MIDDLESEX WATER COMPANY

We Deliver Quality!

Annual Report 2004

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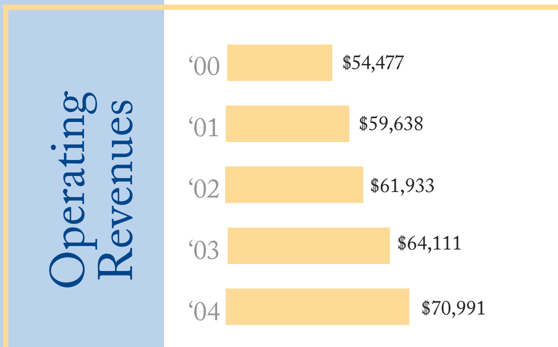
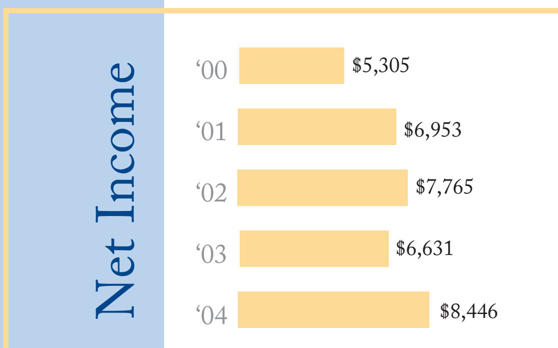
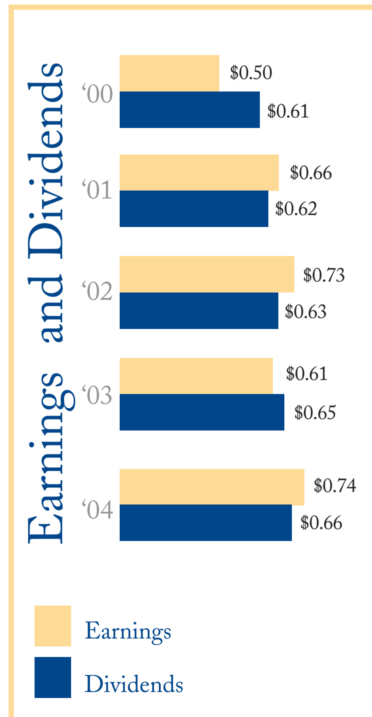
Our Mission

Middlesex Water Company is committed to providing service in the water, wastewater and related areas, in a safe, reliable and efficient manner.







FINANCIAL HIGHLIGHTS

(Thousands of Dollars Except per Share Data)

	2004	2003	Increase
Operating Revenues	**$ 70,991**	$ 64,111	$ 6,880
Operation and Maintenance Expenses	**39,984**	36,195	3,789
Taxes	**12,042**	11,053	989
Interest Charges	**5,468**	5,227	241
Net Income	**8,446**	6,631	1,815
Earnings Applicable to Common Stock	**8,191**	6,376	1,815
Basic Earnings per Share	**0.74**	0.61	0.13
Diluted Earnings per Share	**0.73**	0.61	0.12
Cash Dividends Paid per Share	**0.66**	0.65	0.01
Utility Plant	**303,831**	274,296	29,535
Return on Average Common Equity	**9.4%**	8.2%	1.2%

Corporate Profile

Middlesex Water Company, headquartered in Iselin, New Jersey, is a regulated water utility in New Jersey and provides water, wastewater and related services in New Jersey and Delaware through subsidiary corporations. Established in 1897, the Company and its subsidiaries collectively serve more than 115,000 customers. The Company's common stock trades on the NASDAQ Stock Market under the symbol MSEX.

Corporate Structure of Middlesex Water Company

The Middlesex Water Company Consolidated Group:

Middlesex Water Company A regulated water utility serving customers in parts of Middlesex and Monmouth Counties in New Jersey.

Utility Service Affiliates (Perth Amboy) Inc. A non-regulated operations/management entity operating the water and wastewater utilities of the City of Perth Amboy, New Jersey.

Pinelands Water Company A regulated water utility serving customers in Southampton Township, New Jersey.

Pinelands Wastewater Company A regulated wastewater utility serving customers in Southampton Township, New Jersey.

Utility Service Affiliates, Inc. A non-regulated entity providing contract operations services and water service line maintenance through its LineCare[SM] program.

Bayview Water Company A regulated water utility serving customers in Downe Township, New Jersey.

Tidewater Utilities, Inc. A regulated water utility serving customers in New Castle, Kent and Sussex Counties in Delaware.

White Marsh Environmental Systems, Inc. A non-regulated subsidiary of Tidewater Utilities, Inc., operating water and wastewater systems in Delaware under contract.

Tidewater Environmental Services, Inc. A regulated utility recently formed to provide wastewater services in Delaware.

Southern Shores Water Company, LLC A regulated subsidiary of Tidewater Utilities, Inc. providing water service to customers in Sussex County, Delaware.

Forward-Looking Statements

Certain matters discussed in this annual report are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rates, regulatory matters, liquidity, capital resources and accounting matters.

Actual results in each case could differ materially from those currently anticipated in such statements. The Company undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

TO OUR SHAREHOLDERS

Middlesex Water worked diligently to meet 2004 earnings targets, and we are pleased with the results. We have also made significant progress toward expanding our business, maximizing productivity and adding to our strong management team to provide for consistent value improvement to our shareholders. The talent and dedication of our employees and the performance of our facilities have led to a number of successes.

Financial Strength

On a consolidated basis, revenues grew from $64.1 million to $71.0 million. Basic earnings per share rose by 21% to $0.74, up from $0.61 in 2003 due to rate increases in four jurisdictions, customer and consumption growth in Delaware and a non-regulated meter installation venture.

Middlesex completed a common stock offering of 700,000 shares in May of 2004 that raised approximately $12.9 million in capital required for system growth and upgrades to existing infrastructure. We also issued approximately $19.0 million in low-interest bonds and notes under State Revolving Fund programs in New Jersey and Delaware. In addition, $7.0 million in short-term borrowing was secured for our Delaware subsidiary, Tidewater Utilities, Inc. (Tidewater) that can be converted to long-term debt subject to regulatory approvals.

Dennis G. Sullivan, President and Chief Executive Officer *(left)*
J. Richard Tompkins, Chairman of the Board

Investing in Our Infrastructure

We continued to make prudent investments in facilities to ensure safe, dependable and high quality service to our customers. In the Middlesex system, we invested $16.6 million in capital improvements. Construction of a new raw water pipeline, that will provide added capabilities and security for the Middlesex supply, began in the summer of 2004. By year end, the project was approximately 75% complete with service expected in spring 2005. In addition, nine miles of existing water mains were rehabilitated throughout the Middlesex system under the 2004 RENEW Program.

Our $12.8 million of capital spending in Delaware included about 50 projects, among them the construction of two large water storage tanks for greater reliability and fire protection and 42 miles of new water mains to improve service capability and accommodate more system interconnections. These investments strengthen our systems while enhancing service to new and existing customers.

Rising energy costs related to energy deregulation continue to challenge the industry. At Middlesex, we focused on ways to further control expenses by continually managing energy costs. As an example, we are moving forward with the design and feasibility of the installation of a 500 kilowatt Solar Energy System at our Carl J. Olsen Treatment Plant. This project would be partially funded by the Office of Clean Energy of the State of New Jersey Board of Public Utilities (BPU) and is expected to reduce annual electrical demands at the plant by 4%.

Capital Investment

Continued investments in utility plant and expense increases created the need for rate relief. In 2004, the BPU granted approval of a 9.5% increase for Middlesex, a 9.2% increase for Pinelands Water and a 9.9% increase for Pinelands Wastewater. In Delaware, the Public Service Commission approved a 15% increase for Tidewater, which is inclusive of Distribution System Improvement Charge filings approved in July 2003 and in January 2004.

Growth in Delaware

We place a strong focus on expanding our facilities to meet the requirements of a growing retail customer base. In 2004, we again achieved double-digit growth in Delaware as Tidewater's customer base expanded by over 10% to more than 26,000 customers.

We continued to develop water and wastewater opportunities in Delaware and are succeeding in increasing the number of water and wastewater facilities that we operate under contract. While

Customer Growth

contributing marginally to earnings, we anticipate these contracts will facilitate additional growth opportunities. In addition, Delaware recently passed legislation regulating wastewater facilities as utilities. We formed a new subsidiary, Tidewater Environmental Services, Inc. (TESI), to develop opportunities in this business.

Commitment

Strategy for 2005 and Beyond

We experienced several changes in the leadership team due to a retirement and the creation of a new position. The Company's General Counsel assumed oversight of the Corporate Secretary and Shareholder Relations functions, following the retirement of Marion F. Reynolds in March 2004. We also hired a Corporate Controller, separate from the Chief Financial Officer role, to better meet the ever increasing financial, corporate governance and regulatory demands. In November, the Board of Directors appointed Dennis W. Doll as Executive Vice President to further develop and implement strategic planning and manage all operations of the Company. Mr. Doll brings over 20 years of experience in regulated and non-regulated utility management to Middlesex Water.

We plan to build on our successes in 2004 and will continually strengthen our position as a trusted and reliable provider of quality service.

- We will invest in existing and new facilities.
- We will focus on expanding our revenue base by seeking new water and wastewater opportunities.
- We will seek to develop additional revenue streams via non-regulated businesses that meet our risk criteria.
- We will continue to provide our employees with work environments and opportunities that encourage personal and professional growth.

We are thankful to all of our employees. Our achievements in 2004 are a direct result of their hard work and dedication. We also thank you, our shareholders, for your continued support.

Our customers count on us around-the-clock and we are committed to meeting their expectations by providing superior service. This commitment is evident in our operations, in our compliance with ethical management standards, in the professionalism of our employees, in our strong support of our communities and in our positive relationships with regulators and policymakers.

Delivering safe, reliable and efficient water and wastewater service continues to be the core of our business, and a commitment to delivering service excellence is at the heart of everything we do. We look forward to sharing our future accomplishments with you.

J. Richard Tompkins
Chairman of the Board

Dennis G. Sullivan
President and Chief Executive Officer

Stephen H. Mundy retired from the Board of Directors effective January 25, 2005. Mr. Mundy served Middlesex Water and its subsidiaries with distinction as a Director for over 28 years. We acknowledge Mr. Mundy's loyalty, commitment, years of service and many accomplishments and look forward to his ongoing counsel as Director Emeritus.

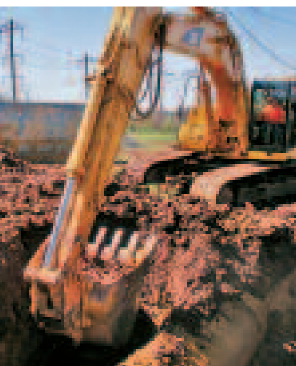
Pictured (l to r) are: Dennis G. Sullivan, Jaque Mundy, Stephen H. Mundy and J. Richard Tompkins

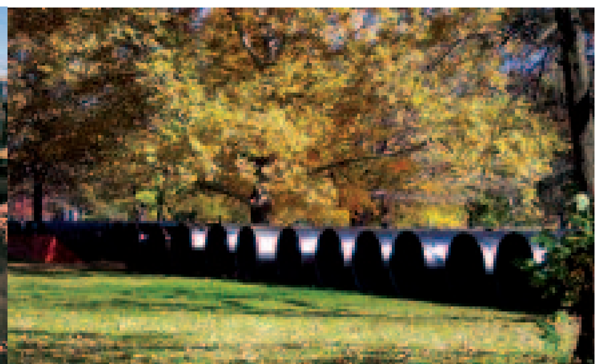
YEAR IN REVIEW

Reliability. Safety. Security. Customers expect these assurances in their water supply. In 2004, Middlesex Water and its subsidiaries delivered these qualities and more in an ongoing commitment to superior service.

■ Investing in Our Infrastructure

The pipes, pumps and treatment facilities that are critical to delivering a clean, adequate supply of potable water to our communities are central to our customers' quality of life, the protection of public health and safety and a thriving economy.





