2007 Annual Report

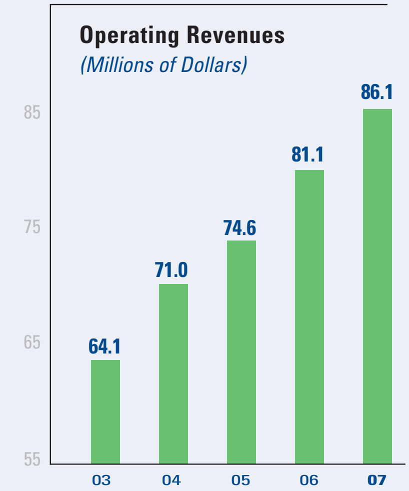
MIDDLESEX WATER COMPANY

Creating Opportunities Through Full Service Solutions

A Provider of Water, Wastewater and Related Products and Services

Company Profile

Middlesex Water Company was incorporated as a water utility company in 1897 and owns and operates regulated water utility and wastewater systems in New Jersey and Delaware. The Company also operates water and wastewater systems under contract on behalf of municipal and private clients in New Jersey and Delaware. The Company's common stock trades on the NASDAQ Global Select Market under the symbol MSEX.

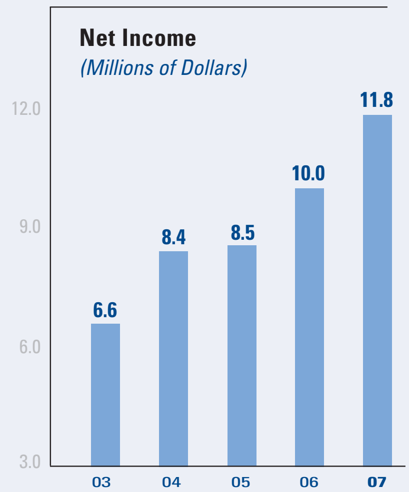


Our Mission

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

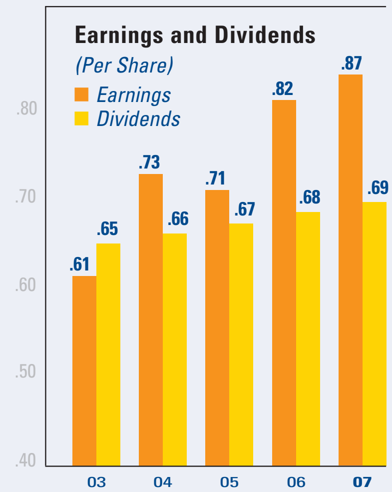
Our Values

• Integrity • A Strong Customer Focus • Continuous Improvement
• Teamwork • Social Responsibility • A Results-Driven Work Ethic



Financial Highlights

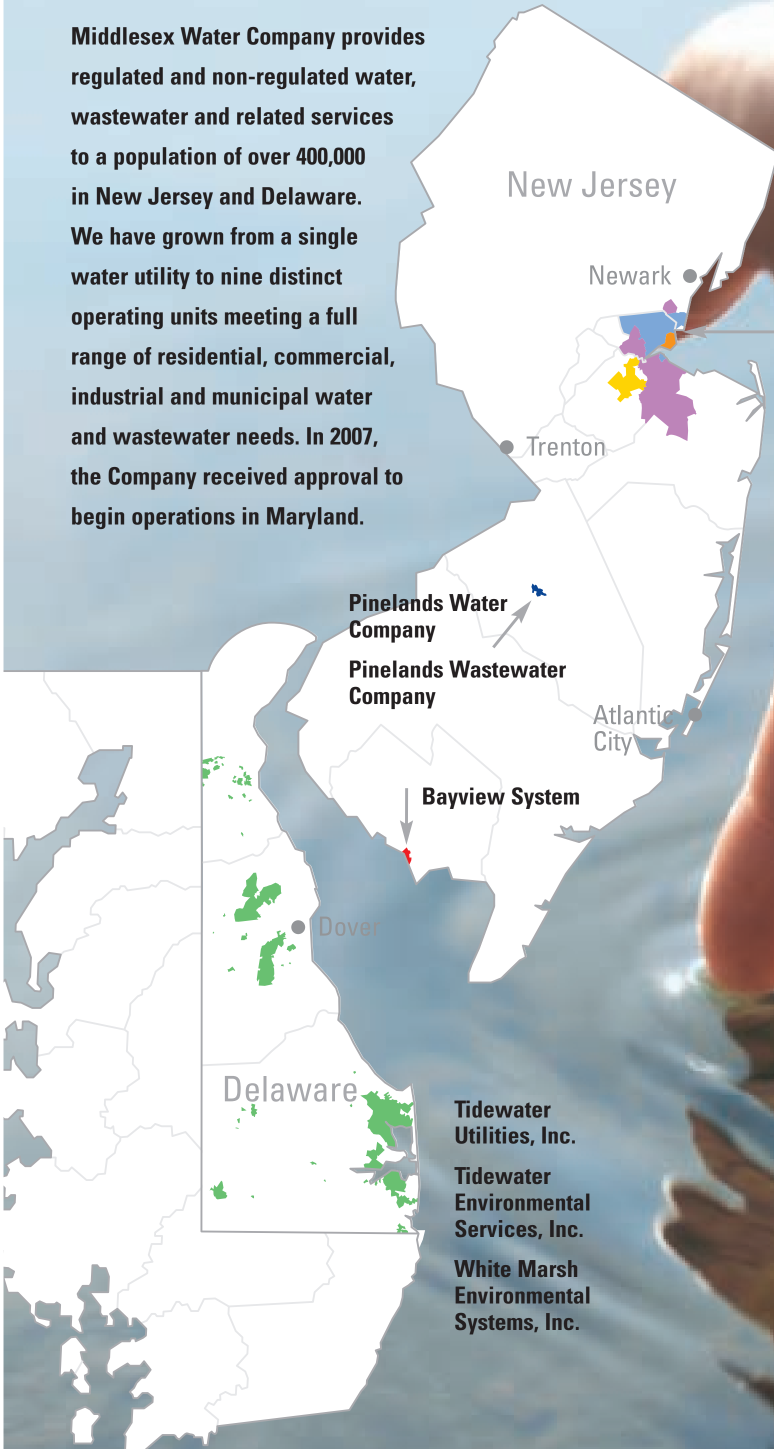
(Millions of Dollars, Except per Share Data)	**2007**	2006	Change
Operating Revenues	**$86.1**	$81.1	$5.0
Operation and Maintenance Expenses	**46.2**	43.3	2.9
Depreciation	**7.5**	7.1	0.4
Income and Other Taxes	**15.4**	14.4	1.0
Interest Charges	**6.6**	7.0	(0.4)
Net Income	**11.8**	10.0	1.8
Earnings Applicable to Common Stock	**11.6**	9.8	1.8
Basic Earnings per Share	**0.88**	0.83	0.05
Diluted Earnings per Share	**0.87**	0.82	0.05
Cash Dividends Paid per Share	**0.69**	0.68	0.01
Utility Plant	**398.6**	370.6	28.0
Return on Average Common Equity	**8.9%**	9.4%	(0.5%)

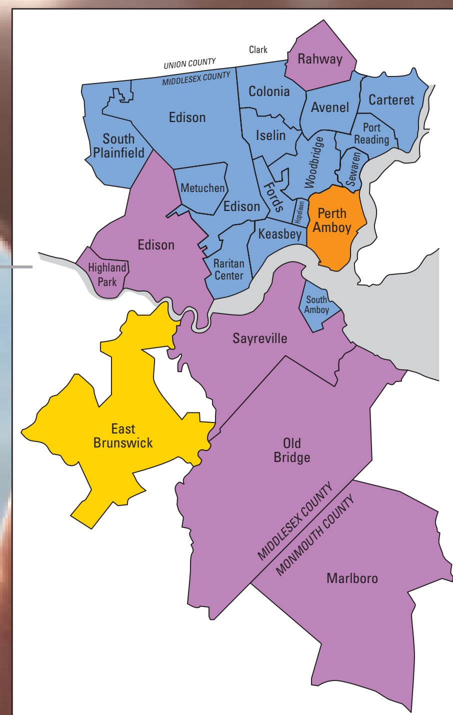


Safe Harbor - This Annual Report contains forward-looking statements on a number of subjects. They are based on the Company's current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially. Our SEC filings identify factors that could affect those results.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

Creating Opportunities Through Full Service Solutions

Middlesex Water Company provides regulated and non-regulated water, wastewater and related services to a population of over 400,000 in New Jersey and Delaware. We have grown from a single water utility to nine distinct operating units meeting a full range of residential, commercial, industrial and municipal water and wastewater needs. In 2007, the Company received approval to begin operations in Maryland.





Middlesex Water Company retail service area

Middlesex Water Company existing service under contract (Edison, Highland Park, Old Bridge, Marlboro, Rahway, Sayreville)

Middlesex Water Company treatment and pumping contract (East Brunswick)

Utility Service Affiliates operating contract (Perth Amboy)

Pinelands Water Company
Pinelands Wastewater Company

Bayview System

Tidewater Utilities, Inc.
Tidewater Environmental Services, Inc.
White Marsh Environmental Systems, Inc.

To Our Shareholders

MIDDLESEX WATER COMPANY

Your company continued to move forward in 2007 with our plans to take further advantage of developing opportunities in the water, wastewater and related services arenas. We progressed in several areas in 2007 and are pleased to report positive results in these areas that benefit our customers, employees and shareholders.

The financial results for the year met our projections and we delivered customer growth in both water and wastewater connections in the face of slower growth in the national housing market and the resulting impact on the demand for new water and wastewater services. Our financial results provided for an increase in the dividend on the common stock of the Company as well as growth in overall revenues and earnings.

