2005 Annual Report

Building on Our Fundamentals

A Solid Vision in an Evolving Industry

MIDDLESEX WATER COMPANY

Corporate Profile

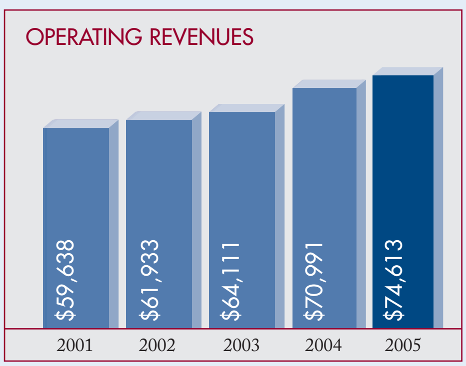
Middlesex Water Company, headquartered in Iselin, New Jersey, provides water, wastewater and related services in New Jersey and Delaware. Established in 1897, the Company and its subsidiaries collectively serve more than 115,000 customers. The Company's common stock trades on the NASDAQ Stock Market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

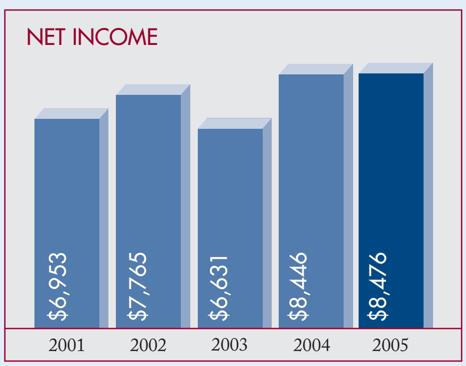
MIDDLESEX WATER COMPANY

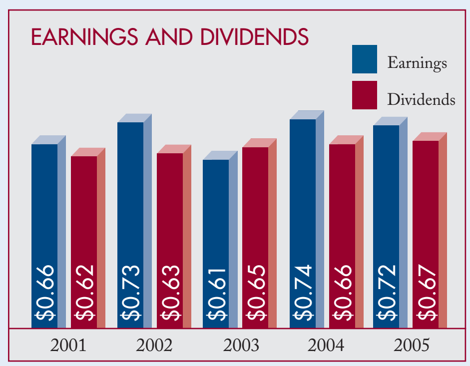
FINANCIAL HIGHLIGHTS

(Thousands of Dollars Except per Share Data)

	2005	2004	Change
Operating Revenues	**$74,613**	$70,991	$3,622
Operation and Maintenance Expenses	**42,156**	39,984	2,172
Taxes	**12,016**	12,042	(26)
Interest Charges	**6,245**	5,468	777
Net Income	**8,476**	8,446	30
Earnings Applicable to Common Stock	**8,225**	8,191	34
Basic Earnings per Share	**0.72**	0.74	(0.02)
Diluted Earnings per Share	**0.71**	0.73	(0.02)
Cash Dividends Paid per Share	**0.67**	0.66	0.01
Utility Plant	**337,922**	310,336	27,586
Return on Average Common Equity	**8.6%**	9.4%	(0.8%)







Our Mission

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

Safe Harbor

This Annual Report contains forward-looking statements on a number of subjects. They are based on the company's current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially. Our SEC filings identify factors that could affect those results. Please refer to those documents for additional information.

Moving Forward - Continuing to Refine the Vision and Execute the Strategies

Q & A with new President and Chief Executive Officer, Dennis W. Doll

Q. What is your view of Middlesex Water Company?

A. I am honored to be given the opportunity to carry on a proud legacy that began when the Company was founded in 1897. It is the foresight and commitment of our former leaders and all employees that has brought the Company to where it is today, a trusted provider of utility services that have a direct impact on peoples' lives. I am very excited about the passion I see around the Company for this business and I intend to do my part to further translate that passion into long-term value for our shareholders.

Q. Where does Middlesex Water Company fit in the landscape of investor-owned water and wastewater businesses?

A. We are now one of a handful of publicly-traded traditional utility and utility-related services companies. We compete for growth in certain areas with publicly-traded peers and with other privately-held and municipal entities. We have the technical and management capabilities to be effective competitors in this business and we intend to continue on this path through diligent, disciplined attention to our vision and underlying strategies.

Q. The face of investor-owned water, wastewater and related products and services industries continues to evolve as various entities decide to enter and leave these industries. What does all of this mean for Middlesex?

A. The need for critical water and wastewater services is clearly not going away. Our ongoing challenge is to meet our obligation to the public we serve to make the investments necessary to provide safe, adequate and proper service both for present and future generations while simultaneously, meeting the obligation to our shareholders to build long-term value. We need to deliver for the shareholder through adequate recovery of our investments in the regulated utilities through the regulatory process and through prudent investments in complementary, non-regulated products and services that meet our risk profile. These are the same businesses that our peers and others are in. The relevant question for our Company and for our shareholders is, in this continually evolving environment, can we meet our shareholders' expectations for adding to long-term value? The answer in my view is an unqualified yes. I have chosen to invest my career in t

Dennis W. Doll, President and Chief Executive Officer

Company because I have knowledge of the great work that produced past successes and knowledge of the capabilities and commitment of our talented employees to build upon those successes to create additional value.

Q. What can shareholders look for under your guidance?

A. Certain fundamental aspects of our business have to be a given. Anything short of a diligent focus on high quality utility services for our customers would be unacceptable. In addition, in this environment of heightened awareness of the importance of solid corporate governance, honesty, integrity and transparency on the part of the Board, the management team and all of our employees, are at the top of our list. Our reputation as a trusted provider of utility services was built over many years and we have every intention to not only maintain but further develop that reputation.

Beyond our commitment to quality and to effective governance, we are further expanding our efforts in three fundamental areas of both external and internal focus: 1) profitable growth, 2) operational excellence and 3) development of the technical and management skills of our people. Although continuous improvement in these areas is fundamental to the success of any business, it is the discipline with which we are executing our plans in these areas that will ultimately determine how effectively we translate these efforts into bottom-line results.

Q. What specifically are you doing to further improve operational excellence?

A. We are concentrating on the details of every business process that impacts service levels, the integrity of our infrastructure, our ability to grow revenues and our ability to understand and manage our costs. We are expanding upon the metrics that we view as critical for managing these areas and we are moving ownership and accountability for both financial and operational results even further into the organization.

Q. Do you have plans to invest outside traditional utility and related products and services businesses?

A. We have no intention to pretend we are something that we are not. We will continue to keep appropriate attention on what we do best, investing in, and managing, water and wastewater assets and related products and services in our core markets of New Jersey and Delaware and, in other states, as these opportunities are becoming available. We continue to evaluate opportunities in utility and related areas and are open to other opportunities that leverage off our core skills and meet risk criteria that we believe meet the expectations of our shareholders.

TO OUR SHAREHOLDERS

As the investor-owned water and wastewater industries evolved in 2005, Middlesex Water Company also continued to evolve as we further focused on diverse opportunities that this environment presents to build shareholder value.

Given this continually changing and dynamic environment, we devoted considerable effort during 2005 to focus on the fundamental aspects of our business and to develop solid plans to further contribute to long-term value. Through our strategic planning process we reconfirmed who we are, where we fit in the landscape of investor-owned water, wastewater and related businesses, where we are going, and how we intend to get there. The theme of this report, Building on Our Fundamentals, is more to us than just words — it is the basis on which we are executing our business plan to enable us to achieve our goals.

J. RICHARD TOMPKINS

DENNIS G. SULLIVAN

THE VISION

Our strategy is focused on four key areas:

- Serve as a trusted and continually improving provider of safe, reliable and cost-effective water, wastewater and related services.
- Provide a comprehensive suite of water and wastewater solutions in the rapidly developing Delaware market that result in profitable growth.
- Pursue profitable, core growth in New Jersey.
- Invest in products, services and other viable opportunities that complement our core competencies.

2005 HIGHLIGHTS

This past year brought a number of challenges and successes in the financial, operational and technical arenas. Consolidated revenues grew $3.6 million, or 5.1%, however basic earnings per share decreased by $0.02, or 2.7%, due to the full effect of the 700,000 common stock share offering in 2004 and shares issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan during 2005. Additional capital investment in utility infrastructure of $25.3 million, together with increased operating costs, continued the need for rate relief in the regulated water businesses. The New Jersey Board of Public Utilities (BPU) granted Middlesex a $4.3 million rate increase in December 2005 that will augment revenues throughout 2006. The second phase of the 2005 Tidewater rate increase, amounting to $0.5 million annually, was implemented in April 2005. We are currently managing rate petitions for the Pinelands Water and Wastewater Companies in New Jersey that were filed with the BPU in August 2005. The perennial challenge for our regulated companies is to control operating costs and minimize, to the extent possible, the regulatory lag between the time of investment in utility plant and recognition of the expenditure in rates.

Long-term debt for both Tidewater Utilities, Inc. and Middlesex was financed through low-cost State Revolving Funds and commercial institutions. Over $2.2 million of additional equity was raised through the 5% discount on optional cash payments and reinvested dividends through the Company's Dividend Reinvestment and Common Stock Purchase Plan during the year.

OPERATIONAL AND TECHNOLOGICAL ACHIEVEMENTS

A number of operational projects were completed to support and strengthen our utility infrastructure and to maintain appropriate water quality.

- A new 60-inch raw water pipeline from the Delaware and Raritan Canal supply to our primary water treatment plant was completed in March

2005. This additional supply line, which is over a mile in length, provides increased capacity and security for the major water supply serving the Middlesex customers.

- A solar electric generation project was completed at our New Jersey water treatment plant that will be fully operational in 2006. This project is designed to produce 562 megawatts of power that we anticipate will produce up to 10% savings in power costs at the treatment plant. This project was partially funded by $1.3 million of renewable energy credits that were granted to the Company by the BPU's Office of Clean Energy.

- In our continuing efforts to conserve water, a comprehensive leak detection program was initiated within our New Jersey water utility system (the Middlesex System) to eliminate lost water and reduce costs. During 2005, over 100 miles of underground water mains were surveyed, with both large and small leaks identified and corrected. This program is scheduled to continue for Middlesex's entire 730-mile distribution system over the next several years.

