FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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(HTML Version on secdatabase.com)

FILER

PENNICHUCK CORP	Mailing Address	Business Address
CIK:**788885**| IRS No.: **020177370** | State of Incorp.:**NH** | Fiscal Year End: **1231**	*P O BOX 448*	*4 WATER STREET*
Type: **10KSB** | Act: **34** | File No.: **000-18552** | Film No.: **99574589**	*NASHUA NH 03061*	*NASHUA NH 03061*
SIC: **4941** Water supply		*6038825191*

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-18552

Pennichuck Corporation
(Name of small business issuer in its charter)

New Hampshire	02-0177370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Four Water Street, Nashua, New Hampshire	03061
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: 603-882-5191

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock (par value $1.00 per share)
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year.
$17,394,794

The aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sales price on March 1, 1999 of the Registrant's Common Stock as reported on the Nasdaq National Market System was $33,293,329. For purposes of this calculation, the "affiliates" of the registrant include its directors and executive officers.

State the number of shares outstanding of each of the issuer's classes of common stock as of March 1, 1999:

Common Stock, $1 Par Value - 1,722,009 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 1998 are incorporated by reference into Part II of Form 10-KSB.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held April 16, 1999 are incorporated by reference into Part III of Form 10-KSB.

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PART I:

Item 1. DESCRIPTION OF BUSINESS

Overview

We are a holding company based in Nashua, New Hampshire. Our principal operating subsidiaries are engaged primarily in the collection, storage, treatment, distribution and sale of potable water throughout southern and central New Hampshire. These subsidiary corporations - Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield"), are each engaged in business as a regulated public utility, subject to the jurisdiction of the New Hampshire Public Utilities Commission (the" NHPUC"). We collectively serve approximately 24,300 residential and 2,000 commercial and industrial customers. We were formed in 1983 following the reorganization of Pennichuck Water Works, which was first established in 1852, into a dedicated water utility. At the same time several tracts of land, formerly held for watershed protection purposes, were transferred to The Southwood Corporation ("Southwood"). Southwood is involved in the development of commercial and residential real estate. We also conduct non-regulated, water-related management services and contract operations through another subsidiary, Pennichuck Water Service Corporation (the "Service Corporation").

Our Water Business

Pennichuck is franchised by the NHPUC to gather and distribute water in the City of Nashua, New Hampshire and in portions of the towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford and Plaistow, New Hampshire. Pennichuck has transmission mains which directly interconnect its core system in Nashua with the surrounding towns of Amherst, Hudson, Merrimack and Milford. Our core system, which services over 20,000 customers, accounts for 97% of Pennichuck's revenues and 96% of its combined plant in service. Its franchises in the remaining towns consist of stand-alone satellite water systems serving 1,065 customers. Pennichuck has no competition in its core franchise area. Currently, approximately 25% of its water revenues are derived from commercial and industrial customers and approximately 54% from residential customers, with the balance being derived from fire protection and other billings to municipalities, principally the City of Nashua.

Pennichuck East was organized in 1998 to acquire certain water utility assets from the Town of Hudson, New Hampshire ("Hudson"), following its acquisition of those assets from an investor-owned water utility which previously served Hudson and surrounding communities. Pennichuck East is franchised to gather and distribute water in the New Hampshire towns of Litchfield, Pelham, Windham, Londonderry, Derry, Raymond and Hooksett, which are areas adjacent to the service franchise served by Pennichuck. The water utility assets owned by Pennichuck East consist principally of water transmission and distribution mains, hydrants, wells, pump stations and pumping equipment, water services and meters, easements and certain tracts of land. Pennichuck East serves approximately 3,600 customers and annual revenues are estimated to be $2.3 million.

Pittsfield serves approximately 650 customers in and around Pittsfield, New Hampshire with annual revenues of approximately $443,000.

Regulation

Our water utilities are regulated by the NHPUC with respect to their water rates, securities issues and service. New Hampshire law provides that utilities are entitled to charge rates which permit them to earn a reasonable return on the cost of the property employed in serving its customers, less accrued depreciation and contributed capital ("Rate Base"). The cost of capital permanently employed by a utility in its utility business marks the minimum rate of return which a utility is lawfully entitled to earn on its Rate Base. Pennichuck's currently approved water rates are based on a March 1998 NHPUC order resulting from its latest approved rate case. Pennichuck is authorized an overall rate of return of 8.34% on an approved rate base of approximately $34.61 million. Pennichuck East is authorized an overall rate of return of 8.37% on an approved rate base of approximately $7.5 million. Pittsfield is authorized an overall rate of return of approximately ten percent on an approved rate base of approximately $1.6 million.

Our utilities are subject to the water quality regulations issued by the United States Environmental Protection Agency ("EPA"). The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the EPA and we do not anticipate that any significant capital expenditures for regulatory compliance will be required in the next three years given the present water quality standards set by the SDWA. The reauthorization of the SDWA by Congress in 1996 may lead to stricter monitoring standards which may require additional operating costs for the Company. It is expected that any additional monitoring and testing costs arising from EPA mandates should eventually be recouped through water rates.

Other Operations

The Company formed the Service Corporation to conduct its non-regulated, water-related activities. Its activities include providing contract operations and maintenance, water testing and billing services to municipalities. In 1998, the Service Corporation entered into a long-term agreement with the Town of Hudson to provide operations and maintenance contract services to the Town with respect to the water utility assets it acquired from an investor-owned water utility.

Southwood, the Company's real estate subsidiary, was organized for the purpose of owning, developing, selling and managing approximately 1,340 acres of undeveloped land in Nashua and Merrimack, New Hampshire formerly owned by Pennichuck Water for watershed protection purposes.

Since 1988, Southwood has been involved in the planning and development of two major office parks, Southwood Business Park and Southwood Corporate Park, located in Nashua, New Hampshire. At the end of 1996, Southwood sold its last remaining lot in the Southwood Business Park to the State of New Hampshire. Southwood still owns approximately 47 acres of land in the Southwood Corporate Park which is zoned for commercial use. In July 1995, Southwood entered into an option agreement with a regional real estate developer ("the Developer") for the remaining acreage in Southwood Corporate Park. Under that agreement, the Developer pays to Southwood an option fee each year equal to the annual carrying costs associated with that land. The option agreement is for a minimum term of five years. In September 1997, Southwood and the Developer formed Westwood Park LLC ("Westwood"), to develop a 404 acre tract of land in northwest Nashua presently zoned for park-industrial use. Southwood conveyed the land to Westwood in exchange for a 60% interest in Westwood.

In April 1996, Southwood entered into a joint venture known as Bowers Pond LLC ("Bowers") for the development of a 46 unit residential development. Under the terms of the joint venture agreement, Southwood conveyed the related land parcel to Bowers in exchange for a non-interest bearing note secured by a second mortgage on the real estate conveyed. Southwood holds a 50% interest in this joint venture. As of December 31, 1998, 43 homes had been constructed and sold; the remaining 3 lots are subject to purchase contracts and are scheduled to close in the first quarter of 1999. Southwood has also recently formed a joint venture to develop and build another residential development, Heron Cove, an 87-unit, single-family community located in Merrimack, New Hampshire. The construction and sale of these units are not expected to begin until the first quarter of 1999.

