI Corporation (collectively referred to as NUI, the company, we, our, or us). NUI is a diversified energy company that is primarily engaged in the sale and distribution of natural gas through its local utility companies. NUI's local utility operations are carried out by NUI's wholly-owned subsidiary, NUI Utilities, Inc. (NUI Utilities) and a subsidiary of Virginia Gas Company (VGC) (see Note 3), and serve more than 367,000 customers in four states along the eastern seaboard of the United States. NUI Utilities is comprised of Elizabethtown Gas Company (New Jersey), City Gas Company of Florida, and Elkton Gas (Maryland). VGC is also engaged in other activities, such as pipeline operation and natural gas storage. In addition, the company is engaged in several non-regulated businesses including NUI Energy, Inc. (NUI Energy), an energy retailer; NUI Energy Brokers, Inc. (NUI Energy Brokers), a wholesale energy portfolio and risk management subsidiary; NUI Environmental Group, Inc. (NUI Environmental), an environmental project development subsidiary; Utility Business Services, Inc., (UBS), a geospatial, billing and customer information systems and services subsidiary; OAS Group, Inc. (OAS), the company's digital mapping operation, which prior to September 30, 2003, was part of UBS; NUI Telecom, Inc. (NUI Telecom), a non-facilities-based telecommunications services subsidiary and TIC Enterprises, LLC (TIC), a sales outsourcing subsidiary (see Note 4). The company's wholly-owned subsidiary, NUI Saltville Storage, Inc. (NUISS), is a fifty-percent member of Saltville Gas Storage Company, LLC (SSLLC). SSLLC is a joint venture with a unit of Duke Energy that is developing a natural gas storage facility in Saltville, Virginia. All intercompany accounts and transactions have been eliminated in consolidation.

On September 26, 2003, the company's Board of Directors announced it was pursuing the sale of the company. The company has engaged two investment banks to serve as financial advisors to the company while it seeks a buyer. As discussed in Note 11, at September 30, 2003, the company has classified the results of North Carolina Gas (NC), Valley Cities Gas and Waverly Gas (VCW), NUI Telecom, and TIC as Discontinued Operations in the Consolidated Statements of Income. The assets and liabilities of these entities, as well as those of NUI Environmental, have been classified as Assets Held for Sale and Liabilities Held for Sale in the Consolidated Balance Sheets.

In June 2003, the company had approved a plan to sell UBS. However, the September 2003 decision to sell the company (discussed above) reduced the probability that a sale of UBS would occur, given that NUI Utilities is UBS' largest customer and there was no guarantee that NUI Utilities would maintain a long-term relationship with UBS after the company was sold. As a result, as of September 30, 2003, the assets and liabilities of UBS are no longer classified as "held for sale" on the Consolidated Balance Sheets and its results of operations have been included in Income from Continuing Operations on the Consolidated Statements of Income.

In addition, in May 2003, the company announced it was exiting the retail energy business, and subsequently sold the majority of NUI Energy's contracts (see Note 5) and is winding down its operations.

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation.

Use of Estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. Natural Gas Distribution: Utility gas customers are metered and billed monthly or bi-monthly on a cycle basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of the relevant accounting period.

The cost of gas used is recovered when billed to firm customers through the operation of purchased gas adjustment clauses (PGA) included in utility tariffs. The PGA provision requires periodic reconciliation of recoverable gas costs and PGA revenues. Any difference is deferred pending recovery from or refund to firm customers. Further, revenues from tariff gas-balancing services, off-

system sales and certain on-system interruptible sales are refunded, for the most part, to firm customers subject to certain sharing provisions.

Our New Jersey gas utility tariffs contain weather normalization adjustments that largely offset shortfalls or excesses of firm margin revenues during a heating season due to variations from normal weather. Revenues are adjusted each month the clause is in effect and are generally included in rates in the following fiscal year. The Florida and Maryland gas utility rate structures do not contain a weather normalization feature; therefore, their revenues are subject to weather related demand fluctuations.

Storage and pipeline services: Revenues for storage and pipeline services are generated from capacity demand charges under contracts (both short- and long-term) that contain either an annual or monthly charge for those services. Revenues are recognized monthly as provided by contract and amortized ratably into income over a period of twelve months for annual charges.

Retail energy sales: Energy sales made by our retail energy subsidiary are recorded upon delivery of the natural gas commodity. Also, see "New Accounting Standards" for further discussion of EITF 02-03.

Telecommunications services: Telecommunications service revenues are billed based on usage of services that are provided to customers. Revenues include unbilled amounts related to the estimated telecommunications usage that occurred from the most recent billing to the end of each month.

Customer information services: Revenues earned by our UBS and OAS subsidiaries for billing and information services are recognized when services are provided. Our UBS subsidiary provides customer account conversion services that are deferred and recorded as unearned income and are amortized into income over the life of the contract. UBS had unearned revenue recorded in Regulatory and Other Liabilities on the Consolidated Balance Sheet totaling $1.7 million and $2.1 million as of September 30, 2003 and 2002, respectively, related to these contracts. OAS offers maintenance agreements that are recorded as unearned income and are amortized into income over the lives of the agreements. OAS had unearned revenue recorded in Regulatory and Other Liabilities on the Consolidated Balance Sheet totaling $0.2 million and $0.1 million as of September 30, 2003 and 2002, respectively, related to these agreements.

Appliance services: Our appliance business revenues are recognized at the time repairs and installations are performed. Our New Jersey appliance business offers services contracts that cover the costs of repairs for covered appliances. These contracts are deferred as unearned revenue at contract inception and are amortized into income ratably over a period of twelve months. Our appliance services subsidiary had unearned revenue recorded in Accounts Payable, Customer Deposits and Accrued Liabilities on the Consolidated Balance Sheet totaling $1.5 million and $1.6 million as of September 30, 2003 and 2002, respectively, related to these contracts. In addition, our Florida appliance business provides leasing for gas appliances. Leasing revenues are recognized on a monthly basis as billed to customers according to the terms of the customer's contract.

Regulation. NUI is a holding company and is exempt from registration under the Public Utility Holding Company Act of 1935. NUI's wholly owned subsidiary, NUI Utilities, is subject to regulation as an operating utility by the public utility commissions of the states in which it operates. Certain subsidiaries of VGC are regulated by the Virginia State Corporation Commission.

SSLLC is subject to regulation by the Federal Energy Regulatory Commission.

Property, Plant and Equipment. Property, plant and equipment include both utility plant and non-regulated assets. Utility plant is stated at its original cost. Depreciation is provided on a straight-line basis over the remaining estimated lives of depreciable property by applying rates as approved by the state commissions. The composite average annual depreciation rate was3percent in each of fiscal years 2003, 2002 and 2001. At the time properties are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation. Repairs of all utility plant and replacements and renewals of minor items of property are charged to maintenance expense as incurred. Non-regulated equipment consists primarily of information technology assets and furniture and fixtures. These assets are recorded at original cost and are depreciated on a straight-line basis over a period ranging from 3-10 years. The company accounts for its investments in computer software in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

The net unamortized plant acquisition adjustments represent the remaining portion of the excess of the purchase price over the book value of utility net assets acquired. The excess is being amortized on a straight-line basis over 30 years from the date of acquisition. The results of operations of acquired entities have been included in the accompanying consolidated financial statements for the periods subsequent to their acquisition.

During August 2002, the company completed a sale/leaseback transaction for a capital lease that is collateralized by approximately $9 million of meters by its City Gas Company of Florida subsidiary.

Operating Revenues and Purchased Gas and Fuel Costs. Operating revenues include accrued unbilled revenues through the end of each accounting period. Operating revenues also reflect adjustments attributable to weather normalization clauses that are accrued during the winter heating season and billed or credited to customers in the following year.

Costs of purchased gas and fuel for the company's regulated utilities are recognized as expenses in accordance with the purchased gas adjustment clause applicable in each state. Such clauses provide for periodic reconciliations of actual recoverable gas costs and the estimated amounts that have been billed to customers. Under- or over-recoveries are deferred when they arise and are recovered from or refunded to customers in subsequent periods.

The company's NUI Energy Brokers subsidiary marks-to-market through the income statement all trading positions, including forward sales and purchase commitments for energy-related contracts that meet the definition of a derivative under SFAS 133 (See Note 18 for a further description of the company's use of derivative financial instruments). This subsidiary records operating revenues net of purchased gas costs in accordance with the provisions of EITF 02-03 (see "New Accounting Standards" for further discussion of EITF 02-03).

Environmental Reserve. The company, with the aid of environmental consultants, regularly assesses the potential future costs associated with conducting investigative activities at each of the company's sites and implementing appropriate remedial actions, as well as the likelihood of whether such actions will be necessary. The company records on an undiscounted basis a reserve if it is probable that a liability will be incurred and the amount of the liability can be reasonably estimated.

Stock Compensation. The company measures compensation cost for stock-based compensation plans using the intrinsic value method of accounting as prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The company has adopted those provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS 148), which require disclosure of the pro forma effects on net earnings and earnings per share as if compensation cost had been recognized based upon the fair value-based method at the date of grant for options awarded. See Note 15 for additional information on the company's stock option plans and pro forma disclosures required by SFAS 123 and SFAS 148.

Income Taxes. The company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the liability method to be used to account for deferred income taxes. Under this method, deferred income taxes related to tax and accounting basis differences are recognized at the statutory income tax rates in effect when the tax is expected to be paid.

Investment tax credits, which were generated principally in connection with additions to utility plant made prior to January 1, 1986, are being amortized over the estimated service lives of the properties that gave rise to the credits.

Cash Equivalents. Cash equivalents consist of a money market account that invests in securities with original maturities of three months or less.

Notes Receivable from Saltville Gas Storage Company, LLC. Notes receivable from SSLLC represent amounts advanced in conjunction with the December 1, 2002 revolving credit note between NUISS and SSLLC. The agreement provides SSLLC with the ability to draw up to $30 million, including accrued and unpaid interest, to fund capital expenditures and operating costs related to the development of a salt cavern storage facility owned by SSLLC. Interest is to be paid to NUISS quarterly in arrears at a rate equal to LIBOR plus 3 percent but, for the first three years of the note, such interest will be added to the principal and, thereafter paid in cash. All unpaid principal and interest is due in full on January 1, 2008. In fiscal year 2004, the maximum amount that SSLLC can draw on the revolving credit note is $10 million due to a restriction in NUI's current credit facility. As of September 30, 2003, the amount payable by SSLLC under the agreement was approximately $17.6 million.

Goodwill. NUI records goodwill on purchase transactions, representing the excess of acquisition cost over the fair value of net assets acquired. In testing for goodwill impairment under Statement of Financial Accounting Standards (SFAS) 142 "Goodwill and Other Intangible Assets," significant reliance is placed upon a number of estimates regarding future performance that require broad assumptions and significant judgment by management. A change in the fair value of the company's investments could cause a significant change in the carrying value of goodwill. The assumptions used to measure the fair value of our investments are the same as those used by us to prepare yearly operating segment and consolidated earnings and cash flow forecasts. In addition, these assumptions are used to set yearly budgetary guidelines.

As of September 30, 2003, NUI has $8.1 million of goodwill on its Consolidated Balance Sheet, all of which is recorded at VGC. As permitted under SFAS 142, the company can rely on its previous valuations for the annual impairment testing provided that the following criteria are met: (a) the assets and liabilities of VGC have not changed significantly since the most recent fair value determination; and (b) the most recent fair value determination resulted in an amount that exceeded the carrying amount by a substantial margin and there is no economic indication that the carrying value of goodwill may be impaired. In the case of VGC, the above criteria have been met and therefore, there was no impairment to goodwill in fiscal 2003.

In determining the fair value for its investment in VGC, an income valuation and discounted cash flow valuation approach was used to estimate the fair market value for VGC. Under the income valuation approach, the fair value of a company is obtained by discounting the sum of (i) the expected future cash flows of the company; and (ii) the terminal value of a company. The discount factor used in the discounted cash flow calculation is the company's weighted-average cost of capital. NUI was required to make certain significant assumptions in the income approach, specifically the weighted-average cost of capital, short and long-term growth rates and expected future cash flows.

As a result of the valuation performed by the company, management has determined that the fair value of the assets of VGC adequately exceeds their carrying value and no impairment charge is necessary as of September 30, 2003. Management will continue to evaluate the related carrying value of its goodwill at least annually. While we believe that our valuation is reasonable, actual results may differ from our projections. See Note 9 for further discussion of the company's goodwill.

Net Income (Loss) Per Share of Common Stock. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares outstanding. Diluted net income (loss) per share includes the dilutive effect of stock options. See Note 13 for calculation of per share amounts.

Regulatory Assets and Liabilities. The company's utility operations follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). In general, SFAS 71 requires deferral of certain costs and obligations, based upon orders received from regulators, to be recovered from or refunded to customers in future periods. The following represents the company's regulatory assets and liabilities deferred in the accompanying consolidated balance sheet as of September 30, 2003 and 2002 (in thousands):

	2003	2002
Regulatory Assets		
Environmental investigation and remediation costs	$36,445	$36,425
Post-retirement and other employee benefits	6,081	6,783
Deferred piping allowances	526	712
Energy conservation programs	2,437	--
Under-recovered gas costs	6,117	25,785
Other	5,434	6,141
	$57,040	$75,846

	2003	2002
Regulatory Liabilities		
Refunds to customers	$21,000	$ ---
Over-collection of income taxes	5,182	4,644
Utility hedging derivatives	5,382	5,565
Market development fund	2,152	2,083
Asset retirement obligations	1,366	---
Other	1,721	885
	$36,803	$13,177

Substantially all of these regulatory assets and liabilities have been authorized by state regulators to be recovered in rates. In New Jersey, environmental investigation and remediation costs are recovered through a Remediation Adjustment Clause (see Note 22) and include the carrying costs on unrecovered amounts not currently in rates. In the event that the provisions of SFAS 71 were no longer applicable, the company would recognize a write-off of net regulatory assets (regulatory assets less regulatory liabilities) that would result in a charge to net income, which would be classified as an extraordinary item. However, although the gas distribution industry is becoming increasingly competitive, the company's utility operations continue to recover their costs through cost-based rates established by the public utility commissions. As a result, the company believes that the accounting prescribed under SFAS 71 remains appropriate.

On March 20, 2003, the New Jersey Board of Public Utilities (NJBPU) announced the initiation of a focused audit of NUI Corporation, NUI Utilities and Elizabethtown Gas. The final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004. As discussed in Note 22, the company entered into a settlement agreement with the NJBPU on April 14, 2004. As of September 30, 2003, NUI Utilities has recorded a pre-tax charge of $30.0 million for the final settlement of the focused audit, of which $28.0 million was recorded as a regulatory liability to be refunded over a five year period to customers in New Jersey, and $2.0 million was recorded by NUI Corporation as a penalty to the State of New Jersey. The future amounts to be refunded to customers by fixed year is as follows (in thousands):

2004	$7,000
2005	6,000
2006	5,000
2007	5,000
2008	5,000
Total refunds to customers	28,000
Portion included in accounts payable, customer deposits and accrued liabilities	(7,000)
Regulatory liability for customer refunds	$21,000

The company has established a pre-tax reserve of $2.6 million in anticipation of a similar settlement with the Florida Public Service Commission.

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). This statement establishes accounting standards for recognition and measurement of liabilities for asset retirement obligations and the associated asset retirement costs. On October 1, 2002, the company adopted the provisions of SFAS 143. On that date, the company had no quantifiable legal liabilities, as contemplated under SFAS 143, and therefore the effect of adoption did not result in an adjustment to the Consolidated Statements of Income. The company uses the composite depreciation method for its regulated utility operations, which is currently an acceptable method of accounting under

generally accepted accounting principles and is widely used in the energy, transportation and telecommunications industries. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. However, SFAS 143 precludes the recognition of expected future costs of removal as a component of depreciation expense unless they are legal obligations under SFAS 143. The company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of October 1, 2002, the company identified $1.3 million of amounts of net cost of removal within accumulated depreciation and reclassified this amount to a regulatory liability. In accordance with SFAS 71, the company continues to accrue for the future cost of removal for its regulated utility operations. During fiscal 2003, the company accrued an additional $0.1 million of regulatory liabilities toward the cost of future removals.

New Accounting Standards. During fiscal 2001, the company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 was issued in June 1998 and establishes accounting and reporting standards regarding derivative instruments. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value as either an asset or liability, and that changes in the fair value be recognized currently in earnings unless certain criteria are met. The adoption of SFAS 133 did not have a material impact on the company's financial position or net income.

During fiscal 2001, the company adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141). SFAS 141 applies to business combinations occurring after June 30, 2001 and requires that the purchase method of accounting be used and includes guidance on the initial recognition and measurement of goodwill and other intangible assets. The company's acquisitions of Norcom, Inc. (Note 6) and Telcorp, Inc. (Note 7) were accounted for under SFAS 141.

During fiscal 2002, the company adopted Statement of Financial Accounting Standards No. 144, "Accounting for Impairment and Disposal of Long-lived Assets" (SFAS 144). SFAS 144 supersedes SFAS 121 and the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" with regard to reporting the effects of a disposal of a segment of a business. SFAS 144 establishes a single accounting model for assets to be disposed of by sale and addresses several SFAS 121 implementation issues. As a result of the adoption of this standard, the company has classified the operating results of certain subsidiaries to be disposed of as "Discontinued Operations" in the Consolidated Statements of Income; assets and liabilities of certain subsidiaries to be disposed of as "Held for Sale" in the Consolidated Balance Sheets; and "Net Cash Provided by (used in) Discontinued Operations" in the Consolidated Statements of Cash Flows. See further discussion of the subsidiaries being disposed of in Note 11.

In June 2002, the Emerging Issues Task Force (EITF) issued EITF 02-03, "Issues Involved in Accounting for Contracts Under Issue 98-10"(EITF 02-03). The purpose of EITF 02-03 is to address certain issues related to energy trading activities, including (a) gross versus net presentation in the income statement, (b) whether the initial fair value of an energy trading contract can be other than the price at which it was exchanged (i.e., whether there is any profit at inception), and (c) additional disclosure requirements for energy trading activities. On October 25, 2002, the EITF reached a consensus on EITF 02-03 that changes the accounting for certain energy contracts. The main provisions of EITF 02-03 are as follows:

- The EITF rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10), which was the authoritative accounting followed by NUI Energy Brokers and NUI Energy. Pursuant to EITF 98-10, an entity accounted for energy contracts at fair value with changes in fair value recognized in earnings if the energy contract was determined to be part of an entity's trading activities. In contrast to EITF 98-10, EITF 02-03 prohibits mark-to-market accounting for energy-related contracts that do not meet the definition of a derivative under SFAS 133. Any contracts not meeting the definition of a derivative under SFAS 133 must be accounted for on the accrual basis.

- The consensus applies immediately to non-derivative energy-related contracts executed after October 25, 2002.

- **The consensus applies to existing non-derivative energy-related contracts for fiscal periods beginning** after December 15, 2002 and the cumulative effect of a change in accounting principle must be reported upon initial application.

- The EITF indicated that an entity should not record unrealized gains or losses at the inception of derivative contracts unless the fair value of each contract in its entirety is evidenced by quoted market prices or other current market transactions for contracts with similar terms and counterparties.

- **The EITF reaffirmed that EITF 02-03 requires gains and losses on derivative** energy trading contracts (whether realized or unrealized) to be reported as revenue on a net basis in the income statement.

The EITF deliberations and consensus on EITF 02-03 will not affect the company's cash flows. Additionally, the company continued to mark all existing energy-related contracts to market based on EITF 98-10 during the first quarter of fiscal 2003 prior to applying the new consensus. However, the consensus required NUI to record a cumulative effect adjustment to convert any contracts that did not meet the definition of a derivative under SFAS 133 to accrual accounting effective January 1, 2003.

The primary contracts affected as a result of applying the new consensus are the full requirements natural gas sales contracts associated with NUI Energy and a large natural gas storage contract within NUI Energy Brokers. However, the majority of NUI Energy Brokers' contracts are considered derivatives under SFAS 133 and continue to be marked-to-market through earnings. The cumulative effect adjustment to convert the contracts that did not meet the definition of a derivative under SFAS 133 to accrual

accounting effective on January 1, 2003 was a loss of approximately $9.9 million before taxes.

Additionally, in accordance with one of the provisions of EITF 02-03, the company has recorded the margins earned under the previous accounting guidance of EITF 98-10 by both NUI Energy Brokers and NUI Energy on a net basis in operating revenue. In previous periods, both NUI Energy Brokers and NUI Energy included both the cost of purchased gas and the operating margin earned for all physical transactions within operating revenues on the Consolidated Statement of Income. For financial trades such as futures, options and swap transactions, NUI Energy Brokers and NUI Energy had historically recorded only the operating margin component, but within the purchased gas and fuel line item on the Consolidated Income Statement. The adoption of net-basis reporting has no effect on these transactions or cash flows other than to reclassify and present total margins earned within the operating revenues line item on the Consolidated Statement of Income. In accordance with EITF 02-03, all prior periods have been reclassified to conform to this presentation. As a result of net-basis reporting, NUI reduced previously reported 2002 and 2001 operating revenues and purchased gas and fuel, by $425.8 million and $578.7 million, respectively, with no changes to total operating margins.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). This statement is effective for exit or disposal activities initiated after December 31, 2002. The company now applies SFAS 146 for exit and disposal activities.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply to guarantees issued or modified after December 31, 2002. The company has included these disclosures under "Guarantees" in Note 22.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148). This statement amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to a fair value based method of accounting for stock-based employee compensation and amends disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to such compensation. The company continues to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 and has provided the disclosures required in Note 15.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003, issued a revised FIN 46R. The objective of both FIN 46 and FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that, by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities no later than the end of the first reporting period after March 15, 2004. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The company has determined that it does not meet the consolidation requirements with respect to its joint venture with Duke Energy. In addition, the company has not created or obtained any variable interest entities after January 31, 2003. Therefore, the adoption of the consolidation requirements of FIN 46R in March 2004 did not have an impact on the company's financial position or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities under SFAS 133. This statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this statement had no impact on the company's net income or financial position.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The standard requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of these instruments were previously classified as equity. The standard also revises the definition of liabilities to encompass certain obligations that an entity can or must settle by issuing its own shares, depending on the nature of the relationship established between the holder and the entity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement had no impact on the company's net income or financial position.

2. NUI Liquidity Issues

As a result of various factors, NUI and NUI Utilities have experienced and expect to continue experiencing significant liquidity problems. Liquidity needs for NUI Utilities generally are driven by factors that include: prepayments for its natural gas requirements; natural gas commodity prices; the impact of weather on customer bills; lags in fully collecting gas costs from customers under the Basic Gas Supply Service (BGSS) charge; both discretionary and required repayments of short- and long-term debt; capital spending; and working capital requirements, such as administrative expenses and taxes. Liquidity needs at NUI's non-utility operations generally are driven by required repayments of short-term debt and working capital requirements.

Based upon the factors noted above and current anticipated cash flows, both NUI and NUI Utilities believe that they have sufficient liquidity to meet their financial obligations through the remainder of the fiscal year ending September 30, 2004. However, subsequent to September 30, 2004 NUI and NUI Utilities believe they may not have sufficient liquidity to meet their continuing obligations based upon the following:

-- NUI and NUI Utilities each have separate revolving credit facilities aggregating $405 million, which expire on November 22, 2004, and each may only be extended for a successive 364-day increment if certain conditions are met. If these facilities are not extended or satisfactorily refinanced, the companies would need to seek alternative solutions to satisfy their liquidity requirements.

-- Upon renewal of NUI's revolving credit facility, NUI would be required to prepay, on or about November 22, 2004, an interest reserve account for the benefit of the lenders under NUI's credit agreement in the amount of approximately $20 million.

-- Under the terms of NUI Utilities' natural gas asset management contract with Cinergy Marketing & Trading, LP (Cinergy), NUI Utilities is required to pay in advance, in varying amounts, for its gas requirements on a monthly basis over the contract period. As a result of the prepayment obligations, in addition to the renewal of its credit facility, NUI Utilities may require additional funds in early fiscal 2005 in order to meet its continuing obligations. Further, in order for NUI Utilities to obtain such additional funds, it is required to obtain the approval of its lenders and the NJBPU.

-- On September 26, 2003, the Board of Directors of NUI announced its intention to sell the company. If we are unable to sell the company, or if a sale is not completed in a timely manner, this could materially adversely affect NUI's and NUI Utilities' financial condition, results of operations and liquidity.

As noted above, based upon current anticipated cash flows, the company believes it will have sufficient liquidity to meet its financial obligations through the end of fiscal year ending September 30, 2004 and the company also believes it will remain in compliance with all covenants under its various debt agreements for the remainder of the year ending September 30, 2004 (see Notes 14 and 16 for further discussion on debt covenants). The company plans to address its liquidity concerns by: successfully completing the sale of the company; extending its existing credit facilities beyond the current termination date of November 22, 2004; and obtaining additional financing to ensure NUI Utilities' ability to, among other things, meet its gas purchase prepayment requirements under its natural gas asset management contract with Cinergy. If the company is unsuccessful in its efforts to effectively resolve its liquidity concerns, it may need to reorganize its operations and restructure its credit and debt financing.

3. Purchase of Virginia Gas Company

On March 28, 2001, the company completed its acquisition of Virginia Gas Company (VGC). The acquisition was treated as a merger whereby VGC became a wholly owned subsidiary of NUI. The purchase price totaled $29 million and included the issuance of 792,600 shares of NUI common stock, with the remainder paid in cash. VGC is a natural gas storage, pipeline, and distribution company, which operates in a region of the nation that has experienced a rapidly growing demand for natural gas and power generation.

The acquisition was accounted for as a purchase. The excess of the purchase price over the fair value of the net assets of VGC was approximately $8.1 million. Until October 1, 2001, this goodwill was being amortized on a straight-line basis over a 30-year period (see Note 9).

At the time VGC was acquired, it had two 50 percent owned subsidiaries, Virginia Gas Storage Company (VGSC) and Virginia Gas Distribution Company (VGDC). On October 4, 2001, the company completed its acquisition of the remaining 50 percent interests in VGSC and VGDC from the two individuals that each owned 25 percent of the stock of both companies. Under terms of the agreements entered into with those two individuals in June 2001, the company paid each owner $750,000 and issued to each owner 72,324 shares of NUI Common Stock in exchange for the owner's stock in both VGSC and VGDC. The acquisition was accounted for as a purchase. The fair value of the net assets was equal to the purchase price.

On October 11, 2001, the company sold the capital stock of Virginia Gas Propane Company, a subsidiary of VGC, to Heritage Holdings, Inc. The sales price was approximately $3.8 million.

On March 1, 2002, the company sold the capital stock of Virginia Gas Exploration Company and Virginia Gas Marketing, subsidiaries of VGC, to Appalachian Energy, Inc. The sales price was approximately $0.8 million.

4. Acquisition of TIC Enterprises, LLC

Since 1997, the company held a 49 percent equity interest in TIC Enterprises, LLC (TIC). On May 15, 2001, the company acquired the remaining 51 percent of TIC which it did not previously own. NUI paid the majority owner $5 million in cash and assumed the outstanding debt of TIC, and TIC issued a $3 million note payable (see Note 8) to the majority owner. The acquisition was accounted

for as a purchase. The excess of the aggregate purchase price paid by NUI for this additional 51 percent interest in TIC over the fair value of the net assets acquired was approximately $17.7 million, which added to the unamortized goodwill of $16.4 million from the initial purchase and was being amortized on a straight-line basis over a 25-year period through October 1, 2001 (see Note 9). In connection with the acquisition, the company recorded a $1.5 million liability for involuntary separations and restructuring costs which was subsequently paid during fiscal 2001.

In conjunction with the company's plans to sell NUI Telecom, the company is winding down the operations of TIC (see Note 11).

5. Sale of NUI Energy Contracts

On May 23, 2003 and on June 25, 2003, the company sold certain contracts of its NUI Energy subsidiary to Houston Energy Services Company, LLC (HESCO) and to Amerada Hess Corporation, respectively. The sales included approximately 2,900 customer accounts, primarily in New Jersey, Florida, North Carolina and Pennsylvania. In conjunction with the sales of these accounts, the company paid approximately $3.5 million to HESCO and approximately $0.3 million to Amerada Hess, which were recorded as charges to operations and maintenance expense, to relieve all future liabilities associated with these gas supply contracts.

6. Acquisition of Norcom, Inc.

On March 22, 2002, the company entered into an agreement to acquire certain assets of Norcom, Inc. (Norcom), including 4,000 customer accounts. The agreement provided for NUI Telecom to assume management control of Norcom as of March 1, 2002. Norcom contributed $8.3 million of operating revenues and $0.6 million of operating income from that date through September 30, 2002. Norcom contributed $15.5 million of operating revenues and $1.7 million of operating income during the fiscal year ended September 30, 2003. Norcom is a provider of telecommunications services in the Northeast and Southeast regions of the United States, and its customer accounts were combined with the company's NUI Telecom subsidiary.

On August 28, 2002, the company completed the transaction, subject to post-closing adjustments. The purchase price totaled approximately $4.3 million and included the issuance of 216,039 shares of NUI common stock.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (amounts in thousands).

Cash	$ 653
Accounts receivable	1,166
Equipment	7
Intangible assets	2,160
Goodwill	2,402
Total assets acquired	6,388
Current liabilities	2,048
Total liabilities assumed	2,048
Net assets acquired	$4,340

In June 2003, the company announced that it was pursuing the sale of NUI Telecom. As a result, the acquired intangible assets related to customer relationships, which were being amortized over a 7-year period, and the goodwill were written-off during fiscal 2003 and have been included in discontinued operations (see Notes 9, 10 and 11).

7. Acquisition of Telcorp, Inc.

On May 31, 2002, the company entered into an agreement to acquire certain assets of Telcorp, Ltd. (Telcorp). In addition, the company entered into a letter agreement with Telcorp, under which NUI Telecom assumed management control of the business effective April 1, 2002. Telcorp contributed $3.4 million of operating revenues and $1.4 million of operating income from that date through September 30, 2002. Telcorp contributed $7.0 million of operating revenues and $1.9 million of operating income for the fiscal year ended September 30, 2003.

On September 1, 2002, the company completed its acquisition of Telcorp, subject to post-closing adjustments. The purchase price totaled approximately $7.2 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (amounts in thousands).

Accounts Receivable	$ 832
Equipment	10
Intangible assets	3,060
Goodwill	4,172
Total assets acquired	8,074
Current liabilities	832
Total liabilities assumed	832
Net assets acquired	$7,242

In June 2003, the company announced that it was pursuing the sale of NUI Telecom. As a result, the acquired intangible assets related

to customer relationships, which were being amortized over a 10-year period, and the goodwill were written-off during fiscal 2003 and have been included in discontinued operations (see Notes 9, 10 and 11).

8. Note Payable

Under terms of an LLC Interest Purchase Agreement dated May 8, 2001, notes payable represents an unsecured promissory note held by the former owner of TIC (the plaintiff) in conjunction with the company's acquisition of the remaining equity interest of TIC on May 15, 2001. The note, which bears interest at 7 percent per annum, was payable on the maturity date of January 2, 2002.

On January 11, 2002, TIC notified the plaintiff that it had offsetting claims against the note obligation under the LLC Interest Purchase Agreement.

On April 4, 2002, the plaintiff filed suit against NUI and TIC to collect on the note. On May 2, 2004, NUI proposed a settlement to the plaintiff in which the company agreed to pay the plaintiff $1.4 million to completely satisfy NUI's obligation under the note, as well as to resolve all other claims that the company and the plaintiff had brought against each other. On May 5, 2004, NUI received the plaintiff's written acceptance of the company's settlement proposal, and the plaintiff requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under the note from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003.

9. Goodwill

The excess of the cost over the fair value of net assets of acquired businesses is recorded as goodwill. On October 1, 2001, the company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets" (SFAS 142). The carrying value of goodwill for each of the company's subsidiaries is no longer subject to amortization, but must be tested for impairment annually or earlier under certain circumstances. Implementation of this accounting pronouncement required the company to perform a fair value assessment to determine if the fair value of its subsidiaries with goodwill exceeded their carrying amounts. During the first quarter of fiscal 2002, the company completed its fair value assessment of the subsidiaries that meet the requirements of SFAS 142. Using the present value of expected future cash flows to determine the fair value of its subsidiaries, the company recognized a transitional goodwill impairment loss of approximately $27.1 million related to the carrying value of the goodwill for its TIC subsidiary. A goodwill impairment adjustment for the fair market valuations of NUI Telecom and VGC was not necessary.

In conjunction with the adoption of SFAS 142, the company identified $2.2 million of intangible assets from its acquisition of VGC, which had been originally recorded as goodwill. These intangible assets relate to the development rights of the property acquired in March 2001, and are being amortized over a 30-year period (see Note 10).

In fiscal 2003, the company paid a post-closing adjustment of approximately $3.8 million to complete its acquisition of Telcorp, which was recorded in goodwill, and made other purchase accounting adjustments to goodwill of approximately $0.2 million related to Telcorp and Norcom. In June 2003 all of the Telcorp and Norcom goodwill, totaling approximately $6.6 million (including the amounts referred to above), was written off after the company announced it was pursuing the sale of NUI Telecom.

During June 2003, the company approved a plan to sell its NUI Telecom subsidiary, at which time the company began to actively seek a buyer. In conjunction with the decision, the company recorded impairment losses of approximately $15.0 million to write-off the remaining goodwill of its NUI Telecom and TIC subsidiaries.

The changes in the carrying amount of goodwill (net of amortization) for the year ended September 30, 2003, are as follows (in thousands):

	NUI Telecom	NUI Virginia Gas	TIC Enterprises	Total
Balance at September 30, 2001	$4,982	$10,256	$34,271	$49,509
Reclassification to intangible assets	---	(2,200)	(159)	(2,359)
Additional goodwill during the period	2,603	---	---	2,603
Transitional impairment loss	---	---	(27,142)	(27,142)
Amounts written-off	---	---	(3,485)	(3,485)
Balance as of September 30, 2002	$ 7,585	$ 8,056	$ 3,485	$19,126
Additional goodwill during the period	3,971	---	---	3,971
Amounts written-off	(11,556)	---	(3,485)	(15,041)
Balance as of September 30, 2003	$ ---	$ 8,056	$ ---	$ 8,056

The following table sets forth the effect of SFAS 142 for the fiscal years ended September 30 (in thousands, except per share amounts):

	2003	2002	2001
Reported net income (loss)	$(45,149)	$(15,888)	$16,313
Add back: Goodwill amortization	---	---	1,795
Adjusted net income	$(45,149)	$(15,888)	$18,108

Basic and Diluted Earnings per Share:			
Reported net income (loss)	$(2.82)	$(1.06)	$1.22
Goodwill amortization	---	---	0.13
Adjusted net income	$(2.82)	$(1.06)	$1.35

10. Acquired Intangible Assets

The company has approximately $2.1 million of acquired intangible assets for development rights held by its VGC subsidiary (net of accumulated amortization of approximately $0.1 million), which are being amortized over thirty years and are included in Other Assets on the Consolidated Balance Sheet at September 30, 2003. During June 2003, the company recorded a write-down of approximately $4.8 million related to the carrying value of the acquired intangible assets for customer relationships (which were being amortized over a weighted average period of nine years) in conjunction with the company's decision to sell NUI Telecom. The fair value of the acquired intangible assets of NUI Telecom was determined using a weighted average discounted cash flow model based on the operations of the company's telecommunications businesses.

The aggregate amortization of the acquired intangible assets was $73,333 for both the fiscal years ended September 30, 2003 and 2002, and is included in Depreciation and Amortization in the Consolidated Statements of Income. Approximately $0.5 million of amortization expense was recorded on the intangibles of NUI Telecom and has been included in losses from discontinued operations for the fiscal year ended September 30, 2003 (see Note 11). Estimated annual amortization is expected to be approximately $73,333 for each fiscal year through September 30, 2008.

11. Discontinued Operations and Assets and Liabilities Held for Sale

The company has adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). This statement excludes from the definition of long-lived assets acquired goodwill and other intangibles, which are accounted for in accordance with SFAS 142. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of their carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. Accordingly, the revenues, costs and expenses, assets, liabilities, and cash flows of certain entities NUI is disposing of have been segregated and reported as discontinued operations for all periods presented.

On October 5, 2000, the company agreed to sell the assets of its Valley Cities Gas and Waverly Gas utility operations (VCW) to C&T Enterprises, Inc. (C&T) of Pennsylvania for $15 million. The transaction, which closed on November 7, 2002 after all regulatory approvals were obtained, was immaterial to the company's fiscal 2003 results.

On May 15, 2002, the company agreed to sell the assets of its North Carolina Gas utility operation (NC) to Piedmont Natural Gas of North Carolina for approximately $24 million after post-closing adjustments. The transaction closed on September 30, 2002, after all regulatory approvals had been obtained, and, as a result, the company recorded a $1.3 million pre-tax gain in fiscal 2002 which is included in Loss from Discontinued Operations on the Consolidated Statement of Income. Post-closing adjustments in 2003 reduced the gain by $0.6 million.

The amount of net assets sold in connection with these sales was approximately $40 million. Not included in the sales were the liabilities associated with the environmental cleanup of certain MGP sites and other postretirement benefit costs totaling $4.8 million (see Note 22).

In March 2002, the company approved a plan to sell its TIC Enterprises subsidiary, at which time the company began to actively seek a buyer. During the third quarter of fiscal 2002, TIC continued to incur operating losses primarily as a result of the economy, the marketplace for telephone equipment and various operational issues with the United States Postal Service (USPS) product lines. In June 2002, the company decided to retain TIC's profitable wireless and network service product lines and continued to seek a buyer for the telephone equipment and USPS product lines. In accordance with SFAS 144, during June 2002, the net assets of the wireless and network services product lines were reclassified back to assets held and used, and were under the management of NUI Telecom.

The company did not receive any acceptable offers for the remaining product lines of TIC, and NUI announced on July 16, 2002, that it had ceased the operations of its telephone equipment and USPS product lines. In addition, in fiscal 2002 NUI recognized a charge of approximately $8.0 million to write-down the net assets of these two product lines to their fair value. This charge included the write-off of approximately $3.5 million of goodwill allocated to these product lines.

During June 2003, the company began to wind down the remaining operations of TIC and recognized a charge of approximately $3.5 million to write-off the remaining goodwill of TIC.

Prior to the acquisition of TIC on May 15, 2001, the company recorded a pre-tax equity loss of $11.7 million during the year ended September 30, 2001, which has been included in discontinued operations.

During June 2003, the company approved a plan to sell its NUI Telecom subsidiary, at which time the company began to actively seek a buyer. In conjunction with the decision, the company recorded charges of approximately $25.5 million to adjust the assets of NUI

Telecom to their estimated fair market value, and for the provision of a Federal deferred tax valuation allowance. This charge included the write-off of approximately $11.6 million of goodwill, and $4.8 million of acquired intangible assets. In December 2003, NUI Telecom was sold for $2.0 million (see Note 24), which transaction was immaterial to the company's results for the first fiscal quarter of 2004.

During September 2002, the company approved a plan to sell its NUI Environmental subsidiary, at which time the company began to actively seek a buyer. On September 3, 2003, the company closed on the sale of NUI Environmental to Harbor Resource Management Corporation (HRMC) for one dollar ($1), which transaction was immaterial to the company's fiscal 2003 results. Because of a license agreement with HRMC, the operating results of NUI Environmental have not been included within discontinued operations on the Consolidated Statements of Income.

The revenues, margins and operating income (losses) of the company's discontinued operations have been reported as discontinued operations on the Consolidated Statements of Income for all periods presented, as follows, exclusive of affiliate transactions (in thousands):

Discontinued Operations	**2003**	**2002**	**2001**
Revenues:			
Distribution Services	$ 553	$ 22,871	$ 34,022
Retail & Business Services	50,358	45,454	22,862
Operating Revenues	$ 50,911	$ 68,325	$ 56,884
Operating Margins:			
Distribution Services	$ 250	$ 9,630	$ 10,332
Retail & Business Services	16,380	15,227	6,338
Operating Margins	$ 16,630	$ 24,857	$ 16,670
Pre-Tax Operating Income:			
Distribution Services	$ 120	$ 1,695	$ 2,065
Retail & Business Services	(33,328)	(15,407)	(10,328)
Pre-Tax Operating Income (Loss)	(33,208)	(13,712)	(8,263)
Other Income (Expense)	857	(7,637)	(7,596)
Net Interest Charges	4	895	1,419
Pre-Tax Income (Loss) from Discontinued Operations	$(32,355)	$(22,244)	$(17,278)

The assets and liabilities of the company's subsidiaries held for sale have been reclassified on the Consolidated Balance Sheets for all periods presented, as follows (in thousands):

Assets and Liabilities Held for Sale	**2003**	**2002**
Current Assets:		
Distribution Services	$ ---	$ 1,704
Retail & Business Services	7,976	9,669
Current Assets	$ 7,976	$ 11,373
Property, Plant & Equipment, net:		
Distribution Services	$ ---	$ 13,189
Retail & Business Services	147	1,743
Property, Plant & Equipment	$ 147	$ 14,932
Other Assets:		
Distribution Services	$ ---	$ 174
Retail & Business Services	1,002	805
Other Assets	$ 1,002	$ 979
Current Liabilities:		
Distribution Services	$ ---	$ 556
Retail & Business Services	3,150	4,049
Current Liabilities	$ 3,150	$ 4,605
Other Liabilities:		
Distribution Services	$ ---	$ 395
Retail & Business Services	19	41
Other Liabilities	$ 19	$ 436

12. Restructuring Charges

In December 2001, the company commenced a reorganization effort that resulted in workforce reductions. The reorganization efforts resulted in accounting charges of approximately $1.2 million, primarily relating to severance costs. The company has paid all of the severance costs as of September 30, 2003.

13. Earnings Per Share

The following table summarizes the company's basic and diluted earnings per share calculations for the fiscal years ended September 30 (amounts are in thousands, except per share amounts):

	2003	2002	2001
Income (loss) from continuing operations	$(11,317)	$16,051	$27,454
Loss from discontinued operations	(27,962)	(14,297)	(11,141)
Effect of change in accounting	(5,870)	(17,642)	---
Net income (loss)	$(45,149)	$(15,888)	$16,313
Weighted Average Shares Outstanding	16,035	14,938	13,356
Basic and Diluted Earnings (Loss) Per Share:			
Income (loss) from continuing operations	$(0.71)	$ 1.08	$2.05
Loss from discontinued operations	(1.75)	(0.96)	(0.83)
Effect of change in accounting	(0.36)	(1.18)	---
Net income (loss)	$(2.82)	$(1.06)	$1.22

The company's weighted average diluted shares outstanding (not shown) includes shares which would be issuable upon the exercise of stock options outstanding under NUI's stock option plan, which is added to weighted average shares outstanding. As of September 30, 2003, unvested stock options having an exercise price less than the market value of the company's shares on that date provided for an additional 165 shares of common stock equivalents outstanding, which had no impact on the company's diluted earnings per share. There were no dilutive shares outstanding as of the end of fiscal 2002 and 2001. The number of shares that could potentially be dilutive to earnings per share in the future that have been excluded in the computation of diluted earnings per share, because to do so would have been antidilutive, are 452,100 and 996,000 shares for fiscal 2003 and 2002, respectively.

14. Capitalization

Long-Term Debt. NUI has outstanding $50 million 8.35 percent medium term notes, which mature on February 1, 2005. Included in NUI Utilities' current credit facility is a $50 million delayed draw term loan that can be drawn at the option of the company and used, subject to satisfaction of the terms and conditions contained therein, to repay these medium term notes.

On November 24, 2003, NUI repaid its $60 million senior notes with the proceeds of its new credit facility entered into on that date. In conjunction with the repayment of this indebtedness, NUI paid a prepayment premium of approximately $9.4 million to the noteholders, which was recorded during the first quarter of fiscal 2004.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.7 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2003, NUI Utilities paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 is unexpended and accordingly has been classified as "Funds for Construction Held by Trustee" on the Consolidated Balance Sheet at September 30, 2003 until drawn upon.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended on June 10, 2003, July 21, 2003 and December 4, 2003, The Bank of New York is obligated under certain circumstances to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent. Such obligation of the bank would remain in effect until the expiration of the SBPA on June 30, 2004, unless extended or earlier terminated. The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI to an amount based, in part, on the earned surplus of NUI Utilities, which has been reduced by the NJBPU settlement. There is no capacity under this covenant for further dividends at this time or in the foreseeable future, unless a waiver is obtained from the bondholders.

If the SBPA is not further extended beyond its current expiration date of June 30, 2004, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus

accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

As of September 30, 2003, the aggregate principal and accrued interest on the outstanding Variable Bonds totaled approximately $39.0 million. Principal and any unpaid interest on the outstanding Variable Bonds are due on June 1, 2026, unless the put option is exercised before that time.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches will be cured by virtue of NUI Utilities' delivery of this annual report, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarters ended December 31, 2003 and March 31, 2004, and related documentation and officers' certificates. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

The company's long-term debt maturities for each of the next five fiscal years are as follows: zero in 2004; $50 million in 2005; $5 million in 2006; zero in 2007; and $15 million in 2008.

Preferred Stock. The company has 5,000,000 shares of authorized but unissued preferred stock. Shares of Series A Junior Participating Preferred Stock have been reserved for possible future issuance in connection with the company's Shareholder Rights Plan, described below.

Shareholder Rights Plan. The company's Board of Directors has adopted a Shareholder Rights Plan under which shareholders of NUI common stock were issued as a dividend one right to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a purchase price of $50 (Right) for each share of common stock held. The Rights initially attach to the shares of NUI common stock and can be exercised or transferred only if a person or group (an Acquirer), with certain exceptions, acquired, or commenced a tender offer to acquire, beneficial ownership of 15 percent or more of NUI common stock. The company may redeem the Rights at $0.001 per Right at any time prior to the occurrence of any such event. Each Right, except those held by the Acquirer, may be used by the non-acquiring shareholders to purchase, at the Right's exercise price, shares of NUI common stock having a market value equivalent to twice the Right's exercise price, thus substantially reducing the Acquirer's ownership percentage. All rights expire on March 2, 2011.

Common Stock. The company periodically issues shares of common stock in connection with NUI Direct, the company's dividend reinvestment and stock purchase plan, and various employee benefit plans. Effective May 26, 1998, several of these plans commenced purchasing shares on the open market to fulfill their requirements. Under the terms of these plans, the company may periodically change the method of purchasing shares from open market purchases to purchases directly from the company, or vice versa.

The company sold 1.725 million shares of common stock for net proceeds of approximately $37.0 million during March 2002 under the shelf registration statement. The proceeds from the sale were used to pay down short-term debt.

At September 30, 2003, shares reserved for issuance under the company's common stock plans were: NUI Direct, 35,297; Savings and Investment Plan, 121,966; NUI Corporation Stock Option, Stock Award and Incentive Plan, as amended and restated, 923,241; 1996 Employee Stock Purchase Plan, 189,872; and the 1996 Director Stock Purchase Plan, 40,918.

Stock Plans. The company has in effect the NUI Corporation Stock Option, Stock Award and Incentive Plan (the Plan), which provides for the granting of equity-based and cash incentive awards to officers and other key employees of the company. Under the award plan, grants of performance-based restricted stock and stock options have been made and targets for earning cash incentive awards have been established. Stock option grants are more fully discussed in Note 15. In addition to the award plan, the company maintains the 1996 Director Stock Purchase Plan, which provides for the purchase by members of the board of directors of shares of common stock at a fifteen percent discount to the fair market value on the date of purchase.

