

PENNICHUCK CORPORATION

CORPORATE GOVERNANCE PRINCIPLES

The Board of Directors (the “Board”) of Pennichuck Corporation (the “Company”) has adopted the following Corporate Governance Principles (the “Principles”). These Principles, along with the charters and key practices of the Board committees, provide the framework for governance of the Company. The Board will review these Principles and other aspects of the Company’s governance as it deems necessary to serve the best interests of the Company.

Unique Background and Context for These Corporate Governance Principles

The City’s Ownership of the Company’s Stock

1. History of the City’s Acquisition of the Company. The City of Nashua acquired all of the outstanding shares of the Company on January 25, 2012. This acquisition represented a negotiated resolution of a long standing dispute between the City and the Company. The 2012 acquisition was strongly supported by many parties, including the State Legislature which enacted special legislation to authorize the acquisition, the Mayor and the Board of Aldermen, who unanimously approved the acquisition, and the New Hampshire Public Utilities Commission, which approved the acquisition on November 23, 2011, concluding that “the transaction is in the public interest and will not have an adverse effect on rates, terms, service or operation of the utilities.”
2. Corporate Structure. As part of the acquisition, the City decided to retain the corporate structure of Pennichuck Corporation and its subsidiaries. This corporate structure was retained for several reasons.
 - First, the City’s Mayor and Board of Aldermen desired to maintain some stability and continuity for all of the customers and employees of the Pennichuck companies. Retaining the existing corporate structure minimized the need for any radical changes to the regulated utility companies and operations and encouraged support by all of the communities served by the utilities.
 - Second, retaining the corporate structure provided continuity for the regulatory and financial status of the corporations and their respective businesses. The New Hampshire Public Utilities Commission will continue to provide regulatory oversight for the utility companies, and banks, lenders and other contract parties will continue to be able to rely on existing contracts and other rules with respect to financing and other operations.

- Third, the Mayor and Board of Aldermen unanimously agreed to establish a corporate governance system for the purposes of managing the Company. This corporate governance system relies upon well-established principles of corporate law, and is established pursuant to the Company’s Articles of Incorporation and By-Laws, as adopted by the City and the Company at the time of the acquisition pursuant to the Merger Agreement.
3. Election of the Company’s Board of Directors. Under this corporate governance system, the City exercises its control over the Company in its capacity as the Company’s sole shareholder (the “Sole Shareholder”) in accordance with the Company’s Articles of Incorporation, its By-Laws and New Hampshire laws governing business corporations. In accordance with these rules, the Company’s business affairs are managed and overseen by a Board of Directors. One of the most important responsibilities of the City, in its capacity as Sole Shareholder, is to elect members of the Board from individuals nominated by the Company’s Board at the Company’s annual meeting.

Governance Principles

A. Role of Board and Management

The Company’s business and operations are conducted by its employees, managers and officers, under the direction of the Chief Executive Officer (“CEO”) and the oversight of the Board. The Company’s business and operations are conducted to serve the best interests of the Company, its customers and its Sole Shareholder. All members of the Board are elected by the Sole Shareholder to oversee management and to assure that the long-term interests of the Sole Shareholder are being served. The Company’s Board and management recognize that the long-term interests of the Sole Shareholder are advanced by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, communities served by the Company’s utility operations, government officials and the public at large.

B. Functions of the Board

Under this corporate governance structure, the Board performs an important and central governance role. The Board has scheduled meetings during the year at which it reviews and discusses the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. In addition to its general oversight of management, the Board also performs a number of specific functions, including:

- Selecting, evaluating and compensating the CEO and overseeing CEO succession planning;
- Providing counsel and oversight on the selection, evaluation, development and compensation of senior management;

- Reviewing, monitoring and, where appropriate, approving fundamental financial and business strategies and major corporate actions;
- Reviewing and understanding the Company’s risk assessment and overseeing the Company’s risk management processes;
- Reviewing, understanding and overseeing the Company’s annual operating plans and budgets;
- Overseeing legal and ethical compliance; and
- Ensuring processes are in place for maintaining the integrity of the Company – the integrity of the financial statements, the integrity of compliance with law and ethics, the integrity of relationships with customers, the integrity of relationships with employees, and the integrity of relationships with the Sole Shareholder.

The Board may delegate areas of its responsibilities to the appropriate committees of the Board.

C. Director Qualifications

Integrity / Experience. Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of customers, employees and the Sole Shareholder. They must have an inquisitive and objective perspective free of material conflicts of interest with respect to matters coming before the Board. The Board should represent a range of experience at policy-making levels in business, government and regulation, education and technology, communication and other areas that are relevant to the Company’s businesses. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time.