Financial Information About Industry Segments

The business segment data of our Company and its subsidiaries for the latest three years is presented in "Note J - Business Segment Information" in the Notes to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB Report.

Employees

We employ 66 permanent employees and officers. Of these, there are 34 management and clerical employees who are non-union. The remaining employees are members of the United Steelworkers Union. Our current union contract, which was re-negotiated and completed in February 1997, has been extended through February 2002. In the opinion of management, employee relations are satisfactory.

Item 2. DESCRIPTION OF PROPERTIES

Office Buildings

The Company owns a three story, 11,616 square foot building located in downtown Nashua, New Hampshire which it and its subsidiaries occupy. We also own a separate building in Nashua which serves as an operations center and storage facility for our construction and maintenance activities. Except as noted in "Note H- Acquisition" on page 43 of the Consolidated Financial Statements of Pennichuck Corporation, there are no mortgages or encumbrances on our properties.

Water Supply Facilities

Pennichuck's principal properties are located in Nashua, New Hampshire, with the exception of several source-of-supply land tracts which are located in the neighboring towns of Amherst, Merrimack and Hollis, New Hampshire. In addition, Pennichuck owns four impounding dams which are situated on the Nashua and Merrimack border.

The location and general character of Pennichuck's principal plant and other materially important physical properties are as follows:

1. Holt Pond, Bowers Pond, Harris Pond and Supply Pond and related impounding dams comprise the chief source of water supply in Nashua and Merrimack, New Hampshire.

2. An Infilco Degremont treatment plant using physical chemical removal of suspended solids and sand filtration with a rated capacity of 35 million gallons per day, located in Nashua, New Hampshire.

3. A water intake plant and pumping facility located on the Merrimack River in Merrimack. This 20 million gallon per day supplemental water supply source provides an additional source of water during dry summer periods and will provide a long-term supply for Pennichuck's service area.

4. Approximately 672 acres of land located in Nashua and Merrimack which are owned and held for watershed and reservoir purposes.

5. Ten water storage reservoirs having a total storage capacity of 23.1 million gallons, six of which are located in Nashua, two in Amherst, one in Bedford and one in Hollis, New Hampshire.

The source of supply for Pennichuck East is a well system owned by the Town of Hudson in Litchfield, New Hampshire. Pennichuck East has entered into a long-term water supply agreement to obtain water from this well system.

Pittsfield owns Berry Pond located in the vicinity of its water treatment facility in Pittsfield, New Hampshire, which serves as its source of supply.

Water Distribution Facilities

The distribution facilities of our regulated water companies consist of the following:

<TABLE>
<CAPTION>

<S>	Pennichuck <C>	Pennichuck East <C>	Pittsfield <C>
Transmission & Distribution Mains (in miles)	354	103	13
Services	21,422	3,766	623
Meters	21,598	3,766	620
Hydrants	2,135	335	70

</TABLE>

Land Held for Future Development

Following Pennichuck Water Works' reorganization in 1984 into a holding company structure, approximately 1,088 acres were transferred to Southwood. Since 1984, Southwood has sold or transferred approximately 779 acres of land to third parties or to participating joint ventures. The Company has transferred 499 acres of watershed protection land to Pennichuck since 1984 and currently holds 425 acres of land which have not been transferred to Pennichuck or Southwood due to access limitations which restrict the ability to subdivide and transfer that land. Of that acreage, approximately 242 acres are available for buffer and alternate use.

Based on vegetation, topographical, wetland and hydrological studies, Southwood has subdivided its remaining 309 acres into buffer (non-developable) and alternate use (developable) designations, resulting in an approximate breakout of 108 and 201 acres, respectively. Of the approximately 201 acres of alternate use land, 102 acres are located primarily in the northwestern section of City of Nashua, New Hampshire and 99 acres are located in the western and southerly portions of the Town of Merrimack, New Hampshire. The following table summarizes of the current approved zoning for Southwood's alternate use land:

	Nashua, NH	Merrimack, NH	Total
Residential	55	--	55
Industrial	47	99	146
Total Alternate Use Acreage	102	99	201

Presently, 47 acres of Southwood's alternative-use land in the City of Nashua are available for immediate development. The remainder of Southwood's landholdings in both Nashua and Merrimack are classified under "Current Use" status, which means that we pay property taxes based on the property's actual use and not its highest or best use.

Item 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are not involved in any material litigation or other proceedings which, in management's opinion, would have an adverse effect on the business, the consolidated financial condition or the operating results of the Company and its subsidiaries.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Report, we had no matters which were submitted to a vote of security holders.

PART II:

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

"Market & Dividend Information" on page 46 of the 1998 Pennichuck Corporation Annual Report to Shareholders is incorporated herein by reference. At the record date of March 11, 1999, there were 785 holders of record of shares of the Company's common stock. The Company's common stock presently trades on the Nasdaq National Market System under the symbol "PNNW."

Certain bond and note agreements involving Pennichuck require, among other things, restrictions on the payment or declaration of dividends by Pennichuck to the Company. Under Pennichuck's most restrictive covenant, approximately $4,382,000 of Pennichuck's retained earnings was unrestricted for payment or declaration of common dividends to the Company at December 31, 1998.

As discussed in "Note F - Stock Based Compensation Plans" in the Notes to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB Report, the Company maintains a stock option plan for the benefit of its officers and key employees. Under the plan, incentive stock options may be granted to acquire shares of the Company's common stock, $1.00 par value, at an exercise price equal to the closing sale price of the Company's common stock on the date of grant. During the 1996 fiscal year, 510 shares of common stock were sold pursuant to the exercise of options; during the 1997 fiscal year, 1,575 shares of common stock were sold pursuant to the exercise of options; and, during the 1998 fiscal year, 6,378 shares of common stock were sold pursuant to the exercise of options under the plan. The offer and sale of shares of common stock under the plan is exempt from the registration requirements of the Securities Act of 1933, as amended ("Act"), pursuant to Section 3(a)(11) thereof, as (i) the Company is incorporated under the laws of and does business within the State of New Hampshire, and (ii) all employees receiving and exercising stock option grants are residents of the State of New Hampshire. The shares acquired pursuant to such exercise are restricted from transfer for one year following the date of acquisition.

