



PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024



PENNICHUCK CORPORATION AND SUBSIDIARIES

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Independent Auditors' Report

To the Board of Directors and Stockholder of
Pennichuck Corporation and Subsidiaries

Opinions

We have audited the consolidated financial statements of Pennichuck Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Unmodified Opinion on Accounting Standards as Promulgated by the Financial Accounting Standards Board

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting standards as promulgated by the Financial Accounting Standards Board ("FASB").

Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities" section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America for governmental entities, the financial position of the Company as of December 31, 2025 and 2024, or changes in financial position or cash flows thereof for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Principles for Governmental Entities

The Company is a governmental entity as defined by the Governmental Accounting Standards Board ("GASB"). Accordingly, the standards as promulgated by GASB are the appropriate accounting standards for the Company to follow. However, the Company has prepared its financial statements in accordance with accounting standards as promulgated by the FASB even though the Company meets the "governmental" criteria.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

CBIZ CPAs P.C.

Merrimack, New Hampshire
April 30, 2026

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2025 and 2024
(in thousands, except share data)

	2025	2024
Assets		
Property, Plant and Equipment, net	<u>\$ 272,598</u>	<u>\$ 266,865</u>
Current Assets		
Cash and cash equivalents	3,425	304
Restricted cash - RSFs and Restricted Accounts	5,350	8,796
Restricted cash - CIAC	134	134
Restricted cash - Bond Project Funds	253	234
Accounts receivable - billed, net of allowance for credit losses of \$51 and \$57, respectively	4,171	5,300
Accounts receivable - unbilled, net of allowance for credit losses of \$0 and \$0, respectively	4,520	3,504
Accounts receivable - other	1,637	19
Inventory	1,354	1,386
Prepaid expenses	713	669
Prepaid property taxes	1,039	943
Refundable income taxes	<u>8</u>	<u>8</u>
Total Current Assets	<u>22,604</u>	<u>21,297</u>
Other Assets		
Right-of-use asset	4,286	4,545
Deferred charges and other assets	4,159	3,143
Derivative instrument	23	--
Acquisition premium, net	<u>55,910</u>	<u>58,318</u>
Total Other Assets	<u>64,378</u>	<u>66,006</u>
Total Assets	<u>\$ 359,580</u>	<u>\$ 354,168</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2025 and 2024
(in thousands, except share data)

	2025	2024
Stockholder's Deficit and Liabilities		
Stockholder's Deficit		
Common stock; \$0.01 par value; 1,000 shares authorized, issued and outstanding	\$ --	\$ --
Additional paid in capital	30,561	30,561
Accumulated deficit	(50,816)	(50,100)
Accumulated other comprehensive income	544	527
Total Stockholder's Deficit	(19,711)	(19,012)
Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs	246,197	238,084
Current Liabilities		
Lines of credit	8,872	8,833
Current portion of long-term debt	8,264	7,832
Current portion of operating lease liability	271	259
Accounts payable	1,684	3,989
Accrued property taxes	--	4
Contract liability	78	77
Accrued interest payable	1,747	1,536
Other accrued expenses	620	1,011
Accrued wages and payroll withholding	401	320
Customer deposits and other	418	794
Total Current Liabilities	22,355	24,655
Other Liabilities and Deferred Credits		
Deferred income taxes	18,556	19,853
Accrued pension liability	--	768
Unamortized debt premium	3,216	3,380
Deferred investment tax credits	239	272
Regulatory liability	14,670	13,706
Accrued post-retirement benefits	3,820	3,378
Customer advances	84	84
Contributions in aid of construction, net	65,922	64,507
Derivative instrument	--	5
Long-term operating lease liability, net of current portion	4,015	4,286
Other long-term liabilities	217	202
Total Other Liabilities and Deferred Credits	110,739	110,441
Total Stockholder's Deficit and Liabilities	\$ 359,580	\$ 354,168

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the Years Ended December 31, 2025 and 2024
(in thousands)

	2025	2024
Operating Revenues	<u>\$ 60,841</u>	<u>\$ 56,880</u>
Operating Expenses		
Operations and maintenance	34,694	30,290
Depreciation and amortization	9,764	9,410
Taxes other than income taxes	<u>6,507</u>	<u>6,276</u>
Total Operating Expenses	<u>50,965</u>	<u>45,976</u>
Operating Income	9,876	10,904
Interest expense	(11,686)	(13,093)
Other, net	<u>17</u>	<u>19</u>
Loss Before (Provision) Benefit for Income Taxes	(1,793)	(2,170)
(Provision) Benefit for Income Taxes	<u>1,354</u>	<u>(5,992)</u>
Net Loss	<u>\$ (439)</u>	<u>\$ (8,162)</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31, 2024
(in thousands)

	2025	2024
Net Loss	<u>\$ (439)</u>	<u>\$ (8,162)</u>
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on derivatives	41	41
Reclassification of net income (loss) realized in net loss	(13)	(19)
Income tax provision relating to other comprehensive income (loss)	<u>(11)</u>	<u>(8)</u>
Other Comprehensive Income (Loss)	<u>17</u>	<u>14</u>
Comprehensive Loss	<u>\$ (422)</u>	<u>\$ (8,148)</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT) - CURRENT YEAR

For the Year Ended December 31, 2025
(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance as of January 1, 2025	\$ 1,000	\$ --	\$ 30,561	\$ (50,100)	\$ 527	\$ (19,012)
Common dividends declared	--	--		(277)	--	(277)
Net loss	--	--	--	(439)	--	(439)
Other Comprehensive Income						
Unrealized gain on derivatives, net of taxes of \$16	--	--	--	--	25	25
Reclassification of net loss realized in net loss, net of taxes of \$5	--	--	--	--	(8)	(8)
Balance as of December 31, 2025	<u>1,000</u>	<u>\$ --</u>	<u>\$ 30,561</u>	<u>\$ (50,816)</u>	<u>\$ 544</u>	<u>\$ (19,711)</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY (DEFICIT) - PRIOR YEAR

For the Year Ended December 31, 2024
(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Total
	Shares	Amount				
Balance as of January 1, 2024	1,000	\$ --	\$ 30,561	\$ (41,660)	\$ 513	\$ (10,586)
Common dividends declared	--	--	--	(278)	--	(278)
Net loss	--	--	--	(8,162)	--	(8,162)
Other Comprehensive Income						
Unrealized gain on derivatives, net of taxes of \$16	--	--	--	--	25	25
Reclassification of net loss realized in net loss, net of taxes of \$8	--	--	--	--	(11)	(11)
Balance as of December 31, 2024	<u>1,000</u>	<u>\$ --</u>	<u>\$ 30,561</u>	<u>\$ (50,100)</u>	<u>\$ 527</u>	<u>\$ (19,012)</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2025 and 2024
(in thousands)

	2025	2024
Cash Flows From Operating Activities		
Net loss	\$ (439)	\$ (8,162)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,870	9,519
Amortization of debt issuance costs	100	1,066
Amortization of deferred investment tax credits	(33)	(33)
Provision for deferred income taxes	(1,330)	6,022
Gain on disposition of property	--	333
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable billed, unbilled and other	(1,499)	(287)
(Increase) decrease in inventory	32	(192)
(Increase) decrease in prepaid expenses	(140)	220
(Increase) decrease in deferred and refundable income taxes	--	21
(Increase) decrease in deferred charges and other assets	247	666
Increase (decrease) in accounts payable and deferred revenue	(2,304)	902
Increase (decrease) in accrued property taxes	(4)	(42)
Increase (decrease) in accrued interest payable	212	62
Increase (decrease) in other	(1,100)	(355)
Net Cash Provided by Operating Activities	<u>3,612</u>	<u>9,740</u>
Cash Flows From Investing Activities		
Purchase of property, plant and equipment including debt component of allowance for funds used during construction	(12,506)	(15,362)
Net Cash Used in Investing Activities	<u>(12,506)</u>	<u>(15,362)</u>
Cash Flows From Financing Activities		
Borrowings (payments) on lines of credit, net	38	630
Payments on long-term debt	(7,941)	(7,406)
Contributions in aid of construction	870	47
Proceeds from long-term borrowings	16,480	11,643
Debt issuance costs	(582)	(407)
Dividends paid	(277)	(278)
Net Cash Provided by Financing Activities	<u>8,588</u>	<u>4,229</u>
Decrease in Cash, Cash Equivalents and Restricted Cash	(306)	(1,393)
Cash, Cash Equivalents and Restricted Cash - Beginning	<u>9,468</u>	<u>10,861</u>
Cash, Cash Equivalents and Restricted Cash - Ending	<u>\$ 9,162</u>	<u>\$ 9,468</u>

