

SOUTH JERSEY INDUSTRIES INC

Form U-3A-2

February 27, 2004

FILE NO. _____

FORM U-3A-2
2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

STATEMENT BY HOLDING COMPANY CLAIMING EXEMPTION UNDER
RULE U-3A-2 FROM THE PROVISIONS OF THE PUBLIC UTILITY
HOLDING COMPANY ACT OF 1935
TO BE FILED ANNUALLY PRIOR TO MARCH 1

SOUTH JERSEY INDUSTRIES, INC.

hereby files with the Securities and Exchange Commission, pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935. In support of such claim for exemption, the following information is submitted:

1. Name, State of organization, location and nature of business of claimant and every subsidiary thereof other than any exempt wholesale generator (EWG) or foreign utility company in which claimant directly or indirectly holds an interest.

The claimant, South Jersey Industries, Inc. (SJI), was organized under the laws of the State of New Jersey; its principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJI is not a public utility company. It is primarily engaged in the business of owning and holding a majority interest in other business enterprises.

SJI owns all of the outstanding common stock of South Jersey Gas Company (SJG), which was organized under the laws of the State of New Jersey. SJG's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJG is a public utility company engaged in the purchase, transmission and sale of natural and mixed gases for residential, commercial, and industrial use in an area of approximately 2,500 square miles in the southern part of New Jersey. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas purchased directly from producers or suppliers for its own sales and for some of its customers. SJG also assigns or buys capacity for the purchase or transportation of natural gas.

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SJI has a 100% ownership interest in South Jersey Resources Group, LLC (SJRG) which was formed on April 1, 1996 under the laws of the State of Delaware. SJRG's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJRG is not a public utility company. It provides services for the sale of natural gas to energy marketers, electric and gas utilities and other wholesale users in the mid-Atlantic and southern regions of the country.

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SJI owns all of the outstanding common stock of South Jersey Energy Company (SJE), which was organized on January 15, 1973 under the laws of the State of New Jersey. SJE's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJE is not a public utility company. SJE provides services for the acquisition, sale and transportation of natural gas and electricity for industrial, commercial and residential users and markets total energy management services. SJE also markets an air quality monitoring system that tests for hazardous airborne particulate on a real-time basis through AirLogics, LLC.

SJE owns a 50% interest in AirLogics, LLC (AirLogics), a joint venture with GZA GeoEnvironmental, Inc., formed on April 1, 2000 under the laws of the State of Delaware. AirLogics' principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. AirLogics is not a public utility company. It markets a proprietary air monitoring system designed to assist companies involved in environmental clean-up activities.

SJE owns all of the outstanding common stock of SJ EnerTrade, Inc. (EnerTrade) which was formed on October 22, 1997 under the laws of the State of New Jersey. EnerTrade's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. EnerTrade is not a public utility company. It formerly provided services for the sale of natural gas to the casino industry in Atlantic City, New Jersey. EnerTrade is not engaged in any business activity at this time.

SJE also owns 100% of South Jersey Energy Solutions, LLC (SJES), formed June 1, 1999 under the laws of the State of Delaware. SJES's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJES is not a public utility company. It sold electricity on a retail basis in the mid-Atlantic states. In May 2002, SJES ceased selling electricity. SJES is not engaged in any business activity at this time.

SJI owns a 50% interest in Millennium Account Services, LLC (Millennium), a joint venture with Conectiv Solutions, LLC formed January 4, 1999 under the laws of the State of Delaware. Millennium's principal location is 2 Regulus Drive, Suite B, Turnersville, New Jersey 08012. Millennium is not a public utility company. It provides meter reading services in southern New Jersey.

SJI has a 100% ownership interest in Marina Energy LLC (Marina) which was formed on October 1, 2000 under the laws of the State of New Jersey. Marina's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. Marina develops and operates energy related projects in southern New Jersey. Marina is not a public utility company.

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SJI has a 100% ownership interest in South Jersey Gas Service Plus, LLC (Service Plus) which was formed on March 1, 2003 under the laws of the State of New Jersey. Service Plus's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. Service Plus installs residential heating and air conditioning systems in southern New Jersey. Service Plus is not a public utility company.

SJI owns all of the outstanding common stock of Energy & Minerals, Inc. (EMI), which was organized under the laws of the State of New Jersey. EMI's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. EMI is not a public utility company. It principally owns real estate and the stock of an inactive nonutility subsidiary.

EMI owns all of the outstanding common stock of South Jersey Fuel, Inc.

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(SJF), which was organized under the laws of the State of New Jersey. SJF's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. SJF is not a public utility company and is presently inactive.

SJI owns all of the outstanding common stock of R&T Group, Inc. (R&T), which was organized under the laws of the State of New Jersey. R&T's principal location is 1 South Jersey Plaza, Folsom, New Jersey 08037. R&T is not a public utility company. It holds the remaining assets and liabilities of certain nonutility subsidiaries of SJI which were merged into R&T in 1997. R&T is presently inactive.

Neither the claimant nor any of its subsidiaries is an EWG nor do they hold a direct or indirect interest in a foreign utility company.

2. A brief description of the properties of claimant and each of its subsidiary public utility companies used for the generation, transmission, and distribution of electric energy for sale, or for the production, transmission, and distribution of natural or manufactured gas, indicating the location of principal generating plants, transmission lines, producing fields, gas manufacturing plants, and electric and gas distribution facilities, including all such properties which are outside the State in which claimant and its subsidiaries are organized and all transmission or pipelines which deliver or receive electric energy or gas at the borders of such State.

SJI does not own directly any properties used for the production, transmission, and distribution of natural or manufactured gas or electric energy.

The properties of SJG used for the production, transmission, and distribution of natural or manufactured gas include mains, service connections and meters, supplemental gas storage facilities, and an LNG storage and vaporization facility, all of which are located in the State of New Jersey (except that certain gas owned by SJG is stored

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outside the State and transported when needed). There are 5,349 miles of distribution mains. There are 92 miles of mains in the transmission system. No pipelines of SJG deliver or receive gas at the borders of the State of New Jersey.

3. The following information for the last calendar year with respect to claimant and each of its subsidiary public utility companies:

(a) Number of Kwh of electric energy sold (at retail or wholesale) and Mcf of natural or manufactured gas distributed at retail.

During 2003, SJG distributed at retail to residential, commercial and industrial customers 22,403 MMcf of natural or manufactured gas and transported 34,461 MMcf of natural gas purchased directly by its industrial, residential and commercial customers. Retail distribution revenues were \$266.3 million and transportation revenues were \$75.2 million. SJG also sold 11,798 MMcf, or \$77.0 million, of natural gas at wholesale for resale within the State of New Jersey.

(b) Number of Kwh of electric energy and Mcf of natural or manufactured gas distributed at retail outside the State in which each company is organized.

None

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(c) Number of Kwh of electric energy and Mcf of natural or manufactured gas sold at wholesale outside the State in which each such company is organized, or at the State line.

During 2003, SJG sold 15,374 MMcf, or \$99.6 million, of natural gas at wholesale to customers outside the borders of the State of New Jersey.

Also, throughput related to capacity release amounted to 39,194 MMcf, or \$5.8 million in revenues, in 2003.

(d) Number of Kwh of electric energy and Mcf of natural or manufactured gas purchased outside the State in which each such company is organized or at the State line.

During 2003, SJG purchased approximately 36,488 MMcf of natural gas from out-of-state sources at a total cost, including related expenses, of \$372.9 million.

During 2003, SJG purchased and had delivered to it approximately 487 MMcf of liquefied natural gas by over-the-road truck transport to SJG's LNG Storage and Vaporization facility at McKee City, Atlantic County, New Jersey, at a cost of \$4.5 million.

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4. The following information for the reporting period with respect to claimant and each interest it holds directly or indirectly in an EWG or a foreign utility company, stating monetary amounts in United States dollars:

(a) Name, location, business address and description of the facilities used by the EWG or foreign utility company for the generation, transmission and distribution of electric energy for sale or for the distribution at retail of natural or manufactured gas.

The claimant has no direct or indirect interest or investment of any kind in, or has any sales, service or construction contracts of any kind with, an EWG or a foreign utility company.

(b) Name of each system company that holds an interest in such EWG or foreign utility company; and description of the interest held.

No system company holds any direct or indirect interest in an EWG or foreign utility company.