The Company filed a registration statement under the Act on Form S-2 (Commission File No. 333-65527) with respect to 483,000 shares of its common stock; the offering was declared effective on November 17, 1998. The shares were sold in a firm commitment underwriting through Edward D. Jones & Co., L.P., as representative of the several underwriters of the offering. The aggregate price of the offering amount registered was $11,350,500; 483,000 shares were sold at an offering price of $19.50 per share resulting in an aggregate offering price of amount sold of $9,418,500. The Company incurred total offering expenses estimated to be $616,000, consisting of underwriting discounts and commissions of $471,000, listing fees of $39,000, and other expenses (including legal, accounting, and printing/mailing) of $106,000. None of such expenses were paid directly or indirectly to directors or officers of the Company or to any affiliate of the Company or to any person owning ten (10) percent or more of any class of equity security of the Company. The net offering proceeds to the Company from the offering were approximately $8.8 million; of this amount, $4.5 million was used to repay outstanding interim bank debt and the remainder has been invested in short term securities to fund the Company's capital improvement projects and to support operating cash flow needs of the Company. None of such net proceeds were paid directly or indirectly to directors or officers of the Company or to any affiliate of the Company or to any person owning ten (10) percent or more of any class of equity security of the Company.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" which appears on pages 17 to 26 of the 1998 Pennichuck Corporation Annual Report to Shareholders is incorporated herein by reference.

Item 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements of Pennichuck Corporation appearing on pages 28 to 32, together with the report thereon of Arthur Andersen LLP dated January 26, 1999 appearing on page 27, and the Quarterly Financial Data appearing on page 45 of the 1998 Pennichuck Corporation Annual Report to Shareholders are incorporated herein by reference.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with the Company's accountants on any accounting matters or financial disclosures during the two most recent fiscal years.

PART III:

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

"Election of Directors" on pages 3 through 7, and "Section 16(a) Beneficial Ownership Reporting Compliance" on page 8, of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders on April 16, 1999 are incorporated herein by reference.

Item 10. EXECUTIVE COMPENSATION

"Executive Compensation" on pages 11 and 12 of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders on April 16, 1999 is incorporated herein by reference.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

"Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" on pages 2 and 3 of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders on April 16, 1999 is incorporated herein by reference.

In determining which persons may be affiliates of the Company for the purpose of disclosing on the cover page of this Form 10-KSB Report the market value of voting shares held by non-affiliates, the Company has treated only the members of its Board of Directors and executive officers as affiliates and has excluded from the calculation all shares over which such affiliates acknowledge beneficial ownership. No determination has been made that any director or executive officer or person connected with a director or executive officer is an affiliate or that any other person is not an affiliate. The Company specifically disclaims any intention to characterize any person as being or not being an affiliate.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

"Certain Relationships and Related Transactions" on page 13 of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders on April 16, 1999 is incorporated herein by reference.

Item 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) List of financial statements and exhibits filed as part of this report:

(1) The following Consolidated Financial Statements of Pennichuck Corporation and subsidiaries, included in the 1998 Annual Report to Shareholders for the year ended December 31, 1998, are incorporated by reference in Item 7:

<TABLE>
<CAPTION>

	Page Reference In - Annual Shareholders Report	Form 10-KSB Report
<S>	<C>	<C>
Report of Independent Public Accountants	27	
Consolidated Balance Sheets at December 31, 1998 and 1997	28-29	
Consolidated Statements of Income for each of the years ended December 31, 1998, 1997		

</TABLE>

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibit Index:

<TABLE>
<CAPTION>

Exhibit Number	Description of Exhibit
<C>	<S>
3.1	Restated Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.1 to the Company's 1990 Form 10-K Report and incorporated herein by reference)
3.2	Articles of Amendment to the Articles of Incorporation of Pennichuck Corporation (Filed as Exhibit 3.2 to the Company's 1994 Form 10-KSB Report and incorporated herein by reference)
3.3	Amended and Restated Bylaws of Pennichuck Corporation (Filed as Exhibit 3.3 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)
10.1	1985 Stock Option Plan (Filed as Exhibit 10.1 to the Company's registration statement on Form 10 filed in April 1990 and incorporated herein by reference)
10.2	Deferred Compensation Program for Directors of Pennichuck Corporation (Filed as Exhibit 10.2 to the Company's 1997 Form 10-KSB Report and incorporated

herein by reference)

10.3 Amended Line of Credit Agreement dated October 2, 1991 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.7 to the Company's 1991 Form 10-K Report and incorporated herein by reference)

10.4 Second Amendment dated March 23, 1994 to Line of Credit Agreement between Pennichuck Corporation and Fleet Bank-NH dated October 2, 1991 (Filed as Exhibit 10.7 to the Company's 1994 first quarter Form 10-QSB Report and incorporated herein by reference)

10.5 Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)

10.6 Insurance Funded Deferred Compensation Agreement dated June 13, 1994 (Filed as Exhibit 10.9 to the Company's 1994 second quarter Form 10-QSB Report and incorporated herein by reference)

10.7 Amendment Agreement dated May 4, 1995 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.8 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)

10.8 1995 Incentive Stock Option Plan (Filed as Exhibit 10.9 to the Company's 1995 second quarter Form 10-QSB Report and incorporated herein by reference)

10.9 Amendment Agreement dated July 31, 1996 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1996 third quarter Form 10-QSB Report and incorporated herein by reference)

10.10 Amendment Agreement dated March 18, 1998 to Amended and Restated Revolving Line of Credit Loan Agreement dated March 23, 1994 between Pennichuck Corporation and Fleet Bank-NH (Filed as Exhibit 10.10 to the Company's 1998 first quarter Form 10-QSB report and incorporated herein by reference)

10.11 Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc. and Fleet Bank-NH (Filed as Exhibit 10.11 to the Company's 1998 second quarter Form 10-QSB report and incorporated herein by reference)

10.12 Amendment Agreement dated April 24, 1998 to Loan Agreement dated April 8, 1998 between Pennichuck Corporation, Pennichuck East Utility, Inc., The Southwood Corporation, Pennichuck Water Service Corporation and Fleet Bank-NH (Filed as Exhibit 10.12 to the Company's 1998 second quarter Form 10-QSB report and incorporated

	herein by reference)
10.13	Employment Agreement by and between Pennichuck Corporation and Maurice L. Arel (Included in this Form 10-KSB Report)
13	1998 Annual Report to Shareholders (Furnished only for the information of the Securities and Exchange Commission and is not deemed to be filed except for those portions which are expressly incorporated herein by reference)
21	Subsidiaries of Pennichuck Corporation (Filed as Exhibit 21 to the Company's 1997 Form 10-KSB and incorporated herein by reference)
23	Consent of Arthur Andersen LLP (Included in this Form 10-KSB Report)
99	Dividend Reinvestment and Common Stock Purchase Plan, as amended (Filed as Exhibit 4.1 to Post-Effective Amendment No. 1 to Registration Statement on Form S-3 filed on March 24, 1997 and incorporated herein by reference)

</TABLE>

(b) There were no reports on Form 8-K filed in the fourth quarter of 1998.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Pennichuck Corporation

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Pennichuck Corporation's Annual Report to shareholders incorporated by reference in this Form 10-KSB, and have issued our report thereon dated January 26, 1999. Our audits were made for the purpose of forming an opinion on those basic financial statements taken as a whole. The schedule listed in the attached index of this Form 10-KSB is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Boston, Massachusetts
January 26, 1999

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Pennichuck Corporation
Condensed Balance Sheets