Raw water pipeline construction project

In 2004, Middlesex Water worked to maintain its strong water infrastructure through system improvements, more efficient operations and ongoing maintenance. The Company invested a total of $29.9 million in construction projects and ongoing upgrades to prepare for the sound long-term operation of its systems in New Jersey and Delaware. In the summer, Middlesex Water began construction of a new 60-inch diameter pipeline from its raw water pump station in the City of New Brunswick, New Jersey, to the Carl J. Olsen (CJO) Water Treatment Plant in Edison Township. This second supply pipeline will help to ensure backup water supply and additional high quality drinking water to a population of more than 267,000 who rely on Middlesex Water for service. This $9.0 million construction project, a major initiative for the Company, involves the installation of more than 6,250 feet of pipeline, including 900 feet installed beneath the Raritan River using remote controlled, laser-guided micro tunneling equipment.

Under the 2004 RENEW Program, Middlesex Water rehabilitated nine miles of aging pipeline in parts of Woodbridge Township, Edison and South Amboy. RENEW involves cleaning accumulated scale from older sections of cast iron pipe and installing a new cement lining. This process significantly extends the life of the water main and improves overall water quality and service while strengthening the infrastructure. To date, approximately 59 miles of unlined pipe have been rehabilitated under the RENEW program.

Middlesex Water plans to continue the RENEW program to rehabilitate the remaining 129 miles of unlined pipe in its 730-mile system. Also, Middlesex Water relocated approximately 4,200 feet of 24-inch transmission main as part of the New Jersey Department of Transportation's Route 1 widening project.

The Company continues to improve its Supervisory Control and Data Acquisition (SCADA) system at its CJO Plant. Using SCADA technology, the Company is able to remotely operate and control production, treatment and pumping facilities throughout its water system 24 hours a day, 365 days a year. Operators can control the flow of water from the raw water intake to individual valves on specific streets throughout the distribution system.

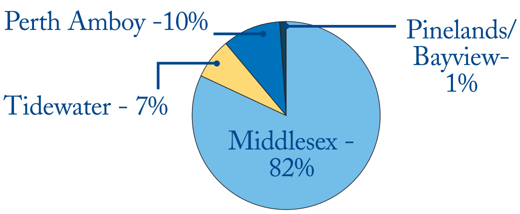
In Delaware, Tidewater Utilities invested $12.8 million in capital projects including the construction of large elevated tanks in Kent and Sussex Counties, which added 900,000 gallons of storage. Construction of the tanks will provide added reliability and consistent water pressure for more than 5,000 area residences and businesses. Tidewater also added new production wells, generators, booster pumps and several large main extensions.

750,000 gallon tank erected in Lewes, Delaware

Delivering Quality Water

Providing high quality water is critical to meeting customer needs. Middlesex Water and its subsidiaries delivered more than 20 billion gallons of water to their customers in 2004.

Total Water Production



Sophisticated state-of-the-art treatment, testing and data management facilities, overseen by licensed professionals, make the continual delivery of high quality water possible. Middlesex Water again satisfied the increasingly stringent requirements of the Safe Drinking Water Act and received a Five-Year Award for participation in the Partnership for Safe Water in cooperation with the United States Environmental Protection Agency. The Partnership challenges utilities to strive for continuous improvement in their facilities and operations through self-assessment and peer review.

Maintaining Vigilance at our Facilities

Ronald F. Williams (l) and Luc Gernay review system maps during the Middlesex Water security exercise.

Following the completion of a vulnerability assessment of its facilities in 2003, Middlesex Water continued its strong focus on maintaining system integrity in 2004. The Company updated its emergency response plan and strategy and held meetings with county emergency management officials to address crisis response capabilities. In October, Middlesex Water satisfactorily participated in a security exercise conducted by the New Jersey State Police. This exercise simulated a major crisis situation involving a system contamination incident, evaluated the Company's crisis response and communication procedures, and identified opportunities to further safeguard the infrastructure. In 2004, the CJO Plant underwent a security inspection by the New Jersey Board of Public Utilities (BPU). The Company also continued its participation on the BPU Water Security Task Force to gather "best practices" information relating to the protection of its facilities.

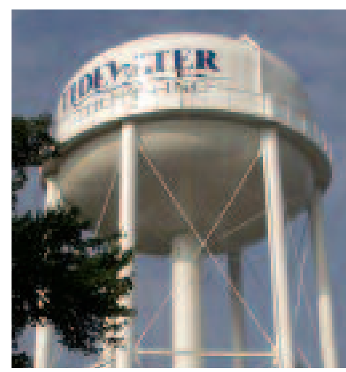
Fair Rate of Return to Shareholders

The Company strives to maintain reasonable rates while providing high quality drinking water. Its water rates remain among the lowest of investor-owned utility companies in New Jersey. For example, customers of Middlesex Water pay less than a dime for every 30 gallons of water delivered to their home.

The Company and its subsidiaries received four Rate Orders in 2004 to recover investments in plant and to meet increased operating costs. In May, Middlesex Water received BPU approval for a 9.5% increase, which equals a $4.3 million increase in annual revenues, to offset the rising costs of purchased water and power, taxes, corporate governance regulation and security. Pinelands received a combined increase for its water and wastewater systems, and in June, reached a settlement for an overall increase of 9.6%. In April, Tidewater was granted a 15% interim increase. These interim rates became permanent upon approval from the Delaware Public Service Commission (PSC) in October. This increase represents $1.5 million in annual revenues and includes two previously granted Distribution System Improvement Charge adjustments. Tidewater is eligible for a second phase increase, and has applied for additional revenues of approximately $0.5 million, based upon the completion of certain projects.

We continue to demonstrate that investment in Middlesex Water Company stock remains a sound and reliable investment choice for shareholders. In October, Middlesex Water's Board of Directors increased the dividend for the 33rd consecutive year to an annual rate of $0.67 per share. The

An investment of $10,000 in Middlesex Water Company, beginning in 2000 and assuming reinvestment of dividends, would be worth almost $14,300 today.



Tidewater refurbished this 250,000 gallon elevated storage tank in Millville, Delaware.

Company's dividend reinvestment and stock purchase plan offers shareholders the opportunity to reinvest dividends in additional shares of common stock.

In May, the Company successfully completed its offering of 700,000 shares of common stock. Proceeds from the offering repaid most of the Company's outstanding short-term borrowings at that time. Those borrowings were used for capital projects.

Opportunities for Growth

Tidewater Utilities continues to build brand awareness and drive growth in Delaware. It currently operates 60 active districts that serve over 250 communities. Water is provided through 91 active water plants and more than 202 active wells. Tidewater Utilities produced more than 1.5 billion gallons of water, a 23% increase over last year.

TUI Then and Now

1994 — 5,136 Customers

2004 — 26,034 Customers

Indicative of Delaware's growing housing market, Tidewater Utilities added over 2,400 customers, a 10.4% increase over last year. It now serves more than 26,000 customers statewide through its 439 miles of water main. Conservative estimates project Tidewater's customer base could grow to more than 39,000 through build-out of existing systems alone. As further evidence of its accelerating momentum, Tidewater Utilities signed 27 new water agreements with developers in 2004 to provide service in new residential developments.

Clarence Quillen (l) discusses Tidewater's service areas with a customer.

In July, Delaware Governor Ruth Ann Minner signed a law extending the PSC's regulatory control to wastewater utilities. In response to this new law, Middlesex Water Company formed Tidewater Environmental Services, Inc. to provide regulated wastewater utility services. The Tidewater companies will continue to pursue new opportunities in water and wastewater as well as wastewater contract operations through White Marsh Environmental Systems, Inc.

Subsidiary Operations

The partnership with the City of Perth Amboy continues to provide benefits to both Middlesex and the City. Utility Service Affiliates (Perth Amboy) Inc., one of the Company's non-regulated subsidiaries, operates Perth Amboy's water and wastewater utilities. More than 4,800 feet of 18 and 24-inch raw water main from the Ranney Well to the Runyon Treatment Plant were mechanically cleaned to improve hydraulic characteristics. In addition, the City rehabilitated 3,900 feet of 24 and 36-inch sewer lines utilizing State Environmental Infrastructure loans. A Vulnerability Plan and Emergency Response Plan were also completed for the City's water system.

In July, the Pinelands Water and Pinelands Wastewater Companies in Burlington County withstood major storm damage and severe flooding that affected parts of Southampton Township, New Jersey. The Companies' pipes, wells and treatment facilities were unaffected by the emergency and Pinelands was able to continue delivering quality water to its customers. Bayview Water Company, a water utility in Cumberland County, New Jersey, continued to provide reliable and efficient service throughout 2004.

Subsidiary facilities at USA-PA and Pinelands

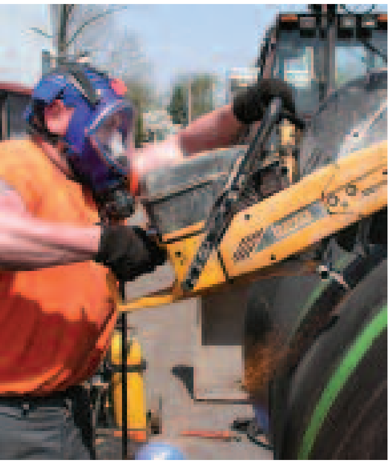
The Company's non-regulated subsidiary, Utility Service Affiliates, Inc. successfully completed two contracts for meter installation and related services in Cortlandt, New York and Lee, Massachusetts with National Metering Service. The number of customers in LineCare[SM], its service line replacement program, grew steadily in 2004. These activities enable the Company to build upon the strengths of its core businesses and broaden its business base while contributing to its long-term growth.

Exceeding Customer Expectations

In 2004, employees throughout the Company continued to make a conscious effort to provide excellent service to customers. From customer service representatives on the telephone to lab technicians performing water quality testing and construction crews in the field, employees anticipated concerns, resolved customer issues and provided information to help customers use water wisely and better understand various aspects of their water service. Middlesex Water also implemented information technology efforts to enhance service to customers. It installed a new digital telephone system at its corporate headquarters and increased the use of videoconferencing technology to improve communication with subsidiaries.

Professional Development

At the end of 2004, the Company had a total of 149 employees in New Jersey and 71 employees in Delaware, a collective increase of 11 new employees over last year. Our dedicated employees are the source of all our accomplishments and the Company strives to provide a safe and supportive environment in which they can succeed. Middlesex Water continued to provide training to aid in the development of its workforce to ensure excellent service to customers.



Lee Horn skillfully cuts pipe to repair a 48" main.

The company met all compliance training required for water operator license maintenance, OSHA compliance and CDL requirements. In addition, to sharpen competitive skills, the Company began two new in-house educational programs. We commenced a training program for all managers and supervisors focusing on a wide variety of management and leadership skills. The Company also implemented a series of classes for administrative support staff on computer-related programs. The Company continues to challenge its employees to seek innovative ways to add value to the organization.

During the year, the Company restructured certain executive management responsibilities. Kenneth J. Quinn, General Counsel, was appointed Vice President, Secretary and Treasurer, and James P. Garrett was named Vice President-Human Resources. Recently, Richard M. Risoldi was named Vice President-Subsidiary Operations. To improve the integration between the New Jersey and Delaware companies, Tidewater Utilities' President, Gerard L. Esposito, was named to the Executive Committee of Middlesex Water. Several key positions were filled in 2004. Dennis W. Doll was hired in November as Executive Vice President and is responsible for strategic planning in addition to overall executive management. James A. Mastridge was named Corporate Controller in July 2004.

An Active Community Partner

The strength of the Company is directly connected to the strength of the communities it serves. The Company worked with service groups and local organizations to meet critical needs and improve the quality of life in its service areas. The Company provided financial support, including donations of bottled water, to numerous charitable organizations and worthy causes including the American Heart Association, American Lung Association, Cystic Fibrosis Foundation, Junior Achievement and the Delaware Envirothon.

(Left) Company representatives prepare gifts for area children. Pictured (l to r) are: Deanna Lattanzio, Debra Wojcik, Lenora Chanley, Regina Jorgensen, Joya Craig and Diane Rossi.

(Above) Jim Hutchison (r) assists food bank representative Ed Slavicek with food drive collection bins.

