



SJI Corporate Sustainability Report

2009

Contents

Letter from the Chairman	1
Corporate Profile	2
Economic Impact	6
Environmental Impact	8
Managing Materials and Resources	15
Social Impact	16

Message from the Chairman



A true measure of a company's success is the extent to which that company can prosper in the marketplace and, at the same time make positive contributions to the public good. In keeping with that philosophy, SJI's leadership team has long held the belief that business success and corporate social responsibility need not be mutually exclusive. The result is a strong focus on environmental stewardship, social investment, customer and employee safety, diversity and corporate governance.

During 2009, SJI's board of directors created a new standing committee to oversee the company's policies, procedures and practices, and foster active corporate responsibility. The Corporate Responsibility Committee provides oversight of the development of SJI's Corporate Sustainability Report.

With the creation of our first Corporate Sustainability Report we will convey how we intrinsically link the business we conduct with sustainable practices. As an example, our employees are developing innovative projects that protect our environment and are proud to be employed by a company that contributes to the greater good. Another example is that our customers are experiencing lower energy usage and costs through our programs that advocate for energy efficiency measures. A third example is that the community in general benefits from jobs created by our initiatives, a cleaner environment, and our social investment program, which includes donations and employee volunteer efforts. All the while, we have been very successful at growing the value of our shareholders' investments.

Many of our utility's sustainable practices are supported and encouraged by our regulators in the New Jersey Board of Public Utilities. NJBPU President Jeanne Fox's challenge to SJG and the State's other utilities to develop programs that encourage energy efficiency, improve system reliability, create "green" jobs and strengthen the economic activity in the state has led to a number of initiatives that you will read about in our report.

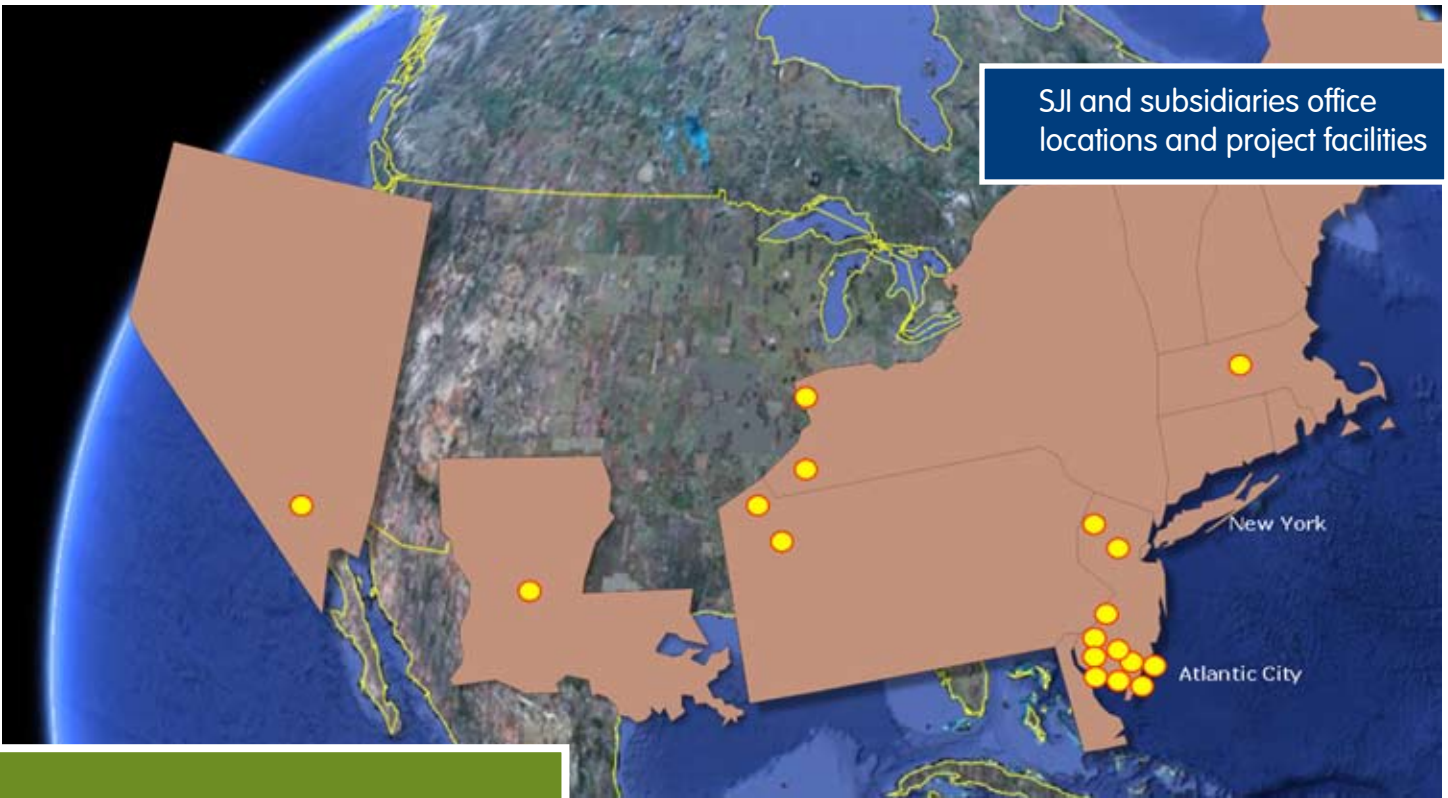
On behalf of our senior management team, we thank our board of directors for its guidance and commitment to our sustainable business practices and to our employees for their long-time dedication to making our company a strong corporate citizen.

As we continue to build on our successes, our focus will remain on the cornerstones of sustainability -- economic, environmental and social endeavors. They are integral to achieving our vision of being the energy company of first choice for our customers, shareholders and employees.

A handwritten signature in black ink that reads "Edward J. Graham". The signature is fluid and cursive.

Edward J. Graham
Chairman, President and CEO





Corporate Profile

SJI traces its roots back to 1910, when it started in the utility business as Atlantic City Gas Company serving customers in Atlantic City, N.J. Today, SJI is an energy services holding company. A member of the KLD Global Climate 100 Index, SJI offers solutions to global warming through renewable energy, clean technology and efficiency. The company operates a regulated, natural gas utility, South Jersey Gas, and several non-regulated companies under the corporate name of South Jersey Energy Solutions. The three primary market segments of the non-regulated business are on-site energy production, asset management and marketing, and residential and commercial energy services.

SJI is headquartered in Folsom, NJ and employs 602 employees. The company’s stock is traded on the New York Stock Exchange under the trading symbol SJI.

Vision

To be the energy company of first choice for customers, shareholders and employees

- Energy industry leader
- Growth, innovation, service, energy efficiency
- One-stop energy shopping
- Entrepreneurial leadership, strategic alliances, empowered employee base, demonstrated green energy expertise

Mission

Create value through customer-focused energy solutions that are environmentally friendly

- Maximize shareholder value
- Expand menu of products and services with a focus on green energy solutions
- Offer competitively priced, innovative, energy efficient and high quality products and services
- Improved growth of stock
- Provide value-added green energy solutions
- Deliver returns exceeding traditional regulation

Values

Live up to commitments and conduct business guided by the highest set of principles

- Commitment to customers, shareholders, employees, community and our environment
- Integrity
- Highest Standards of Safety
- Innovation
- Performance
- Stewardship
- Respect

Goals

- Generate average annual Economic Earnings per Share growth of at least 6 to 7 percent
- Increase the dividend by at least 6 to 7 percent annually
- Execute from a low-to-moderate risk platform
- Add value by expanding menu of green energy solutions

Organizational Structure

SJI is the holding company for South Jersey Gas, South Jersey Energy Solutions and SJI services.

SJG, one of the fastest growing utilities in the nation, is a regulated company that strongly advocates the efficient use of energy while safely and reliably delivering natural gas to an ever-expanding customer base of over 340,000 residential, commercial and industrial customers in New Jersey. The utility's service territory encompasses over 2,500 square miles of southern New Jersey, including all of Atlantic, Cape May, Cumberland and Salem counties and portions of Camden, Burlington and Gloucester counties. Also, through its Off-System Sales function, SJG sells natural gas on a wholesale basis to customers in the interstate market.

SJES, the parent of SJI's non-regulated businesses, provides innovative, environmentally friendly

energy solutions that help customers control energy costs and consumption through its subsidiaries South Jersey Energy, Marina Energy, South Jersey Resources Group and South Jersey Energy Service Plus.