(c) Type and amount of capital invested, directly or indirectly, by the holding company claiming exemption; any direct or indirect guarantee of the security of the EWG or foreign utility company by the holding company claiming exemption; and any debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption or another system company, other than the EWG or foreign utility company.

The claimant holding company has no capital invested, directly or indirectly; nor does it directly or indirectly guarantee any security debt of an EWG or foreign utility company; nor debt or other financial obligation for which there is recourse, directly or indirectly, to the holding company claiming exemption on another system company.

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(d) Capitalization and earnings of the EWG or foreign utility company during the reporting period.

None

(e) Identify any service, sales or construction contract(s) between the EWG or foreign utility company and a system company, and describe the services to be rendered or goods sold and fees or revenues under such agreement(s).

None

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EXHIBIT A

A consolidating statement of income and retained earnings of the claimant and its subsidiary companies for the last calendar year, together with a consolidating balance sheet of claimant and its subsidiary companies as of the close of such calendar year.

The above-named claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 27th day of February 2004.

SOUTH JERSEY INDUSTRIES, INC.

/s/ David A. Kindlick

DAVID A. KINDLICK
Vice President & Chief Financial Officer

CORPORATE SEAL

ATTEST:

/s/ Richard H. Walker, Jr., Esquire

RICHARD H. WALKER, JR., ESQUIRE
Vice President, Corporate Secretary, & Corporate Counsel

Name, title and address of officer to whom notices and correspondence concerning this statement should be addressed:

Richard H. Walker, Jr., Esquire
Vice President, Corporate Secretary, &
Corporate Counsel
South Jersey Industries, Inc.
1 South Jersey Plaza
Folsom, New Jersey 08037

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EXHIBIT B

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EWG ORGANIZATIONAL CHART

Not applicable. See response to Item 4.

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SOUTH JERSEY INDUSTRIES, INC.
CONSOLIDATING STATEMENT OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017
(In Thousands)

	South Jersey Indust. Inc.	South Jersey Gas Company	South Jersey Gas Service Plus, LLC	South Jersey Energy Company Consd.	South Jersey Resources Group, LLC	Marina Energy LLC	Energy & Minerals, R Inc. Consd.	G
Operating Revenues:								
Utility	0	528,066	0	0	0	0	0	0
Nonutility	2,216	0	806	187,358	10,560	12,736	0	0
Total Operating Revenues	2,216	528,066	806	187,358	10,560	12,736	0	0
Operating Expenses:								
Cost of Gas Sold - Utility	0	372,851	0	0	0	0	0	0
Cost of Sales - Nonutility	0	0	290	176,539	4,514	5,969	0	0
Operations	3,176	48,729	394	5,318	1,035	2,779	35	35
Maintenance	0	5,678	0	0	0	0	0	0
Depreciation	80	23,664	8	15	13	866	0	0
Energy and Other Taxes	295	11,725	0	0	0	0	10	10
Total Operating Expenses	3,551	462,647	692	181,872	5,562	9,614	45	45
Operating (Loss) Income	(1,335)	65,419	114	5,486	4,998	3,122	(45)	(45)
Other Income:								
Equity in Affiliated Companies	753	0	0	33	0	0	0	0
Dividends from Subsidiaries	10,500	0	0	0	0	0	0	0
Equity in Undistributed								
Earnings of Subs	23,143	0	0	0	0	0	0	0
Other	479	112	0	41	215	1	57	57
Total Other Income	34,875	112	0	74	215	1	57	57
Interest Charges	497	19,304	0	84	87	1,329	0	0

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Income Before Income Taxes	33,043	46,227	114	5,476	5,126	1,794	12
Income Taxes:							
Current Federal and State Income Taxes	(1,384)	18,394	32	2,856	850	(1,411)	(16)
Deferred Federal and State Income Taxes	300	1,225	15	(614)	1,244	2,084	21
Total Income Taxes	(1,084)	19,619	47	2,242	2,094	673	5
Income from Continuing Operations	34,127	26,608	67	3,234	3,032	1,121	7
Equity in Undistributed Earnings of Discontinued Subsidiaries	(499)	0	0	0	0	0	0
Discontinued Operations - Net	(275)	0	0	0	0	0	(478)
Cummulative Effect of Accounting Change - Net	0	0	0	0	(426)	0	0
Net Income Applicable to Common Stock	33,353	26,608	67	3,234	2,606	1,121	(471)

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SOUTH JERSEY INDUSTRIES, INC.
CONSOLIDATING STATEMENT OF RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

	South Jersey Indust. Inc.	South Jersey Gas Company	South Jersey Gas Service Plus, LLC	South Jersey Energy Company Consd.	South Jersey Resources Group, LLC	Marina Energy LLC	Energy & Minerals, Inc. Consd.	R G
Retained Earnings - Beginning	78,002	81,748	0	2,428	5,348	307	(13,831)	(7)
Net Income Applicable to Common Stock	33,353	26,608	67	3,234	2,606	1,121	(471)	
	111,355	108,356	67	5,662	7,954	1,428	(14,302)	(7)
Dividends Declared - Common Stock	19,717	0	0	5,000	5,500	0	0	
Retained Earnings - Ending	91,638	108,356	67	662	2,454	1,428	(14,302)	(7)

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SOUTH JERSEY INDUSTRIES, INC.
 CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
 STATEMENT OF INCOME AND RETAINED EARNINGS
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
 (In Thousands)

[A]	Dividends from Subsidiaries	\$10,500	
	Equity in Undistributed Earnings of Subsidiaries		23,143
	Investment in Subsidiaries		\$34,144
	Equity in Undistributed Earnings of Discontinued Subsidiaries		499
	Retained Earnings - Dividends Declared		10,500
	To eliminate intercompany dividends paid and equity in undistributed earnings recorded by South Jersey Industries, Inc.		
[B]	Retained Earnings - 1/1/03	68,978	
	Investment in Subsidiaries		68,978
	To eliminate retained earnings of subsidiaries at 1/1/03 previously recorded by South Jersey Industries, Inc. under the equity method of accounting.		
[C]	Operating Revenues - Utility	40,388	
	Operating Revenues - Nonutility	4,534	
	Other Income	769	
	Cost of Gas Sold - Utility		40,388
	Cost of Gas Sold - Nonutility Operations		2,320 2,298
	Interest Charges		685
	To eliminate intercompany revenue and expense.		

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SOUTH JERSEY INDUSTRIES, INC.
 CONSOLIDATING BALANCE SHEET
 AS OF DECEMBER 31, 2003
 (In Thousands)

South Jersey Indust.	South Jersey Gas	South Jersey Gas Service	South Jersey Energy Company	South Jersey Resources Group	Marina Energy	Energy & Minerls, Inc.	R Gr

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	Inc.	Company	Plus LLC	Consd.	LLC	LLC	Consd.	In
	-----	-----	-----	-----	-----	-----	-----	-----
Assets								
Property, Plant and Equipment:								
Utility Plant, at original cost	\$0	\$894,654	\$0	\$0	\$0	\$0	\$0	\$
Accum. Depreciation and Amortization	0	(209,831)	0	0	0	0	0	
Nonutility Property & Equipment, at cost	1,340	0	86	96	67	62,815	872	49
Accum. Depreciation	(253)	0	(8)	(64)	(32)	(876)	(788)	(30)
	-----	-----	-----	-----	-----	-----	-----	-----
Property, Plant & Equipment - Net	1,087	684,823	78	32	35	61,939	84	18
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Investments:								
Investments in Subs Available-for-Sale	295,622	0	0	0	0	0	0	
Securities	53	4,497	0	0	0	0	0	
Restricted Investment in Affiliates	0	0	0	0	4,022	0	0	
	-----	-----	-----	-----	-----	-----	-----	-----
Total Investments	297,057	4,497	0	809	4,022	0	0	
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Current Assets:								
Cash & Cash Equivalnts	589	3,210	252	(381)	468	192	15	1
Notes Receivable - Associated Companies	26,645	0	0	740	0	0	3,295	1,73
Notes Receivable - Affiliate	0	0	0	50	0	0	0	
Accounts Receivable	111	47,606	30	34,667	35,449	2,876	0	
Unbilled Revenues	0	31,070	0	11,822	0	0	0	
Provision for Uncollectibles	0	(3,263)	0	(302)	0	0	0	
Accounts Receivable - Associated Companies	2,132	806	81	2,776	0	0	5	
Natural Gas in Storage, Average Cost	0	59,432	0	0	10,164	0	0	
Materials & Supplies, Average Cost	0	3,559	6	0	0	47	0	
Assets of Discontinued Businesses Held for Disposal	0	0	0	0	0	0	408	
Accumulated Deferred Income Taxes	8	0	0	89	143	0	1	
Derivatives - Energy Related Assets	0	0	0	7,255	23,687	0	0	
Derivatives - Other	0	0	0	0	565	0	0	
Prepaid Taxes	0	2,661	0	0	0	0	0	
Prepaid Pension	1,216	18,206	0	268	0	0	0	
Other Prepayments & Current Assets	125	2,317	5	707	331	308	8	
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Total Current								