<TABLE>

<CAPTION>

	December 31	
	1998	1997
<S>	<C>	<C>
ASSETS		
Current Assets:	$ 3,587,240	$ 366,560
Accounts Receivable		4,695
Refundable Income Taxes	146,057	13,011
Prepaid Expenses	9,915	45,480
Total Current Assets	3,743,212	429,746
Property and Equipment	1,233,493	1,163,424
Less Allowances for Depreciation	524,614	503,346
	708,879	660,078
Other Assets	252,958	212,413
Investment in Wholly-Owned Subsidiaries	21,940,924	16,260,847
Advances to Wholly-Owned Subsidiaries	53,750	342,723
	$26,699,723	$17,905,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts Payable and Other Current Liabilities	$ 141,921	$ 78,412
Long Term Debt	1,500,000	3,680,000
Other Long Term Liabilities	307,558	314,117
Stockholders' Equity	24,750,244	13,833,278
	$26,699,723	$17,905,807

</TABLE>

Pennichuck Corporation
Condensed Statements of Income

<TABLE>
<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Operating Revenues	$ 76,309	$ 60,698	$ 148,297
Operating Expenses	(29,079)	(46,026)	53,014
Operating Income	47,230	106,724	95,283
Interest Expense	144,116	189,208	198,021
Loss Before Income Taxes and Equity in Net Income of Subsidiaries	(96,886)	(82,484)	(102,738)

Federal income tax benefit	32,941	28,045	34,931
Loss Before Equity in Earnings of Subsidiaries	(63,945)	(54,439)	(67,807)
Equity in Earnings of Subsidiaries	2,169,998	1,344,530	1,306,292
NET INCOME	$2,106,053	$1,290,091	$1,238,485

</TABLE>

Condensed Statements of Cash Flows

<TABLE>
<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES	$ (41,727)	$ (50,760)	$ 188,521
INVESTING ACTIVITIES:			
Equity Transfer to Subsidiary	(2,825,736)	(162,185)	(465,665)
Purchase of Equipment and Other Assets	(147,401)	---	(223,649)
	(2,973,137)	(162,185)	(689,314)
FINANCING ACTIVITIES:			
Increase(Decrease) in Notes Payable	(6,680,000)	485,000	(1,100,000)
Proceeds from issuance of Equity, net	8,802,337	---	---
Proceeds from long-term borrowings	4,500,000	---	---
Advances (to) from Subsidiaries	288,973	536,920	2,519,333
Repayment on Mortgage	---	---	(653,057)
Payment of Dividends	(970,196)	(807,425)	(765,367)
Proceeds from dividend reinvestment and other, net	281,631	141,462	526,188
		355,957	527,097
INCREASE IN CASH	3,220,680	143,012	26,304
Cash at Beginning of Year	366,560	223,548	197,244
CASH AT END OF YEAR	$ 3,587,240	$ 366,560	$ 223,548

</TABLE>

Pennichuck Corporation
Notes to Condensed Financial Statements

NOTE A -- ACCOUNTING POLICIES

Basis of Presentation. In the parent-company-only financial statements, the Company's investment in its subsidiaries is stated at cost plus equity in undistributed earnings of its subsidiaries. Parent-company-only financial statements should be read in conjunction with the Company's Annual Report to Shareholders for the year ended December 31, 1998.

NOTE B -- LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31 1998	1997
Unsecured notes payable and line of credit revolving loan facility with Fleet Bank-NH at rates ranging from 7.44% to 8.50% due June 30, 2000	$ ---	$3,680,000

NOTE C -- COMMON DIVIDENDS FROM SUBSIDIARIES

Common stock cash dividends paid to Pennichuck Corporation by its subsidiaries were as follows:

	1998	1997	1996
Pennichuck Water Works, Inc.	$945,181	$794,625	$755,767
Pittsfield Aqueduct Company, Inc.	12,800	12,800	9,600
Pennichuck East Utility, Inc.	12,215	----	---
TOTAL	$970,196	$807,425	$765,367

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pennichuck Corporation
(Registrant)

Date: March 26 ,1999

By: /s/ Charles J. Staab

Charles J. Staab
Vice President, Treasurer and Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

Signature	Title	Date
/s/ Maurice L. Arel Maurice L. Arel	President and Director (Principal Executive Officer)	March 16, 1999
/s/ Stephen J. Densberger Stephen J. Densberger	Executive Vice President and Director	March 16, 1999
/s/ Charles J. Staab Charles J. Staab	Vice President, Treasurer Chief Financial Officer and Director (Principal Financial Officer)	March 16, 1999
/s/ Bonalyn J. Hartley Bonalyn J. Hartley	Vice President and Controller (Principal Accounting Officer)	March 17, 1999
/s/ Joseph A. Bellavance Joseph A. Bellavance	Director	March 17, 1999
/s/ Charles E. Clough Charles E. Clough	Director	March 16, 1999
/s/ Robert P. Keller Robert P. Keller	Director	March 20, 1999
/s/ John R. Kreick John R. Kreick	Director	March 17, 1999
/s/ Hannah M. McCarthy Hannah M. McCarthy	Director	March 20, 1999
/s/ Martha E. O'Neill Martha E. O'Neill	Director	March 21, 1999

</TABLE>

EXHIBIT 10.13

EMPLOYMENT AGREEMENT

This Agreement, made and entered into as of the 1st day of July, 1995 by and between Maurice L. Arel (the "Executive") of Nashua, New Hampshire and Pennichuck Corporation (the "Corporation"), a New Hampshire corporation with principal offices in Nashua, New Hampshire.

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the mutual covenants and promises set forth in this Agreement, the parties agree as follows:

ARTICLE I

EMPLOYMENT

1.1. The Corporation hereby employs the Executive and the Executive hereby accepts employment with the Corporation on the date hereof for the Term (as defined below) of the Agreement, in the position and with the duties and responsibilities set forth in Article II below and upon the other terms and subject to the conditions hereinafter set forth.

ARTICLE II

POSITION, DUTIES AND RESPONSIBILITIES

2.1. During the Term of this Agreement, the Executive shall serve as the President and Chief Executive Officer of the Corporation, and of its subsidiaries Pennichuck Water Works, Inc., The Southwood Corporation and Pennichuck Water Service Corporation. Subject only to the supervision, control and guidance of the Board of Directors of the Corporation (the "Board"), the Executive shall have all of the duties, responsibilities and authorities typically enjoyed by a president and chief executive officer of a corporation to control the day-to-day operations of the Corporation, including, by example but not by way of limitation, the responsibility for the overall operations of the Corporation, the supervision over the property, business and affairs of the Corporation and the power to hire and dismiss other employees.

2.2. The Executive shall devote substantially all of his business time and attention to the business and affairs of the Corporation consistent with his executive position with the Corporation, except for vacations permitted pursuant to Section 5.4. and Disability (as defined in Section 8.3 hereof). Nothing in this Agreement, however, shall preclude the Executive from engaging in charitable activities, community affairs and corporate boards, or giving attention to his investments provided that such activities do not interfere with the performance of his duties and responsibilities enumerated within this Agreement.