Exercise Business Judgment. In discharging their fiduciary duties of care, loyalty and candor, Directors are expected to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company, its customers and employees and the Sole Shareholder. Directors are entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors, auditors and legal counsel.

Employee. No director shall be an employee of the Company.

D. Director Selection Process

Except where the Company is required by its By-Laws or otherwise to provide third parties with the ability to nominate directors, the Nominating and Governance Committee shall be responsible for (i) identifying individuals qualified to become Board members, and (ii) recommending to the Board the persons to be nominated for election as directors at the

annual meeting of Sole Shareholder and the persons to be considered for recommendation by the Board to fill any vacancies on the Board. Director nominees shall be selected by the Nominating and Governance Committee in accordance with these Principles, the Director Nomination Process approved by the Board, and the procedures and criteria set forth in the Nominating and Governance Committee charter. The Nominating and Governance Committee shall be responsible for reviewing with the Board, from time to time, the requisite skills and criteria for new Board members as well as the composition of the Board as a whole. This review shall include consideration of diversity, skills and experience in the context of the needs of the Board. Each new candidate for nomination will be subject to an independent background investigation as part of the nomination process. The Committee shall review and evaluate all nominations and may submit appropriate nomination(s) to the full Board of Directors for review and consideration. Those nominations approved by the full Board of Directors shall be submitted to the Sole Shareholder for final confirmation.

E. Board Meetings

Attendance. Directors are responsible for attending Board meetings, annual meetings of the Sole Shareholder, meetings of the Committees on which they serve, and devoting the time needed, and meeting as frequently as necessary, to properly discharge their duties.

Frequency and Length of Meetings. The Board shall meet on the fourth Friday of each month unless changes to meeting dates are pre-approved by the Board. The length of meetings will vary. Special meetings may be called from time to time as determined by the needs of the business. As required by the Company's By-Laws, meetings of the Board shall be noticed and conducted in accordance with the requirements of the New Hampshire Right-To-Know Law as provided for in the Company's By-Laws.

Selection of Agenda Items. The Chief Executive Officer and the Corporate Secretary, in consultation with the Chairman of the Board, shall prepare the agenda for each Board meeting. Each Board member is free to suggest the inclusion of agenda items and is free to raise at any Board meeting subjects that are not on the agenda for that meeting. During at least one meeting each year, the Board shall review the Company's long-term strategic plans and the principal issues that the Company expects to confront in the future.

Advance Distribution of Board Meeting Material. An agenda and supporting materials that are important to the Board's understanding of the business to be conducted at a Board meeting should generally be distributed to the directors one week in advance of the meeting, in order to allow directors adequate time for review and preparation. Directors are expected to review meeting materials provided to them prior to Board meetings and, when possible, communicate in advance of meetings any questions or concerns that they wish to discuss so that management will be prepared for Board meetings.

Election of Chairman. The Board shall elect a Chairman of the Board (along with other officers) each year at its first regular meeting following the Company's annual meeting. The Chairman of the Board shall serve as the presiding officer at all meetings of the Board.

F. Board Committees

Committees / Members. The Board has established the following committees to assist the Board in discharging its responsibilities: (1) Audit, Finance and Risk Committee; (2) Compensation and Benefits Committee; (3) Nominating and Governance Committee; and (4) Communications Committee. The current charters of these committees are published on the Company's website. The Board may establish additional committees as it deems necessary. The Chairman of the Board shall recommend members for each committee to the Board. The Board will appoint members to the committees annually. The Chairman of the Board of Directors shall be an ex-officio member of all Board committees and shall have voting rights.

Frequency and Length of Meetings. The committees shall meet as necessary and in accordance with any requirements set forth in the respective committee's charter. The length of meetings will vary. As required by the Company's By-Laws, meetings of the committees shall be noticed and conducted in accordance with the requirements of the New Hampshire Right-To-Know Law as provided for in the Company's By-Laws.

Selection of Agenda Items. The Chairman of each committee, in consultation with the CEO and the other committee members, shall develop the committee's agenda.

Advance Distribution of Committee Meeting Material. An agenda and supporting materials should generally be distributed to the committee members one week in advance of the meeting in order to allow the committee members adequate time for review and preparation. Committee members are expected to review meeting materials provided to them prior to committee meetings.

Board Member Attendance at Committee Meetings. Committee meetings are open to all members of the Board, whether or not the director is a member of such committee. All Board members will be copied on all notices of upcoming committee meetings. Any Board member attending a committee meeting of which they are not a member may ask questions and give input on matters before the committee.

Reports to the Board. Each committee chairman will report the highlights of their committee meeting to the full Board at the next regularly scheduled Board meeting following the committee meeting.

