

## A Note from the President

### To Our Shareholders,

#### Second Quarter Results

Consolidated operating revenues for the second quarter ended June 30, 2004, were \$17.8 million, up \$1.8 million from \$16.0 million for the same period in 2003. Earnings applicable to common stock were \$1.8 million, or \$0.17 per share of common stock, as compared to \$1.7 million, or \$0.17 in 2003. Earnings per share for 2004 reflects the dilution caused by additional shares outstanding following the sale of 700,000 shares during May.

Six month operating revenues increased to \$33.6 million, up from \$31.0 million for the same period in 2003. Earnings applicable to common stock were \$2.8 million, or \$0.26 per share of common stock, as compared to \$2.9 million, or \$0.28 in 2003. The decline in earnings per share was due to higher operating costs and the increase in shares outstanding.

Twelve month operating revenues increased to \$66.8 million, up from \$63.2 million for the same period in 2003. Earnings applicable to common stock were \$6.3 million, or \$0.59 per share of common stock, as compared to \$7.4 million, or \$0.71 in 2003.

Revenues increased due to the continuing growth of our Delaware customer base, increases in base rates in both New Jersey and Delaware, and from our meter installation joint venture. Operating costs increased to support the growth of both Delaware and the joint venture, while costs of power, sources of supply, employee labor and related benefits, and corporate governance related expenses adversely affected Middlesex.

#### Board Declares Dividend

The Board of Directors declared a quarterly Common Stock dividend of \$0.165 per share, payable on September 1, 2004, to stockholders of record as of August 13, 2004.

#### Annual Meeting of Stockholders

At the annual meeting held on May 19, 2004, stockholders of the Company voted to re-elect Directors Annette Catino, Walter G. Reinhard and Stephen H. Mundy to 3-year terms expiring in 2007. Stockholders also approved the appointment of Deloitte & Touche LLP, as independent auditors for the year 2004. Stockholders attending the meeting or represented by proxy held 84% of the 8,892,737 shares outstanding of common stock.

At the annual meeting, I described highlights and developments during 2003, including progress on our raw water pipeline construction, customer growth in our Delaware subsidiary, Tidewater Utilities, Inc., and our operating agreement with the City of Perth Amboy. A. Bruce O'Connor, our Vice President and Chief Financial Officer, reported on financial matters including construction financing, 2003 earnings, stock performance and dividend history.

#### Stock Offering

On May 12, 2004, Middlesex Water Company announced that it had closed on the public offering of 700,000 shares of its common stock, resulting in net proceeds of \$13.3 million. Most of the proceeds were used to repay short-term indebtedness.

#### Rate Matters

In May, Middlesex Water Company received approval from the New Jersey Board of Public Utilities (BPU) for a 9.5% increase in its water rates to cover costs of its increased capital investment as well as maintenance and operating expenses. While the amount of the increase is less than the 17.8% requested, it will help to offset the rising costs of purchased water and power, taxes, corporate governance regulation, and security, that were factors largely beyond the Company's control.

In late June, our subsidiaries in Southampton Township, NJ, Pinelands Water Company and Pinelands Wastewater Company, received approval from the BPU for an increase of \$131,000 over current revenues to help offset the increasing costs associated with the operation and maintenance of, and capital improvements to their systems. This increase represents a \$48,500 increase in water revenues, and an increase of \$82,900 in wastewater revenues.

Interim rates of 15% for Tidewater were put in place in late June while its rate case goes through the regulatory process in Delaware. Tidewater filed for a 24% increase in April 2004.

#### Construction Report

In early June, Middlesex Water Company began construction of a new 60" diameter raw water pipeline from its pump station in New Brunswick, near the Raritan River, to its water treatment plant in Edison. The 6,250-foot raw water pipeline will move untreated water, obtained from the Delaware & Raritan Canal, to the Company's plant where it will be treated and distributed to a population of more than 267,000 customers in Middlesex County. The water pipeline is being constructed to ensure backup water supply and to provide security and necessary redundancy for the Company's existing concrete supply line. This pipeline construction project, estimated at \$9.7 million, is being financed through low interest loans obtained through the New Jersey Environmental Infrastructure Trust.



Dennis G. Sullivan  
President and Chief Executive Officer  
August 13, 2004

#### Shareholder Services

Inquiries about stock transfer, dividends, dividend reinvestment, missing or lost certificates, change of address notification and other account information should be directed to:

**Investor Relations Department, Middlesex Water Company**  
**P.O. Box 1500, Iselin, NJ 08830**

#### Dividend Reinvestment and Stock Purchase Plan

The Company has a Dividend Reinvestment and Stock Purchase Plan through which its shareholders can automatically reinvest all or part of their dividends and/or make direct cash payments to acquire Middlesex Water Company Common Stock.