SJE acquires and markets natural gas and electricity for retail customers and offers energy-related services to help businesses reduce their energy use and costs. Marina develops and operates on-site energy projects including thermal facilities serving hot and chilled water for casinos, cogeneration facilities and landfill gas-to-electricity facilities. Marina, in conjunction with its business partner DCO Energy, operates a limited liability company Energenic-US to develop and operate these types of energy projects throughout the nation. SJRG provides wholesale commodity marketing and risk management services primarily in the mid-Atlantic region. SJESP installs, maintains and services residential and commercial heating, air conditioning and water heating systems, services appliances, installs solar systems, provides plumbing services and performs energy audits.

SJI Services provides support services to SJI and its other subsidiaries, such as information technology, human resources, government relations, corporate communications, materials purchasing, fleet management and insurance.

Corporate Governance

SJI is governed by an 11-member board of directors, 10 of whom are not SJI employees. Edward J. Graham, age 52, is both the chairman of the board of directors and chief executive officer of SJI. Graham has been employed by the company for 27 years and has held senior officer level positions in the company since 1998.

W. Cary Edwards, age 64, is SJI's lead independent director. He has served on SJI's board for over 18 years. Edwards is chairman of the New Jersey State Commission on Investigation and is Of Counsel, Waters, McPherson, McNeill PC.

SJI's board of directors, which is elected by the shareholders, is the company's ultimate decision-making body except with respect to matters reserved for shareholder consideration. The board selects the senior management team, which is charged with conduct of the company's business.

Having selected the senior management team, the board acts as an advisor and counselor to senior management and ultimately monitors its performance.

The board maintains five standing committees: the Audit Committee; the Compensation Committee; the Executive Committee; the Governance Committee; and the Corporate Responsibility Committee.

The Audit Committee’s primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the corporation’s financial reporting process and internal control system.
- Review and appraise the audit efforts of the corporation’s independent accountants and internal auditing department.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditing department, and the board of directors.
- Provide an open avenue of communication regarding ethical behavior.

The Compensation Committee’s primary duties and responsibilities are:

- Develop and administer an executive compensation program which is competitive; which ensures that the interests of executives are aligned with the interests of shareholders; which ensures the company’s ability to attract and retain qualified executive talent; and, which strikes a proper balance between compensation and corporate growth.
- Oversee the management of the assets of the company’s pension plans, VEBAs and Rabbi Trust; produce investment returns that achieve the Plans’ actuarially assumed rate of return; achieve the optimal return within specified risk tolerances; and, prudently invest assets in a high-quality, diversified manner.

The Executive Committee’s primary function is to exercise all powers on behalf of the board of

directors in the management of the business and company affairs to the extent permitted by law and by the company’s Bylaws.

The primary function of the Governance Committee is to make recommendations on board organization, practice, and facilitate the identification and recruitment of director candidates. The committee also advises and recommends changes in director compensation.

The function of the Corporate Responsibility Committee is to provide oversight of company policies, procedures and practices, and foster active corporate responsibility. Areas of primary focus include board identified matters of significant public interest and social value, community service and outreach, employment practices, standards of conduct, and environmental compliance and stewardship.



Board Orientation and Training

SJI’s board has in place an orientation and training program for directors. New board members receive background information on the company and the industry. The orientation includes but is not limited to a review of the company’s Code of Ethics, the policy regarding trading in company stock, board compensation, meetings with senior management, and visits to various company facilities.

Board members have available resource materials that are supplemented and periodically updated. The resource materials include the By-laws, board committee charters, Code of Ethics, Policy on the Purchase and Sale of company Securities, company locations and other pertinent information on the board, management, and the company’s organizational structure of each of its functioning subsidiaries.

Funds are set aside by the board on an annual basis for the continuing education of its sitting directors. Each Director attends at least one education activity per year.

Corporate Governance Guidelines

SJI's Corporate Governance Guidelines are consistent with industry Best Practices. Examples of recent activities are:

Declassification of the board of directors: At SJI's annual meeting of shareholders held April 23, 2009, shareholders voted to amend its Certificate of Incorporation, establishing the annual election of the company's directors. Previously, directors were elected in classes to serve on the board in multi-year increments. As a result, the entire board was not required to run for election at the same time. Under the new resolution, all directors standing for election will be annually elected to fill one-year terms. Any director currently elected as part of a multi-year class will serve the remainder of the term, after which he or she will face annual election.

Compliance and Ethics Program: Since our company was founded, we have had a reputation for being an honest and fair company with which to do business. Over time, we have demonstrated the ability to operate transparently by establishing policies and procedures that ensure integrity and fair business practices.

SJI adopted a new corporate Compliance and Ethics Program in 2007, which includes web-based training to ensure the board of directors and all employees always act in compliance with laws, regulations and commonly accepted standards of ethical behavior. The training program includes practice scenarios for resolving ethical dilemmas. While SJI has had an Ethics Policy in place for many years, the updated program consolidated all critical information into one document and employed the use of technology for training purposes.

Other company policies in place that promote ethical and fair behavior are the Dishonest Conduct policy and the Equal Employment Opportunity Affirmative Action/Non-Discrimination policy. The Dishonest Conduct policy stresses that

employees must conduct themselves in an ethical and honest manner at all times and should adhere to commonly accepted business practices that demonstrate a high degree of personal integrity during the course of business activities. Within the Equal Employment Opportunity Affirmative Action/Non-Discrimination policy the company fully endorses a workplace environment that is free from discrimination and/or harassment. Steps for reporting violations and for disciplinary action are clearly stated within those policies.



In addition to providing internal reporting mechanisms for employees to raise concerns about business behavior or practices, they can also report unethical, illegal or questionable business practices through MySafeWorkplace.com. This website is managed by an independent, third-party firm that ensures an employee's anonymity. Each report is investigated and brought to appropriate resolution.

SJI's Corporate Governance Guidelines are published and available in detail online at www.sjindustries.com under

the heading, "Investors."

Company Achievements

- KLD Global Climate 100 Index: SJI has been included on the KLD Global Climate 100 Index. The GC100 is a specialty index designed to promote socially responsible investment in global companies whose activities demonstrate the greatest potential for mitigating immediate and long-term causes of climate change.
 - ◆ The purpose of the Index is to promote and track the performance of companies leading the private sector's response to global warming.
 - ◆ The Index holds companies that are leaders in responding to environmental concerns including oil, utility, and automobile companies.

- ◆ As these categories of companies are usually recognized negatively for their environmental impact, KLD is seeking to identify those that deviate from stereotype and have the greatest potential to deliver environmentally friendly, long-term solutions to energy issues.
- Public Utilities Fortnightly Top 40 Companies: In 2008, SJG was rated among the top 25 energy companies in the country in Public Utilities Fortnightly's annual financial ranking of the top 40 companies.
 - ◆ The magazine, the flagship publication of Public Utilities Reports, Inc., established this ranking to highlight the industry's leading companies based on financial performance over a 3-year period.
 - ◆ Fortnightly's method of ranking energy companies uses an industry analysis that communicates value to future investors, future owners, energy asset operators, regulators and consumers.
 - ◆ The top 40 companies were selected from the nation's electric and gas utilities, pipelines and distribution companies.
 - ◆ Rankings are based on profit margin, dividend yield, free-cash flows as a percentage of revenue, return on equity and return on assets with an emphasis placed on current and future company growth.
- U.S. Environmental Protection Agency: SJG received a 2009 ENERGY STAR Leadership in Housing Award as recognition of the company's work in promoting energy efficient construction and help to protect the environment through our partnership with ENERGY STAR. In 2008, with the help of ENERGY STAR and its partners, Americans saved \$19 billion on their utility bills and avoided greenhouse gas emissions equivalent to those of 29 million vehicles.

- In the J.D. Power and Associates 2008 Gas Utility Residential Customer Satisfaction Study released in September 2008, SJG ranked second among 18 utilities in the East Region. The study, now in its seventh year, measures residential customer satisfaction with gas utilities across six factors: company image, communications, price and value, billing and payment, customer service and field service. Utilities are ranked in four geographical regions.

Economic Impact

SJG makes a positive economic impact in various ways in the geographic areas in which we do business. We pay salaries to 602 employees, which include federal, state and local taxes. The company purchases goods and services from numerous vendors who participate in our supplier diversity program.

We also subcontract utility construction work to area contractors. As an example, the infrastructure and equipment investment projects mentioned below, which significantly impact the economy in the regions



we serve, are being completed by subcontractors. Our charitable donations and sponsorships of non-profit and business organizations through our Social Investment Program add to the impact we make on the economy. Details on our Social Investment Program are provided on page 25.

In April 2009, the New Jersey Board of Public Utilities approved a proposal by SJG to create jobs in support of New Jersey's Economic Stimulus Plan, while also improving our infrastructure to enhance the delivery of safe and reliable service to our customers.

The initiative involves extensive infrastructure improvement projects over the next two years

totaling \$100 million that are incremental to SJG's normal capital programs scheduled for 2009 and 2010. These expenditures, which were otherwise planned to occur over the next five years, will be compressed into the next two years to complete construction projects important to SJG's gas delivery systems and simultaneously generate more jobs.