G. Director Access to Management

All Directors shall have full and free access to the Company's officers. Any meetings or contacts that a Director wishes to initiate may be arranged either through the CEO, the Corporate Secretary or directly by the Director. The Directors shall use their best judgment to ensure that any such contact is not disruptive to the business operations of the Company and shall, to the extent appropriate, copy the Chairman of the Board and the CEO on any written communications between a Director and an officer or employee of the Company. No Director

shall purport to speak on behalf of the Board in such communications unless expressly authorized to do so.

H. Access to Independent Advisors

The Board and its committees shall have the right at any time to retain independent outside accounting, financial, legal or other advisors, and the Company shall provide appropriate funding, as determined by the Board and any committee, to compensate such independent advisors, as well as to cover the ordinary administrative expenses incurred by the Board and its committees in carrying out their duties. Such independent advisors may be the regular advisors to the Company.

I. Ethics and Conflicts of Interest

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's Corporate Code of Conduct. Directors are expected to comply with the letter and the spirit of the Corporate Code of Conduct and to help foster a culture of honesty and accountability. No Director may provide personal services for compensation to the Company, other than in connection with serving as a Director. The Board will not permit any waiver of the ethics policy for any Director or senior officer. If an actual or potential conflict of interest arises for a Director, the Director shall promptly inform the CEO and the Chairman of the Board. The Nominating and Governance Committee shall resolve any such conflicts. If a significant conflict exists and cannot be resolved, the Director should resign. All Directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Nominating and Governance Committee shall resolve any conflict of interest question involving the CEO or a senior officer, and the CEO shall resolve any conflict of interest issue involving any other officer or employees of the Company.

J. Reporting of Concerns to the Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee will establish procedures to enable any director, officer or employee who has a concern about the Company's conduct, or who has a concern about the Company's accounting, internal auditing controls or auditing matters, to communicate that concern directly to the Chairman of the Board or to the Audit, Finance and Risk Committee.

K. Director Compensation

The compensation (if any) of the Directors shall be determined and approved by the Sole Shareholder. Committee members shall receive no additional compensation for their service as committee members.

L. Director Education

New Directors shall participate in an orientation program prepared by the management of the Company, which orientation program shall include at least the following:

- a meeting with the Chief Executive Officer and Chief Operating Officer to obtain an overview of the Company, its business and strategic plan.
- a meeting with the Chief Financial Officer to review in detail the Company's financial condition, capital structure, historical results of operations, budgets and forecasts and financial trends.
- a meeting with the Human Resources Director to review the Company's Corporate Code of Conduct, employment policies and practices, including compensation and benefits practices.
- a tour of the Company's facilities and a meeting with managers.
- a meeting or phone conversation with the Chairman of each committee of the Board.

All Directors will receive a Board manual, which shall contain such information as the Nominating and Governance Committee or the Chairman of the Board deems appropriate, including, without limitation, copies of the Company's organizational documents, director and senior management contact information, Board committee membership and charters, policies and procedures, and the strategic plan.

M. Self-Evaluation of Board Performance

The Nominating and Governance Committee shall oversee an annual self-evaluation of the Board to determine whether it and its committees are functioning effectively. The Nominating and Governance Committee shall determine the nature of the evaluation, supervise the conduct of the evaluation and prepare a summary of the results of the evaluation for discussion with the Board.

N. Management Evaluation

To ensure that the CEO is providing the best leadership for the Company, the Compensation and Benefits Committee will evaluate the CEO's performance annually. The Compensation and Benefits Committee will measure the CEO's performance against his goals and objectives and recommend to the full Board the compensation of the CEO. The full Board will review and vote on the Compensation and Benefits Committee's actions.

O. Succession Plan

The Board shall approve and maintain a succession plan for the CEO and senior officers. The Board views CEO selection and management succession as one of its most important responsibilities. The Board will develop criteria for the CEO position that reflects the Company's business plans, will routinely review and discuss succession planning, and will identify potential successors for CEO.

P. Board Interaction with the Sole Shareholder and the Press

Subject to policies adopted by the Board from time to time, the Chairman of the Board and the CEO shall be the principal Company representatives in meetings with representative bodies and persons of the Sole Shareholder. The Chairman of the Board and/or the CEO shall be the principal Company spokespersons with respect to public media matters. Requests from the public concerning Company or Board governance matters will be forwarded to the Chairman of the Board. The Chairman of the Board will either discuss the request with the Communications Committee and the Board or respond directly to the request.

Q. Periodic Review of the Corporate Governance Principles

The Nominating and Governance Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of these Principles and recommend any proposed changes to the Board for approval.