In addition to their own individual efforts, employees participated in walk-a-thons in support of the March of Dimes and the American Cancer Society, purchased toys for disadvantaged children during the holidays and joined in a food drive to benefit a local emergency food warehouse, which serves over 50 area food pantries and soup kitchens.

Company representatives continued to assume leadership roles and participate on numerous committees including the New Jersey Utilities Association, state and national chapters of the National Association of Water Companies, the American Water Works Association, the Delaware Water Supply Task Force and the Delaware River Basin Commission Watershed Advisory Committee. Personnel also took part in a wide range of community and civic activities in New Jersey and Delaware, exhibited at several business expos and fairs, and served on local and state chambers of commerce.

The Value of Water

Educating the public about the value of a high quality water supply and a well-maintained infrastructure is a continuing priority for the Company. In 2004, Company representatives spoke with numerous school classes and community groups to educate consumers about how safe water is provided and distributed and to present such topics as watershed protection and wise water use. Middlesex worked to educate future generations about the importance of protecting our water resources by sponsoring a poster contest for elementary school children. The competition drew more than 1,000 entries from area students. Tidewater Utilities also worked to strengthen its commitment to the environment by establishing an environmental technology merit scholarship with a local community college.

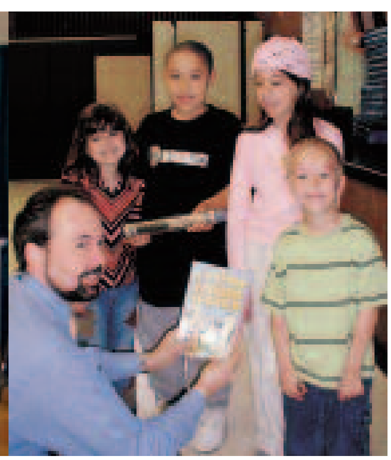
Corporate Accountability

Middlesex Water's Board of Directors is committed to responsible business practices and continued to take an active role in guiding the Company in 2004. Under the oversight of the Audit Committee, the Company achieved the required level of documentation and enhanced its internal controls and procedures to satisfy the provisions of the Sarbanes-Oxley Act of 2002, including compliance with Section 404 requirements. The Company also maintained good corporate governance including complying with reporting standards and posting Committee Charters, its Code of Conduct and SEC filings to its website at www.middlesexwater.com. The Company continues to demonstrate its commitment to providing full disclosure and immediate access to investors.

People expect quality in their water and wastewater service and Middlesex Water delivers. The Company plans to build on its commitment to reliability, safety and security to ensure superior service now and for future generations.

We Deliver Quality!

Alexis Virdin, Brian Hoyt and Carmen Hunter work Tidewater's exhibit booth at the Delaware Water Association Annual Conference.



Dave Brogle talks with students from Ford Avenue school in Woodbridge Township, New Jersey about water quality.

CONSOLIDATED SELECTED FINANCIAL DATA
(Thousands of Dollars Except per Share Data)

	2004	2003	2002	2001	2000
Operating Revenues	**$ 70,991**	$ 64,111	$ 61,933	$ 59,638	$ 54,477
Operating Expenses:					
Operations and Maintenance	**39,984**	36,195	32,767	31,740	30,269
Depreciation	**5,846**	5,363	4,963	5,051	4,701
Other Taxes	**8,228**	7,816	7,737	7,594	6,916
Income Taxes	**3,814**	3,237	3,999	3,760	2,653
Total Operating Expenses	**57,872**	52,611	49,466	48,145	44,539
Operating Income	**13,119**	11,500	12,467	11,493	9,938
Other Income, Net	**795**	358	442	502	364
Interest Charges	**5,468**	5,227	5,144	5,042	4,997
Net Income	**8,446**	6,631	7,765	6,953	5,305
Preferred Stock Dividend	**255**	255	255	255	255
Earnings Applicable to Common Stock	**$ 8,191**	$ 6,376	$ 7,510	$ 6,698	$ 5,050
Earnings per Share:					
Basic	**$ 0.74**	$ 0.61	$ 0.73	$ 0.66	$ 0.50
Diluted	**$ 0.73**	$ 0.61	$ 0.73	$ 0.66	$ 0.50
Average Shares Outstanding:					
Basic	**11,080**	10,475	10,280	10,131	10,044
Diluted	**11,423**	10,818	10,623	10,474	10,387
Dividends Declared and Paid	**$ 0.663**	$ 0.649	$ 0.634	$ 0.623	$ 0.613
Total Assets	**$299,129**	$263,192	$248,962	$240,312	$222,815
Convertible Preferred Stock	**$ 2,961**	$ 2,961	$ 2,961	$ 2,961	$ 2,961
Long-term Debt	**$115,281**	$ 97,377	$ 87,483	$ 88,140	$ 82,109

STATISTICAL SUMMARY

REVENUES (Thousands of Dollars):	2004	2003	2002	2001	2000
Residential	**$ 28,322**	$ 25,272	$ 24,793	$ 22,916	$ 20,640
Commercial	**6,771**	6,299	6,032	6,054	5,691
Industrial	**7,708**	7,131	7,368	7,544	7,116
Fire Protection	**7,237**	6,830	6,495	6,182	5,816
Contract Sales	**9,086**	8,458	8,728	8,806	7,808
Contract Operations	**7,934**	8,065	7,465	7,288	6,837
Other	**3,933**	2,056	1,052	848	569
TOTAL REVENUES	**$ 70,991**	$ 64,111	$ 61,933	$ 59,638	$ 54,477
CAPITALIZATION RATIOS:					
Long-term Debt	**54%**	54%	52%	54%	52%
Preferred Stock	**2**	2	2	2	3
Common Stock Equity	**44**	44	46	44	45
TOTAL	**100%**	100%	100%	100%	100%
OTHER:					
Average Book Value of Common Stock	**$ 7.99**	$ 7.56	$ 7.39	$ 7.11	$ 7.00
Customers	**115,000**	109,700	104,900	101,700	96,200
Population Served (Retail)	**400,000**	373,000	363,000	351,000	337,000
Miles of Main	**1,215**	1,150	1,118	1,070	1,011
Fire Hydrants	**6,306**	5,953	5,791	5,663	5,250
Water Production (million gallons)	**20,344**	20,015	19,895	20,272	19,323

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussions of the Company's historical results of operations and financial condition should be read in conjunction with the Company's consolidated financial statements and related notes.

Overview

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and for water services in Delaware, as to the quality of water service we provide and as to certain other matters. Our TESI subsidiary is expected to commence operations during 2005 as a regulated wastewater utility in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 58,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 267,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 26,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our other Delaware subsidiary, White Marsh, services an additional 4,500 customers in Kent and Sussex Counties.

The majority of our revenue is generated from retail and contract water services to customers in our service areas. We record water service revenue as such service is rendered and include estimates for amounts unbilled at the end of the period for services provided after the last billing cycle. Fixed service charges are billed in advance by our subsidiary, Tidewater, and are recognized in revenue as the service is provided.

Our ability to increase operating income and net income is based significantly on three factors: weather, adequate and timely rate increases, and customer growth. These factors are evident in the discussions below which compare our results of operations from prior years.

Results of Operations in 2004 Compared to 2003

Operating revenues for the year rose $6.9 million, or 10.7% over the same period in 2003. Water sales improved by $2.9 million in our Middlesex system, which was primarily a result of base rate increases. Customer growth of 10.4% in Delaware provided additional consumption revenues of $1.2 million and higher base rates provided $0.8 million. Our meter services venture provided $2.0 million of additional revenues for completed meter installations. New unregulated wastewater contracts in Delaware provided $0.3 million in additional revenues. Base rate increases for our Pinelands system contributed $0.1 million of additional revenues. Revenues from our operations and maintenance contracts decreased $0.4 million due to scheduled reductions in fixed fees under the City of Perth Amboy contract.

While we anticipate continued growth in the number of customers and increased water consumption among our Delaware systems, such growth and increased consumption cannot be guaranteed. Weather conditions may adversely impact future consumption even with an anticipated growth in the number of customers. Our New Jersey systems are also highly dependent on the effects of weather. Our ability to generate operating revenues by our meter services venture is dependent upon our ability to obtain additional contracts; however USA did not submit bids for any meter service contracts during fiscal 2004 and currently does not expect to submit any bids during fiscal 2005. The existing meter services contracts were substantially completed during the fourth quarter of 2004.

Operating expenses increased by $5.3 million, or 10.0% as compared to the same period in 2003. Operation and maintenance expenses increased $3.8 million or 10.5%. In New Jersey, payroll costs, employee benefits and corporate governance related fees increased costs by $1.1 million. Source of supply and pumping costs for the Middlesex system increased by $0.7 million combined due to increased costs for electricity and purchased water. Costs to operate the Tidewater system, as well as an increase in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits increased costs by $0.6 million. The costs of our meter services venture increased $1.6 million due to completed installations. The costs of our non-regulated wastewater operations and maintenance contracts increased $0.3 million due to additional contracts obtained during the year. These increases were partially offset by $0.4 million of reduced costs related to our City of Perth Amboy contract due to reduced water treatment costs and a decrease of $0.1 million for water main repair costs in our Middlesex system.

Going forward, we anticipate an increase in New Jersey's electric generation costs due to deregulation of electricity. These increasing costs, in addition to higher business insurance and corporate governance costs, as well as completion of the new raw water pipeline during the second quarter of 2005 will require us to file for a base rate increase with the BPU for Middlesex during 2005. We cannot predict whether the BPU will approve, deny or reduce the amount of any request.

Depreciation expense for 2004 increased by $0.5 million, or 9.0%, due to a higher level of utility plant in service. Allowance for funds used during construction rose by $0.3 million for the year, due to large construction projects in New Jersey for the RENEW program and a new raw water pipeline (see Liquidity and Capital Resources for additional discussion of capital spending). As our investments in utility plant and operating expenses increase, we continue to seek timely rate relief through base rate filings as discussed above.

Other taxes increased by $0.4 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate. Improved operating results in 2004 compared to 2003 led to higher income taxes of $0.8 million, which was partially offset by $0.2 million of tax benefits.

Other income increased $0.1 million, primarily due the recognition of a gain on the sale of real estate that had previously been deferred pending the outcome of the Middlesex rate case.

Interest expense increased by $0.2 million, primarily due to higher average long-term borrowings as compared to the prior year period.

Net income increased by 27.4% to $8.4 million from $6.6 million in the prior year, and basic earnings per share increased from $0.61 to $0.74. Diluted earnings per share increased from $0.61 to $0.73. The increase in earnings per share was impacted by the higher number of shares outstanding during the current year as a result of the sale of 700,000 shares of common stock in May 2004.

Results of Operations in 2003 Compared to 2002

Operating revenues for the year rose $2.2 million, or 3.5% over the same period in 2002. Customer growth of 10.9% in Delaware provided additional facility charges and connection fees of $1.4 million. Higher base rates in our Delaware service territories provided $0.6 million of the increase. For the year ended December 31, 2003, cool wet weather in the Mid-Atlantic region pushed Tidewater's consumption revenue down by $0.3 million and Middlesex consumption revenue down by $0.5 million. Despite such adverse weather conditions, revenues from our operations and maintenance contracts rose $0.5 million due to scheduled increases in fixed fees under the City of Perth Amboy contract.

New unregulated wastewater operations in Delaware provided $0.1 million in additional revenues. Our new meter services venture provided $0.3 million in additional revenues. All other operations accounted for $0.1 million of the higher revenues.

Operating expenses increased by $3.1 million, or 6.4%. Costs related to main breaks resulting from severe winter weather conditions in the first quarter of 2003 contributed to additional expenses of $0.4 million. There were also higher sewer disposal fees and security costs for USA-PA that helped increase costs by $0.6 million. An increase in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits pushed up costs by $0.7 million. In New Jersey, payroll costs, employee benefits and legal fees pushed up costs by $0.9 million. Non-regulated operations of meter installations and wastewater, which began in 2003, contributed $0.3 million of the overall expense increase. Water treatment, source of supply and pumping costs increased by $0.5 million combined.