- 2005 marked the tenth year of the RENEW Program, which was established to clean and restore older water mains that have experienced diminished capacity due to mineral build-up. More than nine miles of pipeline were rehabilitated this year making a total of 60 miles that have been completed over the ten-year period.

- A pilot project for the implementation of a Geographic Information System (GIS) to provide locational data for our utility infrastructure was successfully completed in 2005. This system is to be expanded to include the Middlesex distribution system and will provide data to create efficiencies in daily operations as well as further improve system planning capability and security.

Our management team participated in security exercises sponsored by the U.S. Department of Homeland Security. These efforts are part of our planning to identify security risks and mitigate any identified risks. The Company frequently reviews its emergency preparedness plans to ensure the health and safety of our customers and the continuity of our operations in the event of a major incident.

In 2005, we launched a regulated wastewater business in Delaware through a newly-formed subsidiary, Tidewater Environmental Services, Inc. This subsidiary acquired its first regulated wastewater treatment system in December and has since begun operations. The demand for regulated wastewater services in Delaware is strong and we look to further leverage our existing capabilities in this area for additional long-term growth. Our innovative solutions to meet the ongoing needs of developers and others continue to contribute to strong interest in our services, both in the areas of regulated water and wastewater operations as well as in non-regulated contract operations.

THE HUMAN ELEMENT

We continue to support the communities we serve, both in New Jersey and Delaware. Our efforts in customer education and community involvement provide opportunities to make a difference in our customers' lives while also providing personal development opportunities for our employees.

We will maintain a tight focus on the fundamental aspects of our business. Our employees demonstrated in 2005 why we enjoy a reputation for delivering high-quality utility and related services. We are also expending additional efforts on our core business processes to identify areas where we can further improve the delivery of services as cost-effectively as possible. These efforts include identifying opportunities for process improvement and further automation of those processes.

We continue to invest in our employees by refining our training programs to ensure that our current and future needs for both technical and management skills are met. We value the contributions our employees make every day. We completed a compensation study in 2005 to help ensure that we are supporting our employees and their families with competitive wages.

The Company announced a change in management, effective January 1, 2006. Dennis W. Doll, who joined the Company in November 2004 as Executive Vice President, assumed responsibilities as President and Chief Executive Officer. Mr. Doll has worked closely with the management team throughout 2005 to lay a foundation for transition that is intended to further leverage our capability for greater financial and operational performance. Mr. Doll has proven his leadership and management capabilities throughout this transition and we are confident that your company has been placed in the care and trust of his capable hands. Please note the Question and Answer insert which outlines Mr. Doll's vision for the Company.

In closing, we will continue to look at water in new ways to seize the possibilities that exist in a changing industry landscape. We are guided by a solid vision to focus on opportunities that build long-term value. We thank you for your loyal support and look forward to further demonstrating to you why your investment in Middlesex Water Company is a prudent choice.

J. Richard Tompkins
Chairman of the Board

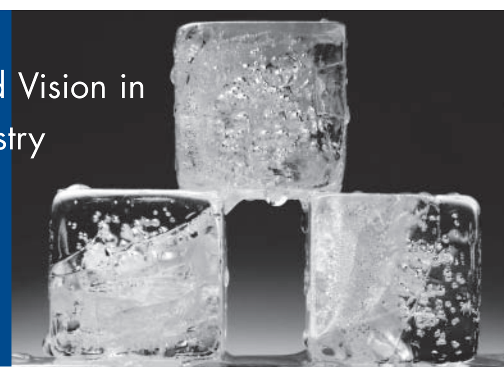
Dennis G. Sullivan
President and Chief Executive Officer

IN THANKS AND APPRECIATION

Dennis G. Sullivan retired in January 2006 following 21 years of service to Middlesex Water Company. As President and CEO he made numerous contributions to the Company's success including expansion of the customer base in both New Jersey and Delaware, construction of critical utility infrastructure, and further expansion into wastewater, related services and non-regulated operations. He served as Chief Executive Officer since February 2003 and as President of the Company since May 2001. Mr. Sullivan has served as an Officer and Director for the Company and its subsidiary operations including Tidewater Utilities, Inc., Pinelands Water and Wastewater Companies, Bayview Water Company, Utility Service Affiliates (Perth Amboy) Inc. and Utility Service Affiliates, Inc.

Mr. Sullivan has been a dedicated and tireless ambassador for the Company in the relationships he has forged and he exemplifies the true commitment to service that is inherent in the culture of Middlesex Water Company. We thank him for his leadership and service.

A Solid Vision in
an Evolving Industry



YEAR IN REVIEW

As the water industry continues to evolve, Middlesex Water is guided by a single, steadfast mission — to provide water, wastewater and related products and services in a safe, reliable and efficient manner. In 2005, the Company updated its strategic plan and began re-examining its underlying support processes. Our focus is on our basic operating mechanisms, including fundamental business processes, training and development, and achieving profitable growth.

❖ Building on Our Facilities and Infrastructure

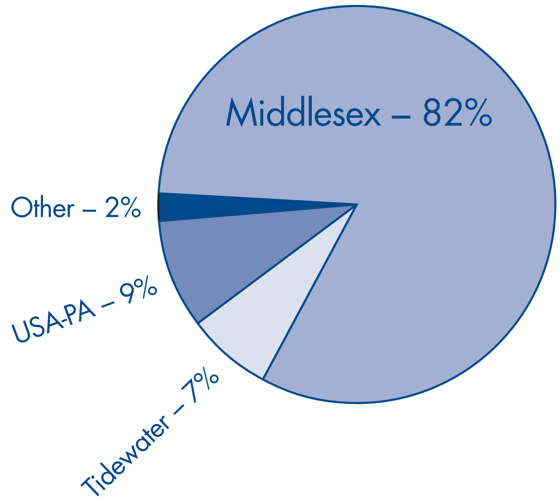
Middlesex Water Company invests regularly in its facilities to improve the reliability and security of its utility infrastructure. In 2005, the Company put capital towards meeting increasingly stringent federal and state water quality standards and addressing the water supply needs of new and existing customers. As part of this investment, a second raw water pipeline went into operation in early March 2005. The 6,250-foot, 60-inch pipeline from the raw water pump station on the Delaware & Raritan Canal in New Brunswick, NJ, to the Company's Carl J. Olsen Water Treatment Plant (CJO Plant) in Edison, NJ, is providing additional security and reliability and added capacity to the Company's water distribution system.

We continued to identify and rehabilitate aging pipeline under our RENEW Program and invested an additional $3.25 million in 2005. RENEW helps to enhance water quality and improve water flow and pressure. About nine miles of water main were rehabilitated to nearly new condition in the Iselin and Colonia sections of Woodbridge Township and portions of Edison and South Amboy, NJ. Throughout Middlesex's 730-mile distribution system in New Jersey, about 120 miles, or 16% of its water mains still need to be rehabilitated.

Clean, renewable solar power is helping Middlesex Water to address its energy needs. As environmental stewards, we believe in exploring alternative energy sources where these efforts make economic sense for the benefit of our customers. With the help of a grant from the New Jersey Board of Public Utilities Office of Clean Energy's Renewable Energy Program, the Company installed a Solar Electric Generation System at its CJO Plant. The system, which is a combination of fixed roof panels and a tracker system, is designed to produce about 562 megawatts of power in the first full year of operation which is approximately 4.0% of the power used at the Company's plant. With the savings on electric costs and the proceeds from the sale of Renewable Energy Credits, this project meets our environmental and financial objectives.

During 2005, Middlesex Water provided water service to approximately 58,500 retail customers in central New Jersey. In addition, the Company provided water service under contract to surrounding municipalities with a population of approximately 267,000.

Total Water Production



Under the Company's Public-Private Partnership Agreement with the City of Perth Amboy, NJ, its subsidiary, Utility Service Affiliates (Perth Amboy) Inc. (USA-PA), initiated plans to help the city meet new state regulations regarding its CSO (Combined Sewer Overflow) System. USA-PA operates Perth Amboy's water and wastewater utilities and is currently developing plans to involve the public in the creation of a long-term control plan, which is then to be submitted to the state for approval.

Lost water from leakage is a drain on operating results and is an industry-wide challenge. In 2005, the Company initiated a systematic leak detection program within its New Jersey water utility system (the Middlesex system) to identify leaks in its distribution infrastructure in an effort to conserve water and reduce operating costs. During 2005, over 100 miles of main were surveyed. A preliminary estimate of the leaks found during this year's survey amounted to 142 million gallons per year or 0.7% of the Company's yearly production. The entire system is expected to be surveyed over several years.

Investing in solar power helps meet our energy objectives.

When customers turn on their tap, they expect a plentiful supply of clean drinking water — and Middlesex Water met their expectations. The Company and its subsidiaries capably delivered more than 21 billion gallons of water in 2005 to meet residential, industrial, commercial and fire protection needs. Our treatment facilities are continually upgraded to ensure compliance with federal and state water quality regulations. In addition, we test our supplies extensively to ensure that water we deliver to customers meets or is better than all federal and state primary drinking water requirements.

In Delaware, Tidewater Utilities, Inc. (Tidewater), which provides water service to retail water customers south of the Chesapeake and Delaware Canal, invested $11.2 million in capital improvement projects to maintain its water infrastructure and support growth. Upgrades and projects included the construction of new plants and elevated storage facilities, rehabilitation of several pump house facilities, replacement of pumps, motors and valves, the addition of new chemical facilities and several major interconnections in the southern portion of its service area. Tidewater operates 87 stand-alone water plants and 183 wells in 271 communities throughout Delaware. Its retail water supply customer base has consistently grown for more than a decade, making it the fastest growing water utility in the state. In 2005, water supplied by Tidewater's subsidiary, Southern Shores Water Company LLC, obtained regional top honors from the Chesapeake Section-American Water Works Association, in a competition judging water appearance, odor, flavor and aftertaste.

❖ Maintaining a Strong Balance Sheet

Timely rate relief is a key driver of financial performance as rate increases allow us to recover and earn a return on the substantial capital investments we make in our systems and offset increases in operating costs. In 2005, Middlesex Water successfully completed a base rate filing, which allowed the Company to increase annual rates in its Middlesex system by $4.3 million, or 8.7%, effective December 8, 2005. Our Pinelands Water and Pinelands Wastewater subsidiaries filed for modest revenue increases. We expect a decision on those matters in mid-2006. The Company implemented the second phase of a Tidewater rate decision in April 2005 that added $0.5 million to annual revenues.