Restricted shares of stock granted as long-term compensation for executive officers and key employees amounted to 187,800 in fiscal 2003, 115,450 in fiscal 2002, and 91,350 in fiscal 2001. As of September 30, 2003, a total of 136,980 shares of restricted stock that have been granted as long-term compensation are subject to future vesting requirements, and are restricted from resale.

Dividend Restrictions. NUI's and NUI Utilities' debt agreements include, among other things, restrictions as to the payment of cash

dividends. With respect to NUI Utilities, the payment of cash dividends by NUI Utilities to NUI is restricted pursuant to the Standby Bond Purchase Agreement to an amount based, in part, on the earned surplus of NUI Utilities, which has been reduced by the NJBPU settlement. As a result of this restriction, there is no capacity for further dividend payments by NUI Utilities at this time or in the foreseeable future, unless a waiver is obtained from the bondholders. In addition, under the amendment to NUI Utilities' credit facility dated as of May 10, 2004, NUI Utilities is prohibited from paying dividends exceeding $35 million in the aggregate while the credit facility is outstanding.

With respect to NUI, under the amendment to NUI's credit facility, dated as of May 10, 2004, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI is also prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

15. Stock Options

Beginning in January 2002, the company may grant stock options to officers, certain other employees, and non-employee members of the company's board of directors to purchase shares of NUI common stock at a price equal to the market price on the date the option is granted. Options granted to employees of the company generally vest over three years and have a maximum term of 7 years. Options granted to non-employee members of the company's board of directors generally vest over one year and have a maximum term of 10 years. At September 30, 2003 and 2002, a total of 458,100, and 1,006,500 shares, respectively, were designated for future issuance of common stock.

Presented below is a summary of stock option activity for the years shown:

	Options Outstanding	Wtd Avg. Exercise Price	Options Exercisable	Wtd Avg. Exercise Price
Balance at September 30, 2001	---		---	
Granted	1,006,500	$22.42		
Balance at September 30, 2002	1,006,500	$22.42	---	N/A
Granted	6,000	$14.03		
Cancelled	(554,400)	$22.39		
Balance at September 30, 2003	458,100	$22.36	6,000	$24.22

The following table provides additional information for the options outstanding at September 30, 2003:

Range of Prices	Number	Wtd Avg. Remaining Life	Wtd Avg. Exercise Price
$10-$19	6,000	9 yrs	$14.03
$20-$29	452,100	5 yrs	$22.47
$10-$29	458,100	5 yrs	$22.36

Pro Forma Fair Value Disclosures

Had employee compensation expense been recognized based on the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the company's net income and diluted earnings per share for the fiscal years ended September 30, 2003 and 2002 would have been as shown in the following table (in thousands, except for per share amounts):

	2003	2002
Net loss as reported	$(45,149)	$(15,888)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,731)	(1,408)
Pro forma net loss	$(46,880)	$(17,296)
Earnings per Share:		
Basic & Diluted-as reported	$(2.82)	$(1.06)
Basic & Diluted-pro forma	$(2.92)	$(1.16)

The fair values of the stock options granted, which are hypothetically amortized to compensation expense over the vesting period in determining the pro forma impact noted above, have been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2003	2002
Expected life of option	5 years	5 years
Risk-free interest rate	4.0 percent	4.9 percent
Expected volatility of NUI stock	103.4 percent	51.6 percent
Expected dividend yield on NUI stock	5.2 percent	3.8 percent

The fair value of the options granted during fiscal 2003 and 2002 determined using the Black-Scholes model is as follows (in thousands, except for per option amount):

	2003	2002
Fair value of each option granted	$8.75	$8.83
Total number of options granted	6.0	1,006.5
Total fair value of all options granted	$52.5	$8,890.8

For SFAS 123 purposes, the weighted average fair value of stock options granted is required to be based on a theoretical option-pricing model such as the Black-Scholes method. In actuality, because the company's employee stock options are not traded on an exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of NUI stock. Such an increase in stock price benefits all stockholders commensurately.

16. Notes Payable to Banks

On February 12, 2003, each of NUI and NUI Utilities entered revolving credit facilities that replaced their respective credit facilities. NUI's credit facility consisted of a revolving credit facility that allowed it to borrow up to approximately $38.1 million, and NUI Utilities' revolving credit facilities consisted of a revolving loan and a bridge loan, which collectively allowed NUI Utilities to borrow up to an aggregate of approximately $141.9 million. On June 27, 2003, the NUI Utilities revolving loan became fully subscribed at an aggregate of $141.9 million, and the 364-day bridge loan was terminated. These credit agreements were scheduled to mature on February 11, 2004, and were repaid with a portion of the proceeds from new credit facilities NUI and NUI Utilities entered into on November 24, 2003 (additional discussion of these new credit facilities follows). The February 12, 2003 credit facilities contained certain restrictive covenants and also required NUI and NUI Utilities, respectively, to maintain certain financial ratios. NUI was required to maintain a fixed charge coverage ratio of not less than 1.50x and NUI Utilities was required to maintain a fixed charge coverage ratio of not less than 1.75x. NUI and NUI Utilities each were to maintain leverage ratios of not more than 0.65x from March 1 through August 31 and not more than 0.70x from September 1 through February 28 (or 29, if applicable).

Borrowings under the credit facilities entered into on February 12, 2003, bore interest at a rate equal to either the London Interbank Offered Rate (LIBOR) or the Prime Rate plus, in each case, a margin based on NUI's and NUI Utilities' credit ratings, as the case may be. As of September 30, 2003, the total aggregate outstanding borrowings under NUI's and NUI Utilities' credit facilities were $164.1 million with a combined weighted average interest rate of 3.1 percent. On that date, NUI had outstanding borrowings under its credit facility amounting to $31.7 million and unused borrowing capacity amounting to $6.4 million, and NUI Utilities had outstanding borrowings under its credit facility amounting to $132.4 million and unused borrowing capacity amounting to $9.5 million. Also on that date, the company had available cash in the form of overnight investments of approximately $23.1 million. The weighted average daily amounts of borrowings outstanding under NUI's credit facility and the weighted average interest rates on those amounts were $33.9 million and $97.4 million at 3.1 percent and 3.3 percent, respectively, for the fiscal years ended September 30, 2003 and 2002, respectively. The weighted average daily amounts outstanding of borrowings under NUI Utilities' credit facility and the weighted average interest rates on those amounts were $118.7 million and $66.9 million at 2.7 percent and 2.8 percent, respectively, for the fiscal years ended September 30, 2003 and 2002, respectively.

On March 31, 2003, NUI and the banks amended NUI's 364-day credit facility to approve the increase in interest rates under the senior notes, the guarantees under the senior notes and the execution of the Intercreditor Agreement, as described below. This amendment to NUI's credit facility also provided for a new pricing grid, which increased NUI's cost of borrowing under the credit facility by 25 basis points (0.25 percent).

In August 2003, NUI Utilities entered into an amendment with the lenders under its credit agreement, which among other things, permitted NUI Utilities to obtain an additional $50 million of indebtedness, as well as to refinance such indebtedness through certain financing transactions. On October 10, 2003, NUI Utilities entered into a bridge loan agreement with a lender for a credit facility that allowed it to borrow up to $50 million to fund near-term natural gas purchases and other general working capital needs. This bridge loan agreement, which was scheduled to mature on February 11, 2004, was terminated by NUI Utilities upon entering into a new credit facility on November 24, 2003. No amounts were ever drawn under this bridge loan agreement.

On November 24, 2003, NUI and NUI Utilities each entered into their current separate revolving credit facilities aggregating $405 million. Both NUI's and NUI Utilities' current credit agreements expire on November 22, 2004, and each may be extended for one 364-day term, subject to certain conditions.

NUI's facility may be extended if (i) NUI Utilities' facility is simultaneously extended, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan, (iii) NUI deposits cash into escrow with the administrative agent to cover interest that would accrue on outstanding amounts under the credit facility until the extended maturity date, in an amount of approximately $20 million, and (iv) no default exists under such facility at the time of such extension.

NUI Utilities' facility may be extended if (i) all applicable regulatory approvals required for such extensions have been obtained, (ii) the maturity of NUI Utilities' 8.35 percent medium term notes, due February 1, 2005, have been extended to a date no earlier than June 30, 2006 or have been repaid with the proceeds of the delayed draw term loan and (iii) no default exists under such facility at the time of such extension.

NUI's current credit agreement provides for a $255 million term loan facility. The proceeds of the term loan facility were used (1) to repay and terminate NUI's credit agreement which was entered into on February 12, 2003, (2) to repay NUI's outstanding $60 million senior notes and pay a $9.4 million prepayment premium relating thereto, (3) to repay approximately $85 million of an intercompany balance owed by NUI to NUI Utilities, (4) to fund a $20.4 million interest reserve account for the benefit of the lenders under NUI's credit agreement, and (5) for other general corporate purposes. NUI's credit agreement bears interest at a rate, at NUI's option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 6 percent, or (ii) the Base Rate (subject to a 3 percent floor) plus 5 percent. The obligations under NUI's credit agreement are guaranteed on a senior unsecured basis by certain of NUI's direct and indirect wholly-owned subsidiaries. NUI Utilities and VGC do not guarantee NUI's obligations under this credit agreement. As of April 26, 2004, NUI had overnight cash investments of $24.5 million.

NUI Utilities' current credit agreement provides for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of the $85 million intercompany balance from NUI were used (1) to repay outstanding loans under, and terminate, the NUI Utilities credit agreement which was entered into on February 12, 2003, (2) to pay accrued and unpaid fees under the interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the delayed draw term loan facility, which can be drawn at the option of the company, can be used solely for the purpose of repaying NUI Utilities' 8.35 percent medium term notes, which are due on February 1, 2005. NUI Utilities' credit agreement bears interest at a rate, at NUI Utilities' option, equal to either (i) LIBOR (subject to a 2 percent floor) plus 5 percent, or (ii) Base Rate (subject to a 3 percent floor) plus 4 percent. NUI Utilities has fully drawn all amounts available under the $50 million revolver and the $50 million term loan facility. As of April 26, 2004, NUI Utilities had overnight cash investments of $114.4 million.

Both credit agreements contain various covenants that (i) restrict NUI and NUI Utilities from taking various actions and (ii) require NUI and NUI Utilities, respectively, to each achieve and maintain certain financial covenants. Under the terms of NUI's credit agreement, amended as of May 10, 2004, NUI is required to maintain a maximum leverage ratio of no more than 0.80x and a minimum interest coverage ratio of at least 1.50x (for the four consecutive fiscal quarters ending on December 31, 2003 and March 31, 2004) and 1.25x (thereafter). Under the terms of the NUI Utilities credit agreement, NUI Utilities is required to maintain a maximum leverage ratio of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x. Additionally, both credit agreements contain limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

NUI's delay in delivering audited financial statements for fiscal 2003 resulted in events of default under NUI's and NUI Utilities' respective credit agreements. On January 26, 2004, NUI and NUI Utilities obtained waivers of such defaults from the lenders under their respective credit agreements, and received an extension of the delivery date for NUI's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreements to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which NUI and NUI Utilities had received waivers resulted in another event of default. On March 12, 2004, NUI and NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI and NUI Utilities subsequently entered into amendments dated May 10, 2004 to their respective credit agreements which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU settlement,

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of approximately $350,000 worth of gas pipeline,

(v) regarding the payment of dividends by NUI Utilities to NUI, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) added a condition which requires NUI to maintain a maximum leverage ratio of no more than 0.60x in order to pay dividends, and

(vii) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

Under the dividend restriction described above, NUI is prohibited from paying any cash dividends during any fiscal quarter in which NUI's consolidated total debt represents more than 60 percent of its total capitalization, measured (i) at the last day of the immediately preceding fiscal quarter and (ii) pro forma at the time such dividend is made. As a result of these restrictions, NUI is prohibited from paying any dividends at this time or in the foreseeable future. Under NUI's credit facility, NUI also is prohibited from paying dividends exceeding $20 million in the aggregate while the credit facility is outstanding.

17. Leases

Property, plant and equipment held under capital leases amounted to$32.1million at September 30, 2003, and $39.3 million at September 30, 2002, with related accumulated amortization of $20.2 million and $20.0 million, respectively. These properties consist

principally of leasehold improvements, office furniture and fixtures, vehicles and gas meters, and related equipment. A summary of future minimum payments for properties held under capital leases follows (in thousands):

2004	$2,711
2005	2,771
2006	1,491
2007	1,251
2008	1,125
Thereafter	5,118
Total future minimum payments	14,467
Amount representing interest	(2,502)
Current portion of capital lease obligations	(2,167)
Capital lease obligations	$9,798

The company has entered into non-cancelable operating leases, which principally relate to office space and information technology assets used in its operations. The future minimum lease payments as of September 30, 2003 are as follows:

2004	$6,063
2005	5,529
2006	5,576
2007	5,553
2008	5,389
Thereafter	54,520
Total	$82,630

Rents charged to operations expense were $10.1 million in fiscal 2003, $11.3 million in fiscal 2002, and $9.7 million in fiscal 2001. Included in these amounts was approximately $3.2 million of rent expense paid to a related party (see Note 23 for further discussion). Certain of the company's office leases contain rent escalations. The company records rent expense on a straight-line basis over the life of these leases.

The company has entered into subleases for a portion of the office space noted above. Amounts received from subleases were $2.7 million in fiscal 2003, $2.8 million in fiscal 2002, and $2.6 million in fiscal 2001.

18. Financial Instruments and Derivatives

Derivatives. Prior to discontinuing the trading operations of NUI Energy Brokers in March 2004, NUI Energy Brokers utilized financial instruments to provide competitive energy supplies and enhance the company's profitability. The company engaged in derivative activities for both trading and non-trading purposes. Instruments utilized in connection with trading activities are accounted for using the mark-to-market method. Under the mark-to-market method of accounting, forwards, futures, swaps, options, and other instruments with third parties are reflected at fair value and are shown as "Derivative Assets and Liabilities" in the Consolidated Balance Sheets. Changes in the assets and liabilities from derivative activities result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlement relative to the receipt of cash for certain contracts.

The company's utility divisions utilize certain derivatives for non-trading purposes to hedge the impact of market fluctuations on assets, liabilities, and other contractual commitments. Pursuant to SFAS 133, such derivative products are marked-to-market each reporting period. Pursuant to regulatory requirements, realized gains and losses related to such derivatives are reflected in purchased gas costs and included in billings to customers. Consequently, unrealized gains and losses are reflected as regulated assets or liabilities as appropriate.

NUI Energy Brokers accounts for its trading activities by marking-to-market all trading positions and calculating it's value-at-risk on a daily basis. The values used for these calculations include New York Mercantile Exchange (NYMEX) settlement prices and prices from other well-established third-party organizations, established pricing models, and quoted market volatilities. The company manages its open positions within the guidelines of a Risk Management Policy that limits its exposure to market risks and requires that, among other things, any breach of policy be reported to senior management.

Realized and unrealized gains and losses are recorded in the consolidated statement of income under purchased gas and fuel. At September 30, 2003, NUI Energy Brokers had purchased and sold NYMEX futures contracts totaling 29.5 billion cubic feet of natural gas at prices ranging from $3.277 to $6.704 per thousand cubic feet, which include derivatives for the utility divisions. Approximately 86 percent of these contracts have a duration of one-year or less and none of these contracts extend beyond September 2005. The company's option contracts consisted of 553 puts and calls at varying strike prices, none of which extend beyond August 2005. Additionally, NUI Energy Brokers had forward purchase and sale commitments extending through December 2007. At September 30, 2003, NUI Energy Brokers' forward transactions had an unrealized mark-to-market value of approximately $4.7 million.

The company has margin collateral deposits of $9.9 million and $5.0 million at September 30, 2003 and 2002, respectively, included within Prepayments and Other on the Consolidated Balance Sheets.

Net realized and unrealized gains on derivative trading for fiscal 2003 totaled $17.4 million, compared to $19.6 million in 2002, which has been included in income.

At September 30, 2003, the company had designated certain futures contracts and physical forwards as hedging instruments. The value of these positions has been recorded in other comprehensive income with no ineffectiveness recognized in earnings.

The cash flow impact of financial instruments is reflected as cash flows from operating activities in the consolidated statement of cash flows.

The company is exposed to credit risk in the event of default or non-performance by one of its trading partners. The company adheres to strict credit policies that management believes minimize overall credit risk. Additionally, certain trading transactions entered into under master agreements and other arrangements provide NUI Energy Brokers with a right of setoff in the event of bankruptcy or default by the counterparty.

Other Financial Instruments. The fair value of the company's cash equivalents, funds for construction held by trustee and notes payable to banks are approximately equivalent to their carrying value. The carrying value of the company's long-term debt exceeded its fair value by approximately $19.5 million and $14.9 million as of September 30, 2003 and 2002, respectively. The fair value of long-term debt was estimated based on quoted market prices for the same or similar issues.

19. Consolidated Taxes

The provision for Federal and State income taxes was comprised of the following (in thousands):

	2003	2002	2001
Currently payable (receivable) -			
Federal	$ 2,683	$5,546	$(16,709)
State	2,270	2,796	3,772
Deferred -			
Federal	(10,577)	(14,113)	25,253
State	(1,326)	(5)	107
Amortization of investment tax credits	(490)	(439)	(438)
Total provision (credit) for income taxes	$(7,440)	$(6,215)	$11,985
Total income tax provision included in:			
Continuing operations	$ 1,032	$11,232	$18,122
Discontinued operations	(4,393)	(7,947)	(6,137)
Cumulative effect of change in accounting	(4,079)	(9,500)	----
Total provision (credit) for income taxes	$(7,440)	$(6,215)	$11,985

The components of the company's net deferred Federal tax liability (asset) as of September 30, 2003 and 2002 are as follows (in thousands):

	2003	2002
Accelerated depreciation and other utility plant differences	$68,991	$61,447
Regulatory asset-environmental	13,621	13,610
Unrecovered gas costs	10,932	16,961
Unrealized gains, net	---	9,691
Pension and other employee benefits	5,493	7,124
Plant acquisition adjustments	5,668	6,050
Reserve for anticipated loss on assets held for sale	4,620	---
Other	7,642	5,962
Total Federal deferred tax liabilities	116,967	120,845
Environmental reserve	(11,879)	(11,879)
Regulatory settlement costs	(9,898)	---
Alternative minimum tax credit	(5,346)	(5,346)
Asset impairments	(4,262)	---
Net operating loss-Virginia Gas	(6,157)	(8,295)
Bad debts and insurance reserves	(3,015)	(1,461)
Other regulatory liabilities	(2,786)	(2,940)
Goodwill	(2,378)	(2,766)
Capital loss carryforward	(1,254)	---
Unrealized losses, net	(1,005)	---
Other	(5,334)	(8,581)
Total Federal deferred tax assets	(53,314)	(41,268)
Valuation allowance	4,660	---
Total Federal deferred tax assets, net of valuation allowance	(48,654)	(41,268)
Net Federal deferred tax liabilities	$68,313	$79,577

The alternative minimum tax credit can be carried forward indefinitely to reduce the company's future tax liability. The company has Federal net operating loss carryforwards of approximately $17 million at September 30, 2003 with respect to Virginia Gas, subject to a Section 382 limitation. These net operating loss carryforwards expire in 2016 through 2020. In addition, the company has provided a valuation allowance for certain tax attributes that reduces its net deferred tax assets to an amount management believes is more likely than not to be realized in future periods. With respect to continuing operations, the company has state net operating losses in various jurisdictions.

The company's effective income tax rates differ from the statutory Federal income tax rates due to the following (in thousands):

	2003	2002	2001
Pre-tax income (loss)	$(52,589)	$(22,103)	$28,298
Federal income taxes computed at Federal statutory			
Tax rate of 35 percent	(18,406)	(7,736)	9,904
Increase (reduction) resulting from:			
Excess of book over tax depreciation	146	329	321
Amortization of investment tax credits	(490)	(439)	(438)
Federal benefit of state tax provision	(331)	(977)	(1,357)
Write off of goodwill	4,620	---	
Penalty payable to the State of New Jersey	700	---	
Change in valuation allowance	4,660	---	---
Other, net	717	(183)	(324)
Total provision (credit) for Federal income taxes	(8,384)	(9,006)	8,106
Provision for State income taxes	944	2,791	3,879
Total provision (credit) for income taxes	$ (7,440)	$(6,215)	$11,985

NUI's Federal income tax returns for 2000 and 2001 are currently being examined by the Internal Revenue Service. Management believes that its accrued tax liabilities are adequate and that any settlement related to such examinations is not expected to have a material impact on NUI's consolidated statements of operations, financial position and of cash flows.

20. Retirement and Other Benefits

Pension Benefits. The company has non-contributory defined benefit retirement plans, which cover all of its employees other than the City Gas of Florida union employees who participate in a union-sponsored multi-employer plan. The company funds its plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974 and makes contributions to the union-sponsored plan in accordance with its contractual obligations. Benefits paid under the company's plans are based on years of service and levels of compensation. The company's actuarial calculation of pension expense is based on the projected unit cost method.

The changes in the pension benefit obligation for the company's plans were as follows (in thousands):

	2003	2002
Benefit obligation at beginning of year	$100,504	$94,610
Service cost	3,438	2,797
Interest cost	6,815	6,813
Plan amendments	---	64
Actuarial loss	21,300	5,296
Benefits paid	(8,744)	(9,076)
Benefit obligation at end of year	$123,313	$100,504

The change in the company's plan assets were as follows (in thousands):

	2003	2002
Fair value of plan assets at beginning of year	$92,366	$111,578
Actual return on plan assets	14,649	(10,136)
Employer contributions	3,300	---
Benefits paid	(8,744)	(9,076)
Fair value of plan assets at end of year	$101,571	$ 92,366

The reconciliation of the funded status of the company's funded plans as of September 30, 2003 and 2002 was as follows (in thousands):

	2003	2002
Funded status	$(21,742)	$(8,138)
Unrecognized net loss	47,920	34,643
Unrecognized prior service cost	1,676	2,126
Pension prepayment	$27,854	$28,631

The projected benefit obligation was calculated using a discount rate of 6.00 percent in fiscal 2003 and 6.75 percent in fiscal 2002, and an assumed annual increase in compensation levels of 4 percent in fiscal 2003 and 2002. The expected long-term rate of return on

assets was calculated at 9.25 percent in fiscal 2003 and 9.75 percent in fiscal 2002, and has been reduced to approximately 8.50 percent beginning in fiscal 2004. The company's pension fund assets are invested approximately 70 percent in publicly traded equity securities and approximately 30 percent in publicly traded debt securities.

The components of pension expense for the company's plans were as follows (in thousands):

	2003	2002	2001
Service cost	$3,438	$2,797	$2,229
Interest cost	6,815	6,813	6,614
Return on plan assets	(8,270)	(10,592)	(12,504)
Net amortization and deferral	2,093	468	(684)
Pension expense (credit)	$4,076	$ (514)	$(4,345)

Certain key employees also participate in an unfunded supplemental retirement plan. The projected benefit obligation under this plan was $7.4 million as of September 30, 2003, $6.7 million as of September 30, 2002, and $6.4 million as of September 30, 2001, and the expense for this plan was approximately $0.7 million in fiscal 2003, and $0.9 million in fiscal 2002 and 2001. The company recorded $0.3 million, after-tax, and $0.2 million, after-tax, in fiscal years 2003 and 2002, respectively, due to an increased minimum liability related to the supplemental plan. This adjustment has been included in "Accumulated Other Comprehensive Income" on the company's Consolidated Statement of Capitalization and Consolidated Statement of Shareholder's Equity.

The company has a retirement plan for eligible members of its board of directors, including both active and retired members. To be eligible for retirement benefits under the plan, a director must have served as a director for at least 10 years, with a minimum of five years of service as a non-employee of the company and its subsidiaries. Eligible plan participants will be paid, upon retirement and the attainment of age 65, an annual retirement benefit for life equal to the value of the annual board retainer in effect at the time of the director's retirement. In May 2002, the board of directors terminated the retirement plan for all non-employee directors who become board members after that date. The projected benefit obligation under this plan was approximately $1.4 million at September 30, 2003, and approximately $1.1 million at both fiscal years ending September 30, 2002 and 2001. This pension liability is included within Regulatory and Other Liabilities on the Consolidated Balance Sheet. The expense for this plan was approximately $0.3 million in fiscal 2003.

Post-retirement Benefits Other Than Pensions. The company provides certain health care benefits to all retirees that are receiving benefits under a company pension plan, other than the City Gas Company of Florida plan.

The company accounts for these plans under Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions" (SFAS 106), which, among other things, requires companies to accrue the expected cost of providing other post-retirement benefits to employees and their eligible dependents during the years that eligible employees render the necessary service. The company currently funds these future benefits through a Voluntary Employees Beneficiary Association.

Effective July 1, 2000, the company no longer offers post-retirement benefits other than pensions for any new hires. In addition, the company has capped its share of costs at $500 per participant, per month for retirees under age 65, and at $150 per participant, per month for retirees over age 65.

The changes in the post-retirement benefit obligation for the company's plans were as follows (in thousands):

	2003	2002
Benefit obligation at beginning of year	$21,637	$20,552
Service cost	326	264
Interest cost	1,425	1,451
Actuarial loss	4,066	1,528
Plan amendments	(563)	(134)
Benefits paid	(2,446)	(2,323)
Other	480	299
Benefit obligation at end of year	$24,925	$21,637

The changes in the company's plan assets were as follows (in thousands):

	2003	2002
Fair value of plan assets at beginning of year	$7,123	$1,700
Actual return on plan assets	112	88
Employer contributions	3,858	7,359
Plan participants' contributions	480	299
Benefits paid	(2,446)	(2,323)
Fair value of plan assets at end of year	$9,127	$7,123

The reconciliation of the funded status of the company's post-retirement plans other than pensions as of September 30, 2003 and 2002, was as follows (in thousands):

	2003	2002
Unfunded status	$15,798	$14,514
Unrecognized prior service credit	1,475	1,014

Unrecognized net loss	(9,307)	(5,047)
Accrued post-retirement benefit obligation	$ 7,966	$10,481

The components of post-retirement benefit expense other than pensions were as follows (in thousands):

	2003	2002	2001
Service cost	$326	$264	$224
Interest cost	1,425	1,451	1,476
Other	(408)	(161)	(164)
Net post-retirement expense	$1,343	$1,554	$1,536

The health care trend rate assumption is 10.0 percent in 2003 gradually decreasing to 5.0 percent for the year 2008 and later. The discount rate used to compute the accumulated post-retirement benefit obligation was 6.00 percent in fiscal 2003 and 6.75 percent in fiscal 2002. An increase in the health care trend rate assumption by one percentage point in all years would increase the accumulated post-retirement benefit obligation by approximately $2.5 million and the aggregate annual service and interest costs by approximately $0.2 million.

The company continually evaluates alternative ways to manage these benefits and control its costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefit may have a significant effect on the amount of the reported obligation and expense.

Employee Stock Purchase Plan (ESPP). The company allows eligible employees to purchase shares of the company's stock monthly at a price equal to 85 percent of the lower of the fair market value on the first and last trading days of the month, up to a maximum of 10 percent of their annual compensation. The company expenses this employee discount as compensation expense.

Savings and Investment Plans (401(k)). The company maintains a voluntary 401(k) savings plan designed to enhance existing retirement programs covering eligible employees. The plan allows eligible employees who participate to make contributions of up to six percent of their annual base pay, which are matched by contributions by the company. Contributions are invested at the election of the employee in the company's common stock or in various other investment funds. Effective October 1, 2002, the company increased the match to 60 percent of each employee's first 6 percent of salary contributions. Prior to that date, the company matched participant contributions that were invested in the NUI Stock Fund at 60 percent and in all other funds at 50 percent. Employer contributions charged to expense were $1.3 million for the fiscal years ended September 30, 2003 and 2002, and $1.2 million for the fiscal year ended September 30, 2001.

21. Business Segment Information

The company's operations are organized and managed as three primary segments: Distribution Services, Energy Asset Management (formerly Wholesale Energy Marketing and Trading), and Retail and Business Services. The Distribution Services segment currently distributes natural gas in three states through the company's regulated utility operations, and engages in appliance leasing, repair and maintenance operations, and off-system gas sales. The Energy Asset Management segment reflects the operations of NUI Energy Brokers and all of the VGC subsidiaries. The Retail and Business Services segment reflects the operations of the company's NUI Energy subsidiary, the billing services operations of UBS, and OAS, the company's digital mapping business, which used to be part of UBS. The company also has corporate operations that do not generate any revenues.

During fiscal 2003, the company realigned its reportable business segments as follows: the appliance service businesses in New Jersey and Florida, previously reported within the Retail and Business Services segment, are now included within the Distribution Services segment; off-system sales made by NUI Energy Brokers on behalf of the utility operations, previously reported within the Energy Asset Management segment, are now included within the Distribution Services segment; NUI Telecom, previously reported within the Retail and Business Services segment, was being held for sale at September 30, 2003, and is now reported within discontinued operations; the operations of TIC are being wound down by the company and have also been reported as discontinued operations; and the operating results of NUI Environmental, previously reported within discontinued operations, are now included as part of the Retail and Business Services segment. The change for NUI Environmental, which was sold in September 2003, was due to the company's potential future involvement in this business under certain ancillary agreements entered into by the company on the date of the sale.

The following table provides information concerning the major segments of the company for each of the three fiscal years ended September 30, 2003, 2002 and 2001. Revenues include intersegment sales to affiliated entities, which are eliminated in consolidation. All of the company's operations are in the United States and therefore do not need separate disclosure by geographic region. As discussed above, certain reclassifications have been made to prior year segment data to conform with the current year's presentation.

(Dollars in thousands)	2003	2002	2001
Revenues:			
Distribution Services	$615,563	$485,445	$618,415
Energy Asset Management	27,611	29,375	22,210
Retail & Business Services	14,204	11,121	16,885
Intersegment Revenues	(5,001)	(6,069)	(11,504)

Total Revenues	$652,377	$519,872	$646,006
Operating Margins:			
Distribution Services	$190,280	$164,928	$168,812
Energy Asset Management	26,156	28,440	21,983
Retail & Business Services	8,256	7,556	15,610
Intersegment Margins	(1,742)	(2,195)	(6,457)
Total Operating Margins	$222,950	$198,729	$199,948
Pre-Tax Operating Income:			
Distribution Services	$11,939	$43,223	$53,619
Energy Asset Management	12,888	14,208	13,263
Retail & Business Services	(8,296)	(1,504)	3,866
Total Pre-Tax Operating Income	$16,531	$55,927	$70,748
Depreciation & Amortization:			
Distribution Services	$31,119	$28,457	$25,865
Energy Asset Management	2,040	2,507	697
Retail & Business Services	1,395	1,230	591
Total Depreciation & Amortization	$34,554	$32,194	$27,153
Identifiable Assets:			
Distribution Services	$780,608	$765,035	$792,283
Energy Asset Management	166,013	148,234	155,224
Retail & Business Services	11,243	42,185	41,756
Total Identifiable Assets	$957,864	$955,454	$989,263
Capital Expenditures:			
Distribution Services	$36,415	$41,731	$40,772
Energy Asset Management	1,907	836	8,020
Retail & Business Services	1,176	1,824	2,321
Total Capital Expenditures	$39,498	$44,391	$51,113

A reconciliation of the company's segment pre-tax operating income, depreciation and amortization, identifiable assets and capital expenditures to amounts reported on the consolidated financial statements is as follows:

(Dollars in thousands)	**2003**	**2002**	**2001**
Segment Pre-Tax Operating Income	$ 16,531	$55,927	$70,748
Non-segment pre-tax operating loss	(5,503)	(7,554)	(4,403)
Operating income from Continuing Operations	11,028	48,373	66,345
Other income	781	288	1,467
Net interest charges	22,094	21,378	22,236
Pre-Tax Income (Loss) from Continuing Operations	$(10,285)	$27,283	$45,576
Segment Depreciation & Amortization	$34,554	$32,194	$27,153
Non-segment depreciation & amortization	105	88	70
Depreciation & Amortization	$34,659	$32,282	$27,223

(Dollars in thousands)	**2003**	**2002**	**2001**
Segment Identifiable Assets	$ 957,864	$ 955,454	$ 989,263
Non-segment identifiable assets	62,899	83,528	157,128
Total Assets	$1,020,763	$1,038,982	$1,146,391
Segment Capital Expenditures	$39,498	$44,391	$51,113
Non-segment capital expenditures	2,331	11,279	8,336
Gross plant additions	41,829	55,670	59,449
Less: Capital lease additions	(1,406)	(9,779)	(1,338)
Capital expenditures by discontinued operations	(1,234)	(3,602)	(1,846)
Total Capital Expenditures	$39,189	$42,289	$56,265

22. Commitments and Contingencies

Focused Audit. On March 20, 2003, the New Jersey Board of Public Utilities (NJBPU) announced the initiation of a focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas. The NJBPU had expressed the belief that recent downgrades of the senior unsecured debt of NUI and NUI Utilities, as well as negative credit rating agency comments, and concerns raised during a recent

competitive services audit, substantiated the need for an in-depth review of the financial practices of the company and its subsidiaries. On June 4, 2003, the NJBPU chose The Liberty Consulting Group to perform the audit. The focused audit covered the following areas: corporate governance; strategic planning; financial structure and interaction; accounting and property records; executive compensation and affiliate transactions. An interim audit report was released by the NJBPU on December 17, 2003 and the final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004, at the NJBPU's public agenda meeting. Among other things, the report criticizes NUI for the energy management practices on behalf of NUI Utilities, its financing and cash pooling arrangements, the impact of unprofitable non-utility operations on NUI Utilities, the method used to allocate shared services costs among its business units, and the propriety of rates established in the 2002 Elizabethtown base rate case. NUI filed responsive comments on March 26, 2004 and a settlement was reached with the NJBPU on April 14, 2004. On April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. The company has recorded a pre-tax charge of $30 million to reflect the final settlement of the focused audit. Of this amount, $28 million was recorded as the amount to be refunded to customers in New Jersey (See Note 1-Regulatory Assets and Liabilities). The company has also agreed to pay interest at 7.95 percent annually on the unpaid balance.

In addition, the company has established a pre-tax reserve of $2.6 million in anticipation of providing refunds to customers in Florida as a result of transactions by the company's NUI Energy Brokers subsidiary.

Default under Credit Agreements. In February 2003, NUI and NUI Utilities each replaced their respective previous credit agreements with new revolving agreements. In November 2003, each of NUI and NUI Utilities refinanced the February 2003 facilities and entered into credit agreements for new 364-day credit facilities. NUI's delay in delivering audited financial statements for fiscal 2003 resulted in defaults under such credit agreements. On January 26, 2004, NUI and NUI Utilities both obtained waivers of such defaults from the lenders under their respective credit agreements and (i) received an extension to March 1, 2004 of the delivery date for NUI's audited financial statements for fiscal 2003 and unaudited financial statements for the first fiscal quarter of 2004 and (ii) amended the credit agreements to clarify certain technical provisions. Subsequently, on March 12, 2004, NUI and NUI Utilities obtained a limited waiver from the lenders under their respective credit agreements further waiving the defaults described above. These credit facilities were amended as of May 10, 2004 to further extend these deadlines.

The delay in delivering certain officers' certificates, SEC filings and quarterly financial information throughout the fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, namely (i) $20 million of 6.40 percent bonds due October 1, 2024, (ii) $46.5 million of 6.35 percent bonds due October 1, 2022, (iii) the Variable Bonds (as defined below), (iv) $54.6 million of 5.70 percent bonds due June 1, 2032 and (v) $40 million of 5.25 percent bonds due November 1, 2033, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with delivery of many of the Required Documents. The remaining breaches will be cured by virtue of NUI Utilities' delivery of this annual report, related officers' certificates and other financial information.

Defaults may occur in the near future under the Variable Bonds, the 5.25 percent bonds and the 8.35 percent medium term notes if NUI Utilities does not provide unaudited financial statements for NUI for the fiscal quarters ended December 31, 2003 and March 31, 2004, and related documentation and officers' certificates. Defaults may occur in the near future under the 5.70 percent bonds if NUI Utilities does not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 and unaudited financial statements for NUI Utilities for fiscal quarters ended December 31, 2003 and March 31, 2004. To date, NUI has obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facilities to June 30, 2004. NUI and NUI Utilities are working diligently to deliver the required documentation within this timeframe.

Commitments. On April 30, 2001, the company announced an agreement with a unit of Duke Energy to develop a natural gas storage facility in Saltville, Virginia. NUISS and Duke Energy Saltville Gas Storage, LLC (DESGS) have created a limited liability company, SSLLC. After receiving appropriate regulatory approvals, in February 2003 VGC contributed certain storage assets valued at approximately $16.3 million to SSLLC. DESGS has contributed an equal amount (approximately $16.3 million) of capital required to expand the facility for its intended purpose. To the extent SSLLC determines it needs additional funding (which decision can only be made jointly by the company and DESGS), the company and DESGS are obligated to fund the development of SSLLC equally.

The company has loaned SSLLC approximately $17.6 million toward the development of the Saltville storage facility through September 30, 2003, and currently estimates its share of funding to be nil in fiscal 2004, and $2.5 million in fiscal 2005. Subsequent years will be funded with internally generated cash flows of the joint venture.

In conjunction with the development of the Saltville facility, during December 2002, the company entered into a twenty-year agreement with Duke Energy Gas Transmission (DEGT) for the firm transportation of natural gas on the planned Patriot pipeline. Upon completion of the pipeline in November 2003, the company became obligated to pay annual demand charges of approximately $4.7 million over the life of the agreement.

In August 2003, the company entered into a twenty-year agreement with SSLLC for the firm storage of natural gas. Upon completion of DEGT's Patriot pipeline in November 2003, the company became obligated to pay annual demand charges of $0.3 million over the life of the agreement.

Regarding the transportation and storage agreements discussed above, the company is not utilizing the Patriot pipeline in its operations at this time since it has discontinued its trading operations. However, the company is currently evaluating how to obtain the maximum

benefit from its rights under these agreements.

Guarantees. The company has guarantees of approximately $293.4 million to 69 counterparties as of September 30, 2003, in support of NUI Energy Brokers' trading activities. These guarantees are necessary to facilitate trading with a broad group of potential counterparties, although typically NUI Energy Brokers uses only a fraction of the issued guarantees at any given time. Further, since NUI Energy Brokers has netting agreements in place with most of its counterparties, the guarantees would apply only to net balances owed to its respective counterparties with which it has such agreements. As of September 30, 2003, the amount of purchases covered by outstanding guarantees was approximately $12.1 million.

NUI Telecom had a contract with a service provider, which guaranteed that NUI Telecom would purchase a minimum of $325,000 of services monthly through February 2004. The guarantee was necessary to support NUI Telecom's purchase of capacity to use in the provision of telecommunications services. The penalty for purchasing less than the minimum amount is 25 percent of each dollar below $325,000. NUI Telecom had historically purchased services in excess of $325,000 from the service provider, and accordingly had not recorded any penalty amounts under the guarantee. On December 15, 2003, this guarantee was assumed by the acquirer of NUI Telecom (see Note 24).

Environmental Matters. The company owns, or previously owned, certain properties located in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland on which manufactured gas plants (MGP) were operated by the company or by other parties in the past. In New Jersey, the company is currently conducting remedial activities at such properties with oversight from the New Jersey Department of Environmental Protection and anticipates initiation of such activities in the state of North Carolina within the next five years. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on a undiscounted basis a total reserve of approximately $33.9 million which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this reserve, approximately $30.2 million relates to remediation of the New Jersey MGP properties and approximately $3.7 million relates to remediation of the MGP properties located outside the state of New Jersey.

The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the New Jersey Board of Public Utilities (NJBPU) to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has begun rate recovery of approximately $9.8 million of environmental costs incurred through June 30, 2002, of which a portion has been recovered through September 30, 2003. Recovery of an additional $0.7 million incurred between July 1, 2002, and June 30, 2003 is currently pending NJBPU approval. Accordingly, the company has recorded a regulatory asset of approximately $36.4million, inclusive of interest, as of September 30, 2003, reflecting the future recovery of both incurred costs and future remediation liabilities in the state of New Jersey. The company has also been successful in recovering a portion of MGP remediation costs incurred in New Jersey from the company's insurance carriers and continues to pursue additional recovery. As further discussed in Note 11, the company sold the net assets of its North Carolina Gas utility division on September 30, 2002 and its Valley Cities Gas and Waverly Gas utility divisions on November 7, 2002. Included in these asset sales were the environmental obligations for two of the company's MGP sites: one in North Carolina and one in Pennsylvania. With respect to costs associated with the MGP properties located outside New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful to date in recovering a portion of MGP remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able to express a belief as to the success of additional recovery efforts. The company is working with the regulatory agencies to prudently manage its MGP costs so as to mitigate the impact of such costs on both ratepayers and shareholders.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amounted to approximately $60.1 million in fiscal 2004 (this amount includes the company's obligations under two twenty-year agreements to pay annual demand charges for the firm transportation and storage of natural gas, discussed above). The company currently recovers, and expects to continue to recover, such fixed charges through its purchased gas adjustment clauses. The company also is committed to purchase from a single supplier, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 billion cubic feet per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk reduction in the contracted daily delivery quantity. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

Legal Matters. Between October 28, 2002 and December 20, 2002, five substantially similar civil actions were commenced in the United States District Court for the District of New Jersey, in which the plaintiffs allege that the company and two of its former presidents violated federal securities laws by issuing false statements and failing to disclose information regarding the company's financial condition and current and future financial prospects in its earnings statements, press releases, and in statements to analysts and others. By orders dated December 19, 2002, January 22, 2003, and February 3, 2003, the five actions were consolidated into one action captioned In re NUI Securities Litigation. The five consolidated lawsuits include: (1) an action captioned Jack Klebanow, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 28, 2002; (2) an action captioned Gisela Friedman, on behalf of herself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on October 31, 2002; (3) an action captioned Thomas Davis, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on November 6, 2002; (4) an action captioned Marvin E. Russell, on behalf of himself and all others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 10, 2002; and (5) an action captioned Phyllis Waltzer, on behalf of herself and all

others similarly situated v. NUI Corporation and John Kean, Jr., filed in the United States District Court for the District of New Jersey on December 20, 2002. By order dated February 3, 2003, a Lead Plaintiff, Lead Counsel and Liaison Counsel were appointed in the consolidated action. By stipulation of the parties, an Amended Consolidated Class Action Complaint was filed on May 12, 2003, and subsequently plaintiffs were granted leave to file a Second Amended Consolidated Complaint, which was filed on July 17, 2003. The Second Amended Complaint, brought on behalf of a putative class of purchasers of NUI's common stock between November 8, 2001 and October 17, 2002, asserts claims under Section 10(b), including Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act against the company, and two of its former presidents. Specifically, the Second Amended Complaint alleges that the defendants (i) failed to disclose material facts that would impair the company's current and future earnings, including (a) the allegedly accurate amount and explanation of the company's bad debts, (b) a purportedly illegal practice by the company in "re-terminating" intrastate calls, (c) alleged accounting improprieties in connection with purportedly unearnedrevenue, and (d) allegedly inaccurate earnings per share information, and (ii) inflated the company's earnings materially by (a) allegedly making misleading statements concerning, and failing to properly record, bad debt costs, (b) allegedly attributing the company's rising costs to incorrect and immaterial factors, and (c) purportedly pursuing illegal telecommunications billing practices. The Second Amended Complaint seeks unspecified monetary damages on behalf of the class, including costs and attorneys fees. On October 14, 2003, defendants moved to dismiss the Second Amended Complaint under, inter alia, the Private Securities Litigation Reform Act. Opposition papers to the motion to dismiss were served on December 19, 2003, and reply papers were filed on February 23, 2004. The motion was heard on March 15, 2004. By decision and order dated April 23, 2004, the district court granted in part and denied in part defendants' motion to dismiss. The district court dismissed the Section 10(b) claims against the individual defendants and dismissed all claims against the company concerning the alleged "reterminating" scheme. The district court denied the motion to dismiss with respect to certain allegations that the company made misleading misstatements concerning the accurate level of bad debt and earnings and denied the motion to dismiss the Section 20(a) claims against the individual defendants.

No discovery has occurred and defendants' time to answer the complaint has not yet run. Although the Company intends to vigorously defend these lawsuits, it is not possible at this time to determine a likely outcome.

Flint Energy Construction Co., Inc. sued Virginia Gas Pipeline Company (VGPC) on a contract claim for amounts billed to VGPC for work performed by Flint Energy as general contractor on the extension of VGPC's P-25 pipeline. VGPC is counter-suing Flint for breach of contract. The case has moved to the deposition phase and is expected to be brought to trial in June of 2004. Flint originally billed VGPC $2.2 million, which represents the disputed amount. At this time, the company is unable to determine the likely outcome.

Plaintiffs, Specific Cruise Systems, Inc. and Frigette, Inc. d/b/a SCS/Frigette, Inc., filed a Petition in Texas state court against TIC, one of TIC's former employees, Sherry Walton, and Nortel Networks, Inc. on November 5, 2002 for alleged damages relating to lost profits and replacement services arising out of their claims for breach of contract, fraudulent inducement, and breach of warranty, as well as for an offset/credit in connection with the sale by TIC of telephone equipment. TIC denies that it made such representations and is relying upon the contracts entered into between the parties. TIC seeks payment for the balance due relating to the sale in the amount of $83,331.00. If the provisions of the contract are not enforceable, the plaintiffs may be entitled to lost profits resulting from the alleged delay in the installation of the system and the alleged interference with their business resulting from defects in the system. If the contract is deemed enforceable, a provision in the contract providing a limitation on liability may preclude recovery by plaintiff on certain issues. On June 11, 2003, TIC filed a Motion to Compel Arbitration; no decision has been rendered on the motion. Discovery is continuing. At this time, the company is unable to determine the likelihood of an outcome.

The plaintiffs, James Greiff and TIC Enterprises, Inc., sued the company and three other company related entities, NUI Sales Management, Inc. (NUI Sales), NUI Capital Corp. and TIC, for breach of contract and fraud arising out of the company's purchase of Greiff's interest in TIC Enterprises, LLC. The plaintiffs allege they are entitled to payment on a $3 million promissory note and have made claims arising from the defendants' alleged breach of a 2001 purchase agreement for $22 million in punitive damages for the defendants' alleged fraud and $3 million plus interest and punitive damages for the defendants' alleged fraudulent transfers. The plaintiffs have also alleged a tortious interference claim for $3 million, which the court previously dismissed. The company and the remaining defendants are vigorously defending the lawsuit and deny any liability to the plaintiffs. NUI Sales and defendant TIC have a four-count counterclaim against both plaintiffs for more than $3 million. They are for: (1) breach of the 2001 Purchase Agreement; (2) breach of the 1997 Amended and Restated Limited Liability Company Agreement; (3) fraud in the inducement; and (4) unjust enrichment. This case, originally filed in the Northern District of Georgia, was recently transferred on defendants' motion to the District of Delaware.