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended December 31, 2025 and 2024
(in thousands)

	2025	2024
Supplemental Disclosure of Cash Flow and Non-Cash Items		
Cash Paid During the Year for:		
Interest	\$ 11,163	\$ 11,790
Income taxes	\$ 139	\$ 122
Non-Cash Items:		
Contributions in aid of construction	\$ 2,059	\$ 9,240
Forgiveness of debt	\$ 106	\$ 111

The accompanying notes are an integral part of these financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 1 – DESCRIPTION OF BUSINESS

Pennichuck Corporation (“the Company,” “we,” or “our”) is a holding company headquartered in Nashua, New Hampshire with two wholly owned operating subsidiaries: Pennichuck Water Works, Inc., (“Pennichuck Water”) (referred to as the Company’s “utility subsidiary”), which is involved in regulated water supply and distribution to customers in New Hampshire and Pennichuck Water Service Corporation (“Service Corporation”) which conducts non-regulated water-related services. The Company does not operate as a department of any government, specifically, the City of Nashua (“City”). Since Pennichuck’s acquisition by the City in 2012, it has continued to be maintained as private, for-profit corporation under the New Hampshire Business Corporation Act (“NHBCA”), separate and apart from the City. This relationship and corporate governance have been reviewed and approved by the New Hampshire Public Utilities Commission (“NHPUC”).

The Company’s utility subsidiary is engaged principally in the collection, storage, treatment and distribution of potable water to approximately 40,000 customers throughout the State of New Hampshire. The utility subsidiary, which is regulated by the New Hampshire Public Utilities Commission (the “NHPUC”), is subject to the provisions of Accounting Standards Codification (“ASC”) Topic 980 “Regulated Operations.”

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting standards issued by the Financial Accounting Standards Board (“FASB”).

USE OF ESTIMATES IN THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which includes principally the water utility assets of the Company’s utility subsidiary, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction.

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

RESTRICTED CASH – RSFs AND RESTRICTED ACCOUNTS

This restricted cash balance consists of funds maintained for the Rate Stabilization Funds (“RSF”), which was initially established in conformity with the requirements of NHPUC Order No. 25,292, as explained more fully in Note 14 of these consolidated financial statements. The RSF is a set of imprest funds of \$5 million in the aggregate, which is subject to funding above or below the imprest fund balance, reflecting actual revenue and/or expense performance as it relates to prescribed revenue and specific expense levels supported by the RSF. The excess or deficient amount (versus the \$5 million imprest balances) is subject to return or collection to rate payers over the succeeding three-year period of time, as of the rate order issued with the next promulgated rate case filing. For the years ended December 31, 2025 and 2024, the aggregated balances in the RSFs and restricted cash accounts were approximately \$5.4 million and \$8.8 million, respectively.

RESTRICTED CASH – CIAC

This restricted cash balance consists of funds maintained for the income tax impact from Contributions in Aid of Construction (“CIAC”), which was established in conformity with the NHPUC approval provided to the Company’s regulated utilities on November 27, 2019. This amendment to the Company’s tariffs allows for the recovery from developers and other CIAC contributors, the tax costs needed to fully fund the associated tax liability created from the elimination of an exemption whereby CIAC to water utilities was exempt from taxation, with the passage of the Tax Cuts and Jobs Act of 2017 (“the TCJA”). The Infrastructure Investment and Jobs act of 2021 retroactively made CIAC non-taxable for federal tax, reversing the effect federally of the TCJA, whereas the taxation of CIAC for NH Business Profits Taxes remained in effect. Subsequently, in April 2022, legislation was passed in New Hampshire to reinstate the non-taxability of water utility CIAC for Business Profits Taxes. As such, the Company was able to cease collection of these taxes for both Federal and State purposes, after effective dates that the exemptions were reinstated. For the years ended December 31, 2025 and 2024, the balances in this restricted cash account were approximately \$134,000 for each of the years ended. In accordance with the amended tariffs, these funds are the first used to pay for income tax liability payments incurred by the Company, when and if actually incurred.

RESTRICTED CASH – BOND PROJECT FUNDS

This restricted cash balance consists of funds remaining from the issuance or funding of semiannual debt service requirements of our tax-exempt bonds (the “Bonds”). The proceeds from those bond issuance transactions are maintained in separate restricted cash accounts, with Trustee oversight, and are subject to withdrawal as a reimbursement of eligible capital project expenditures, as defined by the indenture and issuance documents associated with each offering. The restricted cash accounts are also used as a “conduit” for the transfer of money from operating cash to restricted cash, allowing the Trustee to make the required payments to bondholders for principal and interest due semi-annually.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESTRICTED CASH – BOND PROJECT FUNDS (CONTINUED)

As of December 31, 2024, the funds in these restricted cash accounts totaled approximately \$234,000. During 2025, approximately \$234,000 was withdrawn from the restricted cash accounts to make the principal and interest payments for the Bonds, on January 1, July 1, and October 1. In December 2025, approximately \$253,000 was transferred into these restricted cash accounts from the Company's operating cash accounts, to provide the funds needed to make the net principal and interest payments due on January 1, 2026 for the Bonds. As of December 31, 2025, the funds in these restricted cash accounts totaled approximately \$253,000.

CONCENTRATION OF CREDIT RISKS

Financial instruments that subject the Company to credit risk consist primarily of cash (including cash equivalents and restricted cash) and accounts receivable. Cash balances are invested in financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). At December 31, 2025 and 2024, the Company had approximately \$9,000,000 and \$10,000,000 in excess of FDIC insured limits, respectively. Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations, as well as receivables from our Service Corporation customers.

ACCOUNTS RECEIVABLE – BILLED, NET

Water utility accounts receivable (regulated) are recorded at invoiced amounts.

Non-regulated accounts receivable are recorded based upon contracted prices when the Company obtains an unconditional right to payment under the terms of the contract.

The Company's accounts receivables are primarily derived from water sales and services. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Company's historical losses based on the loss rate. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses. Due to various factors, the Company is anticipating similar expected credit losses that have been incurred in the past. As a result, management has determined that its allowance for credit losses is reasonable.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE – BILLED, NET (CONTINUED)

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the entity's accounting policy election. The total amount of write-offs was immaterial to the consolidated financial statements as a whole for the years ended December 31, 2025 and 2024.

ACCOUNTS RECEIVABLE – UNBILLED, NET

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

INVENTORY

Inventory is stated at the lower of cost or net realizable value, with cost being determined using the average cost method which approximates the first-in, first-out (FIFO) method.

DEFERRED CHARGES AND OTHER ASSETS

Deferred charges include certain regulatory assets and other assets. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. The Company's utility subsidiary has recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from 2 to 25 years.

UNAMORTIZED DEBT ISSUANCE COSTS

Unamortized debt issuance costs are amortized over the original term of the related bonds and notes. The Company's utility subsidiary has recorded unamortized debt issuance costs in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. The debt issuance costs are being amortized over the original lives of the associated debt.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Under construction contracts with real estate developers and others, the Company's utility subsidiary may receive non-refundable grants or advances for the cost of installing new water mains or other capital assets. These grants or advances are recorded as CIAC. The Company's utility subsidiary also records to plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. CIAC are amortized over the life of the related properties.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of the Company's water revenues are based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the consolidated financial statements for estimated uncollectible accounts.