To raise funds for the continued capital expansion and maintenance of our Tidewater system, we obtained approval to borrow up to $2.0 million under the State Revolving Fund program in Delaware at advantageous interest rates and repayment terms. In addition, we financed $14.0 million with a term of 25 years and obtained a $7.0 million short-term borrowing facility.

During 2005, we issued shares of Common Stock at a 5% discount to participants in the Company's Dividend Reinvestment and Common Stock Purchase Plan (the Plan). The offer applied to all purchases under the Plan made between June 1, 2005 and December 1, 2005, by optional cash payment or dividend reinvestment. The program enabled the Company to raise an additional $2.2 million compared to the prior year.

We continue to focus on our bottom line seeking to produce profitable and sustainable growth that proves an investment in Middlesex Water stock is, and remains, a wise choice. The Company has paid cash dividends in varying amounts for the past 93 years. In 2005, we marked the 34th year of consecutive dividend growth with an increase in the annual dividend from $0.67 to $0.68.

❖ Enhancing the Customer Experience

To address customers' needs and enhance their satisfaction, improvements were implemented in our billing format, online registration and customer payment options. The new bill format helps customers to more easily locate information on their statement, including a usage history section to assist them in analyzing their consumption patterns. It also has an expanded area for important messages about utility-related issues. In addition, customers also have the ability to register online for LineCare℠, the Company's water service line maintenance program. Online bill payment provides customers with a choice in how they transact business with our Company. Now, as an alternative to paying by mail, customers can, through the Company's website, pay their utility bills by e-check, which electronically transfers funds from the customer's checking account or charges their preferred credit card. With today's hectic lifestyles, customers appreciate accommodations that enable them to manage their transactions more easily and on their own schedule.

❖ Seeking New Opportunities

Success in non-regulated businesses is an important factor in rounding out our product and service offerings, as well as our earnings profile. Middlesex Water provides water and wastewater utility management services through its subsidiaries in New Jersey and Delaware, including consulting, contract operations, maintenance and bulk water supply. The Company has significant operational expertise and is committed to working with municipalities, developers and industry to find solutions that meet their needs and to pursue opportunities for profitable growth.

We seek to provide a comprehensive suite of water and wastewater solutions in the rapidly developing Delaware market.

We continue to focus on building our presence in Delaware to provide a comprehensive suite of water and wastewater services. In 2005, Tidewater's customer base in Delaware expanded by over 9% to more than 28,000 customers statewide. Conservative estimates project Tidewater's customer base could grow to more than 47,000 customers through build-out of existing systems alone. As further evidence of its accelerating momentum, Tidewater signed 27 new water agreements to provide service in new residential developments in 2005.

Tidewater Environmental Services, Inc. (TESI) was established in 2004 as a subsidiary of Middlesex Water to capitalize on opportunities in the newly regulated wastewater industry in Delaware. In December 2005, TESI acquired its first regulated wastewater treatment system located in the southern part of the state. Two more facilities are underway and are scheduled to start up in 2006. Also in 2005, TESI obtained 18 wastewater franchises which will result in approximately 8,200 customers at build-out and an additional 15 franchise petitions await approval from the Delaware Public Service Commission. In all, TESI has requests from developers whose build-out will result in approximately 20,000 customers.

Tidewater's non-regulated subsidiary, White Marsh Environmental Systems, Inc. (White Marsh), operates water and wastewater systems in Delaware under contract. In the wastewater business for only two years, White Marsh already operates 37 water and wastewater systems, including manufactured home communities, housing subdivisions, commercial and government properties.

In 2005, the number of subscribers for service line maintenance continued to grow. LineCare℠, offered by the Company's non-regulated subsidiary, Utility Service Affiliates, Inc. (USA), protects customers from costly repairs and aggravation due to leaking or broken water service lines. Many homeowners are unaware they are responsible for repairs when the break occurs on their property. LineCare℠ offers subscribers the peace of mind that repairs will be performed promptly and professionally

We are committed to being a trusted and continually improving provider of safe and reliable water service.

for an affordable annual fee. The Company is expanding the program into other areas where we provide water service.

❖ Developing Employee Skills

Middlesex Water Company rightfully prides itself on the quality, commitment and dedication of its workforce. The hard work and expertise of our employees allows us to deliver positive results for customers and shareholders. As such, we continually strive to provide a safe, supportive and learning-oriented environment where all of our employees can grow, contribute and succeed.

During the year, we completed a major review of our wage and salary structure throughout the Company. Our analysis confirmed that our wages, within our industry and geographical locations, are competitive. We also evaluated our health and benefits programs to ensure that we continue to attract and retain the best employees possible while keeping the costs of benefits under control. After a thorough review of competitive information, we increased all employees' contributions for these benefits to keep pace with the rising costs and cost-sharing trends in general industry. In a related area, we implemented the employee privacy provisions of the Federal Health Insurance Portability and Privacy Act to ensure employee health-related information is restricted to a need-to-know basis and is otherwise kept confidential.

In the area of training, the Company continues to ensure that all employees meet regular requirements for compliance training required for OSHA safety, industry licensing renewal training for various specialized positions, and Commercial Driver's License requirements. We also conducted specialized group training sessions for our management staff to enhance the culture and work environment. Training included building leadership skills, problem solving, negotiations, performance management, communications, budgeting and workplace harassment prevention. Individual employees also attended a variety of sessions designed to improve their specific skills. We have recently designed our management structure to administer safety programs and ensure consistency in applications of safety practices across all Company locations. Five long-service employees retired during the year and we thank them for their dedication and service.

They were:
Dennis G. Sullivan, President and Chief Executive Officer, and member of the Board of Directors, 21 years of service.
John Remeniski, Construction Inspector, 44 years of service.
Catherine Bensco, Senior Accounts Payable Clerk, 42 years of service.
John Liguori, Meter Service Repairman, 34 years of service.
Ronald Morgan, Mail/Supply Clerk, 10 years of service.

Sadly in 2005, we also mourned the passing of two long-term active employees, Donald Labno, Meter Service Repairman, with 34 years of service; and Douglas Roy, Equipment Operator, with 10 years of service. We extend our sincere condolences to their families.

Finally, we proudly recognize two of our utility crew workers who served our country honorably in the Armed Forces for much of 2005. Sergeant Andrew Lyszyk and Lance Corporal Joseph Teston, both members of the U.S. Marine Corps Reserves, were activated for service in January 2005. Both served in Operation Enduring Freedom in Iraq and returned safely to work at the end the year. We thank them for the personal sacrifices they made to support our country and are grateful for their safe return.

❖ Strengthening Our Relationships

At Middlesex Water Company we share an important connection with the communities we serve. The Company provides resources to numerous area organizations with particular emphasis on healthcare and human services and environmental awareness. The Company also works with schools and organizations to promote a greater understanding of water issues.

Achieving our vision means paying attention to the details and understanding every aspect of our business. It means analyzing our strengths and improving the things that matter to customers, shareholders and employees. It means focusing on core business growth and improving productivity. We have a strong foundation in place, a clear direction for the future, and the experienced team to achieve our goals. At Middlesex Water, the success of tomorrow begins with building on our fundamentals today.

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

	2005	2004	2003	2002	2001
Operating Revenues	$ 74,613	$ 70,991	$ 64,111	$ 61,933	$ 59,638
Operating Expenses:					
Operations and Maintenance	42,156	39,984	36,195	32,767	31,740
Depreciation	6,460	5,846	5,363	4,963	5,051
Other Taxes	8,779	8,228	7,816	7,737	7,594
Total Operating Expenses	57,395	54,058	49,374	45,467	44,385
Operating Income	17,218	16,933	14,737	16,466	15,253
Other Income, Net	740	795	358	442	502
Interest Charges	6,245	5,468	5,227	5,144	5,042
Income Taxes	3,237	3,814	3,237	3,999	3,760
Net Income	8,476	8,446	6,631	7,765	6,953
Preferred Stock Dividend	251	255	255	255	255
Earnings Applicable to Common Stock	$ 8,225	$ 8,191	$ 6,376	$ 7,510	$ 6,698
Earnings per Share:					
Basic	$ 0.72	$ 0.74	$ 0.61	$ 0.73	$ 0.66
Diluted	$ 0.71	$ 0.73	$ 0.61	$ 0.73	$ 0.66
Average Shares Outstanding:					
Basic	11,445	11,080	10,475	10,280	10,131
Diluted	11,784	11,423	10,818	10,623	10,474
Dividends Declared and Paid	$ 0.673	$ 0.663	$ 0.649	$ 0.634	$ 0.623
Total Assets	$ 324,383	$ 305,634	$ 267,956	$ 251,971	$ 242,512
Convertible Preferred Stock	$ 2,856	$ 2,961	$ 2,961	$ 2,961	$ 2,961
Long-term Debt	$ 128,175	$ 115,281	$ 97,377	$ 87,483	$ 88,140

STATISTICAL SUMMARY

REVENUES (Thousands of Dollars):	2005	2004	2003	2002	2001
Residential	$ 31,289	$ 28,322	$ 25,272	$ 24,793	$ 22,916
Commercial	7,297	6,771	6,299	6,032	6,054
Industrial	8,183	7,708	7,131	7,368	7,544
Fire Protection	7,742	7,237	6,830	6,495	6,182
Contract Sales	10,024	9,086	8,458	8,728	8,806
Contract Operations	8,082	7,934	8,065	7,465	7,288
Other	1,996	3,933	2,056	1,052	848
TOTAL REVENUES	$ 74,613	$ 70,991	$ 64,111	$ 61,933	$ 59,638
CAPITALIZATION RATIOS:					
Long-term Debt	55%	54%	54%	52%	54%
Preferred Stock	2	2	2	2	2
Common Stock Equity	43	44	44	46	44
TOTAL	100%	100%	100%	100%	100%
OTHER:					
Book Value of Common Stock	$ 8.36	$ 7.99	$ 7.56	$ 7.39	$ 7.11
Customers	119,800	115,000	109,700	104,900	101,700
Population Served (Retail)	407,500	400,000	373,000	363,000	351,000
Miles of Main	1,250	1,215	1,150	1,118	1,070
Fire Hydrants	6,595	6,306	5,953	5,791	5,663
Water Production (million gallons)	21,196	20,344	20,015	19,895	20,272

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

The following discussions of the Company's historical results of operations and financial condition should be read in conjunction with the Company's consolidated financial statements and 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 commenced 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 58,500 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 28,300 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 20 residential retail customers. Our other Delaware subsidiary, White Marsh, services an additional 4,000 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 four factors: weather, adequate and timely rate relief, effective cost management, and customer growth. These factors are evident in the discussions below which compare our results of operations from prior years.