Our acquisition of the wastewater collection and treatment systems of the Town of Milton, Delaware added 1,200 customers to our growing regulated wastewater business. The wastewater business continues to be a large strategic focus for us and therefore, one that we continue to

left to right:
Dennis W. Doll
President and Chief Executive Officer

J. Richard Tompkins
Chairman of the Board

"The wastewater business continues to be a large strategic focus for us and therefore, one that we continue to aggressively develop."

Executive Committee *(left to right):*
Dennis W. Doll, *President and Chief Executive Officer*, James P. Garrett, *Vice President - Human Resources*, Richard M. Risoldi, *Vice President - Subsidiary Operations;* Bernadette M. Sohler, *Vice President – Corporate Affairs;* Ronald F. Williams, *Vice President - Operations and Chief Operating Officer;* Gerard L. Esposito, *President, Tidewater Utilities, Inc.;* A. Bruce O'Connor, *Vice President and Chief Financial Officer;* Kenneth J. Quinn, *Vice President, General Counsel, Secretary and Treasurer.*

A Comprehensive Suite of Solutions

Over the years, our professional capabilities have expanded to meet the changing needs of customers, property owners, developers and municipalities. We have built a reputation for delivering sound, technical and full service solutions and have developed end-to-end capabilities to deliver a wide range of services. A partial listing of our services includes:

- Water Production, Treatment and Distribution
- Wastewater Collection and Treatment
- Ownership and Operation of Utilities
- Plant Design and Build Upgrades
- Plant Operations and Maintenance
- Engineering and Construction
- Public/Private Partnerships
- Water and Wastewater Contract Operations
- Water and Sewer Line Maintenance
- Utility Billing and Collections
- Community Irrigation
- Well Rehabilitation and Repair

MIDDLESEX WATER COMPANY

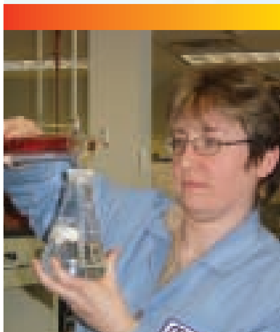
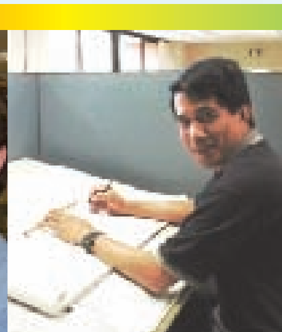
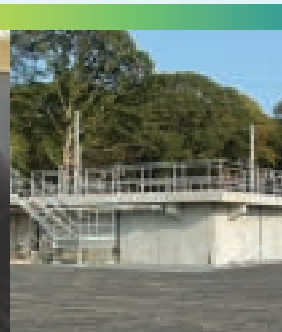
Water Production, Treatment and Distribution

System Design and Construction

Wastewater Collection and Treatment

Service Line Maintenance

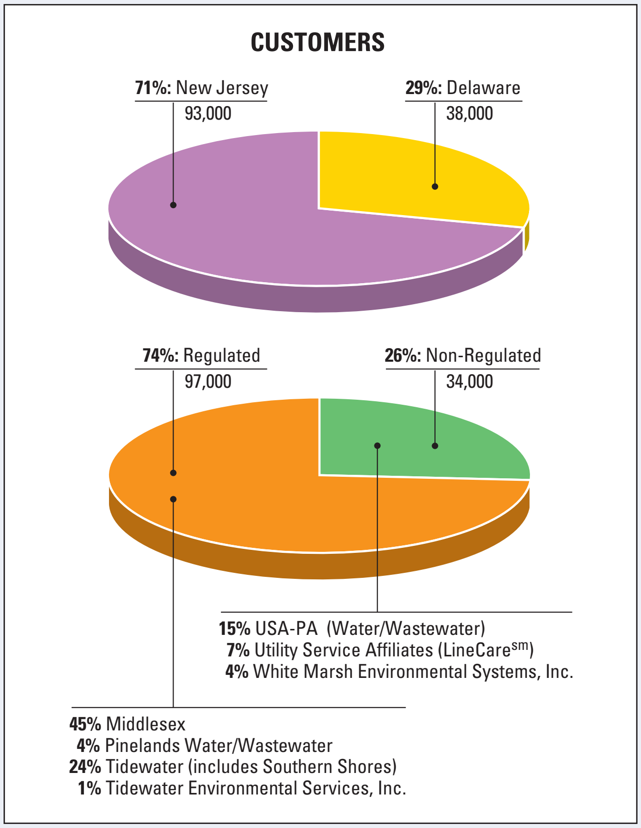
Contract Operations


aggressively develop. Obtaining high quality solutions for affordable wastewater services continues to be a challenge for municipalities and developers in the areas we are looking to serve.

Service quality was enhanced in several areas, together with improvements to water and wastewater operations that provided greater efficiencies. We also continued to expand and improve upon the training programs necessary to further develop the technical and management skills of our employees.

The following summary and report illustrates certain details of these achievements and their impact on our long-term planning and capabilities in the areas of water and wastewater services.



Financial Management

Timely recovery of cost increases through the regulatory process is a significant focus of our management. In April 2007 we filed a request with the New Jersey Board of Public Utilities for an increase in base rates and were awarded a $5.0 million or 9.1% increase in October of 2007. This negotiated outcome resulted in timely recovery of capital expenditures and operating cost increases since rates had been previously established. This favorable outcome benefits both customers and shareholders by strengthening the

Employees receive performance management, supervisory skills, technical and other types of training. In 2007, we centralized our training programs and professional development to ensure more effective utilization of training resources.

An example of a sequential batch reactor tank operating in Delaware which processes 51,000 gallons of wastewater per day.

"Through the regulatory process, we continually strive to balance customer needs for high quality service at affordable rates and shareholder needs for appropriate returns on investment."

financial position of the company and helping to ensure our ability to continue to meet the infrastructure needs of present and future customers. Through the regulatory process, we continually strive to balance customer needs for high quality service at affordable rates and shareholder needs for appropriate returns on investment.

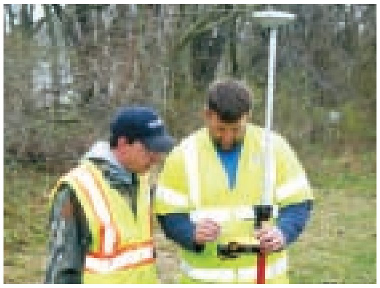
The 2007 Capital Program was financed mainly through internally generated funds with some added financing through first mortgage bonds. Middlesex Water issued $3.5 million of bonds through the New Jersey Environmental Infrastructure Trust and Tidewater, our regulated water utility in Delaware, arranged for $1.1 million under a similar state program in Delaware.

Operational Excellence

The extension of our cross training practices for water and wastewater operating personnel to the Tidewater systems in Delaware has helped improve the quality of service and added to the capabilities of our service in these areas. Given the increasing geographic spread of the facilities we own and operate in Delaware and planned facilities related to ongoing negotiations in Maryland, efficient and cost-effective deployment of water and wastewater personnel is important to our success. In addition to our focus on continuing to build solid technical skills, we are improving the workflows inherent in various operational processes and backing up those processes with enhancements in our use of technology.

We had recently announced we are implementing improved technology across a variety of our business processes. This initiative will enable us to more

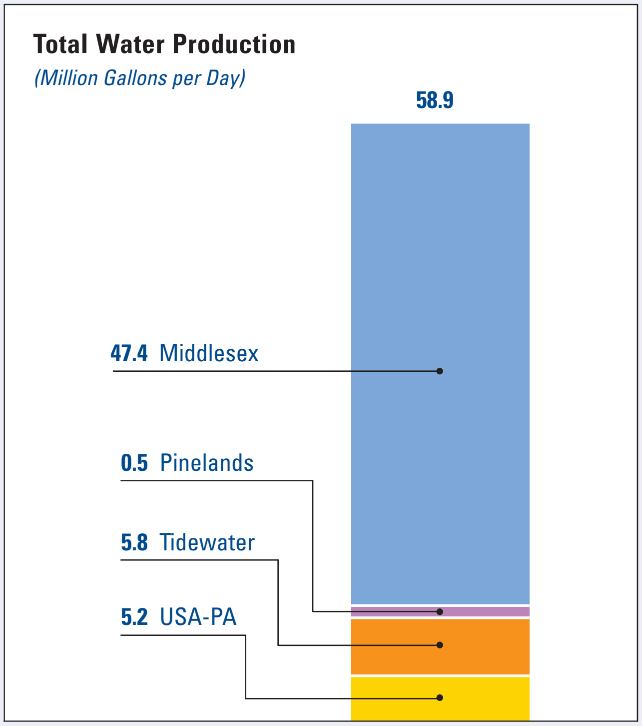
Supplying high quality water to our customers requires continuous monitoring and maintenance of our facilities.



We utilize GIS Technology, which combines mapping software with database management tools, to collect, organize and share information.

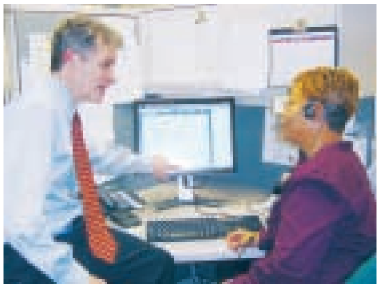
effectively manage our operations from an end-to-end business process perspective with greater transparency of data and tighter integration of our various operational and administrative functions. Our goal is to ultimately translate these efforts into further enhancements in service to our customers and further enhancements to shareholder value. In addition to various planned business process and technology enhancements, we consolidated our separate accounting and customer service functions from Delaware to New Jersey in 2007. This initiative is providing greater consistency in the application of policies and procedures and improved efficiencies in a variety of areas.