The Company derives its non-regulated revenues primarily from water management services which include contract operations and maintenance and water testing and billing services to municipalities and small, privately owned community water systems. Revenue is measured based on consideration specified in contracts with customers. The Company recognizes revenue when it satisfies performance obligations under the terms of the contract which generally occurs with the transfer of control of the services to the customer. Revenues from unplanned additional work are based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

Contract Combination

To determine the proper revenue recognition method for contracts, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. Contracts are considered to have a single performance obligation if the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts, which is mainly because the Company provides a significant service of integrating a complex set of tasks and components into a single project or capability.

For contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation using management's best estimate of the standalone selling price of each distinct good or service in the contract. In cases where the Company does not provide the distinct good or service on a standalone basis, the primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which management forecasts the Company's expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Performance Obligations

The Company satisfies its performance obligation to supply water over time as services are rendered utilizing an output method measured on quantity delivered. For performance obligations related to operations, planned maintenance, and water testing and billing services, control transfers to the customer over time as the services are provided. These services are sold primarily to municipalities or small, privately owned community water systems. The majority of the Company's unplanned maintenance contracts are billed on a time and materials basis and revenue is recognized over time as the services are performed. The majority of the Company's operations, planned maintenance, and water testing and billing contracts are billed on a fixed price basis. For fixed price contracts, the Company measures its progress towards complete satisfaction of the performance obligation using a time-based measure. This method is used because management considers time elapsed to be the best available measure of progress on contracts.

Contract Modifications

Contracts may be modified to account for changes in contract specifications and requirements. Contract modifications are considered to exist when the modification either creates new or changes the existing enforceable rights and obligations. Most of the Company's contract modifications are for services that are not distinct from existing contracts due to the significant integration provided in the context of the contract and are accounted for as if they were part of the original contract. The effect of a contract modification on the transaction price and the measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis.

Contract modifications are accounted for as a separate contract when the modification results in the promise to deliver additional goods or services that are distinct and the increase in price of the contract is for the same amount as the stand-alone selling price of the additional goods or services included in the modification.

Variable Consideration

Variable consideration is estimated at the most likely amount to which the Company is expected to be entitled. Any variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based largely on assessments of legal enforceability, the Company's performance, and all information (historical, current, and forecasted) that is reasonably available to management.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Variable Consideration (Continued)

Variable consideration is allocated entirely to a performance obligation or to a distinct good or service within a performance obligation if it relates specifically to efforts to satisfy the performance obligation or transfer the distinct good or service, and the allocation depicts the amount of consideration the Company expects to be entitled. Typically, the Company does not have variable consideration.

Significant Judgments

The Company recognizes contract revenue for operations, planned maintenance, and water testing and billing contracts over time. Progress toward completion of the Company's contracts is measured using a time-based criterion for each contract and requires significant judgment. This method is used because management considers time-elapsed to be the best available measure of progress on contracts.

Contract Assets and Liabilities

Billing practices are governed by the contract terms of each project based upon achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenue recognized using a time-elapsed method of revenue recognition. Contract assets include unbilled amounts typically resulting from revenue under long-term contracts when the time-elapsed method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not unconditional. Contract liabilities consist of deferred revenue.

Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. The Company classifies deferred revenue as current or noncurrent based on the timing of when revenue is expected to be recognized. The current portion of deferred revenue is included in current liabilities in the Consolidated Balance Sheets.

Practical Expedients

The Company generally expenses pre-contract costs when incurred because the amortization period would have been one year or less.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

The Company is the lessee in several noncancellable operating leases, for corporate office space and other office equipment. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The Company generally does not have access to the rate implicit in the lease, and therefore the Company utilizes its incremental borrowing rate as the discount rate for real estate and the risk-free rate as the discount rate for office equipment at the lease commencement date. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for operating lease payments for the utility subsidiaries is recognized based on the lease payment and for service corporation is recognized on a straight-line basis over the lease term.

The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease cost associated with short-term leases on a straight-line basis over the lease term. The Company made an accounting policy election by class of underlying asset, for office equipment, to account for each separate lease component of a contract and its associated non-lease components (lessor-provided maintenance) as a single lease component.

INCOME TAXES

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment as of December 31, 2025 and 2024, were as follows:

(in thousands)	2025	2024	Useful Lives (in years)
Utility Property:			
Land and land rights	\$ 5,218	\$ 5,763	-
Source of supply	79,198	78,624	3 - 70
Pumping and purification	33,767	34,220	7 - 64
Transmission and distribution, including services, meters and hydrants	236,909	230,017	15 - 91
General and other equipment	20,212	19,042	7 - 75
Intangible plant	790	790	20
Construction work in progress	4,690	1,293	
Total utility property	380,784	369,749	
Total non-utility property	5	5	5 - 10
Total property, plant and equipment	380,789	369,754	
Less accumulated depreciation	(108,191)	(102,889)	
Property, Plant and Equipment, Net	\$ 272,598	\$ 266,865	

The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 91 years. The weighted average composite depreciation rate was 2.40% and 2.40% in 2025 and 2024, respectively.

NOTE 4 – RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

(in thousands)	2025	2024
Cash and cash equivalents	\$ 3,425	\$ 304
Restricted cash - RSFs and Restricted Accounts	5,350	8,796
Restricted cash - CIAC	134	134
Restricted cash - Bond Project Funds	253	234
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	\$ 9,162	\$ 9,468

Amounts included in restricted cash represent those required to be set aside as outlined in Note 2.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2025 and 2024, including beginning balance:

(in thousands)	December 31, 2025	December 31, 2024	January 1, 2024
Accounts receivable - billed	\$ 4,222	\$ 5,357	\$ 5,542
Less allowance	<u>(51)</u>	<u>(57)</u>	<u>(52)</u>
Accounts receivable - billed, net	<u>\$ 4,171</u>	<u>\$ 5,300</u>	<u>\$ 5,490</u>
Accounts receivable - unbilled	\$ 4,520	\$ 3,504	\$ 3,017
Less allowance	<u>--</u>	<u>--</u>	<u>--</u>
Accounts receivable - unbilled, net	<u>\$ 4,520</u>	<u>\$ 3,504</u>	<u>\$ 3,017</u>

NOTE 6 – DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets as of December 31, 2025 and 2024, consisted of the following:

(in thousands)	2025	2024	Recovery Period (in years)
Regulatory assets:			
Source development charges	\$ 584	\$ 688	5 - 25
Miscellaneous studies	<u>1,581</u>	<u>1,546</u>	2 - 25
Total regulatory assets	2,165	2,234	
Pension plan asset	1,064	--	
Supplemental executive retirement plan asset	<u>930</u>	<u>909</u>	
Total deferred charges and other assets	<u>\$ 4,159</u>	<u>\$ 3,143</u>	

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS

The Company has a non-contributory, defined benefit pension plan (the “DB Plan”) that covers substantially all employees. The benefits are based on years of service and participant compensation levels. The Company’s funding policy is to contribute annual amounts that meet the requirements for funding under the U.S. Department of Labor’s Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Post-retirement medical benefits are provided for eligible retired employees through one of two plans (collectively referred to as our “OPEB Plans”). For employees who retire on or after the normal retirement age of 65, benefits are provided through a post-retirement plan (the “Post-65 Plan”). For eligible non-union employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a post-employment medical plan (the “Post-employment Plan”). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee’s retirement date until the employee becomes eligible for Medicare, which are fully funded by the retiree. The liability related to the Post-65 Plan will be funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under our Post-65 Plan, we pay up to a maximum monthly benefit of \$418 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2025 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	\$ 33,308	\$ 4,316
Employer contribution	1,500	16
Benefits paid, excluding expenses	(1,306)	(129)
Fair value of plan assets	34,373	359
Accumulated benefit obligation	30,763	--
Funded status	1,064	(3,820)
Net periodic benefit cost	868	292
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Non-current asset (liability)	1,064	(3,820)
Total	\$ 1,064	\$ (3,820)

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2024 and for the year then ended:

(in thousands)	DB Plan	OPEB Plans
Projected benefit obligations	\$ 31,244	\$ 3,820
Employer contribution	1,375	14
Benefits paid, excluding expenses	(1,240)	(117)
Fair value of plan assets	30,476	442
Accumulated benefit obligation	28,947	--
Funded status	(768)	(3,378)
Net periodic benefit cost	989	278
Amount of the funded status recognized in the Consolidated Balance Sheet consisted of:		
Non-current liability	(768)	(3,378)
Total	\$ (768)	\$ (3,378)

The components of net periodic benefit cost other than the service cost component are included in the line item operations and maintenance in the consolidated statements of income (loss), as the amounts are immaterial to these consolidated financial statements.