Financial Highlights

2008 HIGHLIGHTS

Five-Year Summary of Selected Financial (In Thousands Where Applicable)

South Jersey Industries, Inc. and Subsidiaries Year Ended December 31,

	2008	2007	2006	2005	2004
Operating Results:					
Operating Revenues	\$ 961,977	\$ 956,371	\$ 931,428	\$ 906,016	\$ 819,416
Operating Income	\$ 153,509	\$ 129,623	\$ 145,802	\$ 86,818	\$ 91,079
Income Applicable to Common Stock:					
Continuing Operations	\$ 77,178	\$ 62,659	\$ 72,250	\$ 39,770	\$ 43,173
Discontinued Operations - Net (1)	(247)	(391)	(818)	(669)	(680)
Net Income Applicable to Common Stock	\$ 76,931	\$ 62,268	\$ 71,432	\$ 39,101	\$ 42,493
Total Assets	\$ 1,793,427	\$ 1,529,441	\$ 1,573,032	\$ 1,441,712	\$ 1,243,666
Capitalization:					
Common Equity	\$ 515,254	\$ 481,080	\$ 443,036	\$ 393,645	\$ 343,363
Preferred Stock (2)	-	-	-	-	1,690
Long-Term Debt	332,784	357,896	358,022	319,066	328,914
Total Capitalization	\$ 848,038	\$ 838,976	\$ 801,058	\$ 712,711	\$ 673,967
Ratio of Operating Income to Fixed Charges (3)	6.0x	4.8x	5.3x	4.1x	4.4x
Diluted Earnings Per Common Share (Based on Average Diluted Shares Outstanding):					
Continuing Operations	\$ 2.59	\$ 2.12	\$ 2.47	\$ 1.40	\$ 1.56
Discontinued Operations - Net (1)	(0.01)	(0.02)	(0.03)	(0.02)	(0.03)
Diluted Earnings Per Common Share	\$ 2.58	\$ 2.10	\$ 2.44	\$ 1.38	\$ 1.53
Return on Average Common Equity (4)	15.5%	13.3%	16.9%	12.5%	13.0%
Share Data:					
Number of Shareholders of Record	7.5	7.7	7.9	8.1	8.1
Average Common Shares	29,707	29,480	29,175	28,175	27,382
Common Shares Outstanding at Year End	29,729	29,607	29,326	28,982	27,760
Dividend Reinvestment Plan:					
Number of Shareholders	5.1	5.3	5.3	5.3	5.2
Number of Participating Shares	2,102	2,179	2,194	2,722	2,764
Book Value at Year End	\$ 17.33	\$ 16.25	\$ 15.11	\$ 13.58	\$ 12.37
Dividends Declared per Common Share	\$ 1.11	\$ 1.01	\$ 0.92	\$ 0.86	\$ 0.82
Market Price at Year End	\$ 39.85	\$ 36.09	\$ 33.41	\$ 29.14	\$ 26.28
Dividend Payout:					
From Continuing Operations	42.6%	47.3%	37.2%	60.9%	52.0%
From Total Net Income	42.8%	47.6%	37.6%	62.0%	52.8%
Market-to-Book Ratio	2.3x	2.2x	2.2x	2.1x	2.1x
Price Earnings Ratio (4)	15.4x	17.0x	13.5x	20.8x	16.8x

(1) Represents discontinued business segments: sand mining and distribution operations sold in 1996 and fuel oil operations with related environmental liabilities in 1986 (See Note 2 to Consolidated Financial Statements).

(2) On May 2, 2005, South Jersey Gas (SJG) redeemed its 8% Redeemable Cumulative Preferred Stock at par.

(3) Calculated as Operating Income divided by Interest Charges.

(4) Calculated based on Income from Continuing Operations.

Environmental Impact

Environmental Policy and Goals

SJI's management and board of directors believe that businesses are responsible for achieving sustainable environmental practices and operating in a sustainable manner. We are therefore committed to reducing our environmental impact and continually improving our environmental performance as an integral and fundamental part of our business strategy and operating methods. We do so by adhering to the following principles:

- Our products and operations will comply with or exceed all applicable regulations and requirements.
- We will employ management systems and procedures specifically designed to minimize the use of hazardous materials, energy and other natural resources, to minimize the generation of waste, and to enable recycling and reuse of materials.
- We will minimize energy and water usage in our buildings, vehicles and processes to conserve supplies and minimize our consumption of non-renewable natural resources.
- We will apply the principles of continuous improvement in respect of air, water, noise and light pollution from our premises and reduce any impacts from our operations on the environment and local community.
- We will as much as possible, purchase products and services that do the least damage to the environment and encourage others to do the same.
- We will offer our customers the most environmentally friendly energy supplies and encourage them to purchase energy efficient equipment and to implement efficiency measures.

- We will promote participation and communicate our commitment to responsible environmental management by promoting environmental responsibility among our employees; and by informing suppliers of our environmental policy and encouraging them to adopt effective environmental management practices.



Initiatives to Reduce Our Customers' Energy Consumption

SJI's commitment to providing the most environmentally friendly energy supplies and encouraging customers to implement energy efficiency equipment and measures is evident in the initiatives and projects in which we participate. Not only do these activities reduce energy consumption for our customers, they also help stimulate the economy through the creation of jobs.

Utility Initiatives – Reducing Customers’ Energy Usage

Conservation Incentive Program

- SJG was one of the first utilities in the country to implement an innovative Conservation Incentive Program rate structure. The 4-year pilot program began in October 2006.
 - ◆ Through education programs CIP encourages customers to use natural gas more efficiently.
 - ◆ Residential, government and business customers can reduce their natural gas bills by implementing energy efficiency measures and lowering their usage.
 - ◆ CIP benefits SJG by eliminating the link between utility profits and the quantity of natural gas the company sells.
 - ◆ Profits are tied to the number of customers SJG serves and how efficiently they are served.
 - ◆ From October 2006 through June 2009, SJG’s customers have reduced their natural gas usage by a total of 9.8 billion cubic feet, enabling them to save \$122 million in energy costs, while \$39 million of our net income was protected.
 - ◆ SJG will seek to make the CIP a permanent program as part of a base rate case filing required as part of our infrastructure improvement program.



- ◆ The initiative involves five programs to be implemented over 2009 and 2010 totaling over \$17 million that are incremental to the CIP.
- **Program I** will influence purchases of heating equipment between now and 2010.
 - ◆ Enhanced rebates available of \$900 for high efficiency heating equipment purchases if customers agree to an in-home energy assessment by a certified auditor.
 - ◆ Customers can opt for up to \$1,000 worth of free air sealing in cooperation with the NJ Clean Energy Program.
 - ◆ The average customer will save about 151 therms of natural gas a year by upgrading his or her heating equipment.
 - ◆ The total annual fuel savings is expected to be 67,950 dekatherms.
 - ◆ This program will create about 73 direct and indirect green jobs.
 - ◆ **Program II** offers customers an attractive financing package to assist in obtaining whole house energy efficiency.
- ◆ With recommended measures installed from a home energy assessment, SJG, through a lending institution, will offer a financing package of up to \$20,000.
- ◆ With rebates from the NJ Clean Energy Program and SJG, customers who earn less than 400 percent of federal poverty guidelines will only have to pay back 25% of the loan over 10 years, interest free.
- ◆ Customers who earn more than 400 percent of federal poverty guidelines may obtain financing and rebates but will have to pay back 50% of the loan, interest-free over 10 years.
- ◆ Based on a baseline of 914 therms per home, savings would total a minimum of 7,312 dekatherms annually.

Energy Efficiency Tracker Program

- SJG received approval from the New Jersey Board of Public Utilities in July 2009 to implement new, energy efficiency program incentives that will result in reduced usage and energy bills and also will strengthen the local economy by creating green jobs.

- ◆ Fourteen indirect and direct green jobs would be created through this program.
- **Program III** complements NJ Energy Master Plan goals to reduce energy consumption and carbon emissions by lowering dependence on the electric grid system.
 - ◆ Provides incentives for large commercial and industrial customers to install a combined heat and power (cogeneration) system or an efficient distributed generation power plant to generate electricity.
 - ◆ A rate and contract mechanism will stabilize natural gas prices over a longer period of time to mitigate price volatility.
 - ◆ SJG will provide a direct financial incentive to match NJ Clean Energy program incentives.
 - ◆ Approximately 50 people will be needed to develop, design, build and operate a CHP plant worthy of a \$1.0 million incentive.
- **Program IV** encourages commercial customers to implement the NJ Clean Energy Smart Start Building program qualified measures or improvements identified by the 2009 NJ Clean Energy Direct Install program.
 - ◆ SJG, through a lending institution, will offer commercial customers whose electric demand is not greater than 200 kilowatts per month, 0% financing for up to \$25,000 to install energy efficient gas reducing technologies, less the NJ Clean Energy rebate received, for a 10-year period.
 - ◆ Based on a small commercial customer's average use of 487 therms a year, a 20% savings plan would produce over 97 therms per customer per year.
 - ◆ Based on an estimated 300 customers that will participate in this program, the total annual savings will amount to 2,910 dekatherms.
 - ◆ More than 9 green jobs will be created both directly and indirectly as a result of this program.
- **Program V** will generate savings for larger commercial and industrial customers such as multifamily housing complexes, institutions, schools, municipal complexes, medical facilities, etc.
 - ◆ This program will provide upfront financing options of up to \$100,000.
 - ◆ SJG will also offer a financing package to encourage the installation of a whole building approach to energy efficient technologies.
 - ◆ Based on the average savings of 2,522 dekatherms per customer, this program could generate 80,704 dekatherms savings annually.
 - ◆ More than 8 people will be needed to implement this program.