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Assets	30,826	165,604	374	57,691	70,807	3,423	3,732	1,76
Regulatory and Other								
Non-Current Assets:								
Gross Receipts & Franchise Taxes	0	1,367	0	0	0	0	0	0
Environmental Remediation Costs	0	55,130	0	0	0	0	0	0
Accumulated Deferred Income Taxes	130	0	1	124	0	323	1,864	
Income Taxes - Flowthrough Deprec.	0	7,619	0	0	0	0	0	0
Deferred Fuel Costs - Net	0	1,720	0	0	0	0	0	0
Deferred Postretmnt Benefit Costs	0	3,402	0	0	0	0	0	0
Derivatives - Energy Related Assets	0	0	0	1,308	4,169	0	0	0
Other Regulatory Assts	0	8,262	0	0	0	0	0	0
Unamortized Debt Discount and Expense	0	6,383	0	0	0	915	0	0
Other	0	7,476	2	0	0	6,618	13	
Total Regulatory & Other Non-Current Assets	130	91,359	3	1,432	4,169	7,856	1,877	
Total Assets	\$329,100	\$946,283	\$455	\$59,964	\$79,033	\$73,218	\$5,693	\$2,

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SOUTH JERSEY INDUSTRIES, INC
CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2003
(In Thousands)

	South Jersey Indust. Inc.	South Jersey Gas Company	South Jersey Gas Service Plus LLC	South Jersey Energy Company Consd.	South Jersey Resour Group LLC	Marina Energy LLC	Energy & Minerls, Inc. Consd.	R & Grou Inc
Capitalization and Liabilities								
Common Equity:								
Common Stock SJI								
Par Value \$1.25 a share								
Authorized - 20,000,000 shares								
Outstanding - 13,229,001	\$16,536	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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Common Stock - Subs	0	5,848	0	50	0	0	13,283	1,000
Premium on Common Stock	187,019	155,317	200	3,500	2,918	12,500	1,584	7,800
Capital Stock Expense	(703)	0	0	0	0	0	0	
Accumulated Other Comprehen.Income (Loss)	0	280	0	0	4,262	(1,071)	0	
Retained Earnings	91,638	108,356	67	662	2,454	1,428	(14,302)	(7,040)
Total Common Equity	294,490	269,801	267	4,212	9,634	12,857	565	1,750
Preferred Stock of Subs.	0	1,690	0	0	0	0	0	
Long-Term Debt (less current maturities & sinking fund requirements)	0	263,781	0	0	0	45,000	0	
Current Liabilities:								
Notes Payable - Banks	25,600	87,200	0	0	0	0	0	
Current Maturities of Long-Term Debt	0	5,273	0	0	0	0	0	
Notes Payable - Associated Companies	5,765	0	0	13,045	7,115	6,050	435	
Accounts Payable	1,247	39,546	24	31,523	31,512	1,119	2	
Accounts Payable to Associated Companies	614	1,409	116	525	344	585	6	
Customer Deposits	0	7,957	0	0	0	0	0	
Accumulated Deferred Income Taxes	44	6,694	2	286	4,754	0	(5)	
Taxes Accrued	(406)	9,321	32	2,101	785	173	(70)	
Environmental Remediation Costs	1	7,630	0	0	0	0	234	
Interest Accrued	0	6,016	0	0	0	148	0	
Derivatives - Energy Related Liabilities	0	0	0	6,732	21,248	0	0	
Derivatives - Other	0	6	0	0	1,499	0	0	
Other Current Liabilities	219	3,399	0	15	45	286	366	1
Total Current Liabilities	33,084	174,451	174	54,227	67,302	8,361	968	2
Deferred Credits & Other Non-Current Liabilities:								
Pension and Other Postretirement Benefits	643	11,336	0	162	0	0	80	21
Deferred Income Taxes - Net	479	118,893	14	169	0	4,410	445	1
Investment Tax Credits	0	3,471	0	0	0	0	0	
Environmental Remediation Costs	13	43,353	0	0	0	0	3,635	
Derivatives - Energy Related Liabilities	0	0	0	1,194	2,055	0	0	
Derivatives - Other	0	0	0	0	42	1,811	0	
Regulatory Liabilities	0	49,880	0	0	0	0	0	
Other	391	9,627	0	0	0	779	0	
Total Def. Credits & Other Non-Current Liabilities	1,526	236,560	14	1,525	2,097	7,000	4,160	22

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Total Capitalization & Liabilities	\$329,100 =====	\$946,283 =====	\$455 =====	\$59,964 =====	\$79,033 =====	\$73,218 =====	\$5,693 =====	\$2,000 =====
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SOUTH JERSEY INDUSTRIES, INC.
CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
AS OF DECEMBER 31, 2003
(In Thousands)

[1] Common Stock - Subsidiaries	\$20,181	
Premium on Common Stock	183,819	
Retained Earnings	\$91,622	
Investment in Subsidiaries		\$295,622
To eliminate South Jersey Industries, Inc. investment in subsidiaries which is maintained on the equity method of accounting.		
[2] Accounts Payable - Associated Companies	3,600	
Accounts Payable	2,852	
Accounts Receivable - Associated Companies		5,802
Accounts Receivable		650
To eliminate intercompany accounts receivable and payable.		
[3] Notes Payable - Associated Companies	32,410	
Notes Receivable - Associated Companies		32,410
To eliminate intercompany short-term notes between South Jersey Industries, Inc. and Subsidiaries		
[4] Accumulated Deferred Income Taxes - Current Liability	241	
Accumulated Deferred Income Taxes - Current Asset		241
To net current accumulated DFIT asset and liability		
[5] Accumulated Deferred Income Taxes - Noncurrent Liability	2,498	
Accumulated Deferred Income Taxes - Noncurrent Asset		2,498
To net noncurrent accumulated DFIT asset and liability		
[6] Accounts Payable	21,868	
Accounts Receivable		21,868
To eliminate intercompany gas receivable and payable.		
[7] Derivatives-Energy Related Liabilities - Current	9,171	
Derivatives-Energy Related Liabilities - Non-Current	1,374	

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Regulatory Liabilities	90
Deferred Fuel Costs - Net	1,720
Derivatives-Energy Related Assets - Current	7,470
Derivatives-Energy Related Assets - Non-Current	1,265

To eliminate intercompany mark-to-market of gas contracts.

