

PENNICHUCK CORPORATION

AUDIT, FINANCE AND RISK COMMITTEE CHARTER

The Audit, Finance and Risk Committee (the “Committee”) of Pennichuck Corporation (the “Company”) is a standing committee of the Board of Directors (the “Board”).

A. Purpose

The principal purposes of the Committee are to assist the Board in fulfilling its oversight responsibility relating to:

- (i) the integrity of the Company’s financial statements and internal controls;
- (ii) the Company’s compliance with legal and regulatory requirements;
- (iii) the independent auditor’s qualifications and independence;
- (iv) the performance of the independent auditors;
- (v) the financing of the Company; and
- (vi) the assessment of risk associated with the operations and assets.

B. Structure and Membership

1. Number. The Committee shall consist of at least three members of the Board of Directors.

2. Independence. Each member of the Committee:

- a. shall be “independent” in the judgment of the Board of Directors;
- b. shall not accept any consulting, advisory or other compensatory fee from the Company other than in his or her capacity as a member of the Board; and
- c. is not an “affiliate” of the Company or any subsidiary of the Company.

3. Financial Literacy. All members of the Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement, and the Committee shall have at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the member’s financial sophistication.

4. Chair. The Committee shall elect one member as its chairperson.

5. Selection and Removal. Members shall be appointed by the Board and shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

C. Authority and Responsibilities

1. General

The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and for the effectiveness of internal controls over financial reporting. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulation. The independent auditors are responsible for planning and carrying out a proper audit of the Company's annual financial statements, annually auditing management's assessment of the effectiveness of internal control over financial reporting, and other procedures. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards.

The independent auditors shall submit to the Committee annually a formal written statement of the fees billed in each of the following categories of services rendered by the independent auditors:

1. the audit of the Company's annual financial statements or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements;
2. assurance and related services not included in clause 1 that are reasonably related to the performance of the audit or review of the Company's financial statements, in the aggregate and by each service;
3. tax compliance, tax-advice and tax planning services, in the aggregate and by each service; and
4. all other products and services rendered by the independent auditors, in the aggregate and by each service.

2. Oversight of Independent Registered Public Accountants:

With respect to the independent auditors, the Committee shall have the following duties and responsibilities:

- (i) to be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors (including the resolution of disagreements between management and the independent auditors regarding financial reporting), who shall report directly to the Committee.

- (ii) to be directly responsible for the appointment, compensation, retention and oversight of the work of a public accounting firm engaged for the purpose of preparing or issuing an audit report or to perform audit, review or attestation services, which firm shall also report directly to the Committee;
- (iii) to pre-approve, or adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors;
- (iv) to discuss with the independent auditors any relationships between the independent auditors and the Company that may impact the quality of audit services or the objectivity and independence of the Company's independent auditors.
- (v) to obtain from the independent auditors in connection with any audit a timely report relating to the Company's annual audited financial statements which would include all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and any material written communications between the independent auditors and management, such as any "management" letter or schedule of unadjusted differences;
- (vi) to review and evaluate the qualifications, performance and independence of the lead partner of the independent auditors;
- (vii) to review and approve all related party transactions, if any, of the Company; and
- (viii) to take into account the opinions of management in assessing the independent auditor's qualifications, performance and independence.

3. With respect to accounting principles and policies, financial reporting and audit control over financial reporting, the Committee shall have the following duties and responsibilities:

- (i) to advise management and the independent auditors that they are expected to provide to the Committee a timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;
- (ii) to obtain at least annually a report on internal controls from the Assistant Treasurer and to consider any reports or communications (and management's responses thereto) submitted to the Committee by the Assistant Treasurer in performance of his or her duties in regard to internal controls documentation and testing;

(iii) to consider any reports or communications (and management's responses thereto) submitted to the Committee by the independent auditors required by or referred to in Statement on Auditing Standards No. 61 ("SAS 61") (as codified by AU Section 380), as it may be modified or supplemented or other professional standards including reports and communications related to:

- deficiencies, including significant deficiencies or material weaknesses, in internal control identified during the audit or other matters relating to internal control over financial reporting;
- consideration of fraud in a financial statement audit;
- detection of illegal acts;
- the independent auditor's responsibility under generally accepted auditing standards;
- any restriction on audit scope;
- significant accounting policies;
- management judgments and accounting estimates;
- any accounting adjustments arising from the audit that were noted or proposed by the auditors but were passed (as immaterial or otherwise);
- the responsibility of the independent auditors for other information in documents containing audited financial statements;
- disagreements with management;
- consultation by management with other accountants;
- major issues discussed with management prior to retention of the independent auditors;
- difficulties encountered with management in performing the audit; and
- the independent auditor's judgments about the quality of the entity's accounting principles.