Depreciation expense for 2003 increased by $0.4 million, or 8.1%, due to a higher level of utility plant in service. Allowance for funds used during construction rose 17% for the year as Tidewater's capital program included larger projects with longer construction schedules.

Other taxes increased by $0.1 million generally due to higher payroll related taxes and real estate taxes in both New Jersey and Delaware. Lower federal income taxes of $0.8 million over last year are attributable to the reduced operating results for 2003 as compared to 2002.

Other income decreased by $0.1 million as interest rates fell on short-term cash balance investments. Interest expense increased by $0.1 million due to a higher level of overall debt outstanding as compared to last year.

Net income decreased to $6.6 million from $7.8 million and basic and diluted earnings per share decreased by $0.12 to $0.61 due to lower earnings.

Outlook

In addition to some of the factors previously discussed under "Results of Operations in 2004 Compared to 2003," our revenues are expected to increase in 2005 from anticipated customer growth in Delaware for our regulated operations and, to a lesser degree, from growth of non-regulated operations in Delaware and elsewhere. We settled four rate cases during 2004, from which we expect to receive the full annualized benefit in 2005. Revenues and earnings will also be influenced by weather. Changes in these factors, as well as increases in capital expenditures and operating costs are the primary factors that determine the need for rate increase filings. The level of revenues and earnings will be impacted by the ultimate timing and outcome of the anticipated base rate filing in New Jersey during 2005.

We continue to explore viable plans to streamline operations and reduce costs, particularly in Delaware, where customer growth continues to exceed industry averages. Part of the challenge is that our Delaware operations are a combination of over 91 stand-alone production and distribution systems serving 250 communities.

As a result of anticipated regulation of wastewater services in Delaware, we have established a new regulated wastewater operation that will commence operations during fiscal 2005. Due to the start-up nature of this operation, we expect our expenses with respect to this subsidiary to exceed our revenues in the near term.

We expect our interest expense to increase during 2005 as a result of incurring a full year of interest expense on the approximately $19.0 million of long-term debt we financed during fiscal 2004 and higher expected average borrowings and interest rates on short-term credit facilities in order to finance a portion of our capital expenditures during the coming year (see Liquidity and Capital Resources).

Our strategy includes continued revenue growth through acquisitions, internal expansion, contract operations and when necessary, rate relief. We will continue to pursue opportunities in both the regulated and non-regulated sectors that are financially sound, complement existing operations and increase shareholder value.

Liquidity and Capital Resources

Cash flows from operations are largely based on three factors: weather, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For 2004, cash flows from operating activities increased $1.4 million to $15.6 million, as compared to the prior year. This increase was primarily attributable to improved profitability during the current year period and the timing of payments made toward prepaid expenses, materials and supplies, and employee benefit plans. These increases in cash flows were partially offset by the timing of collection of customer accounts and payments to vendors. The $15.6 million of net cash flow from operations allowed us to fund approximately 52% of our utility plant expenditures for the period internally, with the remainder funded with both short-term and long-term borrowings. Net proceeds from issuing long-term debt were used to fund the balance of those expenditures.

For 2003, net cash flow from operations of $14.2 million, which increased over 2002 due to lower working capital requirements, and proceeds from prior year financings allowed us to fund approximately 85% of our 2003 utility plant expenditures. Net proceeds from issuing long-term debt were used to fund the balance of those expenditures.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations discussion, during 2004 we received rate relief for Middlesex, Tidewater and the Pinelands Companies. We also plan to file for a base rate increase for Middlesex in 2005 in conjunction with the completion of the raw water pipeline project (see Capital Expenditures and Commitments). There is no certainty, however, that the BPU will approve any or all of this or other future requested increases.

Sources of Liquidity

Short-term Debt. The Board of Directors has authorized lines of credit for up to an aggregate of $40.0 million. As of December 31, 2004, the Company has established revolving lines of credit aggregating $33.0 million. At December 31, 2004, the outstanding borrowings under these credit lines were $11.0 million at a weighted average interest rate of 3.42%. As of that date, the Company had borrowing capacity of $22.0 million under its credit lines.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were $8.9 million and $14.0 million at 2.37% and 1.89% for the years ended December 31, 2004 and 2003, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the financial markets. A portion of the borrowings under the New Jersey SRF is interest free. We participated in the SRF loan programs during 2004 and will continue to pursue opportunities to participate as circumstances allow us in the future.

During 2004, Middlesex closed on $16.6 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance the costs of a new raw water pipeline and our 2005 and 2006 RENEW programs (see Capital Expenditures and Commitments for discussion of these projects). The proceeds of these bonds and any interest earned are held by a trustee, and are classified as Restricted Cash on the Consolidated Balance Sheet.

During 2004, Tidewater closed on a Delaware SRF loan of $0.8 million to fund a portion of its multi-year capital program. The Delaware SRF program will allow, but does not obligate, Tidewater to draw down against a General Obligation Note for three specific projects.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. The Company is in compliance with all of its mortgage covenants and restrictions.

Common Stock. The Company periodically issues shares of common stock in connection with its dividend reinvestment and stock purchase plan. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. During 2004, the Company issued $15.1 million of common stock, which included a common stock offering of 700,000 shares that was priced at $19.80 in May. The majority of the net proceeds of approximately $12.9 million from the common stock offering were used to repay most of the Company's short-term borrowings outstanding at that time.

Capital Expenditures and Commitments

As shown in the following table, we expect our capital expenditures in 2005 and 2006 to increase over 2004. These increases are attributable to a major pipeline installation in the Middlesex system and continued customer growth and service improvement requirements in our Tidewater systems in Delaware, where we spent $12.8 million on utility plant in 2004. At this time we have not determined any amounts anticipated to be spent by TESI in the table below.

	(Millions of Dollars)		
	2005	2006	2007
Delaware Systems	$ 16.5	$ 18.1	$ 9.3
Raw Water Line	3.4	---	---
RENEW Program	3.3	3.3	3.3
Scheduled Upgrades to Existing Systems	5.3	8.1	3.8
Total	$ 28.5	$ 29.5	$ 16.4

Under our capital program for 2005, we plan to expend $16.5 million for water system additions and improvements for our Delaware systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately $3.4 million to complete the new raw water line to the Middlesex primary water treatment plant that began in 2004.

We expect to spend $3.3 million for the RENEW program, which is our program to clean and cement- line unlined mains in the Middlesex System. There remains a total of approximately 129 miles of unlined mains in the 730-mile Middlesex System. In 2004, nine miles of unlined mains were cleaned and cement lined. The capital program also includes $5.3 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of $1.1 million for improvements to existing plant, $1.2 million for mains, $0.8 million for service lines, $0.3 million for meters, $0.3 million for hydrants, and $1.6 million for computer systems and various other items.

To pay for our capital program in 2005, we will utilize internally generated funds and funds available under existing NJEIT loans (currently, $8.3 million) and Delaware SRF loans (currently, $1.8 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If necessary, we will also utilize short-term borrowings through $33.0 million of available lines of credit with four financial institutions. As of December 31, 2004, we had $11.0 million outstanding against the lines of credit.

Going forward into 2006 through 2007, we currently project that we will be required to expend approximately $45.9 million for capital projects. To the extent possible and because of the favorable interest rates available to regulated water utilities, we will finance our capital expenditures under the SRF loan programs. We also expect to use internally generated funds and proceeds from the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan.

Contractual Obligations

In the course of normal business activities, the Company enters into a variety of contractual obligations and commercial commitments. Some of these items result in direct obligations on the Company's balance sheet while others are commitments, some firm and some based on uncertainties, which are disclosed in the Company's underlying consolidated financial statements.

The table below presents our known contractual obligations for the periods specified as of December 31, 2004.

	Payment Due by Period (Millions of Dollars)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	$116.4	$ 1.1	$ 3.4	$ 3.9	$108.0
Notes Payable	11.0	11.0	---	---	---
Interest on Long-term Debt	104.0	5.6	11.2	10.2	77.0
Purchased Water Contracts	21.7	3.9	4.5	4.5	8.8
Wastewater Operations	63.0	3.8	7.8	8.3	43.1
Total	$316.1	$ 25.4	$ 26.9	$ 26.9	$236.9

Guarantees

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments began at $6.4 million in the first year and will increase over the term of the contract to $10.2 million at the end of the contract.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2004, approximately $23.9 million of the Series C Serial Bonds remained outstanding.

We are obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. If Middlesex funds any debt service obligations as guarantor, there is a provision in the agreement that requires Perth Amboy to reimburse us. There are other provisions in the agreement that we believe make it unlikely that we will be required to perform under the guarantee, such as scheduled annual rate increases for the water and wastewater services as well as rate increases due to unforeseen circumstances. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

Critical Accounting Policies and Estimates

The application of accounting policies and standards often requires the use of estimates, assumptions and judgments. Changes in these variables may lead to significantly different financial statement results. Our critical accounting policies are set forth below.

Regulatory Accounting

We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 86% of Operating Revenues and 99% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards No. 71, "Accounting For the Effects of Certain Types of Regulation" (SFAS 71).

In accordance with SFAS No. 71, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded would be treated differently by the regulators in the future.

Revenues

Revenues from metered customers include amounts billed on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical consumption usage and current climate conditions. Differences between estimated revenues and actual billings are recorded in a subsequent period.

Revenues from unmetered customers are billed at a fixed tariff rate in advance at the beginning of each service period and are recognized in revenue ratably over the service period.

Revenues from the Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are based on billings and other factors and are not significant, are recorded upon approval of the amount by Perth Amboy.

Pension Plan

We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service.

The discount rate utilized for determining future pension obligations has decreased from 6.75% at December 31, 2002 to 6.00% at December 31, 2003 to 5.875% at December 31, 2004. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by $0.1 million in 2004. Lowering the expected long-term rate of return on the pension plans by 0.5% (from 8.0% to 7.5%) would have increased the net periodic pension cost in 2004 by approximately $0.1 million. The discount rate for determining future pension obligations is determined based on market rates for long-term, high-quality corporate bonds at our December 31 measurement date. The expected long-term rate of return for pension assets is determined based on historical returns and our asset allocation.

Future actual pension income will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

Recent Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No.123(R) "Share-Based Payment", which replaces SFAS No.123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This Statement is effective for quarters beginning after June 15, 2005. The Company currently recognizes compensation expense at fair value for stock-based payment awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," and does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges occurring in quarters beginning after June 15, 2005. The Company does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Drug Act) for employers who sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Medicare Drug Act. The Medicare Drug Act generally permits plan sponsors that provide retiree prescription drug benefits that are "actuarially equivalent" to the benefits of Medicare Part D to be eligible for a non-taxable federal subsidy. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides that if the effect of the Medicare Drug Act is not considered a significant event, the measurement date for the adoption of FSP 106-2 is delayed until the next regular measurement date. Based on Management's discussions with its Actuary, Management determined the effect of the Medicare Drug Act was not considered a significant event and thus the Company will account for the effects of FSP 106-2 at its next measurement date (January 1, 2005). The adoption of FSP 106-2 will not have a material effect on the Company's financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached consensus on EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 further defines the meaning of an "other-than-temporary impairment" and its application to debt and equity securities. Impairment occurs when the fair value of a security is less than its cost basis. When such a condition exists, the investor is required to evaluate whether the impairment is other-than-temporary as defined in EITF 03-1. When an impairment is other-than-temporary, the security must be written down to its fair value. EITF 03-1 also requires additional annual quantitative and qualitative disclosures for available for sale and held to maturity impaired investments that are not other-than temporarily impaired. On September 30, 2004, the FASB issued FSP EITF 03-1-1, "Effective date of Paragraph's 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP EITF 03-1-1). FSP EITF 03-1-1 delayed the effective date for the measurement and recognition guidance contained in EITF 03-1 until further implementation guidance is issued. The Company does not expect any material effects from the adoption of EITF 03-1 on its financial statements.

Qualitative and Quantitative Disclosures About Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately $1.1 million of the current portion of ten existing long-term debt instruments will mature. Combining this amount with the $11.0 million in short-term debt outstanding at December 31, 2004, and applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Middlesex Water Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Middlesex Water Company and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capital stock and long-term debt of the Company as of December 31, 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for the year ended December 31, 2004 and our report dated March 15, 2005 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP

Parsippany, New Jersey
March 15, 2005

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Middlesex Water Company (Middlesex or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13A-15(f) and 15d-15(f). Middlesex's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the adequate preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, we believe that as of December 31, 2004, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has issued their report on our assessment of the Company's internal control over financial reporting. Their report on internal controls is found on page 18.