The management of company-wide training and safety programs has been consolidated in 2007 under the Human Resources function to ensure that these needs are provided in a consistent and efficient manner throughout all operating locations. We believe these programs will help achieve our growth, operational excellence and financial goals, while ensuring a safe working environment for our employees.



Expanding Capabilities

As we compete and negotiate for new business within and beyond our existing geographic borders in New Jersey and Delaware, we find a strong need



In October, we consolidated our customer call center functions to a single location at the Company's New Jersey headquarters.

As our business grows more complex, managing employee safety has become an increasing priority. Our new safety program ensures consistent application and compliance with Federal and State standards and the identification of safety training and equipment for employees throughout the company.

Wastewater is treated through a membrane bio-reactor process which treats water to a high level effluent quality. Effluent is disposed through rapid infiltration basins, a land based disposal alternative that recharges aquifers and ensures groundwater is a renewable resource for future generations.

for innovative quality water and wastewater services for municipalities, developers and others. The types of problems these entities face require innovative operational and financial solutions that can be provided through our expanded capabilities.

Our acquisition of the wastewater system in the Town of Milton, Delaware is an illustration of this type of solution. Similarly, we are engaged in a variety of discussions with other potential customers to provide innovative solutions to the challenges they face. Municipalities are keenly aware of the challenges presented by rapid growth and they struggle to balance this expansion with an adequate infrastructure and affordable utility services. In addition, they strive to preserve the quality of life and the natural environment that their residents enjoy.

We have developed the technical and management capabilities in water and wastewater to creatively address the issues that challenge both municipalities and developers. Furthermore, we look to provide solutions under regulation, public/private partnerships, operating contracts or new structures that circumstances may require.

Our contract operations business continues to expand as we not only acquire new contracts, but as we also continually seek to further improve the profitability of existing contracts. Our capabilities in the contract operations business have matured to the extent we manage the day-to-day operations of water and wastewater systems of varying size and complexity. We have developed expertise in certain industrial applications of wastewater treatment as well and seek to obtain more of this business as our reputation in this area continues to develop.

Water provided through the Company and its subsidiaries delivers quality of life, public health protection, fire protection and the infrastructure that supports a solid economy.

In 2007, we announced the acquisition of the wastewater collection and treatment system of the Town of Milton, DE.

Our Reputation as a Utility Service Provider

Our reputation serves to benefit both those customers we serve presently and those that we propose to serve in the future. We work to educate the communities we serve and others about the wise use of water and the obligation that we all have to protect the environment. We give credit to our employees who are responsible for our excellent reputation, through their effort in providing services and also in their community support. We take pride in being part of community activities and find them rewarding from both a personal and professional prospective. Although we continue to seek expansion beyond our present geographic borders, we view our water and wastewater services as a local business that must adequately address the various local needs of the communities that choose to partner with us. Our commitment to supporting the communities we serve is an important part of our company values and serves to help us understand and address those needs effectively.

We see your company as a solid provider of quality services in the increasingly complex and dynamic investor-owned water and wastewater industry. Similarly, we continue to see your company as an attractive long-term investment as critical water and wastewater services emerge as a higher priority for those we serve and those we intend to serve.

We thank you for your loyalty and we look forward to sharing our future progress.

J. Richard Tompkins
Chairman of the Board

Dennis W. Doll
President and Chief Executive Officer

Middlesex Water Company Named One of America's Most Trustworthy Companies

Middlesex Water Company has been named one of the nation's Top 100 Most Trustworthy Publicly Traded Firms by Audit Integrity, Inc., an independent firm that rates companies on the quality of their corporate integrity. This list, reported on by Forbes, ranks 8,000 public firms on their financial reporting and corporate governance. To view the report and methodology used, please visit www.auditintegrity.com.

Middlesex Water employees gave back to the community by participating in Tooling Around the Township, a project to fix homes for the elderly and disabled.

Employees visit schools educating young students about the water cycle and careers in the water industry.

CONSOLIDATED SELECTED FINANCIAL DATA

(In Thousands, Except per Share Amounts)	**2007**	2006	2005	2004	2003
Operating Revenues	**$ 86,114**	$ 81,061	$ 74,613	$ 70,991	$ 64,111
Operating Expenses:					
Operations and Maintenance	**46,240**	43,345	42,156	39,984	36,195
Depreciation	**7,539**	7,060	6,460	5,846	5,363
Other Taxes	**9,664**	9,338	8,779	8,228	7,816
Total Operating Expenses	**63,443**	59,743	57,395	54,058	49,374
Operating Income	**22,671**	21,318	17,218	16,933	14,737
Other Income, Net	**1,527**	774	740	795	358
Interest Charges	**6,619**	7,012	6,245	5,468	5,227
Income Taxes	**5,736**	5,041	3,237	3,814	3,237
Net Income	**11,843**	10,039	8,476	8,446	6,631
Preferred Stock Dividend	**248**	248	251	255	255
Earnings Applicable to Common Stock	**$ 11,595**	$ 9,791	$ 8,225	$ 8,191	$ 6,376
Earnings per Share:					
Basic	**$ 0.88**	$ 0.83	$ 0.72	$ 0.74	$ 0.61
Diluted	**$ 0.87**	$ 0.82	$ 0.71	$ 0.73	$ 0.61
Average Shares Outstanding:					
Basic	**13,203**	11,844	11,445	11,080	10,475
Diluted	**13,534**	12,175	11,784	11,423	10,818
Dividends Declared and Paid	**$ 0.693**	$ 0.683	$ 0.673	$ 0.663	$ 0.649
Total Assets	**$392,675**	$370,267	$324,383	$305,634	$267,956
Convertible Preferred Stock	**$ 2,856**	$ 2,856	$ 2,856	$ 2,961	$ 2,961
Long-term Debt	**$131,615**	$130,706	$128,175	$115,281	$ 97,377

STATISTICAL SUMMARY

REVENUES *(Thousands of Dollars):*	**2007**	2006	2005	2004	2003
Residential	**$ 38,792**	$ 34,584	$ 31,289	$ 28,322	$ 25,272
Commercial	**8,358**	8,107	7,297	6,771	6,299
Industrial	**8,513**	8,659	8,183	7,708	7,131
Fire Protection	**8,882**	8,635	7,742	7,237	6,830
Contract Sales	**10,749**	9,937	10,024	9,086	8,458
Contract Operations	**8,832**	8,878	8,082	7,934	8,065
Other	**1,988**	2,261	1,996	3,933	2,056
TOTAL REVENUES	**$ 86,114**	$ 81,061	$ 74,613	$ 70,991	$ 64,111
CAPITALIZATION RATIOS:					
Long-term Debt	**50%**	50%	55%	54%	54%
Preferred Stock	**1**	1	2	2	2
Common Stock Equity	**49**	49	43	44	44
TOTAL	**100%**	100%	100%	100%	100%
OTHER:					
Book Value of Common Stock	**$ 9.87**	$ 8.86	$ 8.36	$ 7.99	$ 7.56
Customers	**132,000**	125,200	119,800	115,000	109,700
Population Served (Retail)	**434,600**	421,400	407,500	400,000	373,000
Miles of Main	**1,343**	1,306	1,250	1,215	1,150
Fire Hydrants	**7,216**	6,821	6,595	6,306	5,953
Water Production (million gallons)	**21,731**	20,594	21,196	20,344	20,015

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

The following discussion 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, as to the quality of water service we provide and as to certain other matters in New Jersey and 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 59,400 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 303,000. 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 31,600 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 1,400 residential retail customers. Our other Delaware subsidiary, White Marsh, services an additional 5,100 customers in Kent and Sussex Counties through 62 operations and maintenance contracts.

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.

We expect the growth of our regulated wastewater business in Delaware will eventually become a more significant component of our operations.

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 90%, 89% and 89% of total revenues, and 94%, 94% and 95% of net income for the years ended December 31, 2007, 2006 and 2005, 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, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

RESULTS OF OPERATIONS IN 2007 COMPARED TO 2006

	Years Ended December 31, (Millions of Dollars)					
	2007			2006		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	**$77.1**	**$9.0**	**$86.1**	$71.9	$9.2	$81.1
Operations and maintenance	**38.8**	**7.4**	**46.2**	35.7	7.7	43.4
Depreciation	**7.4**	**0.1**	**7.5**	7.0	0.1	7.1
Other taxes	**9.5**	**0.2**	**9.7**	9.1	0.2	9.3
Operating income	**21.4**	**1.3**	**22.7**	20.1	1.2	21.3
Other income (expense)	**1.5**	**—**	**1.5**	0.9	(0.1)	0.8
Interest expense	**6.6**	**—**	**6.6**	7.0	—	7.0
Income taxes	**5.2**	**0.6**	**5.8**	4.6	0.5	5.1
Net income	**$11.1**	**$0.7**	**$11.8**	$9.4	$0.6	$10.0

Operating revenues for the year rose $5.0 million, or 6.2% over the same period in 2006. Revenues improved by $3.7 million in our Tidewater System, of which $2.4 million was a result of a base rate increase that was granted to Tidewater. The rate increase was implemented in two parts; a 15% interim rate increase in June 2006 and an additional 12% final increase on February 28, 2007. Customer growth and higher consumption contributed $1.9 million of increased revenues. Our Tidewater System experienced record water production and consumption billed due to extended favorable weather during the spring and summer. Fees charged to new customers for initial connection to our Delaware water systems were lower by $0.6 million as new residential and commercial development has slowed in our Delaware service territories. Revenues in our Middlesex system increased by $0.7 million as a result of a 9.1% base rate increase implemented on October 26, 2007. Middlesex revenues also increased by $0.3 million due to increased sales to our contract customers. TESI revenues increased by $0.3 million, as we connected new customers to our existing and new wastewater systems in Delaware.