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 89% and 86% of total revenues, and 95% and 95% of net income for the years ended December 31, 2005 and 2004, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Bayview, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

RESULTS OF OPERATIONS IN 2005 COMPARED TO 2004

	Fiscal Years ended December 31, (Millions of Dollars)					
	2005			2004		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$ 66.3	$ 8.3	$ 74.6	$ 60.8	$ 10.2	$ 71.0
Operations and maintenance	35.0	7.2	42.2	31.0	9.0	40.0
Depreciation	6.3	0.1	6.4	5.8	0.1	5.9
Other taxes	8.6	0.2	8.8	7.9	0.3	8.2
Operating income	16.4	0.8	17.2	16.1	0.8	16.9
Other income (expense)	0.7	0.0	0.7	0.8	0.0	0.8
Interest expense	6.1	0.1	6.2	5.4	0.1	5.5
Income taxes	2.9	0.3	3.2	3.5	0.3	3.8
Net income	$ 8.1	$ 0.4	$ 8.5	$ 8.0	$ 0.4	$ 8.4

Operating revenues for the year rose $3.6 million, or 5.1% over the same period in 2004. Water sales improved by $3.6 million in our Middlesex system, of which $1.8 million was a result of base rate increases that were granted to Middlesex on May 27, 2004 and December 8, 2005, and $1.8 million was due to increased consumption due to drier weather as compared to the prior year. Customer growth of 9.2% in Delaware provided additional water consumption sales, facility charges and connection fees of $0.9 million, and higher base rates provided $1.0 million. New unregulated wastewater contracts in Delaware provided $0.1 million in additional revenues. USA had reduced revenues of $2.2 million as compared to the prior year period, due to our meter services venture completing its original contracts during December 2004. This decrease was partially offset by increased revenues for USA's LineCare[SM] maintenance program of $0.1 million. All other operations contributed $0.1 million of additional revenues.

While we anticipate continued organic customer and consumption growth among our Delaware systems, such growth and increased consumption cannot be guaranteed. Our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed.

Operation and maintenance expenses increased $2.2 million, or 5.4% as compared to the same period in 2004. In New Jersey, payroll and employee benefits costs increased by $1.9 million. Water production costs for the Middlesex system increased by $0.7 million due to higher demand and increased unit costs for electricity, chemicals and residuals removal. Costs to operate the Tidewater system increased $0.2 million, and increases in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits increased costs by $1.0 million. Costs for providing services under our contract with the City of Perth Amboy increased by $0.1 million. All other operating costs increased by $0.1 million. The costs of our meter services venture decreased $1.8 million due to the completion of the original projects during December 2004.

Going forward we anticipate increases in electric generation costs by as much as 40% beginning May 1, 2006 in Delaware due to deregulation of electricity. Our pension and postretirement costs increased by $1.1 million during 2005 and we expect these costs to increase by $0.4 million in 2006. Payroll and related employee benefit costs (excluding pension and postretirement expenses previously discussed) are also expected to be higher in 2006. These increasing costs, in addition to higher business insurance, required us to file for a base rate increase with the BPU for Pinelands during 2005 and will require us to file for an increase with the PSC for Tidewater during 2006. We cannot predict whether the BPU or PSC will approve, deny or reduce the amount of any request.

Depreciation expense for 2005 increased by $0.6 million, or 10.5%, due to a higher level of utility plant in service. 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 $0.6 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income decreased $0.1 million, primarily due to reduced Allowance for Funds Used During Construction (AFUDC) due to reduced capital spending as compared to the prior year.

Interest expense increased by $0.8 million, or 14.2%, as a result of a higher level of long-term debt, and higher average interest rates and increased weighted average short-term borrowings as compared to the prior year period.

Income tax expense based on our current year operating results was $3.8 million, which was partially offset by $0.6 million of tax benefits.

Net income increased to $8.5 million from $8.4 million in the prior year, however basic earnings per share decreased from $0.74 to $0.72. Diluted earnings per share decreased from $0.73 to $0.71. The earnings per share decrease was due to an increase in average shares outstanding as compared to the prior year period as a result of the sale of 700,000 shares of common stock on May 12, 2004, and shares issued under the Company's Dividend Reinvestment Plan during 2005.

RESULTS OF OPERATIONS IN 2004 COMPARED TO 2003

	Fiscal Years ended December 31, (Millions of Dollars)					
	2004			2003		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$ 60.8	$ 10.2	$ 71.0	$ 55.7	$ 8.4	$ 64.1
Operations and maintenance	31.0	9.0	40.0	28.9	7.3	36.2
Depreciation	5.8	0.1	5.9	5.3	0.1	5.4
Other taxes	7.9	0.3	8.2	7.5	0.3	7.8
Operating income	16.1	0.8	16.9	14.0	0.7	14.7
Other income (expense)	0.8	0.0	0.8	0.3	0.0	0.3
Interest expense	5.4	0.1	5.5	5.0	0.2	5.2
Income taxes	3.5	0.3	3.8	3.0	0.2	3.2
Net income	$ 8.0	$ 0.4	$ 8.4	$ 6.3	$ 0.3	$ 6.6

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.

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.

Depreciation expense for 2004 increased by $0.5 million, or 9.0%, due to a higher level of utility plant in service.

Other taxes increased by $0.4 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

AFUDC 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. Other income increased $0.1 million, primarily due to 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.

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.

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.

Outlook

In addition to some of the factors previously discussed under "Results of Operations in 2005 Compared to 2004," our revenues are expected to increase in 2006 from anticipated customer growth in Delaware for our regulated water operations and, to a lesser degree, from growth in our regulated wastewater operations in Delaware. We received approval for an 8.7% or $4.3 million base rate increase for our Middlesex system in December 2005 and implemented the second phase of the settlement of our 2004 Tidewater rate case in April 2005, from which we expect to fully realize on an annualized basis in 2006. During 2005, we also filed for a combined 10.3%, or $0.2 million base rate increase for our Pinelands systems. We expect a decision in the matter during the second quarter of 2006.

We expect to file for a base rate increase for Tidewater during 2006. Revenues and earnings for 2006 will be impacted by the ultimate timing and outcome of the anticipated filing. 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.

We continue to explore viable plans to streamline operations and reduce costs in all aspects of our business. We have unique challenges in Delaware, where customer growth continues to exceed industry averages. Part of this unique challenge is that our Delaware operations are a combination of over 87 stand-alone production and distribution systems serving 271 communities.

Our new regulated wastewater operation commenced operations during fiscal 2005. Due to the start-up nature of this operation, we expect our expenses with respect to this subsidiary may marginally exceed its revenues in 2006.

We expect our interest expense to increase during 2006 as a result of incurring a full year of interest expense on the approximately $14.9 million of long-term debt we financed during fiscal 2005 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 2005, cash flows from operating activities decreased $2.1 million to $13.5 million, as compared to the prior year. This decrease was primarily attributable to the timing of collection of customer accounts and payments to vendors. These decreases in cash flows were partially offset by receipts of advance service fees and the timing of payments for interest and employee benefit plans. The $13.5 million of net cash flow from operations allowed us to fund approximately 53% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan and both short-term and long-term borrowings.

For 2004, net cash flow from operations of $15.6 million, which increased over 2003 due to improved profitability during the period and the timing of payments made toward prepaid expenses, materials and supplies, and employee benefit plans allowed us to fund approximately 54% of our 2004 utility plant expenditures. Net proceeds from both short-term and long-term borrowings 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 2005 we received rate relief for Middlesex and Tidewater. We also plan to file for a base rate increase for Tidewater in 2006 as a result of continued capital investment in Delaware. We also expect to receive a decision on the requested Pinelands base rate increase in 2006. There is no certainty, however, that the BPU or PSC will approve any or all of this or other future requested increases.

Sources of Liquidity

Short-term Debt. As of December 31, 2005, the Company has established revolving lines of credit aggregating $40.0 million. At December 31, 2005, the outstanding borrowings under these credit lines were $4.0 million at a weighted average interest rate of 5.09%. As of that date, the Company had borrowing capacity of $36.0 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 $9.2 million and $8.9 million at 4.36% and 2.37% for the years ended December 31, 2005 and 2004, 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 Delaware SRF loan programs during 2005 and expect to participate in the 2006 New Jersey SRF program for $4.0 million.

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. 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 2005, Tidewater closed on a $2.0 million loan with the Delaware SRF program and on a $14.0 million secured loan with CoBank, a financial institution specializing in loans to rural utilities. The proceeds were used to fund the ongoing capital program in Delaware.

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. The Company issued shares under its Dividend Reinvestment and Common Stock Purchase Plan at a 5% discount for a six-month period during 2005. This allowed the Company to raise $3.7 million through the plan during 2005, an increase of $2.2 million as compared to the prior year. 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 2006, 2007 and 2008 to increase over the 2005 amount of $25.3 million. These increases are attributable to anticipated acquisitions and development for the TESI system and continued customer growth and service improvement requirements in our Tidewater systems in Delaware, where we spent $11.2 million on utility plant in 2005.

	(Millions of Dollars)		
	2006	2007	2008
Delaware Water Systems	$ 20.2	$ 19.4	$ 16.3
Delaware Wastewater Systems	13.9	30.5	8.8
RENEW Program	3.3	3.3	3.3
Scheduled Upgrades to Existing Systems	7.1	15.3	15.3
Total	$ 44.5	$ 68.5	$ 43.7

Under our capital program for 2006, we plan to expend $20.2 million for additions and improvements for our Delaware water systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately $13.9 million for system additions and acquisitions for our Delaware wastewater systems. We expect to spend $3.3 million for our RENEW program, which is our program to clean and cement line unlined mains in the Middlesex System. There remains a total of approximately 120 miles of unlined mains in the 730-mile Middlesex System. In 2005, nine miles of unlined mains were cleaned and cement lined. The capital program also includes $7.1 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of $1.4 million for improvements to existing plant, $1.0 million for mains, $0.8 million for service lines, $0.4 million for meters, $0.3 million for hydrants, and $3.2 million for other infrastructure needs.