#### Direct Deposit of Dividends

Middlesex Water offers direct deposit of dividends whereby dividend payments may be deposited into shareholders' checking, savings or money market accounts. For information call 800-368-5948.

#### Transfer Agent

The Transfer Agent for the Common and Preferred Stocks is:

**Registrar and Transfer Company, 10 Commerce Drive,**  
**Cranford, NJ 07016, 800-368-5948**

#### View Your Account Online!

Shareholders can now view their stockholder account information directly via the Internet. Registrar and Transfer Company (R&T) will issue and mail a password directly to you at your address of record. You may also apply for a password by visiting the R&T website, [www.rtc.com](http://www.rtc.com). Please note, you will need your account number to request Internet access. This number can be found on your distribution check or dividend reinvestment statement. The R&T website also has other loadable forms and the ability to submit address changes and request the replacement of outstanding checks.



1500 Ronson Road, Iselin, NJ 08830-3020  
732-634-1500 • Fax 732-750-5981  
NASDAQ Stock Market Symbol: MSEX  
[www.middlesexwater.com](http://www.middlesexwater.com)

*Condensed Consolidated  
Statements of Income*  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2004	2003	2004	2003	2004	2003
Operating Revenues	<b>\$17,769,913</b>	\$15,997,966	<b>\$33,645,646</b>	\$30,979,339	<b>\$66,777,521</b>	\$63,157,387
Operating Expenses:						
Operations	<b>9,357,580</b>	7,793,242	<b>18,261,671</b>	15,604,871	<b>35,322,899</b>	30,785,511
Maintenance	<b>808,459</b>	805,824	<b>1,670,967</b>	1,781,678	<b>3,418,402</b>	3,311,488
Depreciation	<b>1,449,469</b>	1,338,617	<b>2,885,699</b>	2,618,797	<b>5,629,629</b>	4,973,517
Other Taxes	<b>2,026,107</b>	1,961,134	<b>3,971,301</b>	3,869,262	<b>7,917,957</b>	7,818,102
Income Taxes	<b>1,018,643</b>	991,545	<b>1,526,002</b>	1,621,278	<b>3,141,942</b>	3,881,661
Total Operating Expenses	<b>14,660,258</b>	12,890,362	<b>28,315,640</b>	25,495,886	<b>55,430,829</b>	50,770,279
Operating Income	<b>3,109,655</b>	3,107,604	<b>5,330,006</b>	5,483,453	<b>11,346,692</b>	12,387,108
Other Income:						
Allowance for Funds Used During Construction	<b>80,721</b>	65,199	<b>130,282</b>	157,805	<b>288,396</b>	275,499
Other Income	<b>117,759</b>	22,247	<b>137,565</b>	42,191	<b>226,873</b>	235,968
Other Expense	<b>(26,440)</b>	(48,554)	<b>(29,676)</b>	(67,724)	<b>(51,883)</b>	(122,019)
Total Other Income—Net	<b>172,040</b>	38,892	<b>238,171</b>	132,272	<b>463,386</b>	389,448
Interest Charges	<b>1,391,364</b>	1,342,690	<b>2,644,206</b>	2,587,038	<b>5,284,198</b>	5,148,581
Net Income	<b>1,890,331</b>	1,803,806	<b>2,923,971</b>	3,028,687	<b>6,525,880</b>	7,627,975
Preferred Stock Dividend Requirements	<b>63,696</b>	63,696	<b>127,393</b>	127,393	<b>254,786</b>	254,786
Earnings Applicable to Common Stock	<b>\$ 1,826,635</b>	\$ 1,740,110	<b>\$ 2,796,578</b>	\$ 2,901,294	<b>\$ 6,271,094</b>	\$ 7,373,189
Earnings per share of Common Stock:						
Basic	<b>\$ 0.17</b>	\$ 0.17	<b>\$ 0.26</b>	\$ 0.28	<b>\$ 0.59</b>	\$ 0.71
Diluted	<b>\$ 0.16</b>	\$ 0.17	<b>\$ 0.26</b>	\$ 0.28	<b>\$ 0.59</b>	\$ 0.71
Average Number of Common Shares Outstanding:						
Basic	<b>11,068,164</b>	10,459,263	<b>10,823,630</b>	10,419,105	<b>10,676,299</b>	10,374,727
Diluted	<b>11,411,304</b>	10,802,403	<b>11,166,770</b>	10,762,245	<b>11,019,439</b>	10,717,867
Cash Dividends Paid per Common Share	<b>\$ 0.1650</b>	\$ 0.1613	<b>\$ 0.3300</b>	\$ 0.3225	<b>\$ 0.6565</b>	\$ 0.6413



*June 30, 2004*

**Second Quarter  
Report to  
Shareholders**