Dennis G. Sullivan
President

A. Bruce O'Connor
Vice President and Chief
Financial Officer

Iselin, New Jersey
March 15, 2005

Deloitte.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Middlesex Water Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Parsippany, New Jersey
March 15, 2005

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS

		December 31, 2004	December 31, 2003
ASSETS			
UTILITY PLANT:	Water Production	**$ 82,340,798**	$ 77,265,782
	Transmission and Distribution	**188,026,091**	174,455,437
	General	**20,451,215**	19,776,293
	Construction Work in Progress	**13,013,391**	2,798,070
	TOTAL	**303,831,495**	274,295,582
	Less Accumulated Depreciation	**52,017,761**	47,510,797
	UTILITY PLANT - NET	**251,813,734**	226,784,785
CURRENT ASSETS:	Cash and Cash Equivalents	**4,034,768**	3,005,610
	Accounts Receivable, net	**6,316,853**	5,682,608
	Unbilled Revenues	**3,572,713**	3,234,788
	Materials and Supplies (at average cost)	**1,203,906**	1,419,142
	Prepayments	**823,976**	1,009,304
	TOTAL CURRENT ASSETS	**15,952,216**	14,351,452
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	**3,172,254**	3,272,783
	Preliminary Survey and Investigation Charges	**1,032,182**	1,380,771
	Regulatory Assets	**8,198,565**	8,216,117
	Operations Contracts Fees Receivable	**685,599**	699,806
	Restricted Cash	**13,257,106**	3,825,420
	Non-utility Assets - Net	**4,552,023**	4,147,685
	Other	**465,419**	513,116
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	**31,363,148**	22,055,698
	TOTAL ASSETS	**$ 299,129,098**	$ 263,191,935
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	**$ 71,979,902**	$ 56,924,028
	Retained Earnings	**23,103,908**	22,668,348
	Accumulated Other Comprehensive Income, net of tax	**44,841**	50,808
	TOTAL COMMON EQUITY	**95,128,651**	79,643,184
	Preferred Stock	**4,063,062**	4,063,062
	Long-term Debt	**115,280,649**	97,376,847
	TOTAL CAPITALIZATION	**214,472,362**	181,083,093
CURRENT LIABILITIES:	Current Portion of Long-term Debt	**1,091,351**	1,067,258
	Notes Payable	**11,000,000**	12,500,000
	Accounts Payable	**6,001,806**	4,777,400
	Accrued Taxes	**6,784,380**	6,258,739
	Accrued Interest	**1,703,131**	1,810,639
	Unearned Revenues and Advanced Service Fees	**387,156**	602,854
	Other	**795,456**	678,596
	TOTAL CURRENT LIABILITIES	**27,763,280**	27,695,486
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	**12,366,060**	11,711,846
	Accumulated Deferred Investment Tax Credits	**1,696,566**	1,775,183
	Accumulated Deferred Income Taxes	**14,556,153**	14,125,970
	Employee Benefit Plans	**5,464,056**	5,086,988
	Regulatory Liability - Cost of Utility Plant Removal	**5,363,152**	4,830,308
	Other	**849,551**	909,498
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	**40,295,538**	38,439,793
CONTRIBUTIONS IN AID OF CONSTRUCTION		**16,597,918**	15,973,563
	TOTAL CAPITALIZATION AND LIABILITIES	**$ 299,129,098**	$ 263,191,935

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2004	2003	2002
OPERATING REVENUES	**$ 70,991,146**	$ 64,111,214	$ 61,932,786
OPERATING EXPENSES:			
Operations	**36,519,355**	32,666,099	29,918,921
Maintenance	**3,464,036**	3,529,113	2,847,209
Depreciation	**5,846,191**	5,362,727	4,963,268
Other Taxes	**8,228,354**	7,815,918	7,737,155
Income Taxes	**3,814,418**	3,237,218	3,999,295
TOTAL OPERATING EXPENSES	**57,872,354**	52,611,075	49,465,848
OPERATING INCOME	**13,118,792**	11,500,139	12,466,938
OTHER INCOME (EXPENSE):			
Allowance for Funds Used During Construction	**606,019**	315,919	269,668
Other Income	**221,950**	131,499	249,324
Other Expense	**(32,676)**	(89,931)	(77,114)
TOTAL OTHER INCOME, NET	**795,293**	357,487	441,878
INTEREST CHARGES	**5,468,576**	5,227,030	5,143,463
NET INCOME	**8,445,509**	6,630,596	7,765,353
PREFERRED STOCK DIVIDEND REQUIREMENTS	**254,786**	254,786	254,786
EARNINGS APPLICABLE TO COMMON STOCK	**$ 8,190,723**	$ 6,375,810	$ 7,510,567
Earnings per share of Common Stock:			
Basic	**$ 0.74**	$ 0.61	$ 0.73
Diluted	**$ 0.73**	$ 0.61	$ 0.73
Average Number of Common Shares Outstanding:			
Basic	**11,079,835**	10,475,295	10,280,302
Diluted	**11,422,975**	10,818,435	10,623,442
Cash Dividends Paid per Common Share	**$ 0.663**	$ 0.649	$ 0.634

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 8,445,509**	$ 6,630,596	$ 7,765,353
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**6,387,808**	5,633,863	5,436,525
Provision for Deferred Income Taxes and ITC	**603,275**	306,919	197,714
Allowance for Funds Used During Construction	**(606,019)**	(315,919)	(269,668)
Changes in Assets and Liabilities:			
Accounts Receivable	**(634,245)**	345,694	637,418
Unbilled Revenues	**(337,925)**	(53,697)	(380,076)
Materials & Supplies	**215,236**	(228,805)	(162,417)
Prepayments	**185,328**	(193,912)	54,301
Other Assets	**(578,048)**	275,802	(256,683)
Operations Contracts Receivable	**14,207**	(699,806)	-
Accounts Payable	**1,224,406**	2,260,431	(476,148)
Accrued Taxes	**528,715**	333,815	(432,126)
Accrued Interest	**(107,508)**	196,361	(199,618)
Employee Benefit Plans	**377,068**	(192,749)	17,061
Unearned Revenue & Advanced Service Fees	**(215,698)**	186,265	71,316
Other Liabilities	**56,913**	(236,431)	(803,949)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**15,559,022**	14,248,427	11,199,003
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	**(29,860,100)**	(19,574,205)	(16,489,095)
Cash Surrender Value & Other Investments	**(273,837)**	(466,290)	(4,438)
Restricted Cash	**(9,431,686)**	2,321,158	2,843,996
Proceeds from Real Estate Dispositions	**-**	532,922	-
Preliminary Survey & Investigation Charges	**348,589**	(282,303)	(154,846)
Other Assets	**-**	(47,264)	(68,179)
NET CASH USED IN INVESTING ACTIVITIES	**(39,217,034)**	(17,515,982)	(13,872,562)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	**(1,067,258)**	(884,427)	(6,443,836)
Proceeds from Issuance of Long-term Debt	**18,995,153**	11,205,723	6,067,350
Net Short-term Bank Borrowings (Repayments)	**(1,500,000)**	(5,150,000)	4,425,000
Deferred Debt Issuance Expenses	**(65,219)**	(194,484)	(510,818)
Common Stock Issuance Expense	**(379,534)**	(103,284)	(3,688)
Restricted Cash	**-**	121	219,588
Proceeds from Issuance of Common Stock	**15,055,874**	3,609,859	3,214,548
Payment of Common Dividends	**(7,375,629)**	(6,791,254)	(6,510,494)
Payment of Preferred Dividends	**(254,786)**	(254,786)	(254,786)
Construction Advances and Contributions-Net	**1,278,569**	1,897,803	874,205
NET CASH PROVIDED BY FINANCING ACTIVITIES	**24,687,170**	3,335,271	1,077,069
NET CHANGES IN CASH AND CASH EQUIVALENTS	**1,029,158**	67,716	(1,596,490)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,005,610**	2,937,894	4,534,384
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 4,034,768**	$ 3,005,610	$ 2,937,894

*Excludes Allowance for Funds Used During Construction.

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:			
Interest	**$ 5,409,803**	$ 5,061,878	$ 5,103,787
Interest Capitalized	**$ (606,019)**	$ (315,919)	$ (269,668)
Income Taxes	**$ 3,074,513**	$ 2,472,000	$ 4,237,000

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CAPITAL STOCK AND LONG-TERM DEBT

	December 31,	
	2004	2003
Common Stock, No Par Value		
Shares Authorized - 20,000,000		
Shares Outstanding - 2004 - 11,358,772	**$ 71,979,902**	$ 56,924,028
2003 - 10,566,937		
Retained Earnings	**23,103,908**	22,668,348
Accumulated Other Comprehensive Income, net of tax	**44,841**	50,808
TOTAL COMMON EQUITY	**95,128,651**	79,643,184
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
Shares Authorized - 140,497		
Convertible:		
Shares Outstanding, $7.00 Series - 14,881	**1,562,505**	1,562,505
Shares Outstanding, $8.00 Series - 12,000	**1,398,857**	1,398,857
Nonredeemable:		
Shares Outstanding, $7.00 Series - 1,017	**101,700**	101,700
Shares Outstanding, $4.75 Series - 10,000	**1,000,000**	1,000,000
TOTAL PREFERRED STOCK	**4,063,062**	4,063,062
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	**3,063,389**	3,136,531
6.25%, Amortizing Secured Note, due May 22, 2028	**9,835,000**	10,255,000
4.22%, State Revolving Trust Note, due December 31, 2022	**784,000**	192,281
3.60%, State Revolving Trust Note, due May 1, 2025	**2,348,316**	580,792
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	**790,000**	820,000
0.00%, State Revolving Fund Bond, due September 1, 2021	**652,306**	690,833
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	**12,000,000**	12,000,000
5.25%, Series T, due October 1, 2023	**6,500,000**	6,500,000
6.40%, Series U, due February 1, 2009	**15,000,000**	15,000,000
5.25%, Series V, due February 1, 2029	**10,000,000**	10,000,000
5.35%, Series W, due February 1, 2038	**23,000,000**	23,000,000
0.00%, Series X, due September 1, 2018	**755,006**	807,956
4.25% to 4.63%, Series Y, due September 1, 2018	**920,000**	965,000
0.00%, Series Z, due September 1, 2019	**1,679,979**	1,792,435
5.25% to 5.75%, Series AA, due September 1, 2019	**2,085,000**	2,175,000
0.00%, Series BB, due September 1, 2021	**2,048,095**	2,168,277
4.00% to 5.00%, Series CC, due September 1, 2021	**2,275,000**	2,360,000
5.10%, Series DD, due January 1, 2032	**6,000,000**	6,000,000
0.00%, Series EE, due September 1, 2024	**7,715,909**	-
3.00% to 5.50%, Series FF, due September 1, 2024	**8,920,000**	-
SUBTOTAL LONG-TERM DEBT	**116,372,000**	98,444,105
Less: Current Portion of Long-term Debt	**(1,091,351)**	(1,067,258)
TOTAL LONG-TERM DEBT	**$115,280,649**	$ 97,376,847

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2002	10,168,002	$ 50,099,621	$ 22,190,691	-	$ 72,290,312
Net Income			7,765,353		7,765,353
Dividend Reinvestment & Common Stock Purchase Plan	176,320	2,990,712			2,990,712
Restricted Stock Awards - Net	12,167	223,836			223,836
Cash Dividends on Common Stock			(6,510,494)		(6,510,494)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(3,688)		(3,688)
Balance at December 31, 2002	10,356,489	$ 53,314,169	$ 23,187,076	-	$ 76,501,245
Net Income			6,630,596		6,630,596
Change in Value of Equity Investments, net of $26,000 Income Tax				$ 50,808	50,808
Comprehensive Income					6,681,404
Dividend Reinvestment & Common Stock Purchase Plan	192,515	3,263,569			3,263,569
Restricted Stock Awards - Net	17,933	346,290			346,290
Cash Dividends on Common Stock			(6,791,254)		(6,791,254)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(103,284)		(103,284)
Balance at December 31, 2003	10,566,937	$ 56,924,028	$ 22,668,348	$ 50,808	$ 79,643,184
Net Income			8,445,509		8,445,509
Change in Value of Equity Investments, net of $3,000 Income Tax				(5,967)	(5,967)
Comprehensive Income					8,439,542
Dividend Reinvestment & Common Stock Purchase Plan	76,935	1,533,507			1,533,507
Issuance of Common Stock	700,000	13,257,000			13,257,000
Restricted Stock Awards - Net	14,900	265,367			265,367
Cash Dividends on Common Stock			(7,375,629)		(7,375,629)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(379,534)		(379,534)
Balance at December 31, 2004	11,358,772	$ 71,979,902	$ 23,103,908	$ 44,841	$ 95,128,651

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

(a) Organization - Middlesex Water Company (Middlesex) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA) and Bayview Water Company (Bayview). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and for water services in Delaware, as to the quality of water service we provide and as to certain other matters. Our Tidewater Environmental Services, Inc. subsidiary will commence operations during 2005 as a regulated wastewater utility in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

(b) System of Accounts - Middlesex, Pinelands Water, Pinelands Wastewater and Bayview maintain their accounts in accordance with the Uniform System of Accounts prescribed by the Board of Public Utilities of the State of New Jersey (BPU). Tidewater and Southern Shores maintain their accounts in accordance with the Public Service Commission of Delaware (PSC) requirements.