(iv) to meet with management and the independent auditors:

- to discuss the scope of the annual audit;
- to review and discuss the annual audited financial statements;

- to discuss any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management or the independent auditors, relating to the Company’s financial statements;
 - to discuss any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management;
 - to discuss any “management” or “internal control” letter issued, or proposed to be issued, by the independent auditors to the Company;
 - to review the form of opinion the independent auditors propose to render to the Board of Directors and the sole shareholder;
 - to discuss, as appropriate: (a) any major issues regarding the accounting principles and financial statement presentations, including any significant changes in the Company’s selection or application of accounting principles, and major issues as to the adequacy of the Company’s internal controls and any special audit steps adopted in light of material control deficiencies; (b) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
- (v) to inquire of the Company’s Chief Executive Officer and Chief Financial Officer as to the existence of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information, and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting;
- to obtain from the Company’s Chief Executive Officer and Chief Accounting Officer a certification of the adequacy of the Company’s internal controls and an assessment of the effectiveness of internal control over financial reporting in conjunction with the external auditor’s issuance of the Company’s annual audited financial statements.
- (vi) to discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company’s exposure to risk, and to discuss the Company’s major financial risk exposures and the steps management has taken to monitor and control such exposures;

- (vii) to discuss with the Company's legal counsel any significant legal, compliance or regulatory matters, brought to the attention of the Committee by either Company's management or legal counsel, that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies;
- (viii) to establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters; and
- (ix) to establish hiring policies for employees or former employees of the independent auditors.

4. Financing the Company

Management of the Company is responsible for the financing of the operations and capital expenditures. Management is responsible for the negotiation of debt instruments including interest rates and covenants. Management is responsible for locating available funds to finance the operations and capital projects.

The Committee is responsible for the oversight of the financing of the Company and debt instruments thereon. The Committee is responsible for making recommendations to the full Board of Directors relative to management's proposals for the financing of Company operations and capital budgets.

5. Risk Management

Management of the Company is responsible for the policies and processes to oversee, monitor, manage and control risk exposures of the business including implementing insurance programs.

The Committee is responsible for the oversight of the policies and processes established by management to assess, monitor and control operational and financial risk. The Committee is responsible for the oversight of the Company's insurance programs.

D. Procedures and Administration

1. *Meetings.* The Committee shall meet periodically if circumstances dictate, to discuss with management the annual audited financial statements. The Committee should meet separately on a periodic basis with management and the independent auditors to discuss any matters that the Committee or any of these persons or firms believes should be discussed. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. Members of the Committee may participate in a meeting of the Committee by means of a conference call or similar communications equipment by means of

which all persons participating in the meeting can hear each other if a quorum is physically present at the meeting. Committee meetings shall be subject to the N.H. Right-to-Know laws and regulations.

2. *Subcommittees.* The Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee. The Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Committee at its next scheduled meeting.

3. *Charter.* The Committee shall review and reassess the adequacy of this Charter at least annually and recommend any changes to the full Board of Directors.

4. *Reports to Board of Directors.* The Committee shall report its activities to the full Board of Directors on a regular basis and make such recommendations with respect to matters as the Committee may deem necessary or appropriate.

5. *Resources and Authority.* The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management. The Company shall provide for appropriate funding, as determined by the Committee, in its capacity as a committee of the Board, for payment of:

- (1) compensation to the independent auditors and any other public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
- (2) compensation of any advisors employed by the Committee; and
- (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

6. *Annual Self-Evaluation.* The Committee shall prepare and review with the Board an annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of this Charter. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Committee or any other member of the Committee designated by the Committee to make this report.