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SOUTH JERSEY ENERGY COMPANY
CONSOLIDATING STATEMENT OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

	South Jersey Energy Company	South Jersey EnerTrade, Inc.	SJ Energy Solutions LLC	Tot
	-----	-----	-----	-----
Operating Revenues:				
Utility	0	0		
Nonutility	183,756	4,607	0	188
	-----	-----	-----	-----
Total Operating Revenues	183,756	4,607		188
	-----	-----	-----	-----
Operating Expenses:				
Cost of Gas Sold - Utility	0	0		
Cost of Sales - Nonutility Operations	173,211	4,333	0	177
Maintenance	5,288	42	(12)	5
Depreciation	0	0	0	
Energy and Other Taxes	14	1	0	
	0	0	0	
	-----	-----	-----	-----
Total Operating Expenses	178,513	4,376	(12)	182
	-----	-----	-----	-----
Operating Income	5,243	231	12	5
	-----	-----	-----	-----
Other Income:				
Equity in Affiliated Companies	33	0	0	
Dividends from Subsidiaries	0	0	0	
Equity in Undistributed Earnings of Subs	149	0	0	
Other	28	13	0	
	-----	-----	-----	-----
Total Other Income	210	13	0	
	-----	-----	-----	-----
Interest Charges	84	0	0	
	-----	-----	-----	-----

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Preferred Dividend Requirements of Subsidiary	0	0	0	
	-----	-----	-----	-----
Income Before Income Taxes	5,369	244	12	5
	-----	-----	-----	-----
Income Taxes:				
Current Federal and State Income Taxes	2,751	100	5	2
Deferred Federal and State Income Taxes	(616)	2	0	
	-----	-----	-----	-----
Total Income Taxes	2,135	102	5	2
	-----	-----	-----	-----
Income from Continuing Operations	3,234	142	7	3
Equity in Undistributed Earnings of				
Discontinued Subsidiaries	0	0		
Discontinued Operations - Net	0	0		
Cumulative Effect of Accounting Change - Net	0	0		
	-----	-----	-----	-----
Net Income Applicable to Common Stock	3,234	142	7	3
	=====	=====	=====	=====

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SOUTH JERSEY ENERGY COMPANY
CONSOLIDATING STATEMENT OF RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

	South Jersey Energy Company	South Jersey EnerTrade, Inc.	SJ Energy Solutions LLC	Total
	-----	-----	-----	-----
Retained Earnings - Beginning	2,428	(983)	0	1,445
Net Income Applicable to Common Stock	3,234	142	7	3,383
	-----	-----	-----	-----
Dividends Declared - Common Stock	5,662	(841)	7	4,828
	-----	-----	-----	-----
Retained Earnings - Ending	662	(841)	7	(172)
	=====	=====	=====	=====

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SOUTH JERSEY ENERGY COMPANY
CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

[A]	Investment in Subsidiary	\$149
	Equity in Undistributed Earnings of Subsidiary	\$149
	To eliminate intercompany dividends and equity in undistributed earnings recorded by South Jersey Energy Company.	
[B]	Retained Earnings - 1/1/2003	983
	Investment in Subsidiary	983
	To eliminate retained earnings of subsidiary at 1/1/2003 previously recorded by South Jersey Energy Company, Inc. under the equity method of accounting.	
[C]	Operating Revenues - Nonutility	\$1,005
	Cost of Sales - Nonutility	\$1,005
	To eliminate intercompany gas purchases and sales	

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SOUTH JERSEY ENERGY COMPANY
CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2003
(In Thousands)

	South Jersey Energy Co.	South Jersey EnerTrade, Inc.	South Jersey Energy Solutions LLC
	-----	-----	-----
Assets			
Property, Plant and Equipment:			
Utility Plant, at original cost	\$0	\$0	\$0
Gas Plant Acquisition Adjustment - Net	0	0	0
Gas Stored Underground	0	0	0
Accumulated Depreciation and Amortization	0	0	0
Nonutility Property and Equipment, at cost	94	2	0
Accumulated Depreciation	(62)	(2)	0

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Property, Plant and Equipment - Net	32	0	0
Investments:			
Investments in Subsidiaries	773	0	0
Available-for-Sale Securities	0	0	0
Restricted	0	0	0
Investment in Affiliates	809	0	0
Total Investments	1,582	0	0
Current Assets:			
Cash and Cash Equivalents	(423)	23	19
Notes Receivable - Associated Companies	0	740	0
Notes Receivable - Affiliate	50	0	0
Accounts Receivable	34,667	0	0
Unbilled Revenues	11,822	0	0
Provision for Uncollectibles	(302)	0	0
Accounts Receivable - Associated Companies	2,775	1	0
Natural Gas in Storage, Average Cost	0	0	0
Materials and Supplies, Average Cost	0	0	0
Assets of Discontinued Businesses Held for Disposal	0	0	0
Accumulated Deferred Income Taxes	89	0	0
Prepaid Taxes	0	0	0
Derivatives - Energy Related Assets	7,255	0	0
Prepaid Pension	268	0	0
Prepayments and Other Current Assets	707	0	0
Total Current Assets	56,908	764	19
Regulatory and Other Non-Current Assets:			
Gross Receipts & Franchise Taxes	0	0	0
Environmental Remediation Costs	0	0	0
Accumulated Deferred Income Taxes	128	(4)	0
Income Taxes - Flowthrough Depreciation	0	0	0
Deferred Fuel Costs - Net	0	0	0
Deferred Postretirement Benefit Costs	0	0	0
Derivatives - Energy Related Assets	1,308	0	0
Other Regulatory Assets	0	0	0
Other	0	0	0
Total Regulatory and Other Non-Current Assets	1,436	(4)	0
Total Assets	\$59,958	\$760	\$19

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AS OF DECEMBER 31, 2003

(In Thousands)

	South Jersey Energy Company	South Jersey EnerTrade, Inc.	South Jersey Energy Solutions LLC	Tot
	-----	-----	-----	-----
Capitalization and Liabilities				
Common Equity:				
Common Stock SJE				
No Par Value				
Authorized - 2,500 shares				
Outstanding - 500 shares	\$50	\$0	\$0	
Common Stock - Subsidiaries	0	1	0	
Premium on Common Stock	3,500	1,599	7	5,
Capital Stock Expense	0	0	0	
Accumulated Other Comprehensive Loss	0	0	0	
Retained Earnings	662	(841)	7	(
	-----	-----	-----	-----
Total Common Equity	4,212	759	14	4,
	-----	-----	-----	-----
Preferred Stock of Subsidiary	0	0	0	
	-----	-----	-----	-----
Long-Term Debt (less current maturities & sinking fund requirements)	0	0	0	
	-----	-----	-----	-----
Current Liabilities:				
Notes Payable - Banks	0	0	0	
Notes Payable - Affiliate	0	0	0	
Current Maturities of Long-Term Debt	0	0	0	
Notes Payable - Associated Companies	13,045	0	0	13,
Accounts Payable	31,484	39	0	31,
Accounts Payable to Associated Companies	524	1	0	
Customer Deposits	0	0	0	
Accumulated Deferred Income Taxes	270	16	0	
Taxes Accrued	2,150	(54)	5	2,
Environmental Remediation Costs	0	0	0	
Interest Accrued	0	0	0	
Dividends Declared	0	0	0	
Derivatives - Energy Related Liabilities	6,732	0	0	6,
Other Current Liabilities	15	0	0	
	-----	-----	-----	-----
Total Current Liabilities	54,220	2	5	54,
	-----	-----	-----	-----
Deferred Credits and Other				
Non-Current Liabilities:				
Pension and Other Postretirement Benefits	160	2	0	
Deferred Income Taxes - Net	172	(3)	0	
Investment Tax Credits	0	0	0	
Environmental Remediation Costs	0	0	0	

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Derivatives - Energy Related Liabilities	1,194	0	0	1,
Derivatives - Other	0	0	0	
Other	0	0	0	
	-----	-----	-----	-----
Total Def. Credits and Other Non-Current Liabilities	1,526	(1)	0	1,
	-----	-----	-----	-----
Total Capitalization and Liabilities	\$59,958	\$760	\$19	\$60,
	=====	=====	=====	=====

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SOUTH JERSEY ENERGY COMPANY
CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
AS OF DECEMBER 31, 2003
(In Thousands)

[1] Common Stock - Subsidiary	\$1	
Premium on Common Stock	\$1,606	
Retained Earnings		\$834
Investment in Subsidiary		\$773

To eliminate South Jersey Energy Company, Inc. investment in subsidiaries which is maintained on the equity method of accounting.