To pay for our capital program in 2006, we will utilize internally generated funds and funds available and held in trust under existing NJEIT loans (currently, $4.2 million) and Delaware SRF loans (currently, $2.9 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 $36.0 million of available lines of credit with several financial institutions. As of December 31, 2005, we had $4.0 million outstanding against the lines of credit.

Going forward into 2007 through 2008, we currently project that we will be required to expend approximately $112.2 million for capital projects. To the extent possible and because of 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. We also expect to sell shares of our common stock through a public offering in late 2006 or early 2007.

Tidewater is appealing a Notice of Violation regarding a plan of correction to a community water system to provide fire protection services with an estimated capital investment cost of between $0.9 million and $1.6 million. Should we not be successful in asserting our defense, over 60 additional community water systems could be subject to similar corrective plans of action. While we are unable to estimate the potential capital investment costs for these additional community water systems at this time, Tidewater believes these expenditures would be subject to recovery in rates as set by the PSC. See Item 3. – Legal Proceedings for additional discussion of this matter.

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, 2005.

	(Millions of Dollars) Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	$ 130.1	$ 1.9	$ 5.0	$ 5.2	$ 118.0
Notes Payable	4.0	4.0	-	-	-
Interest on Long-term Debt	110.0	6.5	12.8	10.6	80.1
Purchased Water Contracts	27.5	4.0	8.2	8.2	7.1
Wastewater Operations	59.3	3.9	8.1	8.5	38.8
Total	$ 330.9	$ 20.3	$ 34.1	$ 32.5	$ 244.0

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 were $7.4 million in 2005 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, 2005, 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 89% 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 (SFAS) 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 6.00% at December 31, 2003 to 5.88% at December 31, 2004 to 5.52% at December 31, 2005. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by $0.3 million in 2005. 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 2005 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 expense 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

See Note 1(m) of the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

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 $1.9 million of the current portion of 15 existing long-term debt instruments will mature. Combining this amount with the $4.0 million in short-term debt outstanding at December 31, 2005, 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.

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, 2005. 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, 2005, 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. This report appears on page 19.

Dennis W. Doll
President and
Chief Executive Officer

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

Iselin, New Jersey
March 16, 2006

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, 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, 2005, 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 16, 2006 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 16, 2006

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, 2005, 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, 2005, 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, 2005, 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, 2005, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for the year ended December 31, 2005 and our report dated March 16, 2006 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP

Parsippany, New Jersey
March 16, 2006

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS

		December 31, 2005	2004
ASSETS			
UTILITY PLANT:	Water Production	**$ 91,403,549**	$ 82,340,798
	Transmission and Distribution	**217,098,466**	194,531,035
	General	**23,292,087**	20,451,215
	Construction Work in Progress	**6,127,634**	13,013,391
	TOTAL	**337,921,736**	310,336,439
	Less Accumulated Depreciation	**54,960,290**	52,017,761
	UTILITY PLANT - NET	**282,961,446**	258,318,678
CURRENT ASSETS:	Cash and Cash Equivalents	**2,983,762**	4,034,768
	Accounts Receivable, net	**8,074,929**	6,316,853
	Unbilled Revenues	**3,737,627**	3,572,713
	Materials and Supplies (at average cost)	**1,259,935**	1,203,906
	Prepayments	**927,254**	823,976
	TOTAL CURRENT ASSETS	**16,983,507**	15,952,216
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	**3,164,043**	3,172,254
	Preliminary Survey and Investigation Charges	**1,774,817**	1,032,182
	Regulatory Assets	**7,469,190**	8,198,565
	Operations Contracts Fees Receivable	**685,599**	685,599
	Restricted Cash	**5,782,705**	13,257,106
	Non-utility Assets - Net	**5,042,207**	4,552,023
	Other	**519,610**	465,419
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	**24,438,171**	31,363,148
	TOTAL ASSETS	**$ 324,383,124**	$ 305,634,042
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	**$ 76,160,949**	$ 71,979,902
	Retained Earnings	**23,638,301**	23,103,908
	Accumulated Other Comprehensive Income, net of tax	**(206,925)**	44,841
	TOTAL COMMON EQUITY	**99,592,325**	95,128,651
	Preferred Stock	**3,958,062**	4,063,062
	Long-term Debt	**128,174,944**	115,280,649
	TOTAL CAPITALIZATION	**231,725,331**	214,472,362
CURRENT LIABILITIES:	Current Portion of Long-term Debt	**1,930,617**	1,091,351
	Notes Payable	**4,000,000**	11,000,000
	Accounts Payable	**6,038,060**	6,001,806
	Accrued Taxes	**6,466,531**	6,784,380
	Accrued Interest	**1,868,962**	1,703,131
	Unearned Revenues and Advanced Service Fees	**473,627**	387,156
	Other	**707,446**	795,456
	TOTAL CURRENT LIABILITIES	**21,485,243**	27,763,280
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	**17,180,962**	14,018,006
	Accumulated Deferred Investment Tax Credits	**1,617,949**	1,696,566
	Accumulated Deferred Income Taxes	**14,296,620**	14,556,153
	Employee Benefit Plans	**6,650,724**	5,464,056
	Regulatory Liability - Cost of Utility Plant Removal	**5,647,757**	5,363,152
	Other	**793,857**	849,551
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	**46,187,869**	41,947,484
CONTRIBUTIONS IN AID OF CONSTRUCTION		**24,984,681**	21,450,916
	TOTAL CAPITALIZATION AND LIABILITIES	**$ 324,383,124**	$ 305,634,042

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2005	2004	2003
OPERATING REVENUES	**$ 74,613,305**	$ 70,991,146	$ 64,111,214
OPERATING EXPENSES:			
Operations	**38,635,382**	36,519,355	32,666,099
Maintenance	**3,519,914**	3,464,036	3,529,113
Depreciation	**6,460,241**	5,846,191	5,362,727
Other Taxes	**8,779,325**	8,228,354	7,815,918
TOTAL OPERATING EXPENSES	**57,394,862**	54,057,936	49,373,857
OPERATING INCOME	**17,218,443**	16,933,210	14,737,357
OTHER INCOME (EXPENSE):			
Allowance for Funds Used During Construction	**547,714**	606,019	315,919
Other Income	**219,572**	221,950	131,499
Other Expense	**(27,593)**	(32,676)	(89,931)
TOTAL OTHER INCOME, NET	**739,693**	795,293	357,487
INCOME BEFORE INTEREST & INCOME TAXES	**17,958,136**	17,728,503	15,094,844
INTEREST CHARGES	**6,244,671**	5,468,576	5,227,030
INCOME BEFORE INCOME TAXES	**11,713,465**	12,259,927	9,867,814
INCOME TAXES	**3,237,324**	3,814,418	3,237,218
NET INCOME	**8,476,141**	8,445,509	6,630,596
PREFERRED STOCK DIVIDEND REQUIREMENTS	**251,286**	254,786	254,786
EARNINGS APPLICABLE TO COMMON STOCK	**$ 8,224,855**	$ 8,190,723	$ 6,375,810
Earnings per share of Common Stock:			
Basic	**$ 0.72**	$ 0.74	$ 0.61
Diluted	**$ 0.71**	$ 0.73	$ 0.61
Average Number of Common Shares Outstanding:			
Basic	**11,444,785**	11,079,835	10,475,295
Diluted	**11,783,925**	11,422,975	10,818,435
Cash Dividends Paid per Common Share	**$ 0.673**	$ 0.663	$ 0.649

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 8,476,141**	$ 8,445,509	$ 6,630,596
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**7,159,670**	6,387,808	5,633,863
Provision for Deferred Income Taxes and ITC	**164,873**	603,275	306,919
Allowance for Funds Used During Construction	**(547,714)**	(606,019)	(315,919)
Changes in Assets and Liabilities:			
Accounts Receivable	**(1,758,076)**	(634,245)	345,694
Unbilled Revenues	**(164,914)**	(337,925)	(53,697)
Materials & Supplies	**(56,029)**	215,236	(228,805)
Prepayments	**(103,278)**	185,328	(193,912)
Other Assets	**(151,166)**	(578,048)	275,802
Operations Contracts Receivable	**-**	14,207	(699,806)
Accounts Payable	**(17,933)**	1,224,406	2,260,431
Accrued Taxes	**(323,227)**	528,715	333,815
Accrued Interest	**165,831**	(107,508)	196,361
Employee Benefit Plans	**709,988**	377,068	(192,749)
Unearned Revenue & Advanced Service Fees	**86,471**	(215,698)	186,265
Other Liabilities	**(143,704)**	56,913	(236,431)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**13,496,933**	15,559,022	14,248,427
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	**(25,287,735)**	(28,878,576)	(17,576,634)
Cash Surrender Value & Other Investments	**(294,372)**	(273,837)	(466,290)
Restricted Cash	**7,637,175**	(9,431,686)	2,321,158
Proceeds from Real Estate Dispositions	**-**	-	532,922
Preliminary Survey & Investigation Charges	**(742,635)**	348,589	(282,303)
Other Assets	**-**	-	(47,264)
NET CASH USED IN INVESTING ACTIVITIES	**(18,687,567)**	(38,235,510)	(15,518,411)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	**(1,214,521)**	(1,067,258)	(884,427)
Proceeds from Issuance of Long-term Debt	**14,948,082**	18,995,153	11,205,723
Net Short-term Bank Borrowings (Repayments)	**(7,000,000)**	(1,500,000)	(5,150,000)
Deferred Debt Issuance Expenses	**(166,477)**	(65,219)	(194,484)
Common Stock Issuance Expense	**-**	(379,534)	(103,284)
Restricted Cash	**(162,774)**	-	121
Proceeds from Issuance of Common Stock	**4,076,047**	15,055,874	3,609,859
Payment of Common Dividends	**(7,690,462)**	(7,375,629)	(6,791,254)
Payment of Preferred Dividends	**(251,286)**	(254,786)	(254,786)
Construction Advances and Contributions-Net	**1,601,019**	297,045	(99,768)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**4,139,628**	23,705,646	1,337,700
NET CHANGES IN CASH AND CASH EQUIVALENTS	**(1,051,006)**	1,029,158	67,716
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,034,768**	3,005,610	2,937,894
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 2,983,762**	$ 4,034,768	$ 3,005,610

*Excludes Allowance for Funds Used During Construction.