ARTICLE III

TERM

3.1. The term of employment under this Agreement ("Term") shall be for the period commencing on July 1, 1995 ("Effective Date") and ending three (3) years from the Effective Date; provided, however, that commencing on the first anniversary of the Effective Date and on or about each anniversary of the Effective Date, the term of this Agreement shall be extended for subsequent one (1) year periods by vote of the Board of Directors, unless terminated sooner in accordance with the terms hereof, and the provisions hereof shall remain applicable for each of such subsequent three-year periods.

ARTICLE IV

COMPENSATION

4.1. Base Salary. The Executive shall be paid a base salary (the "Base Salary") equal to $130,000 per annum for the Term. The Base Salary shall be payable to the Executive in installments on the date on which the Corporation's other executive officers are paid, but in no event less frequently than monthly. The Base Salary shall be reviewed by the Board each year and shall be subject to adjustment in the absolute discretion of the Board taking into account additional responsibilities, if any, which may have been assigned to him, corporate and individual performance and general business conditions.

4.2. Incentive Compensation. During the Term, the Executive shall be entitled to participate in bonus and incentive compensation plans made available to executive officers of the Corporation.

4.3. Stock Options. During the Term, the Executive shall be entitled to participate in any stock option plan or plans made available by the Corporation.

Federal, state, and local withholding, social security, and other appropriate taxes shall be deducted from all compensation paid to, or provided by the Corporation for, Executive as and to the extent required by law.

ARTICLE V

FRINGE BENEFIT PLANS

5.1. Employee Benefit Programs. The Executive shall be entitled to (A) receive medical and dental insurance coverage, as and to the extent provided by the Corporation to its executive officers; (B) receive group life and disability coverage, as and to the extent provided by the Corporation to its executive officers; (C) receive insurance on the life of the Executive in the amount of four (4) times his annual salary, and (D) be a full participant in (1) all of the Corporation's other benefit plans which may be in effect from time to time, and (2) all of the Corporation's pension and other retirement plans and profit-sharing plans, if any, or equivalent successor plans, if any, that may hereafter be adopted and maintained by the Corporation, in each case with at least the same opportunity to participate therein as shall be applicable to other executive officers of the Corporation. The Corporation acknowledges that the Executive currently meets the eligibility criteria for participation in all of the Corporation's present employee benefit programs.

5.2. Reimbursement of Expenses. It is contemplated that in connection with the Executive's Employment hereunder, the Executive may be required to incur business, entertainment and travel expenses. The Corporation agrees to promptly reimburse the Executive in full for all reasonable out-of-pocket business, entertainment and other related expenses (including all expenses of travel and living expenses while away from home on business at the request of, and in the service of, the Corporation) incurred or expended by the Executive incident to the performance of his duties hereunder; provided, that the Executive properly accounts for such expenses in accordance with the policies and procedures established by the Board and applicable to the executive officers of the Corporation.

5.3 Automobile. The Executive shall be provided the use of a company automobile. The Corporation shall pay all gas, upkeep and maintenance on said vehicle, provided, however, that the value of any personal use shall be included in the Executive's taxable wages reported by the Corporation as and to the extent required by applicable law.

5.4. Vacation. The Executive shall be entitled, in each year during the Term, to the number of unpaid vacation days determined by the Corporation from time to time to be appropriate for its executive officers, but in no event less than four (4) weeks in any such year (pro-rated, as necessary, for partial calendar years during the Term). The Executive may take his allotted vacation days at such times as are mutually convenient for the Corporation and the Executive, consistent with respect to its executive officers. The Executive shall also be entitled to all paid holidays given by the Corporation to its executive officers.

5.5 Membership. The Corporation will provide a membership for Executive at the Nashua Country Club for business use. The Corporation will reimburse Executive for all reasonable out-of-pocket expenses incurred by Executive in connection with his business duties on behalf of Corporation.

ARTICLE VI

INDEMNIFICATION

The Executive shall be entitled, at all times, to the benefit of the maximum indemnification and advancement of expenses available from time to time under the Corporation's Articles of Incorporation and Bylaws, and under the laws of the State of New Hampshire. Such indemnification shall survive the termination of this Agreement unless such termination is for "Cause" (as that term is defined in Section 8.2 below). In addition, the Corporation shall have in full force and effect an officers' liability insurance policy providing such coverages, exclusions and deductibles as the Corporation and the Executive shall reasonably agree and as is available on a reasonable premium basis.

ARTICLE VII

SUPPLEMENTAL RETIREMENT AGREEMENT

The parties acknowledge that they have entered into an Insurance Funded Deferred Compensation Agreement as of the 13th day of June, 1994 ("Supplemental Retirement Agreement"). The parties agree that the Supplemental Retirement Agreement shall not be affected by any of the terms hereof.

ARTICLE VIII

TERMINATION

8.1. Termination by the Executive. The Executive may terminate his employment hereunder for any reason at any time upon at least thirty (30) days prior written notice to the Corporation. In the event the Executive terminates his employment, the Executive shall receive accrued but unpaid salary, bonus (if any) and benefits through the last day of employment only.

8.2. Termination by the Corporation. The Corporation may terminate Executive's employment hereunder at any time upon thirty (30) days prior written notice to the Executive, and with or without Cause, with no liability whatsoever with respect to such date of termination, other than the obligation to pay or cause to be paid accrued but unpaid salary and bonus, if any, as provided in Section 8.1 above; provided, however, that if the Corporation terminates the Executive other than for Cause, or the Executive's employment is terminated by the Corporation within six (6) months before or after a "Change of Control" (as that term is defined below), the Corporation shall provide the Executive with severance benefits, payable as a lump sum, a series of installments or as salary continuation, at the Corporation's election, equal to the Executive's then current salary and fringe benefits for the period of twenty-four (24) months from the date of termination; and provided further that if the Executive's employment is terminated for Cause, the Corporation shall after the date of such termination have no further obligations under this Agreement.

For purposes hereof, "Cause" shall have the same meaning as set forth in the Supplemental Retirement Agreement, and "Change of Control" shall be defined as a merger or consolidation which results in the shares of the Corporation held by the stockholders of the Corporation immediately prior to such transaction being converted into less than 50% of the outstanding capital stock of the surviving corporation, or as the sale of substantially all of the assets of the Corporation, or a transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of.

8.3. Disability of the Executive. In the event the Executive shall be prevented from rendering the essential functions of this position, with or without reasonable accommodation, unless such accommodation would cause the Corporation undue hardship, by reason of Disability, the Corporation shall have the right to declare upon two (2) weeks prior written notice rendered to the Executive, a Disability termination, whereupon the Executive shall receive the Disability compensation provided by the Corporation's disability insurance coverage. The Corporation may in its sole discretion, accelerate the payment of any amount payable under this Section 8.3. For purposes hereof "Disability" shall have the same meaning as set forth in the Supplemental Retirement Agreement.

8.4. Death of the Executive. In the event the Executive dies during the Term, this Agreement shall automatically terminate without notice on the date of his death, and the Corporation shall have no further obligations hereunder except that the Corporation shall pay or cause to be paid to the Executive's designated beneficiary, or, failing such designation, his estate, any salary, bonus and benefits due to the Executive in the amounts and to the extent such payments are provided by the Corporation.