Non-regulated Initiatives – Creating Efficiency Through On-Site Energy Production

Both Marina Energy and Energenic specialize in on-site energy production facilities that are highly efficient and cost effective. We currently own and operate facilities at seven sites that include thermal plants, cogeneration, solar, and landfill gas to electric.



- Largest project: Marina Thermal provides the Borgata Hotel Casino & Spa with hot and chilled water used to condition the resort.

- ◆ Plant provides electricity to the casino and PJM grid during periods of emergency and peak demand.
- ◆ Facility is expandable, which is an ideal solution to serve additional casino or other growth in the Renaissance Pointe area of Atlantic City.
- Our landfill gas-to-electric and solar projects underscore our corporate commitment to cleaner air and renewable energy.
- ◆ Landfill gas-to-electricity projects are online in Atlantic, Burlington, Salem and Warren counties.



- ◆ The total installed capacity of these projects is 18.2 megawatts.
- ◆ These facilities use 16,124,951 pounds of methane gas annually for electric generation.
- ◆ These projects provide the equivalent electricity of powering 8,691 homes annually.
- In January 2009 the Northeast Maryland Waste Disposal Authority awarded Energenic a project to construct and operate a gas collection and energy generation system at their county landfill. The system will provide electricity onsite and move about 2 megawatts of power onto the PJM grid.
- In mid-2009 Marina Energy completed a \$4 million solar project for a New Jersey educational facility. Strong leadership from New Jersey state government, especially the Board

of Public Utilities, and local solar advocates, has enabled the state to put together some of the best solar incentives in the country. We are encouraged by the interest being expressed in solar projects by educational, health care and manufacturing sectors.

- SJI's non-regulated businesses have several distributed generation projects in operation.
- ◆ Marina Energy has had cogeneration projects online for several years at Mannington Mills and Johnson Matthey Corporation in New Jersey.
- ◆ Energenic provided design and management oversight for a combined heat and power system installed at Seneca Niagara's casino hotel and gaming complex in upstate New York.
- ◆ The units combined have offset the need for 25.4 megawatts of new capacity.
- In April 2009, Energenic signed a letter of intent to evaluate the feasibility of a combined heat and power facility in Atlantic County, N.J.
- ◆ This project will consider the heating, cooling and electric needs of Richard Stockton College of New Jersey, Atlanti-Care Hospital and Bacharach Institute for Rehabilitation.
- ◆ Cogeneration on the Campus shared by these institutions should reduce energy costs and improve energy efficiency for the participants.

Non-regulated Initiatives – Reducing Customers' Energy Consumption

SJE and SJESP are uniquely positioned to advance New Jersey's clean energy objectives.

- SJE has been at the forefront of energy efficiency by performing energy audits and offering efficient products and services to commercial customers for over a decade.
- ◆ The bulk of SJE's services represent energy efficient lighting retrofits. Lighting projects completed by SJE have resulted in annual electric savings of 17,764,463 kilowatt hours and annual CO2 reductions of 23,822,145 pounds for our clients.

- SJESP is the region's leading residential and commercial HVAC company. Through New Jersey's Clean Energy programs we promote high efficiency, ENERGY STAR rated heating and cooling equipment.
 - ◆ Over the past four years SJESP's customers have saved 1,051,492 kilowatt hours of electricity and 239,939 therms of natural gas from the installation of over 1,500 high efficiency air conditioning and heating systems.
 - ◆ One of the first contractors in New Jersey to become a Building Performance Institute accredited energy auditor, SJESP performs energy audits and recommends and installs energy efficiency measures. This work increases a home's comfort, ensures appliances work safely and reduces energy usage and lowers energy bills.

Millennium Account Services, LLC our joint venture investment with Conectiv Solutions has provided meter-reading services to SJG and Atlantic City Electric Company for the past 10 years.

To provide this service, Millennium on average, travels 1,361,870 miles per year and uses 82,580 gallons of fuel per year. From inception 10 years ago, this joint venture has allowed each utility to:

- Conserve a total of 13,600,000 miles traveled
- Avoid consumption of 825,800 gallons of fuel
- Prevent the discharge of 16,500,000 pounds of carbon dioxide into the atmosphere.

Land Impacts

Manufactured Gas Plant Site Remediation

During the late 1800s and early 1900s, select towns and cities across the United States used manufactured gas to light lamps, heat buildings and to fire appliances for cooking. The gas produced at Manufactured Gas Plants, or MGPs, was made by heating coal, oil or other feedstocks in oxygen depleted ovens then collecting the gas emitted during the heating.

It is estimated that between 3,000 and 5,000 MGPs were built in the United States during their prominence. When the interstate pipeline introduced natural gas in the 1950's MGP's rapidly disappeared. Due to the nature of the products and processes used in the operation of these plants, many left behind by-products that are being cleaned up to meet current environmental standards.

SJG, due to the fact that its predecessor companies operated the plants, agreed to investigate and/or remediate 14 MGP sites. In cooperation with the New Jersey Department of Environmental Protection, SJG has ongoing investigation and remediation activities at 12 of the 14 sites. We investigated or remediated two sites to the satisfaction of the NJDEP and they are considered to be closed. As of December 31, 2008, SJG has spent \$148.1 million since the early 1980s on remediation activities.



Vehicle Emissions Reductions

In our efforts to reduce CO2 emissions, SJI established a policy in 2008 of purchasing only hybrid vehicles in the passenger sedan and SUV classes for supervisory employees who drive company vehicles. To date, SJI has purchased 16 hybrids. The choice of hybrids over gasoline powered vehicles is producing a savings in CO2 emissions of nearly 45,000 pounds per year.

SJI successfully entered into settlements with all of its historic comprehensive general liability carriers regarding the environmental remediation expenditures at the SJG sites. Also, SJG purchased a Cleanup Cost Cap Insurance Policy limiting the amount of remediation expenditures that SJG will be required to make at 11 of its sites. The policy is limited to an aggregate amount of \$50.0 million, of which SJG has recovered \$23.7 million through December 31, 2008.

SJG also has a rate mechanism in place to recover environmental remediation costs at 12 MGP sites. The Remediation Adjustment Clause allows SJG to recover these costs over 7-year amortization periods. Since implementing the RAC in 1992, SJG has recovered \$40.7 million through rates as of December 31, 2008.

Remediation at Discontinued Nonutility Subsidiary Sites

In addition to the remediation liabilities associated with the MGP sites, SJI also maintains environmental responsibility at several properties owned by two discontinued nonutility subsidiaries. Due to historic activities at the sites such as fuel storage, maintenance and fueling, four sites owned by South Jersey Fuel and nine sites previously owned by The Morie Company are currently at various stages of environmental investigation or remediation. As of December 31, 2008, we have spent a total of \$7.1 million on remediation associated with those sites.

Wildlife and Wetlands Protection Efforts

SJI's commitment to the environment extends to our community involvement activities. The company provides corporate support to various organizations in the form of sponsorships and donations. SJI provides funding for the following organizations that work to protect wildlife and wetlands areas in New Jersey.

- The Wetlands Institute in Stone Harbor, N.J., a non-profit that promotes appreciation of wetlands and coastal ecosystems is an organization SJI has supported for several years. We feel strongly that their efforts to encourage stewardship of ecosystems worldwide are critical for the survival of life on earth.

- SJI participates in the Corporate Wetlands Restoration Partnership within Coastal America Foundation, an innovative private-public initiative aimed at preserving, restoring, enhancing and protecting aquatic habitats throughout the United States. Bringing together corporations, federal and state agencies, non-profits and academia, CWRP allows members



to contribute to crucial projects involving America's coastal and inland aquatic resources.