The parties are in the midst of discovery, and have exchanged written responses and objections to discovery requests along with numerous documents. The parties have also begun taking depositions of the parties and fact witnesses. On May 2, 2004, NUI proposed a settlement to the plaintiffs in which the company agreed to pay the plaintiffs $1.4 million to completely satisfy NUI's obligation under the note, as well as to resolve all other claims that the company and the plaintiffs had brought against each other. On May 5, 2004, NUI received the plaintiffs' written acceptance of the company's settlement proposal, and the plaintiffs requested that NUI prepare the appropriate settlement documents for review. As a result, the company reduced the amount payable under the note from $3.0 million to $1.4 million on the September 30, 2003 Consolidated Balance Sheet, and recorded a gain of $1.6 million in other income on the Consolidated Statement of Income for fiscal 2003.

Other. On November 19, 2003, the company announced that in connection with the focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas initiated by the NJBPU, certain questionable transactions within NUI Energy Brokers were identified. The Attorney General of the State of New Jersey also is conducting a criminal investigation relating to NUI Energy Brokers. In

connection with this investigation, NUI received subpoenas issued by the New Jersey State Attorney General's Office. NUI is cooperating fully with the New Jersey Attorney General's Office.

In November 2003, the SEC advised the company that it is conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the New Jersey Attorney General's Office. On March 1, 2004, the SEC requested the company to voluntarily produce certain documents in furtherance of its informal inquiry. In particular, the SEC is requesting information regarding allegations of inappropriate conduct by employees of NUI Energy Brokers. NUI is fully cooperating with the SEC. At this point, the company cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The Audit Committee of the Board of Directors of NUI had previously retained independent counsel to conduct an internal investigation into these transactions at NUI Energy Brokers.

The company is involved in various claims and litigation incidental to its business. In the opinion of management, none of these claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

23. Related Party Transactions

As discussed in Note 17, the company is party to a lease agreement with Liberty Hall Joint Venture for the occupancy of a 200,000 square foot office building in Union, New Jersey. The Joint Venture participants are Cali Liberty Hall Associates (a New Jersey general partnership) and Enjay Realty, LLC (Enjay). John Kean, a member of the Board of Directors of NUI, is the majority owner of Enjay. All negotiations relative to the lease were conducted between the company and Cali Liberty Hall Associates. In accordance with the lease, the annual base rent was approximately $3.2 million for each of the fiscal years ended September 30, 2003 and 2002. The lease provides for annual base rents of approximately $3.2 million from 2004 to 2005, $3.4 million from 2006 through 2010, $3.6 million from 2011 through 2015, $3.9 million from 2016 through 2020, and $4.2 million from 2021 through 2022.

The company is party to a consulting agreement with John Kean, who retired as Chief Executive Officer of the company effective April 1, 1995. The agreement expired on March 31, 2004. Under the agreement, Mr. Kean provided consulting services to the company for up to 110 hours each calendar month. The agreement required Mr. Kean to devote sufficient time and effort to perform such duties as may be assigned by the company or the Board of Directors from time to time. In consideration of the services rendered under the agreement, the company provided Mr. Kean with an annual fee of $280,000, office space, clerical support and expense reimbursement. Other than amounts paid under the agreement, Mr. Kean did not receive any compensation for serving on the Board or Committees of the Board of the company, its divisions or subsidiaries.

In addition, the company is party to two gas transportation agreements with National Fuel Gas Supply Corporation (NFGSC). The agreements are under rate Schedule FT dated October 27, 1995 and rate Schedule EFT dated August 1, 1993. Bernard S. Lee is a director of NFGSC. In fiscal 2003, the company paid $1,662,192 to NFGSC under these agreements.

24. Subsequent Events

On October 30, 2003, the company agreed to sell its NUI Telecom subsidiary for $2.0 million. The transaction closed on December 15, 2003, which was immaterial to NUI's results for the first quarter of fiscal 2004. The operating results of NUI Telecom have been classified as discontinued operations in the Consolidated Statement of Income for all periods presented (see Note 11).

During November 2003, the company commenced a reorganization effort that resulted in workforce reductions, which involved the severance of 17 employees in several of the company's corporate shared services departments. The reorganization resulted in charges of approximately $1.1 million to operations and maintenance expense during the first quarter of fiscal 2004, primarily relating to severance costs.

In January 2004, two executive officers ended their employment with the company. A. Mark Abramovic served as President of the company since September 26, 2003, until his retirement in January 2004. Previously he served as Senior Vice President and Chief Financial Officer since September 1997 and as Chief Operating Officer since May 1998. Until his resignation in January 2004, James R. Van Horn served as Chief Administrative Officer since May 1998 and as General Counsel and Secretary since 1995. With respect to the departure of these two executives, the company recorded a $2.1 million charge in operations and maintenance expense in the second quarter of fiscal 2004 primarily relating to severance costs.

25. Unaudited Quarterly Financial Data

The quarterly financial data presented below reflects the seasonal nature of the company's utility operations which normally results in higher earnings during the heating season, which is primarily in the first two fiscal quarters (*dollars in thousands, except per share amounts*):

	Fiscal Quarters				
	First	Second	Third	Fourth	Total
Fiscal 2003:					
Operating revenues	$171,817	$249,729	$135,293	$95,538	$652,377
Operating income (loss)	17,230	36,110	94	(42,406)	11,028
Income (loss) from continuing operations	7,361	18,437	(3,813)	(33,302)	(11,317)
Discontinued operations, net of taxes	(206)	(414)	(21,257)	(6,085)	(27,962)
Effect of change in accounting, net of taxes	---	(5,870)	---	---	(5,870)

Net income (loss)	$7,155	$12,153	$(25,070)	$(39,387)	$(45,149)
Income (loss) from continuing operations per share	$0.46	$1.15	$(0.24)	$(2.08)	$(0.71)
Net income (loss) per share	$0.45	$0.76	$(1.57)	$(2.46)	$(2.82)
Fiscal 2002:					
Operating revenues	$155,739	$177,713	$96,673	$89,747	$519,872
Operating income (loss)	18,758	31,286	(1,452)	(219)	48,373
Income (loss) from continuing operations	7,766	14,843	(3,927)	(2,631)	16,051
Discontinued operations, net of taxes	482	(1,007)	(7,408)	(6,364)	(14,297)
Effect of change in accounting, net of taxes	(17,642)	---	---	---	(17,642)
Net income (loss)	$(9,394)	$13,836	$(11,335)	$(8,995)	$(15,888)
Income (loss) from continuing operations per share	$ 0.56	$1.04	$(0.25)	$(0.17)	$1.08
Net income (loss) per share	$(0.67)	$0.97	$(0.72)	$(0.57)	$(1.06)

Quarterly net income (loss) per share in fiscal 2002 does not total to the annual amount in the Consolidated Statements of Income due to rounding and to changes in the average common shares outstanding.

As discussed in Note 11, the company has classified the results of NC, VCW, NUI Telecom and TIC as Discontinued Operations in the Consolidated Statements of Income. Accordingly, certain quarterly 2003 and 2002 data have been restated to reflect the reclassification of discontinued operations, which did not have an effect on net income.

SCHEDULE II

NUI Corporation and Subsidiaries
Valuation and Qualifying Accounts
For each of the Three Years in the
Period Ended September 30, 2003
(Dollars in thousands)

Description	Balance, Beginning of Period	Additions Charged to Costs and Expenses	Additions Other	Deductions	Balance, End of Period
2003					
Allowance for doubtful accounts	$ 4,267	$12,410	$ 236(a)	$9,609(b)	$ 7,304
Environmental remediation reserve	$33,852	---	573	484	$33,941
Restructuring reserve	$ 284	---	---	284	$ ---
2002					
Allowance for doubtful accounts	$ 3,483	$ 6,609	$1,266(a)(c)	$7,091(b)	$ 4,267
Environmental remediation reserve	$32,559	---	2,453	1,160	$33,852
Restructuring reserve	$ ---	1,203	---	919	$ 284
2001					
Allowance for doubtful accounts	$ 1,369	$ 5,734	$2,893(a)(c)	$6,513(b)	$ 3,483
Environmental remediation reserve	$33,361	------		802	$32,559

(a) Recoveries

(b) Uncollectible amounts written off.

(c) Acquisitions

Note: The schedule above excludes amounts included within Assets and Liabilities Held for Sale on the Consolidated Balance Sheets.

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.

NUI CORPORATION

By: STEVEN D. OVERLY

Vice President,
General Counsel and Secretary
May 13, 2004

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 and in the capacities and on the dates indicated.

CRAIG G. MATTHEWS	President, Chief Executive Officer (Principal Executive Officer)	May 13, 2004
DAN SCOULER	Interim Chief Financial Officer	May 13, 2004
PETER E. MARICONDO	Vice President and Corporate Controller (Principal Accounting Officer)	May 13, 2004
JAMES J. FORESE	Chairman and Director	May 13, 2004
JOHN KEAN	Director	May 13, 2004
DR. VERA KING FARRIS	Director	May 13, 2004
J. RUSSELL HAWKINS	Director	May 13, 2004
BERNARD S. LEE	Director	May 13, 2004
R. V. WHISNAND	Director	May 13, 2004
ROBERT P. KENNEY	Director	May 13, 2004

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of NUI Corporation (the "company") for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "report"), I, Craig G. Matthews, President and Chief Executive Officer of the company, and I, Daniel Scouler, Interim Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ Craig G. Matthews
Craig G. Matthews
President and
Chief Executive Officer
May 11, 2004

/s/ Dan Scouler
Dan Scouler
Interim Chief Financial Officer
May 11, 2004

A signed copy of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the company. The foregoing certification is being furnished solely to accompany the report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

January 27, 2004

Mr. Craig G. Matthews
132 Canterbury Way
Basking Ridge, NJ 07920

Dear Craig:

We are pleased to confirm our offer of employment to you as President and Chief Executive Officer of NUI Corporation ("NUI"). You will also be appointed a director of NUI and a director of NUI Utilities Inc. Your primary reporting relationship will be with the Chairman of the Board of Directors of NUI (the "Board"). The purpose of this letter is to set forth our understanding of the terms of your employment.

1. Your start date will be February 1, 2004.
1. Your annual base salary will be $550,000, payable in accordance with NUI's payroll practices.
1. In the event of a Sale of NUI (as hereinafter defined), NUI will pay to you an amount equal to $550,000 provided that you have been continuously employed by NUI through the date of such Sale of NUI (except as otherwise provided in paragraph 6 hereof). Such amount shall be paid to you in a lump-sum, in cash, promptly following such Sale of NUI. For purposes of this letter agreement, "Sale of NUI" means any transaction or series of related transactions approved by the Board pursuant to which an unaffiliated third party (or a group of...unaffiliated third parties acting together) acquires (a) common shares of NUI constituting a majority of the issued and outstanding common shares of NUI (whether by merger, consolidation, sale or transfer of NUI's outstanding interests or otherwise) or (b) all or substantially all of NUI's consolidated assets.
1. As an NUI employee, you will be eligible to participate in the employee benefit plans and programs made available from time to time for NUI's other senior executive officers (including, without limitation, life insurance benefits); provided, however, that (a) you will not be eligible to participate in any bonus or incentive compensation (including, without limitation, any stock-based compensation) or severance plan, program or policy of NUT, and (b) you will not participate in NUI's employee or retiree health plans. Without limiting the foregoing, while you are employed by NUI, NUT will (i) provide you with an executive assistant, (ii) provide you with a personal computer for use in the performance of your duties on behalf of NUI and pay or reimburse you for cellular telephone charges incurred in the performance of such duties and (iii) pay or reimburse you for all reasonable out-of-pocket expenses incurred by you for the use of your automobile in the performance of your duties on behalf of NUI, in each case, in accordance with NUI's policies.... During your employment with NUI, you will be entitled to six weeks' paid vacation per year in accordance with NUI's vacation policies.
1. NUI will indemnify you for any liability you incur arising from your actions within the scope and course of your employment with NUI or service as a director of NUI in accordance with NUI's Amended and Restated Certificate of Incorporation. During your employment with NUI and while potential liability exists thereafter, NUI will maintain a directors' and officers' liability insurance policy covering you in the same amount and to the same extent as NUI covers its other officers and directors.
1. Your employment with NUI is for no fixed term, and either you or NUI may terminate your employment at any time for any reason or no reason upon at least forty-five days prior written notice to the other party; provided, however, that no such notice shall be required upon termination of your employment by NUI for cause (as determined in the good faith judgment of the Board). If NUI terminates your employment prior to a Sale of NUI without cause (as determined in the good faith judgment of the Board), and not because of your death or incapacity due to physical or mental illness (as determined in the good faith judgment of the Board), and a Sale of NUI occurs within twelve months following such termination, you will be entitled to receive the payment set forth in paragraph 3 hereof following such Sale of NUI. You will not be entitled to any severance, termination pay, salary continuation or similar compensation or benefits upon or after termination of your employment with NUI.
1. This letter agreement, together with the agreements described in the last paragraph hereof, constitutes the entire agreement between you and NUI with respect to the subject matter hereof, supersedes any prior agreements and undertakings, both written and oral, and may not be modified or amended in any way except in writing by you and NUT. The validity, interpretation, construction and performance of this letter agreement shall be governed by the substantive laws of the State of New Jersey. Any dispute or controversy arising under or in connection with this letter agreement shall be settled exclusively by arbitration in the State of New Jersey in accordance with the rules of the American Arbitration Association then in effect, and judgment may be entered on the arbitrator's award in any court of competent jurisdiction. All amounts payable hereunder shall be subject to the withholding of all applicable taxes and deductions required by any applicable law.

Please understand that the terms and conditions of your employment by NUI are governed by standard company policies. Among other things, this means that upon commencing employment with NUI, if requested by NUI, you agree to enter into customary confidential information, nonsolicitation, inventions and similar agreements. If you agree with the terms outlined in this letter agreement, please acknowledge the same by signing this letter agreement and the enclosed duplicate original hereof and returning such signed duplicate original copy in the envelope provided.

Sincerely,

NUI CORPORATION

By: /S/ BERNARD S. LEE
Name: Bernard S. Lee

Title: Chairman, Compensation Committee

Accepted and Agreed to as of this 27 day of January 2004:

/s/ CRAIG G. MATTHEWS

SCOULER ANDREWS INTERNATIONAL, LLC
225 West Wacker Drive, Suite 1900
Chicago, IL 60606

March 1, 2004

Mr. Steven D. Overly, Esq
General Counsel
NUI Corporation
550 Route 202-206
Bedminster, NJ 07921

Dear Mr. Overly:

This letter confirms the engagement of Scouler Andrews International, LLC ("we," "us," "our" or "Consultant") by NUI Corporation and its subsidiaries (individually and collectively, "you," "your" or the "Company") to provide the services described below.

As requested by the President and Chief Executive Officer of the Company from time to time, Consultant will provide the following services:

1. Provide the services of Daniel Scouler to serve as Chief Financial Officer of the Company, reporting directly to Craig Matthews, and the services of Jamie Lisac. It is expected that Mr. Scouler will devote an average of 2 days per week and that Mr. Lisac will devote an average of 3-4 days per week in meeting Consultant's obligations under this letter agreement. Such work shall be performed in the Company's offices in New Jersey.

2. Oversee the preparation of the Company's financial statements, including various liquidity and cash flow forecasts and statements. By the end of March, train existing NUI employees to operate the cash flow model that has been developed. Address financial issues as they arise or as requested by the President and Chief Executive Officer (e.g. intercompany balances) .

3. Provide consultation and negotiation assistance in connection with all merger, acquisition, divestiture, existing financing and refinancing activities of the Company, including any debt covenant issues that may arise.

4. Assist the Company in its communications with the Company's lenders and rating agencies.

5. Assist the Company with implementation of any phases of its business as directed by the Board of Directors. It is understood and agreed that in no event shall we participate in any effort or activities related or designed to restructure, downsize or operate Elizabethtown Gas.

6. If the Company determines to file a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (a "Bankruptcy Petition") (a) assist in connection with organizing the Company's resources and activities so as to effectively and efficiently plan, coordinate and manage the Chapter 11 process and communicate with customers, lenders, suppliers, . employees, shareholders and other parties in interest; (b) advise the Company concerning interfacing with Official Committees, other constituencies and their professionals, including the preparation of financial and operating information required by such parties and/or the applicable bankruptcy court; (c) assist the Company in forecasting, planning, controlling and in other aspects of managing cash and obtaining DIP financing; (d) consult with the Company with respect to resolving disputes and otherwise managing the claims process; and (e) assist the Company in the development of a 'plan of reorganization' and underlying 'business plan,' including the related assumptions and rationale.

7. Provide an appropriate level and size of Consultant's staff to fully satisfy Consultant's obligations hereunder in a highly professional manner.

8. Provide such other similar services as may be requested.

In addition to these specific services, we understand that at your request and to the extent appropriate, we may be asked to participate in meetings and discussions with the Company, its lenders, other creditor constituencies and their respective professionals.

In the event of the filing of a Bankruptcy Petition, our agreement to provide services hereunder is contingent upon the bankruptcy court's approval of our engagement in accordance with terms to be mutually agreed to reflect the potential expanded scope inherent in a bankruptcy reorganization.

Accordingly, until the requisite approval of the Bankruptcy Court has been obtained, we will not be obliged to perform any further services hereunder.

We will perform our services in a manner that will permit the business operations of the Company to proceed in an orderly manner, subject to the requirements of this engagement. Our personnel will require on-site access to review books, records, reports and other data located at the offices of the Company and to discuss matters with its management and other personnel. In addition, you agree to provide reasonable access to (a) your computer systems (including reasonable computer services support) and (b) your other professional advisors, including your independent accountants and outside counsel.

We understand that we are not being requested to perform an audit. We will not, nor are we under any obligation to extend our activities beyond the scope set forth herein, unless we agree to do so upon your specific request.

We understand that the Company has agreed to treat any information received from us, whether orally or in writing, with the utmost confidentiality and, except as provided in this letter, will not publish, distribute or disclose in any manner any information developed by or received from us without our prior written approval (except to the Company's respective officers, directors, employees, attorneys, advisors or lenders, to whom you may disclose such information on a 'need to know' basis without our prior written approval). Such approval shall not be unreasonably withheld. Our approval is not needed if (a) the information sought is required to be disclosed by an order binding on the Company or us, issued by a court having competent jurisdiction over the Company or us, as applicable (unless such order specifies that the information to be disclosed is to be placed under seal), (b) the information is required to be disclosed pursuant to any law, regulation or similar legal obligation, or (c) such information is otherwise publicly available. We agree that all confidential non-public information that is received by us from the Company or the Company's accountants or outside counsel in connection with this engagement will be treated confidentially by us, except as required by law or as authorized by the Company.

Our agreed compensation for the services to be rendered pursuant to this letter agreement is set forth on Schedule I. We will also be reimbursed for customary and reasonable out-of-pocket expenses including, but not limited to, travel, lodging, costs of reproduction, typing, computer usage, legal counsel and other direct expenses.

We will submit to the Company monthly invoices for all services rendered and expenses incurred. Our invoices are due upon receipt.

It is understood that if employees of Consultant are required to testify at any administrative or judicial proceeding relating to this matter (whether during the term of this letter agreement or after termination), Consultant will be compensated by the Company at the regular hourly rates for each such employee, in effect at the time, and reimbursed for reasonable out-of-pocket expenses (including counsel fees).

We have in the past and may in the future provide services to various Company lenders and creditors on matters unrelated to the Company. We have discussed these relationships with you and you hereby expressly agree that you do not believe that this creates for us a conflict of interest in relation to this engagement.

The Company agrees to indemnify and hold Consultant harmless against any and all losses, claims, damages, liabilities, penalties, judgments, awards, amounts paid in settlement, costs, fees, expenses and disbursements including, without limitation, the costs, fees, expenses and disbursements, as and when incurred, of investigating, preparing or defending any action, suit, proceeding or investigation (whether or not in connection with proceedings or litigation in which Consultant is a party), directly or indirectly caused by, relating to, based upon, arising out of or in connection with the engagement of Consultant by the Company or any services rendered pursuant to such engagement; provided that the Company will not be responsible for payment of indemnification amounts hereunder (and any indemnified person shall reimburse the Company for indemnification amounts already paid) that are determined by a final judgment of a court of competent jurisdiction to have resulted from an indemnified person's bad faith, self dealing, gross negligence or willful misconduct or that arise out of or relate in any way to the Company's or the Consultant's prior contractual arrangements with FTI Corporate Recovery or any subsidiary or affiliate thereof. These indemnification provisions extend to the officers, directors, principals, members, managers, stockholders, employees, representatives, agents and counsel of Consultant and shall survive the termination or expiration of the engagement.

Costs and expenses that are subject to indemnification hereunder shall, at the request of an indemnified person, be advanced by the Company to or on behalf of such indemnified person prior to final resolution of a matter, so long as such indemnified person shall have provided the Company with a written undertaking to reimburse the Company for all amounts so advanced if it is ultimately determined that the indemnified person is not entitled to indemnification hereunder. The contract rights to indemnification and to the advancement of expenses conferred in this paragraph shall not be exclusive of any other right that any indemnified person may have or hereafter acquire under any statute, agreement, order of a bankruptcy court or pursuant to any directors and officers liability insurance policy (including any such policy identified in Schedule I). The Company shall also reimburse any indemnified person for all expenses incurred in connection with enforcing such indemnified person's rights under this letter agreement.

The parties intend that an independent contractor relationship will be created by this letter agreement. As an independent contractor, Consultant will have complete and exclusive charge of the management and operation of its business, including hiring and paying the wages and other compensation of all its employees and agents, and paying all bills, expenses and other charges incurred or payable with respect to the operation of its business. None of Consultant's employees, including Daniel Scouler in his capacity as Chief Financial Officer of the Company, will be entitled to receive from the Company any vacation pay, sick leave, retirement, pension or social security benefits, workers compensation, disability, unemployment insurance benefits or any other Company employee benefits. Consultant will be responsible for all employment, withholding, income and other taxes incurred in connection with the operation and conduct of its business.

The Company agrees that neither it nor any of its assignees or successors shall (a) seek a jury trial in any lawsuit, proceeding, counterclaim or any other action based upon or arising out of or in connection with the engagement of Consultant by the Company or any services rendered pursuant to such engagement or (b) seek to consolidate any such action with any other action in which a jury trial cannot be or has not been waived. The provisions of this paragraph have been fully discussed by the Company and Consultant and shall be subject to no exceptions.

References in this letter agreement to Consultant shall be deemed to include, as may be applicable, any affiliate of Consultant (Consultant having the right to elect to perform its services hereunder through its affiliates).

This letter agreement shall be effective as of the date hereof and shall continue in effect until termination or completion of our engagement hereunder. Either you or we may terminate this letter agreement and our engagement at any time upon the giving of at least ten (10) days prior written notice to the other party. Termination shall not affect our right to receive payment for services performed, and reimbursement for expenses properly incurred, in accordance with the terms of this letter agreement. In the event of termination prior to the end of a calendar month, Consultant agrees to refund to the Company a pro rata portion of the set monthly compensation based upon the number of days remaining in the month after the effective time of termination.

If any provision of this letter agreement shall be invalid or unenforceable, in whole or in part, then such provision shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excluded from this letter agreement, as the case may require, and this letter agreement shall be construed and enforced to the maximum extent-permitted by law as if such provision had been originally incorporated herein as so modified or as if such provision had not been originally incorporated herein, as applicable.

This letter agreement shall be governed by and construed and enforced in accordance with the laws of the State of New Jersey. This letter agreement, including its schedules, constitutes the entire understanding between the parties with respect to the subject matter and supercedes all prior written and oral proposals, understandings, agreements and/or representations, all of which are merged herein. Any amendment or modification of this letter agreement shall be in writing and executed by each of the parties hereto.

Notwithstanding anything to the contrary contained herein, Consultant shall have the right to disclose its retention by the Company or the successful completion of its services hereunder in marketing or promotional materials placed by Consultant, at its own expense, in financial and other newspapers or otherwise.

We look forward to working with you on this matter. Please sign and return a copy of this letter signifying your agreement with the terms and provisions herein. If you have any questions, please call Daniel Scouler at (312) 977-1000.

Very truly yours,

SCOULER ANDREWS INTERNATIONAL, LLC

By: /S/ Daniel Scouler
Daniel Scouler Member

Agreed by:

NUI Corporation

By: /S/ Steven D. Overly
Steven D. Overly
Vice President and General Counsel

SCHEDULE I

Compensation and D&O Insurance Requirements

A. For the month of March 2004, Consultant will be paid a flat monthly retainer in the amount of $200,000. Beginning on April 1, 2004, Consultant will be paid a flat monthly retainer in the amount" of $75,000.

B. The Company agrees that it will use its best effort to specifically include and cover Daniel Scouler (and any other employee of Consultant who, at the request of the Board of Directors of the Company, Consultant agrees will serve as a temporary officer of the Company) under the Company's policy for directors' and officers' insurance. In the event that the Company is unable to include Consultant employees serving as officers of the Company under the Company's policy or if that policy does not have first dollar coverage in effect for at least $10 million, it is agreed that Consultant will attempt to purchase a separate directors' and officers' policy that will cover Consultant's employees serving as officers of the Company only and that the cost of the same shall be invoiced to the Company as an out-of-pocket expense. If Consultant is unable to purchase such coverage, then it shall have the right to terminate this letter agreement upon notice to the Company.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*]. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission

GAS SUPPLY ASSET ASSIGNMENT AND AGENCY AGREEMENT

This GAS SUPPLY ASSET ASSIGNMENT AND AGENCY AGREEMENT (this "Agreement") is made and entered into as of the 7th day of April, 2004, by and between NUI Utilities, Inc., a New Jersey corporation having its principal place of business at One Elizabethtown Plaza, Union, New Jersey 07083 ("NUIU"), and Cinergy Marketing and Trading, LP, a Delaware limited partnership having its principal place of business at 1100 Louisiana, Suite 4900, Houston, Texas 77002 ("CMT").

WHEREAS, subject to the terms and conditions contained herein, CMT agrees to accept, and NUIU agrees to grant, the assignment or, in the case of non-assignable agreements, the agency to control NUIU's supply assets including the rights and the obligations under NUIU's existing Gas supply arrangements during the Term; and

WHEREAS, subject to the terms and conditions contained herein, CMT would be permitted to use NUIU's supply assets in furtherance of CMT's overall business strategies and transactions, including its obligations to NUIU under the Gas Supply Agreement; and

WHEREAS, subject to the terms and conditions contained herein, NUIU also would be entitled to receive certain payments from CMT during the Term in consideration for CMT's right to utilize and derive the profits or losses with respect to the Supply Assets; and

NOW, THEREFORE, in consideration of the mutual agreements, covenants, and conditions herein contained, NUIU and CMT agree as follows:

ARTICLE 1. DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings; any term used herein that is defined in the Gas Supply Agreement shall have that definition incorporated herein:

(a) "Affiliate" means with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such Person. The term "control" (including, with correlative meaning, the terms, "controlled by" and "under common control with") as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

(b) "Agreement" means this Gas Supply Asset Assignment and Agency Agreement, including all amendments, modifications or supplements thereto.

(c) The terms "assign," "assigned" and "assignment," when used in the context of a Gas transportation or storage arrangement, shall be deemed to include Capacity Releases.

(d) "Assigned Contracts" shall have the meaning assigned to such term in Section 2.1.

(e) [*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(f) "Btu" means the amount of energy required to raise the temperature of one pound of pure water one degree Fahrenheit from 59 degrees Fahrenheit to 60 degrees Fahrenheit . The term "MMBtu" means one million Btus.

(g) "Business Day" shall mean any day on which Federal Reserve member banks in New York City are open for business, and shall begin at 8:00 a.m. E.S.T. and close at 5:00 p.m. E.S.T.

(h) "Capacity Release" (and to "Release Capacity") means the release of transportation or storage capacity pursuant to the terms and conditions of an effective FERC gas tariff of a Gas transporter as contemplated by 18 C.F.R. Part 284 or successor regulations, and "Released Capacity" shall refer to capacity that has been released pursuant to a Capacity Release.

(i) "Confidential Information" means trade secrets, patentable or non-patentable inventions and ideas, know-how, formulae, processes, designs, sketches, plans, drawings, specifications, reports, projections, plant and equipment expansion plans, lists of employees, customers and suppliers, monetizing techniques and strategies, commodity and derivatives hedging and trading strategies and techniques, financial statements and other financial data, pricing information, cost and expense information, product development, strategic and marketing plans and all other information, data and experience of any kind whatsoever, whether technical, marketing or financial, regarding the business, facilities and operations of NUIU and its Affiliates or of CMT and its Affiliates, as the case may be, whether oral, written or electronic. "Confidential Information" also shall be deemed to include all notes, analyses, compilations, studies, interpretations and other documents or electronic recording, which reflect Confidential Information furnished pursuant to the terms of any Transaction Agreement, the Guaranty or any transaction contemplated hereby or thereby. The term "Confidential Information" shall not include information which a recipient can demonstrate: (a) is or becomes generally available to the public other than as a result of disclosure by the recipient; (b) was within the recipient's possession prior to it being furnished by or on behalf of the other Party, provided that the source of such information was not known by the recipient to be bound by a confidentiality agreement with, or other contractual, legal or fiduciary obligation of confidentiality to, the disclosing Party or any other Party with respect to such information; (c) becomes available to the recipient on a non-confidential basis from a source other than the disclosing Party or any of its Representatives, provided that such source is not known by the recipient to be bound by a confidentiality agreement with, or other contractual, legal or fiduciary obligation of confidentiality to, the disclosing Party or any other Party with respect to such information; or (d) was independently developed by the recipient without reference to the Confidential Information, provided such independent development can reasonably be demonstrated by the recipient. The term "recipient," as used in this Agreement, refers to the Person receiving any item of Confidential Information and the Affiliates of suchPerson.

(j) "Consequential Damages" shall have the meaning assigned to such term in Section 7.4.

(k) "Counterparty" means, as to any Supply contract, the party to such contract other than NUIU.

(l) "Daily Delivery Quantity" (or "DDQ") shall have the meaning given such term in the Gas Supply Agreement.

(m) "Day" means a period of 24 consecutive hours, beginning 10:00 a.m. E.T. on any calendar Day and ending at 10:00 a.m. E.T. on the following calendar Day.

(n) [*]

(o) "E.S.T." means Eastern Standard Time.

(p) "Effective Date" shall have the meaning assigned to such term in the introductory sentence of Article 4 of this Agreement.

(q) "Excluded Liabilities" means any liabilities or obligations that either: (a) arise under or are attributable to acts or omissions of NUIU or its Counterparty under any Gas Contract before or after the Term, (b) arise under or are attributable to acts or omissions of NUIU or its Counterparty under any Non-Assigned Contract during the term, unless such liability arises as the result of CMT's actions as NUIU's agent under such Non-Assigned Contract, or (c) arise as a result of any breach by NUIU of any Transaction Agreement.

(r) "FERC" means the Federal Energy Regulatory Commission, or any successor federal agency.

(s) "Gas" means methane and other gaseous hydrocarbons meeting the quality standards and specifications of NUIU's upstream pipeline suppliers.

(t) "Gas Contract" means any Gas Supply Contract, any Gas Storage Contract or any Gas Transportation Contract.

(u) "Gas Supply Agreement" means the Gas Supply Agreement, dated as of the date hereof, between NUIU and CMT, as amended or supplemented from time to time, incorporated herein by this reference and attached hereto as **Exhibit C.**

(v) "Gas Storage Contract" means any Gas storage contract entered into by NUIU to store Gas during the Term for NUIU.

(w) "Gas Supply Contract" means any Gas supply contract entered into by NUIU to supply Gas during the Term to NUIU.

(x) "Gas Transportation Contract" means any Gas transportation contract entered into by NUIU to transport Gas during the Term directly or indirectly to NUIU, along with any ancillary agreements such as operational balancing agreements, exchange, parking, hub service, gas supply, peaking or other agreements.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(y) "Governmental Authority" means any nation, state, sovereign or government, any federal, regional, state, local or political subdivision and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including without limitation the NJBPU and FERC.

(z) "Grandfathered Transaction" mean the Gas purchase and sale transactions between NUIU and CogenTechnologies.

(aa) "Hedging Program" shall mean NUIU's Gas Procurement Strategy and Plan ("GPS&P") as filed with the New Jersey Board of Public Utilities, a copy of which shall be provided to CMT

(bb) "Independent Amount" shall mean Five Hundred Thousand Dollars ($500,000.00) per month in the Summer Season, and Two Million Dollars ($2,000,000.00) per month during the Winter Season.

(cc) "Initial Storage Inventory" shall mean, with respect to any Storage Asset, the quantity of Gas in such Storage Asset on April 1, 2004.

(dd) "Investment Grade" shall mean having a long term debt rating of "Baa3" or higher by Moody's Investment Service and "BBB-" or higher by Standard & Poor's.

(ee) "Liens" means any claims, liens, encumbrances, security interests, pledges, options, charges, restrictions and defects in title of any nature whatsoever, except for indentures, mortgages or similar security interests created in connection with NUIU's ordinary course bond issuances and similar indebtedness.

(ff) "Natural Gas Act" means the Natural Gas Act of 1938, as amended.

(gg) "Non-Assignable Contracts" shall have the meaning assigned to such term in Section 2.2.

(hh) "NJBPU Filings" means NUIU's submission or submissions to the NJBPU containing NUIU's request for authorization for NUIU to enter into the transactions contemplated in the Transaction Agreements, and for such other authorizations, waivers or determinations as NUIU in its sole discretion shall determine are necessary or appropriate for NUIU to perform under the Transaction Agreements.

(ii) "NJBPU" means the New Jersey Board of Public Utilities.

(jj) "NUIU" shall have the meaning set forth in the introductory sentence to this Agreement and includes NUIU's New Jersey, Florida and Maryland divisions.

(kk) "Operational Procedures" means the procedures agreed upon by the Parties for communications, notices, scheduling, forecasting and other activities pertaining to the arrangements contemplated by the Transaction Agreements. The Parties agree to negotiate in good faith to reach agreement on the Operational Procedures.

(ll) "Parties" means, collectively, NUIU and CMT.

(mm) "Performance Assurance" shall mean an irrevocable stand-by letter of credit, guaranty, cash collateral, prepayment or other good and sufficient security of a continuing nature, satisfactory in a form determined by the requesting Party in its reasonable discretion.

(nn) "Person" means an individual, corporation, partnership, joint venture, limited liability company trust, university, unincorporated organization, or a government or any agency or political subdivision thereof.

(oo) "Representatives" shall have the meaning assigned to such term in Section 8.3.

(pp) "Resale Agreement" means the Base GISB Agreement between NUIU and CMT or any successor Gas purchase and sale agreement between the Parties.

(qq) "SEC" means the United States Securities and Exchange Commission or any successor federal agency that may regulate the issuance and sale of securities.

(rr) "Supply Assets" means, collectively, the Supply Contracts and the right of CMT to use Gas in storage in accordance with Section 2.5.

(ss) "Supply Contracts" means, collectively, the Assigned Contracts and the Non-Assignable Contracts.

(tt) "Taxes" means any or all ad valorem, property, occupation, severance, production, extraction, first use, conservation, BTU or energy, gathering, pipeline, utility, gross receipts, gas or oil revenue, gas or oil import, privilege, sales, use, consumption, excise, lease, transaction, and other or new taxes, governmental charges, licenses, fees, permits and assessments, or increases therein, but otherwise excluding taxes based on net income or net worth.

(uu) "Term" shall have the meaning assigned to such term in Section 2.9.

(vv) "Transaction Agreement" means this Agreement, the Gas Supply Agreement and the Resale Agreement, as each may be amended or supplemented from time to time.

(ww) [*]

ARTICLE 2. TERMS AND CONDITIONS

2.1. Assignment Of Certain Contracts. Subject to the terms and conditions contained herein, NUIU agrees to assign to CMT, through Capacity Release or other means, effective for the Term, all of NUIU's right, title and interest in the following contracts (the "Assigned Contracts"), free and clear of all Liens:

(a) each Gas Transportation Contract listed on **Part 1 to Exhibit A** hereto;

(b) each Gas Storage Contract listed on **Part II to Exhibit A** hereto; and

(c) each Gas Supply Contract listed on **Part III to Exhibit A** hereto.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Each such assignment that is a Capacity Release shall be done at the maximum rate, as contemplated by 18 C.F.R. Part 284 or successor regulations.

2.2. Agency For Certain Contracts. Subject to the terms and conditions contained herein, NUIU hereby appoints CMT, and CMT accepts NUIU's appointment, as NUIU's exclusive agent and attorney-in-fact for the Term under the following contracts (the "Non-Assignable Contracts"):

(a) each Gas Supply Contract listed on **Part IV to Exhibit A** hereto;

(b) each Gas Transportation Contract listed on **Part V to Exhibit A** hereto; and

(c) **each Gas Storage Contract listed on Part VI to Exhibit A hereto.**

2.3. NUIU's Capacity Release Obligation. NUIU shall be entitled to recall Released Capacity in the manner, volume, and to the extent necessary for NUIU to satisfy its obligations imposed by any Governmental Authority to provide transportation capacity to third party suppliers serving customers on NUIU's system. If such recall will result in a reduction in the transportation capacity available to CMT of more than 1,000 dekatherms per day, NUIU shall provide CMT with thirty (30) Days prior written notice before exercising any such recall right and the parties shall meet in good faith to determine whether the reduction in capacity available to CMT shall result in any modifications to this Agreement. If the Parties have not reached mutual agreement as to the modification(s) resulting from a recall within thirty (30) days after the exercise of such a recall, the matter may be subject to arbitration under Article 9 of this Agreement. Notwithstanding anything to the contrary in any capacity release transaction executed through the individual pipeline electronic bulletin board procedures, the Parties agree that NUIU's rights to recall capacity shall be limited to one of the following events occurring: (i) obligations to provide capacity to third parties as required by NUIU's tariff as approved by appropriate Governmental Authorities as identified above; (ii) the declaration by NUIU of an Early Termination Date pursuant to Sections 6.2; (iii) the expiration of the Term; or (iv) if CMT fails to perform as set forth in Section 5.01 of the Gas Supply Agreement (and in such circumstances such recall right shall be only for the amount of day(s) necessary for NUIU to serve its load using the released capacity, unless such CMT failure has resulted in the early termination of the Transaction Agreements under Article 6 hereof).

2.4. Assumption Of Liabilities. Subject to the terms and conditions contained herein, CMT agrees to assume, pay, perform, satisfy and discharge all Assumed Liabilities, unless such liability was caused by CMT acting at the direction of NUIU. CMT shall have no obligation related to the Excluded Liabilities nor shall it be obligated to pay, perform, satisfy, participate in any way in the resolution of, or discharge any Excluded Liabilities. As between the Parties to the Transaction Agreements, NUIU agrees to be fully responsible for all Excluded Liabilities.

2.5. Gas In Storage. Subject to the terms and conditions contained herein and in the Gas Supply Agreement, CMT shall have the right, in its sole discretion, during the Term to have dispatch control with respect to all Gas in storage attributable to the Gas Storage Contracts. NUIU hereby transfers title to the Initial Storage Inventory in the Part 284 Storage Assets to CMT to the extent that such gas is stored under a contract assigned to CMT under Section 2.1 of this Agreement. As consideration for this transfer, CMT shall have an obligation to transfer to NUIU title to Gas in the Storage Assets in accordance with the terms of Sections 6.4 and 6.5 of the this Agreement at the expiration or termination of this Agreement.

2.6. [*]

2.7. Payment Of Certain Charges. NUIU agrees to pay CMT for 100% of all demand and reservation charges CMT pays to Counterparties under the Supply Contracts. NUIU shall be entitled, at its sole expense, to audit those applicable books and records of CMT to verify the accuracy of CMT's payment of such demand and reservation charges, at CMT's offices and at a time during reasonable business hours acceptable to both Parties. CMT shall pay to NUIU all credits or refunds CMT receives from Counterparties attributable to (i) demand and reservation charges CMT or NUIU paid to Counterparties under the Supply Contracts, and (ii) commodity charges NUIU paid to Counterparties under the Supply Contracts (collectively, "Refunds"). In the event CMT has not forwarded or reflected any such credit or refund to NUIU in the very next billing cycle after receipt of such a Refund, CMT shall reimburse NUIU for interest accumulated on Refunds during the period between the date CMT should have returned such Refunds and the date CMT pays or credits such Refund to NUIU, and the interest rate thereon shall be equal to the percentage rate prescribed by the Federal Energy Regulatory Commission regulations from time to time applicable generally to customer refunds made by pipelines of credits received from suppliers.

2.8. NJBPU Authorizations. NUIU shall submit the NJBPU Filings to the NJBPU by April 1, 2004.

2.9. Term. The term of this Agreement (the "Term") shall commence on the Effective Date and shall end on March 31, 2005 unless earlier terminated as expressly provided in this Agreement.

ARTICLE 3. AGREEMENTS

3.1. Preservation Of Supply Assets. Except as set forth in Section 2.3, during the Term NUIU shall not sell, convey, transfer, assign or deliver any interest in any Supply Asset to any Person other than CMT unless NUIU has provided CMT prior written notification of such sale, conveyance, transfer, assignment or delivery and CMT has indicated to NUIU in writing that such action, in CMT's sole discretion, will have no effect on CMT's ability to obtain the full economic benefit of the Supply Assets. NUIU shall not allow any of the NUIU Assets identified in Exhibit A to the Gas Supply Agreement to expire before or during the Term of this Agreement and shall take whatever actions are necessary to enter into, extend, renew or roll-over the term of any such NUIU Asset until at least through the end of the Term. CMT shall take no action that prevents NUIU from receiving the full economic benefits of all of the Supply Assets after the end of the Term with no diminution in such assets occurring during the Term. NUIU shall have the right to advise any Counterparty that NUIU's assignment to CMT or NUIU's appointment of CMT as NUIU's agent, as the case may be, is subject to termination as provided in Article 6 of this Agreement.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

3.2. CMT's Rights And Obligations Under The Non-Assignable Contracts. During the Term, CMT shall act as NUIU's exclusive agent for all purposes under the Non-Assignable Contracts and, in so acting, may exercise all of NUIU's rights under the Non-Assignable Contracts and receive the benefits thereof during the Term. CMT shall be entitled to exercise its authority with respect to the Non-Assignable Contracts in a manner that would give CMT maximum flexibility and utilization under the Non-Assignable Contracts during the Term, provided that CMT shall in all respects comply with the terms and conditions of the Non-Assignable Contracts and perform all of the obligations of NUIU thereunder except for Excluded Liabilities. CMT shall be entitled to cause NUIU to take such actions as may be required to enforce NUIU's rights under the Non-Assignable Contracts during the Term. CMT shall defend and, if required to do so, pay any claims made under the Non-Assignable Contracts except to the extent such claims relate to Excluded Liabilities and except to the extent such claim was caused by an act or omission of NUIU, or by CMT as a result of CMT following the direction of NUIU. If any claim relates to Excluded Liabilities, CMT shall have no obligation to defend or participate in any negotiation, arbitration or other proceeding for or on behalf of NUIU. CMT may negotiate with any Counterparty to a Non-Assignable Contract any settlement of an Assumed Liability with such Counterparty, except that no such settlement shall be permitted without the consent of NUIU if it would have any effect after the end of the Term or on Excluded Liabilities and, in connection with such settlements, CMT shall receive the benefits thereof or make any payments on Assumed Liabilities.

3.3. NUIU's Rights And Obligations Under The Non-Assignable Contracts. During the Term, NUIU shall exercise its rights under the Non-Assignable Contracts only as directed by CMT except with respect to Excluded Liabilities. On or before the Effective Date, NUIU shall give written notice to the Counterparties under the Non-Assignable Contracts of NUIU's appointment of CMT as NUIU's exclusive agent under the Non-Assignable Contracts for the Term. CMT shall not be NUIU's agent for billing and payment, and NUIU shall instruct the Counterparties under those Non-Assignable Contracts that, during the Term, they should send to NUIU all payments to which NUIU would be entitled, send all correspondence and the originals of all invoices to NUIU, but Counterparties should accept and act upon all communications and instructions given by CMT on behalf of NUIU relating to NUIU's rights and obligations and performance under the Non-Assignable Contracts, commencing as of the Effective Date. To the extent NUIU learns that a Counterparty to a Non-Assignable contract has failed to comply with NUIU's direction to send copies of correspondence to CMT, promptly upon receipt thereof NUIU shall forward a copy of such correspondence to CMT.

3.4. Resales Under The Gas Supply Contracts. CMT shall be entitled to require NUIU to sell to CMT, pursuant to a Resale Agreement, Gas that CMT acting as NUIU's agent causes NUIU to purchase. Deliveries of Gas under such Resale Agreement shall be made at the same point at which such Gas was delivered to NUIU, or in any event at such other mutually agreeable delivery points at which CMT may lawfully obtain title and ownership of the Gas and to which points CMT, acting as NUIU's agent, would be able to deliver such Gas. The price payable by CMT under such Resale Agreement shall be equal to the price payable by NUIU to which the resale relates and any costs incurred by NUIU to transport such Gas to the point at which NUIU sells such Gas to CMT under the Resale Agreement, together with all Taxes and charges that NUIU must pay or remit as a result of such sale and/or transportation.

3.5. Amendments And Waivers Of Supply Contracts. CMT shall not amend, extend or cause the early termination of any Supply Contract that survives the Term without the prior written consent of NUIU.

3.6. New Contracts. Except as set forth herein, NUIU shall not enter, nor commit to enter, into any new Gas Contract that will be effective during the Term to satisfy NUIU's Gas requirements without the prior written consent of CMT; provided, however, that (a) NUIU shall continue to diligently monitor its load patterns and forecasts during the Term and use reasonable efforts to bring to the attention of CMT future contract opportunities or other similar arrangements that could be entered into by NUIU and included within the Supply Assets, and (b) NUIU shall be permitted to (i) enter into, commit to enter into, or have in place any Gas supply, transportation or storage contract or any other commitments where the start date of such contract or other commitment would be after the end of the Term, and (ii) renew, or enter into new, Gas Contracts as deemed necessary by NUIU during the Term, provided that such contract renewals or new contracts shall not be included in the Supply Assets absent the mutual agreement of the Parties. Notwithstanding the foregoing clauses (i) and (ii), NUIU shall not be permitted to utilize any such assets or contracts to reduce the amount of Gas it would otherwise purchase from CMT under the Gas Supply Agreement. Further, notwithstanding the foregoing, NUIU shall execute additional gas supply arrangements for delivery at NUIU's City Gate on or before November 1, 2004, in such quantities as NUIU shall determine. Third parties may supply such needs, provided, CMT shall have a right to match any offer that NUIU is prepared to accept to meet such supply needs. If NUIU purchases these supply needs from a third party, CMT shall act as NUIU's agent under any supply contracts to provide these supply needs.

3.7. Cooperation. CMT and NUIU shall fully cooperate in good faith and make commercially reasonable efforts to carry out the intent of the transactions contemplated in the Transaction Agreements, including actions necessary to properly administer and implement the terms of the Supply Contracts with the Counterparties thereto and in connection with any proceedings or litigation relating thereto. The Parties anticipate that representatives of NUIU and CMT would meet periodically throughout the Term to review developments affecting the subject matter hereof, including, without limitation, changes in NUIU's actual or projected firm demand requirements and prospective regulatory changes that could affect the transactions contemplated in the Transaction Agreements.