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2004, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2004, 2003 and 2002. These rates have been approved by either the BPU or the PSC:

Source of Supply	1.15% - 3.44%
Pumping	2.87% - 5.04%
Water Treatment	2.71% - 7.64%
General Plant	2.08% - 17.84%
Transmission and Distribution (T&D):	
T&D – Mains	1.10% - 3.13%
T&D – Services	2.12% - 2.81%
T&D – Other	1.61% - 4.63%

Non-regulated fixed assets consist primarily of an office building, furniture and fixtures, and transportation equipment. These assets are recorded at original cost and depreciation is calculated based on the estimated useful lives, ranging from 3 to 40 years.

(e) Customers' Advances for Construction – Water utility plant and/or cash advances are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. These contributions are recorded as Customers' Advances for Construction. Refunds on these advances are made by the Company in accordance with agreements with the contributing party and are based on either additional operating revenues related to the utility plant or as new customers are connected to and take service from the utility plant. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction – Contributions in Aid of Construction include direct non-refundable contributions of water utility plant and/or cash and the portion of Customers' Advances for Construction that become non-refundable.

(f) Allowance for Funds Used During Construction (AFUDC) - Middlesex, Tidewater, Pinelands Water, Pinelands Wastewater and Bayview capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2004, 2003 and 2002 approximately $0.6 million, $0.3 million and $0.3 million of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The average AFUDC rate for the years ended December 31, 2004, 2003 and 2002 for Middlesex, Tidewater and Bayview were 7.42%, 8.77% and 3.11%, respectively. Pinelands Water and Pinelands Wastewater did not incur AFUDC during the periods covered by this report.

(g) Accounts Receivable – We record bad debt expense based on historical accounts receivable write-offs. The allowance for doubtful accounts at December 31, 2004, 2003 and 2002 was $0.2 million, $0.2 million and $0.1 million, respectively. The corresponding expense for the year ended December 31, 2004, 2003 and 2002 was $0.1 million, $0.2 million and $0.1 million, respectively.

(h) Revenues - General metered customer's bills typically are broken down into two components; a fixed service charge and a volumetric or consumption charge. Revenues from general metered service customers, except Tidewater, include amounts billed in arrears on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical consumption usage and current climate conditions. Actual billings may differ from our estimates. Revenues are adjusted in the period that the difference is identified. Tidewater customers are billed in advance for their fixed service charge and these revenues are recognized as the service is provided to the customer.

Bayview and Southern Shores are unmetered systems. Customers are billed a fixed service charge in accordance with the approved tariff. Southern Shore service charges are billed in advance at the beginning of each month and are recognized as earned. Bayview service charges are billed in advance at the beginning of each calendar quarter and are recognized in revenue ratably over the quarter. Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are not significant, are recorded upon approval of the amount by the City of Perth Amboy.

(i) Deferred Charges and Other Assets - Unamortized Debt Expense is amortized over the lives of the related issues. Restricted Cash represents proceeds from loans entered into through state financing programs and is held in trusts. The proceeds are restricted for specific capital expenditures and debt service requirements.

(j) Income Taxes - Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property.

(k) Statements of Cash Flows - For purposes of reporting cash flows, the Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents represent bank balances and money market funds with investments maturing in less than 90 days.

(l) Use of Estimates - Conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

(m) Recent Accounting Pronouncements – In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.123(R) "Share-Based Payment", which replaces SFAS No.123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This statement is effective for quarters beginning after June 15, 2005. The Company currently recognizes compensation expense at fair value for stock-based payment awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," and does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges occurring in quarters beginning after June 15, 2005. The Company does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows. In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Drug Act) for employers who sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Medicare Drug Act. The Medicare Drug Act generally permits plan sponsors that provide retiree prescription drug benefits that are "actuarially equivalent" to the benefits of Medicare Part D to be eligible for a non-taxable federal subsidy. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides that if the effect of the Medicare Drug Act is not considered a significant event, the measurement date for the adoption of FSP 106-2 is delayed until the next regular measurement date. Based on Management's discussions with its Actuary, Management determined the effect of the Medicare Drug Act is not considered a significant event and thus the Company will account for the effects of FSP 106-2 at its next measurement date (January 1, 2005). The adoption of FSP 106-2 will not have a material effect on the Company's financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached consensus on EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 further defines the meaning of an "other-than-temporary impairment" and its application to debt and equity securities. Impairment occurs when the fair value of a security is less than its cost basis. When such a condition exists, the investor is required to evaluate whether the impairment is other-than-temporary as defined in EITF 03-1. When an impairment is other-than-temporary, the security must be written down to its fair value. EITF 03-1 also requires additional annual quantitative and qualitative disclosures for available for sale and held to maturity impaired investments that are not other-than temporarily impaired. On September 30, 2004, the FASB issued FSP EITF 03-1-1, "Effective date of Paragraph's 10-20 of EITF

Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP EITF 03-1-1). FSP EITF 03-1-1 delayed the effective date for the measurement and recognition guidance contained in EITF 03-1 until further implementation guidance is issued. The Company does not expect any material effects from the adoption of EITF 03-1 on its financial statements.

(n) Other Comprehensive Income – Total comprehensive income includes changes in equity that are excluded from the consolidated statements of income and are recorded into a separate section of capitalization on the consolidated balance sheets. The Company's accumulated other comprehensive income shown on the consolidated balance sheets consists of unrealized gains on investment holdings.

(o) Regulatory Accounting - We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 86% of Operating Revenues and 99% of Total Assets, are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

(p) Pension Plan - We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service. The discount rate utilized for determining pension costs decreased from 7.25% for the year ended December 31, 2002 to 6.75% for the year ended December 31, 2003 to 6.00% for the year ended December 31, 2004. Future actual pension income will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

Note 2 - Rate and Regulatory Matters

Effective May 27, 2004, Middlesex received approval from the BPU for a 9.5%, or $4.3 million increase in its water rates. This increase represents a portion of Middlesex's November 2003 request for a total rate increase of 17.8% to cover the costs of its increased capital investment, as well as maintenance and operating expenses.

Effective June 24, 2004, Pinelands Water and Pinelands Wastewater received approval from the BPU for rate increases of 9.2% and 9.9%, respectively, or approximately $0.13 million in the aggregate. This increase represents a portion of Pinelands' December 2003 request for a total rate increase of approximately $0.25 million to help offset the increasing costs associated with capital improvements, and the operation and maintenance of their systems.

Effective June 25, 2004, Tidewater received approval from the PSC for an interim rate increase of 15%, or $1.5 million increase in its water rates, which includes 4.89% of previously implemented Distribution System Improvement Charges (DSIC). On October 19, 2004, the PSC approved a settlement between Tidewater and interveners in the matter. The settlement allows the interim rates to become permanent. This increase represents a portion of Tidewater's April 2004 request for a 24% rate increase to accommodate the growth of Tidewater's customer base, improvements to water treatment, fire protection and to interconnect systems for service reliability and back-up. As part of the settlement, Tidewater will be eligible to apply for a second phase rate increase of $0.5 million, provided it completes a number of capital projects within a specified time schedule. Tidewater must file an application for this increase no earlier than March 2005 or later than May 2005. Upon verification of project completion, new rates will become effective 30 days after the filing date. Tidewater also agreed to waive its right to file DSIC applications over the next three six-month cycles (January and July 2005, and January 2006) and to defer making an application for a general rate increase until after April 1, 2006.

In accordance with the tariff established for Southern Shores, an annual rate increase of 2.8% was implemented on January 1, 2004. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

Other than rates for the Southern Shores system, there can be no assurance that any rate increases will be granted or, if granted, that they will be in the amounts we requested.

In the fall of 2002, the BPU approved a 76.7% base rate increase for the Bayview. This translates into additional revenues of less than $0.1 million. Two-thirds of the increase was implemented on January 1, 2003 and the balance became effective July 1, 2003. The new rates are designed to allow for the recovery of operating costs and capital costs incurred to replace the entire water distribution system on Fortescue Island in Southern New Jersey.

We have recorded certain costs as regulatory assets because we believe we will be allowed full recovery of or are currently recovering these costs in the rates that we charge customers. These deferred costs have been excluded from rate base and, therefore, we are not earning a return on the unamortized balances.

Regulatory Assets	Years Ended December 31, (Thousands of Dollars) 2004	2003	Remaining Recovery Periods
Income Taxes	**$6,535**	$6,786	Various
Post-retirement Benefits	**697**	783	8 years
Tank Painting	**426**	198	3-10 years
Rate Cases and Other	**541**	449	Up to 3 years
Total	**$8,199**	$8,216	

The recovery period for income taxes is dependent upon when the temporary differences between tax and book will reverse.

The Company uses the composite deprecation method for its regulated utility operations, which is currently an acceptable method of accounting under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite deprecation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. However, FASB Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143), precludes the recognition of expected future costs of removal as a component of depreciation expense unless they are legal obligations under SFAS 143. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of deprecation expense. As of December 31, 2004 and 2003, the Company has approximately $5.4 million and $4.8 million, respectively, of cost of removal recovered in rates in excess of actual costs incurred. These amounts are included in regulatory liabilities.

Bayview, Pinelands Water and Pinelands Wastewater are recovering the acquisition premium of $0.9 million over the remaining life of their Utility Plant. These deferred costs have been included in their rate bases as utility plant and are earning a return on the unamortized costs during the recovery periods.

Note 3 - Income Taxes

Income tax expense differs from the amount computed by applying the statutory rate on book income subject to tax for the following reasons:

	Years Ended December 31, (Thousands of Dollars) 2004	2003	2002
Income Tax at Statutory Rate of 34%	**$ 4,168**	$ 3,355	$ 4,000
Tax Effect of:			
Utility Plant Related	**(500)**	(171)	(123)
State Income Taxes – Net	**167**	106	80
Employee Benefits	**(25)**	(67)	25
Other	**4**	14	17
Total Income Tax Expense	**$ 3,814**	$ 3,237	$ 3,999
Income tax expense is comprised of the following:			
Current:			
Federal	**$ 3,128**	$ 2,835	$ 3,730
State	**83**	95	82
Deferred:			
Federal	**512**	321	227
State	**170**	65	39
Investment Tax Credits	**(79)**	(79)	(79)
Total Income Tax Expense	**$ 3,814**	$ 3,237	$ 3,999

The statutory review period for income tax returns for the years prior to 2001 has been closed.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax purposes. The components of the net deferred tax liability are as follows:

	Years Ended December 31, (Thousands of Dollars)	
	2004	2003
Utility Plant Related	**$ 21,293**	$ 20,522
Customer Advances	**(4,263)**	(4,218)
Employee Benefits	**(2,568)**	(2,209)
Other	**94**	31
Total Deferred Tax Liability	**$ 14,556**	$ 14,126

The Company is required to set up deferred income taxes for all temporary differences regardless of the regulatory ratemaking treatment. Because management believes that it is probable that these additional taxes will be passed on to ratepayers, an offsetting regulatory asset of $6.5 million and $6.8 million has been recorded at December 31, 2004 and 2003 respectively.