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	**$ 5,149,990**	$ 2,722,121	$ 3,753,037
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	**$ 5,990,089**	$ 5,409,803	$ 5,061,878
Interest Capitalized	**$ (547,714)**	$ (606,019)	$ (315,919)
Income Taxes	**$ 3,792,000**	$ 3,074,513	$ 2,472,000

See Notes to Consolidated Financial Statements.

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

	December 31, 2005	2004
Common Stock, No Par Value:		
Shares Authorized - 20,000,000		
Shares Outstanding - 2005 - 11,584,499	**$ 76,160,949**	$ 71,979,902
2004 - 11,358,772		
Retained Earnings	**23,638,301**	23,103,908
Accumulated Other Comprehensive Income, net of tax	**(206,925)**	44,841
TOTAL COMMON EQUITY	**99,592,325**	95,128,651
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 139,497 in 2005 and 140,497 in 2004		
Convertible:		
Shares Outstanding, $7.00 Series - 13,881 in 2005 and 14,881 in 2004	**1,457,505**	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	**3,958,062**	4,063,062
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	**2,983,384**	3,063,389
6.25%, Amortizing Secured Note, due May 22, 2028	**9,415,000**	9,835,000
6.44%, Amortizing Secured Note, due August 25, 2030	**6,906,667**	-
6.46%, Amortizing Secured Note, due September 19, 2031	**7,000,000**	-
4.22%, State Revolving Trust Note, due December 31, 2022	**754,164**	784,000
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	**3,018,254**	2,348,316
3.49%, State Revolving Trust Note, due January 25, 2027	**278,144**	-
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	**760,000**	790,000
0.00%, State Revolving Fund Bond, due September 1, 2021	**614,436**	652,306
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	**700,280**	755,006
4.25% to 4.63%, Series Y, due September 1, 2018	**870,000**	920,000
0.00%, Series Z, due September 1, 2019	**1,567,367**	1,679,979
5.25% to 5.75%, Series AA, due September 1, 2019	**1,990,000**	2,085,000
0.00%, Series BB, due September 1, 2021	**1,926,956**	2,048,095
4.00% to 5.00%, Series CC, due September 1, 2021	**2,185,000**	2,275,000
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**	7,715,909
3.00% to 5.50%, Series FF, due September 1, 2024	**8,920,000**	8,920,000
SUBTOTAL LONG-TERM DEBT	**130,105,561**	116,372,000
Less: Current Portion of Long-term Debt	**(1,930,617)**	(1,091,351)
TOTAL LONG-TERM DEBT	**$128,174,944**	$115,280,649

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, 2003	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 Award - 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 Award - 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
Net Income			8,476,141		8,476,141
Minimum Pension Liability, Net of $135,000 Income Tax				(262,205)	(262,205)
Change in Value of Equity Investments, Net of $5,000 Income Tax				10,439	10,439
Comprehensive Income					8,224,375
Dividend Reinvestment & Common Stock Purchase Plan	194,777	3,640,334			3,640,334
Restricted Stock Award - Net	18,950	435,713			435,713
Preferred Stock Conversion	12,000	105,000			105,000
Cash Dividends on Common Stock			(7,690,462)		(7,690,462)
Cash Dividends on Preferred Stock			(251,286)		(251,286)
Balance at December 31, 2005	11,584,499	$ 76,160,949	$ 23,638,301	$ (206,925)	$ 99,592,325

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), Tidewater Environmental Services, Inc. (TESI), 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 Delaware, as to the quality of services we provide and as to certain other matters. Our TESI subsidiary commenced 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, TESI 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, 2005, 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, 2005, 2004 and 2003. These rates have been approved by either the BPU or 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, 2005, 2004 and 2003 approximately $0.5 million, $0.6 million and $0.3 million of AFUDC was added to the cost of construction projects, respectively. 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 rates for the years ended December 31, 2005, 2004 and 2003 for Middlesex, Tidewater and Bayview were 7.39%, 8.37% 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 was $0.2 million at December 31, 2005, 2004 and 2003. The corresponding expense for the year ended December 31, 2005, 2004 and 2003 was $0.2 million, $0.1 million and $0.2 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 Shores 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.

USA bills customers on a quarterly or annual basis for its LineCare[SM] service line maintenance program. Quarterly amounts billed are recognized as earned. Amounts that are billed on an annual basis are deferred and recognized as revenue ratably over the year.

(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 May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. SFAS 154 replaces Accounting Principles Bulletin (APB) No. 20, "Accounting Changes" (APB 20), and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. APB 20 previously required that most voluntary changes in accounting principles be recognized by including the cumulative effect of changing to the new accounting principle in the net income of the period of the change. SFAS 154 requires that a change in depreciation, amortization or depletion method for long-lived non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle, whereas APB 20 had required accounting for such a change as a change in accounting principle. SFAS 154 carries forward the guidance in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate as well as the requirement for justifying a change in accounting principle on the basis of a preference. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the Company).

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), 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 was originally effective for quarters beginning after June 15, 2005, however on April 14, 2005, the Securities and Exchange Commission adopted a rule which makes the provisions of SFAS 123(R) effective for the first annual reporting period beginning after June 15, 2005 (January 1, 2006 for the Company). 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 adoption of this standard did not have an impact on its financial position, results of operations, or cash flows.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law. Among other provisions, the AJCA creates a new deduction for qualified domestic production activities. Certain activities of the Company, such as our water treatment activity, are considered as qualifying production activities for purposes of determining the deduction for qualified production activities. In December 2004, the FASB issued FSP 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." In accordance with FSP 109-1, the Company is treating the deduction for qualified domestic production activities as a reduction of the income tax provision in the period as realized. The adoption of this statement has not had a material impact on the Company's 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 discussions with its Actuary, Management determined the effect of the Medicare Drug Act was not a significant event and thus the Company is accounting for the effects of FSP 106-2 as of its next measurement date. The adoption of FSP 106-2 on January 1, 2005 did 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.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), to clarify the term "conditional asset retirement obligation" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). Conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred, generally, upon acquisition, construction, development and/or through the normal operation of the asset. Uncertainty about the timing and/or method of settlement should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for calendar-year enterprises). The adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

(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 and a minimum pension liability.

(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 89% 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 6.75% for the year ended December 31, 2003 to 6.00% for the year ended December 31, 2004 to 5.88% for the year ended December 31, 2005. 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 December 8, 2005, Middlesex received approval from the BPU for an 8.7%, or $4.3 million increase in its water rates. This increase represents a portion of Middlesex's May 2005 request for a total rate increase of 13.1% to cover the costs of its increased capital investment, as well as maintenance and operating expenses.

On August 10, 2005, Pinelands Water and Pinelands Wastewater filed with the BPU for increases of 16.7% and 6.1%, respectively. This increase represents a total base rate increase of approximately $0.2 million to help offset the increased costs associated with capital improvements, and the operation and maintenance of their systems. A decision on this matter is expected during the second quarter of 2006. There can be no assurance that any rate increases will be granted or, if granted, that they will be in the amounts we requested.

As part of an approved settlement with the PSC on October 19, 2004, Tidewater implemented the second phase rate increase of $0.5 million on April 27, 2005. Tidewater also agreed to waive its right to file Distribution System Improvement Charges (DSIC) applications until July 1, 2006 and to defer making an application for a general rate increase until after April 27, 2006. The DSIC allows a utility to promptly begin recovering depreciation expense and a return on the capital invested for eligible distribution system improvements recently placed into service.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2006. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%. The rates are set to expire on December 31, 2006, and the Company is currently negotiating a new agreement.

In December 2005, the BPU approved a merger of Bayview into the Middlesex system effective January 1, 2006. As part of the BPU's stipulation approving the merger, the water service rates for the customers of Bayview are to remain at their current levels until the water service rates for Middlesex customers exceed the current Bayview rates.

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.

Years Ended December 31, (Thousands of Dollars)

Regulatory Assets	2005	2004	Remaining Recovery Periods
Income Taxes	$6,167	$6,535	Various
Post-retirement Benefits	610	697	7 years
Tank Painting	352	426	3-9 years
Rate Cases and Other	340	541	Up to 3 years
Total	$7,469	$8,199	

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

The Company uses the composite depreciation method for its regulated utility operations, which is currently an acceptable method of accounting under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of deprecation expense. As of December 31, 2005 and 2004, the Company has approximately $5.7 million and $5.4 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 in rates the acquisition premiums totaling $0.8 million over the remaining lives of their Utility Plant. These deferred costs have been included in their respective 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)		
	2005	2004	2003
Income Tax at Statutory Rate of 34%	**$ 3,982**	$ 4,168	$ 3,355
Tax Effect of:			
Utility Plant Related	**(899)**	(500)	(171)
State Income Taxes – Net	**176**	167	106
Employee Benefits	**(25)**	(25)	(67)
Other	**3**	4	14
Total Income Tax Expense	**$ 3,237**	$ 3,814	$ 3,237
Current:			
Federal	**$ 2,889**	$ 3,128	$ 2,835
State	**183**	83	95
Deferred:			
Federal	**160**	512	321
State	**84**	170	65
Investment Tax Credits	**(79)**	(79)	(79)
Total Income Tax Expense	**$ 3,237**	$ 3,814	$ 3,237

The statutory review period for income tax returns for the years prior to 2002 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)	
	2005	2004
Utility Plant Related	**$ 21,827**	$ 21,293
Customer Advances	**(4,250)**	(4,263)
Employee Benefits	**(3,210)**	(2,568)
Other	**(70)**	94
Total Deferred Tax Liability	**$ 14,297**	$ 14,556

The Company is required to record 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, offsetting regulatory assets of $6.2 million and $6.5 million have been recorded at December 31, 2005 and 2004, 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 2005, 2004 and 2003 were $7.4 million, $7.4 million and $7.2 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, 2005, 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.