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. The Company expects its 2008 operating revenues to reflect the full effect of the October 2007 Middlesex $5.0 million rate increase.

Operation and maintenance expenses increased $2.8 million, or 6.5%. Labor costs were $1.3 million higher due to wage increases and increased headcount to meet the needs of the growing Delaware customer base, risk management, training and safety. As expected, electric generation costs for our Middlesex system increased due to the renewal in late 2006 of our contract with the power purveyor. That factor accounted for most of the $0.6 million in additional power costs. Pumping and water treatment costs increased a combined $0.2 million due to higher costs for chemicals and disposal of residuals. Costs for water main breaks in our New Jersey system and transportation fuel were $0.2 million higher than the same period in 2006 due to the number and size of the breaks and higher gasoline prices. The cost to operate our TESI regulated wastewater facilities in Delaware increased by $0.2 million as we acquired the Milton, Delaware wastewater system during the year. All other operating costs increased by $0.3 million.

Electric generation costs for our Middlesex system are expected to increase in 2008 due to the renewal in late 2007 of our power contract that reflects an 18% increase. Payroll and related employee benefit costs are expected to be higher in 2007 due to headcount increase. However, the unit cost for our employee's health benefits will not increase until December 2008.

Depreciation expense for 2007 increased by $0.4 million, or 5.6%, 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 $0.4 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income increased $0.7 million, primarily due to a gain of $0.2 million on the sale of non-utility real property in New Jersey and a gain of $0.4 million on the sale of certain water service rights in Delaware.

Interest expense decreased by $0.4 million, or 5.7%, as a result of a lower level of average short-term debt outstanding when compared to 2006.

Income tax expense based on our current year operating results was $0.9 million higher than 2006 and reflects the increased revenues due to higher water rates in New Jersey and Delaware, the record customer usage in Delaware and the sale of non-essential assets. This was partially offset by $0.2 million of solar tax credits recorded during 2007.

Net income increased to $11.8 million from $10.0 million in the prior year, and basic earnings per share increased from $0.83 to $0.88. Diluted earnings per share increased from $0.82 to $0.87.

RESULTS OF OPERATIONS IN 2006 COMPARED TO 2005

	Years Ended December 31, *(Millions of Dollars)*					
	2006			2005		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	**$71.9**	**$9.2**	**$81.1**	$66.3	$8.3	$74.6
Operations and maintenance	**35.7**	**7.7**	**43.4**	35.0	7.2	42.2
Depreciation	**7.0**	**0.1**	**7.1**	6.3	0.1	6.4
Other taxes	**9.1**	**0.2**	**9.3**	8.6	0.2	8.8
Operating income	**20.1**	**1.2**	**21.3**	16.4	0.8	17.2
Other income (expense)	**0.9**	**(0.1)**	**0.8**	0.7	—	0.7
Interest expense	**7.0**	**—**	**7.0**	6.2	—	6.2
Income taxes	**4.6**	**0.5**	**5.1**	2.9	0.3	3.2
Net income	**$ 9.4**	**$0.6**	**$10.0**	$ 8.0	$0.5	$ 8.5

Operating revenues for the year rose $6.5 million, or 8.7% over the same period in 2005. Water sales improved by $2.8 million in our Middlesex System, of which $4.1 million was a result of base rate increase that was granted to Middlesex on December 8, 2005. This increase was somewhat offset by lower consumption revenues of $1.3 million due to unfavorable weather from mid-July through the late fall of 2006 as compared to the prior year. Customer growth of 7.07% in Delaware provided additional water consumption sales, facility charges and connection fees of $0.9 million, higher base rates provided $1.0 million and increased consumption for existing customers provided an additional $0.6 million. New unregulated wastewater contracts in Delaware provided $0.4 million in additional revenues. Revenues from our operations and maintenance contract with the City of Perth Amboy increased by $0.4 million due to scheduled fixed fee adjustments under the agreement. USA had increased revenues for its LineCare℠ maintenance program of $0.1 million. TESI revenues increased by $0.1 million, as we connected new customers to our wastewater systems in Delaware. All other operations contributed $0.2 million of additional revenues.

Operation and maintenance expenses increased $1.2 million or 2.8% as compared to the same period in 2005. Continued growth of our Delaware water and wastewater operations led to higher costs of $1.1 million. Despite lower water production volume of 3.2% for our Middlesex System, costs increased by $0.3 million due to increased unit costs for electricity, chemicals and residuals removal. Costs for providing services under our contract with the City of Perth Amboy increased by $0.1 million and costs for providing services under our contracts in Delaware increased by $0.2 million. Audit fees declined by $0.3 million as the Company changed independent accounting firms beginning with the 2006 audit period. Labor and benefits expenses fell by $0.3 million due to vacant positions and improved performance on investments. All other operating costs increased by $0.1 million.

Depreciation expense for 2006 increased by $0.7 million, or 10.9%, due to a higher level of utility plant in service.

Other taxes increased by $0.5 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

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

Interest expense increased by $0.8 million, or 12.9%, 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 the 2006 operating results was $1.9 million higher than 2005 and reflects the increased revenues due to higher water rates in New Jersey and Delaware and increased water consumption in Delaware.

Net income increased to $10.0 million from $8.5 million in the prior year, and basic earnings per share increased from $0.72 to $0.83. Diluted earnings per share increased from $0.71 to $0.82.

Outlook

In addition to factors previously discussed under “Results of Operations in 2007 Compared to 2006,” our revenues are expected to increase in 2008 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 also expect revenues to increase as a result of the settlement of our 2007 Middlesex rate case effective October 26, 2007. The approved increase of 9.1% is expected to generate $5.0 million of revenues on an annual basis assuming actual market conditions are consistent with our projections.

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 expect our interest expense to increase during 2008 as a result of higher expected average borrowings against the 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 2007, cash flows from operating activities increased $2.7 million to $18.8 million, as compared to the prior year. This increase was primarily attributable to higher net income and depreciation. The $18.8 million of net cash flow from operations enabled us to fund approximately 86% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan, long-term borrowings and short-term borrowings.

For 2006, cash flows from operating activities increased $2.6 million to $16.1 million, as compared to the prior year. This increase was primarily attributable to higher net income, depreciation and the timing of collection of customer billings. The $16.1 million of net cash flow from operations allowed us to fund approximately 52% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under a formal offering in November 2006 and our Dividend Reinvestment Plan and both short-term and long-term borrowings.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations discussion, during 2007 we received rate relief for Tidewater and Middlesex. We continually monitor the need for timely rate filing to minimize any regulatory lag between increasing operating and capital costs and appropriate rate relief. There is no certainty, however, that the BPU or PSC will approve any or all future requested increases.

Sources of Liquidity

Short-term Debt. The Company has established lines of credit aggregating $40.0 million. At December 31, 2007, the outstanding borrowings under these credit lines were $6.3 million at a weighted average interest rate of 5.79%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were $2.6 million and $9.5 million at 6.36% and 6.13% for the years ended December 31, 2007 and 2006, 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 and New Jersey SRF loan programs during 2007 and expect to participate in the 2008 New Jersey SRF program for up to $3.5 million.

During 2007, Middlesex closed on $3.5 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance our 2008 RENEW program. 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 2007, Tidewater closed on a $1.1 million loan with the Delaware SRF. The proceeds will be used to fund two specific projects of the 2007 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 Common Stock Purchase Plan (the Plan). The Company raised $1.1 million through the issuance of shares under the Plan during 2007. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. The last public offering of its common stock closed in

November 2006. The majority of the net proceeds of approximately $26.2 million from that common stock offering of 1,495,000 shares were used to repay all of the Company's short-term borrowings outstanding at that time.

Capital Expenditures and Commitments
Under our capital program for 2008, we plan to expend $14.3 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 $3.8 million for construction of wastewater systems in Delaware. We expect to spend $2.9 million as we begin to implement a Company-wide information system upgrade. We expect to spend $3.5 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 112 miles of unlined mains in the 730-mile Middlesex System. In 2007, eight miles of unlined mains were cleaned and cement lined. The capital program also includes $12.4 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of $4.3 million for improvements to existing plant, $5.2 million for mains, $0.6 million for service lines, $0.4 million for meters, $0.3 million for hydrants, and $1.6 million for other infrastructure needs.

To pay for our capital program in 2008, we will utilize internally generated funds and funds available and held in trust under existing NJEIT loans (currently, $3.7 million) and Delaware SRF loans (currently, $3.1 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 $40.0 million of available lines of credit with several financial institutions. As of December 31, 2007, we had $6.3 million outstanding against the lines of credit.

Going forward into 2009 through 2010, we currently project that we may be required to expend between $88.4 million and $121.8 million for capital projects. The exact amount is dependent on customer growth, residential housing sales and project scheduling. In particular, Middlesex has filed a prudency review application with the BPU for a proposed major transmission pipeline designed to strengthen its existing transmission network and provide system redundancy. Initial estimates to construct the pipeline are $26.2 million. The duration and outcome of the BPU review process may affect the construction schedule as well as the project viability.

To the extent possible and because of favorable interest rates available to regulated water utilities, we expect to 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. It may also be necessary to sell shares of our Common Stock through a public offering.

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 other underlying consolidated financial statements.

The table below presents our known contractual obligations for the periods specified as of December 31, 2007.