ARTICLE IX

NOTICES

Any notice or other communication ("Notice") pursuant to this Agreement shall be in writing and shall be deemed to have been given or made when personally delivered, or when mailed by registered or certified mail, postage prepaid, return receipt requested, to the other party. In the case of the Corporation, any such notice shall be delivered or mailed to its principal office. In the case of the Executive, any such notice shall be delivered in person or mailed to his last known address as reflected in the records of the Corporation.

ARTICLE IX

ASSIGNMENT

The Executive acknowledges that the services to be rendered by him are unique and personal. Accordingly, the Executive may not assign any of his rights or delegate any of his duties or obligations under this Agreement or otherwise assign this Agreement. The rights and obligations of the Corporation under this Agreement shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Corporation.

ARTICLE X

ARBITRATION

Any dispute, controversy or claim arising out of or relating to this Agreement shall be settled by arbitration conducted in Nashua, New Hampshire or other mutually agreeable location. The matter will be heard promptly by a single arbitrator selected by mutual agreement by the Corporation and the Executive. Should the Corporation and the Executive be unable to agree upon an arbitrator within a 30 day period, an arbitrator will be selected in accordance with the commercial arbitration rules of the American Arbitration Association. Unless the parties mutually agree otherwise, once appointed, the arbitrator will make all rulings on procedural and evidentiary matters and will determine the date, time and place of any hearings. The arbitrator will issue a written decision within 30 days of the hearing or submission to him. The arbitrator's decision will be final and binding on all parties. Any arbitration conducted hereunder is subject to the provisions of RSA 542.

ARTICLE XI

MISCELLANEOUS

11.1. Entire Agreement. This Agreement constitutes the entire agreement between the parties, relating to the subject matter hereof and replaces all prior agreements (except the Supplemental Retirement Agreement) relating to said subject matter.

11.2. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire without reference to its conflicts of law provisions.

11.3. Waivers and Modifications. This Agreement, may not, in whole or in part, be waived, changed, amended, discharged or terminated orally or by any course of dealing between the parties, but only by an instrument in writing signed by the parties hereto. No waiver by either party of any breach by the other or any provision hereof shall be deemed to be a waiver of any later or other breach hereof or as a waiver of any other provision of this Agreement.

11.4. Severability. In any case any one or more of the provisions contained in this Agreement for any reason shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein.

11.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but which taken together shall constitute one instrument.

11.6. Section Headings. The descriptive section headings herein have been inserted for convenience only and shall not be deemed to define, limit, or otherwise affect the construction of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first written above.

WITNESS:	PENNICHUCK CORPORATION
/s/ Lynn McLaughlin	By: /s/ Charles E. Clough
	Chairman of Compensation and Benefits Committee of Board of Directors
/s/ Sharen A. Weston	/s/ Maurice L. Rael
	Executive

EXHIBIT 13

[GRAPHIC OF INDIAN VILLAGE]

Pennichuck
Corporation
1998
Annual Report

[GRAPHIC]

For as long as 20,000 years before the Europeans arrived, Indians inhabited the northeastern United States. One tribe living in northern New England was called the Abenaki, meaning "People of the Dawnland." Each day, the sun's first rays shone on the land of the Abenaki, whose hunting grounds stretched from the Atlantic Coast in Maine to Lake Champlain in the west, north to the St. Lawrence, and south across the Merrimack River into northern Massachusetts.

In addition to providing an abundant supply of fresh fish, the Dawnland's many lakes and rivers enabled the Abenaki to travel great distances in their lightweight birchbark canoes. They grew corn, beans and squash in the rich, fertile soil of the river valleys, and hunted wild game, including deer, moose, bear and beaver, in the region's expansive forests.

Individual Abenaki groups, such as the Penacooks were made up of bands of related families, with grandparents, parents and children, aunts, uncles and cousins all living, traveling and hunting together. Abenaki society placed great importance on sharing, generosity and hospitality, because the health and well being of the group depended on the cooperation of everyone. No family would feast while their neighbors went hungry, and hunters were revered as much for their generosity in sharing their kill, as for their skill with a spear or bow.

The Abenaki believed they were descendants of animals. They hunted only for food, killed only what they needed, and would apologize to the dead animal's spirit, thereby maintaining the natural balance that existed between the human and animal worlds.

While each band of Abenaki had an elected chief, or sagamore, their authority was limited, and seldom exercised without first consulting trusted council. When important issues were considered, men, women and children all had the opportunity to voice their opinions, and the highest regard was given to the wisdom

CONTINUED: INSIDE BACK COVER

Pennichuck:
A Historical
Perspective

[GRAPHICS FROM TOP LEFT, CLOCKWISE: Dean & Main, Newspaper, Hydrant, Mill, Bowers Dam, Jug, Treatment Plant, Construction, Indian Canoe, Beaver, Factory, Plaque, Factory, Snow Station, Goose, Faucet, Farm, Fish, Harris Dam, Laborer]

[GRAPHIC CENTER: River flowing through woods]

Table of Contents

JANET MONTECALVO

The 1998 Pennichuck Annual Report showcases original artwork by Janet Montecalvo of Framingham, Massachusetts. A renowned artist and graphic designer, Janet's illustrations have graced children's books and educational texts from national publishing houses, including Houghton Mifflin, Scholastic Incorporated and Cahners. In addition to her work as an illustrator, Janet creates specialty signs for the film and television industries. Her work has been featured in numerous feature films and television shows, and Janet earned an "Emmy" award for signs she created for an NBC mini-series.

Selected Financial Data

TOTAL ASSETS (IN 000'S OF DOLLARS)

1994	1995	1996	1997	1998
$47,719	$49,136	$51,357	$57,240	$70,838

NET INCOME (IN 000'S OF DOLLARS)

1994	1995	1996	1997	1998
$966	$1,148	$1,289	$1,207	$2,106

BASIC EARNINGS PER SHARE

1994	1995	1996	1997	1998
$0.84	$1.00	$1.09	$1.01	$1.61

DIVIDENDS PER SHARE

1994	1995	1996	1997	1998
$.48	$.57	$.65	$.68	$.79

CONSOLIDATED REVENUES (IN 000'S OF DOLLARS)

$10,430 $11,700 $12,417 $12,056 $17,395

1994 1995 1996 1997 1998

Letter to Shareholders

DEAR SHAREHOLDERS

I believe 1998 will always stand out as a landmark year in your Company's history. It was a year of great change, record growth and incredible accomplishment. The strength of our management planning, the talents of our dedicated employees, and the resources of our entire organization were all put to the test. I am very pleased to report that we passed with flying colors on all counts.

A successful stock offering resulted in the addition of over 1,000 new shareholders, and I would like to take this opportunity to personally welcome all of you to Pennichuck Corporation. As you will see from this report, 1998 was another successful year for our water-related operations, as well as our real estate activities. Each of our business segments contributed to the overall profitability of your Company.