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ENERGY & MINERALS, INC.
CONSOLIDATING STATEMENT OF INCOME
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

	Energy & Minerals, Inc.	South Jersey Fuel Company, Inc.	Total
	-----	-----	-----
Operating Revenues:			
Utility	0	0	0
Nonutility	0	0	0
	-----	-----	-----
Total Operating Revenues	0	0	0
	-----	-----	-----
Operating Expenses:			
Cost of Gas Sold - Utility	0	0	0
Cost of Sales - Nonutility	0	0	0

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Operations	35	0	35
Maintenance	0	0	0
Depreciation	0	0	0
Energy and Other Taxes	10	0	10
	-----	-----	-----
Total Operating Expenses	45	0	45
	-----	-----	-----
Operating Income	(45)	0	(45)
	-----	-----	-----
Other Income:			
Equity in Affiliated Companies	0	0	0
Dividends from Subsidiaries	0	0	0
Equity in Undistributed Earnings of Subs	(19)	0	(19)
Other	57	0	57
	-----	-----	-----
Total Other Income	38	0	38
	-----	-----	-----
Interest Charges	0	0	0
	-----	-----	-----
Preferred Dividend Requirements of Subsidiary	0	0	0
	-----	-----	-----
Income Before Income Taxes	(7)	0	(7)
	-----	-----	-----
Income Taxes:			
Current Federal and State Income Taxes	(16)	0	(16)
Deferred Federal and State Income Taxes	21	0	21
	-----	-----	-----
Total Income Taxes	5	0	5
	-----	-----	-----
Income from Continuing Operations	(12)	0	(12)
	-----	-----	-----
Equity in Undistributed Earnings of			
Discontinued Subsidiaries	0	0	0
Discontinued Operations - Net	(459)	(19)	(478)
Cumulative Effect of Accounting Change - Net	0	0	0
	-----	-----	-----
Net Income Applicable to Common Stock	(471)	(19)	(490)
	=====	=====	=====

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ENERGY & MINERALS, INC.
CONSOLIDATING STATEMENT OF RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

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	Energy & Minerals, Inc.	South Jersey Fuel Company, Inc.	Total
	-----	-----	-----
Retained Earnings - Beginning	(13,831)	(1,792)	(15,623)
Net Income Applicable to Common Stock	(471)	(19)	(490)
	-----	-----	-----
	(14,302)	(1,811)	(16,113)
Dividends Declared - Common Stock	0	0	0
	-----	-----	-----
Retained Earnings - Ending	(14,302)	(1,811)	(16,113)
	=====	=====	=====

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ENERGY & MINERALS, INC.
CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003
(In Thousands)

[A] Equity in Undistributed Earnings of Subsidiary	19	
Investment in Subsidiary		19
To eliminate equity in undistributed earnings recorded by Energy & Minerals, Inc.		
[B] Retained Earnings - 1/1/2003	1,792	
Investment in Subsidiaries		1,792
To eliminate retained earnings of subsidiary at 1/1/2003 previously recorded by Energy & Minerals, Inc. under the equity method of accounting.		

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ENERGY & MINERALS, INC.
CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2003
(In Thousands)

Energy &	South Jersey Fuel Company
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	Minerals, Inc.	Inc.	Total
	-----	-----	-----
Assets			
Property, Plant and Equipment:			
Utility Plant, at original cost	0	0	
Gas Plant Acquisition Adjustment - Net	0	0	
Gas Stored Underground	0	0	
Accumulated Depreciation and Amortization	0	0	
Nonutility Property and Equipment, at cost	872	0	872
Accumulated Depreciation	(788)	0	(788)
	-----	-----	-----
Property, Plant and Equipment - Net	84	0	84
	-----	-----	-----
Investments:			
Investments in Subsidiaries	(753)	0	(753)
Available-for-Sale Securities	0	0	
Restricted	0	0	
Investment in Affiliates	0	0	
	-----	-----	-----
Total Investments	(753)	0	(753)
	-----	-----	-----
Current Assets:			
Cash and Cash Equivalents	13	2	15
Notes Receivable - Associated Companies	3,295	0	3,295
Notes Receivable - Affiliate	0	0	
Accounts Receivable	0	0	
Unbilled Revenues	0	0	
Provision for Uncollectibles	0	0	
Accounts Receivable - Associated Companies	5	0	5
Natural Gas in Storage, Average Cost	0	0	
Materials and Supplies, Average Cost	0	0	
Assets of Discontinued Businesses Held for Disposal	0	408	408
Accumulated Deferred Income Taxes	1	0	1
Prepaid Taxes	0	0	
Derivatives - Energy Related Assets	0	0	
Prepayments and Other Current Assets	7	1	8
	-----	-----	-----
Total Current Assets	3,321	411	3,732
	-----	-----	-----
Regulatory and Other Non-Current Assets:			
Gross Receipts & Franchise Taxes	0	0	
Environmental Remediation Costs	0	0	
Accumulated Deferred Income Taxes	1,424	440	1,864
Income Taxes - Flowthrough Depreciation	0	0	
Deferred Fuel Costs - Net	0	0	
Deferred Postretirement Benefit Costs	0	0	
Derivatives - Energy Related Assets	0	0	
Other Regulatory Assets	0	0	
Other	13	0	13
	-----	-----	-----
Total Regulatory and Other Non-Current Assets	1,437	440	1,877
	-----	-----	-----

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Total Assets	4,089	851	4,940
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ENERGY & MINERALS, INC.
CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2003
(In Thousands)

	Energy & Minerals, Inc.	South Jersey Fuel Company Inc.	Total
Capitalization and Liabilities			
Common Equity:			
Common Stock EMI			
No Par Value			
Authorized - 500,000 shares			
Outstanding - 98,341 shares	13,283	0	13,283
Common Stock - Subsidiaries	0	0	0
Premium on Common Stock	1,584	1,058	2,642
Capital Stock Expense	0	0	0
Accumulated Other Comprehensive Loss	0	0	0
Retained Earnings	(14,302)	(1,811)	(16,113)
 Total Common Equity	 565	 (753)	 (188)
 Preferred Stock of Subsidiary	 0	 0	 0
 Long-Term Debt (less current maturities & sinking fund requirements)	 0	 0	 0
 Current Liabilities:			
Notes Payable - Banks	0	0	0
Notes Payable - Affiliate	0	0	0
Current Maturities of Long-Term Debt	0	0	0
Notes Payable - Associated Companies	0	435	435
Accounts Payable	0	2	2
Accounts Payable to Associated Companies	39	(33)	6
Customer Deposits	0	0	0
Accumulated Deferred Income Taxes	(5)	0	(5)
Taxes Accrued	(77)	7	(70)
Environmental Remediation Costs	39	195	234
Interest Accrued	0	0	0

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Dividends Declared	0	0	0
Derivatives - Energy Related Liabilities	0	0	0
Other Current Liabilities	349	17	366
	-----	-----	-----
Total Current Liabilities	345	623	968
	-----	-----	-----
Deferred Credits and Other			
Non-Current Liabilities:			
Pension and Other Postretirement Benefits	80	0	80
Deferred Income Taxes - Net	396	49	445
Investment Tax Credits	0	0	0
Environmental Remediation Costs	2,703	932	3,635
Derivatives - Energy Related Liabilities	0	0	0
Derivatives - Other	0	0	0
Other	0	0	0
	-----	-----	-----
Total Def. Credits and Other			
Non-Current Liabilities	3,179	981	4,160
	-----	-----	-----
Total Capitalization and Liabilities	4,089	851	4,940
	=====	=====	=====

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ENERGY & MINERALS, INC.
CONSOLIDATING ADJUSTMENTS AND ELIMINATIONS
AS OF DECEMBER 31, 2003
(In Thousands)

[1] Premium on Common Stock	\$1,058	
Investment in Subsidiary	754	
Retained Earnings		\$1,812

To eliminate Energy & Minerals, Inc. investment in subsidiary which is maintained on the equity method of accounting.

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Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Consolidation -- The consolidated financial statements include the accounts of South Jersey Industries, Inc. (SJI) and its subsidiaries. We eliminated all significant intercompany accounts and transactions. SJI reclassified some previously reported amounts to conform with current year classifications.

Equity Investments -- We classify equity investments purchased as long-term

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investments as Available-for-Sale Securities on our consolidated balance sheets and carry them at their fair value with any changes in unrealized gains or losses included in Accumulated Other Comprehensive Income (Loss). SJI, either directly or through its wholly owned subsidiaries, currently holds a 50% non-controlling interest in two affiliated companies and accounts for the investments under the equity method. We include the operations of these affiliated companies in the statements of consolidated income under the caption, Equity in Affiliated Companies (See Note 3).

Estimates and Assumptions -- We prepare our financial statements to conform with generally accepted accounting principles. Management makes estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Therefore, actual results could differ from those estimates.

Regulation -- South Jersey Gas Company (SJG) is subject to the rules and regulations of the New Jersey Board of Public Utilities (BPU). We maintain our accounts according to the BPU's prescribed Uniform System of Accounts (See Note 9). SJG follows the accounting for regulated enterprises prescribed by the Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." In general, Statement No. 71 allows deferral of certain costs and creation of certain obligations when it is probable that these items will be recovered from or refunded to customers in future periods.