3.8 Implementing NUIU's Hedging Program. CMT shall consult with and use commercially reasonable efforts to provide market intelligence and to assist NUIU with communications with its broker in implementing its Hedging Program. Provided, however, CMT shall have no obligation, liability or responsibility whatsoever, including but not limited to any obligation to indemnify NUI, its Affiliates or any NUIU Representative, for or related to any transaction NUIU enters into or does not enter into as part of its Hedging Program unless otherwise agreed in a writing signed by both Parties.

ARTICLE 4. CONDITIONS PRECEDENT

Each of the Parties agrees to use commercially reasonable efforts to satisfy, on or before April1, 2004 (the "Effective Date"), each of the following conditions precedent insofar as it is applicable to such Party:

4.1. Representations And Warranties. For each Party, each of the representations and warranties set forth in Article 5 of this Agreement for such Party shall be true, accurate and correct at the Effective Date with the same effect as though made at and as of such time.

4.2. Supply Assets. (a) NUIU shall have assigned/released all Assigned Contracts to CMT for the Term free and clear of all Liens and obtained all requisite consents to such assignments as contemplated in Section 2.1 hereof, and (b) for each Non-Assignable Contract, either (i) NUIU shall have appointed CMT as NUIU's exclusive agent under such contract for the Term as contemplated in 2.2 hereof free and clear of all Liens and obtained all requisite consents to such appointment, including, if such contract imposes a non-disclosure obligation on NUIU, a consent or waiver from the Counterparty permitting NUIU to disclose to CMT the commercial terms of such contract specifically for the purpose of CMT acting as NUIU's agent under such contract for the Term, or (ii) to the extent that after reasonable diligence NUIU is unable to satisfy the conditions set forth in clause (i) above, NUIU and CMT shall have agreed on an arrangement whereby NUIU exercises its rights and performs its obligations under such contract only as directed by CMT and CMT reimburses NUIU for all payments made by NUIU under such contract related to transactions that are not to serve NUIU's requirements.

4.3. NJBPU Filings. NUIU shall have submitted the NJBPU Filings to the NJBPU.

4.4. No Proceedings Or Litigation. Except for any proceeding arising out of or in connection with the NJPBU Filings, no action, suit or proceeding before any Governmental Authority shall have been commenced, and no investigation by any Governmental Authority shall have been commenced or threatened, against CMT, NUIU or any of either Party's respective officers or directors, seeking to restrain, prevent or change the transactions contemplated by any or all of the Transaction Agreements, or seeking damages in connection with such transactions.

4.5. Regulatory Authorizations. Except for the authorizations and waivers sought by NUIU in connection with the NJBPU Filings, the Parties shall have received all governmental consents or approvals required or reasonably necessary to perform each Transaction Agreement (including, without limitation, compliance with the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, if compliance is required), without material modification of such Transaction Agreement.

4.6 Guaranty. NUI and Cinergy Corp., CMT's parent, shall have executed a corporate guaranty agreement in a form and substance acceptable to NUIU and Cinergy Corp. and providing that Cinergy Corp. will guarantee CMT's obligations under all Transaction Agreements.

4.7. Failure Of Conditions Precedent. Each Party agrees to use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable for such Party to satisfy the conditions precedent set forth in this Article 4 applicable to it. Each Party shall provide the other Party with written notice promptly following the satisfaction of the conditions precedent applicable to such notifying Party, as described in this Article 4. In the event a condition precedent set forth in this Article 4 has not been satisfied, or waived in writing by the Party entitled to rely on such condition precedent, on or prior to the Effective Date, then this Agreement may be terminated five (5) Business Days following written notice sent by one Party to the other, except that such termination shall not be effective if within such five (5) Business Day period such condition precedent is satisfied or waived by the other Party.

ARTICLE 5. REPRESENTATIONS, WARRANTIES AND ACKNOWLEDGEMENTS

5.1. NUIU. NUIU represents and warrants as follows:

(a) NUIU is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey.

(b) NUIU has all requisite corporate power and authority to own its respective properties and assets and to carry on its respective businesses as currently conducted and as proposed to be conducted during the Term. NUIU has all requisite corporate power and authority to execute, deliver and (provided the NJBPU has not disapproved such agreement) perform its obligations under each Transaction Agreement to which it is a party.

(c) Each Transaction Agreement to which NUIU is a Party has been duly authorized, executed and delivered by NUIU, the Transaction Agreements collectively constitute a single, integrated agreement, and each constitutes a legal, valid and binding obligation of NUIU enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws from time to time in effect relating to creditors' rights generally and to general equity principles.

(d) CMT has received true and correct copies of each of the Supply Contracts (including all exhibits and schedules constituting part thereof) and all amendments thereto, waivers relating thereto and other agreements affecting the terms thereof during the Term. Except as set forth on **Exhibit A**, each of the Supply Contracts is in full force and effect and is valid, binding and enforceable in accordance with its terms with no default, anticipated or threatened default or failure of performance or observance of any obligations or conditions contained therein, and no notice of default or no notice of intention to terminate any Supply Contract has been provided.

(e) Assuming that the NJBPU does not disapprove this Agreement, the execution, delivery and performance by NUIU of each Transaction Agreement to which it is a party, and all other Agreements and instruments to be executed and delivered by NUIU pursuant hereto or thereto or in connection herewith or therewith, and compliance with the terms and provisions hereof and thereof, do not and will not (i) violate any provision of any law, statute, rule or regulation, order, writ, judgment, injunction, decree, governmental permit, determination or award having applicability to NUIU or any of its properties or assets, (ii) conflict with or result in a breach or violation of or constitute a default under any provision of the charter documents, by-laws or other comparable documents of NUIU or (iii) require any consent, approval or notice under or result in a violation or breach of or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under any note, bond, mortgage, license, contract, agreement or loan or credit agreement to which NUIU is a party or by which NUIU or any of its properties or assets may be bound or affected.

(f) To the best of NUIU's knowledge, none of the information supplied by NUIU to CMT, including information and data provided in NUIU's Request for Proposal process, as updated, contains any untrue statement of a material fact or omits to state any material fact which is required to be stated therein or which is necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(g) With the exception of proceedings before the NJBPU, there is no action or proceeding pending or, to the knowledge of NUIU, contemplated or threatened against or affecting NUIU or its properties or assets before or by any Governmental Authority, which relates to or challenges the legality, validity or enforceability of any Transaction Agreement or the ability or obligation of NUIU to perform fully on a timely basis any obligation which it has or shall have under any Transaction Agreement to which it is a Party.

(h) With the exception of a filing with the NJBPU, no authorization, consent, approval, waiver, license, qualification or formal exemption from, nor any filing, declaration, qualification or registration with, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by NUIU of each Transaction Agreement to which it is a Party. No Transaction Agreement is a material contract (within the meaning of Regulation S-K promulgated by the SEC) and is not required to be filed by NUIU as an exhibit to any registration statement, schedule or report filed or required to be filed with the SEC or by NUIU or any of its Affiliates with any other Governmental Authority.

5.2. CMT. CMT represents and warrants as follows:

(a) CMT is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) CMT has all requisite corporate power and authority to own its respective properties and assets and to carry on its respective businesses as currently conducted and as proposed to be conducted as of the date of this Agreement. CMT has all requisite corporate power and authority to execute, deliver and perform its obligations under each Transaction Agreement to which it is a party.

(c) Each Transaction Agreement to which CMT is a party has been duly authorized, executed and delivered by CMT, the Transaction Agreements collectively constitute a single, integrated agreement, and each constitutes a legal, valid and binding obligation of CMT enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws from time to time in effect relating to creditor's rights generally and to general equity principles.

(d) The execution, delivery and performance by CMT of each Transaction Agreement to which it is a party, and all other Agreements and instruments to be executed and delivered by CMT pursuant hereto or thereto or in connection herewith or therewith, and compliance with the terms and provisions hereof and thereof, do not and will not (i) violate any provision of any law, statute, rule or regulation, order, writ, judgment, injunction, decree, governmental permit, determination or award having applicability to CMT or any of its properties or assets, (ii) conflict with or result in a breach or violation of or constitute a default under any provision of the charter documents, by-laws or other comparable documents of CMT or (iii) require any consent, approval or notice under or result in a violation or breach of or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under any note, bond, mortgage, license, contract, agreement or loan or credit agreement to which CMT is a party or by which CMT or any of its properties or assets may be bound or affected.

(e) There is no action or proceeding pending or, to the knowledge of CMT, contemplated or threatened against or affecting CMT or its properties or assets before or by any Governmental Authority, which relates to or challenges the legality, validity or enforceability of any Transaction Agreement or the ability or obligation of CMT to perform fully on a timely basis any obligation which it has or shall have under any Transaction Agreement to which it is a Party.

(f) No authorization, consent, approval, waiver, license, qualification or formal exemption from, nor any filing, declaration, qualification or registration with, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by CMT of each Transaction Agreement to which it is a Party. No Transaction Agreement is a material contract (within the meaning of Regulation S-K promulgated by the SEC) and is not required to be filed by CMT as an exhibit to any registration statement, schedule or report filed or required to be filed with the SEC or by CMT or any of its Affiliates with any other Governmental Authority.

(g) To the best of CMT's knowledge, none of the information supplied by CMT to NUIU as part of its response to NUIU's Request for Proposal contains any untrue statement of a material fact or omits to state any material fact which is required to be stated therein or which is necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

ARTICLE 6. EVENTS OF DEFAULT AND EARLY TERMINATION OF AGREEMENT

6.1. Early Termination. The following events, which shall be characterized as events of default, or events of early termination shall be grounds for a Party (the "Terminating Party") to terminate all of the Transaction Agreements. Notwithstanding any provision of this Agreement or the Gas Supply Agreement to the contrary, a termination of any Transaction Agreement will terminate all, and no less than all, Transaction Agreements between CMT and NUIU:

(a) If the other Party fails to make payment (other than a pre-payment) of any amounts due under any provision of any Transaction Agreement, which failure continues for a period five (5) Days after receipt of written notice of such non-payment.

(b) If any representation or warranty made by the other Party under any Transaction Agreement shall prove to have been false or misleading in any material respect when made or deemed to be repeated.

(c) If CMT, unless excused by reason of Force Majeure, fails on any Day (the "Default Day") to comply with its obligation under the Gas Supply Agreement to schedule for delivery to NUIU the DDQ on such Day as defined in the Gas Supply Agreement and NUIU is unable to find other means of covering such DDQ on such Default Day as contemplated in Section 5.01 under the Gas Supply Agreement and such failure by CMT causes NUIU to curtail sales to some or all of its firm customers.

(d) If the other Party fails to comply substantially with any material provision of any Transaction Agreement, which failure continues for a period of five (5) Days after written notice of such non-compliance.

(e) If the other Party shall: (i) make an assignment or any general arrangement for the benefit of creditors, (ii) file a petition or otherwise commence, authorize or acquiesce in the commencement of a proceeding or case under any bankruptcy or similar law for the protection of creditors, or have such petition filed against it, or (iii) be unable to pay its debts as they fall due.

(f) If the NJBPU acts in a manner concerning any Transaction Agreement which NUIU determines, in its sole judgment, to be either unfavorable or which has the effect of prohibiting or rescinding the transfer of Supply Assets to CMT, or if the NJBPU's action requires a modification of any of the Transaction Agreements that is not agreeable to both Parties.

(g) For either Party, if existing federal, state and local regulatory rules, regulations and policies that serve as the basis for the transactions described in the Transaction Agreements and that are generally applicable to similarly situated parties (including the FERC's current use of a straight fixed variable rate design for pipeline rates and its Capacity Release program) shall be eliminated or otherwise modified in any manner that would be reasonably likely to have a material adverse effect on such Party or the benefits it anticipates deriving from the transactions described in the Transaction Agreements.

(h) For either Party, if: (i) a court or governmental agency with jurisdiction (including without limitation the NJBPU) reverses, withdraws or otherwise modifies, with a result unacceptable to such Party in its sole discretion, any NJBPU order, ruling, opinion or other determination believed to be necessary to proceeding with the transactions contemplated under the Transaction Agreements, (ii) such change causes the impacted Party to incur any material capital or operating cost, or loss of opportunity, related to the provision or receipt of services contemplated herein, and (iii) the Parties are unable, after good faith negotiations, to renegotiate the Agreement to comply with such reversal, withdrawal or modification and maintain the same level of service or benefit.

(i) For CMT, if a court or governmental agency with jurisdiction determines that CMT is subject to the jurisdiction of the NJBPU during the Term as a result of the execution, delivery or performance of any Transaction Agreement.

(j) For NUIU, if there is a Change of Control of NUIU or its parent company, NUI Corporation, in which case NUIU may terminate this Agreement prior to the expiration of the term by giving CMT thirty (30) days advance written notice. Any such termination shall be effective the first day of the next month after the 30 day period has transpired. For purposes of this Agreement, a "Change in Control" shall mean the closing of any merger, reorganization, share exchange, consolidation, business combination, recaptialization, or similar transaction involving NUIU or NUI Corporation or any purchase or sale of 50% or more of the consolidated assets of NUI Corporation and its subsidiaries, taken as a whole, or any purchase or sale of, or tender or exchange offer for, its equity securities that, if consummated, would result in any person (or the stockholders of such person) beneficially owning securities representing 50% or more of its total voting power of NUIU or NUI Corporation.

(k) If either Party fails to provide any Performance Assurance to be provided to the other Party within three (3) Business Days of a written request.

6.2 Early Termination and Remedies.

(a) In the event one of the events described in Section 6.1 has occurred and is continuing, the Terminating Party may, at its sole election, immediately withhold and/or suspend deliveries or payments upon written notice to the other Party (the "Terminated Party") and or terminate and liquidate all, and no less than all, of the Transaction Agreements. If an event giving rise to a right of termination has occurred and is continuing, the Terminating Party shall have the right to designate a day, by giving written notice of the day (the "Early Termination Date") and the reasons therefore to the Terminated Party, which Early Termination Date shall be effective no earlier than the second (2nd) day after such notice is given (or four (4) hours in the case of a default under Section 6.1(c)) and no later than twenty (20) days following the receipt of said notice.

(b) [*]

(c) [*]

(d) Each Party shall use every reasonable effort to mitigate any damages resulting from a breach and/or termination of the Transaction Agreements.

(e) [*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(f) [*]

(g) If CMT elects to terminate the Transaction Agreements for the reasons set forth in Section 6.1(f), (g), (h) or (i), then NUIU's obligations shall be those set forth in Section 6.2(e). Once all such payments are made, and all capacity is reassigned to NUIU and all unutilized prepayment amounts are refunded to NUIU, each Party shall be relieved of all obligations and liabilities under the Transaction Agreements, except for other costs, refunds or credits due from any Service Provider that accrued before the Early Termination Date that have not yet been reconciled between the Parties.

6.3. [*]

6.4 Summer Season. If this Agreement terminates during a Summer Season or on the last day of a Summer Season, and on the termination date the Storage Assets contain a quantity of Gas less than the sum of the SDREQs for all Delivery Days in the Summer Season prior to the date of termination plus the Initial Storage Inventory for such assets ("Deficiency Quantity"), then CMT shall either, in its sole discretion, (i) have thirty (30) days following the termination date to deliver to NUIU's Storage Assets a quantity of Gas equal to the Deficiency Quantity, or (ii) pay NUIU, at a market price determined by NUIU, an amount per dekatherm for the Deficiency Quantity. If on the termination date the Storage Assets contain a quantity of Gas greater than the sum of the SDREQs for all Delivery Days in the Summer Season prior to the date of termination, plus the Initial Storage Inventory ("Excess Quantity"), then CMT shall either: (a) sell and NUIU shall purchase the Excess Quantity at a market price mutually agreed to by NUIU and CMT, or (b) CMT shall transfer such Excess Quantity to a storage contract held in CMT's name.

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6.5 Winter Season. If this Agreement terminates (a) during a Winter Season up to and including March 31, 2005 and on the termination date there remains a quantity of Gas within the Storage Assets that is less than the difference between quantity of gas deemed to have been injected into storage under this Agreement plus the Initial Storage Inventory, and the quantity of storage gas deemed to have been withdrawn during the Winter Period through the termination date ("Storage Quantity Deficiency"), notwithstanding anything to the contrary contained in this Agreement, NUIU agrees to either, at CMT's option, (i) (except in an early termination under Section 6.1(c) where this option (i) shall not be available), release to CMT in accordance with the terms of the Transaction Agreements, a quantity of capacity within the Storage Assets equal to the Storage Quantity Deficiency and CMT shall, have thirty (30) days following the termination date to deliver to NUIU's Storage Assets a quantity of Gas equal to the Storage Deficiency Quantity and NUIU shall reimburse CMT for the costs associated with the released NUIU Assets, or (ii) CMT shall pay NUIU, at a market price determined by NUIU, an amount per dekatherm for the Storage Quantity Deficiency or (b) during a Winter Season up to and including March 31, 2005 and on the termination date there remains a quantity of Gas within the Storage Assets that is greater than the difference between the quantity of gas deemed to have been injected into storage under this Agreement plus the Initial Storage Inventory, and the quantity of storage deemed to have been withdrawn during the Winter Period through the termination date ("Storage Excess Quantity") CMT shall, at CMT's sole discretion, either (x) sell and NUIU shall purchase the Storage Excess Quantity at a market price mutually agreed to by NUIU and CMT , or (y) transfer the Storage Excess Quantity to a storage contract held by CMT.

6.6 The obligations of the Parties under Sections 6.1, 6.4 and 6.5 shall survive termination of this Agreement.

6.7 Notwithstanding anything to the contrary in this Article 6, either Party shall have the right to settle its remaining obligations by cash payment, as reasonably agreed to by the other Party.

6.8 Set-Off. Upon the occurrence of the declaration of an Early Termination Date under Section 6.2 in respect of a party under any Transaction Agreement or any other agreement between the parties concerning the matters which are the subject of this Agreement (including, but not limited to, the agreements set forth in the Exhibits hereto), the Terminating Party may, without prior notice, setoff (including by setoff, offset, combination of accounts, retention, or withholding across or within each or all of the foregoing agreements) any sum, amount or other obligation (whether physically or financially settled, matured or unmatured) owed by the Terminating Party to the Terminated Party against any sum, amount or obligation (whether physically or financially settled, matured or unmatured) owed by the Terminated Party to the Terminating Party.

6.9 Audit. Either Party shall be entitled, at its sole expense, to audit those applicable books and records of the other Party to verify the accuracy of any unwinding cost calculation or any other calculations under the Transaction Agreements or the other Party's controls and procedures that may be relevant to the activities under the Transaction Agreements, at such other Party's offices and at a time during reasonable business hours acceptable to both Parties. In the alternative, if CMT engages a third party to perform a SAS 70 review of its gas pas control, procurement and management operations, NUI shall be entitled to a copy of such final report at no cost.

ARTICLE 7. INDEMNIFICATION

7.1. Indemnification Obligations Of NUIU. Subject to Section 7.3, NUIU shall indemnify and hold harmless CMT and its Affiliates and each of their respective Representatives from and against any claim, liability, loss, cost, damage, penalty or expense (including, without limitation, reasonable attorneys' fees, charges and disbursements) made against such indemnified party by third parties or Governmental Authority on account of (a) claims of title to Gas, deaths, personal injury, or property damage arising out of, or resulting from or in any way related to the Gas purchased and sold under the Gas Supply Agreement that attach after title to such Gas passes to NUIU, (b) any Excluded Liability, or (c) CMT acting as a party to the Grandfathered Transaction.

7.2. Indemnification Obligations Of CMT. Subject to Section 7.3, CMT shall indemnify and hold harmless NUIU and its Affiliates and each of their respective Representatives from and against any claim, liability, loss, cost, damage or expense (including, without limitation, reasonable attorneys' fees, charges and disbursements) made against such indemnified party by third parties on account of (a) claims of title to Gas, deaths, personal injury or property damage arising out of, resulting from or in any way related to the Gas purchased and sold under the Gas Supply Agreement that attach before title to such Gas passes to NUIU, or (b) any Assumed Liability.

7.3. Third Party Claims. With respect to claims made by third parties, the indemnifying party shall have the right to assume the defense of any such claim or action with counsel designated by the indemnifying party and reasonably satisfactory to the indemnified party. No indemnified party shall settle any claim or action with respect to which it has sought or intends to seek indemnification pursuant to this Article 7 without the prior written consent of the indemnifying party, which consent shall not be unreasonably withheld.

7.4. [*]

7.5. Taxes. NUIU shall indemnify, defend and hold CMT harmless from any liability for ad-valorem, value-added or similar Taxes incurred by CMT related to the volume of gas inventory in storage accounts for purposes of serving NUIU. Provided, however, NUIU shall have no liability for any ad-valorem or similar tax associated with any portion of additional storage gas inventory held by CMT for its own proprietary use outside of any obligation to serve NUIU, including all amounts injected into Production Area Storage Assets after April 1, 2004. Each Party will bear all taxes based upon its net worth, corporate existence or general right to transact business.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

7.6. Survival. The provisions of this Article 7 shall survive the termination of this Agreement for a term of three (3) years.

ARTICLE 8. CONFIDENTIALITY

8.1. Confidentiality. Except as provided in Section 8.2, each Party agrees that, during the Term, it will hold in strict confidence and will not without the prior written consent of the other Party disclose to any Person (a) any Confidential Information with respect to the other party (and its Affiliates) or (b) the terms and conditions and other information contained in any Transaction Agreement and in the Guaranty.

8.2. Actions Prior To Disclosure. In the event either Party determines that it is required by applicable law, rule, regulation or order of any Governmental Authority to disclose, file or otherwise make public the terms of any Transaction Agreement, the Guaranty or any Confidential Information, it shall, prior to making any such disclosure, (a) notify the other Party of its determination that such disclosure is required and the basis for such determination, and submit, after consultation with the other Party, an application for confidential treatment (or similar confidentiality request) and shall use reasonable efforts to obtain an order of such Governmental Authority granting the broadest confidential treatment that may be obtained with respect to such Transaction Agreement, the Guaranty or such other confidential Information (as the case may be). The Parties acknowledge and agree that NUIU must file some or all of the Transaction Agreements with the NJBPU as part of the NJBPU Filings. As part of such filing, NUIU intends to request that the NJBPU grant confidentiality protection to portions of such agreements and associated descriptions thereof, however, NUIU cannot guaranty that the NJBPU will grant such protection. If the NJBPU does not grant such protection, NUIU in its sole discretion shall decide in what manner and to what extent, if at all, it shall appeal any such NJBPU determination. NUIU shall not be responsible for damage or harm suffered by CMT resulting from any such NJBPU determination or from any NUIU decision as to whether to appeal such a determination or the manner or extent of doing so.

8.3. Non-Disclosure By Representatives. Notwithstanding the foregoing, each Party may disclose Confidential Information to officers, directors, employees and outside representatives of such Party or its Affiliates (collectively, "Representatives"); provided, that each Representative who receives any such information shall be informed of the confidential nature of such information and shall be directed to treat such Confidential Information in accordance with the terms of this Article 8. NUIU and CMT shall be responsible for any breach of this Article 8 by any of their Representatives and each agrees, at its sole expense, to take all reasonable measures (including but not limited to court proceedings) to restrain its Representatives from prohibited or unauthorized disclosure or use of Confidential Information.

8.4. Injunctive Relief. The Parties agree that in the event of any breach by either Party or its respective Representatives of any of the provisions of this Article 8, money damages would be inadequate and that the non-breaching Party would have no adequate remedy at law. Accordingly, notwithstanding anything to the contrary contained in this Agreement, the Parties agree that they shall have the right, in addition to any rights to seek damages, to pursue an action or actions for specific performance, injunction and/or other equitable relief in order to enforce or prevent any violation (whether anticipatory, continuing or future) of the provisions of this Article 8.

ARTICLE 9. DISPUTE RESOLUTION

9.1 Any controversy or claim arising out of relating to this Agreement or any Transaction Agreement or the breach thereof that cannot be settled informally by the Parties shall be settled by binding arbitration by three (3) arbitrators in accordance with the American Arbitration Commercial Arbitration rules. Any arbitrator shall: (i) not have been previously employed by either party, (ii) be qualified by education or experience to decide the matters relating to the dispute, and (iii) not have a direct or indirect interest in either party or the subject matter of the arbitration. The location for such arbitration processing shall be New York, New York. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Each party shall divide equally the cost of the arbitrators and the hearing, and each party shall be responsible for its own expenses and those of its counsel and representatives. Any offer made or the details of any negotiation regarding the dispute prior to arbitration and the costs to the parties of their representatives and counsel shall not be admissible. Any monetary award shall accrue interest from the date of the breach to the date of any judgment entered on the award at the prime commercial rate charged on the date of the breach by Citibank, N.S., New York, New York, plus two percent (2%) or at the maximum legal rate, whichever is less. This arbitration provision shall survive the termination of this Agreement.

ARTICLE 10. FINANCIAL INFORMATION AND PERFORMANCE ASSURANCE

10.1 Financial Information and Performance Assurance. Prior to the commencement of deliveries of Gas to NUIU hereunder, and from time to time thereafter upon request from either Party, each Party shall provide the other with such credit information as may reasonably be required to determine creditworthiness. The Parties acknowledge that each shall be obligated to provide the Performance Assurance identified in this Article 10 throughout the Term of the Transaction Agreements as the assurance of performance of each Party. Provided, however, if Cinergy Corp.'s unsecured, senior long-term debt rating has declined to below Investment Grade during the Term of this Agreement, NUIU shall have the right to request in writing, Performance Assurance from CMT other than the corporate guaranty provided pursuant to 10.3 below, and upon such request CMT and NUIU shall enter into good faith negotiations to mutually agree on the restructuring of the Performance Assurance obligations set forth in 10.2 and 10.3 below, provided that nothing herein shall prevent either Party from exercising its rights under Article 6 of this Agreement if it does not receive Performance Assurance satisfactory to it, in its reasonable discretion.

10.2 NUIU Performance Assurance. The obligations of NUIU under the Transaction Agreements shall be secured in accordance with a pre-payment obligation set forth below, unless NUIU's credit rating improves to Investment Grade, at which time the parties shall negotiate other mutually agreeable terms based on such improved creditworthiness status of NUIU which terms shall be no more onerous than those extended by CMT to other Investment Grade entities having similar creditworthiness standing.

(b) [*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(c) [*]

10.3 CMT Performance Assurance. NUI and Cinergy Corp., CMT's parent, shall execute a corporate guaranty agreement in a form and substance acceptable to NUIU and Cinergy Corp. and providing that Cinergy Corp. will guarantee CMT's obligations under all Transaction Agreements.

ARTICLE 11. BILLING AND PAYMENT

11.1 Billing and Payment. Unless otherwise provided for herein, not later than the fifteenth (15th) day of each month, CMT shall provide NUIU an invoice (which may be transmitted by electronic facsimile with the original sent by United States Mail), setting forth the following information for the immediately preceding Delivery Month under this Agreement or any other Transaction Agreement:

(a) the applicable Commodity Charges;

(b) the applicable Demand Charges; and

(c) any other charges, credits, or adjustments due pursuant to the terms of this Agreement (including credits for any prepayments made).

If the quantities for any Delivery Month are not made available to CMT by the applicable Service Provider(s) by the fifteenth (15th) day of the month following the Delivery Month, then CMT may invoice based on the quantities nominated and confirmed for transportation, subject to appropriate adjustments to actual quantities when available. NUIU shall make payment by wire transfer within ten (10) Business Days after receipt of CMT's invoice or by the first (1st) Business Day falling on or after the twenty-fifth (25th) day of the month following the Delivery Month, whichever is later.

11.2 Billing Disputes. If a dispute arises as to the amount payable in any invoice rendered under this Agreement, other than under a prepay invoice which may not be disputed, the Party receiving the invoice shall nevertheless pay the amount not in dispute under such invoice by the payment due date. Such payment shall not be deemed to be a waiver of the right by the Party making payment to recoup any overpayment, nor shall acceptance of any payment be deemed to be a waiver by the invoicing Party of any underpayment. If the Party making payment fails to forward the entire undisputed amount due to the invoicing Party by the payment due date, interest on the unpaid portion shall accrue at a rate equal to two percent (2%) above the then-current prime rate charged by Citibank, N.A. or the maximum lawful rate, whichever is the lesser, compounded daily from the date such payment is due until the same is paid.

11.3 Notice of Dispute. If either Party withholds payment of any disputed amount as authorized herein, such Party shall, within fifteen (15) days after the due date for the disputed amount, submit to the other Party a written explanation of the dispute and any available supporting documentation. The Parties shall then cooperate in good faith to resolve such dispute as expeditiously as possible, and the portion, if any, of such disputed amount eventually determined to be due shall bear interest at the rate stated in Section 2.12 of this Agreement, from the original due date until the date actually paid.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

ARTICLE 12. FORCE MAJEURE

Neither Party shall be liable for damages to the other for any act or omission caused by an event constituting *Force Majeure* and the obligations of the affected Party, other than the obligation to make payments due under this Agreement, shall be excused during the period thereof and to the extent affected by such event of Force Majeure, the Party claiming *Force Majeure* gives notice and full particulars of such event in writing to the other party as soon as possible after the occurrence of the event relied on. The term "*Force Majeure*" as employed herein means acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, hurricanes or storms, hurricane or storm warnings which require the precautionary shut-down or evacuation of production facilities, earthquakes, fires, floods, washouts, arrest and restraints of governments and people, civil disturbances, explosions, breakage or accidents to machinery, equipment, or lines of pipe, freezing of lines of pipe, *Force Majeure* events of a Service Provider under its applicable tariff, curtailment by Service Provider of firm storage or transportation, line breakage or other *Force Majeure* events, and any other cause beyond the reasonable control of the Party affected, or which the Party affected could not have avoided or overcome by exercise of due diligence, which renders that Party unable to carry out its obligations pursuant to the terms of this Agreement. The settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty, and the above requirement that any *Force Majeure* event by remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of an opposing party when such course is inadvisable in the discretion of the Party having the difficulty. *Force Majeure* shall not, without more, include a failure to obtain a sufficient quantity of gas supply, nor shall Force Majeure include (i) economic hardship (to include, without limitation, CMT's ability to sell Gas at a higher or more advantageous price that the Price hereunder or NUIU's ability to purchase Gas at a lower or more advantageous price that the Price hereunder) (ii) a regulatory agency disallowing in whole or in part, the pass through of costs resulting from this Agreement, or (iii) the loss of NUIU's market or NUIU's inability to useor resell Gas purchased hereunder.

ARTICLE 13. MISCELLANEOUS

13.1. Entire Agreement; Modifications In Writing. The Transaction Agreements, together with all exhibits and schedules attached hereto and thereto, constitute the entire agreement between the Parties pertaining to the subject matter hereof and thereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. Except as specifically provided in a Transaction Agreement, no amendment, waiver, consent, modification or termination of any provision of such Transaction Agreement shall be effective unless signed by NUIU and CMT.

13.2. Binding Effect; Assignment. The rights and obligations hereunder of either Party may not be assigned or delegated to any Person without the prior written consent of the other Party; provided that CMT shall be permitted to assign its rights with respect to any Supply Asset. Except as expressly provided herein, this Agreement shall not be construed so as to confer any right or benefit upon any Person or third party other than the Parties, and their respective successors and any permitted assigns. This Agreement shall be binding upon NUIU and CMT, and their respective successors and permitted assigns. No assignment of this Contract will relieve the assigning party from principal liability hereunder unless the continuing party shall provide such a release to the assignor in writing.

13.3. Communications. All communications required or permitted under the terms of any Transaction Agreement shall be in writing, and shall be given by registered or certified mail, return receipt requested, telex, facsimile (fax), air courier guaranteeing overnight delivery or personal delivery, to the addresses set forth below. All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; four (4) days after being sent by certified mail, return receipt requested, if mailed; if sent by telecopy (fax), when the delivering Party receives its facsimile machine's confirmation of successful transmission; and on the next Business Day if timely delivered to an air courier guaranteeing overnight delivery. Any facsimile or other notice received on other than a Business Day or after five p.m. on a Business Day shall be deemed received at the start of the next Business Day.

NOTICES

TO CMT:	*TO NUIU:*
Cinergy Marketing & Trading, LP 1100 Louisiana, Suite 4900 Houston, TX 77002 Attention: Chris M. Fischer (713) 393-6846 (713) 890-3137 F	NUI Utilities, Inc. One Elizabethtown Plaza Union, New Jersey 07087 Attention: Nancy J. Sobelson 908-289-5000 Ext. 5422 908-289-0978 F

OPERATIONAL MATTERS

TO CMT:	*TO NUIU;*
Cinergy Marketing & Trading, LP 1100 Louisiana, Suite 4900 Houston, TX 77002 Attention: Greg Trefz (713) 393-6962 (713) 890-3134 F	NUI Utilities, Inc. One Elizabethtown Plaza Union, New Jersey 07087 Attention: Len Willey 908-289-5000 Ext. 5960 908-820-3623 F

PAYMENTS

TO CMT:	*TO NUIU:*
Bank One, NA One First National Plaza Chicago, IL 60670 Re - Cinergy Marketing & Trading, LP **ABA # 071 000 013** Account # 55-59340	NUI Utilities, Inc. One Elizabethtown Plaza Union, New Jersey 07087 Attention: Noreen Navarro 908-289-5000

Cinergy Accounting Contact:

(713) 890-3118

13.4. Expenses. Each Party shall pay its own expenses incident to negotiation, execution and delivery of the Transaction Agreements. The provisions of this Section 10.4 shall remain operative and in full force and effect regardless of any termination of any Transaction Agreement.

13.5. Execution of Counterparts. Each of the Transaction Agreements may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same agreement.

13.6. GOVERNING LAW. EACH TRANSACTION AGREEMENT, AND THE RIGHTS AND DUTIES OF THE PARTIES ARISING OUT OF SUCH AGREEMENT, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. VENUE FOR ANY ACTION ARISING OUT OF THIS AGREEMENT SHALL BE THE SUPREME COURT LOCATED IN NEW YORK COUNTY OR THE FEDERAL DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK.

13.7. Severability of Provisions. The invalidity of one or more provisions or sections contained in any Transaction Agreement shall not affect the validity of the remaining portions of the Transaction Agreements so long as for both Parties the material purposes of the Transaction Agreements taken as a whole can be determined and effectuated. In the event that any or all of any Transaction Agreement is held to be invalid or unenforceable, the Parties agree to negotiate in good faith to reach an equitable agreement on such portion that is void or unenforceable. If any indemnity or hold harmless obligation (or portions thereof) in any Transaction Agreement is for any reason held to be invalid or unenforceable in any respect, and if the Parties fail to agree on a replacement provision, then such obligation shall be construed to apply to the fullest extent permitted by law but in no event beyond the scope and limits of those original indemnity and hold harmless obligations determined to be invalid or unenforceable.

13.8. Headings. The section headings and the table of contents, if any, used or contained in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

13.9. No Partnership Created. The rights, liabilities, responsibilities and remedies of the Parties with respect to the subject matter of the Transaction Agreements shall be exclusively those expressly set forth in the Transaction Agreements. Neither Party is, or will represent itself as being, a partner of, or CMT (except as expressly provided in the Transaction Agreements) or fiduciary for, the other Party with respect to the Supply Assets or otherwise.

13.10. No Implied Warranties. Each Party hereby disclaims, and the other Party hereby waives, any implied representations, covenants, warranties and agreements, except those expressly set forth in a Transaction Agreement.

13.11. Cost Responsibility. Except to the extent this Agreement provides expressly to the contrary, each Party shall pay all costs in connection with the performance of its obligations under or as set forth in this Agreement.

13.12 Further Assurances. NUIU and CMT agree to execute whatever documents may be necessary to give effect to the transactions contemplated herein, including but not limited to the transfer of title to such gas in storage to CMT effective as of the Effective Date.

IN WITNESS WHEREOF, the Parties have entered into this Agreement, effective as of the date first above written.

NUI UTILITIES, INC.

By: /S/ VICTOR A. FORTKIEWICZ
Name: Victor A. Fortkiewicz
Title: President

CINERGY MARKETING & TRADING, LP

By: /S/ BRUCE A. SUKALY
Name: Bruce A. Sukaly
Title: Chief Commercial Officer
Natural Gas

EXHIBIT A

ASSIGNED AND AGENCY CONTRACTS SCHEDULE

EXHIBIT A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.
Elizabethtown Gas Company

Supply and Capacity Assets

CONTRACT PARTY	Contract Number	Tariff Rate	Assigned (284) or Agency (7c) Status	Deliverability Daily (Dth)	Deliverability Seasonal (Dth)	Deliverability Annual (Dth)
FIRM TRANSPORT						
Transco (Leidy line)	1011998	FT	284	15,615		5,699,475
				9,948(a)		3,631,020
				5,522(a)		517,500
Transco (Leidy line)	1011995	FT	284	15,000		5,475,000
Transco (Leidy line)	1011997	FT	284	17,595		6,422,175
Transco (Leidy line)	1000656	X-270	7c	1,090		397,850
Transco (Leidy line)	1000995	X-276	7c	10,000		3,650,000
Transco	1003686	FT	284	13,218		4,824,570
Transco	1003686	FT	284	19,439		7,095,235
Transco	1003686	FT	284	14,774		5,392,510
Transco	1003686	FT	284	30,324		11,068,260
Transco*	1003960	FT	284	2,940		1,073,100
Transco	1005014	FT	284	334	30,060	
Transco	1005014	FT	284	492	44,280	
Transco	1005014	FT	284	374	33,660	
Transco	1005014	FT	284	767	69,030	
Transco	1002230	FT	284	308		112,420
Transco	1002230	FT	284	451		164,615
Transco	1002230	FT	284	345		125,925
Transco	1002230	FT	284	707		258,055
Transco	1010431	FT	284	440		160,600
Transco	1010431	FT	284	647		236,155
Transco	1010431	FT	284	492		179,580
Transco	1010431	FT	284	1,009		368,285
Transco	1010445	FT	284	361		131,765
Transco	1010445	FT	284	274		100,010
Transco	1010445	FT	284	807		294,555

Texas Eastern	800217	CDS	284	20,220	7,380,300
Texas Eastern	800217	CDS	284	5,496	2,006,040
Texas Eastern	800217	CDS	284	3,174	1,158,510
Texas Eastern	800217	CDS	284	6,239	2,277,235
Texas Eastern	800217	CDS	284	11,397	4,159,905
Texas Eastern (b)	830029	FT-1	284	20,000	7,300,000
Texas Eastern	800392	FT-1	284	1,348	492,020
Texas Eastern	800392	FT-1	284	366	133,590
Texas Eastern	800392	FT-1	284	212	77,380
Texas Eastern	800392	FT-1	284	416	151,840
Texas Eastern	800392	FT-1	284	760	277,400
Texas Eastern	910333	FT-1	284	5,394	1,968,810
Texas Eastern	910333	FT-1	284	1,466	535,090
Texas Eastern	910333	FT-1	284	847	309,155
Texas Eastern	910333	FT-1	284	1,664	607,360
Texas Eastern	910333	FT-1	284	3,040	1,109,600
Texas Eastern	330837	FTS	7c	1,520	554,800
Texas Eastern	330874	FTS-4	7c	5,000	1,825,000
Texas Gas Transmission	16775	FT	284	11,127	4,061,355
Texas Gas Transmission	16775	FT	284	6,800	2,482,000
Tennessee	959	FT-A	284	1,000	365,000
Tennessee	597	FTG	284	1,067	389,455
Tennessee	597	FTG	284	640	233,600
Tennessee	597	FTG	284	1,341	489,465
Tennessee***	44414		284	2,100	766,500
National Fuel Gas	E00526	EFT	284	11,090	4,047,850
National Fuel Gas	F01642	FT	284	15,805	5,768,825
Columbia Gulf Transmission**	37968	FTS-1		1,671	609,915
Columbia Gas Transmission	37882	FTS	284	12,736	4,648,640
Columbia Gas Transmission	39275	NTS	284	10,000	3,650,000
CNG (Dominion)	200397	FT	284	17,120	6,248,800
CNG (Dominion)	100115	FTNN	284	5,000	2,352,060
CNG (Dominion)	100115	FTNN	284	1,444	2,352,060
Total				335,158	

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Transco (Leidy line)	1003832	FT	284	5,175	1,888,875
Transco (Leidy line)	1000653	X-269	7c	500	182,500
Transco (Leidy line)	1044821	FT	284	6,973	2,545,145
Texas Eastern	330167	FTS-4	7c	5,000	1,825,000
Texas Eastern	331501	FTS-5	7c	16,666	6,083,090
Texas Eastern	331720	FTS-7	7c	14,298	5,218,770
Texas Eastern	331013	FTS-8	7c	8,469	3,091,185
Tennessee	603	FTG	284	1,014	370,110
Tennessee***	44410		284	3,000	1,095,000
Tennessee***	44413		284	3,040	1,109,600
Columbia Gas Transmission	38045	SST	284	3,644	996,634
CNG (Dominion)	200394	FT	7c	5,522	2,015,530
CNG (Dominion)	200393	FT	7c	6,973	2,545,145
Total				80,274	

STORAGE - Bundled (Market Area)

Transco	1000739	GSS	7c	27,604	1,759,955
Transco	1000741	LSS	7c	8,000	600,000
Transco	1000742	S-2	7c	7,267	653,186
Texas Eastern	400196	SS-1	284	3,646	379,911
Total				46,517	

STORAGE (North)

Transco	1044824	SS-1	284	6,973	541,305

Tennessee	8703	FS-MA	284	1,014	100,485
Steuben (units in MCF)			7c	5,556	500,000
Columbia Gas Transmission	38000	FSS	284	3,644	230,168
CNG (Dominion)	300165	GSS	284	10,826	645,244
CNG (Dominion)	300167	GSS-II	284	16,667	1,666,666
CNG (Dominion)	600044	GSS-TE	7c	23,190	2,387,206
CNYOG - Stagecoach	100023	FSS	284	3,040	304,000
Total				70,910	

STORAGE (South)

Transco	1013463	ES	284	14,397	144,856
Hattiesburg	5904		to be Assigned	10,000	100,000
Transco	1041432	WSS	284	40,149	3,412,638
Total				64,546	
Grand Totals - Assets				597,405	

PEAKING

Transco	1000743	LG-A	7c	23,950	98,087
Transco	1032229	LNG	284	15,000	56,864
Transco	1000743	LG-A	7c	23,950	98,087
Total				62,900	

FIRM GAS SUPPLY

Cargill (Canadian supply)	103286			10,350	3,777,750
Cogen Tech				17,000	6,205,000
Total				27,350	

FIRM GAS SUPPLY w/ Bundled Transportation

Total				---	
Grand Total - Others				90,250	

CONTRACT PARTY	Storages Max w/d (Dth)	Storages Max inj (Dth)	Capacity (Dth)	Days Avail.	Receipt Point	Delivery Point	Effective Term(1)	Citygate Delivery
FIRM TRANSPORT								
Transco (Leidy line)				365	CNG @ Leidy	City Gate	10/31/2007	15,615
					Steuben storage withdrawal	City Gate		
Transco (Leidy								

line)					
Transco (Leidy line)	365	National Fuel @ Wharton	City Gate	10/31/2014	15,000
Transco (Leidy line)	365	CNG @ Leidy	City Gate	10/31/2006	17,595
Transco (Leidy line)	365	National Fuel @ Wharton	City Gate	Evergreen	1,090
Transco	365	Natiional Fuel @ Wharton	City Gate	Evergreen	10,000
Transco	365	Station 30	City Gate	10/31/2004	13,218
Transco	365	Station 45	City Gate	10/31/2004	19,439
Transco	365	Station 50	City Gate	10/31/2004	14,774
Transco*	365	Station 65	City Gate	10/31/2004	30,324
Transco	365	Zone 3, Station 62	Zone 3, Stations 54, 65	10/31/2004	
Transco	90	Station 30	City Gate	7/31/2006	334
Transco	90	Station 45	City Gate	7/31/2006	492
Transco	90	Station 50	City Gate	7/31/2006	374
Transco	90	Station 62	Station 65	7/31/2006	
Transco	365	Station 30	City Gate	Evergreen	308
Transco	365	Station 45	City Gate	Evergreen	451
Transco	365	Station 50	City Gate	Evergreen	345
Transco	365	Station 65	City Gate	Evergreen	707
Transco	365	Station 30	City Gate	Evergreen	440
Transco	365	Station 45	City Gate	Evergreen	647
Transco	365	Station 50	City Gate	Evergreen	492
Transco	365	Station 65	City Gate	Evergreen	1,009
Transco	365	Station 45	Columbia - Downingtown	Evergreen	
Transco	365	Station 50	Columbia - Downingtown	Evergreen	
Texas Eastern	365	Station 65	Columbia - Downingtown	Evergreen	
Texas Eastern	365	M1	City Gate	10/31/2012	20,220
Texas Eastern	365	STX	M1	10/31/2012	
Texas Eastern	365	ETX	M1	10/31/2012	
Texas Eastern	365	WLA	M1	10/31/2012	
Texas Eastern (b)	365	ELA	M1	10/31/2012	
Texas Eastern	365	Algonquin backhaul	City Gate	10/31/2005	20,000
Texas Eastern	365	M1	Columbia @ Eagle	Evergreen	
Texas Eastern	365	STX	M1	Evergreen	
Texas Eastern	365	ETX	M1	Evergreen	
Texas Eastern	365	WLA	M1	Evergreen	
Texas Eastern	365	ELA	M1	Evergreen	
Texas Eastern	365	M1	City Gate	3/31/2014	5,394
Texas Eastern	365	STX	M1	3/31/2014	
Texas Eastern	365	ETX	M1	3/31/2014	
Texas Eastern	365	WLA	M1	3/31/2014	
Texas Eastern	365	ELA	M1	3/31/2014	
Texas Eastern	365	Oakford & Cornwell	City Gate	10/31/2009	1,520
Texas Gas Transmission	365	Chambersburg	City Gate	12/1/2009	5,000
Texas Gas Transmission	365	Zone 0	Lebanon - CNG	10/31/2006	
Tennessee	365	Zone 1	Lebanon - CNG	10/31/2006	
Tennessee	365	Niagara River (Bi 2 0081)	Natl Fuel - TGP Z-5	4/30/2007	
Tennessee	365	Sun Plant Dehydration (100 Leg, Sta. 47, Ouachita, LA)	City Gate	4/1/2013	1,067
Tennessee	365	East Cameron Blk 60 (800 Leg, Sta. 834, Franklin, LA)	City Gate	4/1/2013	640
Tennessee***	365	South Pass Block 60	City Gate	4/1/2013	1,341

				Dehydration (500 Leg, Sta. 542, Noxubee, MS)			
National Fuel Gas			365	Zone 4, East Aurora	Zone 5, Koppel	8/31/2008	
National Fuel Gas			365	TGP Z-4,5 Tetco-PA	Transco @ Wharton	Evergreen	
Columbia Gulf Transmission**			365	Niagara	Transco @ Leidy	11/1/2007	
Columbia Gas Transmission			365	CGT-Rayne	City Gate	10/31/2004	1,671
Columbia Gas Transmission			365	Columbia-Downingtown	City Gate	10/31/2010	12,736
CNG (Dominion)			365	Kenova, TCO-Leach	City Gate	10/31/2010	10,000
CNG (Dominion)			365	**Texas Gas - Lebanon,** OH	Transco @ Leidy	10/31/2006	-
CNG (Dominion)			365	Oakford (3,521 dth/day) & Cornwell (2,923 dth/day)	Chambersburg	3/31/2005	-
Total			365	Oakford (3,521 dth/day) & Cornwell (2,923 dth/day)	Leidy	3/31/2005	
						Total	222,243

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Transco (Leidy line)							
Transco (Leidy line)			365	Oakford & Cornwell	City Gate	12/14/2009	5,175
Transco (Leidy line)			365	Oakford & Cornwell	City Gate	Evergreen	500
Texas Eastern			365	CNG @ Leidy	City Gate	3/31/2008	6,973
Texas Eastern			365	CNG @ Leidy	City Gate	12/1/2008	5,000
Texas Eastern			365	CNG @ Oakford	City Gate	3/31/2012	16,666
Texas Eastern			365	Leidy & Oakford	City Gate	4/30/2015	14,298
Tennessee			365	Leidy & Oakford	City Gate	3/31/2006	8,469
Tennessee***			365	Northern Storage Withdrawal 300 Leg, Zone 4 (Potter, PA)	City Gate	4/1/2013	1,014
Tennessee***			365	Zone 4, Station 319	Zone 5, White Plains, NY	8/31/2008	-
Columbia Gas Transmission			365	@ Storage	Zone 4, Station 319	8/31/2008	
CNG (Dominion)			365	Columbia FSS	City Gate	10/31/2004	3,644
CNG (Dominion)			365	National Fuel @ Leidy	Transco @ Leidy	3/31/2011	
			365	Transco @ Leidy	Transco @ Leidy	month-to-month	
Total						Total	61,739

STORAGE - Bundled (Market Area)

Transco								
Transco	27,604	9,778	1,759,955	64	@ Storage	City Gate	3/31/2013	27,604
Transco	8,000	3,333	600,000	75	@ Storage	City Gate	Evergreen	8,000
Texas Eastern	7,267	5,443	653,186	90	@ Storage	City Gate	Evergreen	7,267
	3,646	1,953	379,911	104	@ Storage	City Gate	4/30/2012	3,646
Total			3,393,052				Total	46,517

STORAGE (North)

Transco								
Tennessee	6,973	3,007	541,305	78	@ Storage	CNG/Transco @ Leidy	3/31/2008	

Steuben (units in MCF)	1,014	670	100,485	99	@ Storage	300 Leg, Zone 4 (Potter, PA)	3/31/2013	-
Columbia Gas Transmission	5,750	3,696	517,000	90	@ Storage	CNG @ Leidy	3/31/2011	-
CNG (Dominion)	3,644	1,841	230,168	63	@ Storage	Columbia SST	10/31/2004	-
CNG (Dominion)	10,826	3,585	645,244	60	@ Storage	Transco @ Leidy	3/31/2008	-
CNG (Dominion)	16,667	9,259	1,666,666	100	@ Storage	Tetco @ Oakford	3/31/2012	
CNYOG - Stagecoach	23,190	13,262	2,387,206	103	@ Storage	Leidy, Oakford, Chambersburg, Crayne	3/31/2006	
	3,040	1,520	304,000	100	@ Storage	Station 319	8/31/2008	
Total			6,392,074				Total	-
STORAGE (South)								
Transco								
Hattiesburg	14,397	959	144,856	10	@ Storage	Covington Cty - Miss.	10/31/2013	
Transco	10,000	5,000	100,000	10	@ Storage	Transco @ Covington	7/31/2005	
	40,149	18,859	3,412,638	365	@ Storage	Zone 3, Station 54	1/31/2012	
Total			3,657,494				TOTAL	
Grand Totals - Assets			13,442,620					330,499
PEAKING								
Transco				4	Transco Zone 6	City Gate	month-to-month	23,950
Transco				3	Transco Zone 6	City Gate	month-to-month	15,000
Transco				4	Transco Zone 6	City Gate	month-to-month	23,950
Total							TOTAL	62,900
FIRM GAS SUPPLY								
Cargill (Canadian supply)								
Cogen Tech						Niagra - National Fuel TGT Production Area	10/30/2007	-
								-
Total								-
FIRM GAS SUPPLY w/ Bundled Transportation								
Total								
Grand Total - Others								62,900

Notes:
* Notice of termination given
** Contract permanently released
*** Assigned capacity
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period
(a) A single FT capacity contract used for both storage withdrawal and flowing supply.
(b) Backhaul capacity on Texas Eastern with a new gate station connection.