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2025, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory liability balance, beginning of period	\$ (2,774)	\$ (1,161)
Net actuarial (gain) loss incurred during the period	(1,180)	261
Prior service cost incurred during the period	--	16
Recognized net actuarial loss	--	25
Regulatory liability balance, end of period	\$ (3,954)	\$ (859)

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2024, were as follows:

(in thousands)	DB Plan	OPEB Plans
Regulatory asset (liability) balance, beginning of period	\$ 1,090	\$ (476)
Net actuarial gain incurred during the period	(3,864)	(715)
Prior service cost incurred during the period	--	16
Recognized net actuarial gain	--	14
Regulatory liability balance, end of period	\$ (2,774)	\$ (1,161)

Amounts recognized in regulatory liabilities for the DB Plan and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2025:

(in thousands)	DB Plan	OPEB Plans
Net actuarial (gain) loss	\$ (3,954)	\$ (859)
Prior service cost	--	--
Regulatory liability	\$ (3,954)	\$ (859)

Amounts recognized in regulatory liabilities for the DB Plan and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2024:

(in thousands)	DB Plan	OPEB Plans
Net actuarial (gain) loss	\$ (2,774)	\$ (1,177)
Prior service cost	--	16
Regulatory liability	\$ (2,774)	\$ (1,161)

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

	2025	2024
Discount rate for net periodic benefit cost, beginning of year	5.47%	4.78%
Discount rate for benefit obligations, end of year ^(a)	5.43%	5.47%
Expected return on plan assets for the period (net of investment e	6.50%	6.50%
Rate of compensation increase, beginning of year	3.60%	3.00%
Healthcare cost trend rate (applicable only to OPEB Plans)	5.00%	5.00%

^(a) An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2025, for the DB Plan and the OPEB Plans of approximately \$2.1 million and \$298 thousand, respectively.

The estimated net actuarial gain for our DB Plan that will be amortized in 2026 from the regulatory liability into net periodic benefit costs is approximately \$3,954,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2026 from the regulatory liability into net periodic benefit costs is approximately \$859,000.

In establishing its investment policy, the Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the DB Plan are invested in accordance with the asset allocation range targets to achieve our expected return on DB Plan assets. The Company's investment strategy applies to its OPEB Plans as well as the DB Plan. The expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets, as well as historical returns.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association ("VEBA") trusts. The VEBA plan assets are maintained in directed trust accounts at a commercial bank.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The investment strategy for the Company’s DB Plan and OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans’ assets for each major type of plan asset as of December 31, 2025, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
	Asset	Asset	Asset	Asset
	Allocation	Allocation	Allocation	Allocation
	Range	Range	Range	Range
Equities	64%	30% - 100%	70%	30% - 100%
Fixed income	22%	20% - 70%	30%	0% - 50%
Cash and cash equivalents	14%	0% - 15%	0%	0% - 15%
Total	100%		100%	

The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans’ assets for each major type of plan asset as of December 31, 2024, as well as the targeted allocation range:

	DB Plan		OPEB Plans	
	Asset	Asset	Asset	Asset
	Allocation	Allocation	Allocation	Allocation
	Range	Range	Range	Range
Equities	62%	30% - 100%	68%	30% - 100%
Fixed income	20%	20% - 70%	28%	0% - 50%
Cash and cash equivalents	18%	0% - 15%	4%	0% - 15%
Total	100%		100%	

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could realize in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Investments in common stock and mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a life insurance company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value (“NAV”) per unit of participation in the fund. The NAV is used as a practical expedient to estimate fair values. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than that reported at NAV. These accounts have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value.

The general investment account is not actively traded, and significant other observable inputs are not available. The fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan’s management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

A fair value hierarchy which prioritizes the inputs to valuation methods is used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1: Based on quoted prices in active markets for identical assets.
- Level 2: Based on significant observable inputs.
- Level 3: Based on significant unobservable inputs.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2025 was as follows:

(in thousands)	Fair Value	Level 1	Level 2	Level 3
DB Plan:				
Guaranteed Interest Accounts	\$ 4,852	\$ --	\$ --	\$ 4,852
Total Assets in the Fair Value Hierarchy	4,852	--	--	4,852
Investments measured at net asset value ^(a)	<u>29,521</u>	<u>--</u>	<u>--</u>	<u>--</u>
DB Plan Investments, at Fair Value	<u>34,373</u>	<u>--</u>	<u>--</u>	<u>4,852</u>
OPEB Plans:				
Common stocks	262	262	--	--
Mutual funds	67	67	--	--
Fixed income funds	142	142	--	--
Money market funds	<u>1</u>	<u>--</u>	<u>1</u>	<u>--</u>
Total Assets in the Fair Value Hierarchy	472	471	1	--
Investments measured at net asset value ^(a)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
OPEB Plans Investments, at Fair Value	<u>472</u>	<u>471</u>	<u>1</u>	<u>--</u>
Totals	<u>\$ 34,845</u>	<u>\$ 471</u>	<u>\$ 1</u>	<u>\$ 4,852</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of assets available for benefits of the Plans.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2024, was as follows:

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
DB Plan:				
Guaranteed Interest Accounts	\$ 5,389	\$ --	\$ --	\$ 5,389
Total Assets in the Fair Value Hierarchy	5,389	--	--	5,389
Investments measured at net asset value ^(a)	<u>25,087</u>	<u>--</u>	<u>--</u>	<u>--</u>
DB Plan Investments, at Fair Value	<u>30,476</u>	<u>--</u>	<u>--</u>	<u>5,389</u>
OPEB Plans:				
Common stocks	236	236	--	--
Mutual funds	102	102	--	--
Fixed income funds	140	140	--	--
Money market funds	<u>18</u>	<u>--</u>	<u>18</u>	<u>--</u>
Total Assets in the Fair Value Hierarchy	496	478	18	--
Investments measured at net asset value ^(a)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
OPEB Plans Investments, at Fair Value	<u>496</u>	<u>478</u>	<u>18</u>	<u>--</u>
Totals	<u>\$ 30,972</u>	<u>\$ 478</u>	<u>\$ 18</u>	<u>\$ 5,389</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of assets available for benefits of the Plans.

The following table summarizes investments at fair value based on NAV per share as of December 31, 2025 and 2024:

(in thousands)	<u>Fair Value</u>
December 31, 2025	
Pooled Separate Accounts:	
Equities	\$ 24,370
Fixed Income	<u>5,151</u>
Total Pooled Separate Accounts	<u>\$ 29,521</u>
December 31, 2024	
Pooled Separate Accounts:	
Equities	\$ 20,422
Fixed Income	<u>4,665</u>
Total Pooled Separate Accounts	<u>\$ 25,087</u>

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

PENSION PLAN AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The following table presents a period-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3):

(in thousands)	2025	2024
Balance, beginning of year	\$ 5,389	\$ 5,067
Plan transfers	315	1,161
Contributions	300	275
Benefits paid	(1,306)	(1,243)
Return on plan assets (net of investment expenses)	154	129
Balance, end of year	\$ 4,852	\$ 5,389

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, the Company anticipates it will contribute approximately \$1.3 million to the DB Plan in 2026.