Note 4 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2004, 2003 and 2002 were $7.4 million, $7.2 million and $6.9 million, respectively. The fixed fees will increase over the term of the contract to $10.2 million. In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately $68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately $26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2004, approximately $23.9 million of the Series C Serial Bonds remained outstanding.

We are obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. If Middlesex funds any debt service obligations as guarantor, there is a provision in the agreement that requires Perth Amboy to reimburse us. There are other provisions in the agreement that we believe make it unlikely that we will be required to perform under the guarantee, such as scheduled annual rate increases for water and wastewater services as well as rate increases due to unforeseen circumstances. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

Franchise Agreement/Service Agreement – In 1999, Middlesex implemented a franchise agreement with the City of South Amboy (South Amboy) to provide water service and install water system facilities in South Amboy. The agreement between Middlesex and South Amboy was approved by the BPU. The implementation of the franchise agreement had significantly impacted two existing agreements entered into by the parties.

The first agreement was for the sale of water to South Amboy on a wholesale basis. The second agreement, which included Middlesex's wholly-owned subsidiary USA, was a contract to provide management services for a fixed fee. In conjunction with the franchise agreement, the water sales contract was eliminated.

In addition, the management services contract was extended through May 2045 and significantly modified to correspond with the terms and conditions of the franchise agreement. Fixed fee revenues recognized under the original contract have been eliminated effective December 1999, in lieu of revenues earned from providing water to South Amboy's 2,900 customers.

Water Supply - Middlesex revised and extended its agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water, effective January 1, 2004. The agreement now expires November 30, 2023 and provides an average purchase of 27 million gallons a day (mgd) up from 20 mgd. Pricing has been modified to include a two tier pricing schedule for the original 20 mgd and the additional 7 mgd. In addition, the agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a nonaffiliated water utility for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

	Years Ended December 31, (Millions of Dollars)		
Purchased Water	**2004**	2003	2002
Untreated	**$2.2**	$2.0	$1.9
Treated	**2.0**	1.8	1.8
Total Costs	**$4.2**	$3.8	$3.7

Construction – Based on its capital budget, the Company plans to spend approximately $28.5 million in 2005, $29.5 million in 2006 and $16.4 million in 2007 on its construction program.

Litigation – A lawsuit was filed in 1998 against the Company for damages involving the break of both a Company water line and an underground electric power cable containing both electric lines and petroleum based insulating fluid. The electric utility also asserted claims against the Company. The lawsuit was settled in 2003, and by agreement, the electric utility's counterclaim for approximately $1.1 million in damages was submitted to binding arbitration, in which the agreed maximum exposure of the Company is $0.3 million, which the Company has accrued for. While we are unable to predict the outcome of the arbitration, we believe that we have substantial defenses. A claim involving a construction subcontractor, the Company's general contractor and the Company concerning a major construction project was settled during October 2004. The matter was instituted in 2001, and related to work required to be performed under a construction contract and related subcontracts and included payment issues and timing/delay issues. The amount that was determined to be due from us for the work performed was $1.4 million and was recorded as an addition to utility plant in service during fiscal 2004.

The Company is defendant in various lawsuits. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

Change in Control Agreements – The Company has Change in Control Agreements with certain of its Officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

Note 5 – Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2004 and 2003 is summarized below:

	(Millions of Dollars)	
	2004	2003
Established Lines at Year-End	**$ 33.0**	$ 25.0
Maximum Amount Outstanding	**13.5**	$ 18.5
Average Outstanding	**8.9**	14.0
Notes Payable at Year-End	**11.0**	12.5
Weighted Average Interest Rate	**2.37%**	1.89%
Weighted Average Interest Rate at Year-End	**3.42%**	1.64%

Year-end interest rates on short-term borrowings outstanding ranged from 2.82% to 3.75% and 1.56% to 1.67% as of December 31, 2004 and 2003, respectively. The maturity dates for borrowings outstanding as of December 31, 2004 are: January 3, 2005- $7.0 million; January 21, 2005- $3.0 million; and March 14, 2005- $1.0 million.

The Board of Directors has authorized lines of credit for up to $40.0 million. Short-term borrowings are below the prime rate with some requirements for compensating balances not exceeding 1% of the line.

Note 6 - Capitalization

All the transactions discussed below related to the issuance of securities were approved by the BPU, except where noted.

Common Stock
In May 2004, the Company sold and issued 700,000 shares of its common stock in a public offering that was priced at $19.80. The majority of the net proceeds of approximately $12.9 million were used to repay most of the Company's short-term borrowings outstanding at that time.

In August 2003, the Board of Directors approved a four-for-three stock split of its common stock, effective November 14, 2003 for shareholders of record on November 1, 2003. In October 2001, the Board of Directors approved a three-for-two common stock split effective January 2, 2002, for shareholders of record on December 14, 2001. All share, average number of shares and per share amounts of no par common stock on the financial statements have been restated to reflect the effect of both stock splits.

The number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) is 1,700,000 shares. The cumulative number of shares issued under the DRP at December 31, 2004, is 1,316,725. In each of 2003 and 2002 for specific six month periods, DRP participants had the opportunity to purchase the Company's common stock at a 5% discount with reinvested dividends and optional cash payments. The Company also has a restricted stock plan, which is described in Note 7 – Employee Benefit Plans.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2004, no preferred stock dividends were in arrears.

Preferred Stock
If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. At December 31, 2004 and 2003, 37,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears. The conversion feature of the no par $7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of twelve shares of the Company's common stock for each share of convertible stock redeemed.

The conversion feature of the no par $8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 13.714 shares of the Company's common stock. The preferred shares are convertible at the election of the security holder until 2004. After that date Middlesex also has the right to elect the conversion feature.

Long-term Debt
On March 24, 2004, Tidewater received approval from the PSC to borrow $0.8 million to fund a portion of its multi-year capital program. Subsequent to the PSC approval, Tidewater closed on a Delaware State Revolving Fund (SRF) loan of $0.8 million. The Delaware SRF program will allow, but does not obligate, Tidewater to draw down against a General Obligation Note for three specific projects. Tidewater will be charged an annual fee, which is a combination of interest charges and administrative fees, of 3.30% on the outstanding principal amount. All unpaid principal and fees must be paid on or before March 1, 2026.

Middlesex received approval from the BPU to issue up to $18.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on $16.6 million of First Mortgage Bonds designated as Series EE and FF on November 4, 2004.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. The aggregate annual principal repayment obligations for all other long-term debt are shown below:

(Millions of Dollars)

Year	Annual Maturities	Year	Annual Maturities
2005	$1.1	2008	$1.9
2006	$1.5	2009	$2.0
2007	$1.9		

The weighted average interest rate on all long-term debt at December 31, 2004 and 2003 was 5.26% and 6.03%, respectively. Except for the Amortizing Secured Note and Series U First Mortgage Bonds, all of the Company's outstanding debt has been issued through the New Jersey Economic Development Authority ($57.5 million), the New Jersey Environmental Infrastructure Trust program ($27.9 million) and the SRF program ($3.1 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE and FF First Mortgage Bonds and State Revolving Trust Bonds issuances. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. Series BB and CC proceeds can only be used for the 2004 main cleaning and cement lining programs. Series EE and FF proceeds can only be used for the construction of a raw water pipeline and the 2005 and 2006 main cleaning and cement lining programs.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. The Company is in compliance with all of its mortgage covenants and restrictions.

Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2004. Basic EPS are computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock $7.00 Series and $8.00 Series. All share and per share amounts reflect the three-for-two common stock split, effective January 2, 2002 and the four-for-three common stock split, effective November 14, 2003.

	(In Thousands of Dollars, Except per Share Amounts)					
	2004		2003		2002	
Basic:	**Income**	**Shares**	Income	Shares	Income	Shares
Net Income	**$ 8,446**	**11,080**	$ 6,631	10,475	$ 7,765	10,280
Preferred Dividend	**(255)**		(255)		(255)	
Earnings Applicable to Common Stock	**$ 8,191**	**11,080**	$ 6,376	10,475	$ 7,510	10,280
Basic EPS	**$ 0.74**		$ 0.61		$ 0.73	
Diluted:						
Earnings Applicable to Common Stock	**$ 8,191**	**11,080**	$ 6,376	10,475	$ 7,510	10,280
$7.00 Series Dividend	**104**	**178**	104	178	104	178
$8.00 Series Dividend	**96**	**165**	96	165	96	165
Adjusted Earnings Applicable to Common Stock	**$ 8,391**	**11,423**	$ 6,576	10,818	$ 7,710	10,623
Diluted EPS	**$ 0.73**		$ 0.61		$ 0.73	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, and trade receivables and payables approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to first mortgage bonds is based on quoted market prices for similar issues. The carrying amount and fair market value of the Company's bonds were as follows:

At December 31, (Thousands of Dollars)	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$ 98,899	$ 101,968	$ 82,769	$ 85,734
State Revolving Bonds	$ 1,442	$ 1,476	$ 1,511	$ 1,539

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments at December 31, 2004 and 2003 was $16.0 million and $14.2 million, respectively. Customer advances for construction have a carrying amount of $12.4 million and $11.7 million at December 31, 2004 and 2003, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans

Pension

The Company has a noncontributory defined benefit pension plan, which covers substantially all employees with more than 1,000 hours of service. In addition, the Company maintains an unfunded supplemental pension plan for its executives. The Accumulated Benefit Obligation for all pension plans at December 31, 2004 was $20.9 million.

Postretirement Benefits Other Than Pensions

The Company has a postretirement benefit plan other than pensions for substantially all of its retired employees. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. Accrued retirement benefit costs are recorded each year.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106 on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory assets at December 31, 2004 and 2003, respectively were $0.7 million and $0.8 million.

The Company uses a December 31 measurement date for all of its employee benefit plans. The following table sets forth information relating to the Company's pension plans and other postretirement benefits:

	Pension Benefits 2004	Pension Benefits 2003	Other Benefits 2004	Other Benefits 2003
	Years Ended December 31, (Thousands of Dollars)			
Reconciliation of Projected Benefit Obligation				
Beginning Balance	**$ 23,671**	$ 19,677	**$ 9,498**	$ 7,437
Service Cost	**746**	684	**426**	263
Interest Cost	**1,387**	1,356	**580**	485
Actuarial (Gain)/Loss	**1,516**	3,039	**1,028**	1,645
Benefits Paid	**(1,221)**	(1,085)	**(399)**	(332)
Ending Balance	**$ 26,099**	$ 23,671	**$11,133**	$ 9,498
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	**$ 18,587**	$ 15,846	**$ 2,582**	$ 2,065
Actual Return on Plan Assets	**1,497**	2,768	**190**	15
Employer Contributions	**647**	1,058	**1,057**	834
Benefits Paid	**(1,221)**	(1,085)	**(399)**	(332)
Ending Balance	**$ 19,510**	$ 18,587	**$ 3,430**	$ 2,582
Funded Status	**$ (6,589)**	$ (5,084)	**$ (7,703)**	$ (6,916)
Unrecognized Net Transition Obligation	**–**	–	**1,082**	1,217
Unrecognized Net Actuarial (Gain)/Loss	**2,655**	1,144	**4,835**	4,076
Unrecognized Prior Service Cost	**173**	264	**(3)**	(3)
Accrued Benefit Cost	**$ (3,761)**	$ (3,676)	**$ (1,789)**	$ (1,626)