Exhibit A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.

City Gas Company of Florida

Supply and Capacity Assets

CONTRACT PARTY	Contract Number	Rate	Assigned (284g) or Agency (7c) Status	Deliverability Daily (Dth)	Deliverability Seasonal (Dth)	Deliverability Annual (Dth)	Storages Max w/d (Dth)	Storages Max inj (Dth)	Storages Capacity (Dth)
FIRM GAS SUPPLY									
FIRM TRANSPORT									
Florida Gas Transmission	5034	FTS-1	284g			11,652,931			
				43,685	6,596,435				
				23,201	696,030				
				23,185	3,547,305				
				26,231	813,161				
Florida Gas Transmission	3608	FTS-2	284g			1,464,290			
				2,570	465,170				
				5,430	999,120				
Florida Gas Transmission	5364	FTS-2	284g			2,947,435			
				12,655	2,290,555				
				3,570	656,880				

Notes:
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period

CONTRACT PARTY	Days Available	Effective Term (1)	Receipt Point	Delivery Point	Comments
FIRM GAS SUPPLY					
Florida Gas Transmission	365	7/31/2005			
	151		various - see "FGT FTS-1 5034" tab		November - March
	30				April
	153				May - September
	31				October
Florida Gas Transmission	365	2/28/2015	various - see "FGT FTS-2 3608" tab		
	181				November - April
	184				May - October
Florida Gas Transmission	365	2/28/2015	various - see		

	181		"FGT FTS-2 5364"		November - April
	184		tab		May - October

Exhibit A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.

Elkton Gas

Supply and Capacity Assets

				Deliverability			Storages		
CONTRACT PARTY	Contract Number	Rate	Assigned (284g) or Agency (7c) Status	Daily (Dth)	Seasonal (Dth)	Annual (Dth)	Max w/d (Dth)	Max inj (Dth)	Capacity (Dth)
FIRM GAS SUPPLY									
FIRM TRANSPORT									
Transco	1021359	FT	284g	2,635		961,775			
Transco	1021368	FT	284g	52	4,680				
Columbia	57828	FT	284g	86		31,390			
Eastern Shore	010003	FT	284g			966,455			
				2,635	724,625				
				2,687	241,830				
Eastern Shore	010011	FT	284g	86		31,390			
Eastern Shore	010013	FT	284g	679		247,835			
Eastern Shore	010032	FT	284g	750		273,750			
Eastern Shore	010041	FT	284g	3,000		1,095,000			
FIRM TRANSPORT ASSOCIATED WITH STORAGE									
Eastern Shore	020003	ST	284g	622	112,582				
Eastern Shore	010012	FT	284g	217	19,530				
Eastern Shore	020005	ST	284g			140,605			
				481	87,061				
				291	53,544				
STORAGE - Market Area									
Eastern Shore	080002	CFSS	284g	481		25,381	481	188	25,381
Eastern Shore	050003	GSS	7c	512		25,339	512	141	25,339
Eastern Shore	060003	LSS	7c	111		5,500	111	31	5,500
PEAKING									
Eastern Shore	070003	LG-A	7c	217		1,361	217	490	1,361
Notes:									
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period									

Contract Party	Days Available	Effective Term (1)	Receipt Point	Delivery Point	Comments

FIRM GAS SUPPLY

FIRM TRANSPORT

Transco	365	3/31/2005	Zone 1-2 - TX, LA	Transco Z6 - Parkesburg #6570, Hockessin	Feeds FT 010003
Transco	90	7/31/2006	Zone 1-2 - TX, LA	Transco Z6 - Parkesburg #6570, Hockessin	Feeds FT 010003 (Dec-Feb only)
Columbia	365	10/31/2004	Op Area 3, TCO Leach 801	TCO - Daleville MLI 88	Feeds FT 010011
Eastern Shore	365	10/31/2005	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
	275				March - November
	90				December - February
Eastern Shore	365	8/31/2008	TCO - Daleville MLI 88	City Gate (ESN003)	
Eastern Shore	365	10/31/2007	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
Eastern Shore	365	10/31/2008	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
Eastern Shore	365	10/31/2010	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Eastern Shore	181	3/31/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	November - April
Eastern Shore	90	10/31/2006	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	December - February
Eastern Shore	365	10/31/2004	TCO - Daleville MLI 88	City Gate (ESN003)	
	181				November - April
	184				May - October
Eastern Shore	53	10/31/2004	TCO - Daleville MLI 88	City Gate (ESN003)	Delivers on ST 020005
Eastern Shore	50	3/31/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on ST 020003
Eastern Shore	50	4/1/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on FT 020003
Eastern Shore	6	10/31/2006	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on FT 010012

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #5034 (FTS-1)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 11/1/1993

Point(s) of Receipt			Maximum Daily Quantity (MMBtu)*			
Point Description	Point	DRN	Oct	Nov-Mar	Apr	May-Sept
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
MOPS-REFUGIO FGT	611	25809	5,510	10,391	4,143	4,135
NGPL-JEFFERSON FGT	10240	23703	0	0	0	1,069
SABINE PASS PLANT (Johnson's Bayou)	282	23422	6,333	9,334	6,333	5,265
Zone 1 Total			11,843	19,725	10,476	10,469
PRODUCTION ZONE 2:						
COLUMBIA GULF-LAFAYETTE FGT	62410	179851	2,742	4,322	2,326	1,875
CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0
SABINE-KAPLAN FGT	23062	10881	2,742	4,322	2,327	1,875
TETCO-ATCHAFALAYA FGT	10147	10030	1,995	3,809	1,961	2,859
TRUNKLINE-VERMILLION FGT	25405	50031	0	0	0	0
Zone 2 Total			7,479	12,453	6,614	6,609
PRODUCTION ZONE 3:						
CARNES TENNESSEE FGT (REC)	10258	12740	0	0	0	0
CS #11 MOUNT VERNON	25309	716	0	0	0	0
KOCH-ST. HELENA FGT	10109	9906	0	0	0	0
SNG-FRANKLINTON FGT BI-DIR (REC)	10095	11224	0	0	0	0
TRANSCO/CITRONELLE FGT CAPACITY	62132	157553	4,340	5,348	3,696	2,865
TRANSCO-ST. HELENA FGT	10114	9903	2,569	6,159	2,415	3,242
Zone 3 Total			6,909	11,507	6,111	6,107
Total MDQ:			**26,231**	**43,685**	**23,201**	**23,185**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #3608 (FTS-2)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 12/12/1991

Point(s) of Receipt	Maximum Daily Quantity (MMBtu)*	
	Nov-	May-

Point Description	Point	DRN	Oct	Mar	Apr	Sept
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
HPL-MAGNET WITHERS FGT	8576	24662	1,562	420	420	1,562
Zone 1 Total			1,562	420	420	1,562
PRODUCTION ZONE 2:						
CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0
TETCO-ATCHAFALAYA FGT	10147	10030	0	0	0	0
Zone 2 Total			0	0	0	0
PRODUCTION ZONE 3:						
CS #11 MOUNT VERNON	25309	716	0	0	0	0
DESTIN PIPELINE/FGT	71298	241390	0	929	929	0
EXXON-ST. REGIS / FGT	10141	38221	0	0	0	0
KOCH SHADYSIDE	930300	10370	0	0	0	0
TENN PATTERSON	932500	10367	0	0	0	0
TRANSCO FROST	946400	9191	0	0	0	0
TRANSCO-ST. HELENA FGT	10114	9903	3,868	1,221	1,221	3,868
Zone 3 Total			3,868	2,150	2,150	3,868
Total MDQ:			**5,430**	**2,570**	**2,570**	**5,430**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #5364 (FTS-2)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 8/12/1993

Point(s) of Receipt

Maximum Daily Quantity (MMBtu)*

Point Description	Point	DRN	Oct	Nov-Mar	Apr	May-Sept
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
NGPL-JEFFERSON FGT	10240	23703	1,067	3,782	3,782	1,067
Zone 1 Total			1,067	3,782	3,782	1,067
PRODUCTION ZONE 2:						
CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0

TETCO-ATCHAFALAYA FGT	10147	10030	0	0	0	0
Zone 2 Total			0	0	0	0
PRODUCTION ZONE 3:						
CS #11 MOUNT VERNON	25309	716	0	0	0	0
DESTIN PIPELINE/FGT	71298	241390	1,038	3,679	3,679	1,038
KOCH SHADYSIDE	930300	10370	0	0	0	0
TENN PATTERSON	932500	10367	0	0	0	0
TRANSCO/CITRONELLE FGT CAPACITY	62132	157553	1,465	5,194	5,194	1,465
TRANSCO FROST	946400	9191	0	0	0	0
Zone 3 Total			2,503	8,873	8,873	2,503
Total MDQ:			**3,570**	**12,655**	**12,655**	**3,570**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

Exhibit B

Delivery Month	Compensation Amount
Apr-04	*
May-04	[*]
Jun-04	[*]
Jul-04	[*]
Aug-04	[*]
Sep-04	[*]
Oct-04	[*]
Nov-04	[*]
Dec-04	[*]
Jan-05	[*]
Feb-05	*
Mar-05	[*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT C

GAS SUPPLY AGREEMENT

(Filed as Exhibit 10(lxiv) to NUI's Form 10-K for Fiscal Year ended September 30, 2003)

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality request. Omissions are designated as [*]. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission

GAS SUPPLY AGREEMENT

This Gas Supply Agreement ("Gas Supply Agreement") is made and entered into this 7th day of April, 2004, by and between NUI UTILITIES, INC. ("NUIU"), a New Jersey corporation, with its principal place of business located at One Elizabethtown Plaza, Union, New Jersey, 07087 and Cinergy Marketing & Trading, LP ("Seller") with its principal place of business located at 1100 Louisiana Street, Suite 4900, Houston, TX 77002 (each sometimes referred to individually as "Party" and collectively as "Parties").

WHEREAS, NUIU is a local gas distribution company engaged in the business, *inter alia*, of supplying and transporting Gas, as defined below, to residential, commercial and industrial end-users within its service territory located in New Jersey, Maryland and Florida; and

WHEREAS, Seller is engaged in the business, *inter alia*, of marketing and managing Gas supplies, storage and transportation; and

WHEREAS, Seller and NUIU are Parties to a Gas Supply Asset Assignment and Agency Agreement and Seller desires to sell Gas to NUIU, and NUIU desires to purchase Gas from Seller for NUIU's New Jersey, Florida and Maryland utility divisions in accordance with the terms of this Agreement and the Gas Supply Asset Assignment and Agency Agreement.

NOW, THEREFORE, in consideration of the covenants and agreements set forth herein, NUIU and Seller agree as follows:

ARTICLE 1

DEFINITIONS

1.01 The following terms used herein shall be construed to have meanings as follows and any term used herein that is defined in the Gas Supply Asset Assignment and Agency Agreement shall have that definition incorporated herein:

(a) The term "Agreement" shall mean this "Gas Supply Agreement" including all amendments, modifications or supplements thereto.

(b) The term "Authorizations" shall mean any and all approvals, permits, licenses, or other authorizations of whatever kind or character required by local, state, or federal agencies to enable NUIU to purchase, sell, deliver, and receive Gas or to permit NUIU's Service Providers to purchase, sell, transport and store Gas to, for, or on behalf of NUIU or for NUIU's account and which are required for Seller to perform its obligations under this Agreement.

(c) The term "Business Day" shall mean any day on which Federal Reserve member banks in New York City are open for business, and shall begin at 8:00 a.m. and close at 5:00 p.m. Eastern Clock Time.

(d) The term "City Gate(s)" shall mean those valid points of receipt for Gas from various interstate pipelines into NUIU's distribution system as designated in the NUIU Assets.

(e) The term "Daily Baseload Quantity" shall mean, for each Day, the Baseload Quantity for such Day, which shall be equal to the Monthly Baseload Quantity for such month divided by the number of Delivery Days in the applicable Delivery Month.

(f) [*]

(g) The term "Daily Peaking Quantity" shall mean the quantity delivered from the Peaking Assets that are NUIU Assets on any Day.

(h) [*]

(i) The term "Daily Swing Quantity" shall mean for each Day the additional supply nominated by NUIU and priced at the applicable **Daily Spot Price.**

(j) The term "Day" means a period of 24 consecutive hours, beginning at 10:00 A.M. Eastern Clock Time on any calendar Day and ending at 10:00 A.M. Eastern Clock Time on the following calendar Day.

(k) The term "Dekatherm" or "Dth" shall mean one million (1,000,000) British thermal units (Btus).

(l) The term "Delivery Day" shall mean each day of actual Gas flow and shall begin at 10:00 a.m. Eastern Clock Time on such day.

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(m) The term "Delivery Month" shall mean a period of time beginning at 10:00 a.m. Eastern Clock Time on the first day of a calendar month and ending at 10:00 a.m. Eastern Clock Time on the first day of the following calendar month, during which time deliveries are made to NUIU to satisfy the DDQ and into the Storage Assets during the Summer Season to satisfy the SMREQ.

(n) The term "Effective Date" shall mean that same day defined as the Effective Date in the Gas Supply Asset Assignment and Agency Agreement.

(o) The term "FERC" shall mean the Federal Energy Regulatory Commission or any successor federal agency.

(p) The term "Gas" shall mean any mixture of hydrocarbons or hydrocarbons and non-combustible gases consisting primarily of methane.

(q) The term "Gas Supply Asset Assignment And Agency Agreement" shall mean the Gas Supply Asset Assignment and Agency Agreement dated as of the date hereof between NUIU and Seller as amended and supplemented from time to time.

(r) **The term** "Initial Storage Inventory" shall mean, with respect to any Storage Asset, the quantity of Gas in such Storage Asset on April 1, 2004.

(s) "Intraday Gas" shall mean that quantity of gas nominated for purchase and delivery to NUIU after the initial nomination deadline.

(t) The term "Market Area Storage Assets" shall mean all storage assets assigned to Seller that are not Production Area Storage Assets

(u) [*]

(v) [*]

(w) [*]

(x) The term "Monthly Baseload Quantity" shall mean, for each Delivery Month, the Baseload Quantity for such month. The Monthly Baseload Quantity for each month will be provided by NUIU to Seller no later than five (5) Business Days prior to the start of the month in which it applies.

(y) [*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(z) [*]

(aa) The term "Nominated Daily Quantity" or "NDQ" shall mean for each Delivery Day, NUIU's best estimate of the DDQ for such Day. The NDQ cannot exceed the MDQ.

(bb) The term "Nominated Daily Storage Quantity" shall be that amount nominated for withdrawal (or deemed to be withdrawn) from storage as addressed in Section 4.09.

(cc) The term "NUIU Assets" shall mean those valid storage, transportation, operational balancing, exchange, parking, hub service, gas supply, peaking, or other agreements that NUIU has in effect or will have in effect, with Service Providers during the Term that may be released or assigned to Seller under the terms of the Gas Supply Asset Assignment and Agency Agreement. A list of the NUIU Assets are set forth in **Exhibit A** which is attached hereto and made a part hereof.

(dd) The term "Part 284 Storage Assets" shall mean those Storage Assets that are subject to the capacity release provisions of 18 C.F.R. Part 284 or successor regulations, as indicated in **Exhibit A**.

(ee) The term "Peaking Assets" shall mean those City Gate delivery contracts that shall be entered into by NUIU in accordance with Section 3.6 of the Gas Supply Asset Assignment and Agency Agreement as well as those assets so identified in **Exhibit A**.

(ff) The term "Peaking MDQ" on any Day shall mean the maximum daily deliverability from NUIU's Peaking Assets that are NUIU Assets on such Day. The Peaking MDQ does not include deliverability from NUIU's on-system LNG facility.

(gg) The term "Performance Assurance" shall mean an irrevocable stand-by letter of credit, guaranty, cash collateral, prepayment or other good and sufficient security of a continuing nature, satisfactory in form, issuer, and amount as determined by the requesting Party in accordance with Section 10.2 of the Gas Supply Asset Assignment and Agency Agreement.

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(hh) The term "Production Area Storage Asset" shall mean the Transco ES and WSS Storage Contracts assigned to Seller.

(ii) The term "NYMEX Settlement Price" shall mean the closing price on the NYMEX on the last day of trading for a particular Delivery Month's contract.

(jj) The term "Service Provider(s)" shall mean the party or parties with whom NUIU has effective agreements with respect to the NUIU Assets.

(kk) The term "Section 7(c) Storage Assets" shall mean all Storage Assets that are not Part 284 Storage Assets.

(ll) The term "Start Date" shall mean the first Delivery Day under this Agreement, which shall be the Effective Date of the Gas Supply Asset Assignment and Agency Agreement.

(mm) The term "Storage Assets" shall mean the storage service agreements set forth in **Exhibit A**.

(nn) The term "Summer Daily Billing Quantity" or "SDBQ" shall mean, for each Delivery Day during the Summer Season, the sum of the DDQ plus the SDREQ.

(oo) The term "Summer Daily Reserve Equivalent Quantity" or "SDREQ" shall mean a daily quantity of Gas (in Dth) equal to the Summer Monthly Reserve Equivalent Quantity divided by the number of Delivery Days in the applicable Delivery Month.

(pp) [*]

(qq) The term "Summer Season" shall mean the period beginning on April 1 and continuing through the following October 31, 2004.

(rr) The term "Term" shall be the Primary Term as defined in Article 3.

(ss) The term "Transaction Agreements" means this Agreement and the Gas Supply Asset Assignment and Agency Agreement including all amendments, modifications and/or supplements.

(tt) The term "Variable Cost" shall mean all Commodity, fuel, surcharges and other fees charged for Gas volumes transported, stored, or supplied under the NUIU Assets.

(uu) The term "Winter Daily Billing Quantity" or "WDBQ" shall mean, for each Delivery Day during the Winter Season, the DDQ less the quantity of gas deemed withdrawn from Storage.

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(vv) The term "Winter Season" shall mean the period beginning on November 1 and continuing through the following March 31.

ARTICLE 2

CONDITIONS PRECEDENT

2.01 The conditions precedent to the effectiveness of this Agreement are the same as those set forth in Article 4 of the Gas Supply Asset Assignment and Agency Agreement.

ARTICLE 3

TERM

3.01 This Agreement shall be effective as of the date first set forth above. The primary term of this Agreement ("Primary Term") shall commence on the Start Date and shall end on March 31, 2005.

ARTICLE 4

OBLIGATIONS OF THE PARTIES

4.01 [*]

4.02 [*]

4.03 [*]

4.04 NUIU and Seller recognize that in order for Seller to effect the sale and delivery of Gas to NUIU under this Agreement, it will be necessary for Seller to obtain access to the NUIU Assets. Therefore, NUIU has released, assigned and designated the NUIU Assets as more fully set forth in the Gas Supply Asset Assignment and Agency Agreement.

4.05 In consideration of the services provided to NUIU by Seller under this Agreement, simultaneously with the effectiveness of the release of any Part 284 Storage Assets to Seller under the Gas Supply Asset Assignment and Agency Agreement, NUIU hereby transfers title to the Initial Storage Inventory in such Storage Assets to Seller, effective at the beginning of the Day on April 1, 2004. NUIU warrants title to such Initial Storage Inventory and warrants that the ownership of all such Gas shall be transferred to Seller free from all liens, encumbrances and adverse claims.

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4.06 Unless mutually agreed to otherwise by the Parties, NUIU agrees to maintain or obtain any Authorizations that are required for Seller to perform its obligations under this Agreement in full force and effect until the termination of this Agreement. If and to the extent that any Authorizations associated with the transportation and storage agreements providing firm transportation or providing transportation of storage quantities to the City Gate(s) terminate or are suspended for any reason during the Term of this Agreement, the MDQ and Seller's obligation to sell Gas hereunder shall be reduced by a daily quantity equal to the quantity suspended or terminated in the applicable transportation agreement(s). In addition to the foregoing, in the event that any Authorizations are threatened with termination or actually terminate or are suspended for any reason during the Term of this Agreement, NUIU shall use commercially reasonable efforts to prevent such termination or reinstate such Authorizations. Seller agrees to assist and cooperate with NUIU's efforts in this regard. In the event that NUIU is unable to reach such agreement, the Parties agree to remove the affected NUIU Assets from this Agreement and adjust each Party's obligations hereunder in an equitable manner as mutually agreed.

4.07 [*]

4.08 [*]

4.09 [*}

(a) [*]

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(b) [*]

4.10 Daily Swing and Peaking Nominations.

(a) [*]

(b) [*]

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4.11 NUIU shall timely provide Seller with all information reasonably necessary for Seller to perform its obligations under this Agreement. Such information shall include: daily, monthly and seasonal forecasts of Gas supply requirements; design demand scenarios; an initial estimate of the Monthly Baseload Quantity for each month during the Term and other Gas flow data necessary for Seller to perform its obligations hereunder.

4.12 If at any time during the Term of this Agreement, NUIU should seek to purchase Gas in excess of the MDQ on a short or long term, firm or interruptible basis, NUIU agrees that it shall include Seller in its list of bidders to supply such Gas and Seller shall have a right to match any bid that NUIU would otherwise accept. If Seller is selected as NUIU's supplier of such excess Gas, then NUIU and Seller shall enter into a separate agreement pertaining to such Gas.

4.13 To the extent necessary for Seller to perform its obligations under this Agreement, NUIU will seek waivers of confidentiality provisions contained in the NUIU Assets.

4.14 To the extent that any Service Providers or NUIU Assets are subject to the jurisdiction of the FERC, it is understood that Seller shall furnish the Service Providers, in as prompt a manner as necessary to effectuate the terms of this Agreement, all information necessary to permit scheduling pursuant to the Service Providers' rules, guidelines, operational procedures, and policies.

4.15 Each Party shall designate a representative to be the primary contact for the other Party with respect to the performance of this Agreement. In addition, each Party shall have qualified personnel available for contact by the other Party on a twenty-four (24) hour basis and each Party shall identify those personnel available during business and non-business hours.

4.16 NUIU and Seller agree to enter into and execute all agreements and other instruments reasonably necessary for NUIU and Seller to perform their obligations under this Agreement.

4.17 The Parties shall each reasonably cooperate with the other in seeking and obtaining any governmental or regulatory approvals required for the Parties to perform their obligations under this Agreement.

4.18 All transactions entered into and/or services provided under any Transaction Agreement (whether or not evidenced by a confirmation) between Seller and NUIU shall be part of and shall be considered part of a single, integrated agreement between the Parties.

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4.19 Transaction Process; Recordings. Unless otherwise stated in a Transaction Agreement, transactions under any Transaction Agreement may be effectuated in a telephone conversation with the offer and acceptance constituting the agreement of the Parties. The Parties shall be legally bound from the time they so agree to transaction terms and may rely thereon. In addition, the Parties agree that a written confirmation process shall be utilized to provide written record of the transactions and nominations between the Parties, but shall not invalidate any transaction agreed to by the Parties if any such information is incorrect or is not acknowledged or approved by the receiving Party. This written process shall be in a form mutually agreed to between the Parties and provide necessary information in a timely manner for the internal record needs of each Party. The Parties agree that each Party may electronically record all telephone conversations with respect to nominations and other transactions under the Transaction Agreements between their respective employees, without any further notice to the other Party. The Parties agree not to contest the validity or enforceability of telephonic recordings entered into in accordance with this provision and any other requirements of any Transaction Agreement.

ARTICLE 5

FAILURE TO DELIVER THE DDQ

5.01 [*]

5.02 Payment. Amounts due under this Section 5 may be invoiced at any time by NUIU. Any invoice shall detail the method used for calculating the amount due and payment shall be due within ten (10) Business Days of receipt of the invoice. Unpaid amounts will accrue interest in accordance with the terms of Section 11.2 of the Gas Supply Asset Assignment and Agency Agreement.

5.03 Exclusive Financial Remedy. The Parties agree that the actual losses incurred by NUIU as a result of Seller's failure to deliver DDQ would be uncertain and impossible to determine with precision. As a result, the payments by Seller in accordance with Section 5.01 of this Agreement shall be NUIU's sole and exclusive financial remedy for Seller's failure to deliver the DDQ. Notwithstanding the foregoing, NUIU shall have the right, as set forth in Sections 6.1 and 6.2 of the Gas Supply Asset Assignment and Agency Agreement, to terminate this Agreement on four hours advance notice if Seller fails to cause the DDQ to be delivered.

ARTICLE 6

PRICE

6.01 Price. The price ("Price") paid by NUIU for Gas sold under this Agreement shall consist of the following:

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(a) [*]

plus (b) [*]

[*] Certain information on this page has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

plus (c) **Imbalances.** Except as otherwise specifically provided in this Agreement, any scheduling or imbalance penalty or charges imposed upon NUIU or on Seller pursuant to any of the NUIU Assets shall be the responsibility of the Party whose actions or inactions caused such penalty, consistent with the rules, guidelines, operational procedures, and policies of the Service Providers, as set forth in approved tariffs as they may exist from time to time. Seller shall be the responsible Party to the extent imbalances are caused by a deviation between NUIU's nominations and the actual nomination submitted by Seller to a Service Provider. NUIU shall be the responsible Party to the extent imbalances are caused by a deviation between NUIU's nominations and the deliveries required at the City Gates. If the non-responsible Party has paid or shall pay such penalty or charge, the responsible Party shall reimburse the non-responsible Party no later than fifteen (15) days after the non-responsible Party has delivered to the responsible Party a copy of the related invoice.

ARTICLE 7

BILLING AND PAYMENT

7.01 Billing, Disputes and Payment. See Article 11 of the Gas Supply Asset Assignment and Agency Agreement incorporated and made a part of this Agreement by this reference.

7.02 Order of Receipt. For billing purposes, on any Delivery Day receipt of gas shall be in accordance with the nominations designated by NUIU under Sections 4.09 and 4.10 of this Agreement.

7.03 Refunds of Service Provider Charges. In the event that either Party hereto receives a refund of any charges assessed by a Service Provider against such Party and which have been reimbursed to such Party by the other Party, the Party which made such reimbursement shall be entitled to that portion of any refunds which apply to the reimbursed Service Provider charges.

ARTICLE 8

TAXES

8.01 Taxes. The Price for Gas delivered under this Agreement is inclusive of all production, severance, *ad valorem*, or similar taxes levied on the production or transportation of Gas prior to or upon its delivery to NUIU at the City Gates, and all such taxes shall be paid by Seller provided, however, that if NUIU is required by law to remit such taxes to the collecting authority, NUIU shall do so and shall inform Seller and Seller shall deduct the taxes so paid on Seller's behalf from payments otherwise due to Seller pursuant to the terms of this Agreement. The Price for Gas delivered under this Agreement does not include any sales, use, consumption, or other taxes of whatever designation which may be imposed after the transfer of title to Gas to or for the account of NUIU or on NUIU's subsequent use or disposition thereof. Any such taxes shall be paid by NUIU directly to the taxing authority unless Seller is required by law to collect and remit such taxes, in which case NUIU shall reimburse Seller for all amounts so paid. If NUIU claims exemption from any such taxes, NUIU shall provide Seller a tax exemption certificate or other appropriate documentation thereof. Each Party will bear all taxes based upon its net worth, corporate existence or general right to transact business.

ARTICLE 9

TITLE, CONTROL AND POSSESSION

9.01 Title. Title to Gas delivered to NUIU under this Agreement that is delivered to NUIU over an Assigned Gas Transportation Contract shall pass to and vest in NUIU at the City Gates. Title to Gas purchased, transported or stored under any Non-Assignable Contract or under the Gas Supply Agreement when Seller sells Gas to NUIU into a Section 7(c) transportation contract shall pass to and vest in NUIU at the entry point into the Section 7(c) Storage Asset or into the Section 7(c) transportation contract. As between the Parties to this Agreement, Seller shall be deemed to be in control and possession of Gas until delivery to NUIU, and NUIU shall be deemed to be in control and possession of said Gas thereafter. Control and possession of Gas purchased, transported or stored under any Non-Assignable Contract shall remain at all times with NUIU. Seller hereby warrants title to the Gas sold by it hereunder and the right to deliver the same and warrants that all Gas shall be delivered to NUIU free from all liens, encumbrances, and adverse claims.

9.02 Liability. The Party deemed to be in control and possession of the Gas delivered under this Agreement shall be responsible for and shall indemnify, defend, and hold the other Party harmless with respect to any losses, claims, liabilities, or damages related to claims for title to Gas, death, personal injury or property damage arising therefrom when such Gas is deemed to be in that Party's control and possession.

ARTICLE 10

MEASUREMENT, QUALITY AND PRESSURE

10.01 Measurement. The unit of measurement for Gas nominated, delivered and accounted for hereunder shall be the Dekatherm. Measurements shall be performed in accordance with the requirements of Service Providers at the NUIU City Gate(s).

10.02 Quality. All Gas delivered to the City Gate(s) under this Agreement shall conform to the quality specifications set forth in Service Providers' FERC tariffs, as applicable.

10.03 Pressure. All Gas delivered to the City Gate(s) under this Agreement shall be delivered to NUIU at the pressure maintained in the facilities of the applicable Service Providers.

ARTICLE 11

NOTICES

See Section 13.3 of the Gas Supply Asset Assignment and Agency Agreement, incorporated and made a part of this Agreement by this reference.

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ARTICLE 12

FINANCIAL INFORMATION AND PERFORMANCE ASSURANCE

See the provisions of Article 10 of the Gas Supply Asset Assignment and Agency Agreement, incorporated and made a part of this Agreement by this reference.

ARTICLE 13

FORCE MAJEURE

See the provisions of Article 12 of the Gas Supply Asset Assignment and Agency Agreement, incorporated and made a part of this Agreement by this reference.

ARTICLE 14

ASSIGNMENT

See Section 13.2 of the Gas Supply Asset Assignment and Agency Agreement, incorporated and made a part of this Agreement by this reference

ARTICLE 15

LAWS AND REGULATORY BODIES

15.01 This Agreement shall be subject to all valid applicable federal and state laws and to the orders, rules and regulations of any duly constituted federal or state regulatory body or authority having jurisdiction.

15.02 The provisions of this Agreement shall be enforced to the fullest extent permitted by law. If any provision of this Agreement is found to be invalid or unenforceable, that provision shall be construed and applied in a way that comes as close as possible to expressing the intention of the provision and that saves the validity and enforceability of the provision. The invalidity, illegality or unenforceability of any provision of this Agreement shall not affect the validity, legality or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

ARTICLE 16

EVENTS OF DEFAULT, TERMINATION AND UNWINDING

See the provisions of Article 6 of the Gas Supply Asset Assignment and Agency Agreement, incorporated herein and made part of this Agreement by this reference.

ARTICLE 17

WARRANTIES AND REPRESENTATIONS

See the provisions of Article 5 of the Gas Supply Asset Assignment and Agency Agreement, incorporated herein and made a part of this Agreement by this reference.

ARTICLE 18

DISPUTE RESOLUTION

See the provisions of Article 9 of the Gas Supply Asset Assignment and Agency Agreement, incorporated and made a part of this Agreement by this reference.

ARTICLE 19

MISCELLANEOUS

19.01 Severability. If any provision hereof is determined to be invalid, void or unenforceable by any court having jurisdiction, such determination shall not invalidate, void, or make unenforceable any other provision, agreement or covenant hereof.

19.02 Waiver. No delay or omission to exercise any right or remedy accruing to either Party upon any breach or default of the other Party shall impair such right or remedy, or be construed to be a waiver of any such breach or default. Any waiver by either Party of any breach or default under this Agreement must be made in writing and executed by an authorized officer of such party.

19.03 Prior Agreements. This Agreement sets forth all understandings between the Parties respecting each transaction subject hereto, and any prior agreements, understandings and representations, whether oral or written, relating to such transactions are merged into and superseded by this Agreement.

19.04 Modification of Agreement. Modifications of this Agreement shall not be binding unless made in writing and signed by an authorized representative of both Parties.

19.05 Headings. The subject headings used in this Agreement are inserted solely for the purpose of convenient reference and are not intended to affect the meaning of any provision of this Agreement.

19.06 Construction. This Agreement was prepared jointly by the Parties hereto and shall not be construed more stringently against one Party than the other.

19.07 Disruption of Index. If the specific published index or posting which is a component of the Price (the "Index Component") is not published or posted for any reason for a relevant date or period necessary for the determination of the Price, then Seller and NUIU shall promptly negotiate in good faith in order to select a mutually agreeable substitute published index, posting, price, or pricing formula that reflects the value of Gas of similar quality and quantity in the geographical region in which the Supply Point is located. If the parties have not agreed on a replacement published index, posting, price, or pricing formula within three (3) Business Days of the date the Index Component was not published or posted, then the replacement Price per MMBtu shall be equal to the average of the results of the price quotes, with each party to obtain one quote, from a recognized marketer or broker of Gas transactions, for prices of Gas of a similar quality and quantity in the geographical region in which the Supply Point is located. Such marketer or broker quotes may be expressed as a formula if the Index Component is not expected to be published or posted for more than one Month. The Parties shall use good faith efforts to obtain such marketer or broker quotes and calculate the replacement Price within five (5) Business Days of the date the Index Component was not published or posted. The last Price that was determined based on the Index Component will be paid for Gas delivered and received hereunder until the replacement Price is determined and will be adjusted retroactively to the initial interruption in the publishing or posting of the Index Component once the replacement Price is determined. If, however, the Index Component is published or posted late for the relevant date or period, but prior to the determination of a replacement Price (whether determined by mutual agreement or by quotes), then the Index Component published or posted late shall be used in determining the Price for the relevant date or period. If the Index Component is subsequently published or posted for a future relevant date or period, the parties shall resume using the Index Component in determining the Price attributable to such subsequent dates or periods.

IN WITNESS WHEREOF, the Parties have executed this Agreement in duplication by their respective duly authorized officers as of the day and year first written above.

NUI UTILITIES INC.	CINERGY MARKETING & TRADING, LP
By: /S/ VICTOR A. FORTKIEWICZ	By: /S/ BRUCE A. SUKALY
Name: Victor A. Fortkiewicz	Name: Bruce A. Sukaly
Title: President	Title: Chief Commercial Officer Natural Gas
Date: April 8, 2004	Date: April 8, 2004

EXHIBIT A

LIST OF NUIU ASSETS

Exhibit A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.

Elizabethtown Gas Company

Supply and Capacity Assets

CONTRACT PARTY	Contract Number	Tariff Rate	Assigned (284) or Agency (7c) Status	Deliverability Daily (Dth)	Deliverability Seasonal (Dth)	Deliverability Annual (Dth)
FIRM TRANSPORT						
Transco (Leidy line)	1011998	FT	284	15,615		5,699,475
				9,948(a)		3,631,020
				5,522(a)		517,500
Transco (Leidy line)	1011995	FT	284	15,000		5,475,000
Transco (Leidy line)	1011997	FT	284	17,595		6,422,175
Transco (Leidy line)	1000656	X-270	7c	1,090		397,850
Transco (Leidy line)	1000995	X-276	7c	10,000		3,650,000
Transco	1003686	FT	284	13,218		4,824,570
Transco	1003686	FT	284	19,439		7,095,235
Transco	1003686	FT	284	14,774		5,392,510
Transco	1003686	FT	284	30,324		11,068,260
Transco*	1003960	FT	284	2,940		1,073,100
Transco	1005014	FT	284	334	30,060	
Transco	1005014	FT	284	492	44,280	
Transco	1005014	FT	284	374	33,660	
Transco	1005014	FT	284	767	69,030	
Transco	1002230	FT	284	308		112,420
Transco	1002230	FT	284	451		164,615
Transco	1002230	FT	284	345		125,925
Transco	1002230	FT	284	707		258,055
Transco	1010431	FT	284	440		160,600
Transco	1010431	FT	284	647		236,155
Transco	1010431	FT	284	492		179,580
Transco	1010431	FT	284	1,009		368,285

Transco	1010445	FT	284	361	131,765
Transco	1010445	FT	284	274	100,010
Transco	1010445	FT	284	807	294,555
Texas Eastern	800217	CDS	284	20,220	7,380,300
Texas Eastern	800217	CDS	284	5,496	2,006,040
Texas Eastern	800217	CDS	284	3,174	1,158,510
Texas Eastern	800217	CDS	284	6,239	2,277,235
Texas Eastern	800217	CDS	284	11,397	4,159,905
Texas Eastern (b)	830029	FT-1	284	20,000	7,300,000
Texas Eastern	800392	FT-1	284	1,348	492,020
Texas Eastern	800392	FT-1	284	366	133,590
Texas Eastern	800392	FT-1	284	212	77,380
Texas Eastern	800392	FT-1	284	416	151,840
Texas Eastern	800392	FT-1	284	760	277,400
Texas Eastern	910333	FT-1	284	5,394	1,968,810
Texas Eastern	910333	FT-1	284	1,466	535,090
Texas Eastern	910333	FT-1	284	847	309,155
Texas Eastern	910333	FT-1	284	1,664	607,360
Texas Eastern	910333	FT-1	284	3,040	1,109,600
Texas Eastern	330837	FTS	7c	1,520	554,800
Texas Eastern	330874	FTS-4	7c	5,000	1,825,000
Texas Gas Transmission	16775	FT	284	11,127	4,061,355
Texas Gas Transmission	16775	FT	284	6,800	2,482,000
Tennessee	959	FT-A	284	1,000	365,000
Tennessee	597	FTG	284	1,067	389,455
Tennessee	597	FTG	284	640	233,600
Tennessee	597	FTG	284	1,341	489,465
Tennessee***	44414		284	2,100	766,500
National Fuel Gas	E00526	EFT	284	11,090	4,047,850
National Fuel Gas	F01642	FT	284	15,805	5,768,825
Columbia Gulf Transmission**	37968	FTS-1		1,671	609,915
Columbia Gas Transmission	37882	FTS	284	12,736	4,648,640
Columbia Gas Transmission	39275	NTS	284	10,000	3,650,000
CNG (Dominion)	200397	FT	284	17,120	6,248,800
CNG (Dominion)	100115	FTNN	284	5,000	2,352,060
CNG (Dominion)	100115	FTNN	284	1,444	2,352,060
Total				335,158	

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Transco (Leidy line)	1003832	FT	284	5,175	1,888,875
Transco (Leidy line)	1000653	X-269	7c	500	182,500
Transco (Leidy line)	1044821	FT	284	6,973	2,545,145
Texas Eastern	330167	FTS-4	7c	5,000	1,825,000
Texas Eastern	331501	FTS-5	7c	16,666	6,083,090
Texas Eastern	331720	FTS-7	7c	14,298	5,218,770
Texas Eastern	331013	FTS-8	7c	8,469	3,091,185
Tennessee	603	FTG	284	1,014	370,110
Tennessee***	44410		284	3,000	1,095,000
Tennessee***	44413		284	3,040	1,109,600
Columbia Gas Transmission	38045	SST	284	3,644	996,634
CNG (Dominion)	200394	FT	7c	5,522	2,015,530
CNG (Dominion)	200393	FT	7c	6,973	2,545,145
Total				80,274	

STORAGE - Bundled (Market Area)

Transco	1000739	GSS	7c	27,604	1,759,955
Transco	1000741	LSS	7c	8,000	600,000
Transco	1000742	S-2	7c	7,267	653,186
Texas Eastern	400196	SS-1	284	3,646	379,911
Total				46,517	

STORAGE (North)

Transco	1044824	SS-1	284	6,973	541,305
Tennessee	8703	FS-MA	284	1,014	100,485
Steuben (units in MCF)			7c	5,556	500,000
Columbia Gas Transmission	38000	FSS	284	3,644	230,168
CNG (Dominion)	300165	GSS	284	10,826	645,244
CNG (Dominion)	300167	GSS-II	284	16,667	1,666,666
CNG (Dominion)	600044	GSS-TE	7c	23,190	2,387,206
CNYOG - Stagecoach	100023	FSS	284	3,040	304,000
Total				70,910	

STORAGE (South)

Transco	1013463	ES	284	14,397	144,856
Hattiesburg	5904		to be Assigned	10,000	100,000
Transco	1041432	WSS	284	40,149	3,412,638
Total				64,546	
Grand Totals - Assets				597,405	

PEAKING

Transco	1000743	LG-A	7c	23,950	98,087
Transco	1032229	LNG	284	15,000	56,864
Transco	1000743	LG-A	7c	23,950	98,087
Total				62,900	

FIRM GAS SUPPLY

Cargill (Canadian supply)	103286			10,350	3,777,750
Cogen Tech				17,000	6,205,000
Total				27,350	

FIRM GAS SUPPLY w/ Bundled Transportation

Total				---	
Grand Total - Others				90,250	

CONTRACT PARTY	Storages Max w/d (Dth)	Storages Max inj (Dth)	Capacity (Dth)	Days Avail.	Receipt Point	Delivery Point	Effective Term(1)	Citygate Delivery
FIRM TRANSPORT								
Transco (Leidy line)				365	CNG @ Leidy	City Gate	10/31/2007	15,615
					Steuben storage	City Gate		

		withdrawal			
Transco (Leidy line)					
Transco (Leidy line)	365	National Fuel @ Wharton	City Gate	10/31/2014	15,000
Transco (Leidy line)	365	CNG @ Leidy	City Gate	10/31/2006	17,595
Transco (Leidy line)	365	National Fuel @ Wharton	City Gate	Evergreen	1,090
Transco	365	Natiional Fuel @ Wharton	City Gate	Evergreen	10,000
Transco	365	Station 30	City Gate	10/31/2004	13,218
Transco	365	Station 45	City Gate	10/31/2004	19,439
Transco	365	Station 50	City Gate	10/31/2004	14,774
Transco*	365	Station 65	City Gate	10/31/2004	30,324
Transco	365	Zone 3, Station 62	Zone 3, Stations 54, 65	10/31/2004	
Transco	90	Station 30	City Gate	7/31/2006	334
Transco	90	Station 45	City Gate	7/31/2006	492
Transco	90	Station 50	City Gate	7/31/2006	374
Transco	90	Station 62	Station 65	7/31/2006	
Transco	365	Station 30	City Gate	Evergreen	308
Transco	365	Station 45	City Gate	Evergreen	451
Transco	365	Station 50	City Gate	Evergreen	345
Transco	365	Station 65	City Gate	Evergreen	707
Transco	365	Station 30	City Gate	Evergreen	440
Transco	365	Station 45	City Gate	Evergreen	647
Transco	365	Station 50	City Gate	Evergreen	492
Transco	365	Station 65	City Gate	Evergreen	1,009
Transco	365	Station 45	Columbia - Downingtown	Evergreen	
Transco	365	Station 50	Columbia - Downingtown	Evergreen	
Texas Eastern	365	Station 65	Columbia - Downingtown	Evergreen	
Texas Eastern	365	M1	City Gate	10/31/2012	20,220
Texas Eastern	365	STX	M1	10/31/2012	
Texas Eastern	365	ETX	M1	10/31/2012	
Texas Eastern	365	WLA	M1	10/31/2012	
Texas Eastern (b)	365	ELA	M1	10/31/2012	
Texas Eastern	365	Algonquin backhaul	City Gate	10/31/2005	20,000
Texas Eastern	365	M1	Columbia @ Eagle	Evergreen	
Texas Eastern	365	STX	M1	Evergreen	
Texas Eastern	365	ETX	M1	Evergreen	
Texas Eastern	365	WLA	M1	Evergreen	
Texas Eastern	365	ELA	M1	Evergreen	
Texas Eastern	365	M1	City Gate	3/31/2014	5,394
Texas Eastern	365	STX	M1	3/31/2014	
Texas Eastern	365	ETX	M1	3/31/2014	
Texas Eastern	365	WLA	M1	3/31/2014	
Texas Eastern	365	ELA	M1	3/31/2014	
Texas Eastern	365	Oakford & Cornwell	City Gate	10/31/2009	1,520
Texas Gas Transmission	365	Chambersburg	City Gate	12/1/2009	5,000
Texas Gas Transmission	365	Zone 0	Lebanon - CNG	10/31/2006	
Tennessee	365	Zone 1	Lebanon - CNG	10/31/2006	-
Tennessee	365	Niagara River (Bi 2 0081)	Natl Fuel - TGP Z-5	4/30/2007	
Tennessee	365	Sun Plant Dehydration (100 Leg, Sta. 47, Ouachita, LA)	City Gate	4/1/2013	1,067
Tennessee	365	East Cameron Blk 60 (800 Leg, Sta. 834,	City Gate	4/1/2013	640

				Franklin, LA)			
Tennessee***			365	South Pass Block 60 Dehydration (500 Leg, Sta. 542, Noxubee, MS)	City Gate	4/1/2013	1,341
National Fuel Gas			365	Zone 4, East Aurora	Zone 5, Koppel	8/31/2008	
National Fuel Gas			365	TGP Z-4,5 Tetco-PA	Transco @ Wharton	Evergreen	
Columbia Gulf Transmission**			365	Niagara	Transco @ Leidy	11/1/2007	
Columbia Gas Transmission			365	CGT-Rayne	City Gate	10/31/2004	1,671
Columbia Gas Transmission			365	Columbia-Downingtown	City Gate	10/31/2010	12,736
CNG (Dominion)			365	Kenova, TCO-Leach	City Gate	10/31/2010	10,000
CNG (Dominion)			365	Texas Gas - Lebanon, OH	Transco @ Leidy	10/31/2006	
CNG (Dominion)			365	Oakford (3,521 dth/day) & Cornwell (2,923 dth/day)	Chambersburg	3/31/2005	
Total			365	Oakford (3,521 dth/day) & Cornwell (2,923 dth/day)	Leidy	3/31/2005	
						Total	222,243

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Transco (Leidy line)							
Transco (Leidy line)			365	Oakford & Cornwell	City Gate	12/14/2009	5,175
Transco (Leidy line)			365	Oakford & Cornwell	City Gate	Evergreen	500
Texas Eastern			365	CNG @ Leidy	City Gate	3/31/2008	6,973
Texas Eastern			365	CNG @ Leidy	City Gate	12/1/2008	5,000
Texas Eastern			365	CNG @ Oakford	City Gate	3/31/2012	16,666
Texas Eastern			365	Leidy & Oakford	City Gate	4/30/2015	14,298
Tennessee			365	Leidy & Oakford	City Gate	3/31/2006	8,469
Tennessee***			365	Northern Storage Withdrawal 300 Leg, Zone 4 (Potter, PA)	City Gate	4/1/2013	1,014
Tennessee***			365	Zone 4, Station 319	Zone 5, White Plains, NY	8/31/2008	
Columbia Gas Transmission			365	@ Storage	Zone 4, Station 319	8/31/2008	
CNG (Dominion)			365	Columbia FSS	City Gate	10/31/2004	3,644
CNG (Dominion)			365	National Fuel @ Leidy	Transco @ Leidy	3/31/2011	-
			365	Transco @ Leidy	Transco @ Leidy	month-to-month	-
Total						Total	61,739

STORAGE - Bundled (Market Area)

Transco								
Transco	27,604	9,778	1,759,955	64	@ Storage	City Gate	3/31/2013	27,604
Transco	8,000	3,333	600,000	75	@ Storage	City Gate	Evergreen	8,000
Texas Eastern	7,267	5,443	653,186	90	@ Storage	City Gate	Evergreen	7,267
	3,646	1,953	379,911	104	@ Storage	City Gate	4/30/2012	3,646
Total			3,393,052				Total	46,517

STORAGE (North)

Transco

Tennessee	6,973	3,007	541,305	78	@ Storage	CNG/Transco @ Leidy	3/31/2008	-
Steuben (units in MCF)	1,014	670	100,485	99	@ Storage	300 Leg, Zone 4 (Potter, PA)	3/31/2013	
Columbia Gas Transmission	5,750	3,696	517,000	90	@ Storage	CNG @ Leidy	3/31/2011	
CNG (Dominion)	3,644	1,841	230,168	63	@ Storage	Columbia SST	10/31/2004	
CNG (Dominion)	10,826	3,585	645,244	60	@ Storage	Transco @ Leidy	3/31/2008	
CNG (Dominion)	16,667	9,259	1,666,666	100	@ Storage	Tetco @ Oakford	3/31/2012	
CNYOG - Stagecoach	23,190	13,262	2,387,206	103	@ Storage	Leidy, Oakford, Chambersburg, Crayne	3/31/2006	
	3,040	1,520	304,000	100	@ Storage	Station 319	8/31/2008	
Total			6,392,074				Total	
STORAGE (South)								
Transco								
Hattiesburg	14,397	959	144,856	10	@ Storage	Covington Cty - Miss.	10/31/2013	
Transco	10,000	5,000	100,000	10	@ Storage	Transco @ Covington	7/31/2005	-
	40,149	18,859	3,412,638	365	@ Storage	Zone 3, Station 54	1/31/2012	
Total			3,657,494				TOTAL	
Grand Totals - Assets			13,442,620					330,499
PEAKING								
Transco								
Transco				4	Transco Zone 6	City Gate	month-to-month	23,950
Transco				3	Transco Zone 6	City Gate	month-to-month	15,000
				4	Transco Zone 6	City Gate	month-to-month	23,950
Total							TOTAL	62,900
FIRM GAS SUPPLY								
Cargill (Canadian supply)								
Cogen Tech						Niagra - National Fuel TGT Production Area	10/30/2007	-
								-
Total								
FIRM GAS SUPPLY w/ Bundled Transportation								
Total								
Grand Total - Others								

Notes:
* Notice of termination given
** Contract permanently released
*** Assigned capacity
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period
(a) A single FT capacity contract used for both storage withdrawal and flowing supply.
(b) Backhaul capacity on Texas Eastern with a new gate station connection.