Revenues -- SJG and South Jersey Resources Group, LLC (SJRGL) bill customers monthly for gas deliveries. South Jersey Energy Company (SJE) bills customers monthly for gas and electricity deliveries. For SJG and SJE retail customers not billed at the end of each month, we make an accrual to recognize unbilled revenues from the date of the last meter reading to the end of the month. We defer and recognize revenues related to SJG's appliance service contracts over the full 12-month term of the contract as earned. The BPU allows SJG to recover gas costs through the Basic Gas Supply Service (BGSS) clause. The BGSS-approved price structure replaced the Levelized Gas Adjustment Clause (LGAC) pricing structure. We collect these costs on a forecasted basis upon BPU order. SJG defers over/under-recoveries of gas costs and includes them in the following year's BGSS or other similar recovery mechanism. We pay interest on overcollected BGSS balances based on SJG's approved return on rate base (See Note 9).

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SJG's tariff also includes a Temperature Adjustment Clause (TAC), a Remediation Adjustment Clause (RAC) and a New Jersey Clean Energy Program (CLEP). Our TAC reduces the impact of temperature fluctuations on SJG and its customers. The RAC recovers remediation costs of former gas manufacturing plants and the CLEP recovers costs associated with our energy efficiency and renewable energy programs. TAC adjustments affect revenue, income and cash flows since colder-than-normal weather can generate credits to customers, while warmer-than-normal weather can result in additional billings. RAC adjustments do not directly affect earnings because we defer and recover related costs through rates over 7-year amortization periods (See Notes 9 & 13). CLEP adjustments are also deferred and do not affect earnings, as related costs are recovered through rates on an ongoing basis.

Property, Plant and Equipment -- For regulatory purposes, utility plant is stated at original cost. Nonutility plant is stated at cost. The cost of adding, replacing and renewing property is charged to the appropriate plant account.

Depreciation and Amortization -- We depreciate utility plant on a straight-line basis over the estimated remaining lives of the various property classes. These estimates are periodically reviewed and adjusted as required after BPU approval.

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The composite annual rate for all depreciable utility property was approximately 2.9% in both 2003 and 2002, and 2.8% in 2001. Except for extraordinary retirements, accumulated depreciation is charged with the cost of depreciable utility property retired less salvage (See New Accounting Pronouncements). Nonutility property depreciation is computed on a straight-line basis over the estimated useful lives of the property, ranging up to 50 years. Gain or loss on the disposition of nonutility property is recognized in net income.

Capitalized Interest -- SJG capitalizes interest on construction at its BPU-approved rate of return on rate base (See Note 9). SJG's capitalized interest totaled \$0.6 million in 2003, \$0.4 million in 2002 and \$0.2 million in 2001. Marina Energy LLC (Marina) also capitalized interest during the construction of its thermal energy facility based on the actual cost of borrowed funds. Marina's capitalized interest totaled \$1.8 million in 2003, \$1.6 million in 2002 and \$0.3 million in 2001. SJG's amounts are included in Utility Plant and Marina's amounts are included in Nonutility Property and Equipment on the consolidated balance sheets. All capitalized interest is reflected on the statements of consolidated income as a reduction of Interest Charges.

Impairment of Long-Lived Assets -- We review the carrying amount of an asset for possible impairment whenever events or changes in circumstances indicate that such amount may not be recoverable. For the years ended 2003, 2002 and 2001, no such circumstances were identified.

Energy Trading Activities and Derivative Instruments -- SJI's regulated and unregulated subsidiaries are involved in the buying, selling, transporting and storing of natural gas and buying and selling of retail electricity for their own accounts as well as managing these activities for others. These subsidiaries are subject to market risk due to price fluctuations. To manage this risk, our

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companies enter into a variety of physical and financial transactions including forward contracts, swap agreements, option contracts and futures contracts.

SJI structured its subsidiaries so that SJG and SJE transact commodities on a physical basis only and do not directly enter into financially settling positions. SJRG performs this risk management function for these entities and enters into the types of transactions noted above. Management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in identifying, assessing and controlling various risks. Management reviews any open positions in accordance with strict policies to limit exposure to market risk.

Effective January 1, 2001, SJI adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. We record all derivatives, whether designated in hedging relationships or not, on the balance sheet at fair value unless the derivatives contracts qualify for the normal purchase and sale exemption. If the derivative is designated as a fair value hedge, we recognize the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk in earnings. If the derivative is designated as a cash flow hedge, we record the effective portion of changes in the fair value of the derivative in Accumulated Other Comprehensive Income (Loss) and recognize it in the income statement when the hedged item affects earnings. We recognize ineffective portions of changes in the fair value of cash flow hedges in earnings. As permitted under Statement No. 133, SJI has elected to designate certain energy-related derivative instruments as cash flow hedges.

No commodity related activities of SJG are considered subject to the fair value recognition requirements of Statement No. 133, as amended.

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SJRG manages its portfolio purchases and sales, as well as natural gas in storage, using a variety of instruments that include forward contracts, swap agreements, option contracts and futures contracts. Because SJRG's transactions will not necessarily settle physically, SJRG accounted for these contracts at fair value under Emerging Issues Task Force (EITF) Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (prior to 2003) or Statement No. 133. Under this method of accounting, SJRG measures the difference between the contract price and the fair value of the contracts and records these as Derivatives -- Energy Related Assets or Derivatives -- Energy Related Liabilities on our consolidated balance sheets. For the years ended December 31, 2003, 2002 and 2001, we recorded the net unrealized pre-tax gain (loss) of \$2.3 million, \$(0.5) million and \$3.4 million, respectively. These unrealized gains and losses on energy trading and related contracts, determined under the mark-to-market method, are included in Operating Revenues -- Nonutility, except to the extent that they are designated cash flow hedges and are recorded through Accumulated Other Comprehensive Income (Loss). The Cumulative Effect of a Change in Accounting Principle -- Net of \$148,000 relates to the initial adoption of Statement No. 133 on January 1, 2001.

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Beginning in 2002, SJI began presenting revenues and expenses related to SJRG's physical power contracts and energy-related derivative contracts on a net basis in our consolidated statements of income consistent with EITF Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." Because of the difficulty in obtaining certain information, we determined this presentation by netting the energy contract-related revenue and expense transactions of SJRG. As a result, we based certain nonutility costs of sales on the transfer prices between SJRG and SJE. These transfer prices are generally at market. There is no effect on operating income or net income from the above changes in presentation.

On October 25, 2002, the EITF rescinded its consensus in Issue No. 98-10 effective for transactions entered into after that date, with a cumulative effect adjustment for previously existing transactions to be recognized in the quarter beginning January 1, 2003. As a result of the rescission, SJI only marks-to-market those energy-related contracts that meet the definition of a derivative in Statement No. 133. Energy-related contracts that do not meet the definition of a derivative are accounted for using the accrual basis of accounting. The effect of this change in accounting resulted in a net charge of \$426,338 shown as a Cumulative Effect of a Change in Accounting Principle -- Net in 2003. Furthermore, management has designated any contract entered into after December 31, 2002 to hedge physical gas in storage as a cash flow hedge and accounts for them accordingly. We include these balances on the consolidated balance sheet under the caption Derivatives -- Other. At inception, and as of December 31, 2003, we calculated these hedges to be highly effective; therefore, we record the offset, net of taxes, in Accumulated Other Comprehensive Income (Loss).

In November 2001, we entered into two interest rate swap contracts. The first swap effectively provides us with a fixed interest rate of 4.08% on Marina's tax-exempt Series A variable rate bonds for a 10-year period. The second swap effectively fixed the interest rate of Marina's taxable Series B variable rate bonds at 4.55% for a 6-year period. The notional amount of this second swap decreases by \$3.0 million per year beginning in December 2005.

In January 2002, Marina issued an additional \$10.0 million of taxable Series B variable rate bonds. In April 2002, we entered into an interest rate swap contract that effectively fixed the interest rate on these bonds at 4.62% for a 4-year period. The notional amount of this swap decreased to \$8.0 million in

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December 2003, then decreases to \$3.9 million in December 2004, and terminates in December 2005.

In May 2003, SJG entered into an interest rate swap contract that effectively fixed the interest rate at 2.24% through May 20, 2004 on \$20.0 million of SJG's debt outstanding under its bank credit agreements.