- The South Jersey Land and Water Trust is a nonprofit organization whose mission is to preserve and protect the water resources and land within the watersheds of southern New Jersey through public education, advocacy, increased scientific understanding, and habitat preservation. The organization works in four major areas:
 - ◆ Land preservation and protection of important habitats
 - ◆ Education and public outreach about water issues and watershed protection
 - ◆ Promotion of scientific understanding and monitoring of existing environmental conditions in the region

- ♦ Advocacy for land and water protection at local, state, and national levels
- SJI has provided funding for SJLWT's habitat restoration project, which will restore a storm water runoff basin to a natural wetland ecosystem. Rain from parking lots and local roadways drain to these basins and then directly into the closest stream carrying sediments, overload of nutrients and pollutants. Large volumes of contaminated water do not have a chance to be filtered naturally by the soil before reaching the streams. Restoring the storm water basins to natural wetlands can amend this process. This new ecosystem will provide cover and food for native species of birds, reptiles, amphibians and insects.



- The Jersey Shore Partnership is an advocate of initiatives that are important to the Jersey Shore coastal communities with an emphasis on shore protection and beach replenishment, including tourism, coastal resources, vital infrastructure, education and emergency preparedness, which are issues of importance to SJI. We have supported this organization through membership and contributions for several years.
- The Woodford Cedar Run Wildlife Refuge seeks to protect the environment through rehabilitation, education and habitat preservation. In 2008, SJI provided funds to educate young children on habitats and expand their knowledge of nature; to cover the animal care costs associated with rehabilitating animals and to maintain and improve the 171 acres of the Pinelands they have preserved as part of the Green Acres Grant. The refuge cares for more than 4,000 orphaned or

injured animals each year. Animals that are un-releasable often serve as education ambassadors to teach children and others about different species and their habitats as part of the educational programs they host at the center.

Air Impacts

Climate Change represents a serious challenge for virtually all industry sectors – particularly those dealing with energy generation and distribution. At a national level, the debate has moved past discussions about science and is now focused squarely on policy responses. During 2009, we have witnessed several key policy developments that involve more detailed accounting of company greenhouse gas (GHG) inventories and potential regulations to restrict GHG emission levels.

Early in the year, the US Environmental Protection Agency proposed a Mandatory Greenhouse Gas Reporting Rule, which will require monitoring and recordkeeping

systems to be in place by the beginning of 2010, which will establish the basis for reporting that will begin in 2011. With recent passage in the House of HR2454, the American Clean Energy and Security Act of 2009, potential carbon cap-and-trade legislation is closer to becoming a reality. Beyond these developments, the US EPA also recently issued an endangerment finding for GHG that lays the potential groundwork for additional regulation of GHG emissions under the Clean Air Act. All of these developments are likely to impact SJI's operations.

SJI management understands that there are risks and opportunities associated with this challenge. Our responsibility to customers and shareholders is to prepare for a carbon-constrained economy in the future. Our company has taken action to understand the sources and magnitude of GHG emis-

sions for our overall enterprise. We are currently developing an enterprise-wide GHG inventory and are beginning to evaluate options for reducing GHG emissions at our operations in addition to continuing to develop options for our customers to reduce their GHG emissions. We will continue to remain informed about GHG policy developments and are committed to developing a carbon strategy that improves our ability to capitalize on the opportunities related to climate change.

Managing Materials and Resources

Recycling

All SJI facilities have recycling programs in place. Recycled materials include paper, cardboard, glass, plastic and aluminum. Because we have numerous vendors collecting from our facilities, including county and municipal entities, our ability to quantify the amounts of recycled materials is very limited. We are currently researching a single stream recycling program for the future for our locations that do not have county or municipal pickup. This type of program will allow us to increase our volume of recycled materials as well as quantify the amount of materials recycled outside of the county or municipal pickups

Other recycling efforts include carpet, ceiling tiles, fluorescent/mercury halide lamps and batteries. Since 2007, we have diverted 8.4 tons of carpeting from landfills. We recycled 3.8 tons in 2007 and 4.6 tons in 2008. We began recycling acoustical ceiling tiles through Armstrong in 2009 and will be able to quantify those efforts at year end. During 2008, we recycled 1,155 fluorescent/mercury halide lamps from all of our utility company locations and our corporate headquarters.

Energy Consumption and Energy Efficiency

Over the past several years, SJI has examined company facilities and operations seeking opportunities to become more energy efficient.

SJI implemented a boiler/heater and air conditioning replacement program in 2001 whereby higher efficiency units are installed in all company locations as existing units reach the end of their service lives. Boilers in our corporate headquarters and one divisional office have been replaced with more efficient units resulting in less natural gas consumption. Between 2005 and 2009, 26 of 35 natural gas fired absorption air conditioning units at divisional facilities were replaced by higher efficiency models also resulting in less natural gas consumption. Additional replacements are planned over the next five years.



Other efforts to reduce electric and natural gas consumption at our facilities include interfacing all HVAC equipment into automated energy management systems. Thus far we have completed these projects in our corporate headquarters and one divisional location. Similar systems are planned for the remainder of our divisional facilities over the next five years.

During 2006 and 2007 we installed lighting occupancy sensors at our corporate headquarters and in the office space at SJG's divisional offices. Sensors were installed in the inventory storerooms at the divisional offices in 2008. All utility offices and our corporate headquarters were retrofitted with energy efficient lighting. Through the installation of sensors and new lighting the company has reduced electric consumption.

SJI has also installed spray polyurethane roofs to replace traditional roofing systems at five SJI facilities from 2001 to 2009. This type of roofing

system provides a higher insulation value, which reduces energy consumption.

Solar Projects at SJG Facilities

SJG is in process of procuring a 50 kilowatt solar system for the roof of its corporate headquarters building in Folsom, N.J. The company expects installation to be completed by the end of 2009.

Additionally, SJG is in the initial stages of considering a 500 kilowatt solar array at its McKee City facility. This project should also be in service by the end of this year.

Water Management

Water control faucets and water conserving fixtures were installed during restroom renovations or when repairs/replacements are required in our company locations.

Green Cleaning

SJI employs a janitorial service to clean its facilities. This company uses only Green Seal Certified cleaning products, which have a low impact on the environment. HEPA vacuum cleaners are used to improve indoor air quality and only microfiber mop heads and rags are used, laundered and reused.

SJI's Human Resources Policy E17.1 addresses Equal Employment Opportunity and Affirmative Action/Non-Discrimination practices. SJI is fully committed to ensuring that the principles of Equal Employment Opportunity and Affirmative Action and Non-Discrimination are enforced and endorsed by all employees.

The policy states that SJI will:

- Recruit and hire employees without regard to race, color, religion, gender, sexual orientation, age, national origin, physical or mental disability or veteran's status



Social Impact

Labor Philosophies, policies and practices

SJI has policies and procedures in place that help us acquire and retain high quality employees. We expect our employees to perform their jobs with conduct governed by commonly accepted workplace standards, courtesy and common sense. Our employees' actions are guided by our corporate values of integrity, highest standards of safety, innovation, performance and respect.

- Treat employees equally with respect to compensation, benefits, layoffs, termination, opportunities for advancement, including upgrading, promotion and transfer and all other privileges, terms and conditions of employment
- Provide equal employment and advancement opportunities on the basis of individual qualifications and job performance
- Maintain a working environment that is free from harassment.

Employee Recruitment

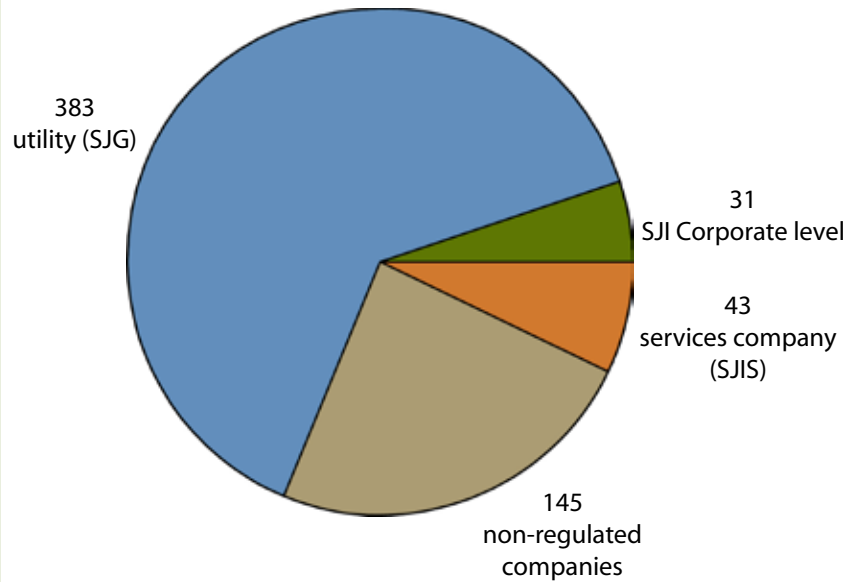
SJI's goal is to attract, develop and retain outstanding employees and leaders who are reflective of our diverse customer base. We are focused

on creating a culture where all employees feel respected, valued and are able to contribute their best talents and experiences to generate new ideas and provide superior service. SJI uses a variety of means to recruit employees for open positions:

- Website: SJI posts job openings for external applicants on its website, www.sjindustries.com, under the heading Employment Opportunities. Anyone who has internet capabilities can view and apply for open positions.
- Internet Job Boards: Postings on Career-Builders.com and other sites targeting specific fields of talent as appropriate attract external candidates to SJI.
- Industry/Trade Organizations: Depending upon the position we're seeking to fill, we contact various organizations to ensure appropriate expertise and diversity of candidates. As an example, if we are looking to fill an engineering position we would contact the following organizations: American Society of Civil Engineers, New Jersey Professional Engineers, Society of Women Engineers, and National Society of Black Engineers.
- Newspaper Advertising: When advertising in newspapers we identify our company as an Equal Opportunity Employer in all ads.
- Technical School and College Recruiting: When recruiting is necessary at technical schools and colleges we include those attended by minority group members, veterans and the disabled.
- Use of Recruitment Consultants: For hard-to-fill positions we use recruiting firms to identify talented individuals. One consultant in particular has a green collar staffing division that connects eco-friendly companies with qualified and like-minded talent. This company also donates a portion of their profits to environmental/conservation organizations. The consultants represent minorities, veterans and the disabled as well.

Workforce Demographics

As of December 31, 2008, SJI had 602 employees:



- 31 at the SJI Corporate level
- 383 in the utility (SJG) encompassing all locations
- 145 in the non-regulated companies (SJES and its subsidiaries)
- 43 in the services company (SJIS)

In total, 55.6 percent of SJI's employees are represented by unions.

- South Jersey Gas: 45 employees in the Swainton, N.J. location are represented by the International Brotherhood of Electrical Workers local 1293.
- South Jersey Gas: Glassboro, Pleasantville, Millville, Waterford, McKee City and Folsom, N.J. locations 249 employees are represented by the International Association Machinists local 76.
- South Jersey Energy Service Plus: 6 employees are represented by IBEW local 1293 and 35 employees are represented by IAM local 76.

Governing Bodies

SJI's board of directors is made up of one African American male, seven Caucasian males, one African American female and two Caucasian females. As of August 2009, their ages range from 50 to 76. The company's senior officer team is made up of one African American male, four Caucasian males, one African American female and one Caucasian female ranging in age from 41 to 55.



Diversity

SJI works to ensure that all levels of the workforce reflect the composition of the region we serve. Our commitment to inclusion includes welcoming and supporting employees from all backgrounds so they can achieve their full potential. We strongly believe that differences of culture, circumstances and view play a key role

in broadening our ability to grow our company and that a diverse workplace maximizes employee performance and creates value for our customers and our shareholders.

Since 2005, SJI's overall employee population has declined slightly, while minority representation within that group has risen. In 2008, minorities and females accounted for 17 percent of our workforce.

As part of our diversity activities, we created a Women's Leadership Initiative founded on the principle that the participants and SJI will benefit from the encouragement of growth and development, on-going mentoring and the sharing of information and expertise. The group strives to develop a strong community where members communicate, educate, collaborate, influence, network with and encourage one another. The Leadership Initiative shares ideas and information throughout the organization and sponsors educational activities and that are not exclusive to the group's membership but that benefit the organization as a whole.

The group is supported by three key committees tasked with identifying activities that will allow the women of SJI to create connections and support across functional areas and throughout the organization. The Community Service Committee identifies and develops community service initiatives to benefit key agencies and non-profits throughout the region. The Education Committee was formed to create a culture that encourages learning and growth by providing opportunities that support education and encourage collaborative and professional dialog. To achieve this mission, the committee offers educational opportunities, including a distinguished speaker's series and an audio conference series, to assist in the advancement of leaders at SJI. The Networking and Mentoring Committee works to develop networking events as well as coaching and mentoring opportunities both with internal staff and external mentors from a variety of organizations.

SJI initiated a Diversity Luncheon Series in 2008 that provides minority employees with an opportunity to network with one another and to interface with the company's CEO and other executives. The inaugural luncheon brought together

newer employees who were with the company for less than a year. The second luncheon of the series afforded employees who work in the Corporate Headquarters with an opportunity to ask questions of Edward Graham, SJI's CEO, in an open forum. The third luncheon involved minority employees from all company locations. These employees were asked to submit questions prior to the event, which were answered by Graham. As an offshoot of the luncheon program, several of our employees have become members of business affinity groups such as the American Association of Blacks in Energy, the National Association of Asian American Professionals and the Association of Latino Professionals in Finance and Accounting. SJI is in the process of forming a South Jersey Chapter of the American Association of Blacks in Energy.

SJI's Supplier Diversity Program is another example of our commitment to diversity and inclusion. We value the contributions of a diverse array of suppliers to support SJI's team in providing exceptional customer services and products. Our Supplier Diversity Program aims to increase opportunities for retailers while expanding the number of women and minority owned vendors with whom we do business. SJI is proud to be a member of the New Jersey Board of Public Utilities' Supplier Diversity Development Council, which is dedicated to forging effective working relationships between minority and woman-owned businesses and New Jersey's public utilities.

Fairness Training

SJI regularly trains its employees to avoid engaging in behavior that could constitute discrimination or harassment based on a characteristic prohibited by State or Federal law. In addition, we train employees on what to do if they view or feel they are victims of harassment or discrimination. As part of this training, company policies on anti-harassment and discrimination that strictly prohibit harassing and/or discriminating behavior, are reviewed with employees.

We provide ethics training to newly hired employees within a short time of hire that encom-

passes anti harassment/discrimination training. Further, we give new hires our HR policy/procedure manual, which contains anti harassment discrimination policies and employees sign off on an acknowledgment of receipt and understanding of those policies.

The company also provides employees with a web portal through which they can anonymously report behavior they believe to be problematic. Through MySafeWorkplace.com employees have access to a third party complaint mechanism in addition to the company's internal complaint procedures.

Occupational Safety and Health

Philosophy/Policy

Public safety and the safety of our employees are primary concerns of SJI. We view the enforcement of a safe work environment as a shared responsibility among all employees. SJI has based



its safety philosophy on six principles:

- All injuries can be prevented
- Management is dedicated to preventing injuries and illnesses
- All hazards can be controlled
- Safety is a condition of employment
- Employees must be trained to work safely
- Preventing injuries is good business for everyone

Safety and Health Steering Committee

In October 2007, SJG revamped its Safety and Health Steering Committee that leads the development of the company's safety and health environment by providing guidance, making decisions and establishing policies that reduce accidents and injuries and maintain or improve the health of our employees, contractors and the general public as they may be impacted by our activities. The committee is comprised of members of both management and bargaining unit employees.

The steering committee's responsibilities are to:

- Ensure that safety remains a core value for SJG by providing oversight of safety performance and leading communications activities in areas of safety and health
- Establish goals, policies and programs that support the creation of a safe and healthy work environment
- Promote accountability for safety at all levels of the organization
- Ensure that adequate resources are provided to achieve the company's safety and health goals
- Evaluate the effectiveness of SJG's safety and health programs and modify programs as required to improve performance
- Evaluate the impact of legislation or regulatory actions in the areas of safety and health and ensure responses to the changing environment are timely and appropriate
- Ensure that lessons learned from safety incidents are communicated and implemented across SJG



Safety Goals

In 2009, SJG has committed to reducing the number of OSHA recordable incidents and preventable motor vehicle accidents. Our goal is to lower these numbers to less than our 3-year average.

Our 3-year averages are as follows:

- OSHA Recordable Work Incidents: 25 per year
- Lost Time Accidents: 12 per year
- Preventable Motor Vehicle Accidents: 7 per year

Year to Date 2009 through June our numbers are as follows:

OSHA Recordable Work Incidents: 6 incidents

Lost Time Accidents: 3 incidents

Preventable Motor Vehicle Accidents: 4 incidents

Our goals are not limited to only reducing the number of incidents, but improving safety awareness. We are striving throughout the year to determine the root cause for all accidents. By revising our Personal Injury Investigation Procedure we are better able to identify root causes of accidents. In this way, we can focus on improving safety in areas where we have identified problems.

We are working to implement leading safety indicators through management accountability, effective training programs, and creating ownership of the safety process. Specific leading indicators being measured are: number of first aid cases being reported; number of near misses reported and investigated; percent of shared safety meeting minutes; and number of safety recognitions for positive safety behavior.

We have reinvigorated the safety committee structure at all company work locations. Regular

safety committee meetings where ideas can be shared and communicated throughout the work force locally and company wide are being supported within the corporate safety structure. Communication is ongoing between the Safety and Health Steering Committee and the local Safety Committees so that actions are taken to implement the ideas generated in both committees.