Exhibit A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.

City Gas Company of Florida

Supply and Capacity Assets

CONTRACT PARTY	Contract Number	Rate	Assigned (284g) or Agency (7c) Status	Deliverability Daily (Dth)	Deliverability Seasonal (Dth)	Deliverability Annual (Dth)	Storages Max w/d (Dth)	Storages Max inj (Dth)	Storages Capacity (Dth)
FIRM GAS SUPPLY									
FIRM TRANSPORT									
Florida Gas Transmission	5034	FTS-1	284g			11,652,931			
				43,685	6,596,435				
				23,201	696,030				
				23,185	3,547,305				
				26,231	813,161				
Florida Gas Transmission	3608	FTS-2	284g			1,464,290			
				2,570	465,170				
				5,430	999,120				
Florida Gas Transmission	5364	FTS-2	284g			2,947,435			
				12,655	2,290,555				
				3,570	656,880				

Notes:
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period

CONTRACT PARTY	Days Available	Effective Term (1)	Receipt Point	Delivery Point	Comments
FIRM GAS SUPPLY					
Florida Gas Transmission	365	7/31/2005	various - see "FGT FTS-1 5034" tab		
	151				November - March
	30				April
	153				May - September
	31				October
Florida Gas Transmission	365	2/28/2015	various - see "FGT FTS-2 3608"		
	181				November - April

	184		tab		May - October
Florida Gas Transmission	365	2/28/2015	various - see "FGT FTS-2 5364" tab		
	181				November - April
	184				May - October

Exhibit A

Assigned and Agency Contracts Schedule

NUI UTILITIES Inc.

Elkton Gas

Supply and Capacity Assets

				Deliverability			Storages		
CONTRACT PARTY	Contract Number	Rate	Assigned (284g) or Agency (7c) Status	Daily (Dth)	Seasonal (Dth)	Annual (Dth)	Max w/d (Dth)	Max inj (Dth)	Capacity (Dth)
FIRM GAS SUPPLY									
FIRM TRANSPORT									
Transco	1021359	FT	284g	2,635		961,775			
Transco	1021368	FT	284g	52	4,680				
Columbia	57828	FT	284g	86		31,390			
Eastern Shore	010003	FT	284g			966,455			
				2,635	724,625				
				2,687	241,830				
Eastern Shore	010011	FT	284g	86		31,390			
Eastern Shore	010013	FT	284g	679		247,835			
Eastern Shore	010032	FT	284g	750		273,750			
Eastern Shore	010041	FT	284g	3,000		1,095,000			
FIRM TRANSPORT ASSOCIATED WITH STORAGE									
Eastern Shore	020003	ST	284g	622	112,582				
Eastern Shore	010012	FT	284g	217	19,530				
Eastern Shore	020005	ST	284g			140,605			
				481	87,061				
				291	53,544				
STORAGE - Market Area									
Eastern Shore	080002	CFSS	284g	481		25,381	481	188	25,381
Eastern Shore	050003	GSS	7c	512		25,339	512	141	25,339
Eastern Shore	060003	LSS	7c	111		5,500	111	31	5,500
PEAKING									
Eastern Shore	070003	LG-A	7c	217		1,361	217	490	1,361
Notes:									
(1) all capacities will be renewed for 4-1-04 to 3-31-05 period									

FIRM GAS SUPPLY

FIRM TRANSPORT

Transco	365	3/31/2005	Zone 1-2 - TX, LA	Transco Z6 - Parkesburg #6570, Hockessin	Feeds FT 010003
Transco	90	7/31/2006	Zone 1-2 - TX, LA	Transco Z6 - Parkesburg #6570, Hockessin	Feeds FT 010003 (Dec-Feb only)
Columbia	365	10/31/2004	Op Area 3, TCO Leach 801	TCO - Daleville MLI 88	Feeds FT 010011
Eastern Shore	365	10/31/2005	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
	275				March - November
	90				December - February
Eastern Shore	365	8/31/2008	TCO - Daleville MLI 88	City Gate (ESN003)	
Eastern Shore	365	10/31/2007	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
Eastern Shore	365	10/31/2008	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	
Eastern Shore	365	10/31/2010	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	

FIRM TRANSPORT ASSOCIATED WITH STORAGE

Eastern Shore	181	3/31/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	November - April
Eastern Shore	90	10/31/2006	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	December - February
Eastern Shore	365	10/31/2004	TCO - Daleville MLI 88	City Gate (ESN003)	
	181				November - April
	184				May - October
Eastern Shore	53	10/31/2004	TCO - Daleville MLI 88	City Gate (ESN003)	Delivers on ST 020005
Eastern Shore	50	3/31/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on ST 020003
Eastern Shore	50	4/1/2013	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on FT 020003
Eastern Shore	6	10/31/2006	Transco Z6 - Parkesburg #6570	City Gate (ESN003)	Delivers on FT 010012

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #5034 (FTS-1)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 11/1/1993

Point(s) of Receipt			Maximum Daily Quantity (MMBtu)*			
Point Description	**Point**	**DRN**	**Oct**	**Nov-Mar**	**Apr**	**May-Sept**
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
MOPS-REFUGIO FGT	611	25809	5,510	10,391	4,143	4,135
NGPL-JEFFERSON FGT	10240	23703	0	0	0	1,069
SABINE PASS PLANT (Johnson's Bayou)	282	23422	6,333	9,334	6,333	5,265
Zone 1 Total			11,843	19,725	10,476	10,469
PRODUCTION ZONE 2:						
COLUMBIA GULF-LAFAYETTE FGT	62410	179851	2,742	4,322	2,326	1,875
CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0
SABINE-KAPLAN FGT	23062	10881	2,742	4,322	2,327	1,875
TETCO-ATCHAFALAYA FGT	10147	10030	1,995	3,809	1,961	2,859
TRUNKLINE-VERMILLION FGT	25405	50031	0	0	0	0
Zone 2 Total			7,479	12,453	6,614	6,609
PRODUCTION ZONE 3:						
CARNES TENNESSEE FGT (REC)	10258	12740	0	0	0	0
CS #11 MOUNT VERNON	25309	716	0	0	0	0
KOCH-ST. HELENA FGT	10109	9906	0	0	0	0
SNG-FRANKLINTON FGT BI-DIR (REC)	10095	11224	0	0	0	0
TRANSCO/CITRONELLE FGT CAPACITY	62132	157553	4,340	5,348	3,696	2,865
TRANSCO-ST. HELENA FGT	10114	9903	2,569	6,159	2,415	3,242
Zone 3 Total			6,909	11,507	6,111	6,107
Total MDQ:			**26,231**	**43,685**	**23,201**	**23,185**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #3608 (FTS-2)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 12/12/1991

Maximum Daily Quantity

Point(s) of Receipt **(MMBtu)***

Point Description	Point	DRN	Oct	Nov-Mar	Apr	May-Sept
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
HPL-MAGNET WITHERS FGT	8576	24662	1,562	420	420	1,562
Zone 1 Total			1,562	420	420	1,562
PRODUCTION ZONE 2:						
CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0
TETCO-ATCHAFALAYA FGT	10147	10030	0	0	0	0
Zone 2 Total			0	0	0	0
PRODUCTION ZONE 3:						
CS #11 MOUNT VERNON	25309	716	0	0	0	0
DESTIN PIPELINE/FGT	71298	241390	0	929	929	0
EXXON-ST. REGIS / FGT	10141	38221	0	0	0	0
KOCH SHADYSIDE	930300	10370	0	0	0	0
TENN PATTERSON	932500	10367	0	0	0	0
TRANSCO FROST	946400	9191	0	0	0	0
TRANSCO-ST. HELENA FGT	10114	9903	3,868	1,221	1,221	3,868
Zone 3 Total			3,868	2,150	2,150	3,868
Total MDQ:			**5,430**	**2,570**	**2,570**	**5,430**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

Exhibit A

Assigned and Agency Contracts Schedule

Firm Gas Transportation Service Agreement #5364 (FTS-2)

Between

Florida Gas Transmission Company

and

NUI Utilities Inc.

Dated 8/12/1993

Point(s) of Receipt **Maximum Daily Quantity (MMBtu)***

Point Description	Point	DRN	Oct	Nov-Mar	Apr	May-Sept
PRODUCTION ZONE 1:						
CS #7 EUNICE	25306	6489	0	0	0	0
NGPL-JEFFERSON FGT	10240	23703	1,067	3,782	3,782	1,067
Zone 1 Total			1,067	3,782	3,782	1,067
PRODUCTION ZONE 2:						

CS #8 ZACHARY	25412	7995	0	0	0	0
KOCH-ST. LANDRY FGT	10102	10034	0	0	0	0
TETCO-ATCHAFALAYA FGT	10147	10030	0	0	0	0
Zone 2 Total			0	0	0	0
PRODUCTION ZONE 3:						
CS #11 MOUNT VERNON	25309	716	0	0	0	0
DESTIN PIPELINE/FGT	71298	241390	1,038	3,679	3,679	1,038
KOCH SHADYSIDE	930300	10370	0	0	0	0
TENN PATTERSON	932500	10367	0	0	0	0
TRANSCO/CITRONELLE FGT CAPACITY	62132	157553	1,465	5,194	5,194	1,465
TRANSCO FROST	946400	9191	0	0	0	0
Zone 3 Total			2,503	8,873	8,873	2,503
Total MDQ:			**3,570**	**12,655**	**12,655**	**3,570**

* Exclusive of Transporter's fuel. Shipper to provide fuel pursuant to Fuel Reimbursement Charge Adjustment provisions of Transporter's
F.E.R.C. Gas Tariff, General Terms and Conditions.

EXHIBIT B

DAILY SPOT PRICES FOR SWING GAS, INSIDE FERC PRICES FOR

MONTHLY BASELOAD GAS, AND

INJECTION INDEX PRICES FOR MARKET AREA STORAGE

EXHIBIT B

DAILY SPOT PRICES FOR SWING GAS, INSIDE FERC PRICES FOR

MONTHLY BASELOAD GAS, AND

INJECTION INDEX PRICES FOR MARKET AREA STORAGE

Daily Spot Prices for Daily Swing Gas

and

Inside FERC Prices for Baseload and SMREQ Volumes

Receipt Point Location**	IFERC Pricing Points	GDD Pricing Points
Transco Sta 30,45,50,65, 85	Transco Zone 1, 2, 3 (Sta 50 priced @ Sta 65), 4, respectively	Transco Zone 1, 2, 3 (Sta 50 priced @ Sta 65), 4, respectively
Niagara	Niagara	Niagara
Oakford & Cornwell	Dominion, Appalachia	Dominion, South Point
Tetco STX,ETX,WLA,ELA	Tetco STX,ETX,WLA,ELA	Tetco STX,ETX,WLA,ELA
TGP 100,500,800 leg	TGP Z0, 500 leg, 800 leg	TGP Z0, 500 leg, 800 leg
Wharton	Transco Z6 NNY	Transco Z6 NNY
TGT Z0 & Z1	TGT SL & TGT Z1	TGT SL & TGT Z1
Col Gas Trans. - Leach	Columbia Gas, Appalachia	Columbia Gas, Appalachia
Algonquin backhaul	Transco Z6 NY	Transco Z6 NY

Transco Zone 1 - Texas	Transco Z1	Transco Z1
Transco Zone 2 - LA	Transco Z2	Transco Z2
Columbia Gas, Op Area 3, TCO Leach 801	Columbia Gas, Appalachia	Columbia Gas, Appalachia
Eastern Shore, Transco Z6 - Parkesburg #6570	Transco Z6 NNY	Transco Z6 NNY
Eastern Shore, Transco Z6 - TCO - Daleville MLI 88	**Transco Z6 NNY**	Transco Z6 NNY
FGT Production Zone 1	FGT Zone 1	Florida Gas Zone 1
FGT Production Zone 2	FGT Zone 2	Florida Gas Zone 2
FGT Production Zone 3	FGT Zone 3	Florida Gas Zone 3
Leidy	TBD*	TBD*
* Parties to reach mutually agreeable price based on market based quotes		
** Pricing of gas requested to be sourced at points within the paths should be at the mutually agreeable indexes		

Injection Index Prices for Market Area Storage

Storage	MSQ	Price Point*
Eastern Shore GSS Storage	25,339	St 65+ Variable
Eastern Shore LSS Storage	5,500	NNY Z6
Eastern Shore CFSS Storage	25,381	Tco
CNG Dominion GSS	645,244	DOM SP
Steuben - 7c	517,500	NNY Z6
Texas Eastern SS-1	379,911	M2/M3***
CNG Dominion GSS II	1,666,666	DOM SP
CNG Dominion GSS -TE	2,387,206	DOM SP
CNYOG - Stagecoach FSS	304,000	DOM SP
Columbia Gas FSS	230,168	Tco
Tennessee FS-MA	100,485	TGP 500 Leg plus variables
Transco GSS Storage	1,759,955	St 65+ Variable
Transco LSS Storage	600,000	NNY Z6
Transco S-2 Storage	653,186	NNY Z6
Transco SS-1 Storage	541,305	NNY Z6
Hattiesburg	100,000	Transco Z4
total	**9,941,846**	
* based on IFERC Index for first of month		
*** 50% M2 price (M2 price is defined as ELA plus variables to M2); 50% M3 Price		

AMENDMENT NO. 2 TO CREDIT AGREEMENT (NUI CORPORATION)

AMENDMENT NO. 2 TO Credit Agreement (NUI CORPORATION), dated as of May 10, 2004 (this "Amendment"), among NUI CORPORATION, a New Jersey Corporation (the "Borrower"), the several banks and other financial institutions from time to time party hereto and CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch, as administrative agent (in such capacity, the "Agent").

PRELIMINARY STATEMENT

Reference is made to (i) that certain Credit Agreement dated as of November 24, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions from time to time party thereto and the Agent, (ii) that certain Agreement dated January 26, 2004 by which the Borrower and the Required Lenders (as defined in the Credit Agreement) agreed to certain extensions, waivers, consents and amendments under the Credit Agreement (the "Waiver and Modification Agreement") including without limitation certain amendments to Sections 2.2c and 5.16 of the Credit Agreement and (iii) that certain Agreement dated March 12, 2004 by which the Borrower and the Required Lenders agreed to certain waivers, deferrals and consents (the "Limited Waiver and Forbearance Letter").

The Borrower has requested that the Credit Agreement be amended as provided herein and the Required Lenders have agreed to the requested amendments on the terms and conditions set forth herein and have directed the Agent to enter into this Amendment for and on their behalf.

In consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

SECTION 1. Definitions; Rules of Construction. Each term capitalized herein and not otherwise defined herein shall have the meaning ascribed to it in the Credit Agreement. Rules of construction or interpretation set forth in the Credit Agreement shall apply to the interpretation of this Amendment.

SECTION 2. Amendments. The Credit Agreement is hereby amended as follows:

(a) Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Consolidated EBITDA" appearing therein in its entirety and inserting the following definition for such term in lieu thereof and inserting the following definition of NJBPU Settlement Amount to appear in alphabetical order:

"Consolidated EBITDA" for any period means, with respect to the Borrower Consolidated Net Income before interest and taxes, plus (to the extent deducted in determining such Consolidated Net Income) (i) depreciation, amortization and other similar non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period), (ii) extraordinary losses, losses in connection with asset sales (other than ordinary course sales including sales of inventory) or restructuring charges, (iii) non-recurring items of loss and expense relating to the credit facilities provided hereby to the extent not otherwise reflected in Consolidated Net Income, (iv) non-recurring items of loss and expense of up to $2,000,000 relating to the Focused Audit, and (v) $36,300,000 consisting of non-recurring expenses of the NJBPU Settlement Amount, severance expenses related to certain senior officers and expenses relating to the Stier investigation; minus (to the extent included in determining such Consolidated Net Income) extraordinary gains or gains in connection with asset sales (other than ordinary course sales including sales of inventory).

"NJBPU Settlement Amount" means an amount equal to $33,000,000 relating to the settlement of the Focused Audit and other restructuring costs and expenses.

(b) Section 4.2(i) of the Credit Agreement is hereby amended by inserting at the end of such clause the following proviso:

"; provided however, that solely with respect to each of the Fiscal Quarters ended December 31, 2003 and March 31, 2004, the Borrower shall be required to make the foregoing deliveries to the Agent for each such Fiscal Quarters on or prior to the earlier of (y) the 10th day after the Borrower files its Form 10-Q for such Fiscal Quarter with the Securities and Exchange Commission and (z) June 15, 2004;"

(c) Section 4.2(ii) of the Credit Agreement is hereby amended by inserting at the end of such clause the following proviso:

"; provided however, that solely with respect to the Fiscal Year ended September 30, 2003, the Borrower shall be required to make the foregoing deliveries to the Agent for such Fiscal Year on or prior to the earlier of (y) the 10th day after the Borrower files its Form 10-K for such Fiscal Year with the Securities and Exchange Commission and (z) June 15, 2004;"

(d) Section 5.1(iii)(c) of the Credit Agreement is hereby amended by deleting the proviso at the end thereof in its entirety and replacing the same with the following in the place thereof:

"provided, that (x) in the case of the Restricted Payments under clause (iii)(c) above, prior to making a proposed Restricted Payment, the Borrower's ratio of Consolidated Total Indebtedness to its Consolidated Total Capitalization does not exceed 0.60 to 1.00 (both as of the last day of the immediately preceding Fiscal Quarter and pro forma after giving effect to such Restricted Payment), (y) in the case of the Restricted Payments under clauses (ii) and (iii) above, prior to or immediately after giving effect to such proposed Restricted Payments, no Potential Default or Event of Default shall have existed or would exist and (z) in the case of all Restricted Payments, no such payment shall violate any Governmental Rule."

(e) Section 5.3a of the Credit Agreement is hereby deleted in its entirety and replaced with the following in the place thereof:

"At no time shall the Borrower permit its ratio of Consolidated Total Indebtedness to its Consolidated Total Capitalization exceed 0.80 to 1.00."

(f) Section 5.3b of the Credit Agreement is hereby deleted in its entirety and replaced with the following in the place thereof:

"At no time shall the Borrower permit its ratio, for any period of four consecutive Fiscal Quarters ending on or after December 31, 2003, of (i) Consolidated EBITDA to (ii) Consolidated Interest Expense for such period be less than the ratio set forth below across the relevant period set forth below:

Period Ending	Ratio
December 31, 2003 and March 31, 2004	1.50 to 1.0
Thereafter	1.25 to 1.0;"

(g) Article V of the Credit Agreement is hereby amended by inserting the at the end of such Article the following new Section:

"Section 5.20. Within three Business Days after Amendment No. 2 to this Agreement, dated April 30, 2004, becomes effective, the Borrower shall make such amendment public by filing a copy thereof with the Securities Exchange Commission pursuant to a Form 8-K filing."

(h) Section 7.2 of the Credit Agreement is hereby amended by inserting at the end thereof the following proviso:

"; provided however that, prior to June 30, 2004, any such default arising solely as a result of the failure to deliver financial statements (or to file periodic reports with the Securities and Exchange Commission) or related information with respect to the Fiscal Year ended September 30, 2003 or the Fiscal Quarters ended December 31, 2003 or March 31, 2004 shall not constitute an Event of Default hereunder unless and until such default causes the acceleration of such Indebtedness or causes the termination of any commitment to lend with respect thereto (notwithstanding this proviso, any such default shall constitute an Event of Default for purposes of Sections 2.2c, 5.1 and 6.1a)(it being understood that this proviso shall have no effect after June 30, 2004);" and

(i) Section 7.7(ii) of the Credit Agreement is hereby amended by replacing "$25,000,000" with "$35,000,000".

SECTION 3 Representation and Warranties. The Borrower represents and warrants as of the date hereof to each of the Agent and the Lenders that after giving effect to this Amendment:

(a) No Potential Default or Event of Default has occurred and is now continuing;

(b) The Borrower has the corporate power and authority to execute, deliver and perform this Amendment and has taken all corporate actions necessary to authorize the execution, delivery and performance of this Amendment;

(c) This Amendment has been duly executed and delivered on behalf of the Borrower by a duly authorized officer or attorney-in-fact of the Borrower;

(d) The execution, delivery and performanceof this Amendment will not violate any Requirement of Law or any material contractual obligation binding on the Borrower; and

(e) No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by the Borrower of this Amendment.

The Borrower acknowledges and agrees that the representations and warranties set forth above shall survive the execution and delivery hereof and shall be deemed made in the Credit Agreement for purposes of Section 7.6 of the Credit Agreement.

SECTION 4. Effectiveness. This Amendment shall become effective as of the date the Agent receives (i) the consents of Lenders constituting the Required Lenders as contemplated by the Memorandum to Lenders dated April 27, 2004, (ii) counterparts of this Amendment that, when taken together, bear the signatures of the Borrower and of the Agent, (iii) on behalf of each Lender consenting to this Amendment by the time provided in the Memorandum to Lenders dated April 27, 2004, payment of an amendment fee equal to

0.625% of the aggregate principal amount of such Lender's Term Loans then outstanding and (iv) payment of all of the Agent's reasonable out-of-pocket costs and expenses incurred in connection with this Amendment (including, without limitation, reasonable fees and expenses of its counsel) for which invoices have been submitted to the Borrower.

SECTION 5. Miscellaneous. (a) Except as expressly set forth herein, this Amendment shall not, by implication or otherwise, limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders or the Agent, under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle the Borrower to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement in similar or different circumstances. This Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. Upon this Amendment becoming effective as provided herein, the term "Loan Document" as defined in the Credit Agreement shall include, without limitation, this Amendment.

(b) As used in the Credit Agreement, the terms "Agreement," "herein," "hereinafter," "hereunder," "hereto," and words of similar import shall mean, from and after the date hereof, the Credit Agreement as amended by this Amendment.

(c) Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

(d) THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. The parties hereto each hereby consents to the non-exclusive jurisdiction of the state and federal courts of the State of New York and irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Amendment.

(e) This Amendment may be executed in any number of counterparts, each of which shall be an original but all of which, when taken together, shall constitute but one instrument. Delivery of an executed counterpart of this Amendment by fax will be deemed as effective as delivery of an originally executed counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

NUI CORPORATION

By: /S/ Daniel Scouler
Name: Daniel Scouler
Title: Interim Chief Financial Officer

CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch, as the Agent and on behalf of the Required Lenders

By: /S/ Dana Klein
Name: Dana Klein
Title: Managing Director

By: /S/ S. William Fox
Name: S. William Fox
Title: Director

AMENDMENT NO. 2 TO CREDIT AGREEMENT (NUI UTILITIES)

AMENDMENT NO. 2 TO Credit Agreement (NUI UTILITIES), dated as of May 10, 2004 (this "Amendment"), among NUI Utilities Inc., a New Jersey Corporation (the "Borrower"), the several banks and other financial institutions from time to time party hereto and CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch, as administrative agent (in such capacity, the "Agent").

PRELIMINARY STATEMENT

Reference is made to (i) that certain Credit Agreement dated as of November 24, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the financial institutions from time to time party thereto and the Agent, (ii) that certain Agreement dated January 26, 2004 by which the Borrower and the Required Lenders (as defined in the Credit Agreement) agreed to certain extensions, waivers, consents and amendments under the Credit Agreement (the "Waiver and Modification Agreement") including without limitation certain amendments to Sections 2.2c and 5.16 of the Credit Agreement and (iii) that certain Agreement dated March 12, 2004 by which the Borrower and the Required Lenders agreed to certain waivers, deferrals and consents (the "Limited Waiver and Forbearance Letter").

The Borrower has requested that the Credit Agreement be amended as provided herein and the Required Lenders have agreed to the requested amendments on the terms and conditions set forth herein and have directed the Agent to enter into this Amendment for and on their behalf.

In consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

SECTION 1. Definitions; Rules of Construction. **Each term capitalized herein and not otherwise defined herein shall have the** meaning ascribed to it in the Credit Agreement. Rules of construction or interpretation set forth in the Credit Agreement shall apply to the interpretation of this Amendment.

SECTION 2. Amendments. The Credit Agreement is hereby amended as follows:

(a) **Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Consolidated EBITDA" appearing** therein in its entirety and inserting the following definition for such term in lieu thereof and inserting the following definitions of NJBPU Settlement Amount and Penn Acquisition to appear in alphabetical order:

"Consolidated EBITDA" for any period means, with respect to the Borrower Consolidated Net Income before interest and taxes, plus (to the extent deducted in determining such Consolidated Net Income) (i) depreciation, amortization and other similar non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period), (ii) extraordinary losses, losses in connection with asset sales (other than ordinary course sales including sales of inventory) or restructuring charges, (iii) non-recurring items of loss and expense relating to the credit facilities provided hereby to the extent not otherwise reflected in Consolidated Net Income, (iv) non-recurring items of loss and expense of up to $2,000,000 relating to the Focused Audit, and (v) $36,300,000 consisting of non-recurring expenses of the NJBPU Settlement Amount, severance expenses related to certain senior officers and expenses relating to the Stier investigation; minus (to the extent included in determining such Consolidated Net Income) extraordinary gains or gains in connection with asset sales (other than ordinary course sales including sales of inventory).

"NJBPU Settlement Amount" means an amount equal to $33,000,000 relating to the settlement of the Focused Audit and other restructuring costs and expenses.

"Penn Acquisition" means the Borrower's purchase from Penn-Jersey Pipeline Co. of approximately (i) 21,600 feet of eight-inch pipeline for the transport of natural gas from Forks Township, PA to Lopatcong, NJ and (ii) related equipment and facilities for an aggregate purchase price (including assumption of liabilities or liens) not to exceed $350,000.

(b) Section 2.2b of the Credit Agreement is hereby amended by inserting at the end of such section the following clause:

"(iii) Delayed Draw Term Loans. Notwithstanding the foregoing, the Base Rate Option and the Euro-Rate Option (as set forth above) shall each be increased by 1.00% per annum solely with respect to Delayed Draw Term Loans (if any); provided that such increase shall not be effective if and for so long as a definitive purchase agreement has been fully executed and remains in full force and effect, to which NUI Corporation and an unaffiliated third person are parties and pursuant to which such third party agrees to purchase substantially all of the outstanding capital stock of NUI Corporation or all or substantially all of the assets of the Borrower."

(c) Section 4.2(i) of the Credit Agreement is hereby amended by inserting at the end of such clause the following proviso:

"; provided however, that solely with respect to each of the Fiscal Quarters ended December 31, 2003 and March 31, 2004, the Borrower shall be required to make the foregoing deliveries to the Agent for each such Fiscal Quarters on or prior to the earlier of (y) the 10th day after NUI Corporation files its Form 10-Q for such Fiscal Quarter with the Securities and Exchange Commission and (z) June 15, 2004;"

(d) Section 4.2(ii) of the Credit Agreement is hereby amended by inserting at the end of such clause the following proviso:

"; provided however, that solely with respect to the Fiscal Year ended September 30, 2003, the Borrower shall be required to make the foregoing deliveries to the Agent for such Fiscal Year on or prior to the earlier of (y) the 10th day after NUI Corporation files its Form 10-K for such Fiscal Year with the Securities and Exchange Commission and (z) June 15, 2004;"

(e) Section 5.1(b) of the Credit Agreement is hereby deleted in its entirety and replaced with the following in the place thereof:

"(b) declare or pay cash dividends to NUI Corporation and purchase, redeem or otherwise acquire shares of its equity interests or warrants, rights or options to acquire for consideration of any such shares, so long as the aggregate of such Restricted Payments made, paid or declared since the Closing Date in the aggregate would not exceed $35,000,000; provided, that (x) prior to or immediately after giving effect to any such proposed Restricted Payments, no Potential Default or Event of Default shall have existed or would exist and (y) no such payment shall violate any Governmental Rule.

(f) Section 5.4 of the Credit Agreement is hereby amended by inserting at the end of such section the following sentence:

"Notwithstanding the foregoing, the Borrower can make the Penn Acquisition."

(g) Article V of the Credit Agreement is hereby amended by inserting the at the end of such Article the following new Section:

"Section 5.20. Within three Business Days after Amendment No. 2 to this Agreement, dated April 30, 2004, becomes effective, the Borrower shall make such amendment public by filing a copy thereof with the Securities Exchange Commission pursuant to a Form 8-K filing."

(h) Section 7.2 of the Credit Agreement is hereby amended by inserting at the end thereof the following proviso:

"; provided however that, prior to June 30, 2004, any such default arising solely as a result of the failure to deliver financial statements (or to file periodic reports with the Securities and Exchange Commission) or related information with respect to the Fiscal Year ended September 30, 2003 or the Fiscal Quarters ended December 31, 2003 or March 31, 2004 shall not constitute an Event of Default hereunder unless and until such default causes the acceleration of such Indebtedness or causes the termination of any commitment to lend with respect thereto (notwithstanding this proviso, any such default shall constitute an Event of Default for purposes of Sections 2.2c, and 6.1a)(it being understood that this proviso shall have no effect after June 30, 2004);" and

(i) Section 7.7(ii) of the Credit Agreement is hereby amended by replacing "$25,000,000" with "$35,000,000".

SECTION 3. Representation and Warranties. The Borrower represents and warrants as of the date hereof to each of the Agent and the Lenders that after giving effect to this Amendment:

(a) No Potential Default or Event of Default has occurred and is now continuing;

(b) The Borrower has the corporate power and authority to execute, deliver and perform this Amendment and has taken all corporate actions necessary to authorize the execution, delivery and performance of this Amendment;

(c) This Amendment has been duly executed and delivered on behalf of the Borrower by a duly authorized officer or attorney-in-fact of the Borrower;

(d) The execution, delivery and performanceof this Amendment will not violate any Requirement of Law or any material contractual obligation binding on the Borrower; and

(e) No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by the Borrower of this Amendment.

The Borrower acknowledges and agrees that the representations and warranties set forth above shall survive the execution and delivery hereof and shall be deemed made in the Credit Agreement for purposes of Section 7.6 of the Credit Agreement.

SECTION 4. Effectiveness. This Amendment shall become effective as of the date the Agent receives (i) the consents of Lenders constituting the Required Lenders as contemplated by the Memorandum to Lenders dated April 27, 2004, (ii) counterparts of this Amendment that, when taken together, bear the signatures of the Borrower and of the Agent, (iii) on behalf of each Lender consenting to this Amendment by the time provided in the Memorandum to Lenders dated April 27, 2004, payment of an amendment fee equal to 0.625% of the aggregate principal amount of such Lender's Term Loans and Commitments then outstanding and (iv) payment of all of the Agent's reasonable out-of-pocket costs and expenses incurred in connection with this Amendment (including, without limitation, reasonable fees and expenses of its counsel) for which invoices have been submitted to the Borrower.

SECTION 5. Miscellaneous. (a) Except as expressly set forth herein, this Amendment shall not, by implication or otherwise, limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders or the Agent, under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle the Borrower to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement in similar or different circumstances. This Amendment shall apply and be effective only with respect to the provisions of the Credit Agreement specifically referred to herein. Upon this Amendment becoming effective as provided herein, the term "Loan Document" as defined in the Credit Agreement shall include, without limitation, this Amendment.

(b) As used in the Credit Agreement, the terms "Agreement," "herein," "hereinafter," "hereunder," "hereto," and words of similar import shall mean, from and after the date hereof, the Credit Agreement as amended by this Amendment.

(c) Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

(d) THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. The parties hereto each hereby consents to the non-exclusive jurisdiction of the state and federal courts of the State of New York and irrevocably waives all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Amendment.

(e) This Amendment may be executed in any number of counterparts, each of which shall be an original but all of which, when taken together, shall constitute but one instrument. Delivery of an executed counterpart of this Amendment by fax will be deemed as effective as delivery of an originally executed counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

NUI UTILITIES, INC.

By: /S/ Peter E. Maricondo
Name: Peter E. Maricondo
Title: Chief Financial Officer

CREDIT SUISSE FIRST BOSTON,
acting through its Cayman Islands Branch,
as the Agent and on behalf of the Required Lenders

By: /S/ Dana Klein
Name: Dana Klein
Title: Managing Director

By: /S/ S. William Fox
Name: S. William Fox
Title: Director

SEVERANCE AGREEMENT

This Severance Agreement is made and entered into this 25th day of September, 2003, by and between John Kean, Jr. ("Employee") and NUI Corporation ("NUI") and any of its predecessors, successors, parent corporations, subsidiaries, affiliates, operating divisions, and each of their employees, stockholders, officers and directors (sometimes collectively referred to as the "Company").

WHEREAS, NUI and Employee wish to enter into this Severance Agreement to reflect the terms and conditions of the termination of Employee's employment with NUI and to provide Employee with compensation and benefits, as legal consideration, in addition to those which he would otherwise be entitled to receive in connection with that termination.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is agreed as follows:

1. Effective as of 5:00 P.M., E.D.T. on September 25, 2003 (the "Resignation Date"), Employee resigns as an employee, officer and director of the Company.

(a) At the request of the Special Committee of the Board of Directors of the Company, during the period from September 26,2003 through December 31,2003 (the "Interim Period"), Employee will make himself available to the Company, as the Special Committee of the Board of Directors of the Company may reasonably request.

(b) During the Interim Period, the Company will pay Employee at a rate equivalent to his current base salary, payable in accordance with Company's bi-weekly payroll process.

(c) During the Interim Period the Company will provide Employee with secretarial assistance from the person who was Employee's secretary on the Resignation Date, or such other person or persons as are reasonably acceptable to Employee, and will also provide Employee with remote access to the Company's voicemail and e-mail systems.

2. In settlement of all claims released under this Severance Agreement, the Company will provide the following payments and benefits to Employee, which Employee acknowledges that he would not otherwise be entitled to receive. These payments and benefits are in addition to any payments or benefits he is already entitled to receive.

(a) Commencing January 1,2004 through December 31,2005 (the "Severance Period"), severance pay at Employee's base salary of $490,000.00 per year, payable in accordance with Company's biweekly payroll process. Payment of severance will be conditioned upon execution and compliance with this Severance Agreement. Employee agrees to pay taxes, if any, that may be due on his behalf with respect to any and all payments made pursuant to this Severance Agreement and he agrees to indemnify and hold the Company harmless with respect to any taxes which should have been paid by him. The Company agrees to pay the appropriate taxing authorities all amounts withheld from Employee's bi-weekly installments and the Company agrees to indemnify and hold Employee harmless with respect to any amounts that were withheld on behalf of Employee but not remitted to the appropriate taxing authorities.

(b) During the Interim Period and the Severance Period, or until severance payments under this Severance Agreement cease, Employee will be required as needed by the Company and upon reasonable notice to Employee, to consult with the Company with respect to his former areas of responsibility. It is understood that such cooperation will not interfere with Employee's new employment or business and will have to be coordinated in advance with the Company and Employee. Employee agrees to cooperate fully with and to assist the Company in connection with the preparation and defense, including but not limited to personal appearances and testimony, of any claim, action or litigation in which the Company is, or may become, a party and which relates in any way to matters or actions within the possible scope of Employee's responsibilities while in the employment of the Company. The Company agrees to reimburse Employee for reasonable and necessary out of pocket expenses incurred in connection with such consultation and/or cooperation prior to the end of the Severance Period. Thereafter, Company will reimburse Employee at the rate of $200.00 per hour, not to exceed $2,000.00 per day in addition to reimbursing him for reasonable and necessary out of pocket expenses incurred while assisting the Company. Employee further agrees that he will advise the Company immediately upon becoming aware of any claim or litigation connected in any way to the Company in which he is required or requested to appear as a witness or made a party. Company also further agrees that it will advise Employee immediately upon becoming aware of any claim or litigation connected in any way to the Employee in which he is required or requested to appear as a witness or made a party.

(c) The Company confirms that it will indemnify Employee pursuant to and to the extent provided in Article X of the Company's Amended and Restated Certificate of Incorporation. In addition to such indemnification, during the Interim Period, the Severance Period and thereafter the Company will continue to maintain directors' and officers' liability insurance that covers Employee in respect of the period of his employment with the Company substantially similar to the directors' and officers' liability insurance carried by the Company as of the Resignation Date, subject only to such changes affecting all executive officers and directors of the Company generally.

(d) Company will provide executive outplacement assistance through Right Management at the Company's expense. In the event that Employee desires to utilize the services of an alternative outplacement firm, the Company will pay for such services, subject to a cap of $20,000.00.

(e) Employee may continue to use the Company vehicle currently assigned to him and Company will make all lease payments and pay all expenses including, but not limited to, insurance, registration, fuel and maintenance, in accordance with Company's policy for corporate officer leased vehicles in effect as of the Resignation Date, throughout the Interim Period and the Severance Period.

Employee may elect to retain his current Company vehicle at the end of the Severance Period. The value of the vehicle at the conclusion of the Severance Period will be treated as imputed income to Employee.

(f) Employee has been granted 45,000 shares of Company restricted stock pursuant to grant agreements dated as of November 1999, 2000 and 2002, which have not vested as of the date of this Severance Agreement ("Employee's Unvested Shares"). Effective as of the Resignation Date, all of Employee's Unvested Shares will be deemed vested. Promptly after expiration of the seven (7) day revocation period described in Sections 11 and 12 of this Severance Agreement, the Company will deliver those Shares to Employee, without restrictive legends.

(g) During the Interim Period and the Severance Period, the Company will, at Employee's election, arrange to provide Employee with the benefits listed on attached Schedule A for Employee and his family, provided Employee is not then covered by benefits provided by another employer that are comparable in scope and cost to those being provided by the Company during the Interim Period or the Severance Period. During the first eighteen (18) months (the "COBRA Period"), such benefits will be provided through COBRA at the Company's expense. Thereafter, for the balance of the Severance Period, the Company will arrange to continue to provide Employee with benefits substantially similar to those provided by the Company during the COBRA Period, at the Company's expense. Also, as promptly as practicable following the Resignation Date, the Company will, at Employee's election, transfer to Employee all life insurance policies held by the Company on Employee's life and Employee will assume all premium payments therefor.

(h) The Company acknowledges that Employee holds shares of the Company's common stock under the Company's deferred compensation plan and the Company's employee stock purchase plan. The Company will distribute those shares to Employee as soon as possible following the Resignation Date in accordance with the terms of those plans.

(i) In accordance with the Company's policies, the Company will pay Employee for unused floating holidays, vacation and sick time accrued as of the Resignation Date.

(j) The Company will forward as directed by Employee all phone, voicemail and e-mail messages sent to Employee and received by the Company.

3. In consideration of the Company's payments and undertakings as set forth in this Severance Agreement, effective as of 5:00 P.M., E.D.T. on the Resignation Date, Employee knowingly and voluntarily waives, releases and discharges the Company from all claims or causes of action, known or unknown, that he may have or claim to have against the Company, including but not limited to any and all claims arising out of or in any way connected with Employee's employment with the Company or the termination of that employment, but excluding any claims relating to the Company's obligations under this Severance Agreement or the Company's obligation to indemnify Employee under Article X of the Company's Amended and Restated Certificate of Incorporation. The claims released include, but are not limited to, any and all claims arising under any change-in-control agreements between Employee and the Company, the United States Constitution or the constitutions of any state, any and all common-law claims, including claims of wrongful discharge, constructive discharge, breach of an express or implied contract arising under any handbook, manual, policy or practice, breach of an implied covenant of good faith and fair dealing, violation of any public policy, defamation, emotional distress, fraud, negligence, tortious interference with contract or prospective economic advantage, humiliation, punitive damages, and all claims for compensatory damages, including, but not limited to back pay, front pay, bonuses, awards, reinstatement, retroactive seniority, pension benefits and all claims for attorneys' fees and costs; any and all claims arising under any federal, state or local law, including but not limited to Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, Employee Retirement Income Security Act of 1974, the Americans With Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act of 1993, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, and the New Jersey Family Leave Act. Employee also releases any and all claims arising under any Executive Order and any claims derived from or based upon any federal or state regulations.

4. Employee agrees and understands that he will not disclose nor cause to be disclosed any trade secrets, or confidential or proprietary business information of the Company, including but not limited to, technical data and information, marketing plans, customer lists or identities, prospective customers, costs and pricing information, source for designs, or sources of supplies, materials, goods or services to the Company or the cost or terms thereof.

5. On the Resignation Date, Employee will return to the Company all personal computer(s), software, printer(s), files, records, identification and credit cards, keys and any other Company property in his possession or control, other than those items permitted to be retained. Employee may retain his laptop computer and the two cellular telephones currently assigned to him (including the telephone numbers thereof) and the responsibility for service charges will be transferred to Employee effective with the end of the Severance Period.

6. Employee and the Company have agreed on the text of the press release announcing Employee's resignation from the Company, a copy of which is attached as Schedule B. The Company will not make any statements concerning the termination of Employee's employment with the Company that are inconsistent with such press release or make any disparaging statements against or about Employee or Employee's term of service with the Company. Employee will not make any disparaging statements against or about the Company, or any of its predecessors, successors, or affiliated companies or their officers, directors, agents or employees. Nothing contained in this Agreement will limit or restrict the ability of Employee or the Company to provide information or testimony regarding the other party if required pursuant to regulatory or legal process.