		Payments Due by Period *(Millions of Dollars)*			
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	$134.3	$ 2.7	$21.3	$ 6.5	$103.8
Notes Payable	6.3	6.3	—	—	—
Interest on Long-term Debt	98.1	6.5	11.0	10.3	70.3
Purchased Water Contracts	44.2	4.2	8.4	5.1	26.5
Wastewater Operations	51.7	4.1	8.5	9.0	30.1
Employee Retirement Plans(1)	3.6	3.6	—	—	—
Total	$338.2	$27.4	$49.2	$30.9	$230.7

(1) *Amount not determinable after one year.*

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 $7.8 million in 2007 and will increase over the term of the contract to $10.2 million by 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, 2007, approximately $22.6 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 90% of Operating Revenues and 98% 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 and who were hired prior to March 31, 2007.

The discount rate utilized for determining future pension obligations has increased from 5.52% at December 31, 2005 to 5.89% at December 31, 2006 and increased to 6.59% at December 31, 2007. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by $1.3 million in 2007. 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 2007 by approximately $1.1 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 pension expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the pension plan.

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 $2.7 million of the current portion of 18 existing long-term debt instruments will mature. 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 of adequate preparation and fair presentation of the 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, 2007. 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, 2007, 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 audited the effectiveness of our internal control over financial reporting as of December 31, 2007 as stated in their report which is included herein.

Dennis W. Doll

Dennis W. Doll
President and
Chief Executive Officer

A. Bruce O'Connor

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

Iselin, New Jersey
March 10, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Middlesex Water Company's (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2007 and 2006 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. Our report dated March 10, 2008 expressed an unqualified opinion on these consolidated financial statements.

Beard Miller Company LLP

Beard Miller Company LLP
Reading, Pennsylvania
March 10, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders 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, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of the Company for the year ended December 31, 2005 were audited by other auditors whose report dated March 16, 2006, expressed an unqualified opinion on those statements.

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 consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middlesex Water Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integral Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2008 expressed an unqualified opinion.

Beard Miller Company LLP

Beard Miller Company LLP
Reading, Pennsylvania
March 10, 2008

CONSOLIDATED BALANCE SHEETS

(In thousands)

		December 31, 2007	December 31, 2006
ASSETS			
UTILITY PLANT:	Water Production	$ 98,942	$ 95,324
	Transmission and Distribution	264,939	243,959
	General	24,874	25,153
	Construction Work in Progress	9,833	6,131
	TOTAL	398,588	370,567
	Less Accumulated Depreciation	64,736	59,694
	UTILITY PLANT - NET	333,852	310,873
CURRENT ASSETS:	Cash and Cash Equivalents	2,029	5,826
	Accounts Receivable, net	8,227	8,538
	Unbilled Revenues	4,609	4,013
	Materials and Supplies (at average cost)	1,205	1,306
	Prepayments	1,363	1,229
	TOTAL CURRENT ASSETS	17,433	20,912
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	2,884	3,014
	Preliminary Survey and Investigation Charges	5,283	3,436
	Regulatory Assets	16,090	18,342
	Operations Contracts Fees Receivable	4,184	607
	Restricted Cash	6,418	6,850
	Non-utility Assets - Net	6,183	5,648
	Other	348	585
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	41,390	38,482
	TOTAL ASSETS	$392,675	$370,267
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	$105,668	$104,248
	Retained Earnings	27,441	25,001
	Accumulated Other Comprehensive Income, net of tax	69	94
	TOTAL COMMON EQUITY	133,178	129,343
	Preferred Stock	3,958	3,958
	Long-term Debt	131,615	130,706
	TOTAL CAPITALIZATION	268,751	264,007
CURRENT LIABILITIES:	Current Portion of Long-term Debt	2,723	2,501
	Notes Payable	6,250	—
	Accounts Payable	6,477	5,491
	Accrued Taxes	7,611	6,684
	Accrued Interest	1,916	1,880
	Unearned Revenues and Advanced Service Fees	758	601
	Other	1,274	984
	TOTAL CURRENT LIABILITIES	27,009	18,141
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,758	19,246
	Accumulated Deferred Investment Tax Credits	1,461	1,813
	Accumulated Deferred Income Taxes	17,940	15,779
	Employee Benefit Plans	13,333	16,388
	Regulatory Liability - Cost of Utility Plant Removal	5,726	6,200
	Other	459	527
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	60,677	59,953
CONTRIBUTIONS IN AID OF CONSTRUCTION		36,238	28,166
	TOTAL CAPITALIZATION AND LIABILITIES	$392,675	$370,267

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In Thousands, Except per Share Amounts)	**2007**	2006	2005
OPERATING REVENUES	**$86,114**	$81,061	$74,613
OPERATING EXPENSES:			
Operations	**42,117**	39,799	38,636
Maintenance	**4,123**	3,546	3,520
Depreciation	**7,539**	7,060	6,460
Other Taxes	**9,664**	9,338	8,779
TOTAL OPERATING EXPENSES	**63,443**	59,743	57,395
OPERATING INCOME	**22,671**	21,318	17,218
OTHER INCOME (EXPENSE):			
Allowance for Funds Used During Construction	**537**	632	548
Other Income	**1,153**	160	220
Other Expense	**(163)**	(18)	(28)
TOTAL OTHER INCOME, NET	**1,527**	774	740
INTEREST CHARGES	**6,619**	7,012	6,245
INCOME BEFORE INCOME TAXES	**17,579**	15,080	11,713
INCOME TAXES	**5,736**	5,041	3,237
NET INCOME	**11,843**	10,039	8,476
PREFERRED STOCK DIVIDEND REQUIREMENTS	**248**	248	251
EARNINGS APPLICABLE TO COMMON STOCK	**$11,595**	$ 9,791	$ 8,225
Earnings per share of Common Stock:			
Basic	**$ 0.88**	$ 0.83	$ 0.72
Diluted	**$ 0.87**	$ 0.82	$ 0.71
Average Number of Common Shares Outstanding:			
Basic	**13,203**	11,844	11,445
Diluted	**13,534**	12,175	11,784
Cash Dividends Paid per Common Share	**$ 0.693**	$ 0.683	$ 0.673

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$11,843**	$10,039	$8,476
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	**8,176**	7,761	7,160
Provision for Deferred Income Taxes and ITC	**399**	897	165
Allowance for Funds Used During Construction	**—**	—	(548)
Equity Portion of AFUDC	**(255)**	(259)	—
Cash Surrender Value of Life Insurance	**(271)**	(155)	—
Gain on Sale of Real Estate	**(267)**	—	—
Changes in Assets and Liabilities:			
Accounts Receivable	**(2,752)**	(463)	(1,758)
Unbilled Revenues	**(596)**	(276)	(165)
Materials and Supplies	**101**	(46)	(56)
Prepayments	**(134)**	(301)	(103)
Other Assets	**(9)**	(485)	(151)
Accounts Payable	**986**	(538)	(18)
Accrued Taxes	**941**	197	(323)
Accrued Interest	**36**	11	166
Employee Benefit Plans	**239**	(84)	710
Unearned Revenue and Advanced Service Fees	**157**	127	86
Other Liabilities	**224**	(299)	(144)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**18,818**	16,126	13,497
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of $ 282 in 2007, $373 in 2006, and $0 in 2005	**(21,930)**	(30,734)	(25,288)
Cash Surrender Value & Other Investments	**—**	—	(294)
Restricted Cash	**444**	(1,036)	7,637
Proceeds from Real Estate Dispositions	**273**	—	—
Preliminary Survey and Investigation Charges	**(1,847)**	(1,661)	(743)
NET CASH USED IN INVESTING ACTIVITIES	**(23,060)**	(33,431)	(18,688)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	**(2,501)**	(1,915)	(1,215)
Proceeds from Issuance of Long-term Debt	**3,632**	5,016	14,948
Net Short-term Bank Borrowings	**6,250**	(4,000)	(7,000)
Deferred Debt Issuance Expenses	**(50)**	(28)	(166)
Common Stock Issuance Expense	**(15)**	(238)	—
Restricted Cash	**(12)**	(32)	(163)
Proceeds from Issuance of Common Stock	**1,420**	28,088	4,076
Payment of Common Dividends	**(9,141)**	(8,190)	(7,690)
Payment of Preferred Dividends	**(248)**	(248)	(251)
Construction Advances and Contributions-Net	**1,110**	1,694	1,601
NET CASH PROVIDED BY FINANCING ACTIVITIES	**445**	20,147	4,140
NET CHANGES IN CASH AND CASH EQUIVALENTS	**(3,797)**	2,842	(1,051)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**5,826**	2,984	4,035
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 2,029**	$ 5,826	$2,984
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	**$ 8,960**	$ 3,543	$5,150
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	**$ 6,542**	$ 6,937	$5,990
Interest Capitalized	**$ (282)**	$ (373)	$ (548)
Income Taxes	**$ 4,534**	$ 4,352	$3,792

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CAPITAL STOCK AND LONG-TERM DEBT