From the Safety and Health Steering Committee we formed sub-committees to improve safety performance in certain areas. We formed a motor vehicle accident sub-committee to determine how to reduce vehicle accidents. We currently are considering proposals for reducing the number of backing accidents and updating our driver training program. A tools and equipment sub-committee is exploring use of tools, researching new tools and equipment, and work practices associated with the use of these tools. Members of these committees are a cross section of employees from different locations and levels in the company.

Our goal is to provide OSHA 10 hour certification training to identified management personnel by year end. Also, we are in process of evaluating for implementation appropriate AGA guidelines for Contractor Safety.

Utility Safety Training

SJG's technical training center provides necessary training revolving around safety practices to service and street department employees. Some of the programs offered include:

- Defensive driving
- Coaching utility truck drivers
- Cathodic protection procedures
- Forklift operator training
- Hazard communication
- Proper lifting techniques
- Safety related training programs

The SJG training staff is certified in the National Safety Council driver training course. We provide this training to employees who drive company vehicles.

As previously mentioned, SJG's preventable motor vehicle accident rate for 2009 is currently

below the 3-year average as a result of training and other awareness programs.

Our training staff also provides training to fire departments in our service area. The training program instructs fire personnel on how to respond to emergency situations involving natural gas.

Ergonomics

Ergonomics is necessary to prevent a number of potential musculoskeletal disorders, including repetitive motion injuries, repetitive strain injuries,



carpal tunnel syndrome and cumulative trauma disorder. These conditions may develop over time in a worker's muscles, tendons, ligaments, nerves and blood vessels. Working in an office or field environment that requires repetitive activities may put workers at risk for developing these disorders.

In October 2008 SJI brought in an ergonomics specialist to perform workstation assessments in the Customer Care Center, Dispatch and for our Cumberland division office personnel. Based on the recommendations of the ergonomic specialist, the company provided employees with ergonomic supplies to alleviate any employee discomfort and for prevention of carpal tunnel and repetitive motion injuries. In November 2008, an SJI employee became a Certified Ergonomics Technician. In May 2009, our Certified Technician performed follow up assessments on our office employees and found that many employees had experienced immediate relief of their discomfort by using the supplies.

Emergency Response Preparedness

SJG maintains a Gas Emergency Operating Plan that will guide the company in achieving prompt and safe corporate responses to significant events should they happen. Top priority during any incident restoration will be given to the safety of the public and employees. SJG's GEOP uses the Incident Command System organizational structure, which will enable the company to work with Federal, State and local agencies in making consensus-driven, strategic decisions in responding to incidents. The company has not had to invoke the use of this plan for any high level incidents.

Pipeline Public Safety Awareness Outreach

The Federal Office of Pipeline Safety has pipeline public awareness requirements that utilities such as SJG must comply with based on American Petroleum Institute Recommended Practice 1162 and DOT Pipeline Public Awareness Rule. Public awareness programs are important in helping the public understand that pipelines are the major transportation system for natural gas in the United States, how pipelines function and their responsibility to help prevent damage to pipelines. When effectively and consistently managed, a public awareness program can enhance public safety, improve pipeline safety and environmental performance, build trust and better relationships with the public along the pipeline route and enhance emergency response coordination.

SJG's pipeline safety awareness program targets messages to customers, non-customers who live near pipeline facilities, emergency officials, public officials and excavators.

As part of our safety awareness efforts, SJG personnel are involved in the Common Ground Alliance. This group raises facility damage prevention awareness on a national and statewide basis. The national 811 "Call Before You Dig" phone number is promoted through bill inserts, on our website, through municipal meetings, and in lunches and dinners involving first responders and excavators. During these events we make presentations that educate first responders and excavators on exercising care when excavating or doing construction work. As a result of our educational activities, the number of damages to our facilities has decreased over the years. From 2007 to

2009, the number of damages per 1,000 calls for a markout has decreased by 27%. This shows an increased awareness by the excavating community of the care needed in working around our facilities. The number of damages in instances when no call was made for a markout has decreased by 34.5% over the same period. This shows that more and more excavators are recognizing the importance of calling for a markout before they dig.

Non-regulated company safety training

SJI provides driver's training to meet the needs of our various business units. SJESP implemented a defensive driving training program called the Alert Driving/Fleet Defense system. This product is web-based and offers modules that can be tailored to a driver's specific needs. SJESP employees completed the 10-module program when purchased and again as a refresher course in 2008.



Employee Health & Wellness Program

SJI recognizes the importance of promoting healthy living and equipping its employees to make positive lifestyle choices. The company recently took steps to develop and initiate a comprehensive corporate wellness program. In addition to outfitting SJI employees with the tools to manage and improve their health through education and motivation, the development of a corporate wellness program is expected to provide other benefits as well.

For example, studies show that incorporating a wellness program into a corporation's culture is a

smart business decision. Companies with working wellness programs consistently have employees that feel more fulfilled, are healthier and are more productive.

Promoting healthy, safe behavior is fundamental in improving overall health and can lead to reduce absenteeism, improved capacity to learn, improved ability to focus and improved mental alertness. A wellness program can also positively impact employee retention, as employees are more likely to be attracted to, remain with and value a business that supports and encourages wellness at a corporate level.

Health and wellness programs have financial benefits as well, as over a period of time; they have the potential to reduce health care costs for corporations and their employees. These programs have been proven to provide significant return on investment, averaging about \$3-\$6 for every \$1 invested in health cost savings. Research also indicates that wellness programs reduce the number of short and long-term disability and workman's compensation claims.

SJI's initiated its program by providing Health Risk Assessments and Health Assessment Tools for employees in conjunction with our health insurance provider and a local hospital system. With a baseline report in hand, SJI can design its programs with a focus on the areas of greatest health risk to employees.

In addition to the assessments, we have initiated a communication program to educate employees on healthier lifestyle choices such as healthy eating and fitness and on the preventive care programs available through our health insurance carrier. Based on the assessments performed, we found that the greatest health risk factors among our employees are obesity, blood pressure and cholesterol. Therefore, our 2009 objectives and educa-

tion programs have focused primarily on weight management, reducing blood pressure and cholesterol levels and smoking cessation.

Smoke Free Workplace

In January 2009, SJI implemented a smoke free campus policy to promote better health, provide a comfortable working environment and to ensure compliance with applicable laws. The policy was



developed to protect all employees, customers and visitors from exposure to second-hand smoke and reduce the death and diseases caused by tobacco use. The policy applies to inside and outside of company premises and also extends to company vehicles. Along with the policy the company encourages all employees who use tobacco to quit and offers certain cessation benefits through the prescription drug program.

Employee Development

SJI has established a formal process of analyzing and reviewing the performance of every supervisory, administrative and professional employee by his or her immediate supervisor once a year. The company has adopted the balanced score card approach to aligning corporate objectives with the objectives of each business unit, department and individual in the company for management level employees. This strategy ensures that the work being performed by every individual is linked to the organization's vision and strategic objectives. Management employees are also rated annually on a set of competencies in addition to the attainment of their balanced scorecard objectives. Midway through the review year, supervisors conduct a mid-year review to address how their employees are performing against their objectives and competencies. This meeting is an open discussion that allows for two-way communication. Supervisors provide positive reinforcement and constructive

feedback during these discussions and employees have the opportunity to express concerns and ask for support. Approximately 42% of SJI's workforce is comprised of supervisory and above employees who participate in the formal review process. Informal communication of performance is also provided to all employees as part of the supervisor/employee relationship.

Career development training and educational opportunities exist for SJI's employees. As an example, SJI provides Dale Carnegie training pro-

grams for supervisors and managers. SJI subject experts conduct a course for supervisory employees based on the Public Utilities Reports Guide, which is a training manual containing all the basic principles needed to succeed in the utility industry. The PUR course covers the topics of public utilities, regulation, delivery of service, rates and ratemaking, accounting, finance, organization and management, and market issues. Employees also attend conferences, seminars and participate in other development venues as needed to expand their skills and expertise. In addition, employees and supervisors identify specific training needs and develop individual plans that address appropriate training opportunities.