The following maximum benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(in thousands)	DB Plan	OPEB Plans
2026	\$ 1,620	\$ 162
2027	1,805	182
2028	1,997	206
2029	2,136	218
2030	2,171	225
2031 to 2035	12,413	1,265
Total	\$ 22,142	\$ 2,258

Because the Company is subject to regulation in the state in which it operates, we are required to maintain our accounts in accordance with the regulatory authority’s rules and regulations. In those instances, we follow the guidance of ASC Topic 980 (“Regulated Operations”). Based on prior regulatory practice, we recorded DB Plan and OPEB Plan obligations that have not yet been recognized as components of net periodic benefit costs as a regulatory liability, and we expect to recover those costs in rates charged to customers.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 7 – POST-RETIREMENT BENEFIT PLANS (CONTINUED)

DEFINED CONTRIBUTION PLAN

In addition to the defined benefit plan, the Company provides and maintains a defined contribution plan covering substantially all employees. Under this plan, the Company matches 100% of the first 3% of each participating employee's eligible compensation contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately \$375,000 and \$335,000 for the years ended December 31, 2025 and 2024, respectively.

NOTE 8 – LEASES

The Company leases its corporate office facilities and office equipment for various terms under long-term, noncancelable operating lease agreements. The leases expire at various dates through 2050 and provide for renewal options ranging from 3 months to 5 years. The exercise of these renewal options is at the sole discretion of the Company, and only lease options that the Company believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. In the normal course of business, it is expected that these leases will be renewed or replaced by leases on other properties.

Operating lease costs were approximately \$380,000 during each of the years ended December 31, 2025 and 2024. These costs are primarily related to long-term operating leases but may also include immaterial amounts for variable lease payments and short-term leases with terms greater than 30 days.

During the years ended December 31, 2025 and 2024, the Company had the following cash and non-cash activities related to leases:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 380	\$ 380
Non-cash investing and financing activities:		
ROU assets obtained in exchange for lease liabilities:		
Operating leases	\$ --	\$ --

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 8 – LEASES (CONTINUED)

Weighted average lease term and discount rate as of December 31, 2025 and 2024 were as follows:

	2025	2024
Weighted average remaining lease term (in years)	8.97	9.27
Weighted average discount rate	5.00%	5.00%

Maturities of lease liabilities under noncancellable operating leases as of December 31, 2025, are as follows for the years ending December 31:

(in thousands)	
2026	\$ 380
2027	380
2028	380
2029	380
2030	380
Thereafter	7,592
Total lease payments	9,492
Less imputed interest	(5,206)
Present value of lease liability	\$ 4,286

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 9 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

DISAGGREGATION OF REVENUE

Non-Regulated Entities

For the years ended December 31, 2025 and 2024, revenue recognized for goods and services transferred over time totaled \$1,971,107 and \$2,432,663, respectively.

For the year ended December 31, 2025, approximately 45% of revenues were from large-contract customers, 22% of revenues were from small contract customers (con-ops), and 33% of revenues were from residential maintenance and other customers. For the year ended December 31, 2024, approximately 40% of revenues were from large-contract customers, 34% of revenues were from small-contract customers (con-ops), and 26% of revenues were from residential maintenance and other customers. In addition, substantially all of the Company's contracts were service-related type contracts.

Utility Subsidiary

For the years ended December 31, 2025 and 2024, all Pennichuck Water water-related revenue was recognized over time as services are rendered. For the year ended December 31, 2025, approximately 60% of water revenues were from residential customers, 16% of revenues were from fire protection, 14% of revenues were from commercial customers, 5% of revenues were from special contracts and 5% of revenues were from industrial and municipal customers. For the year ended December 31, 2024, approximately 62% of water revenues were from residential customers, 17% of revenues were from fire protection, 11% of revenues were from commercial customers, 6% of revenues were from special contracts and 4% of revenues were from industrial and municipal customers.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 10 – INCOME TAXES

The components of the federal and state income tax (provision) benefit as of December 31, 2025 and 2024, were as follows:

(in thousands)	2025	2024
Federal	\$ 1,282	\$ (3,772)
State	39	(2,253)
Amortization of investment tax credits	33	33
Total	\$ 1,354	\$ (5,992)
Current	\$ --	\$ --
Deferred	1,354	(5,992)
Total	\$ 1,354	\$ (5,992)

The temporary items that give rise to the net deferred tax liability as of December 31, 2025 and 2024, were as follows:

(in thousands)	2025	2024
Liabilities:		
Property-related, net	\$ 27,635	\$ 26,620
Other	301	--
Total liabilities	27,936	26,620
Assets:		
Pension accrued liability	2,038	1,953
Net operating loss carryforward	10,169	9,365
Alternative minimum tax credit	476	476
NH Business Enterprise Tax credits	1,522	1,528
Other	555	546
	14,760	13,868
Less valuation allowance	(5,380)	(7,101)
Total assets	9,380	6,767
Net deferred income tax liability	\$ 18,556	\$ 19,853

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 10 – INCOME TAXES (CONTINUED)

The Company has accumulated federal net operating losses (“NOLs”) of \$38.6 million, including \$16.7 million generated before the Tax Cuts and Jobs Act (“TCJA”). The pre-TCJA NOLs begin expiring in 2032. The remaining \$21.9 million in NOLs, generated from 2019 through 2025, are subject to the TCJA’s 80% taxable income limitation but can be carried forward indefinitely. Unlike pre-2018 NOLs, these losses cannot be carried back. It is anticipated that the majority of the \$16.7 million in pre-2018 NOLs will not be fully utilized before expiration. As a result, a valuation allowance against the associated tax benefit of \$2.2 million has been recorded. The valuation allowance reflects available evidence including cumulative losses and reversal of deferred tax liabilities. The Company will continue to assess the need for a valuation allowance in future periods and adjust accordingly.

The Company has accumulated New Hampshire NOLs of \$30.8 million. The associated tax benefit, approximately \$1.8 million, begins to expire in 2026 and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2025. Since full utilization of \$30.8 million NOLs is unlikely, a valuation allowance has been recorded for the full tax benefit of \$1.7 million.

The major reconciling item between the effective tax rate of the Company and the statutory federal and state rates for the years ended December 31, 2025 and 2024 is the adjustment for the Municipal Acquisition Regulatory Asset (“MARA”).

As of December 31, 2025 and 2024, it is estimated that approximately \$476,000, respectively, of cumulative federal alternative minimum tax credits may be carried forward indefinitely as a credit against our regular tax liability.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 10 – INCOME TAXES (CONTINUED)

As of December 31, 2025 and 2024, the Company had New Hampshire Business Enterprise Tax (“NHBET”) credits of approximately \$1.5 and \$1.5 million, respectively. NHBET credits begin to expire in 2026. It is anticipated that these NHBET credits will not be fully utilized before they expire; therefore, a valuation allowance has been recorded related to these credits.