7. Employee represents that he has not filed any charge, claim or complaint of any kind against the Company, and Employee further covenants and represents that he will not file any lawsuit or initiate any action seeking personal recovery or personal injunctive relief against the Company with respect to any matter, including but not limited to, his employment with the Company or the termination of that employment. Nothing contained in this paragraph will prohibit Employee from (a) bringing any action to enforce the terms of this Severance Agreement; (b) filing a timely charge or complaint with the Equal Employment Opportunity Commission ("EEOC") regarding the validity of this Severance Agreement; (c) filing a timely charge or complaint with the EEOC or participating in any investigation or proceeding conducted by the EEOC or regarding any claim of employment discrimination (although Employee has waived any right to personal recovery or personal injunctive relief in connection with any such charge or complaint); or (d) filing any action to enforce the Company's or any insurer's obligation under Article X of the Company's Amended and Restated Certificate of Incorporation or otherwise to indemnify and defend Employee in connection with any action or proceeding to which he is a party or witness by virtue of having been an officer, director or employee of the Company.

8. Employee and the Company agree to maintain in confidence, and not to disclose or cause to be disclosed, the terms of this Severance Agreement. It will not be considered a breach of this obligation of confidentiality for Employee to make disclosure to his immediate family (who will then be expressly advised of; and also be bound by, the same requirement of confidentiality), or for Employee to make disclosures in order to obtain private and confidential tax, legal or financial advice or to respond to any inquiry from any governmental entity or agency regarding tax filing. Employee's confidentiality obligation under this Section 8 will cease if the Company publicly discloses the terms of this Severance Agreement. It will not be considered a breach of the obligation of confidentiality for the Company or Employee to make disclosures to regulatory agencies, pursuant to federal securities laws, pursuant to court process, or to any potential acquiror of the Company.

9. Employee agrees and understands that he shall (i) not solicit business away from the Company, or in any way encourage any person or entity to cease doing business with the Company and (ii) not, by virtue of employment status or through ownership control, compete directly or indirectly with the Company in New Jersey, Maryland, Virginia or Florida for a period of five months from the Resignation Date. Employee further agrees that a violation of this provision shall constitute a breach of this Agreement and he shall forfeit all future benefits under this Severance Agreement.

10. Employee acknowledges and represents that the only consideration he received for executing this Severance Agreement is that set forth in this Severance Agreement, which is in addition to any benefits to which Employee is entitled. No other promise, inducement, threat, agreement or understanding of any kind or description has been made with or to Employee by the Company to cause him to agree to the terms of this Severance Agreement.

11. Employee hereby acknowledges that by this Severance Agreement the Company is advising him in writing that he should consult with an attorney prior to executing this Severance Agreement. Employee states that he has had the opportunity to read, review, and consider all of the provisions of this Severance Agreement freely, voluntarily, and without duress or coercion.

12. Employee understands that he has forty-five (45) calendar days within which to consider this Severance Agreement before signing it. Employee also understands that after signing this Severance Agreement he may revoke his signature within seven (7) calendar days by delivering written notification of that revocation marked "personal and confidential" to James R. Van Horn, Corporate Secretary and General Counsel, NUI Corporation, 550 Route 202/206, Bedminster, NJ 07921-0760.

13. It is understood and agreed that the consideration to be paid to Employee pursuant to Section 2(f) of this Severance Agreement and General Release will not become payable until seven (7) days have passed from the date of the execution of this Severance Agreement by Employee, at which point in time Employee will no longer be able to revoke his signature and this Severance Agreement will become binding and effective.

14. If any payments made to Employee under this Severance Agreement (including issuance or delivery of shares of Company stock pursuant to Sections 2(f) and 2(h) of this Severance Agreement) (the "Payments") are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986 (the "Code"), as amended, then the Company (or its successor following any acquisition or merger, as applicable), will indemnify Employee for any such tax paid by Employee such that the net amount retained by Employee, after subtracting the excise tax on the Payments and any federal, state or local taxes and additional excise tax on the indemnification payment, will be equal to the Payments.

15. In the event any term, condition or provision of this Severance Agreement, in whole or in part, is declared by any court of competent jurisdiction to be illegal, void or invalid, all other terms, conditions and provisions of this Severance Agreement will remain in full force and effect to the same extent as if the part declared illegal, void or invalid, had never been incorporated in this Severance Agreement, and will continue to be binding upon the parties hereto.

16. This Severance Agreement will be governed by the laws of the State of New Jersey except to the extent that federal law may be applicable to any matter arising hereunder.

17. The Company will continue to make the payments and provide the benefits to be paid or provided to Employee under this Severance Agreement, notwithstanding Employee's death or disability during the Interim Period or the Severance Period. If Employee dies during the Interim Period or the Severance Period, the Company will continue to provide those benefits to Employee's family and will pay any unpaid severance payments to Empl9yee's estate.

18. Employee represents that he has carefully read and fully understands all of the provisions of this Severance Agreement; that

Employee has been encouraged to review this Severance Agreement with an attorney of his choice; and that Employee is voluntarily executing this Severance Agreement.

NUI Corporation

/S/ JOHN KEAN, JR.
John Kean, Jr.

By: /S/ BERNARD S. LEE
Bernard S. Lee
Chairman,
Compensation Committee

Date: September 25, 2003

Date: September 25, 2003

Schedule A

Benefits

Medical/Prescription Drug (family coverage)
Dental (family coverage)
Vision (family coverage)
Medical Expense Reimbursement Plan, not provided through COBRA (or equivalent benefit)

Schedule B

Final

Investor Contact:
Linda S. Lennox
Director, Investor Relations
(908) 719-4222

Media Contact:
George Koodray
Director, Public Affairs
(908)470-4613

For Immediate Release

NUI CORPORATION PURSUES SALE OF THE COMPANY

President and Chief Executive Officer Steps Down

Bedminster, NJ - September 26,2003 - NUI Corporation (NYSE:NUI) announced today that as a result of the negative impact on the company arising from recent credit downgrades and adverse business conditions, its Board of Directors has decided to pursue the sale of the company. After considering a number of strategic alternatives, the Board of Directors established a Special Committee to further assess the company's choices and concluded that pursuing a sale of the company is in the best interests of the company's stakeholders.

The company also announced that John Kean, Jr. has stepped down as President and Chief Executive Officer and as a director of the company to pursue other opportunities.

A. Mark Abramovic, the company's Chief Operating Officer and Chief Financial Officer, has been appointed President of the company. Abramovic stated, "The company has benefited from John's leadership and innovation. We thank him for his years of dedicated service to the company and wish him well in his future endeavors."

The company also announced that NUI Utilities, Inc. has entered into a letter of intent with a lender to provide it with an additional $50 million unsecured credit facility to fund its short-term needs. NUI is pursuing other alternatives to provide NUI Utilities, Inc. with sufficient credit capacity to continue to satisfy its short-term needs in the event the $50 million facility is not obtained.

NUI also revised its earnings guidance for the fiscal year ending September 30,2003 to $0.95 to $1.05 per share from $1.10 to $1.25 per share.

"I look forward to working to find the best strategic partner for NUI while ensuring that the interests of our shareholders, employees, customers and other stakeholders remain paramount," Abramovic said. .

Berenson & Company is serving as a financial advisor to the company.

A live teleconference will be held today, September 26, 2003, at 10:30 a.m. EST. The dial-in number for domestic investors is 1-800-360-9865 and 1-973-694-6836 for international callers. Participants should dial in five minutes prior to the scheduled start time. A taped replay of the call will be available beginning at 12:00 p.m. EST and ending on October 3,2003, at 11 :59 p.m. EST. The dial-in number for the replay is 1-800-428-6051 for domestic callers and 1-973-709-2089 for international callers. The pass code for the replay is 307979.

A live webcast of the call will be available on the company's website at www.nui.com. Choose "Investor Relations" and then select the webcast icon on the Corporate Overview page. Shortly following the live call, a replay will be archived on NUI's corporate website.

NUI Corporation, based in Bedminster, NJ, is a diversified energy company that operates natural gas utilities, as well as businesses involved in natural gas storage and pipeline activities and wholesale energy portfolio and risk management. NUI Utilities' companies include Elizabethtown Gas Company in New Jersey, City Gas Company of Florida and Elkton Gas Company in Maryland. Visit our web site at www.nui.com.

This press release contains forward-looking statements, including statements related to the potential sale of NUI, an anticipated additional credit facility for NUI Utilities, the pursuit of alternatives for the anticipated additional credit facility, and fiscal 2003 earnings guidance. These statements are based on management's current expectations and information currently available and are believed to be reasonable and are made in good faith. However, the forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the statements. Factors that may make the actual results differ from anticipated results include, but are not limited to, the company's ability to control operating expenses; the volatility and level of natural gas prices; the ability of the company to obtain a short-term credit facility for NUI Utilities; the ability of the company to obtain an alternative to the short-term credit facility in the event the short-term credit facility is not obtained; the ability of the company to identify a buyer for the company and negotiate a definitive agreement for the sale of the company; economic conditions; weather fluctuations; those factors set forth in the company's Form 10-K, Form 10-a and its other filings with the Securities and Exchange Commission relating to forward-looking statements; and other uncertainties, all of which are difficult to predict and some of which are beyond the company's control. For these reasons, you should not rely on these forward-looking statements when making investment decisions. The words "expect," "believe," "project," "anticipate," "intend," "should," "could," "will," and variations of such words and similar expressions, are intended to identify forward-looking statements. The company does not undertake any obligation to update publicly any forward-looking statement, either as a result of new information, future events or otherwise.

AGREEMENT AND GENERAL RELEASE

This Agreement and General Release is made and entered into this 27th day of January, 2004, by and between **A. Mark Abramovic** (hereinafter referred to as "Employee") and NUI Corporation, and each of its predecessors, successors, parent corporations, subsidiaries, affiliates, operating divisions and each of their employees, stockholders, officers and directors (hereinafter collectively referred to as the "Company").

Whereas, the employment of A. Mark Abramovic will terminate effective January 31, 2004;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is agreed as follows:

1. Employee and the Company hereby agree and recognize that Employee shall resign from all employee and non-employee positions with the Company effective January 31, 2004; that Employee's employment shall thereby be permanently severed, and that the Company shall have no obligation to re-employ Employee in the future.

2. In settlement of all claims released under this Agreement and General Release, the Company hereby agrees to provide Employee with the following consideration, to which he hereby acknowledges that he would not otherwise be entitled:

a) In accordance with and subject to the provisions of paragraph 12 hereof, the Company agrees to pay Employee a lump-sum payment in the amount of $1,200,000.00. Employee agrees to pay whatever taxes, if any, that may be due on his behalf with respect to the payments made pursuant to this Agreement and General Release, and he agrees to indemnify and hold the Company harmless with respect to any amounts which should have been paid by him, subject to the Company's obligations under paragraph 13 hereof.

b) Employee and his qualified beneficiaries will be eligible to elect medical, dental, prescription drug and vision care continuation coverage in accordance with Section 4980B of the Internal Revenue Code of 1986, as amended ("COBRA"), commencing February 1, 2004. In the event Employee, and Employee's qualified beneficiaries, if applicable, so elects COBRA continuation coverage, the Company will waive Employee's COBRA premium payments through the last day of August 2004. Instead, Employee may elect to participate in the Company's retiree medical benefits plan, in which case the Company will waive Employee's premium payments thereunder through the last day of August 2004. If, at the time that the above-mentioned premium payments cease to be waived in accordance with this paragraph 2(b), Employee (and his qualified beneficiaries) elects to continue any COBRA or retiree medical coverage for which he may be eligible, Employee shall be responsible for the premium payments for such coverage. Also, as promptly as practicable following January 31, 2004, the Company will, at Employee's election, transfer to Employee all life insurance policies held by the Company on Employee's life and Employee will assume all premium payments therefor.

c) Employee has been granted 2,500 shares of unvested restricted stock pursuant to the Company's Stock Option and Stock Award Plan. The Company shall vest 100% of said unvested shares, effective as of January 31, 2004.

d) The Company will provide Employee with outplacement services through Right Management Consultants for one year. In the event Employee elects not to use Right Management Consultants, the Company will pay for outplacement services at an alternative provider, *provided* that the cost to the Company of such services does not exceed $15,000.00.

e) In accordance with the Company's policies, the Company will pay Employee for floating holidays, vacation and sick time, in each case unused and accrued as of January 31, 2004.

f) **Employee may continue to use his current Company vehicle, under the financial terms in the existing lease and Company policy,** through February 29, 2004, on which date Employee shall return such vehicle to the Company.

Payment or provision of all payments and benefits described in this paragraph 2 shall be conditioned upon the execution and effectiveness of this Agreement and General Release and Employee's compliance with the terms and conditions thereof.

3. Employee shall cooperate with, and assist the Company in connection with any matter with which Employee was involved or any existing or potential claim, investigation, administrative proceeding, lawsuit or other legal or business matter relating to any issues which arose during Employee's employment with the Company as requested by the Company, upon reasonable advance notice by the Company. It is understood that such cooperation and assistance will not interfere with Employee's new employment or business and will have to be coordinated in advance with the Company and Employee. The Company agrees to reimburse Employee for reasonable and necessary out-of-pocket expenses incurred in connection with such cooperation and/or assistance prior to August 31, 2004. Thereafter, the Company will reimburse Employee at the rate of $200.00 per hour, not to exceed $2,000.00 per day, for such cooperation and/or assistance if more than incidental time periods are required, and the Company will reimburse Employee for reasonable and necessary out-of-pocket expenses incurred while providing such cooperation and/or assistance.

4. The text of the press release announcing Employee's separation from the Company, as it relates to Employee, shall be substantially as set forth in ***Schedule A*** attached hereto. The Company will not make any statements concerning the termination of Employee's employment with the Company that are inconsistent with such press release or make any disparaging statements against or about Employee or Employee's term of service with the Company. Employee will not make any disparaging statements against or about the Company, or any of its predecessors, successors, or affiliated companies or their officers, directors or employees. Nothing contained in this Agreement will limit or restrict the ability of Employee or the Company to make any statement or to provide information or testimony regarding the other party in connection with regulatory or legal process, pursuant to securities laws or the rules of any stock

exchange, or to any potential acquiror of the Company.

5. In consideration of the Company's payments and undertakings as set forth in this Agreement and General Release, Employee hereby knowingly and voluntarily agrees to waive, release and discharge the Company from all claims or causes of action, known or unknown, that he may have or claim to have against the Company from the beginning of time through the execution of this Agreement and General Release, including but not limited to, any and all claims arising out of or in any way connected with Employee's employment with the Company or the termination of that employment; any and all claims arising under that certain letter agreement, dated September 26, 1999, between Employee and the Company or any other agreement, written or oral, between Employee and the Company; the United States Constitution or the constitutions of any state; any and all common law claims, including claims for wrongful discharge, constructive discharge, breach of an express or implied contract arising under any handbook, manual, policy, or practice, breach of an implied covenant of good faith and fair dealing, violation of any public policy, defamation, emotional distress, retaliation, fraud, negligence, tortious interference with contract or prospective economic advantage, humiliation, personal injury, damage to name or reputation, liquidated damages, punitive damages, all claims for compensatory damages, including, but not limited to backpay, front pay, bonuses, awards, stock options, severance pay, reinstatement, retroactive seniority, pension benefits and all claims for attorneys' fees and costs; any and all claims arising under any federal, state or local law, including but not limited to Title VII of the Civil Rights Act of 1964, the civil Rights Act of 1866, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act of 1974, the Americans With Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act of 1993, the Sarbanes-Oxley Act, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, and the New Jersey Family Leave Act; and any and all claims arising under any Executive Order and any claims derived from or based upon any federal or state regulations. The foregoing to the contrary notwithstanding, this Agreement and General Release shall not waive orrelease any of Employee's rights (a) with regard to accrued benefits under any employee benefit plan maintained by the Company, which accrued benefits shall be paid or provided in accordance with the terms of the applicable plan, or (b) to indemnification in accordance with Article X of the Company's Amended and Restated Certificate of Incorporation.

6. Employee agrees and understands that he shall not disclose nor cause to be disclosed any trade secret, or confidential or proprietary information of the Company, including but not limited to, technical data and information, marketing plans, customer lists or identities, prospective customers, cost and pricing information, sources for designs, or sources of supplies, materials, goods or services to the Company or the cost or terms thereof. Employee represents and warrants that he has returned to the Company all property and documents belonging to it, including, without limitation, the software, printer(s), files, records, identification and credit cards, keys and any other Company property or equipment in his possession and control. Employee further agrees and understands that he shall not solicit or encourage anyone doing business with the Company to cease doing business with it, or solicit or encourage anyone to leave the employ of the Company.

7. Employee represents that he has not filed any charge, claim or complaint of any kind against the Company, and Employee further covenants and represents that he will not file any lawsuit or initiate any action seeking personal recovery or personal injunctive relief against the Company with respect to any matter, including but not limited to, his employment with the Company or the termination of that employment. Nothing contained in this paragraph shall prohibit Employee from (a) bringing any action to enforce the terms of this Agreement and General Release; (b) filing a timely charge or complaint with the Equal Employment Opportunity Commission ("EEOC") regarding the validity of this Agreement and General Release; (c) filing a timely charge or complaint with the EEOC or participating in any investigation or proceeding conducted by the EEOC regarding any claim of employment discrimination (although Employee has waived any right to personal recovery or personal injunctive relief in connection with any such charge or complaint); or (d) filing any action to enforce the Company's or any insurer's obligation under Article X of the Company's Amended and Restated Certificate of Incorporation or otherwise to indemnify and defend Employee in connection with any action or proceeding to which he is a party or witness by virtue of having been an officer, director or employee of the Company. The Company confirms that it will indemnify Employee pursuant to and to the extent provided in Article X of the Company's Amended and Restated Certificate of Incorporation. In addition to such indemnification, the Company will continue to maintain directors' and officers' liability insurance that covers Employee in respect of the period of his employment with the Company substantially similar to the directors' and officers' liability insurance carried by the Company as of the date hereof, subject only to such changes affecting all executive officers and directors of the Company generally.

8. Employee and the Company agree to maintain in confidence, and not to disclose or cause to be disclosed, the terms of this Agreement and General Release. It shall not be considered a breach of this obligation of confidentiality for Employee to make disclosures to his immediate family (who shall then be expressly advised of, and also be bound by, the same requirement of confidentiality) or for Employee to make disclosures in order to obtain private and confidential legal, tax or financial advice or to respond to any inquiry from any governmental entity or agency regarding a tax filing (and the recipient of such disclosures shall then be expressly advised of, and also be bound by, the same requirement of confidentiality). It shall not be considered a breach of the obligation of confidentiality under this paragraph 8 for the Company or Employee to make disclosures to regulatory agencies, pursuant to securities laws or the rules of any stock exchange, pursuant to court process, or to any potential acquiror of the Company.

9. Employee acknowledges and represents that the only consideration he received for executing this Agreement and General Release is that set forth herein, which is in addition to any benefits to which Employee is entitled. No other promise, inducement, agreement or understanding of any kind or description has been made with or to Employee by the Company to cause him to agree to the terms of this Agreement and General Release.

10. Employee hereby acknowledges that by this Agreement and General Release the Company is advising him in writing that he

should consult with an attorney prior to executing this Agreement and General Release. Employee states that he has had the opportunity to read, review, and consider all of the provisions of this Agreement and General Release; that Employee understands its provisions and its binding effect on him; and that Employee is entering into this Agreement and General Release freely, voluntarily, and without duress or coercion.

11. Employee understands that he has forty-five (45) calendar days within which to consider this Agreement and General Release before signing it and further acknowledges that in the event that Employee executes this Agreement and General Release prior to the expiration of such forty-five (45) day period, Employee hereby waives the balance of said period. Employee also understands that after signing this Agreement and General Release he may revoke his signature within seven (7) calendar days by delivering written notification of that revocation marked "personal and confidential" to Albert J. Ganter, NUI Corporation, 550 Route 202/206, Bedminster, NJ 079120760, with a copy to Neil Mullin, Esq., Smith Mullin (as Escrow Agent), 240 Claremont Avenue, Montclair, New Jersey 07042.

12. (a) **It is understood and agreed that, notwithstanding anything to the contrary set forth in this Agreement and General** Release, the consideration to be provided to Employee pursuant to this Agreement and General Release will not become payable to Employee until seven (7) days have passed from the date of the execution of this Agreement and General Release by Employee (the date of execution of this Agreement and General Release by Employee being referred to as the "Execution Date" and the date on which such consideration shall become payable to Employee being referred to as the "Settlement Date"), at which point in time Employee will no longer be able to revoke his signature and this Agreement and General Release will become binding and effective. If this Agreement and General Release is revoked by Employee prior to the Settlement Date, then Employee shall forfeit all of the payments and benefits provided herein, and the Company shall not be required to provide any such payments or benefits or other consideration.

(b) On the Execution Date, the Company shall deliver to the law firm of Smith Mullin (the "Escrow Agent") an aggregate of $1,200,000 in cash (the "Escrow Amount"), by wire transfer of immediately available funds to the account or accounts identified by the Escrow Agent to the Company in writing prior to the Execution Date, and such cash shall be accepted by the Escrow Agent and placed into a separate interest-bearing escrow account (the "Escrow Account") with an institution the deposits in which are insured by an agency of the United States; provided that interest accruing thereon shall constitute part of the Escrow Amount. If the Escrow Agent shall not have received any written notification of revocation of Employee's signature in respect of this Agreement and General Release prior to the Settlement Date, then, subject to no further conditions, on the first business day after the Settlement Date, the Escrow Agent shall disburse the entire Escrow Amount to Employee. If the Escrow Agent shall have received written notification of revocation of Employee's signature in respect of this Agreement and General Release prior to the Settlement Date, then, subject to no further conditions, on the first business day after receipt of such written notification by the Escrow Agent, the Escrow Agent shall disburse the entire Escrow Amount to the Company.

(c) In the event of a dispute between the parties hereto, the Escrow Agent shall, in its discretion, be entitled to transfer to a court of competent jurisdiction all amounts then held in the Escrow Account and, upon such transfer and upon the commencement of appropriate proceedings therein in the nature of interpleader, the Escrow Account shall be deemed dissolved.

(d) Acceptance by the Escrow Agent of its duties under this Agreement and General Release is subject to the following terms and conditions, which all parties hereby agree shall govern and control the rights, duties and immunities of the Escrow Agent:

(i) The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Agreement and General Release and the Escrow Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and General Release.

(ii) The Escrow Agent shall not be responsible in any manner for the validity or sufficiency of any property delivered hereunder or for any representations made or obligations assumed by any party other than the Escrow Agent. Nothing herein contained shall be deemed to obligate the Escrow Agent to deliver any cash or any other property referred to herein unless the same shall have first been received by the Escrow Agent pursuant to this Agreement and General Release.

(iii) Employee and the Company, jointly and severally, will indemnify the Escrow Agent for, and hold it harmless against, any loss, liability or expense, including but not limited to counsel fees, incurred without bad faith, gross negligence, fraud or intentional misconduct on the part of the Escrow Agent arising out of or in conjunction with its acceptance of, or the performance of its duties and obligations under this Agreement and General Release as well as the costs and expenses of defending against any claim or liability arising out of or relating to this Agreement and General Release.

(iv) The Escrow Agent shall be fully protected in acting on and relying upon any written notice, direction, request, waiver, consent, receipt or other paper or documents which the Escrow Agent in good faith believes to have been signed and presented by the proper party or parties.

(v) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith or for any mistake in act or law, or for anything which it may do or refrain from doing in connection herewith, except its own bad faith, gross negligence, fraud or intentional misconduct.

(vi) **The parties agree that should any dispute arise with respect to the payment, ownership or right of possession of the Escrow** Account, the Escrow Agent is authorized and directed to proceed in accordance with paragraph 12(c) or retain in its possession,

without liability to anyone, except for its bad faith, willful misconduct or gross negligence, all or any part of the Escrow Account until such dispute shall have been settled either by mutual agreement by the parties concerned or by the final order, decree or judgment of a court or other tribunal of competent jurisdiction in the United States, and a notice executed by the parties to the dispute or their authorized representatives shall have been delivered to the Escrow Agent setting forth the resolution of the dispute. The Escrow Agent shall be under no duty whatsoever to institute, defend or partake in such proceedings.

(e) The agreements set forth in paragraphs 12(c), (d) and (e) shall survive the termination of this Agreement and General Release and the payment of all amounts hereunder.

13. If Employee notifies the Company in writing that any payments made to Employee under this Agreement and General Release other than under this paragraph 13 (the "Payments") are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, then, only if and to the extent that the Company agrees that any such excise tax is payable, and the Company has determined in its discretion that any amounts payable by the Company under this paragraph 13 will be paid to the appropriate taxing authorities, the Company will indemnify Employee for any such tax, and any related interest or penalties, other than interest or penalties resulting from Employee's bad faith, negligence, fraud or intentional misconduct, payable by Employee such that the amount retained by Employee, after payment of the excise tax on the Payments and any federal, state or local taxes and additional excise tax on the indemnification payment, but not on the Payments, will be equal to the Payments; *provided, however*, that if the Company and Employee cannot agree whether or not such excise tax is payable by Employee, such determination shall be made by the Company; *provided further, however*, that such excise tax shall be considered payable for this purpose upon the earlier to occur of (a) a final determination by the Internal Revenue Service (the "IRS") addressed to Employee or the Company which is not contested in court or (b) a final determination by the United States Tax Court or other Federal court of competent jurisdiction affirming such determination by the IRS, to the effect that such excise tax is payable.

14. In the event any term, condition or provision of this Agreement and General Release, in whole or in part, is declared by any court of competent jurisdiction to be illegal, void or invalid, all other terms, conditions and provisions of this Agreement and General Release shall remain in full force and effect to the same extent as if that part declared illegal, void or invalid, had never been incorporated in this Agreement and General Release, and shall continue to be binding upon the parties hereto.

15. Employee and the Company understand and agree that this Agreement and General Release shall be governed by the laws of the State of New Jersey except to the extent that federal law may be applicable to any matter arising hereunder.

16. This Agreement and General Release binds the heirs, administrators, representatives, executors, successors, and assigns of Employee and the Company, and will inure to the benefit of Employee and the Company and their respective heirs, administrators, representatives, executors, successors, and assigns.

17. The understandings set forth herein (including *Schedule A*) represent the complete agreement between Employee and the Company with respect to the subject matter hereof. Employee has not relied upon any other agreements, understandings or representations except to the extent specifically set forth herein. This Agreement and General Release may not be amended, altered or modified except by the mutual agreement of Employee and the Company, evidenced in writing executed by Employee and the Company and specifically identified as an amendment to this Agreement and General Release.

18. This Agreement and General Release may be executed as separate counterparts, each of which, when so executed and delivered, shall be an original document, but all of which shall together constitute one and the same instrument.

19. Employee represents that he has carefully read and fully understands all of the provisions of this Agreement and General Release; that Employee has been encouraged to review this Agreement and General Release with an attorney of his/her choice; and that Employee is voluntarily executing this Agreement and General Release.

NUI CORPORATION

By: /S/ A. MARK ABRAMOVIC
A. Mark Abramovic

By: /S/ BERNARD S. LEE
NAME: Bernard S. Lee
TITLE: Chairman
Compensation Committee

Dated: 1/27/04

Dated: 1/27/04

Accepted and Agreed to as of this 28th day of January 2004:

SMITH MULLIN

By: /S/ NEIL MULLIN
NAME: Neil Mullin
TITLE: Partner

AGREEMENT AND GENERAL RELEASE

This Agreement and General Release is made and entered into this 27th day of January, 2004, by and between **James R. Van Horn** (hereinafter referred to as "Employee") and NUI Corporation, and each of its predecessors, successors, parent corporations, subsidiaries, affiliates, operating divisions and each of their employees, stockholders, officers and directors (hereinafter collectively referred to as the "Company").

Whereas, the employment of James R. Van Horn will terminate effective January 31, 2004;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is agreed as follows:

1. Employee and the Company hereby agree and recognize that Employee shall resign from all employee and non-employee positions with the Company effective January 31, 2004; that Employee's employment shall thereby be permanently severed, and that the Company shall have no obligation to re-employ Employee in the future.

2. In settlement of all claims released under this Agreement and General Release, the Company hereby agrees to provide Employee with the following consideration, to which he hereby acknowledges that he would not otherwise be entitled:

a) In accordance with and subject to the provisions of paragraph 12 hereof, the Company agrees to pay Employee a lump-sum payment in the amount of $800,000.00. Employee agrees to pay whatever taxes, if any, that may be due on his behalf with respect to the payments made pursuant to this Agreement and General Release, and he agrees to indemnify and hold the Company harmless with respect to any amounts which should have been paid by him, subject to the Company's obligations under paragraph 13 hereof.

b) Employee and his qualified beneficiaries will be eligible to elect medical, dental, prescription drug and vision care continuation coverage in accordance with Section 4980B of the Internal Revenue Code of 1986, as amended ("COBRA"), commencing February 1, 2004. In the event Employee, and Employee's qualified beneficiaries, if applicable, so elects COBRA continuation coverage, the Company will waive Employee's COBRA premium payments through the last day of October 2004. If, at the time that the above-mentioned premium payments cease to be waived in accordance with this paragraph 2(b), Employee (and his qualified beneficiaries) elects to continue any COBRA coverage for which he may be eligible, Employee shall be responsible for the premium payments for such coverage. Also, as promptly as practicable following January 31, 2004, the Company will, at Employee's election, transfer to Employee all life insurance policies held by the Company on Employee's life and Employee will assume all premium payments therefor.

c) Employee has been granted 875 shares of unvested restricted stock pursuant to the Company's Stock Option and Stock Award Plan. The Company shall vest 100% of said unvested shares, effective as of January 31, 2004.

d) The Company will provide Employee with outplacement services through Right Management Consultants for one year. In the event Employee elects not to use Right Management Consultants, the Company will pay for outplacement services at an alternative provider, *provided* that the cost to the Company of such services does not exceed $15,000.00.

e) In accordance with the Company's policies, the Company will pay Employee for floating holidays, vacation and sick time, in each case unused and accrued as of January 31, 2004.

f) **Employee may continue to use his current Company vehicle, under the financial terms in the existing lease and Company policy,** through February 29, 2004, on which date Employee shall return such vehicle to the Company.

Payment or provision of all payments and benefits described in this paragraph 2 shall be conditioned upon the execution and effectiveness of this Agreement and General Release and Employee's compliance with the terms and conditions thereof.

3. Employee shall cooperate with, and assist the Company in connection with any matter with which Employee was involved or any existing or potential claim, investigation, administrative proceeding, lawsuit or other legal or business matter relating to any issues which arose during Employee's employment with the Company as requested by the Company, upon reasonable advance notice by the Company. It is understood that such cooperation and assistance will not interfere with Employee's new employment or business and will have to be coordinated in advance with the Company and Employee. The Company agrees to reimburse Employee for reasonable and necessary out-of-pocket expenses incurred in connection with such cooperation and/or assistance prior to October 31, 2004. Thereafter, the Company will reimburse Employee at the rate of $200.00 per hour, not to exceed $2,000.00 per day, for such cooperation and/or assistance if more than incidental time periods are required, and the Company will reimburse Employee for reasonable and necessary out-of-pocket expenses incurred while providing such cooperation and/or assistance.

4. The text of the press release announcing Employee's separation from the Company, as it relates to Employee, shall be substantially as set forth in ***Schedule A*** attached hereto. The Company will not make any statements concerning the termination of Employee's employment with the Company that are inconsistent with such press release or make any disparaging statements against or about Employee or Employee's term of service with the Company. Employee will not make any disparaging statements against or about the Company, or any of its predecessors, successors, or affiliated companies or their officers, directors or employees. Nothing contained in this Agreement will limit or restrict the ability of Employee or the Company to make any statement or to provide information or testimony regarding the other party in connection with regulatory or legal process, pursuant to securities laws or the rules of any stock exchange, or to any potential acquiror of the Company.

5. In consideration of the Company's payments and undertakings as set forth in this Agreement and General Release, Employee hereby knowingly and voluntarily agrees to waive, release and discharge the Company from all claims or causes of action, known or unknown, that he may have or claim to have against the Company from the beginning of time through the execution of this Agreement and General Release, including but not limited to, any and all claims arising out of or in any way connected with Employee's employment with the Company or the termination of that employment; any and all claims arising under that certain letter agreement, dated September 26, 1999, between Employee and the Company or any other agreement, written or oral, between Employee and the Company; the United States Constitution or the constitutions of any state; any and all common law claims, including claims for wrongful discharge, constructive discharge, breach of an express or implied contract arising under any handbook, manual, policy, or practice, breach of an implied covenant of good faith and fair dealing, violation of any public policy, defamation, emotional distress, retaliation, fraud, negligence, tortious interference with contract or prospective economic advantage, humiliation, personal injury, damage to name or reputation, liquidated damages, punitive damages, all claims for compensatory damages, including, but not limited to backpay, front pay, bonuses, awards, stock options, severance pay, reinstatement, retroactive seniority, pension benefits and all claims for attorneys' fees and costs; any and all claims arising under any federal, state or local law, including but not limited to Title VII of the Civil Rights Act of 1964, the civil Rights Act of 1866, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act of 1974, the Americans With Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act of 1993, the Sarbanes-Oxley Act, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, and the New Jersey Family Leave Act; and any and all claims arising under any Executive Order and any claims derived from or based upon any federal or state regulations. The foregoing to the contrary notwithstanding, this Agreement and General Release shall not waive orrelease any of Employee's rights (a) with regard to accrued benefits under any employee benefit plan maintained by the Company, which accrued benefits shall be paid or provided in accordance with the terms of the applicable plan, or (b) to indemnification in accordance with Article X of the Company's Amended and Restated Certificate of Incorporation.

6. Employee agrees and understands that he shall not disclose nor cause to be disclosed any trade secret, or confidential or proprietary information of the Company, including but not limited to, technical data and information, marketing plans, customer lists or identities, prospective customers, cost and pricing information, sources for designs, or sources of supplies, materials, goods or services to the Company or the cost or terms thereof. Employee represents and warrants that he has returned to the Company all property and documents belonging to it, including, without limitation, the software, printer(s), files, records, identification and credit cards, keys and any other Company property or equipment in his possession and control. Employee further agrees and understands that he shall not solicit or encourage anyone doing business with the Company to cease doing business with it, or solicit or encourage anyone to leave the employ of the Company.

7. Employee represents that he has not filed any charge, claim or complaint of any kind against the Company, and Employee further covenants and represents that he will not file any lawsuit or initiate any action seeking personal recovery or personal injunctive relief against the Company with respect to any matter, including but not limited to, his employment with the Company or the termination of that employment. Nothing contained in this paragraph shall prohibit Employee from (a) bringing any action to enforce the terms of this Agreement and General Release; (b) filing a timely charge or complaint with the Equal Employment Opportunity Commission ("EEOC") regarding the validity of this Agreement and General Release; (c) filing a timely charge or complaint with the EEOC or participating in any investigation or proceeding conducted by the EEOC regarding any claim of employment discrimination (although Employee has waived any right to personal recovery or personal injunctive relief in connection with any such charge or complaint); or (d) filing any action to enforce the Company's or any insurer's obligation under Article X of the Company's Amended and Restated Certificate of Incorporation or otherwise to indemnify and defend Employee in connection with any action or proceeding to which he is a party or witness by virtue of having been an officer, director or employee of the Company. The Company confirms that it will indemnify Employee pursuant to and to the extent provided in Article X of the Company's Amended and Restated Certificate of Incorporation. In addition to such indemnification, the Company will continue to maintain directors' and officers' liability insurance that covers Employee in respect of the period of his employment with the Company substantially similar to the directors' and officers' liability insurance carried by the Company as of the date hereof, subject only to such changes affecting all executive officers and directors of the Company generally.

8. Employee and the Company agree to maintain in confidence, and not to disclose or cause to be disclosed, the terms of this Agreement and General Release. It shall not be considered a breach of this obligation of confidentiality for Employee to make disclosures to his immediate family (who shall then be expressly advised of, and also be bound by, the same requirement of confidentiality) or for Employee to make disclosures in order to obtain private and confidential legal, tax or financial advice or to respond to any inquiry from any governmental entity or agency regarding a tax filing (and the recipient of such disclosures shall then be expressly advised of, and also be bound by, the same requirement of confidentiality). It shall not be considered a breach of the obligation of confidentiality under this paragraph 8 for the Company or Employee to make disclosures to regulatory agencies, pursuant to securities laws or the rules of any stock exchange, pursuant to court process, or to any potential acquiror of the Company.

9. Employee acknowledges and represents that the only consideration he received for executing this Agreement and General Release is that set forth herein, which is in addition to any benefits to which Employee is entitled. No other promise, inducement, agreement or understanding of any kind or description has been made with or to Employee by the Company to cause him to agree to the terms of this Agreement and General Release.

10. Employee hereby acknowledges that by this Agreement and General Release the Company is advising him in writing that he should consult with an attorney prior to executing this Agreement and General Release. Employee states that he has had the

opportunity to read, review, and consider all of the provisions of this Agreement and General Release; that Employee understands its provisions and its binding effect on him; and that Employee is entering into this Agreement and General Release freely, voluntarily, and without duress or coercion.

11. Employee understands that he has forty-five (45) calendar days within which to consider this Agreement and General Release before signing it and further acknowledges that in the event that Employee executes this Agreement and General Release prior to the expiration of such forty-five (45) day period, Employee hereby waives the balance of said period. Employee also understands that after signing this Agreement and General Release he may revoke his signature within seven (7) calendar days by delivering written notification of that revocation marked "personal and confidential" to Albert J. Ganter, NUI Corporation, 550 Route 202/206, Bedminster, NJ 07912-0760, with a copy to Neil Mullin, Esq., Smith Mullin (as Escrow Agent), 240 Claremont Avenue, Montclair, New Jersey 07042.

12. (a) It is understood and agreed that, notwithstanding anything to the contrary set forth in this Agreement and General Release, the consideration to be provided to Employee pursuant to this Agreement and General Release will not become payable to Employee until seven (7) days have passed from the date of the execution of this Agreement and General Release by Employee (the date of execution of this Agreement and General Release by Employee being referred to as the "Execution Date" and the date on which such consideration shall become payable to Employee being referred to as the "Settlement Date"), at which point in time Employee will no longer be able to revoke his signature and this Agreement and General Release will become binding and effective. If this Agreement and General Release is revoked by Employee prior to the Settlement Date, then Employee shall forfeit all of the payments and benefits provided herein, and the Company shall not be required to provide any such payments or benefits or other consideration.

(b) On the Execution Date, the Company shall deliver to the law firm of Smith Mullin (the "Escrow Agent") an aggregate of $800,000 in cash (the "Escrow Amount"), by wire transfer of immediately available funds to the account or accounts identified by the Escrow Agent to the Company in writing prior to the Execution Date, and such cash shall be accepted by the Escrow Agent and placed into a separate interest-bearing escrow account (the "Escrow Account") with an institution the deposits in which are insured by an agency of the United States; provided that interest accruing thereon shall constitute part of the Escrow Amount. If the Escrow Agent shall not have received any written notification of revocation of Employee's signature in respect of this Agreement and General Release prior to the Settlement Date, then, subject to no further conditions, on the first business day after the Settlement Date, the Escrow Agent shall disburse the entire Escrow Amount to Employee. If the Escrow Agent shall have received written notification of revocation of Employee's signature in respect of this Agreement and General Release prior to the Settlement Date, then, subject to no further conditions, on the first business day after receipt of such written notification by the Escrow Agent, the Escrow Agent shall disburse the entire Escrow Amount to the Company.

(c) In the event of a dispute between the parties hereto, the Escrow Agent shall, in its discretion, be entitled to transfer to a court of competent jurisdiction all amounts then held in the Escrow Account and, upon such transfer and upon the commencement of appropriate proceedings therein in the nature of interpleader, the Escrow Account shall be deemed dissolved.

(d) Acceptance by the Escrow Agent of its duties under this Agreement and General Release is subject to the following terms and conditions, which all parties hereby agree shall govern and control the rights, duties and immunities of the Escrow Agent:

(i) The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Agreement and General Release and the Escrow Agent shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and General Release.

(ii) The Escrow Agent shall not be responsible in any manner for the validity or sufficiency of any property delivered hereunder or for any representations made or obligations assumed by any party other than the Escrow Agent. Nothing herein contained shall be deemed to obligate the Escrow Agent to deliver any cash or any other property referred to herein unless the same shall have first been received by the Escrow Agent pursuant to this Agreement and General Release.

(iii) Employee and the Company, jointly and severally , will indemnify the Escrow Agent for, and hold it harmless against, any loss, liability or expense, including but not limited to counsel fees, incurred without bad faith, gross negligence, fraud or intentional misconduct on the part of the Escrow Agent arising out of or in conjunction with its acceptance of, or the performance of its duties and obligations under this Agreement and General Release as well as the costs and expenses of defending against any claim or liability arising out of or relating to this Agreement and General Release.

(iv) The Escrow Agent shall be fully protected in acting on and relying upon any written notice, direction, request, waiver, consent, receipt or other paper or documents which the Escrow Agent in good faith believes to have been signed and presented by the proper party or parties.

(v) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith or for any mistake in act or law, or for anything which it may do or refrain from doing in connection herewith, except its own bad faith, gross negligence, fraud or intentional misconduct.

(vi) The parties agree that should any dispute arise with respect to the payment, ownership or right of possession of the Escrow Account, the Escrow Agent is authorized and directed to proceed in accordance with paragraph 12(c) or retain in its possession, without liability to anyone, except for its bad faith, willful misconduct or gross negligence, all or any part of the Escrow Account until such dispute shall have been settled either by mutual agreement by the parties concerned or by the final order, decree or judgment of a

court or other tribunal of competent jurisdiction in the United States, and a notice executed by the parties to the dispute or their authorized representatives shall have been delivered to the Escrow Agent setting forth the resolution of the dispute. The Escrow Agent shall be under no duty whatsoever to institute, defend or partake in such proceedings.

(e) The agreements set forth in paragraphs 12(c), (d) and (e) shall survive the termination of this Agreement and General Release and the payment of all amounts hereunder.

13. If Employee notifies the Company in writing that any payments made to Employee under this Agreement and General Release other than under this paragraph 13 (the "Payments") are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, then, only if and to the extent that the Company agrees that any such excise tax is payable, and the Company has determined in its discretion that any amounts payable by the Company under this paragraph 13 will be paid to the appropriate taxing authorities, the Company will indemnify Employee for any such tax, and any related interest or penalties, other than interest or penalties resulting from Employee's bad faith, negligence, fraud or intentional misconduct, payable by Employee such that the amount retained by Employee, after payment of the excise tax on the Payments and any federal, state or local taxes and additional excise tax on the indemnification payment, but not on the Payments, will be equal to the Payments; *provided, however*, that if the Company and Employee cannot agree whether or not such excise tax is payable by Employee, such determination shall be made by the Company; *provided further, however*, that such excise tax shall be considered payable for this purpose upon the earlier to occur of (a) a final determination by the Internal Revenue Service (the "IRS") addressed to Employee or the Company which is not contested in court or (b) a final determination by the United States Tax Court or other Federal court of competent jurisdiction affirming such determination by the IRS, to the effect that such excise tax is payable.

14. In the event any term, condition or provision of this Agreement and General Release, in whole or in part, is declared by any court of competent jurisdiction to be illegal, void or invalid, all other terms, conditions and provisions of this Agreement and General Release shall remain in full force and effect to the same extent as if that part declared illegal, void or invalid, had never been incorporated in this Agreement and General Release, and shall continue to be binding upon the parties hereto.

15. Employee and the Company understand and agree that this Agreement and General Release shall be governed by the laws of the State of New Jersey except to the extent that federal law may be applicable to any matter arising hereunder.

16. This Agreement and General Release binds the heirs, administrators, representatives, executors, successors, and assigns of Employee and the Company, and will inure to the benefit of Employee and the Company and their respective heirs, administrators, representatives, executors, successors, and assigns.

17. The understandings set forth herein (including *Schedule A*) represent the complete agreement between Employee and the Company with respect to the subject matter hereof. Employee has not relied upon any other agreements, understandings or representations except to the extent specifically set forth herein. This Agreement and General Release may not be amended, altered or modified except by the mutual agreement of Employee and the Company, evidenced in writing executed by Employee and the Company and specifically identified as an amendment to this Agreement and General Release.

18. This Agreement and General Release may be executed as separate counterparts, each of which, when so executed and delivered, shall be an original document, but all of which shall together constitute one and the same instrument.

19. Employee represents that he has carefully read and fully understands all of the provisions of this Agreement and General Release; that Employee has been encouraged to review this Agreement and General Release with an attorney of his/her choice; and that Employee is voluntarily executing this Agreement and General Release.

NUI CORPORATION

By: /S/ JAMES R. VAN HORN
James R. Van Horn

By: /S/ BERNARD S. LEE
NAME: Bernard S. Lee
TITLE: Chairman, Compensation Committee

Dated: 1/27/04

Dated: 1/27/04

Accepted and Agreed to as of this 28th day of January 2004:

SMITH MULLIN

By: /S/ NEIL MULLIN
NAME: Neil Mullin
TITLE: Partner

AGREEMENT AND GENERAL RELEASE

This Agreement and General Release is made and entered into this 1st day of October, 2003, by and between Michael J. Behan (hereinafter, referred to as "Employee") and NUI Corporation (hereinafter "NUI") and any of its predecessors, successors, parent corporations, subsidiaries, affiliates, operating divisions, and each of their employees, stockholders, officers and directors (hereinafter, collectively referred to as the "Company").

WHEREAS, NUI and Employee wish to enter into this Agreement to reflect the terms and conditions of the termination of Employee's employment with NUI and to provide Employee with compensation and benefits, as legal consideration, in addition to those which he would otherwise be entitled to receive in connection with that termination.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is agreed as follows:

1. Employee shall retire from the Company effective July 22, 2003; Employee's employment will be permanently severed and the Company has no obligation to reemploy Employee in the future.