Internships

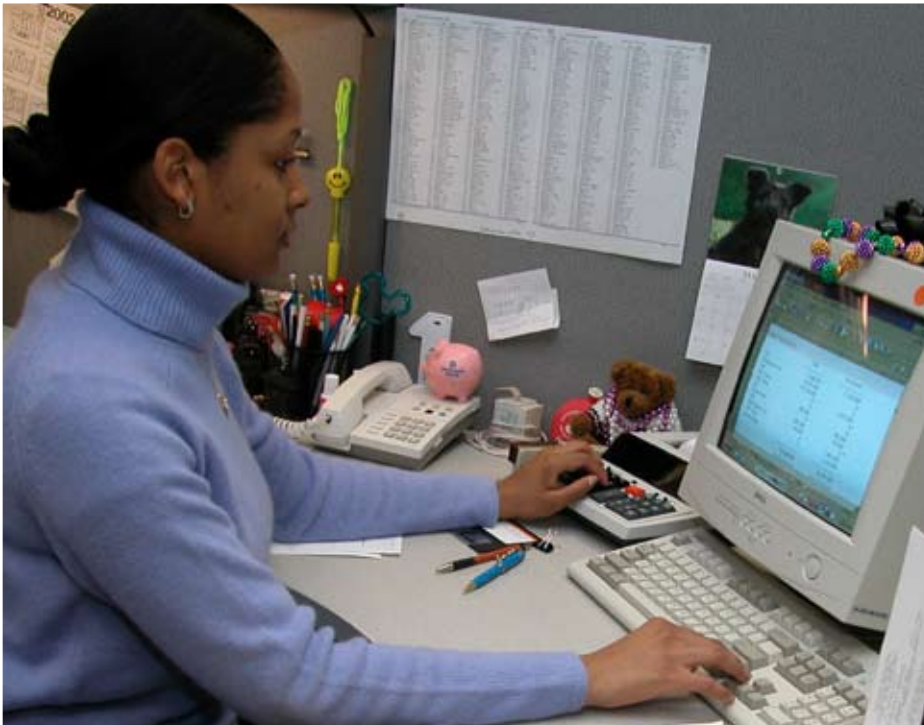
Our internship programs offer students of local colleges and universities opportunities to experience working in their chosen fields under the guidance of SJI employees. While giving students the ability to hone their skills on the job, SJI benefits by identifying potential candidates for future employment, particularly in critical areas such as engineering, internal auditing and accounting.

Public Policy

SJI is active in promoting public policy initiatives that further the best interests of our business. As a member of the Board of Directors of the Hughes Center for Public Policy at the Richard Stockton College of New Jersey, SJI Chairman President and CEO, Edward J. Graham, has carved out an active role for the company in promoting green energy information, resources and programming.

In March 2009, SJI hosted the South Jersey Energy Symposium at Stockton, featuring panel and group discussions relating to implementation of the state's Energy Master Plan. The daylong event targeted individuals, as well as business and industry representatives, and featured leaders in business, government and education, highlighting green jobs and education, efficiency and conservation, and planning and infrastructure, among other topics. Germane to the discussions was the role played by SJI's regulated and non-regulated business entities.

Additionally, the company continues to provide financial support to the Rutgers Center for Energy, Economic and Environmental Policy. These funds provided critical support to the Center's recent collaboration with the John J. Heldrich Center for



grams for supervisors and managers. SJI subject experts conduct a course for supervisory employees based on the Public Utilities Reports Guide, which is a training manual containing all the basic principles needed to succeed in the utility industry. The PUR course covers the topics of public utilities, regulation, delivery of service, rates and ratemaking, accounting, finance, organization and management, and market issues. Employees also attend conferences, seminars and participate in other development venues as needed to expand their skills and expertise. In addition, employees and supervisors identify specific training needs and develop individual plans that address appropriate training opportunities.

Tuition Assistance

SJI encourages full-time employees to develop their skills to improve their performance in their

Workforce Development to develop information regarding workforce needs and development in the energy industry. This information has subsequently contributed as a resource in the development of statewide curriculum for green job training programs.

Charitable Giving/Employee Community Spirit

SJI is committed to continuing and strengthening its role as a true community partner throughout



Southern New Jersey. Through our social investment program, we strive to support initiatives that positively impact a diverse mix of residents in the communities we serve. We recognize that an investment in our community is an investment in our children, our economy and our future.

SJI provides funding to qualifying 501(c)(3) non-profit orga-

nizations demonstrating the ability to positively impact our communities, while focusing on needs that closely coincide with the company's strategic social investment goals.

We assist as many local residents of our utility service area as possible, addressing the critical needs of our communities through our support of community programs, projects and initiatives. When allocating our social investment dollars, we focus on organizations that address the following core priority areas:

- **Health and Social Services –**

Improving the quality of life for residents of Southern New Jersey by specifically address-

ing the health and welfare of our region's women, children and families. This includes support of organizations that protect the most vulnerable members of our community by promoting self sufficiency and creating safer homes and neighborhoods.

- **Economic and Workforce Development –**

Strengthening the communities of Southern New Jersey by enhancing the economic vitality of the region by directly or indirectly creating and retaining jobs and stimulating growth.

- **Cultural Diversity –**

Improving the communities of Southern New Jersey by promoting in our region cultural diversity and exposure to the arts through a variety of outlets.

- **Vocational and Technical Education –**

Improving the quality of life for residents of Southern New Jersey by encouraging lifelong learning efforts, supported by secondary, vocational and technical education, initiatives and programs.

- **Environmental Stewardship –**

Improving the communities of Southern New Jersey by protecting our region's environment and natural resources through education, advocacy and grassroots efforts.

In fulfilling our pledge to serve the community, SJI supports more than 125 civic and non-profit organizations each year. SJI seeks to become actively involved in programs and with organizations that directly and positively impact the customers and communities we serve, and has provided more than \$2 million in financial support to local non-profit, business, and civic organizations in just the last five years. In addition, our employees volunteer countless hours of their time to support both business and social service organizations. Following are some notable examples of our involvement.

We are committed to helping ensure that a quality education remains accessible and affordable for today's students and we are pleased to participate in the School Counts! scholarship program. Each month, SJG's customers are given the option to

donate \$1 by checking a box on their SJG bill to commit their support to our local community colleges. As a result of this initiative and the generosity of our customers, our local community colleges have received more than \$34,000 in scholarship funds. These funds help reduce out of pocket educational expenses for qualifying high school seniors in our area. Through the program, students learn the necessary job and life skills required to be contributing members of the workforce, guaranteeing that area employers have access to educated, skilled workers.

We proudly support the Special Olympics of New Jersey and its commitment to showcasing developmentally-disabled athletes, both children and adults, throughout our state. Since 2006, we have provided more than \$40,000 in funding to ensure that the incredible work done by this group can continue. We truly believe that the self-esteem and relationship building promoted through this athletic competition reinforces the skills that contribute to success in our daily lives.

The Abilities Center of Southern New Jersey strives to help developmentally disabled adults cultivate marketable job and life skills that will allow them to live as independently as possible. Their comprehensive programs provide employment services for people with disabilities and other disadvantages. SJI strongly supports the Center's work and has committed to a capital campaign to expand the Center as well as provided needed financial support totaling nearly \$18,000 to date.

SJI is a proud supporter of the United Way, a pillar in our local communities and a provider of numerous social service programs. In 2008, SJI employees participated in a successful workplace fundraising campaign that benefitted the programs of 11 regional United Way offices. Through this campaign, our employees pledged nearly \$75,000, a 7% increase over 2007, and SJI provided corporate contributions totaling \$70,000 to those agencies.

In conjunction with our on-going efforts to promote energy efficiency and provide innovative solutions to meet the challenges of our custom-

ers' energy consumption, SJI recently provided \$10,000 to Isles, Inc. of Trenton. These funds were targeted for use by the Isles Youth Build Solar Panel Project, a program which provides training to disadvantaged young people in the Trenton region. The training focuses on educating



young adults about the technology surrounding the installation and maintenance of solar panels, as well as lends support to other emerging energy efficiency technologies.

In addition to our corporate financial support of the organizations mentioned and many others, SJI offers a working environment that encourages employees to be active, contributing members of their communities. For many of our employees, community service is a way of life as they enthusiastically dedicate their time to serving others. Many of our employees serve on non-profit boards, committees and leadership panels.

We recognize that part of SJI's success is rooted in our commitment to social investment. The relationships developed through our charitable giving program are critical to helping build revenue opportunities that sustain our business. Maintaining these relationships and working to identify new opportunities is a job we continue to take very seriously.

Forward-Looking Statement

This report may contain forward-looking statements. All statements other than statements of historical fact included in this report should be considered forward-looking statements made in good faith by the company and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this report words such as “anticipate”, “believe”, “expect”, “estimate”, “forecast”, “goal”, “intend”, “objective”, “plan”, “project”, “seek”, “strategy” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These risks and uncertainties include, but are not limited to, the following: general economic conditions on an international, national, state and local level; weather conditions in our marketing areas; changes in commodity costs; the timing of new projects coming online; changes in the availability of natural gas; “non-routine” or “extraordinary” disruptions in our distribution system; regulatory, legislative and court decisions; competition; the availability and cost of capital; costs and effects of legal proceedings and environmental liabilities; the failure of customers, suppliers or business partners to fulfill their contractual obligations; and changes in business strategies. SJI assumes no duty to update these statements should actual events differ from expectations.



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