We entered into interest rate swap agreements to hedge the exposure to increasing rates with respect to our variable rate debt. The differential to be paid or received as a result of these swap agreements is accrued as interest rates change and is recognized as an adjustment to interest expense. These

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interest rate swaps are accounted for as cash flow hedges. At inception, and as of December 31, 2003 and 2002, the market value of these swaps was \$(1.8) million and \$(2.6) million, respectively, which represents the amount we would have to pay the counterparty to terminate these contracts as of those dates. These balances are included on the consolidated balance sheets under the caption Derivatives -- Other. As of December 31, 2003 and 2002, we calculated the swaps to be highly effective; therefore, we record the offset to the hedge, net of taxes, in Accumulated Other Comprehensive Income (Loss).

We determined the fair value of derivative investments by reference to quoted market prices of listed contracts, published quotations or quotations from independent parties.

Stock Compensation -- Prior to 2003, SJI valued stock options to employees using the intrinsic value method. Effective in 2003, SJI adopted the policy of accounting for this compensation using the fair value based method on a prospective basis. At this time, SJI has no stock options outstanding.

New Accounting Pronouncements -- In January 2003, SJI adopted FASB Statement No. 143, "Accounting for Asset Retirement Obligations," which establishes accounting and reporting standards for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SJG has certain easements and right-of-way agreements that qualify as legal obligations under Statement No. 143. However, it is our intent to maintain these agreements in perpetuity; therefore, no change in SJG's current accounting practices is required related to these agreements.

SJG recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2002, SJG had accrued amounts in excess of actual removal costs incurred totaling \$41.4 million, which we reclassified from Utility Plant Accumulated Depreciation to Asset Retirement Obligation on the consolidated balance sheets. As of December 31, 2003, SJG had accrued amounts in excess of actual removal costs incurred totaling \$45.2 million, which in accordance with Statement No. 143, we reclassified to Regulatory Liabilities on the consolidated balance sheets. The adoption of this statement did not materially affect SJI's financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure," which was effective for SJI's 2002 annual financial statements. Effective April 1, 2003, SJI adopted the policy of accounting for this compensation using the fair value based method on a prospective basis. This method calls for expensing the estimated fair value of a stock option. The provisions of this statement currently have no impact on SJI's financial statements.

In January 2003, the FASB issued Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting

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Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of controlling financial interest or do not have sufficient equity at risk for the

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entity to finance its activities without additional subordinated financial support from other parties. Management has evaluated the impact of adopting FIN 46 and has determined that SJG Capital Trust, which was established for the sole purpose of issuing \$35.0 million of mandatorily redeemable preferred securities, could no longer be consolidated into SJI's financial statements effective July 1, 2003. These securities were redeemed in November 2003. Prior periods were restated to report the original equity investment amount in SJG Capital Trust as a separate \$1.1 million investment in an affiliate and the \$36.1 million subordinated debenture to SJG Capital Trust as debt on its consolidated balance sheet rather than the \$35.0 million of mandatorily redeemable preferred securities as previously reported. The adoption of FIN 46, inclusive of revisions released by FASB in December 2003, did not impact SJI's net income or retained earnings for the periods reported.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for certain contracts entered into or modified and for hedging relationships designated after June 30, 2003. The amendments set forth in Statement No. 149 require that certain contracts with comparable characteristics be accounted for similarly. We have determined there is no impact on our financial statements from the provisions of this statement.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Statement No. 150 requires that certain types of financial instruments be reported as liabilities by their issuers. We adopted Statement No. 150 effective June 1, 2003. The adoption of this statement had no impact on our financial position or results of operation.

In August 2003, the EITF reached a consensus on Issue No. 03-11, which provides guidance on whether to report realized gains or losses on physically settled derivative contracts not held for trading purposes on a gross basis, and realized gains or losses on derivative contracts that net settle on a net basis. The new guidance is applicable for financial statement periods after September 30, 2003. Management believes the portion of SJRG's operations that are not currently being presented on a gross basis meet the definition of "trading" in accordance with EITF No. 02-03, and are, therefore, reported net. There was no impact to our financial statements as a result of adopting EITF No. 03-11 effective October 1, 2003.

Income Taxes -- Deferred income taxes are provided for all significant temporary differences between book and taxable basis of assets and liabilities (See Notes 5 & 6).

Other Regulatory Assets & Regulatory Liabilities -- Other Regulatory Assets at December 31, 2003 and 2002 consisted of the following items:

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Years Remaining as of	Thousands of Dollars
Dec. 31, 2003	2003
	2002

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Environmental Remediation Costs:

(Notes 9 & 13)			
Expended-- Net	7	\$ 4,147	\$ 6,470
Liability for Future Expenditures	--	50,983	48,211
Income Taxes-- Flowthrough			
Depreciation (Note 6)	8	7,619	8,597
Postretirement Benefit Costs (Note 10)	9	3,402	3,780
Gross Receipts and Franchise Taxes (Note 6)	3	1,367	1,811
Societal Benefit Charges (Note 9)	Various	7,529	5,956
Other	--	733	493

Total Other Regulatory Assets		\$ 75,780	\$ 75,318
=====			

Each item separately identified above is being recovered through utility rate charges without a return on investment over the period indicated (See Note 9). All assets reflected within the above caption "Other" are currently being recovered or are subject to filings with the BPU requesting recovery. Management believes that all such deferred costs are probable of recovery from ratepayers through future utility rates.

Regulatory Liabilities at December 31, 2003 and 2002 consisted of the following items:

	Thousands of Dollars	
	2003	2002
Excess Plant Removal Costs	\$ 45,241	\$ --
Overcollected State Taxes	4,353	2,847
Other	376	286

Total Regulatory Liabilities	\$ 49,970	\$ 3,133
=====		

Excess Plant Removal Costs represent amounts accrued in excess of actual utility plant removal costs incurred to date (See New Accounting Pronouncements). All other amounts are subject to being returned to ratepayers in future rate proceedings.

Statements of Consolidated Cash Flows -- For purposes of reporting cash flows, highly liquid investments with original maturities of three months or less are considered cash equivalents.

2. PREFERRED STOCK:

Redeemable Cumulative Preferred Stock -- Annually, SJG is required to offer to purchase 1,500 shares of its Cumulative Preferred Stock, Series B at par value, plus accrued dividends. SJG may not declare or pay dividends or make

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distributions on its common stock if preferred stock dividends are in arrears. Preferred shareholders may elect a majority of SJG's directors if four or more quarterly dividends are in arrears. SJG has 2,500,000 authorized shares of Preference Stock, no par value, which has not been issued. SJG has registered and reserved for issuance 15,000 shares of Series A Junior Participating Cumulative Preferred Stock (Series A Preferred Stock) connected with its Shareholder Rights Plan (See Note 4).

3. DIVESTITURES AND AFFILIATIONS:

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Divestitures -- In 1996, Energy & Minerals, Inc. (EMI), an SJI subsidiary, sold the common stock of The Morie Company, Inc. (Morie), its sand mining and processing subsidiary (See Note 13).

In 1997, R&T Group, Inc., SJI's construction subsidiary, sold all its operating assets, except some real estate. SJI conducts tests annually to estimate the environmental remediation costs for properties owned by South Jersey Fuel, Inc. (SJF), an EMI subsidiary, from its previously operated fuel oil business. SJI reports the environmental remediation activity related to these properties as discontinued operations. This reporting is consistent with previous years (See Note 13).

In 1998, SJE actively traded electricity in the wholesale market, but ceased this activity later that same year and formally exited this segment in 1999.

SJG operated two retail stores which sold natural gas appliances. The stores were intended to provide gas customers with access to and choice among natural gas appliances. In 2001, SJG formally discontinued this merchandising segment of its operations as such appliances are readily available from other retailers. Summarized operating results of the discontinued operations were:

	Thousands of Dollars		
	2003	2002	2001
Operating Revenues-- Merchandising	\$ --	\$ 26	\$ 1,016
(Loss) Income before Income Taxes:			
Sand Mining	\$ (705)	\$ (467)	\$ 719
Construction	(32)	(17)	78
Fuel Oil	(495)	(122)	(113)
Wholesale Electric	--	--	(1,150)
Merchandising	--	(50)	(351)
Income Tax Credits	458	232	362
Loss from Discontinued Operations-- Net	\$ (774)	\$ (424)	\$ (455)
Earnings Per Common Share from			
Discontinued Operations-- Net	\$ (0.06)	\$ (0.03)	\$ (0.03)

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Losses from sand mining are mainly comprised of environmental remediation and product liability litigation associated with Morie's prior activities. Positive results from sand mining operations in 2001 reflect a settlement with our insurance carrier for previously incurred costs. Losses from fuel oil in 2003 are mainly attributable to a property sale. Wholesale Electric losses in 2001 were due to the settlement of a creditor claim in bankruptcy.