The valuation allowance decreased by approximately \$1.7 million and increased by approximately \$5.7 million in the years ended December 31, 2025 and 2024, respectively.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

The Company had a regulatory liability related to income taxes of approximately \$9,857,000 and \$9,869,000 as of December 31, 2025 and 2024, respectively. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

A review of the portfolio of uncertain tax positions was performed. In this regard, an uncertain tax position represents the expected treatment of a tax position taken in a filed tax return, or as planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, it was determined that the Company had no material uncertain tax positions, and tax planning strategies will be used, if required and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

The Company’s practice is to recognize interest and/or penalties related to income tax matters in “Other, Net” in the Consolidated Statements of Income. We incurred no interest in 2025 and 2024. We incurred no penalties during the years ended December 31, 2025 and 2024.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 11 – LONG-TERM DEBT

Long-term debt as of December 31, 2025 and 2024, consisted of the following:

(in thousands)	2025	
	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041	\$ 87,835	\$ --
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,250	83
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	199
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	375	18
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	7,335	228
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	6,685	236
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (67,390	1,185
Revenue Bonds (Series 2021A), interest rates from 4% to 5%, due April 1, 2051	4,715	207
Revenue Bonds (Series 2022A), interest rate 4% to 5%, due April 1, 2052	6,360	235
Revenue Bonds (Series 2023A), 5.0%, due April 1, 2058	5,895	151
Revenue Bonds (Series 2024A), interest rates from 5.25% to 5.625%, due April 1, 2059	9,405	246
Revenue Bonds (Series 2025A), interest rates from 5% to 5.875%, due April 1, 2060	13,980	421
Revenue Bonds (Series 2025B), 5.75%, due April 1, 2026	125	--
Unsecured notes payable to bank, floating-rate, due March 1, 2030	1,268	5
Unsecured notes payable to bank, 4.20%, due December 20, 2041	943	3
Unsecured notes payable to bank, 4.83%, due December 20, 2041	731	3
Unsecured notes payable to bank, 4.25%, due June 20, 2033	442	3
Unsecured notes payable to bank, 4.90%, due March 6, 2040	446	23
Unsecured notes payable to bank, 5.33%, due June 20, 2043	288	7
Unsecured notes payable to bank, 4.38%, due September 20, 2044	969	12
Unsecured notes payable to bank, 3.98%, due January 1, 2046	697	10
Unsecured notes payable to bank, 4.18%, due October 20, 2046	1,019	9
Unsecured notes payable to bank, 4.25%, due December 20, 2046	2,299	11
Unsecured notes payable to bank, 7.16%, due October 1, 2047	623	5
Unsecured notes payable to bank, 6.23%, due June 1, 2033	826	1
Unsecured notes payable to bank, 7.26%, due August 1, 2028	719	18
Unsecured notes payable to bank, 6.95%, due November 20, 2049	1,852	13
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,219	26
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	17,645	127
Unsecured New Hampshire State (PFAS Fund) (3)	2,375	32
Unamortized debt issuance costs for defeased obligations, allowed by regulation	--	2,193
Total	260,171	\$ 5,710
Less current portion	(8,264)	
Less unamortized debt issuance costs	(5,710)	
Total long-term debt, less current portion and unamortized debt issuance costs	\$ 246,197	

(1) SRF notes are due through 2051 at interest rates ranging from 1.29% to 3.8%. These notes are payable in 120 to 360 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

(2) DWGTF notes are due through 2050 at interest rates ranging from 1.6% to 3.4%. These notes are payable in 360 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements or (ii) June 1, 2020 as specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate change to the rate as stated in the note.

(3) PFAS note is a 20 year note at an interest rate of 3.5%. The loan is payable in 240 consecutive monthly installments of principal and interest. The 1% rate applies to this project until the earlier of (i) the date of substantial completion of the improvements (as defined in the Loan Agreement) as determined by the Payee or (3) December 31, 2026 (such earlier date being the "interest rate change date"). Commencing on the interest rate change date at the annual rate of 3.5%.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

Note 11 – Long-Term Debt (Continued)

	2024	
(in thousands)	Principal	Unamortized Debt Issuance Costs
Unsecured note payable to City of Nashua, 5.75%,	\$ 91,049	\$ --
Unsecured Business Finance Authority:		
Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045	4,380	88
Revenue Bonds (Series 2018A), interest rates from 4.375% to 5.00%, due April 1, 2048	4,460	208
Revenue Bonds (Series 2018B), 4.33%, due April 1, 2028	490	24
Revenue Bonds (Series 2019A), interest rates from 2.19% to 4.15%, due April 1, 2049	7,500	238
Revenue Bonds (Series 2020A), interest rates from 3.15% to 4%, due April 1, 2050	6,840	246
Revenue Bonds (Series 2020C), interest rates from 1.25% to 4.02%, due September 1, 2055 (3)	68,690	1,225
Revenue Bonds (Series 2021A), interest rates from 4% to 5%, due April 1, 2051	4,810	215
Revenue Bonds (Series 2022A), interest rate 4% to 5%, due April 1, 2052	6,480	244
Revenue Bonds (Series 2022B), 3.63%, due April 1, 2025	30	--
Revenue Bonds (Series 2023A), 5.0%, due April 1, 2058	5,930	169
Revenue Bonds (Series 2023B), 4.750%, due April 1, 2025	35	--
Revenue Bonds (Series 2024A), interest rates from 5.25% to 5.625%, due April 1, 2059	9,405	279
Revenue Bonds (Series 2024B), 5.75%, due April 1, 2025	105	--
Unsecured notes payable to bank, floating-rate, due March 1, 2030	1,532	7
Unsecured notes payable to bank, 4.20%, due December 20, 2041	983	3
Unsecured notes payable to bank, 4.83%, due December 20, 2041	760	4
Unsecured notes payable to bank, 4.25%, due June 20, 2033	491	4
Unsecured notes payable to bank, 4.90%, due March 6, 2040	467	25
Unsecured notes payable to bank, 5.33%, due June 20, 2043	298	7
Unsecured notes payable to bank, 4.38%, due September 20, 2044	1,002	13
Unsecured notes payable to bank, 3.98%, due January 1, 2046	720	11
Unsecured notes payable to bank, 4.18%, due October 20, 2046	1,049	9
Unsecured notes payable to bank, 4.25%, due December 20, 2046	2,365	12
Unsecured notes payable to bank, 7.16%, due October 1, 2047	634	6
Unsecured notes payable to bank, 6.23%, due June 1, 2033	909	2
Unsecured notes payable to bank, 7.26%, due August 1, 2028	731	19
Unsecured notes payable to bank, 6.95%, due November 20, 2049	1,881	14
Unsecured New Hampshire Drinking Water & Groundwater Trust Fund ("DWGTF") notes (2)	8,436	26
Unsecured New Hampshire State Revolving Fund ("SRF") notes (1)	19,064	143
Unamortized debt issuance costs for defeased obligations, allowed by regulation	--	2,369
	251,526	\$ 5,610
Total		
Less current portion	(7,832)	
Less unamortized debt issuance costs	(5,610)	
Total long-term debt, less current portion and unamortized debt issuance costs	\$ 238,084	

(1) SRF notes are due through 2051 at interest rates ranging from 1.29% to 3.8%. These notes are payable in 120 to 360 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

(2) DWGTF notes are due through 2050 at interest rates ranging from 1.6% to 3.4%. These notes are payable in 360 consecutive monthly installments of principal and interest.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 11 – LONG-TERM DEBT (CONTINUED)

The aggregate principal payment requirements subsequent to December 31, 2025, are as follows:

(in thousands)	<u>Amount</u>
2026	\$ 8,264
2027	8,594
2028	8,980
2029	9,346
2030	9,386
2031 and thereafter	<u>215,601</u>
Total	<u>\$ 260,171</u>

Several of Pennichuck Water’s loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of \$4.5 million. As of December 31, 2025 and 2024, Pennichuck Water’s net worth was \$83.9 million and \$80.4 million, respectively.

The 2014B, 2018A, 2018B, 2019A, 2020A, 2020C, 2021A, 2022A, 2022B, 2023A, 2023B, 2024A, 2024B, 2025A and 2025B bonds were issued under a new bond indenture and loan and trust agreement, established with the issuance of the 2014 Series Bonds, which contains certain covenant obligations upon Pennichuck Water, which are as follows:

Debt to Capital Covenant - Pennichuck Water cannot create, issue, incur, assume or guarantee any short-term debt if (1) the sum of the short-term debt plus its funded debt (“Debt”) shall exceed 85% of the sum of its short-term debt, funded debt and capital stock plus surplus accounts (“Capital”), unless the short-term debt issued in excess of the 85% is subordinated to the Series 2014 bonds. Thereby, the ratio of Debt to Capital must be equal to or less than 1.0. As of December 31, 2025 and 2024, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7 and 0.8, respectively.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 11 – LONG-TERM DEBT (CONTINUED)

All Bonds Test – Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt (“Total Funded Debt”) will exceed the sum of MARA (as defined in Note 15 of these consolidated financial statements) and 85% of its Net Capital Properties (“MARA and Capital Properties”), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year (“Max Amount Due”), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2025 and 2024, this coverage ratio was 0.7 and 0.7, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2025 and 2024, this ratio was 2.3 and 2.0, respectively.