Water Supply - Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. 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 non-affiliated regulated water utility for the purchase of treated water. This agreement, which expired December 31, 2005 and is expected to be renewed for a five-year term under the same terms and conditions, 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	**2005**	2004	2003
Untreated	**$ 2.3**	$ 2.2	$ 2.0
Treated	**1.8**	2.0	1.8
Total Costs	**$ 4.1**	$ 4.2	$ 3.8

Construction – Based on its capital budget, the Company plans to spend approximately $44.5 million in 2006, $68.5 million in 2007 and $43.7 million in 2008 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, for which the Company has a liability accrued. While we are unable to predict the outcome of the arbitration, we believe that we have substantial defenses.

During 2005, the Office of State Fire Marshal in Delaware issued a Notice of Violation (NOV) to Tidewater regarding a plan of correction to provide fire protection services to one of its community water systems, based upon a recent interpretation of regulations that have been effective since 1989. Tidewater has appealed this NOV in the Superior Court of the State of Delaware on the grounds that the water system was grandfathered under the 1989 regulations and that due process had not been served in the application of the recent interpretation. It is the Company's position that Tidewater is not required to provide fire protection service to that water system. Should Tidewater not be successful in its appeal, it would be required to install a fire protection system in that system with an estimated capital investment between $0.9 million and $1.6 million. If the Company is unsuccessful in its appeal, we cannot predict what further actions, if any, or the costs or timing thereof, would have on over 60 of Tidewater's other community water systems. However, such amounts could be material. The Company believes that any capital investments resulting from an unfavorable outcome would be a component of its Delaware rate base and, therefore, included in future rates. While we are unable to predict the outcome of our appeal, we believe that we have substantial defenses.

The Company is a defendant in various lawsuits in the normal course of business. 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, 2005 and 2004 is summarized below:

	(Millions of Dollars)	
	2005	2004
Established Lines at Year-End	**$ 40.0**	$ 33.0
Maximum Amount Outstanding	**16.0**	13.5
Average Outstanding	**9.2**	8.9
Notes Payable at Year-End	**4.0**	11.0
Weighted Average Interest Rate	**4.36%**	2.37%
Weighted Average Interest Rate at Year-End	**5.09%**	3.42%

Year-end interest rates on short-term borrowings outstanding ranged from 4.69% to 5.75% and 2.82% to 3.75% as of December 31, 2005 and 2004, respectively. The maturity dates for borrowings outstanding as of December 31, 2005 are: January 3, 2006 - $1.5 million; and February 27, 2006 - $2.5 million.

The Company has lines of credit for up to $40.0 million. Short-term borrowings are below the prime rate with no requirement for compensating balances.

Note 6 – Capitalization

All the transactions discussed below related to the issuance of securities were approved by the BPU, except where otherwise 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 the Company's common stock, effective November 14, 2003 for shareholders of record on November 1, 2003. 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 the stock split.

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, 2005, is 1,511,502. For a six month period beginning on June 1, 2005 and ending on December 1, 2005, 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, 2005, 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, 2005 and 2004, 36,898 shares and 37,898 shares, respectively, 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. During September 2005, 1,000 shares of the no par $7.00 Series Cumulative and Convertible Preferred Stock was converted into 12,000 shares of common stock.

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 into common stock at the election of the security holder or Middlesex.

Long-term Debt

During 2005, Tidewater received approval from the PSC to finance up to $16.0 million in the form of long-term debt securities during the current year. Of this amount, Tidewater received loan approval in April 2005 under the Delaware State Revolving Fund (SRF) program of $2.0 million. Tidewater closed on this loan on July 25, 2005. The Delaware SRF program allows, but does not obligate, Tidewater to draw down against a General Obligation Note for two specific projects over a two-year period ending in April 2007. The interest rate on any draw-down will be set at 3.49%. On August 25, 2005, Tidewater converted $7.0 million of short-term borrowings to a $7.0 million mortgage-type loan to be repaid over a term of 25 years. This loan bears interest at 6.44%. On September 15, 2005, Tidewater closed on another $7.0 million mortgage-type loan. This loan bears interest at 6.46% and is to be repaid over a term of 26 years.

In November 2004, Middlesex issued $16.6 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on the 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
2006	$ 1.9	2009	$ 2.6
2007	$ 2.4	2010	$ 2.6
2008	$ 2.5		

The weighted average interest rate on all long-term debt at December 31, 2005 and 2004 was 5.36% and 5.26%, respectively. Except for the Amortizing Secured Notes 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 ($27.2 million) and the SRF program ($4.1 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 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. All other bond issuance balances in restricted cash are for debt service requirements.

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, 2005. Basic EPS is 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 four-for-three common stock split, effective November 14, 2003.

	(In Thousands of Dollars, Except per Share Amounts)					
	2005		2004		2003	
Basic:	**Income**	**Shares**	Income	Shares	Income	Shares
Net Income	**$ 8,476**	**11,445**	$ 8,446	11,080	$ 6,631	10,475
Preferred Dividend	**(251)**		(255)		(255)	
Earnings Applicable to Common Stock	**$ 8,225**	**11,445**	$ 8,191	11,080	$ 6,376	10,475
Basic EPS	**$ 0.72**		$ 0.74		$ 0.61	
Diluted:						
Earnings Applicable to Common Stock	**$ 8,225**	**11,445**	$ 8,191	11,080	$ 6,376	10,475
$7.00 Series Dividend	**101**	**175**	104	179	104	179
$8.00 Series Dividend	**96**	**164**	96	164	96	164
Adjusted Earnings Applicable to Common Stock	**$ 8,422**	**11,784**	$ 8,391	11,423	$ 6,576	10,818
Diluted EPS	**$ 0.71**		$ 0.73		$ 0.61	

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)			
	2005		2004	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
First Mortgage Bonds	**$ 98,376**	**$ 101,080**	$ 98,899	$ 101,968
State Revolving Bonds	**$ 1,374**	**$ 1,402**	$ 1,442	$ 1,476

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, 2005 and 2004 was $30.3 million and $16.0 million, respectively. Customer advances for construction have a carrying amount of $17.2 million and $14.0 million at December 31, 2005 and 2004, 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, 2005 was $24.4 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, "Employers' Accounting for Postretirement Benefits Other than Pensions," 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, 2005 and 2004, respectively were $0.6 million and $0.7 million.

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

	Years Ended December 31, (Thousands of Dollars)			
	Pension Benefits		Other Benefits	
	2005	2004	**2005**	2004
Reconciliation of Projected Benefit Obligation				
Beginning Balance	**$ 26,099**	$ 23,671	**$ 11,133**	$ 9,498
Service Cost	**1,126**	746	**621**	426
Interest Cost	**1,559**	1,387	**771**	580
Actuarial (Gain)/Loss	**2,141**	1,516	**3,130**	1,028
Benefits Paid	**(1,259)**	(1,221)	**(408)**	(399)
Ending Balance	**$ 29,666**	$ 26,099	**$ 15,247**	$ 11,133
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	**$ 19,510**	$ 18,587	**$ 3,430**	$ 2,582
Actual Return on Plan Assets	**885**	1,497	**225**	190
Employer Contributions	**1,202**	647	**1,419**	1,057
Benefits Paid	**(1,259)**	(1,221)	**(408)**	(399)
Ending Balance	**$ 20,338**	$ 19,510	**$ 4,666**	$ 3,430
Funded Status	**$ (9,328)**	$ (6,589)	**$ (10,581)**	$ (7,703)
Unrecognized Net Transition Obligation	**–**	–	**947**	1,082
Unrecognized Net Actuarial (Gain)/Loss	**5,163**	2,655	**7,533**	4,835
Unrecognized Prior Service Cost	**81**	173	**(3)**	(3)
Accrued Benefit Cost	**$ (4,084)**	$ (3,761)	**$ (2,104)**	$ (1,789)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Accrued Benefit Cost	**$ (4,084)**	$ (3,761)	**$ (2,104)**	$ (1,789)
Additional Minimum Liability	**(476)**			
Intangible Asset	**79**			
Accumulated Other Comprehensive Income (pre-tax)	**397**			
Net Liability Recognized	**$ (4,084)**	$ (3,761)	**$ (2,104)**	$ (1,789)
Separate Disclosure for Plans with Accumulated Benefit Obligation in Excess of Plan Assets:				
Projected Benefit Obligation	**$ 25,822**			
Accumulated Benefit Obligation	**21,500**			
Fair Value of Plan Assets	**20,338**			

	Years Ended December 31, (Thousands of Dollars)					
	Pension Benefits			Other Benefits		
	2005	2004	2003	**2005**	2004	2003
Components of Net Periodic Benefit Cost						
Service Cost	**$ 1,126**	$ 746	$ 684	**$ 622**	$ 426	$ 263
Interest Cost	**1,559**	1,387	1,356	**771**	580	485
Expected Return on Plan Assets	**(1,547)**	(1,492)	(1,272)	**(275)**	(213)	(175)
Amortization of Net Transition Obligation	**–**	–	–	**135**	135	135
Amortization of Net Actuarial (Gain)/Loss	**49**	–	–	**482**	292	143
Amortization of Prior Service Cost	**92**	92	92	**–**	–	–
Net Periodic Benefit Cost	**$ 1,279**	$ 733	$ 860	**$ 1,735**	$ 1,220	$ 851
Actual Return on Plan Assets	**4.54%**	8.18%	17.48%	**5.71%**	6.53%	0.77%
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	**5.52%**	5.88%	6.00%	**5.52%**	5.88%	6.00%
Benefit Cost	**5.88%**	6.00%	6.75%	**5.88%**	6.00%	6.75%
Compensation Increase for:						
Benefit Obligation	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%
Benefit Cost	**3.50%**	3.50%	3.50%	**3.50%**	3.50%	3.50%

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2005 and declining by 1.0% per year through 2008 and 0.5% per year to 5% by year 2010. 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	$ 330	$ (247)
Effect on Benefit Obligation Asset Category	2,430	(1,894)

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

Year	**Pension Benefits**	**Other Benefits**
2006	$ 1,249	$ 430
2007	1,449	471
2008	1,542	479
2009	1,565	529
2010	1,568	544
2011-2015	8,596	2,374
Totals	$ 15,969	$ 4,827

Benefit Plans Assets

The benefit plans asset allocations at December 31, 2005 and 2004, by asset category are as follows:

	Pension Plan		**Other Benefits**			
Asset Category	2005	2004	2005	2004	Target	Range
Equity Securities	63.7%	62.8%	56.3%	54.0%	60%	30-65%
Debt Securities	33.4	34.5	41.0	36.9	38%	25-70%
Cash	2.9	2.7	2.7	9.1	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 also manages the other postretirement benefits assets. Quarterly meetings are held between the Company's Pension Committee of the Board of Directors 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 of the investments and the current expectations and historical performance for these categories.