Affiliations -- In January 1999, SJI and Conectiv Solutions, LLC formed Millennium Account Services, LLC to provide meter reading services in southern New Jersey.

In June 1999, SJE and Energy East Solutions, Inc. (EES) formed South Jersey Energy Solutions, LLC (SJES) to market retail electricity and energy management services. SJES began supplying retail electricity during 2000, and ceased active operations in May 2002. In January 2003, SJES became a wholly owned subsidiary of SJE when EES redeemed its 50% interest upon payment of \$54,686, their capital deficit balance, to SJES.

In April 2000, SJE and GZA GeoEnvironmental, Inc. formed AirLogics, LLC to market a jointly developed air monitoring system designed to assist companies involved in environmental cleanup activities.

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4. COMMON STOCK:

SJI has 20,000,000 shares of authorized Common Stock. The following shares were issued and outstanding:

	2003	2002	2001
Beginning of Year	12,206,474	11,860,990	11,499,701
New Issues During Year:			
Dividend Reinvestment Plan	986,731	338,518	354,809
Employees' Stock Ownership Plan	1,511	4,162	3,707
Stock Option, Stock Appreciation Rights and Restricted Stock Award Plan	32,005	590	604
Directors' Restricted Stock	2,280	2,214	2,169
End of Year	13,229,001	12,206,474	11,860,990

We credited the par value (\$1.25 per share) of stock issued in 2003, 2002 and 2001 to Common Stock. We credited the net excess over par value of approximately \$35.9 million, \$10.5 million and \$10.6 million, respectively, to Premium on Common Stock.

Earnings Per Common Share -- We present basic EPS based on the weighted-average number of common shares outstanding. EPS are presented in accordance with FASB Statement No. 128, "Earnings Per Share," which establishes standards for computing and presenting basic and diluted EPS. The incremental shares required for inclusion in the denominator for the diluted EPS calculation were 99,649, 77,866 and 34,254 shares for the years ended December 31, 2003, 2002 and 2001,

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respectively. These shares relate to stock options and restricted stock and were calculated using the treasury stock method.

Stock Option, Stock Appreciation Rights and Restricted Stock Award Plan -- Under this plan, no more than 306,000 shares in the aggregate may be issued to SJI's officers and other key employees. No options or stock appreciation rights may be granted under the Plan after November 22, 2006. At December 31, 2003, 2002 and 2001, SJI had -0-, -0- and 2,000 options outstanding, respectively, all exercisable at \$24.69 per share. No options were granted in 2003, 2002 or 2001. No stock appreciation rights were issued under the Plan. In 2003, 2002 and 2001, we granted 30,810, 26,034 and 44,384 restricted shares, respectively. These restricted shares vest over a 3-year period and are subject to SJI achieving certain performance targets. The annual expense associated with these awards was \$970,400, \$579,900 and \$61,300 in 2003, 2002 and 2001, respectively.

Dividend Reinvestment Plan (DRP) and Employees' Stock Ownership Plan (ESOP) -- Newly issued shares of common stock offered through the DRP are issued directly by SJI. All shares offered through the ESOP were also issued directly by SJI. As of December 31, 2003, SJI reserved 1,678,976 shares of authorized, but unissued, common stock for future issuance to the DRP. As of October 1, 2003, the ESOP was terminated.

Directors' Restricted Stock Plan -- Under this Plan, SJI grants annual awards to outside directors which vest over three years. SJI holds shares issued as restricted stock until the attached restrictions lapse. We record the stock's market value on the grant date as compensation expense over the applicable vesting period. The annual expense associated with this plan was \$80,255, \$67,242 and \$66,843 in 2003, 2002 and 2001, respectively.

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Shareholder Rights Plan -- In 1996, the board of directors adopted a shareholder rights plan providing for the distribution of one right for each share of common stock outstanding on and after October 11, 1996. Each right entitles its holder to purchase 1/1000 of one share of Series A Preferred Stock at an exercise price of \$90 (See Note 2). The rights will not be exercisable until after a person or group acquires 10% or more of SJI's common stock and will expire if not exercised or redeemed by September 20, 2006.

5. INCOME TAXES:

Total income taxes applicable to operations differ from the tax that would have resulted by applying the statutory Federal Income Tax rate to pre-tax income for the following reasons:

	Thousands of Dollars		
	2003	2002	2001
Tax at Statutory Rate	\$ 20,352	\$ 17,436	\$ 16,157
Increase (Decrease) Resulting from:			
State Income Taxes	3,659	3,143	2,857
ESOP	(723)	(489)	--
Amortization of Investment Tax Credit	(347)	(347)	(347)
Tax Depreciation Under Book			
Depreciation on Utility Plant	664	664	664
Other-- Net	(9)	(3)	(36)
Income Taxes:			
Continuing Operations	23,596	20,404	19,295
Discontinued Operations	(458)	(232)	(362)
Cumulative Effect of a Change in Accounting Principle	(294)	--	103
Net Income Taxes	\$ 22,844	\$ 20,172	\$ 19,036
	=====		

The provision for Income Taxes is comprised of the following:

	Thousands of Dollars		
	2003	2002	2001
Current:			
Federal	\$ 12,402	\$ 3,044	\$ 8,306
State	6,919	3,017	3,678
Total Current	19,321	6,061	11,984
Deferred:			
Federal:			
Excess of Tax Depreciation Over Book Depreciation-- Net	12,339	10,960	4,668
Deferred Fuel Costs-- Net	(10,446)	(3,728)	794
Environmental Costs-- Net	(162)	(1,490)	(1,850)
Alternative Minimum Tax	2,181	(495)	2,851
Prepaid Pension	1,647	5,743	--
Deferred Regulatory Costs	750	1,543	175
Other-- Net	(397)	339	302
State	(1,290)	1,818	718
Total Deferred	4,622	14,690	7,658
Investment Tax Credit	(347)	(347)	(347)
Income Taxes:			
Continuing Operations	23,596	20,404	19,295
Discontinued Operations	(458)	(232)	(362)
Cumulative Effect of a Change			

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	in Accounting Principle	(294)	--	103
Net Income Taxes		\$ 22,844	\$ 20,172	\$ 19,036

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The net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes resulted in the following deferred tax liabilities at December 31:

	Thousands of Dollars	
	2003	2002
Current:		
Deferred Fuel Costs-- Net	\$ 7,235	\$ 20,368
Derivatives / Unrealized Gain	4,868	3,595
Other	(566)	855
Current Deferred Tax Liability-- Net	\$ 11,537	\$ 24,818
Non-Current:		
Book versus Tax Basis of Property	116,504	101,999
Prepaid Pension	7,616	7,117
Environmental	694	878
Deferred Regulatory Costs	4,687	3,873
Minimum Pension Liability	--	(6,395)
Deferred State Tax	(2,358)	(2,678)
Investment Tax Credit Basis Gross Up	(1,891)	(2,070)
Alternative Minimum Tax	--	(2,089)
Other	(3,330)	(2,745)
Non-Current Deferred Tax Liability-- Net	\$ 121,922	\$ 97,890

6. FEDERAL AND OTHER REGULATORY TAX ASSETS AND DEFERRED CREDITS:

The primary asset created by adopting FASB Statement No. 109, "Accounting for Income Taxes," was Income Taxes - Flowthrough Depreciation in the amount of \$17.6 million as of January 1, 1993. This amount represented excess tax depreciation over book depreciation on utility plant because of temporary differences for which, prior to Statement No. 109, deferred taxes previously were not provided. SJG previously passed these tax benefits through to ratepayers. SJG is recovering the amortization of the regulatory asset through rates over 18 years which began in December 1994.

The Investment Tax Credit attributable to SJG was deferred and