Total consolidated revenues surpassed $17,000,000 in 1998, resulting in net income of $2,100,000. We achieved record earnings of $1.61 per share, enabling us to increase our dividend from 68(cent) per share in 1997, to 79(cent) per share in 1998, as adjusted for our recent three-for-two stock split. Our post-stock-split annualized dividend now stands at 88(cent) per share. At the end of 1998, the Company's total operating assets exceed $70 million, compared to $49 million just three years ago.

Gross utility revenues grew to nearly $15,000,000 in 1998, compared to $11,400,000 in 1997. This increase came as a result of two major new business acquisitions, combined with a rate increase of 16.8% for our core system. As part of these rate case negotiations, Pennichuck also gained approval to consolidate its water rates into one universal core system rate for 10 of its individual community systems.

Throughout 1998, the majority of our efforts were focused on the challenge of assimilating two new utilities into the Pennichuck Corporation, and managing the associated 21% increase in our customer base. Our acquisition of Pittsfield Aqueduct Company in January 1998, resulted in the addition of 612 new customers and established a new operating subsidiary of the same name. In April 1998, after purchasing $7.5 million in water utility assets from a major water utility in southern New Hampshire, we formed another subsidiary, Pennichuck East Utility, Inc., to serve 3,766 new customers in the communities of Atkinson, Derry, Hooksett, Litchfield, Londonderry, Pelham, Plaistow, Raymond, Sandown and Windham, NH. Now, both of these new subsidiaries are fully integrated into the Pennichuck organization.

In conjunction with the expansion of Pennichuck East, Pennichuck Water Service Company entered into a separate agreement to operate and manage the water system for the town of Hudson, NH. Although the town retains ownership of its utility assets, Pennichuck Water Service Company is responsible for providing service to the 4,760 customers within the Hudson town limits. This is a long-term, non-regulated business contract that we believe will generate significant revenues in the years to come. However, Pennichuck Water Service Company was not successful in its negotiations to renew the operations and management contract for the town of Cohasset, MA. Our existing three-year contract expired in June 1998. Although Pennichuck Water Service Company wasn't the successful bidder, we are very proud of the accomplishments we made to improve water quality and reliability while we operated this system.

The Southwood Corporation had another successful year, selling 19 residential lots in its Bowers Pond subdivision. Southwood also gained approval and began construction of 87

single-family detached condominiums in its Heron Cove development, and we expect the first sale to occur in the first quarter of 1999. Also, we have completed the development of the infrastructure in our Westwood Park industrial subdivision and have sold one lot. Finally, Southwood has obtained approval to construct an industrial building in Merrimack to be called Heron Cove Office Park. All these projects were undertaken as joint ventures with major regional developers.

Three significant financial events happened in the latter part of 1998. The first was a three-for-two stock split which occurred in September. Then, in November, we completed the sale of 483,000 shares of common stock, resulting in $9.4 million of new common equity for the Company. The proceeds were used to pay down interim short-term debt, thereby strengthening the Company's balance sheet and bringing our financial ratios more in line with industry averages. Currently, $3.6 million is invested in short-term money market funds and will be used to finance future growth opportunities and capital improvements. The third event was the re-listing of Pennichuck common stock on the Nasdaq NMS exchange. We hope that with this re-listing, the value of our common shares will be better reflected in the marketplace and that your Company's financial performance will be more visible in the investment community.

[PHOTO: Maurice Arel]

Maurice Arel

Strategic planning plays a crucial role in your Company's success. Right now, we are reaping the rewards of sound, forward-thinking management strategies established over the last decade and even before. Long-term planning is a tradition that our management team continues today, in order to ensure Pennichuck's success in the decades ahead.

In closing, I would like to express my gratitude to our employees and directors for their efforts during the past year. The success of Pennichuck truly is their success. I would also like to give special recognition to all our shareholders, both old and new, for your loyalty and support.

Sincerely,

/s/ Maurice L. Arel

Maurice L. Arel

President and Chief Executive Officer

Review of Operations

GROWTH AND ACQUISITION

1998 was the culmination of many years of preparation in developing Pennichuck's long-term growth strategy. Over the last decade, we've been steadily building our management team, streamlining our operations, and strengthening our financial resources, such that when significant growth opportunities arose, Pennichuck would be in a position to fully capitalize on them. 1998 was the year that everything came together, and when those new growth opportunities did arise, Pennichuck was more than ready.

Our acquisition of the Pittsfield Aqueduct Company, Inc., an investor-owned water company with 612 customers in the town of Pittsfield, NH, was concluded on January 30, 1998. Terms of the agreement provided for a stock-for-stock exchange, whereby the former owners of Pittsfield Aqueduct became Pennichuck shareholders. At the time of the acquisition, Pittsfield Aqueduct had recently increased customers' water rates by 101.6%. This increase was to cover construction and operating expenses for a new treatment plant, the cost of which had been mortgaged at a rate of 10.5%. Soon after taking over, Pennichuck Corporation succeeded in refinancing the mortgage at a significantly lower interest rate of 6.5%. The net benefit of this refinancing was a 3.89% reduction in rates for all our Pittsfield customers.

[PHOTO: Dam]

Berry Pond Dam
Pittsfield, NH

Our second major expansion occurred in southern New Hampshire. Early in the year, the town of Hudson voted to buy the local assets of Consumers Water Company, then immediately re-sell those water systems outside the town to Pennichuck for $7.5 million. In a separate agreement, your Company contracted to operate and manage the town-owned system through our subsidiary, Pennichuck Water Service Company.

With the purchase of these assets, Pennichuck acquired 24 community water systems that, together, now comprise Pennichuck East Utility, Inc. The condition of these systems ranged from excellent to very poor. As part of our process

to integrate these systems into the Pennichuck organization, we immediately implemented our standard periodic preventive maintenance programs and developed a capital improvement plan for each system. Specifically, our plan for the town of Windham, NH, includes establishing an alternative source of supply from nearby Canobie Lake, to solve issues of excessive hardness, high manganese levels and frequent water outages.

[PHOTO: Dam Construction]

Holt Dam Construction
Nashua, NH

Throughout the year, we concentrated on addressing aesthetic issues in certain community well systems, by adding potassium permanganate and green sand filtration to eliminate iron and manganese in the water. We also installed aeration units to reduce radon levels in several of our community wells, and by the end of this year, all our community well systems will have some kind of radon mitigation in place.

[PHOTO: Dam]

Holt Dam Completed
Nashua, NH

CORE SYSTEM IMPROVEMENTS

At Pennichuck, we are always fine-tuning our operations to gain greater efficiency and better water quality. For example, we replaced the hypochlorite pumps in our main treatment plant, perfecting the level of disinfectant in the water while avoiding any perceptible chemical taste.

Given the varying elevations in our region, maintaining adequate and consistent system-wide water pressure throughout all our communities presents a challenge. In some of these communities, Pennichuck has retrofitted variable frequency drives that enable our booster pumps to maintain a consistent level in our holding tanks.