	Pension Benefits 2004	Pension Benefits 2003	Pension Benefits 2002	Other Benefits 2004	Other Benefits 2003	Other Benefits 2002
	Years Ended December 31, (Thousands of Dollars)					
Components of Net Periodic Benefit Cost						
Service Cost	**$ 746**	$ 684	$ 724	**$ 426**	$ 263	$ 222
Interest Cost	**1,387**	1,356	1,300	**580**	485	463
Expected Return on Plan Assets	**(1,492)**	(1,272)	(1,281)	**(213)**	(175)	(125)
Amortization of Net Transition Obligation	**–**	–	2	**135**	135	135
Amortization of Net Actuarial (Gain)/Loss	**–**	–	–	**292**	143	111
Amortization of Prior Service Cost	**92**	92	92	**–**	–	–
Net Periodic Benefit Cost	**$ 733**	$ 860	$ 837	**$ 1,220**	$ 851	$ 806
Actual Return on Plan Assets	**8.18%**	17.48%	(9.47%)	**6.53%**	0.77%	1.38%
Weighted Average Assumptions:						
Expected Return on Plan Assets	**8.00%**	8.00%	8.00%	**7.50%**	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	**5.875%**	6.00%	6.75%	**5.875%**	6.00%	6.75%
Benefit Cost	**6.00%**	6.75%	7.25%	**6.00%**	6.75%	7.25%
Compensation Increase for:						
Benefit Obligation	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%
Benefit Cost	**3.50%**	3.50%	4.25%	**3.50%**	3.50%	4.25%

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2004 and declining by 1.0% per year through 2007 and 0.5% per year to 5% by year 2009. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	(Thousands of Dollars) 1 Percentage Point	
	Increase	Decrease
Effect on Current Year's Service and Benefit Cost	$ 230	$ (173)
Effect on Benefit Obligation Asset Category	1,714	(1,338)

The following benefit payments, which reflect expected future service, are expected to be paid:

Year	**Pension Benefits**	**Other Benefits**
2005	$ 1,282	$ 354
2006	1,269	367
2007	1,457	388
2008	1,509	414
2009	1,528	452
2010-2014	8,075	2,565
Totals	$ 15,120	$ 4,540

Benefit Plans Assets

The benefit plans asset allocations at December 31, 2004 and 2003, by asset category are as follows:

	Pension Plan		**Other Benefits**			
Asset Category	2004	2003	2004	2003	Target	Range
Equity Securities	62.8%	63.1%	54.0%	-0- %	60%	30-65%
Debt Securities	34.5	33.4	36.9	-0- %	38%	25-70%
Cash	2.7	3.5	9.1	100.0%	2%	0-10%
Total	100.0%	100.0%	100.0%	100.0%		

Middlesex utilizes two investment firms to manage its pension plan asset portfolio. One of those investment firms manages the other post-retirement benefits assets. Quarterly meetings are held between the Company's Pension Committee and the investment managers to review their performance and asset allocation. If the current asset allocation is outside the targeted range, the Pension Committee reviews current market conditions and advice provided by the investment managers to determine the appropriateness of rebalancing the portfolio.

The investment objective of the Company is to maximize its long-term return on benefit plan assets, relative to a reasonable level of risk, maintain a diversified investment portfolio and invest in compliance with the Employee Retirement Income Security Act of 1974. The expected long-term rate of return is based on the various asset categories in which it invests and the current expectations and historical performance for these categories.

Equity securities include Middlesex common stock in the amounts of $0.7 million (3.8 percent of total plan assets) and $0.8 million (4.2 percent of total plan assets) at December 31, 2004 and 2003, respectively.

For the pension plan, Middlesex made total cash contributions of $0.6 million in 2004 and expects to make cash contributions of approximately $0.8 million in 2005.

For the other benefit plan, Middlesex made total cash contributions of $1.1 million in 2004 and expects to make cash contributions of approximately $1.2 million in 2005.

401(k) Plan
The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1% but not more than 6%. The Company's matching contributions were $0.3 million in 2004, $0.3 million in 2003 and $0.2 million in 2002.

Stock Based Compensation
The Company maintains a Restricted Stock Plan, under which 65,233 shares of the Company's common stock are held in escrow by the Company for key employees. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death or disability.

The maximum number of shares authorized for grant under this plan is 240,000 shares. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for each of the years ended December 31, 2004, 2003 and 2002 was $0.3 million, $0.3 million and $0.2 million, respectively.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation."

Note 8 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey and Delaware. It also operates a regulated wastewater system in New Jersey. The Company is subject to regulations as to its rates, services and other matters by the states of New Jersey and Delaware with respect to utility service within these states. The other segment is non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

	Twelve Months Ended December 31, (Thousands of Dollars)		
Operations by Segments	**2004**	2003	2002
Revenues:			
Regulated	**$ 60,745**	$ 55,707	$ 54,398
Non – Regulated	**10,366**	8,500	7,576
Inter-segment Elimination	**(120)**	(96)	(41)
Consolidated Revenues	**$ 70,991**	$ 64,111	$ 61,933
Operating Income:			
Regulated	**$ 12,569**	$ 11,013	$ 12,032
Non – Regulated	**550**	487	435
Consolidated Operating Income	**$ 13,119**	$ 11,500	$ 12,467
Depreciation:			
Regulated	**$ 5,762**	$ 5,308	$ 4,925
Non – Regulated	**84**	55	38
Consolidated Depreciation	**$ 5,846**	$ 5,363	$ 4,963
Other Income, Net:			
Regulated	**$ 892**	$ 506	$ 474
Non – Regulated	**(1)**	(33)	22
Inter-segment Elimination	**(96)**	(116)	(54)
Consolidated Other Income, Net	**$ 795**	$ 357	$ 442
Interest Expense:			
Regulated	**$ 5,469**	$ 5,227	$ 5,143
Non – Regulated	**96**	116	54
Inter-segment Elimination	**(96)**	(116)	(54)
Consolidated Interest Charges	**$ 5,469**	$ 5,227	$ 5,143
Net Income:			
Regulated	**$ 7,993**	$ 6,292	$ 7,361
Non – Regulated	**453**	339	404
Consolidated Net Income	**$ 8,446**	$ 6,631	$ 7,765
Capital Expenditures:			
Regulated	**$ 29,650**	$ 19,002	$ 16,060
Non – Regulated	**210**	572	429
Total Capital Expenditures	**$ 29,860**	$ 19,574	$ 16,489

	As of December 31, (Thousands of Dollars)	
	2004	2003
Assets:		
Regulated	**$ 296,260**	$ 259,689
Non – Regulated	**4,943**	5,223
Inter-segment Elimination	**(2,074)**	(1,720)
Consolidated Assets	**$ 299,129**	$ 263,192

Note 9 - Quarterly Operating Results - Unaudited

Quarterly operating results for 2004 and 2003 are as follows:

	(Thousands of Dollars, Except per Share Data)				
2004	1st	2nd	3rd	4th	Total
Operating Revenues	$ 15,876	$ 17,770	$ 19,856	$ 17,489	$ 70,991
Operating Income	2,220	3,110	4,497	3,292	13,119
Net Income	1,034	1,890	3,362	2,160	8,446
Basic Earnings per Share	$ 0.09	$ 0.17	$ 0.29	$ 0.19	$ 0.74
Diluted Earnings per Share	$ 0.09	$ 0.16	$ 0.29	$ 0.19	$ 0.73
2003					
Operating Revenues	$ 14,981	$ 15,998	$ 17,586	$ 15,546	$ 64,111
Operating Income	2,376	3,108	3,500	2,516	11,500
Net Income	1,225	1,804	2,393	1,209	6,631
Basic Earnings per Share	$ 0.11	$ 0.17	$ 0.22	$ 0.11	$ 0.61
Diluted Earnings per Share	$ 0.11	$ 0.17	$ 0.22	$ 0.11	$ 0.61

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months.

SHAREHOLDER INFORMATION

Stock Exchange Listing
The Common Stock of Middlesex Water Company is listed on the NASDAQ Stock Market under the symbol MSEX.

Annual Meeting
The Annual Meeting of Shareholders will be held on May 25, 2005, at 11:00 a.m. at the Office of the Company, 1500 Ronson Road, Iselin, NJ.

Shareholders
As of December 31, 2004, there were 2,077 registered shareholders.

Shareholder Services
Registrar and Transfer Company is the transfer agent for Middlesex Water Company and can answer questions concerning your account, dividend payments, lost certificates, transfer of stock, change of address and other related matters.

Transfer Agent and Registrar
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
(800) 368-5948

Auditors
Deloitte & Touche LLP
2 Hilton Court
Parsippany, NJ 07054
(973) 683-7000

Mortgage Trustee
Wachovia Bank
21 South Street
Morristown, NJ 07960
(973) 898-7164

Dividend Reinvestment
A dividend reinvestment plan is provided for registered shareholders as a convenient way to purchase more shares through investment of dividends or voluntary cash payments. A prospectus describing the Plan is available from the transfer agent or the Company.

Direct Deposit of Dividends
The Company, through its transfer agent, offers direct deposit of dividends whereby dividend payments may be deposited into shareholders' checking, savings or money market accounts.

Company Website
Visit the Middlesex Water website at www.middlesexwater.com for more information about the Company.

Form 10-K
You may request a copy of our Annual Report on Form10-K as filed with the Securities and Exchange Commission free of charge by contacting the Investor Relations Department at 1500 Ronson Road, Iselin, NJ 08830. Filings may also be found on our website at www.middlesexwater.com.

Company Headquarters
Middlesex Water Company
1500 Ronson Road
Iselin, NJ 08830
(732) 634-1500

COMMON STOCK MARKET PRICE AND DIVIDEND PER SHARE

	2004			2003		
	High	**Low**	**Dividend**	High	Low	Dividend
1st Quarter	**$21.32**	**$19.38**	**$0.1650**	$ 18.00	$ 15.77	$ 0.1613
2nd Quarter	**21.81**	**18.83**	**0.1650**	18.49	16.32	0.1613
3rd Quarter	**19.50**	**16.65**	**0.1650**	21.23	17.72	0.1613
4th Quarter	**20.72**	**17.06**	**0.1675**	21.12	18.19	0.1650

SCHEDULE OF DIVIDEND DATES FOR THE YEAR 2005*

	Declaration Dates	Record Dates	Payment Dates
Common	January 25	February 15	March 1
	April 26	May 13	June 1
	July 26	August 15	September 1
	October 25	November 15	December 1
Preferred	December 16**	January 14	February 1
	March 24	April 15	April 29
	June 21	July 15	August 1
	September 27	October 14	November 1

*Subject to approval by Board of Directors. ** 2004.

Board of Directors

Seated left to right: **Jeffries Shein** (3,5,6,7), Managing Partner, JGT Management Co. LLC, **Dennis G. Sullivan**, President and Chief Executive Officer, **J. Richard Tompkins** (2), Chairman of the Board, **Stephen H. Mundy** (Director Emeritus). *Standing left to right:* **John C. Cutting** (1,2,6,7), Retired, formerly Senior Engineer, Science Applications International Corporation, **John P. Mulkerin** (1,4,5,6,7), Retired, formerly President and Chief Executive Officer, First Sentinel Bancorp, Inc., **Annette Catino** (1,3,5), President and CEO, QualCare Alliance Networks, Inc., **John R. Middleton, M.D.** (1,3,4), Chair of the Department of Medicine and Chief Medical Officer of Raritan Bay Medical Center, **Walter G. Reinhard** (2,4), Member, Law Firm of Norris, McLaughlin & Marcus, P.A.

1. Member of the Audit Committee.
2. Member of the Capital Improvement Committee.
3. Member of the Compensation Committee.
4. Member of the Corporate Governance Committee.
5. Member of the Nominating Committee.
6. Member of the Pension Committee.
7. Member of the Ad hoc Pricing Committee.

Chairman of the Board

J. Richard Tompkins

Officers

Dennis G. Sullivan, President and Chief Executive Officer
Dennis W. Doll, Executive Vice President
A. Bruce O'Connor, Vice President and Chief Financial Officer
Ronald F. Williams, Vice President-Operations and Chief Operating Officer
Richard M. Risoldi, Vice President-Subsidiary Operations
Kenneth J. Quinn, Vice President, General Counsel, Secretary and Treasurer
James P. Garrett, Vice President-Human Resources

MIDDLESEX
WATER COMPANY

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