Rate Covenant Test – If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year (“Amounts Paid”), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2025 and 2024, the Rate Covenant coverage ratio was 1.94 and 2.10, respectively.

Pennichuck Water’s loan agreement for its unsecured notes payable to a bank of \$11.4 million and \$12.8 million at December 31, 2025 and 2024, respectively, contains a minimum debt service coverage ratio requirement of 1.10. At December 31, 2025 and 2024, this ratio was 1.95 and 1.65, respectively.

As of December 31, 2025 and 2024, Pennichuck Water had a \$1.3 million and \$1.5 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding \$1.3 million loan which has a floating interest rate based on the three-month Secured Overnight Financing Rate (“SOFR”) plus 1.85% as of December 31, 2025. The combined effect of the SOFR-based borrowing formula and the swap produces an “all-in fixed borrowing cost” equal to 5.95%. The fair value of the financial derivative, as of December 31, 2025, included in our Consolidated Balance Sheets under “Other Assets” as “Derivative instrument” was \$23,138 and as of December 31, 2024 under “Other Liabilities and Deferred Credits” was \$5,001. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 11 – LONG-TERM DEBT (CONTINUED)

Swap settlements are recorded in the consolidated statements of income (loss) with the hedged item as interest expense. During the years ended December 31, 2025 and 2024, \$13,000 loss and \$19,000 loss, respectively, was reclassified pre-tax from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements. The Company expects to reclassify approximately \$12,000, pre-tax, from accumulated other comprehensive income to interest expense as a result of swap settlements, over the next twelve months.

NOTE 12 – LINES OF CREDIT

The Company's existing \$4 million Working Capital Line of Credit (WCLOC) was renewed in 2024 for an additional two years, expiring on September 30, 2026. The Company is currently in negotiations on renewal and extension of this multi-year facility. Pennichuck Water's \$12 million Fixed Asset Line of Credit (PWW FALOC) was renewed in 2025 for an additional two years, expiring on September 30, 2027. PWW FALOC was increased from \$12 million to \$16 million as a result of the merger of Pennichuck East Utility ("Pennichuck East") and Pittsfield Aqueduct Company (Pittsfield Aqueduct") with Pennichuck Water. Pennichuck East's Fixed Asset Line of Credit ("PEU FALOC"), which had been renewed in 2023 was combined with PWW FALOC following the merger of Pennichuck East into Pennichuck Water. The PWW FALOC is used to fund construction work in progress on capital projects, which are refinanced into long-term term loan obligations or issued bond indebtedness, annually.

Short-term borrowing activity under the Company's WCLOC for the years ended December 31, 2025 and 2024 was:

(in thousands)	2025	2024
Established line as of December 31,	\$ 4,000	\$ 4,000
Maximum amount outstanding during period	1,270	1,876
Average amount outstanding during period	55	92
Amount outstanding as of December 31,	--	--
Weighted average interest rate during period	6.15%	7.11%
Interest rate as of December 31,	6.00%	6.34%

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 12 – LINES OF CREDIT (CONTINUED)

Short-term borrowing activity under PWW FALOC for the years ended December 31, 2025 and 2024 was:

(in thousands)	2025	2024
Established line as of December 31,	\$ 16,000	\$ 16,000
Average amount outstanding during period	5,500	5,908
Amount outstanding as of December 31,	8,872	8,834
Weighted average interest rate during period	6.05%	7.24%
Interest rate as of December 31,	5.62%	6.39%

The Company's revolving credit loan facilities with TD Bank contain certain covenant obligations upon Pennichuck Water, which are as follows:

Debt to Capital Covenant – Pennichuck Water cannot create, issue, incur, assume or guarantee any short-term debt if (1) the sum of the short-term debt plus its funded debt (“Debt”) shall exceed 85% of the sum of its short-term debt, funded debt and capital stock plus surplus accounts (“Capital”), unless the short-term debt issued in excess of the 85% is subordinated to the loan facility. Thereby, the ratio of Debt to Capital must be equal to or less than 1.0. As of December 31, 2025 and 2024, Pennichuck Water has a Debt to Capital Coverage ratio of 0.7 and 0.8, respectively.

All Bonds Test – Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt (“Total Funded Debt”) will exceed the sum of MARA (as defined in Note 15 of these consolidated financial statements) and 85% of its Net Capital Properties (“MARA and Capital Properties”), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year (“Max Amount Due”), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2025 and 2024, this coverage ratio was 0.6 and 0.6, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2025 and 2024 this ratio was 2.31 and 2.0, respectively.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 12 – LINES OF CREDIT (CONTINUED)

Rate Covenant Test – If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year (“Amounts Paid”), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2025 and 2024, the Rate Covenant coverage ratio was 1.94 and 2.10, respectively.

NOTE 13 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2025 and 2024:

(in thousands)	Interest Rate Contract	
	2025	2024
Beginning balance	\$ 527	\$ 513
	25	25
Amounts reclassified from accumulated other comprehensive income (loss)	(8)	(11)
Net current period other comprehensive income (loss)	17	14
Ending balance	\$ 544	\$ 527

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2025 and 2024:

Details about Accumulated Other Comprehensive Income (Loss) Components (in thousands)	Amounts Reclassified from Accumulated Other Comprehensive Income (loss)		Affected Line Item in the Statement Where Net Income is Presented
	2025	2024	
Gain on cash flow hedges:			
Interest rate contracts	\$ (13)	\$ (19)	Interest expense
	5	8	(Provision) benefit for income tax
Amounts reclassified from accumulated other comprehensive income (loss)	\$ (8)	\$ (11)	Net income (loss)

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 14 – TRANSACTION WITH THE CITY OF NASHUA

On January 25, 2012, in full settlement of an ongoing Eminent Domain lawsuit filed by the City and with the approval of the NHPUC, the City acquired all of the outstanding shares of the Company and, thereby, indirect acquisition of its regulated subsidiaries. The total amount of the acquisition was \$150.6 million (“Acquisition Price”) of which \$138.4 million was for the purchase of the outstanding shares, \$5.0 million for the establishment of a Rate Stabilization Fund, \$2.6 million for legal and due diligence costs, \$2.3 million for severance costs, \$1.3 million for underwriting fees, and \$1.0 million for bond discount and issue costs. The entire purchase of \$150.6 million was funded by General Obligation Bonds (“Bonds”) issued by the City of Nashua. The Company is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. The Company remains an independent corporation with an independent Board of Directors, with the City of Nashua as its sole stockholder.

Pennichuck Water, Pennichuck East, Pittsfield Aqueduct, Service Corporation, and Southwood will continue as subsidiaries of Pennichuck Corporation and Pennichuck Water, Pennichuck East and Pittsfield Aqueduct will continue as regulated companies under the jurisdiction of the NHPUC. The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order No. 25,292 (“PUC Order”) dated November 23, 2011.