Equity securities include Middlesex common stock in the amounts of $0.7 million (3.3% of total plan assets) and $0.7 million (3.8% of total plan assets) at December 31, 2005 and 2004, respectively.

For the pension plan, Middlesex made total cash contributions of $1.2 million in 2005 and expects to make cash contributions of approximately $1.0 million in 2006.

For the postretirement benefit plan, Middlesex made total cash contributions of $1.0 million in 2005 and expects to make cash contributions of approximately $1.2 million in 2006.

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 eligible compensation, plus 50% of a participant's contributions exceeding 1% but not more than 6%. The Company's matching contributions were $0.3 million for each of the years ended December 31, 2005, 2004 and 2003.

Stock-Based Compensation

The Company maintains a Restricted Stock Plan, under which 56,067 shares of the Company's common stock are held in escrow by the Company as of December 31, 2005 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, disability or change in control. The maximum number of shares authorized for grant under this plan is 240,000 shares.

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

The following table presents information on the Restricted Stock Plan:

	Shares	Unearned Compensation	Weighted Average Grant Price
Balance, January 1, 2003	77,566	$ 552,081	
Granted	18,900	357,990	$ 18.95
Vested	(26,099)		
Forfeited	(967)	(11,700)	
Amortization of Compensation Expense		(286,199)	
Balance, December 31, 2003	69,400	$ 612,172	
Granted	14,900	265,367	$ 17.81
Vested	(19,067)		
Amortization of Compensation Expense		(271,298)	
Balance, December 31, 2004	65,233	$ 606,241	
Granted	19,000	435,713	$ 22.95
Vested	(28,166)		
Amortization of Compensation Expense		(342,122)	
Balance, December 31, 2005	56,067	$ 699,832	

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	**2005**	2004	2003
Revenues:			
Regulated	**$ 66,317**	$ 60,745	$ 55,707
Non – Regulated	**8,416**	10,366	8,500
Inter-segment Elimination	**(120)**	(120)	(96)
Consolidated Revenues	**$ 74,613**	$ 70,991	$ 64,111
Operating Income:			
Regulated	**$ 16,390**	$ 16,075	$ 14,025
Non – Regulated	**828**	858	713
Consolidated Operating Income	**$ 17,218**	$ 16,933	$ 14,738
Depreciation:			
Regulated	**$ 6,357**	$ 5,762	$ 5,308
Non – Regulated	**103**	84	55
Consolidated Depreciation	**$ 6,460**	$ 5,846	$ 5,363
Other Income, Net:			
Regulated	**$ 836**	$ 892	$ 506
Non – Regulated	**-**	(1)	(33)
Inter-segment Elimination	**(96)**	(96)	(116)
Consolidated Other Income, Net	**$ 740**	$ 795	$ 357
Interest Expense:			
Regulated	**$ 6,245**	$ 5,469	$ 5,227
Non – Regulated	**96**	96	116
Inter-segment Elimination	**(96)**	(96)	(116)
Consolidated Interest Charges	**$ 6,245**	$ 5,469	$ 5,227
Net Income:			
Regulated	**$ 8,037**	$ 7,993	$ 6,292
Non – Regulated	**439**	453	339
Consolidated Net Income	**$ 8,476**	$ 8,446	$ 6,631
Capital Expenditures:			
Regulated	**$ 25,016**	$ 28,669	$ 17,005
Non – Regulated	**272**	210	572
Total Capital Expenditures	**$ 25,288**	$ 28,879	$ 17,577

	As of December 31,	
	2005	2004
Assets:		
Regulated	**$ 320,889**	$ 302,765
Non – Regulated	**5,912**	4,943
Inter-segment Elimination	**(2,418)**	(2,074)
Consolidated Assets	**$ 324,383**	$ 305,634

Note 9 – Quarterly Operating Results - Unaudited

Quarterly operating results for 2005 and 2004 are as follows:

	(Thousands of Dollars, Except per Share Data)				
2005	1st	2nd	3rd	4th	Total
Operating Revenues	$ 16,743	$ 18,431	$ 20,832	$ 18,607	$ 74,613
Operating Income	3,171	4,259	6,013	3,775	17,218
Net Income	1,380	1,946	3,024	2,126	8,476
Basic Earnings per Share	$ 0.12	$ 0.17	$ 0.26	$ 0.17	$ 0.72
Diluted Earnings per Share	$ 0.12	$ 0.16	$ 0.26	$ 0.17	$ 0.71
2004					
Operating Revenues	$ 15,876	$ 17,770	$ 19,856	$ 17,489	$ 70,991
Operating Income	2,728	4,128	6,212	3,865	16,933
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

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 24, 2006, at 11:00 a.m. at the Office of the Company, 1500 Ronson Road, Iselin, NJ. Each shareholder of record will receive formal notice of the meeting together with the proxy statement and proxy card. The record date for the Annual Meeting was March 31, 2006.

Shareholders
As of December 31, 2005, there were 2,074 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
Telephone: 800-368-5948
Fax: 908-497-2318
Website: www.rtco.com
E-mail: info@rtco.com

Investor Relations Contact
Bernadette M. Sohler
Director of Communications
Telephone: 732-634-1500
Fax: 732-638-7515
E-mail: bsohler@middlesexwater.com

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
2 Hilton Court
Parsippany, NJ 07054
Telephone: 973-683-7000

Mortgage Trustee
Wachovia Bank
21 South Street
Morristown, NJ 07960

Form 10-K
You may request a copy of our Annual Report on Form 10-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.

Dividend Reinvestment
Middlesex Water Company offers a Dividend Reinvestment Plan which provides registered shareholders with a convenient way to purchase additional shares of stock 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
Middlesex Water Company offers direct deposit of dividends whereby dividend payments may be deposited into shareholders' checking, savings or money market accounts.

Company Headquarters
Middlesex Water Company
1500 Ronson Road
Iselin, NJ 08830
Telephone: 732-634-1500
Fax: 732-638-7515

MIDDLESEX WATER COMPANY

COMMON STOCK MARKET PRICE AND DIVIDEND PER SHARE

	2005			2004		
	High	**Low**	**Dividend**	High	Low	Dividend
First Quarter	**$ 19.16**	**$ 17.64**	**$ 0.1675**	$ 21.32	$ 19.38	$ 0.1650
Second Quarter	**20.00**	**17.07**	**0.1675**	21.81	18.83	0.1650
Third Quarter	**23.47**	**19.05**	**0.1675**	19.50	16.65	0.1650
Fourth Quarter	**23.34**	**17.31**	**0.1700**	20.72	17.06	0.1675

SCHEDULE OF DIVIDEND DATES FOR THE YEAR 2006*

	Declaration Dates	Record Dates	Payment Dates	Ex. Dividend Dates
Common	January 24	February 15	March 1	February 13
	April 25	May 15	June 1	May 11
	July 25	August 15	September 1	August 11
	October 26	November 15	December 1	November 13
Preferred	December 20**	January 13	February 1	January 11
	March 28	April 13	May 1	April 11
	June 27	July 14	August 1	July 12
	September 25	October 13	November 1	October 11

*Subject to approval by Board of Directors. ** 2005.

MIDDLESEX WATER COMPANY

Dear Stockholder:

Thank you for reading our Annual Report. We are interested in your view of Middlesex Water Company and this report.

Please help us by providing feedback by filling out and returning this questionnaire.

Thank you,

Investor Relations Department

1. Which of the following best describes you?
   - ☐ Individual investor
   - ☐ Investment club
   - ☐ Institutional investor
   - ☐ Employee

2. How many shares of Middlesex Water Company stock do you own?
   - ☐ None
   - ☐ Less than 100
   - ☐ Between 100 and 500
   - ☐ Between 500 and 1,000
   - ☐ More than 1,000

3. How good of a job is the Company doing in communicating its performance?
   - ☐ Excellent
   - ☐ Good
   - ☐ Fair
   - ☐ Poor

4. Which sections of the Annual Report did you find most helpful?
   - ☐ Letter to Shareholders
   - ☐ Year in Review
   - ☐ Incoming CEO Q & A
   - ☐ Financial Section

5. What was the impression of Middlesex Water Company created by the Annual Report?
   - ☐ An evolving and growing company
   - ☐ A progressive company that is a sound investment
   - ☐ A solid, well managed company, but not too exciting
   - ☐ Not a very interesting company

6. Did reading Middlesex Water Company's Annual Report influence your investment decision?
   - ☐ I continued to hold the stock
   - ☐ I bought more stock
   - ☐ I sold some or all of my stock

Comment/s

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Please provide suggestions for next year's Annual Report or other stockholder communications and/or comments about the Company's operations in general.

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Board of Directors

Seated left to right: **Dennis W. Doll**, President and Chief Executive Officer, **J. Richard Tompkins**, Chairman of the Board, **Dennis G. Sullivan**, Retired, immediate Past President and Chief Executive Officer, Middlesex Water Company. *Standing left to right:* **John C. Cutting**, Retired, formerly Senior Engineer, Science Applications International Corporation, **John P. Mulkerin**, Retired, formerly President and Chief Executive Officer, First Sentinel Bancorp, Inc., **Annette Catino**, President and CEO, QualCare Alliance Networks, Inc., **Jeffries Shein**, Managing Partner, JGT Management Co. LLC, **John R. Middleton**, M.D., Chair of the Department of Medicine and Chief Medical Officer of Raritan Bay Medical Center, **Walter G. Reinhard**, Member, Law Firm of Norris, McLaughlin & Marcus, P.A. *Not pictured:* **Stephen H. Mundy**, Director Emeritus.

Chairman of the Board

J. Richard Tompkins

Officers

Dennis W. Doll, President and Chief Executive Officer

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

P.O. Box 1500
Iselin, New Jersey 08830-0452
732-634-1500
www.middlesexwater.com