(In thousands)	December 31, 2007	2006
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2007 - 13,246	**$105,668**	$104,248
2006 - 13,168		
Retained Earnings	**27,441**	25,001
Accumulated Other Comprehensive Income, net of tax	**69**	94
TOTAL COMMON EQUITY	**133,178**	129,343
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 139		
Shares Outstanding - 37		
Convertible:		
Shares Outstanding, $7.00 Series - 14	**1,457**	1,457
Shares Outstanding, $8.00 Series - 12	**1,399**	1,399
Nonredeemable:		
Shares Outstanding, $7.00 Series - 1	**102**	102
Shares Outstanding, $4.75 Series - 10	**1,000**	1,000
TOTAL PREFERRED STOCK	**3,958**	3,958
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	**2,800**	2,896
6.25%, Amortizing Secured Note, due May 22, 2028	**8,575**	8,995
6.44%, Amortizing Secured Note, due August 25, 2030	**6,347**	6,627
6.46%, Amortizing Secured Note, due September 19, 2031	**6,627**	6,907
4.22%, State Revolving Trust Note, due December 31, 2022	**691**	739
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	**3,168**	3,100
3.49%, State Revolving Trust Note, due January 25, 2027	**603**	598
4.03%, State Revolving Trust Note, due December 1, 2026	**974**	914
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	**695**	730
0.00%, State Revolving Fund Bond, due September 1, 2021	**538**	577
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	**12,000**	12,000
5.25%, Series T, due October 1, 2023	**6,500**	6,500
6.40%, Series U, due February 1, 2009	**15,000**	15,000
5.25%, Series V, due February 1, 2029	**10,000**	10,000
5.35%, Series W, due February 1, 2038	**23,000**	23,000
0.00%, Series X, due September 1, 2018	**591**	647
4.25% to 4.63%, Series Y, due September 1, 2018	**765**	820
0.00%, Series Z, due September 1, 2019	**1,342**	1,455
5.25% to 5.75%, Series AA, due September 1, 2019	**1,785**	1,890
0.00%, Series BB, due September 1, 2021	**1,685**	1,805
4.00% to 5.00%, Series CC, due September 1, 2021	**1,995**	2,090
5.10%, Series DD, due January 1, 2032	**6,000**	6,000
0.00%, Series EE, due September 1, 2024	**7,112**	7,482
3.00% to 5.50%, Series FF, due September 1, 2024	**8,385**	8,735
0.00%, Series GG, due August 1, 2026	**1,710**	1,750
4.00% to 5.00%, Series HH, due August 1, 2026	**1,950**	1,950
0.00%, Series II, due August 1, 2027	**1,750**	-
3.40% to 5.00%, Series JJ, due August 1, 2027	**1,750**	-
SUBTOTAL LONG-TERM DEBT	**134,338**	133,207
Less: Current Portion of Long-term Debt	**(2,723)**	(2,501)
TOTAL LONG-TERM DEBT	**$131,615**	$130,706

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2005	11,358	$ 71,980	$ 23,103	$ 45	$ 95,128
Net Income			8,476		8,476
Minimum Pension Liability, Net of $135 Income Tax				(262)	(262)
Change in Value of Equity Investments, Net of $5 Income Tax				10	10
Comprehensive Income					8,224
Dividend Reinvestment & Common Stock Purchase Plan	195	3,640			3,640
Restricted Stock Award - Net	19	436			436
Preferred Stock Conversion	12	105			105
Cash Dividends on Common Stock			(7,690)		(7,690)
Cash Dividends on Preferred Stock			(251)		(251)
Balance at December 31, 2005	11,584	76,161	23,638	(207)	99,592
Net Income			10,039		10,039
Minimum Pension Liability, Net of $135 Income Tax				262	262
Change in Value of Equity Investments, Net of $20 Income Tax				39	39
Comprehensive Income					10,340
Dividend Reinvestment & Common Stock Purchase Plan	70	1,321			1,321
Restricted Stock Award - Net	19	275			275
Issuance of Common Stock	1,495	26,491			26,491
Cash Dividends on Common Stock			(8,190)		(8,190)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expenses			(238)		(238)
Balance at December 31, 2006	13,168	104,248	25,001	94	129,343
Net Income			11,843		11,843
Change in Value of Equity Investments, Net of $13 Income Tax				(25)	(25)
Comprehensive Income					11,818
Dividend Reinvestment & Common Stock Purchase Plan	61	1,147			1,147
Restricted Stock Award - Net	17	273			273
Cash Dividends on Common Stock			(9,141)		(9,141)
Cash Dividends on Preferred Stock			(248)		(248)
Common Stock Expenses			(15)		(15)
Other			1		1
Balance at December 31, 2007	**13,246**	**$105,668**	**$27,441**	**$ 69**	**$133,178**

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) and Utility Service Affiliates (Perth Amboy) Inc. (USA-PA). 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. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Certain reclassifications have been made to the prior year financial statements to conform with current period presentation.

(b) System of Accounts – Middlesex, Pinelands Water and Pinelands Wastewater 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, 2007, 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, 2007, 2006 and 2005. 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%
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.

Advances and Contributions are not depreciated in accordance with BPU and PSC requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(f) Allowance for Funds Used During Construction (AFUDC) – Middlesex and its regulated subsidiaries 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, 2007, 2006 and 2005 approximately $0.5 million, $0.6 million and $0.5 million, respectively of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The average AFUDC rate for the years ended December 31, 2007, 2006 and 2005 for Middlesex and Tidewater were 7.45% and 7.94%, respectively.

(g) Accounts Receivable – We record bad debt expense based on historical write-offs. The allowance for doubtful accounts was $0.3 million at December 31, 2007, $0.3 million at December 31, 2006, and $0.2 million at December 31, 2005. The corresponding expense for the year ended December 31, 2007, 2006 and 2005 was $0.1 million, $0.3 million and $0.2 million, respectively.

(h) Revenues – General metered customer's bills for regulated water service are typically comprised of two components; a fixed service charge and a volumetric or consumption charge. Revenues from general metered service water 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.

Southern Shores is an unmetered system. Customers are billed a fixed service charge in advance at the beginning of each month and revenues are recognized as earned. 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 September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurements, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which deferred the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities. The Company does not expect that the adoption of SFAS 157 will have a material impact on its financial statements.

In February 2007, the FASB issued FSP FAS 158-1, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No 106 and to the Related Staff Implementation Guides." This FSP makes conforming amendments to other FASB statements and staff implementation guides and provides technical corrections to SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The conforming amendments in this FSP did not have a material impact on the Company's consolidated financial statements or disclosures.

FASB statement No. 141 (R) "Business Combinations" was issued in December of 2007. This Statement establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The Statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective as of the beginning of a company's fiscal year beginning after December 15, 2008. This new pronouncement will impact the Company's accounting for business combinations completed beginning January 1, 2009.

In May 2007, the FASB issued FSP FIN 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," to clarify certain aspects of accounting for uncertain tax positions, including recognition and measurement of those tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation did not materially impact the Company's results of operations and financial condition.

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

(o) Regulatory Accounting – We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 90% of Operating Revenues and 98% 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 in 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, and who were hired as of March 31, 2007. The discount rate utilized for determining pension costs decreased from 5.88% for the year ended December 31, 2005 to 5.52% for the year ended December 31, 2006 and increased to 5.89% for the year ended December 31, 2007. 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.

Note 2 - Rate and Regulatory Matters

Effective October 26, 2007, Middlesex received approval from the New Jersey Board of Public Utilities (BPU) for a 9.1%, or $5.0 million increase in its base water rates. The increase was predicated on a rate base of $164.4 million and an authorized return on equity of 10.0%. Middlesex had originally filed for an $8.9 million or 16.5% base rate increase with the BPU on April 18, 2007. The rate increase is intended to recover increased costs of operations, maintenance, labor and benefits, purchased power, purchased water and taxes, as well as capital investment of approximately $23.0 million since June 2005.

On April 28, 2006, Tidewater filed for a $5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately $23.8 million since rates were last established in March 2005. Since June 27, 2006, Tidewater has been billing and recognizing additional revenues through a

15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the New Jersey Board of Public Utilities (BPU) for base rate increases of 7.02% and 0.98%, respectively. These increases represent a total base rate increase of approximately $0.1 million for Pinelands to offset increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2008. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

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

	December 31, *(Thousands of Dollars)*		
Regulatory Assets	**2007**	2006	Remaining Recovery Periods
Postretirement Benefits	**$ 7,279**	$11,130	Various
Income Taxes	**8,222**	6,813	Various
Tank Painting	**225**	275	3-8 years
Rate Cases and Other	**364**	124	Up to 2 years
Total	**$16,090**	$18,342	

Postretirement benefits include pension and other postretirement benefits that have been recorded on the Consolidated Balance Sheet upon adoption of SFAS 158. These amounts represent obligations in excess of current funding, which the Company believes will be fully recovered in rates set by the regulatory authorities.

The recovery period for income taxes is dependent upon when the temporary differences between the tax and book treatment of various items reverse. The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method 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 depreciation expense. As of December 31, 2007 and 2006, the Company has approximately $5.7 million and $6.2 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred. These amounts are recorded as regulatory liabilities.

The Company is recovering in current rates acquisition premiums totaling $0.8 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances 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)*		
	2007	2006	2005
Income Tax at Statutory Rate	**$6,021**	$5,155	$3,982
Tax Effect of:			
Utility Plant Related	**(595)**	(338)	(899)
State Income Taxes – Net	**350**	257	176
Employee Benefits	**(49)**	(48)	(25)
Other	**9**	15	3
Total Income Tax Expense	**$5,736**	$5,041	$3,237

Income tax expense is comprised of the following:

	Years Ended December 31, (Thousands of Dollars)		
	2007	2006	2005
Current:			
Federal	**$4,894**	$3,846	$2,889
State	**413**	298	183
Deferred:			
Federal	**634**	884	160
State	**117**	92	84
Investment Tax Credits	**(322)**	(79)	(79)
Total Income Tax Expense	**$5,736**	$5,041	$3,237

The statutory review period for income tax returns for the years prior to 2004 has been closed. Federal income tax returns for 2005 and 2006 are currently under review by the Internal Revenue Service. Although the review is still in process, no material adjustments have been proposed by the examiner. In the event that there are interest and penalties associated with income tax adjustments, these amounts would be reported under interest expense and other expense, respectively.