2. In settlement of all claims released under this Agreement and General Release, the Company hereby agrees to provide Employee in addition to any payments or benefits he is already entitled to receive, with the following consideration, to which he hereby acknowledges that he would not otherwise be entitled:

a) **Commencing August 1, 2003 through September 30, 2005, a sum equal to $360,000.00, in severance pay representing one (1)** month of pay for each of twenty-five (25) years of service, payable in accordance with Company's bi-weekly payroll process. Payment of severance shall be conditioned upon execution and compliance with this Agreement and General Release. Employee agrees to pay taxes, if any, that may be due on his behalf with respect to any and all payments made pursuant to this Agreement and General Release and he agrees to indemnify and hold the Company harmless with respect to any taxes which should have been paid by him. The Company agrees to pay the appropriate taxing authorities for all amounts withheld from Employee's bi-weekly installments and the Company agrees to indemnify and hold Employee harmless with respect to any amounts that were withheld on behalf of Employee but not remitted to the appropriate taxing authorities.

b) Commencing October 1, 2005, Employee shall receive a monthly payment of $ 2,426.80 representing a temporary supplemental benefit of $1,417.00 and an early retirement reduction adjustment of $1,009.80. On July 1, 2008, the temporary supplemental benefit shall cease, and the early retirement reduction adjustment alone shall continue. The temporary supplemental benefit and the early retirement reduction adjustment are conditioned upon Employee's execution of and compliance with this Agreement and General Release.

c) During the period from the date of this Agreement and General Release through September 30, 2005, or until severance payments under this Agreement and General Release cease, Employee shall be required as needed by NUI and upon reasonable notice to Employee, to consult with NUI with respect to his former areas of responsibility. It is understood that such cooperation will not interfere with Employee's new employment or business and would have to be coordinated in advance with Company and Employee. Employee agrees to cooperate fully with and to assist the Company in connection with the preparation and defense, including but not limited to personal appearances and testimony, of any claim, action or litigation in which the Company is, or may become, a party and which relates in any way to matters or actions within the possible scope of Employee's responsibilities while in the employment of the Company. The Company agrees to reimburse Employee for reasonable and necessary out of pocket expenses prior to discontinuation of severance payments. Thereafter, Company will reimburse Employee at the rate of $150.00 per hour, not to exceed $1,500.00 per day in addition to reimbursing him for reasonable and necessary out of pocket expenses incurred while assisting the Company. Employee further agrees that he will advise the Company immediately upon becoming aware of any claim or litigation connected in any way to the Company in which he is required or requested to appear as a witness or made a party. Company also further agrees that it will advise Employee immediately upon becoming aware of any claim or litigation connected in any way to the Employee in which he is required or requested to appear as a witness or made a party.

d) Company shall provide to Employee $12,500.00 in ordinary income in lieu of executive outplacement services.

e) Employee may continue to use his current Company vehicle, under the financial terms in the existing lease and Company policy, for as long as he continues to receive severance payments under Section 2 (a) of this Agreement and General Release. Employee may elect to retain his current Company vehicle at the time severance payments cease. The value of the vehicle at the conclusion of the existing lease shall be treated as imputed income to the employee.

f) Employee has been granted 6,126 shares of restricted stock pursuant to grant agreements dated as of November 1999, 2000, 2001 and 2002, which have not vested as of the date of this Agreement and General Release ("Employee's Unvested Shares"). The Company shall vest all of Employee's Unvested Shares to Employee. Shares may be exchanged for cash and cash proceeds may be either paid in one lump sum, or in 25 equal monthly installments commencing 8-1-03. The value of NUI shares will be the value of NUI stock as of the date of termination.

3. In consideration of the Company's payments and undertakings as set forth in this Agreement and General Release, Employee hereby knowingly and voluntarily agrees to waive, release and discharge the Company from all claims or causes of action, known or

unknown, that he may have or claim to have against the Company, including but not limited to, any and all claims arising out of or in any way connected with Employee's employment with the Company or the termination of that employment. The claims released include, but are not limited to, any and all claims arising under the United States Constitution or the constitutions of any state; any and all common-law claims, including claims or wrongful discharge, constructive discharge, breach of an express or implied contract arising under any handbook, manual, policy, or practice, breach of an implied covenant of good faith and fair dealing, violation of any public policy, defamation, emotional distress, fraud, negligence, tortious interference with contract or prospective economic advantage, humiliation, punitive damages, all claims for compensatory damages, including, but not limited to backpay, front pay, bonuses, awards, reinstatement, retroactive seniority, pension benefits and all claims for attorneys' fees and costs; any and all claims arising under any federal, state or local law, including but not limited to Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, Employee Retirement Income Security Act of 1974, the Americans With Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act of 1993, the New Jersey Law Against Discrimination, the New Jersey Conscientious Employee Protection Act, and the New Jersey Family Leave Act. Employee also releases any and all claims arising under any Executive Order and any claims derived from or based upon any federal or state regulations.

4. Employee agrees and understands that he shall not disclose nor cause to be disclosed any trade secrets, or confidential or proprietary business information of the Company, including but not limited to, technical data and information, marketing plans, customer lists or identities, prospective customers, costs and pricing information, source for designs, or sources of supplies, materials, goods or services to the Company or the cost or terms thereof, and Employee represents that he has returned to the Company all property and documents belonging to it. Employee further agrees and understands that he shall not solicit or encourage anyone doing business with the Company to cease doing business with it, or solicit or encourage anyone to leave the employ of the Company.

5. Employee represents and warrants that he has returned to the Company personal computer(s), software, printer(s), files, records, identification and credit cards, keys and any other Company property in his possession or control. Employee may retain two cellular telephones and the responsibility for service charges will be transferred to Employee effective August 1, 2003. During the term of the Agreement and General Release, Employee shall not make any disparaging statements against or about the Company, or any of its predecessors, successors, or affiliated companies or their officers, directors, agents or employees.

6. Employee represents that he has not filed any charge, claim or complaint of any kind against the Company, and Employee further covenants and represents that he will not file any lawsuit or initiate any action seeking personal recovery or personal injunctive relief against the Company with respect to any matter, including but not limited to, his employment with the Company or the termination of that employment. Nothing contained in this paragraph shall prohibit Employee from (a) bringing any action to enforce the terms of this Agreement and General Release; (b) filing a timely charge or complaint with the Equal Employment Opportunity Commission ("EEOC") regarding the validity of this Agreement and General Release; (c) filing a timely charge or complaint with the EEOC or participating in any investigation or proceeding conducted by the EEOC or regarding any claim of employment discrimination (although Employee has waived any right to personal recovery or personal injunctive relief in connection with any such charge or complaint).

7. Employee agrees to maintain in confidence, and not to disclose or cause to be disclosed, the terms of this Agreement and General Release. It shall not be considered a breach of this obligation of confidentiality for Employee to make disclosure to his immediate family (who shall then be expressly advised of; and also be bound by, the same requirement of confidentiality), or for Employee to make disclosures in order to obtain private and confidential tax or financial advice or to respond to any inquiry from any governmental entity or agency regarding tax filing.

8. Employee acknowledges and represents that the only consideration he received for executing this Agreement and General Release is that set forth herein, which is in addition to any benefits to which Employee is entitled. No other promise, inducement, threat, agreement or understanding of any kind or description has been made with or to Employee by the Company to cause him to agree to the terms of this Agreement and General Release. A document entitled, "Summary of Severance Benefits" is attached hereto as Exhibit 1 for the purpose of summarizing the legal consideration detailed in this Agreement and General Release. In the event of any contradiction or discrepancy, the plain language of this Agreement and General Release shall be deemed controlling. Also attached as Exhibits are Exhibit 2, Employee's Retirement Plan of NUI Corporation -Election of Form of Payment; Exhibit 3, Lump Sum Withholding Election Form; Exhibit 4, Rollover Election Form Waiver; and Exhibit 5, NUI Corporation Supplemental Retirement Plan Estimate.

9. Employee hereby acknowledges that by this Agreement and General Release the Company is advising him in writing that he should consult with an attorney prior to executing this Agreement and General Release. Employee states that he has had the opportunity to read, review, and consider all of the provisions of this Agreement and General Release freely, voluntarily, and without duress or coercion.

10. **Employee understands that he has forty-five (45) calendar days within which to consider this Agreement and General Release** before signing it. Employee also understands that after signing this Agreement and General Release he may revoke his signature within seven (7) calendar days by delivering written notification of that revocation marked "personal and confidential" to Thomas W. Williams, Vice President, Human Resources, NUI Corporation, 550 Route 202/206, Bedminster, NJ, 07921-0760.

11. It is understood and agreed that the consideration to be provided to Employee pursuant to this Agreement and General Release will not become payable until seven (7) days have passed from the date of the execution of this Agreement and General Release by Employee, at which point in time Employee will no longer be able to revoke his signature and this Agreement and General Release

will become binding and effective.

12. In the event any term, condition or provision of this Agreement and General Release, in whole or in part, is declared by any court of competent jurisdiction to be illegal, void or invalid, all other terms, conditions and provisions of this Agreement and General Release shall remain in full force and effect to the same extent as if the part declared illegal, void or invalid, had never been incorporated in this Agreement and General Release, and shall continue to be binding upon the parties hereto.

13. Employee and the Company understand and agree that this Agreement and General Release shall be governed by the laws of the State of New Jersey except to the extent that federal law may be applicable to any matter arising hereunder.

14. Employee represents that he has carefully read and fully understands all of the provisions of this Agreement and General Release; that Employee has been encouraged to review this Agreement and General Release with an attorney of his choice; and that Employee is voluntarily executing this Agreement and General Release.

NUI Corporation

/S/ MICHAEL J. BEHAN
Michael J. Behan

/S/ THOMAS W. WILLIAMS
Thomas W. Williams
Vice President, Human Resources

1 October 2003
Date

October 3, 2003
Date

AGREEMENT and RELEASE

This Agreement is made and entered into by and between Robert F. Lurie (the "Employee") and NUI Corporation (hereinafter "NUI") and any of its predecessors, successors, parent corporations, subsidiaries, affiliates, operating divisions and each of its employees, stockholders, officers and directors (hereinafter collectively referred to as the "Company").

WHEREAS, NUI and the Employee wish to enter into this Agreement to reflect the terms and conditions of the termination of the Employee's employment with NUI and to provide the Employee with compensation and benefits in addition to those which he would otherwise be entitled to receive in connection with that termination;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, it is agreed as follows:

The Employee's employment with the Company will terminate effective December 31, 2003.

2. (a) Commencing April 1, 2003 through December 31, 2003, the Company shall pay to Employee a sum equal to $132,150.00, representing nine (9) months of salary payable in accordance with the Company's bi-weekly payroll process less applicable withholdings conditional upon execution and compliance with this Agreement. Employee agrees to pay whatever taxes, if any, that may be due on his behalf with respect to the payments made pursuant to this Agreement and he agrees to indemnify and hold the Company harmless with respect to any amounts which should have been paid by him. Company agrees to pay the appropriate taxing authorities for all amounts withheld from Employee's bi-weekly installments and Company agrees to indemnify and hold Employee harmless with respect to any amounts which should have been paid.

(b) During the period nom the date of this Agreement through December 31, 2003, the Employee shall not be required to perform his regular duties but may be required, as needed by NUI and upon reasonable notice to the Employee, to consult with NUI with respect to his former areas of responsibility. Employee agrees to use his best efforts to assist the Company in connection with the preparation and defense, including but not limited to personal appearances and testimony, of any claim, action or litigation in which the Company is, or may become, a party and which relates in any way to matters or actions within the possible scope of Employee's responsibilities while in the employment of Company, including the Company's TIC-related claims. The Company agrees to reimburse Employee for reasonable and necessary out of pocket expenses during the Severance period. Thereafter, Company will reimburse Employee at the rate of $150.00 per hour, not to exceed $1500.00 per day in addition to reimbursing him for reasonable and necessary out of pocket expenses incurred while assisting the Company. Employee further agrees that he will advise the Company immediately upon becoming aware of any claim or litigation connected in any way to the Company in which he is required or requested to appear as a witness or made a party.

(c) The Company shall provide continued participation in Company employee benefit plans, including the Employees' Retirement Plan of NUI Corporation (the "Pension Plan"), and the NUI Savings and Investment Plan (the "Savings Plan"), as well as plans providing life insurance, supplemental life insurance, disability, medical, hospitalization, dental, prescription drug, vision care and MERP coverage ("Medical Benefits") through December 31,. 2003 at the level previously designated by the Employee, on substantially the same terms as in effect as of the date of this Agreement (except to the extent that the Company may change or modify such benefits generally for active employees).

(d) The Company shall provide for the executive outplacement program at Right Management Consultants.

(e) The Employee shall be permitted to use the 2003 Infiniti G35 automobile currently leased through Gelco Corp. on behalf of the Employee. The Company shall make all lease payments and pay all expenses including insurance, fuel and maintenance until December 31, 2003 in accordance with the Company's policy for corporate officer leased vehicles. On December 31, 2003, Employee shall return said vehicle to the Company or he may purchase said vehicle from the leasing company. In the event Employee elects to purchase said vehicle, Employee shall be responsible for all transfer, sales and use taxes and registration fees.

(f) Employee has been granted 5,750 shares of restricted stock pursuant to certain restricted stock grant agreements dated as of November 1999, 2000, 2001, and 2002 which have not vested as of the date of this Agreement (the "Employee's Unvested Shares"). Company shall vest 90% of Employee's Unvested Shares, or 5,175 shares, to Employee at January 1,2004.

(g) Company shall continue to provide the Employer match of Employee's contribution to the Savings Plan until the Employee's voluntary separation date of December 31, 2003.

3. Employee's accrued benefits under Company's Pension and Savings Plans as well as the NUI Deferred Compensation Plan shall be paid to him in accordance with the Plans.

4. The Company shall have the right to terminate the Employee's employment for cause at any time prior to December 31, 2003. The term cause shall mean:

(a) Conduct on the Employee's part intended to injure the Company's business or reputation,

(b) The Employee's conviction of any crime related to his employment or special assignment;

(c) Any other material breach of the terms of this Agreement.

5. During the term of this Agreement, the Company will respond to inquiries regarding the Employee's employment by stating that his position was eliminated. The Employee shall not, during the term of his employment or thereafter, make any disparaging statements against or about the Company, or any of its predecessors, successors, or affiliates companies or their officers, directors, agents, or employees.

6. Except for any claim relating to this Agreement, the Employee hereby knowingly and voluntarily agrees to waive, release and discharge the Company from all claims or causes of action, known or unknown, that he may have or claim to have against the Company from his initial date of employment with the Company to the date of Employee's execution of this Agreement, including but not limited to, any and all claims arising out of or in any way connected with the Employee's employment with the Company or the voluntary separation from that employment. The claims released include, but are not limited to, any and all claims arising under the United States Constitution or the constitutions of any state; any and all common law claims, including claims for wrongful discharge, constructive discharge, breach of any express or implied contract arising under any handbook, manual, policy, or practice, breach of any implied covenant of good faith and fair dealing, violation of any public policy, defamation, emotional distress, fraud, negligence, tortious interference with contract or prospective economic advantage, humiliation, punitive damages, all claims for compensatory damages, including, but not limited to back pay, front pay, bonuses, awards, fringe benefits, reinstatement, retroactive seniority, pension benefits, and all claims for attorneys' fees and costs; any and all claims arising under any federal, state or local law, including but not limited to Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee retirement Income Security Act of 1974, the Americans With Disabilities Act, the Rehabilitation Act, the Family and Medical Leave Act of 1993, the New Jersey Law Against Discrimination the New Jersey Conscientious Employee Protection Act, and the New Jersey Family Leave Act. The employee also releases any and all claims arising under any Executive Order and any claims derived from or based upon any federal or state regulations.

7. The Employee agrees and understands that he shall not disclose nor cause to be disclosed any trade secret, or confidential or proprietary business information of the Company, including but not limited to, technical data and information, marketing plans, customer lists or identities, prospective customers, cost and pricing information, sources for designs, or sources of supplies, materials, goods or services to the Company or the cost or terms therefore, and the Employee represents that he has returned to the Company all property and documents belonging to it, with the exception of the 2003 Infiniti G35 automobile, which the Employee shall use in accordance with paragraph 2(e). Employee shall return the 2003 Infiniti G35 automobile on or before December 31, 2003 unless he elects to purchase said vehicle in accordance with the terms of2(e)~ Employee may continue to use the cellular telephone provided to him through the salary continuation period with a $50.00 per month allowance to be paid by the Company. All charges in excess of $50.00 per month shall be paid by Employee. The Employee further agrees and understands that he shall not solicit or encourage anyone doing business with the Company to cease doing business with it, or solicit or encourage anyone to leave the employ of the Company.

8. The Employee represents that he has not filed any charge, claim or complaint of any kind against the Company. Except for any claim relating to this Agreement, the Employee further covenants and represents that he will not file any lawsuit or initiate any action seeking personal recovery or personal injunctive relief against the Company with respect to any matter from his initial date of employment with the Company to the date of Employee's execution of this Agreement, including but not limited to, his employment with the Company or the voluntary separation from that employment. Nothing contained in this paragraph shall prohibit the Employee from (a) bringing any action to enforce the terms of this Agreement; (b) filing a timely charge or complaint with the Equal Employment Opportunity Commission ("EEOC")regarding the validity of this Agreement; (c) filing a timely charge or complaint with the EEOC or participating in any investigation or proceeding conducted by the EEOC regarding any claim of employment discrimination (although the Employee has waived any right to personal recovery or personal injunctive relief in connection with any such charge or complaint).

9. The Employee agrees to maintain in confidence, and not to disclose or cause to be disclosed, the terms of this Agreement. It shall not be considered a breach of this obligation of confidentiality for the Employee to make disclosure to his immediate family (who shall then be expressly advised of, and also be bound by, the same requirement of confidentiality), or for the Employee of the Company to make disclosures in order to obtain private and confidential tax or financial advice or to respond to any inquiry from any governmental entity or agency regarding a tax filing.

10. The Employee acknowledges and represents that the only consideration he received for executing this Agreement is that set forth herein, which is in addition to any benefits to which the Employee is entitled. No other promise, inducement, threat, agreement or understanding of any kind or description has been made with or to the Employee by the Company to cause him to agree to the terms of this Agreement. This Agreement constitutes the entire understanding between the Employee and the Company relating to his employment with the Company and/or his voluntary separation from that employment. This Agreement supersedes and cancels all prior written and oral agreements and understandings with respect to the subject matter of this Agreement and with respect to the subject matter of this Agreement and with respect to the Employee's employment with the Company.

11. The Employee hereby acknowledges that by this Agreement the Company is advising him in writing that he should consult with an attorney prior to executing this Agreement. The Employee states that he has had the opportunity to read, review, and consider all of the provisions of this Agreement; that the Employee understands its provisions and its binding effect on him; and that the Employee is entering into this Agreement freely, voluntarily, and without duress or coercion.

12. The Employee understands that he has forty-five (45) calendars days which to consider this Agreement before signing it. The Employee also understands that after signing this Agreement he may revoke his signature within seven (7) calendar days by delivering

written notification of that revocation marked "personal and confidential" to James Van Horn, Esq. Chief Administrative Officer, General Counsel and Secretary at NUI Corporation, 550 Route 202-206, Bedminster, New Jersey 07921-0760..

13. It is understood and agreed that the consideration to be provided to the Employee pursuant to this Agreement will not become payable until seven (7) days have passed from the date of the execution of this Agreement by the Employee, at which point in time the Employee will no longer be able to revoke his signature and this Agreement will become binding and effective.

14. In the event any term, condition or provision of this Agreement, in whole or in part, is declared by any court of competent jurisdiction to be illegal, void or invalid, all other terms, conditions and provisions of this Agreement shall remain in full force and effect to the same extent as if that part declared illegal, void, or invalid, had never been incorporated in this Agreement, and shall continue to be binding upon the parties hereto.

15. The Employee and the Company understand and agree that this Agreement shall be governed by the laws of the State of New Jersey except to the extent that federal law may be applicable to any matter arising hereunder.

16. The Employee represents that he has carefully read and fully understands all of the provisions of this Agreement; that the Employee has been encouraged to review this Agreement with an attorney of his choice; and that the Employee is voluntarily executing this Agreement.

NUI CORPORATION

/S/ Robert F. Lurie

By: /S/ James Van Horn
Chief Administrative Officer

Dated: May 23, 2003

EXHIBIT 12

NUI CORPORATION AND SUBSIDIARIES
CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in thousands)

	Year Ended September 30,				
	2003	2002	2001	2000	1999
Income (loss) from continuing operations before income taxes	$(10,285)	$27,283	$45,576	$32,984	$39,581
Add:					
Interest element of rentals charged to income (a)	3,362	3,752	3,239	2,345	3,144
Interest expense	27,494	28,041	29,469	21,708	21,836
Earnings as defined	$20,571	$59,076	$78,284	$57,037	$64,561
Interest expense	$27,494	$28,041	$29,469	$21,708	$21,836
Capitalized interest	213	173	1,548	754	83
Interest element of rentals charged to income (a)	3,362	3,752	3,239	2,345	3,144
Fixed charges as defined	$31,069	$31,966	$34,256	$24,807	$25,063
Consolidated ratio of earnings to fixed charges	0.66(b)	1.85	2.29	2.30	2.58

(a) Includes the interest element of rentals where determinable plus 1/3 of rental expense where no readily defined interest element can be determined.

(b) For the fiscal year ended September 30, 2003, the company's pre-tax earnings were inadequate to cover its fixed charges for the year. The amount of such earnings deficiency for the year was $10.5 million pre-tax.

THE NUI CORPORATION

CODE OF ETHICAL BUSINESS CONDUCT

(REVISED January 27, 2003)

NUI CORPORATION

CODE OF ETHICAL BUSINESS CONDUCT

Introduction

NUI Corporation ("NUI") is proud of the strong values that have guided the Company since 1855. This Code of Ethical Business Conduct establishes general ethical standards and principles which are designed to deter wrongdoing and promote honest and ethical conduct. This Code applies to every employee of NUI its divisions and subsidiaries (collectively referred to herein as the "Company") in connection with the Company's business. These standards also apply to members of the Company's Board of Directors and references to employees shall be deemed to be references to these Board members as well. While this Code does not attempt to recite every possible situation that could give rise to questions of business ethics, it is intended to set a tone for the Company. Accordingly, if employees encounter situations which are not specifically addressed in this Code, they are required to conduct themselves honestly, ethically and in a manner consistent with the standards described in this Code. Questions concerning this Code should be referred to your supervisor, the head of Human Resources or NUI's General Counsel, unless this Code specifically directs that you refer a particular question to a designated individual.

Any amendment to or waiver (including any implicit waiver) of this Code or any of its provisions that applies to NUI's principal executive officer, principal financial officer, or principal accounting officer or controller, or persons performing similar functions, may be made only by NUI's Board of Directors or a Board Committee designated by the Board of Directors and must be promptly disclosed to NUI's shareholders.

Shared Responsibility

The Company is dedicated to maintaining the highest standards for ethical business conduct. To this end, every employee is required to diligently follow the standards set forth in this Code in all of their business dealings on behalf of the Company.

Violations of this Code could have serious consequences to the Company and its reputation. As a result, failure by an employee to comply with this Code will subject the employee to disciplinary action, including possible termination of employment.

Reporting Violations

Any employee who has knowledge or a suspicion of ethical misconduct by other employees should not ignore the situation. The employee should report promptly any actual or suspected violation of applicable law, rules or regulations or of this Code to the appropriate party, as discussed below. The source of reports of actual or suspected violations of applicable law, rules or regulations or of this Code will be kept confidential and reports may be made anonymously.

Known or suspected violations of applicable law, rules or regulations or of this Code should be reported promptly to the employee's supervisor. If the employee feels that reporting actual or suspected violations to his or her supervisor would not be appropriate, then the report should be made to the head of Human Resources or NUI's General Counsel. If an employee is in doubt about what to do in a particular circumstance, the employee is encouraged to discuss the matter with his or her supervisor, or if the employee feels that such a discussion with a supervisor would not be appropriate, then the employee is encouraged to discuss the matter with the head of Human Resources or NUI's General Counsel.

Employees who become aware of or suspect any actual or apparent financial irregularity, fraud or questionable accounting or auditing issue are encouraged to report their concerns directly to NUI's General Counsel. If the employee feels that making any such report to NUI's General Counsel would not be appropriate, or if the General Counsel fails to take appropriate action on such report, then the employee is encouraged to make such report directly to the Audit Committee of NUI's Board of Directors. Any such report to NUI's Audit Committee should be directed to the Chairman of the Audit Committee. Any such report will be treated confidentially and may be made anonymously.

The Company prohibits retaliation against any employee who makes a report in good faith of the type described above or participates in an investigation of any such reports. All such reports by employees will be kept confidential and no employee making such a report in good faith will be discriminated against, in the terms and conditions of employment, as a result of having made the report.

Retaliation against an individual for reporting in good faith any such actual or suspected violation or for participating in any such investigation is a serious violation of this Code that will subject the violator to appropriate disciplinary action, including possible termination of employment.

COMPLIANCE WITH THE LAW

The Company is committed to conducting its business in accordance with all applicable laws, rules and regulations. Employees are to comply with the letter and the spirit of all applicable laws, rules and regulations, including insider trading laws, anti-trust laws and other fair competition laws.

Health, Safety and the Environment

The Company is committed to providing a safe and healthy work environment for its employees and to fully complying with all applicable laws and regulations governing safety in the workplace. Employees are required to perform their duties in accordance with all Company rules and procedures designed to make the workplace safer.

The Company also is dedicated to doing its share to protect the environment and to encouraging measures which promote environmental awareness and the preservation of natural resources. The Company encourages its employees to take environmental issues into consideration, if applicable, when making decisions on behalf of the Company.

Equal Employment Opportunity

The Company is committed to providing equal employment opportunities to all employees and applicants for employment without regard to race, color, religion, sex, sexual orientation, national origin or ancestry, age, disability, marital status or status as a Vietnam-era, special disabled veteran or any other class or status protected by law in accordance with applicable federal, state and local laws. This policy applies to all terms and conditions of employment, including but not limited to hiring, placement, promotion, termination, layoff, transfer, leave of absence, compensation and training. In addition, the Company does not and will not condone any discriminatory conduct of its agents and non-employees who have contact with employees during working hours. If an employee requires an accommodation for a disability, a request for accommodation must be made to the head of Human Resources.

All employees are responsible for possessing knowledge of the Company's equal employment opportunity policy. Additionally, supervisors are expected to apply this knowledge on an active and continuous basis, and they will be held accountable for their conduct in this regard. Failure to fulfill any of these responsibilities will not be tolerated and may result in disciplinary action up to and including termination.

Any employee who believes he/she has been discriminated against and/or harassed by a co-worker, supervisor, agent or client of NUI should promptly report the facts of the incident or incidents and the name or names of the individual or individuals involved to the head of Human Resources or the General Counsel. Employees can raise concerns and make reports without fear of reprisal.

Sexual And Other Forms Of Unlawful Harassment

The Company is committed to providing a work environment that is free from discrimination and unlawful harassment. Actions, words, jokes, or comments based on an individual's sex, race, ethnicity, age, religion, or any other legally protected characteristic will not be tolerated. Sexual harassment (both overt and subtle) is a form of employee misconduct that is demeaning to another person, undermines the integrity of the employment relationship, and is strictly prohibited.

Sexual harassment may include explicit sexual propositions, suggestive or persistent comments of a sexual nature, the display of obscene or sexually-oriented material, sexually oriented kidding or teasing, or jokes about gender-specific traits, foul or obscene language or gestures, and physical contact such as patting, pinching, or brushing against another's body, and any similar behavior which is unwelcome or offensive. Sex-based harassment - that is, harassment not involving sexual activity or language - may also constitute discrimination if it is severe or pervasive and directed at employees because of their sex.

Harassment on the basis of any other protected characteristic is also strictly prohibited. Under this policy, harassment is verbal or physical conduct that denigrates or shows hostility or aversion toward an individual because of his/her race, color, religion, national origin, age, disability, or any other characteristic protected by law and that: (i) has the purpose or effect of creating an intimidating, hostile or offensive work environment; (ii) has the purpose or effect of unreasonably interfering with an individual's work performance; or (iii) otherwise adversely affects an individual's employment opportunities.

If any employee believes that he or she is the object of sexual or other unlawful harassment, the employee should promptly report that fact to his or her supervisor before the conduct becomes severe or pervasive. If there is any reason to believe that the direct supervisor is involved in the conduct, or if, for any reason, the employee feels uncomfortable about making a report to the direct supervisor, the report should be made promptly to the head of Human Resources or the General Counsel.

The Company prohibits retaliation against any individual who reports discrimination or harassment or participates in an investigation of such reports. Retaliation against an individual for reporting harassment or discrimination or for participating in an investigation of a claim of harassment or discrimination is a serious violation of this policy.

Confidentiality of Information and Trading in the Company's Stock

It is a violation of Federal securities laws to buy or sell the Company's securities while in possession of material non-public information or to pass such information on to another person who trades on that information. Employees are not permitted to trade in the Company's securities while in possession of material information which has not been publicly disclosed. Examples of this type of information include earnings, projections, the settlement of major lawsuits, changes in executive management and potential mergers, acquisitions or business combinations. Employees are also prohibited from passing this information on to others except to other employees to the extent necessary for the conduct of the Company's business and except where disclosure is legally mandated. If you are in doubt as to whether certain information falls into this category, you should contact NUI's General Counsel.

In addition to information which is material and non-public, as discussed above, employees also become aware of information concerning the Company, its business and its customers in the course of performing their jobs that does not fit this category. All information which could be helpful to a competitor, harmful to the Company or which is otherwise confidential in nature relating to the Company, its employees, customers, vendors and investors must be kept in strictest confidence and not disclosed to others except to other employees to the extent necessary for the conduct of the Company's business and except where disclosure is legally mandated. Because a significant amount of confidential information is maintained within the Company's computer systems, the Company maintains policies and procedures designed to safeguard the security of the systems and the information contained within the systems. All employees are required to comply with these policies and procedures and to take reasonable steps to protect this information.

In addition, should you come into possession of information about one of the Company's competitors and you believe that the information is material and confidential, you should contact the General Counsel. The Company may have certain obligations and be subject to certain restrictions concerning this information.

GENERAL PRINCIPLES

Contacts with Governmental Officials

Certain employees have contact with government officials as part of their job functions through lobbying activities, interaction with regulatory agencies and commercial relations with government agencies and elected officials. Employees who do not perform such job functions are not authorized to represent the Company to government officials. In addition, the Company prohibits the giving of gifts or gratuities of any kind to a government official or employees of the utility commission of any state in which the Company operates. This prohibition extends to employees of organizations working on behalf of such commissions. This provision does not preclude political activities that are expressly authorized by state law.

Procurement of Goods and Services on Behalf of the Company

All decisions related to the purchasing of products and services must be based upon honest and ethical judgment and supported by appropriate business and financial justifications. Employees are required to apply objective and fair criteria when choosing the suppliers of products and services for the Company. Such criteria should include, among other things, quality, price, service, the reputation of the provider and any previous experience which the Company has had with the provider. The financial condition, safety record and other factors applicable to a proposed vendor may be appropriate for consideration, depending upon the nature of the proposed relationship and the products or services to be provided. The Company maintains policies and procedures governing the purchasing of goods and services and those instances when the Company must obtain bids from vendors. Employees are required to comply with these policies and procedures. All questions concerning the procurement of goods and services on behalf of the Company should be referred to the Supply Chain Management Department.

Bribes and Kickbacks

In selecting vendors to provide goods and services for the Company, it is critical that the Company maintain the highest standards of honesty and ethical behavior so that the Company's motivation in selecting a particular vendor will withstand close scrutiny. Accordingly, employees are prohibited from offering, giving, soliciting or receiving any form of bribe or kickback. Included among the prohibited activities is the acceptance of anything of value from a vendor that could be considered by others as an attempt to influence the selection process or an attempt to reward an employee for a particular selection. Employees are further prohibited from using their position with the Company to obtain personal favors or special consideration from any other party, including customers, vendors, other employees or investors.

Acceptance and Offer of Gifts and Invitations

Employees are prohibited from accepting gifts from firms, companies and individuals with which the Company does business when the gift is provided because of that business relationship. The only exceptions to this prohibition are promotional or other items of nominal value or gifts given during the holidays or in connection with attendance at a meeting, conference or convention with a value of no more than $100. All gifts received which do not meet these standards should be returned to the giver with an appropriate explanation. Giving gifts to others by employees, other than those of the type and value described above and those that may be provided at Company-sponsored events (except as provided under "Contacts With Government Officials"), is also prohibited.

Except as provided under "Contacts With Government Officials", employees may extend and accept invitations to meals, social and entertainment events for reasonable and customary business purposes. Discretion must be used by employees not to abuse this ability, since excessive entertaining or excessive acceptance of such invitations by employees is inappropriate, unless such activities are a necessary part of the employee's job function.

Employees are permitted to attend conferences and conventions which do not involve the payment of expenses by either the sponsor of the event or by a firm or company that provides products or services to the Company.

The acceptance of invitations to conferences and/or conventions where the expenses of the attendees are being partially or fully paid by the sponsor or a firm or company that provides goods or services to the Company should only be permitted if the event is one that furthers the Company's business purposes and is generally open to members of the Company's industry. The acceptance of such invitation must be approved by the employee's immediate supervisor and the officer responsible for supervision of the employee's department or business unit. Unless specifically approved by the officer responsible for supervision of the employee's department or business unit, the cost of traveling to and/or from the conference or convention should be paid by the Company and no reimbursement should be received from the sponsor or a vendor.

Company Records

Maintaining the integrity of records is essential to meeting the Company's legal and regulatory obligations. Each employee of the Company is responsible for the honesty and accuracy of the Company's records. With this in mind, all information and transactions which are recorded in the Company's books and records must be reported accurately and completely and in a timely manner. All financial transactions must be reported in accordance with the Company's internal control policies and procedures. Employees are prohibited from creating misleading records and filing false or misleading expense and other reports.

Full and Fair Disclosure

The Company is committed to full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company. Moreover, the Company is committed to maintaining disclosure controls and procedures and internal financial controls and procedures that gather accurate information (financial and other) for public disclosure. This necessitates that the information that is supplied to the Company by employees be accurate, complete and not misleading. Therefore, each employee has a duty to comply with the Company's disclosure controls and procedures and financial controls and procedures so that complete and accurate information (financial and other) is reported to the Disclosure Review Committee to ensure full, fair, accurate, timely and understandable disclosure in the Company's public filings and other public communications.

Improperly Influencing Audits

No employee of the Company shall take any action, or cause any other person acting under the direction of such employee, including, without limitation, customers, vendors, creditors or advisors of the Company, to take any action, to, directly or indirectly, fraudulently influence, coerce, manipulate, or mislead any accountant engaged in the performance of an audit or review of the financial statements of the Company that are required to be publicly disclosed if it is reasonable to believe that such action would result in the Company's financial statements being materially misleading. Such action would include offering or paying bribes, providing an auditor with misleading legal analysis or threatening to cancel or canceling existing audit or non-audit engagements.

Misuse of Company Funds and Assets

The use of Company funds or assets for any wrongful or unlawful purpose is prohibited. In addition, no payment on behalf of the Company shall be made with the intention that any part of the payment is to be diverted from the purpose stated in the documentation supporting the payment.

All employees have an obligation to protect the Company's assets (tangible and intangible) and ensure their efficient use. The theft of Company property or services is illegal and strictly prohibited. Among other things, this prohibition applies to the copying, for use other than by the Company, of computer software which is licensed or owned by the Company. In addition, the destruction of Company property, except pursuant to policy (such as the Records Retention Policy) is prohibited.

Fair Dealing

Each employee must endeavor to deal fairly with the Company's customers, suppliers, competitors and other employees, shareholders and business partners. No employee shall take unfair advantage of anyone through manipulation, concealment, abuse of privileged or confidential information, misrepresentation, fraudulent behavior or any other unfair dealing practice.

CONFLICTS OF INTEREST

The Company is committed to the highest standards of professional and personal conduct. Every employee owes a duty of loyalty to the Company by virtue of accepting employment. This duty of loyalty requires all employees to act with honesty and integrity at all times and in a manner which is in the best interests of the Company.

A conflict of interest occurs when an employee's private interest interferes in any way, or even appears to interfere, with the interests of the Company as a whole. A conflict situation can arise when an employee takes actions or has interests that may make it difficult to perform his or her Company work objectively and effectively. Conflicts of interests also arise when an employee or a member of the employee's family receives improper personal benefits as a result of the employee's position in the Company. Loans to, or guarantees of obligations of such persons are of special concern. Therefore, an employee must avoid any action which may involve, or may

appear to involve, a conflict of interest with the Company. If any employee believes that he or she may have a conflict of interest, or that another employee may have a conflict of interest, or if the employee is aware of any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, the employee must disclose such conflict or potential conflict promptly to NUI's General Counsel. If the employee feels that reporting the conflict of interest or potential conflict of interest to NUI's General Counsel would not be appropriate because such person is the potentially conflicted individual or for any other reason, then the report should be to the head of Human Resources. Set forth below are general guidelines to assist employees in determining whether a situation constitutes a conflict of interest or a potential conflict of interest.

Outside Employment and Other Activities

The Company recognizes that employees have many activities outside of work and it encourages the involvement of employees in their local communities. This Code permits employees to engage in legitimate and lawful activities outside of the Company, including outside employment, provided that the following conditions are satisfied:

-- the activity will not adversely affect the employee's performance of his or her duties and responsibilities at work and will be conducted outside of regular work hours;

-- if the activity is of a nature that could present the potential for a conflict of interest, as described above, prior approval of NUI's General Counsel must be obtained;

-- if the activity involves outside employment, the employment cannot be with or for the benefit of any organization, or any entity that is part of an organization, that competes directly with the Company;

-- if the activity involves outside employment, it must be disclosed to the employee's supervisor and

-- if the outside activity is membership on the Board of Directors of a for-profit or not-for-profit organization, prior authorization must be obtained from the General Counsel.

The Company often changes its lines of business. Therefore, it is unlikely that you will be able to find definitive answers to many of your questions regarding the boundaries of acceptable outside activities within this Code. It is the employee's responsibility to contact his or her supervisor or NUI's General Counsel to determine whether or not the employee's planned activity is appropriate. This should be done before the employee pursues any such activity.

Interests in Other Businesses or Transactions

Conflicts of interest may arise when an employee or relatives of an employee have a financial or management interest in a firm or company that supplies products or services to the Company or has an interest in a transaction involving the Company. The Company must be made aware of any situation in which an employee or relatives of an employee have a financial or other interest in businesses that do business, or compete with, the Company or in any transactions to which the Company is a party. If an employee or relatives of the employee serve as an employee or have an investment in such a business or an interest in any such transaction, these relationships must be reported to the General Counsel. Ownership interests in publicly-held companies must be reported if the ownership interest of the employee, when added to the ownership interest of the employee's relatives, equals or exceeds one percent of the outstanding voting stock of the company.

Corporate Opportunities

Employees are prohibited from (i) taking for themselves personally opportunities that are discovered through the use of the Company's property or information or the employee's position, (ii) using the Company's property or information or the employee's position for personal gain and (iii) competing with the Company. Employees have a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

CORPORATE CITIZENSHIP

The Company is committed to serving not only the customers of its businesses, but the communities in which it operates. The Company helps to fulfill this commitment in the following ways:

Corporate Contributions

The Company maintains a corporate contributions policy that provides financial and other assistance to non-profit organizations and other institutions in the communities in which the Company operates. The policy prohibits the coercion of employees to contribute to any charitable or fund-raising campaign.

Political Contributions

The Company may, from time to time, participate in politics and government to the extent permitted by law.

Lobbying

Federal law and the law of most states provides specific guidelines and disclosure requirements for the expenditure of corporate

resources that are intended to influence the outcome of governmental decision-making. The Company is committed to compliance with all laws and regulations relating to lobbying activities.

Office Holding

The Company encourages its employees to exercise their right to participate in the governmental process. These activities, however, must not interfere with the employee's ability to fulfill his or her duties and responsibilities to the Company or otherwise conflict with this Code.

Administration

This Code shall be administered under the direction of the Nominating and Corporate Governance Committee of the Company's Board of Directors.

The General Counsel shall be responsible for implementing this Code and for reporting to the Committee on issues which arise under this Code.

Every employee shall be required to acknowledge receipt of this Code. Periodically, the Company will distribute the Code and seek confirmation from employees that the Code has been received and reviewed. Reports of violations of this Code should be made promptly to the individuals identified in this Code and may be made in person, by telephone, in writing or by email.

Questions concerning this Code should be referred to your supervisor, the head of Human Resources or NUI's General Counsel unless this Code specifically directs that you refer a particular question to a designated individual.

EXHIBIT NO. 21

SUBSIDIARIES OF NUI CORPORATION

NUI Utilities, Inc. (a New Jersey Corporation), NUI Capital Corp. (a Florida Corporation), Virginia Gas Company (a Delaware Corporation), NUI Saltville Storage, Inc. (a Delaware Corporation), and NUI Storage, Inc. (a Delaware Corporation) are wholly-owned subsidiaries of NUI Corporation.

NUI Energy, Inc. (a Delaware Corporation), NUI Energy Brokers, Inc. (a Delaware Corporation), Utility Business Services, Inc. (a New Jersey Corporation), OAS Group, Inc. (a New Jersey Corporation), NUI Energy Solutions Inc. (a New Jersey Corporation), NUI Sales Management, Inc. (a Delaware Corporation), NUI Services, Inc. (a New Jersey Corporation), and NUI International, Inc. (a Delaware Corporation) are wholly-owned subsidiaries of NUI Capital Corp.

Virginia Gas Pipeline Company, Virginia Gas Storage Company and Virginia Gas Distribution Company (all Virginia Corporations) are wholly-owned subsidiaries of Virginia Gas Company.

TIC Enterprises, LLC (a Delaware Limited Liability Company) is a wholly-owned subsidiary of NUI Sales Management, Inc.

NUI/Caritrade International, L.L.C. (a Delaware Limited Liability Company) is a 90 percent owned subsidiary of NUI International, Inc.

Saltville Gas Storage Company, LLC (a Virginia Limited Liability Company) is a 50 percent owned subsidiary of NUI Saltville Storage, Inc.

NUI Richton Storage, Inc. (a Delaware Corporation) is a 100 percent owned subsidiary of NUI Storage, Inc.

Richton Gas Storage Company, LLC (Delaware Limited Liability Company) is a 100 percent owned subsidiary of NUI Richton Storage, Inc.

NUI Ukraine (a Delaware Corporation) is a 100 percent owned subsidiary of NUI International, Inc. and NUI Hungary, Inc. (a Delaware Corporation) is a 90 percent owned subsidiary of NUI International, Inc. and a 10 percent owned subsidiary of NUI Energy Brokers.

Hungarian Portfolio Management and Trading, LLC (a Hungarian Limited Liability Company) is a 100 percent owned subsidiary of NUI Hungary, Inc.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 33-56509 and 333-92817) and Form S-8 (File Nos. 33-51459, 33-57183, 33-24169, 333-02425, 333-02421, and 333-02423) of NUI Corporation of our report dated May 11, 2004 relating to the financial statements and financial statement schedule, which appear in this Form 10-K.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania

May 13, 2004

Exhibit 31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig G. Matthews, certify that:

1. I have reviewed this annual report on Form 10-K of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2004

/s/ Craig G. Matthews
President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dan Scouler, certify that:

1. I have reviewed this annual report on Form 10-K of NUI Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2004

/s/ Dan Scouler
Interim Chief Financial Officer

January 27, 2004

Mr. Steven Overly
1215 Challenger
Austin, Texas 78734

Dear Steve:

We are pleased to confirm our offer of employment to you as Vice President, General Counsel and Secretary of NUI Corporation ("NUI"). The purpose of this letter is to set forth our understanding of the terms of your employment.

1. Your start date will be February 1, 2004.
1. Your annual base salary will be $250,000, payable in accordance with NUI's payroll practices.
1. In the event of a Sale of NUI (as hereinafter defined), NUI will pay to you an amount equal to $250,000 provided that you have been continuously employed by NUI through the date of such Sale of NUI (except as otherwise provided in paragraph 6 hereof). Such amount shall be paid to you in a lump-sum, in cash, promptly following such Sale of NUI. For purposes of this letter agreement, "Sale of NUI" means any transaction or series of related transactions approved by the Board pursuant to which an unaffiliated third party (or a group of unaffiliated third parties acting together) acquires (a) common shares of NUI constituting a majority of the issued and outstanding common shares of NUI (whether by merger, consolidation, sale or transfer of NUI's outstanding interests or otherwise) or (b) all or substantially all of NUI's consolidated assets.
1. As an NUI employee, you will be eligible to participate in the employee benefit plans and programs made available from time to time for NUI's other senior executive officers; *provided, however,* that (a) you will not be eligible to participate in any bonus or incentive compensation (including, without limitation, any stock-based compensation) or severance plan, program or policy of NUI, and (b) you will have the option not to participate in NUI's employee medical, dental, vision and life insurance plans; *provided, further, however,* that the cost that would otherwise be borne by NUI to cover you and your dependents under any such plans in which you elect not to participate shall be paid to you on a monthly basis in cash. Without limiting the foregoing, while you are employed by NUI, NUI will provide you with a personal computer and use of an automobile for use in the performance of your duties on behalf of NUI, in each case, in accordance with NUI's policies. During your employment with NUI, you will be entitled to four weeks' paid vacation per year in accordance with NUI's vacation policies. During your employment while you maintain a permanent residence in Austin, Texas, NUI will pay or reimburse (A) reasonable rental expenses incurred for temporary residential accommodations, selected by NUI, for you in New Jersey, and (B) coach airfare incurred by you for one round-trip per week between the New York/New Jersey metropolitan area and Austin, Texas. Any such payments or reimbursements shall be grossed up, if necessary, to cover any federal, state or other taxes due with respect to such payments or reimbursements.
1. NUI will indemnify you for any liability you incur arising from your actions within the scope and course of your employment with NUI or service as a director of NUI in accordance with NUI's Amended and Restated Certificate of Incorporation. During your employment with NUI and while potential liability exists thereafter, NUI will maintain a directors' and officers' liability insurance policy covering you in the same amount and to the same extent as NUI covers its other officers and directors.
1. Your employment with NUI is for no fixed term, and either you or NUI may terminate your employment at any time for any reason or no reason upon at least one hundred eighty days prior written notice to the other party; provided, however, that no such notice shall be required upon termination of your employment by NUI for Cause (as hereinafter defined). If NUI terminates your employment prior to a Sale of NUI without Cause, and not because of your death or incapacity due to physical or mental illness (as determined in the good faith judgment of the Board), and a Sale of NUI occurs within twelve months following such termination, you will be entitled to receive the payment set forth in paragraph 3 here of promptly following such Sale of NUI. Except as otherwise provided in this paragraph 6, you will not be entitled to any severance, termination pay, salary continuation or similar compensation or benefits upon or after termination of your employment with NUI. "Cause" is defined as: (a) the commission of an act of fraud, embezzlement, theft or dishonesty against NUI or any of its subsidiaries or affiliates; (b) the willful engaging by you in conduct which is demonstrably and materially injurious to NUI or its subsidiaries or affiliates, monetarily or otherwise; (c) conviction of (or plea of *nolo contendere* to) any crime involving moral turpitude or which subjects, or if generally known would subject, NUI or any subsidiary or affiliate thereof to public ridicule or embarrassment; or (d) the gross neglect or willful failure to perform your duties and responsibilities hereunder or to comply with the policies and procedures of NUI in all material respects, if such neglect or failure is not cured within thirty days after written notice thereof.
1. This letter agreement, together with the agreements described in the last paragraph hereof, constitutes the entire agreement between you and NUI with respect to the subject matter hereof, supersedes any prior agreements and undertakings, both written and oral, and may not be modified or amended in any way except in writing by you and NUI. The validity, interpretation, construction and performance of this letter agreement shall be governed by the substantive laws of the State of New Jersey. Any dispute or controversy arising under or in connection with this letter agreement shall be settled exclusively by arbitration in the State of New Jersey in accordance with the rules of the American Arbitration Association then in effect, and judgment may be entered on the arbitrator's award in any court of competent jurisdiction. All amounts payable hereunder shall be subject to the withholding of all applicable taxes and deductions required by any applicable law.

Please understand that the terms and conditions of your employment by NUI are governed by standard company policies. Among other things, this means that upon commencing employment with NUI, if requested by NUI, you agree to enter into customary confidential information, nonsolicitation, inventions and similar agreements. If you agree with the terms outlined in this letter

agreement, please acknowledge the same by signing this letter agreement and the enclosed duplicate original hereof and returning such signed duplicate original copy in the envelope provided.

Sincerely,

NUI CORPORATION

By: /S/ BERNARD S. LEE
Name: Bernard S. Lee
Title: Chairman, Compensation Committee

Accepted and Agreed to as of this 27 day of January 2004:

/S/ STEVEN OVERLY

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