As part of the City’s acquisition in 2012, the Company issued a promissory note to the City in the amount of approximately \$120 million to be repaid over a thirty (30) year period with monthly payments of approximately \$707,000, including interest at 5.75%. Additionally, the Company recorded an additional amount of approximately \$30.6 million as contributed capital. The remaining outstanding balance of the note payable to the City at December 31, 2025 and 2024 was approximately \$87.8 million and \$91.0 million, respectively, as disclosed in Note 11 to these consolidated financial statements. During 2025 and 2024, dividends of approximately \$277,000 and \$278,000, respectively, were declared and paid to the City. The dividends paid to the City during 2025 comprised approximately \$277,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2025. The dividends paid to the City during 2024 comprised approximately \$278,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2024.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 14 – TRANSACTION WITH THE CITY OF NASHUA (CONTINUED)

Additional ongoing transactions occur in the normal course of business, between the Company and the City, related to municipal water usage, fire protection and sewer billing support services, and property taxes related to real property owned by the Company within the City. For the years ended December 31, 2025 and 2024, respectively, approximately \$5.3 million and \$4.6 million were paid to the Company by the City for municipal water consumption, fire protection charges, and sewer billing support services. Conversely, the Company recorded property taxes to the City of Nashua of approximately \$2.0 million for the year ended December 31, 2025, and approximately \$2.0 million for the year ended December 31, 2024.

RATE STABILIZATION FUND – RESTRICTED CASH

As a part of the acquisition, the Company agreed to contribute \$5,000,000 of the proceeds from the settlement transaction to Pennichuck Water, which was used to establish an RSF, allowing for the maintenance of stable water utility rates and providing a mechanism to ensure the Company's continued ability to meet its obligations under the promissory note to the City, in the event of adverse revenue developments. Restricted cash consists of amounts set aside in the RSF account and is adjusted monthly as required in the NHPUC Order, as discussed in Note 2 of these consolidated financial statements.

MUNICIPAL ACQUISITION REGULATORY ASSET ("MARA")

As part of the City's acquisition and pursuant to the NHPUC Order, the Company established a new Regulatory asset (MARA) which represented the amount that the Acquisition Price exceeded the net book assets of the Company's regulated subsidiaries (Pennichuck Water, Pennichuck East, and Pittsfield Aqueduct) at December 31, 2011. The initial amount of the MARA was approximately \$89 million for the regulated companies, offset by a non-regulated amount of approximately \$4.8 million. The MARA is to be amortized over a thirty (30) year period in the same manner as the repayment of debt service for the City's acquisition bonds. The balance in the MARA at December 31, 2025 and 2024 was approximately \$59.1 million, reduced by the non-regulated credit of approximately \$3.2 million and approximately \$61.6 million, reduced by the non-regulated credit of approximately \$3.3 million, respectively.

Aggregate amortization expense for the years ended December 31, 2025 and 2024 totaled approximately \$2,409,000 and \$2,328,000, respectively.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 14 – TRANSACTION WITH THE CITY OF NASHUA (CONTINUED)

The following table represents the future estimated amortization of MARA:

(in thousands)	Estimated Amortization Expense
2026	\$ 2,497
2027	2,590
2028	2,700
2029	2,814
2030	2,932
2030 and thereafter	<u>42,377</u>
Total	<u><u>\$ 55,910</u></u>

NOTE 15 – COMBINATION AND MERGER OF SUBSIDIARIES

On November 21, 2023, the Company’s regulated subsidiaries, Pennichuck Water, Pennichuck East, and Pittsfield Aqueduct filed a joint petition with the NHPUC seeking approval of a consolidation of allowed water rates, inclusive of the water rates and revenues for each of the utilities. The proposed structure for the consolidated rates is substantially the same as the current rate structure for Pennichuck Water. Additionally, on December 15, 2023, Pennichuck Water, Pennichuck East, and Pittsfield Aqueduct filed a joint petition with the NHPUC seeking the approval of a merger of these three entities into one surviving entity, Pennichuck Water.

On January 28, 2025, the NHPUC issued order No. 27,098 in docket DW 23-101 approving the Consolidation of Pennichuck East and Pittsfield Aqueduct with Pennichuck Water and Approval of Consolidated Rates. The NHPUC approved a consolidated rate structure for all customers, resulting in a single consolidated rate. This order became effective March 1, 2025.

After approval by the NHPUC, the consolidation of entities and rates were approved by the Company’s sole stockholder, the City of Nashua, and the Company’s Board of Directors. Additionally, certain amendments to existing agreements and documents have been approved by Pennichuck Water’s Board of Directors, as well as the existing lenders to the Company, Pennichuck Water, Pennichuck East, and Pittsfield Aqueduct, all of which were discussed with the pertinent parties.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 16 – SEGMENT REPORTING

For the years ended December 31, 2025 and 2024, and as of those dates, the following financial results were generated by the segments of the Company:

(in thousands)	2025	2024
<u>Operating Revenues:</u>		
Pennichuck Water	\$ 58,856	\$ 54,432
Service Corporation	1,971	2,433
Other	14	15
Total Operating Revenues	\$ 60,841	\$ 56,880
<u>Depreciation and Amortization Expense:</u>		
Pennichuck Water	\$ 9,904	\$ 9,545
Service Corporation	--	--
Other	(140)	(135)
Total Depreciation and Amortization Expense	\$ 9,764	\$ 9,410
<u>Operating Income:</u>		
Pennichuck Water	\$ 9,558	\$ 10,610
Service Corporation	259	236
Other	59	58
Total Operating Income	\$ 9,876	\$ 10,904
<u>Interest Expense:</u>		
Pennichuck Water	\$ 5,548	\$ 6,608
Service Corporation	1	10
Other	6,137	6,475
Total Interest Expense	\$ 11,686	\$ 13,093
<u>Income Taxes (Provision) Benefit:</u>		
Pennichuck Water	\$ (1,305)	\$ (1,664)
Service Corporation	2	8
Other	2,657	(4,336)
Total Income Taxes Provision	\$ 1,354	\$ (5,992)
<u>Net Income (Loss):</u>		
Pennichuck Water	\$ 2,723	\$ 2,356
Service Corporation	259	234
Other	(3,421)	(10,752)
Total Net Income (Loss)	\$ (439)	\$ (8,162)

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 16 – SEGMENT REPORTING (CONTINUED)

(in thousands)	2025	2024
<u>Total Net Assets:</u>		
Pennichuck Water	\$ 388,624	\$ 372,687
Service Corporation	100	120
Other	(29,144)	(18,639)
Total Net Assets	\$ 359,580	\$ 354,168
<u>Total Liabilities:</u>		
Pennichuck Water	\$ 296,842	\$ 287,254
Service Corporation	(57)	(49)
Other	82,506	85,975
Total Liabilities	\$ 379,291	\$ 373,180
<u>Total Long-Term Debt (less current portion and unamortized debt insurance costs):</u>		
Pennichuck Water	\$ 161,777	\$ 150,264
Service Corporation	--	--
Other	84,420	87,820
Total Long-Term Debt	\$ 246,197	\$ 238,084

NOTE 17 – RATE CASES

PENNICHUCK WATER-QUALIFIED CAPITAL PROJECT ADJUSTMENT CHARGE

On March 27, 2025, the NHPUC issued Order No. 28,121 approving a QCPAC surcharge of 2.06% for capital projects placed in service in 2023 for both Pennichuck East and Pennichuck Water. This order became effective with services rendered back to April 27, 2024 and allowed recovery in the form of a monthly recoupment surcharge, to be collected over a four-month period from the date of the order.

On September 12, 2025, the NHPUC issued Order No. 28,180 approving a QCPAC surcharge of 2.49% for capital projects placed in service in 2024. This order became effective with services rendered back to April 29, 2025 and allowed recovery in the form of a monthly recoupment surcharge, to be collected over a three-month period from the date of the order.

PENNICHUCK CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2025 and 2024

NOTE 18 – SUBSEQUENT EVENTS

The Company has evaluated the events and transactions that have occurred through April 30, 2026, the date that these consolidated financial statements were available for issuance.

On February 13, 2026, Pennichuck Water filed a petition with the NHPUC for a 1.69% surcharge on all capital improvements completed and placed in service by Pennichuck Water in 2025. The commission has not yet issued an Order approving this requested surcharge. When the NHPUC issues the Order, the approved surcharge will become effective retroactively on a services rendered basis. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between the services rendered date and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2026.