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:

	December 31, (Thousands of Dollars)	
	2007	2006
Utility Plant Related	**$24,892**	$23,656
Customer Advances	**(4,117)**	(4,189)
Employee Benefits	**(2,544)**	(3,515)
Other	**(291)**	(173)
Total Deferred Tax Liability	**$17,940**	$15,779

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 2007, 2006 and 2005 were $7.8 million, $7.6 million and $7.4 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, 2007, approximately $22.6 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 expires February 27, 2011, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

Purchased Water	Years Ended December 31, (Millions of Dollars) 2007	2006	2005
Untreated	**$2.4**	$2.3	$2.3
Treated	**2.1**	1.9	1.9
Total Costs	**$4.5**	$4.2	$4.2

Construction – The Company may spend up to $36.9 million in 2008, $76.9 million in 2009 and $44.9 million in 2010 on its construction program. The development of these estimates is based in part upon projected housing development and sales in Delaware.

Litigation – In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware State Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied Tidewater's appeal. In October 2007, Tidewater agreed to dismiss its appeal of the SFPC's decision with the Sussex County Superior Court in Delaware of the notice of violation and request for corrective action issued by the Fire Marshal. In return for the dismissal both parties have agreed that 15 of the original 67 community water systems previously identified will require certain modifications over a ten-year period in order to provide full fire protection. The expected capital investment to comply with the settlement is $12.0 to $14.0 million and will be expended ratably over the ten-year period. We will apply to the PSC to increase base rates to recover the costs of any such modifications. Although these types of modifications have routinely been included in previous rate matters, the PSC may not approve a portion or all of the costs associated with the fire protection upgrades.

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, 2007 and 2006 is summarized as follows:

	(Millions of Dollars) 2007	2006
Established Lines at Year-End	**$40.0**	$37.0
Maximum Amount Outstanding	**6.6**	18.2
Average Outstanding	**2.6**	9.5
Notes Payable at Year-End	**6.3**	None
Weighted Average Interest Rate	**6.36%**	6.13%
Weighted Average Interest Rate at Year-End	**5.79%**	None

The maturity date for the $6.3 million borrowing, with an interest rate of 5.79%, outstanding as of December 31, 2007 was January 7, 2008.

Interest rates for 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 either the BPU or PSC, except where otherwise noted.

Common Stock
In June 2007, the number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) increased from 1,700,000 shares to 2,300,000 shares. The cumulative number of shares issued under the DRP at December 31, 2007, is 1,642,877. The Company also has shares authorized and outstanding under a restricted stock plan, which is described in Note 7 – Employee Benefit Plans.
In November 2006, the Company sold and issued 1,495,000 shares of its common stock in a public offering that was priced at $18.46. The majority of the net proceeds of approximately $26.2 million were used to repay all of the Company's short-term borrowings outstanding at that time. Remaining proceeds from the public offering were used to fund a portion of the 2007 capital program.

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, 2007, 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, 2007 and 2006, 36,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

The conversion feature of the no par $7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of twelve shares of the Company's common stock for each share of convertible stock redeemed. During September 2005, 1,000 shares of the no par $7.00 Series Cumulative and Convertible Preferred Stock was converted into 12,000 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
In December 2007, Tidewater closed on a $1.1 million loan with the Delaware State Revolving Fund (SRF). This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for two specific projects no later than July 31, 2008. The interest rate on any draw-down will be set at 3.64% with a final maturity of July 1, 2028 on the amount actually borrowed.

In November 2007, Middlesex issued $3.5 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 II and JJ on November 8, 2007.

In November 2006, Middlesex issued $3.7 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 GG and HH on November 4, 2006.

In May 2006, Tidewater closed on a $1.0 million loan with the Delaware State Revolving Fund (SRF). The proceeds were used to fund capital improvements for one specific community water system in Delaware. The interest rate on the loan is 4.03% and will have a final maturity on December 1, 2026.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. With the exception of $15.0 million for repayment for the First Mortgage Bond Series U due in 2009, principal repayments for the First Mortgage Bonds extend beyond 2012. The aggregate annual principal repayment obligations for all other long-term debt are shown below:

Year	*(Millions of Dollars)* Annual Maturities
2008	$2.7
2009	$3.1
2010	$3.2
2011	$3.2
2012	$3.3

The weighted average interest rate on all long-term debt at December 31, 2007 and 2006 was 5.20% and 5.28%, 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 ($32.1 million) and the SRF program ($5.4 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE, FF, GG, HH, II and JJ 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 GG and HH proceeds can only be used for the 2007 main cleaning and cement lining program. Series II and JJ proceeds can only be used for the 2008 main cleaning and cement lining program. 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, 2007. 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.

	(In Thousands, Except per Share Data)					
	2007		2006		2005	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	**$11,843**	**13,203**	$10,039	11,844	$8,476	11,445
Preferred Dividend	**(248)**		(248)		(251)	
Earnings Applicable to Common Stock	**$11,595**	**13,203**	$ 9,791	11,844	$8,225	11,445
Basic EPS	**$ 0.88**		$ 0.83		$ 0.72	
Diluted:						
Earnings Applicable to Common Stock	**$11,595**	**13,203**	$ 9,791	11,844	$8,225	11,445
$7.00 Series Dividend	**97**	**167**	97	167	101	175
$8.00 Series Dividend	**96**	**164**	96	164	96	164
Adjusted Earnings Applicable to Common Stock	**$11,788**	**13,534**	$ 9,984	12,175	$8,422	11,784
Diluted EPS	**$ 0.87**		$ 0.82		$ 0.71	

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)			
	2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
First Mortgage Bonds	**$103,322**	**$104,681**	$101,124	$103,083
State Revolving Bonds	**$ 1,233**	**$ 1,272**	$ 1,307	$1,340

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, 2007 and 2006 was $29.8 million and $30.8 million, respectively. Customer advances for construction have a carrying amount of $21.8 million and $19.2 million at December 31, 2007 and 2006, 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. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company based upon a percentage of the participants' compensation. In order to be eligible for an annual

contribution, the eligible employee must be employed by the Company on December 31st of the year the award pertains to. In addition, the Company maintains an unfunded supplemental pension plan for its executive officers. The Accumulated Benefit Obligation for all pension plans at December 31, 2007 and 2006 was $21.6 million and $22.1 million, respectively.

Postretirement Benefits Other Than Pensions
The Company has a postretirement benefit plan other than pensions for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. 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, 2007 and 2006 were $0.4 million and $0.5 million, respectively.

The Company adopted SFAS 158 on December 31, 2006. Because the Company is subject to regulation in the states in which it operates, it is required to maintain its accounts in accordance with the regulatory authority's rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS 71). Based on prior regulatory practice, and in accordance with the guidance provided by SFAS 71, the Company records underfunded pension and postretirement obligations, which otherwise would be recognized as Other Comprehensive Income under SFAS 158, as a Regulatory Asset, and expects to recover those costs in rates charged to customers. The adoption of this standard had no impact on results of operations or cash flows.

The Company uses a December 31 measurement date for all of its employee benefit plans. The table below sets forth information relating to the Company's pension plans and other postretirement benefits for 2007 and 2006.

	December 31, *(Thousands of Dollars)*			
	Pension Benefits		**Other Benefits**	
	2007	2006	**2007**	2006
Reconciliation of Projected Benefit Obligation				
Beginning Balance	**$31,728**	$29,666	**$14,698**	$15,247
Service Cost	**1,296**	1,311	**821**	756
Interest Cost	**1,807**	1,703	**895**	804
Actuarial (Gain)/Loss	**(3,081)**	544	**(852)**	(1,655)
Benefits Paid	**(1,583)**	(1,496)	**(495)**	(454)
Ending Balance	**$30,167**	$31,728	**$15,067**	$14,698
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	**$23,028**	$20,338	**$6,701**	$4,666
Actual Return on Plan Assets	**1,315**	2,578	**324**	1,045
Employer Contributions	**1,808**	1,608	**495**	1,444
Benefits Paid	**(1,583)**	(1,496)	**(495)**	(454)
Ending Balance	**$24,568**	$23,028	**$ 7,025**	$ 6,701
Funded Status	**$ (5,599)**	$ (8,700)	**$ (8,042)**	$ (7,997)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	**(308)**	(308)	**—**	—
Noncurrent Liability	**(5,291)**	(8,392)	**(8,042)**	(7,997)
Net Liability Recognized	**$ (5,599)**	$ (8,700)	**$ (8,042)**	$ (7,997)

	Years Ended December 31, (Thousands of Dollars)					
	Pension Benefits			Other Benefits		
	2007	2006	2005	**2007**	2006	2005
Components of Net Periodic Benefit Cost						
Service Cost	**$1,296**	$1,311	$1,126	**$ 821**	$ 756	$ 622
Interest Cost	**1,807**	1,703	1,559	**895**	804	771
Expected Return on Plan Assets	**(1,819)**	(1,608)	(1,547)	**(481)**	(330)	(275)
Amortization of Net Transition Obligation	**—**	—	—	**135**	135	135
Amortization of Net Actuarial (Gain)/Loss	**75**	258	49	**337**	443	482
Amortization of Prior Service Cost	**10**	11	92	**—**	—	—
Net Periodic Benefit Cost	**$1,369**	$1,675	$1,279	**$1,707**	$1,808	$1,735

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2008 are as follows:

	(Thousands of Dollars)	
	Pension Benefits	Other Benefits
	2008	**2008**
Actuarial (Gain)/Loss	**$ —**	**$232**
Prior Service Cost	**10**	**—**
Transition Obligation	**—**	**135**

	2007	2006	2005	**2007**	2006	2005
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	**6.59%**	5.89%	5.52%	**6.59%**	5.89%	5.52%
Benefit Cost	**5.89%**	5.52%	5.88%	**5.89%**	5.52%	5.88%
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%

The compensation increase assumption for Other Benefits is attributable to life insurance provided to qualifying employees upon their retirement. The insurance coverage will be determined based on the employee's base compensation as of their retirement date.

A 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2007 and assumed to decline by 1.0% per year through 2010 and by 0.5% per year to 5% by year 2013. 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	$399	$(301)
Effect on Benefit Obligation	2,767	(2,159)

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

Year	(Thousands of Dollars) Pension Benefits	Other Benefits
2008	$ 1,606	$ 565
2009	1,577	582
2010	1,586	606
2011	1,652	656
2012	1,655	694
2013-2017	9,784	4,146
Totals	$17,860	$7,249

Benefit Plans Assets
The allocation of plan assets at December 31, 2007 and 2006 by asset category is as follows:

	Pension Plan		Other Benefits			
Asset Category	**2007**	2006	**2007**	2006	Target	Range
Equity Securities	**59.7%**	60.0%	**47.0%**	48.5%	60%	30-65%
Debt Securities	**37.8**	36.9	**50.6**	33.0	38%	25-70%
Cash	**2.5**	3.1	**2.4**	18.5	2%	0-10%
Total	**100.0%**	100.0%	**100.0%**	100.0%		

Two outside investment firms each manage a portion of the 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 actual 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 objective of the Company is to maximize the long-term return on benefit plan assets, relative to a reasonable level of risk, maintain a diversified investment portfolio and maintain compliance with the Employee Retirement Income Security Act of 1974. The expected long-term rate of return is based on the various asset categories in which plan assets are invested and the current expectations and historical performance for these categories.

Equity securities include Middlesex common stock in the amounts of $0.7 million (3.0% of total plan assets) and $0.7 million (3.2 % of total plan assets) at December 31, 2007 and 2006, respectively.

For the pension plan, Middlesex made total cash contributions of $1.8 million in 2007 and expects to make cash contributions of approximately $2.0 million in 2008.

For the postretirement health benefit plan, Middlesex made total cash contributions of $0.5 million in 2007 and expects to make contributions of approximately $2.4 million in 2008.

401(k) Plan
The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contributions were $0.4 million for each of the years ended December 31, 2007, 2006 and 2005.

For those employees hired after March 31, 2007 and still employed on December 31, 2007, the Company approved a discretionary contribution that was based on 5% of eligible compensation. The Company expects to fund the contribution of less than $0.1 million in March 2008.

Stock-Based Compensation

The Company maintains an escrow account for 71,253 shares of the Company's common stock which were awarded under the 1997 Restricted Stock Plan, which has expired. 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 Company filed a petition with the BPU requesting approval of stock-based compensation plan called the 2008 Restricted Stock Plan. The Company intends to seek shareholder approval for the new plan at its May 21, 2008 annual meeting of shareholders. The maximum number of shares authorized for grant under the proposed plan is 300,000 shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No.123(R), "Share-Based Payment." 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:

(In Thousands Except Grant Price)	Shares	Unearned Compensation	Weighted Average Grant Price
Balance, January 1, 2005	65	$606	
Granted	19	436	$22.95
Vested	(28)		
Amortization of Compensation Expense		(342)	
Balance, December 31, 2005	56	700	
Granted	21	405	$19.24
Vested	(11)		
Forfeited	(2)	(38)	
Amortization of Compensation Expense		(271)	
Balance, December 31, 2006	64	796	
Granted	18	344	$19.10
Vested	(10)		
Forfeited	(1)	(3)	
Amortization of Compensation Expense		(276)	
Balance, December 31, 2007	**71**	**$861**	

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. This segment also includes regulated wastewater systems in New Jersey and Delaware. 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 primarily comprised of 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.

Operations by Segments:	Years Ended December 31, (Thousands of Dollars) 2007	2006	2005
Revenues:			
Regulated	**$77,113**	$71,948	$66,317
Non – Regulated	**9,392**	9,317	8,416
Inter-segment Elimination	**(391)**	(204)	(120)
Consolidated Revenues	**$86,114**	$81,061	$74,613
Operating Income:			
Regulated	**$21,351**	$20,062	$16,390
Non – Regulated	**1,320**	1,256	828
Consolidated Operating Income	**$22,671**	$21,318	$17,218
Depreciation:			
Regulated	**$ 7,408**	$ 6,936	$ 6,357
Non – Regulated	**131**	124	103
Consolidated Depreciation	**$ 7,539**	$ 7,060	$ 6,460
Other Income, Net:			
Regulated	**$ 1,643**	$ 951	$ 836
Non – Regulated	**—**	(78)	—
Inter-segment Elimination	**(116)**	(99)	(96)
Consolidated Other Income, Net	**$ 1,527**	$ 774	$ 740
Interest Expense:			
Regulated	**$ 6,619**	$ 7,012	$ 6,245
Non – Regulated	**116**	99	96
Inter-segment Elimination	**(116)**	(99)	(96)
Consolidated Interest Charges	**$ 6,619**	$ 7,012	$ 6,245
Net Income:			
Regulated	**$11,120**	$ 9,417	$ 8,037
Non – Regulated	**723**	622	439
Consolidated Net Income	**$11,843**	$10,039	$ 8,476
Capital Expenditures:			
Regulated	**$21,586**	$30,492	$25,016
Non – Regulated	**344**	242	272
Total Capital Expenditures	**$21,930**	$30,734	$25,288

	As of December 31, 2007	2006
Assets:		
Regulated	**$387,931**	$366,149
Non – Regulated	**8,157**	6,808
Inter-segment Elimination	**(3,413)**	(2,690)
Consolidated Assets	**$392,675**	$370,267

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2007and 2006 are as follows:

	(Thousands of Dollars, Except per Share Data)				
2007	1st	2nd	3rd	4th	Total
Operating Revenues	**$18,988**	**$21,745**	**$24,135**	**$21,246**	**$86,114**
Operating Income	**3,722**	**6,279**	**7,729**	**4,941**	**22,671**
Net Income	**1,769**	**3,313**	**4,158**	**2,603**	**11,843**
Basic Earnings per Share	**$ 0.13**	**$ 0.25**	**$ 0.31**	**$ 0.19**	**$ 0.88**
Diluted Earnings per Share	**$ 0.13**	**$ 0.24**	**$ 0.31**	**$ 0.19**	**$ 0.87**
2006					
Operating Revenues	$18,230	$21,037	$22,632	$19,162	$81,061
Operating Income	3,973	6,149	6,858	4,338	21,318
Net Income	1,812	2,968	3,377	1,882	10,039
Basic Earnings per Share	$ 0.15	$ 0.25	$ 0.29	$ 0.14	$ 0.83
Diluted Earnings per Share	$ 0.15	$ 0.25	$ 0.28	$ 0.14	$ 0.82

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 Global Select Market under the symbol MSEX.

Annual Meeting
The Annual Meeting of Shareholders will be held on May 21, 2008, at 11:00 a.m. at the Office of the Company, 1500 Ronson Road, Iselin, NJ. Each stockholder of record will receive formal notice of the meeting together with the proxy statement and proxy card. The record date for the 2007 Annual Meeting was March 14, 2008.

Shareholders
As of December 31, 2007, there were 1,975 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
Vice President - Corporate Affairs
Telephone: 732-634-1500
Fax: 732-638-7515
E-mail: bsohler@middlesexwater.com

Auditors
Beard Miller Company LLP
2609 Keiser Blvd.
P.O. Box 311
Reading, PA 19603-0311
Telephone: 800-267-9405

Mortgage Trustee
U.S. Bank National Association
21 South Street, 3rd Floor
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 (DRIP) 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

COMMON STOCK MARKET PRICE AND DIVIDEND PER SHARE

	2007			2006		
	High	**Low**	**Dividend**	High	Low	Dividend
First Quarter	**$19.07**	**$17.75**	**$0.1725**	$19.72	$17.03	$0.1700
Second Quarter	**19.48**	**18.12**	**0.1725**	19.34	16.50	0.1700
Third Quarter	**20.24**	**18.05**	**0.1725**	20.50	17.58	0.1700
Fourth Quarter	**19.25**	**18.10**	**0.1750**	19.50	17.96	0.1725

Schedule of Dividend Dates for the Year 2008*

	Declaration Dates	Record Dates	Payment Dates	Ex. Dividend Dates
Common	January 22	February 15	March 3	February 13
	April 29	May 15	June 2	May 13
	July 22	August 15	September 2	August 13
	October 23	November 14	December 1	November 12
Preferred	December 18**	January 15	February 1	January 11
	April 1	April 15	May 1	April 11
	June 25	July 15	August 1	July 11
	September 22	October 15	November 3	October 13

* Subject to approval by Board of Directors **2007

Board of Directors

Pictured left to right:

Walter G. Reinhard
Member, Law Firm of Norris, McLaughlin & Marcus, P.A.

John R. Middleton, MD
Engaged in Private Practice, Infectious Diseases; formerly Chair of the Department of Medicine and former Chief Medical Officer of Raritan Bay Medical Center

J. Richard Tompkins
Chairman of the Board

Annette Catino
President and Chief Executive Officer, QualCare Alliance Networks, Inc.

Dennis W. Doll
President and Chief Executive Officer

John P. Mulkerin
Retired, formerly President and Chief Executive Officer, First Sentinel Bancorp, Inc.

Jeffries Shein
Managing Partner, JGT Management Co., LLC

John C. Cutting
Retired, formerly Senior Engineer, Science Applications International Corporation

Not Pictured:

Stephen H. Mundy
Director Emeritus

Officers

Dennis W. Doll
President and Chief Executive Officer

James P. Garrett
Vice President – Human Resources

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

Kenneth J. Quinn
Vice President, General Counsel, Secretary and Treasurer

Richard M. Risoldi
Vice President – Subsidiary Operations

Bernadette M. Sohler
Vice President – Corporate Affairs

Ronald F. Williams
Vice President – Operations and Chief Operating Officer

MIDDLESEX WATER COMPANY

A Provider of Water, Wastewater and Related Products and Services

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