Now, with our booster pumps operating within a stricter range, not only can we maintain a more consistent pressure so our customers experience less fluctuation at the tap, we have also dramatically cut our energy usage, which in turn lowers our operating costs.

Oftentimes, innovative breakthroughs are simply the result of good old-fashioned ingenuity. In our effort to improve water pressure to approximately 200 hilltop homes in the Beauview Avenue area of our system, we evaluated a number of potential solutions. Installing a special booster zone was too expensive, given the small number of customers affected. Instead, we chose to tie into an existing high pressure system half a mile away. As a result, we succeeded in greatly improving service to this hilltop community while incurring minimal expense.

Infrastructure replacement is a priority in our operations. This past year, we replaced Holt Pond Dam, the last of our pre-1900's vintage dams. Holt Dam is the smallest of the five dams owned by Pennichuck Water Works, and straddles the town line between Nashua and Merrimack. Originally constructed in 1890, Holt Dam has been refaced a number of times over its 100-year life. Although it was a wood crib construction, most of the below grade timbers were still in good condition. The new dam is made of reinforced concrete and provides flash board control to better regulate the pond level.

Since acquiring Pittsfield Aqueduct and Pennichuck East, we have upgraded the water monitoring systems already in place, in order to integrate them with Pennichuck's more sophisticated Supervisory Control and Data Acquisition (SCADA) system. At the same time, we continued to expand and improve SCADA, by incorporating a number of new facilities into the system using computers that communicate via radio signals. Every four seconds, the central computer in our treatment plant pulls data from the computer monitoring each pumping station. Should something be amiss, an alarm will sound to alert an operator, who can call up and review on-screen data showing the current condition of the system.

PLANNING FOR THE FUTURE

Long-term planning and preparation has always been a strength at Pennichuck. It's an ongoing process where the benefits of the strategies we put in place today, may only be fully realized many years into the future.

Least-cost planning involves forecasting

the future demand and supply capabilities of your Company, and identifying ways to increase capacity at the lowest possible cost. In 1998, Pennichuck conducted a thorough in-house study to calculate the future demand for water over the next 20 years, based on projected population growth within our region. We assessed how current trends such as society's moving toward a more service-oriented economy, and the growing awareness for conservation, would impact consumer usage habits. On completion of our study, we concluded that Pennichuck is in an excellent position to meet the future demand for water, with no foreseeable need to develop new sources of supply.

[PHOTO: Man in lab coat]

Pilot Study of Filtration Media at Treatment Plant
Nashua, NH

While Pennichuck has an abundant supply of water to satisfy normal usage, peak summer periods still place an inordinately high burden on our water systems. Indeed, overall consumption by some customers increases as much as ten times, going from 200 gallons up to 2,000 gallons per day. As part of our least-cost planning, we weigh the benefits of creating new sources of supply for secondary uses such as lawn sprinkling during the summer months, against alternative strategies such as conservation programs or implementing higher water rates during the summer, to encourage more responsible water usage.

WATERSHED MANAGEMENT

Preserving the quality of our source water is paramount to ensure a safe, reliable supply of water for the future. In 1990, Pennichuck completed a comprehensive Watershed Management Plan that identifies the source of all the water that ultimately flows into the Pennichuck Brook System. In the plan, we divided our 18,000-acre watershed into sub-watershed

areas, and analyzed how the water quality in each subsection would impact the Pennichuck Brook. Our efforts in recent years have focused on rectifying problem areas identified in the primary study.

[PHOTO: Construction site]

Pennichuck Brook Urban Runoff Project
Nashua, NH

In a growing urban watershed area such as ours, residential and commercial development can have a serious adverse impact. In the early days, stormwater runoff was collected and piped directly into the nearest stream or pond. However, phosphorous and other chemicals in the atmosphere settle out on roadways, parking lots, rooftops and other impervious surfaces. When it rains, the phosphorous is washed away along with the stormwater, raising the concentration of these chemicals in our ponds. Phosphorous is a powerful plant nutrient that promotes heavy weed growth, which in turn, prevents natural settling and reduces the clarity of the water.

[PHOTO: Men at ribbon cutting]

Ribbon Cutting Ceremony
Pennichuck Brook Urban Runoff Project

The Pennichuck Brook Urban Runoff Project is the first stormwater treatment system of its kind in our state. It is located on the campus of New Hampshire Community Technical College, in one of the most densely developed areas of our watershed. The project entailed constructing vast man-made wetlands to capture stormwater runoff, allowing it to slowly filter through the earth and back into the water table, rather than being discharged directly into the Pennichuck Brook.

Pennichuck management is also working with officials of the five towns within our watershed, to evaluate planning requirements and building codes, and establish new regulations that would help protect our water supply. One ordinance has already been approved by the city of Nashua, under which any new development or redevelopment projects must now satisfy the requirements for minimum setbacks and on-site stormwater treatment stipulated in the Water Supply Protection Ordinance. Our challenge in 1999 will be to continue to work toward getting the other towns to adopt similar requirements, and to raise public awareness for the importance of these protective measures.

Yet another ongoing study with significant long-term impact is the evaluation of alternative filter media for use in Pennichuck's core system treatment plant. The one-millimeter sand we now use was installed 20 years ago, and although it meets current requirements, new regulations will bring more stringent water quality standards in the future. The results of the study will determine which filtration medium is the most effective.

ECONOMIES OF SCALE

Doing more with less -- be it less energy, less maintenance, or less manpower -- that's the key to Pennichuck's profitable growth. Our operations and maintenance agreement in the town of Hudson illustrates this point. This is a sizeable operation with over 4,700 customers. Yet, Pennichuck is able to manage operations from our headquarters in Nashua, drawing on the proven expertise of our seasoned management team and administrative support professionals. Utilizing the talents and technical resources of our existing organization creates huge economies of scale. As a result, the town of Hudson enjoys the highest level of operating service at the lowest possible price. It's a win-win situation for the town and for Pennichuck. To date, Hudson is very pleased with the service provided, and we've succeeded in achieving the financial goals we set for this contract.

Similarly, we continue to consolidate all of our customer service operations, now serving over 22 communities from our Nashua headquarters. Our acquisitions created the daunting task of converting all customer data from the previous

[PHOTO: Women at computer]

Utility Billing Program
Customer Service Operations

companies' administrative systems into the Pennichuck system to facilitate billing and account information. Conversion of these records coincided with our implementing a new utility billing package. This new software provides greater administrative efficiencies for us, and provides better account information for our customers.

One of the issues we read about every day concerns potential problems caused at the turn of the next millennium, better known as the Y2K bug. Over the last three years, we've been working diligently to ensure all the software controlling Pennichuck's key financial and operational functions are Y2K-compliant. An interesting fact is that because Pennichuck has been operating since 1852, before the turn of this century, much of our data already incorporated 8-digit date coding, so our task was not as difficult as it might have been if we were a younger company. Nonetheless, the Y2K issue is one we are taking very seriously, and we are happy and confident with our progress to date.

[PHOTO: Construction site]

Main Street Upgrade
Nashua, NH

Pennichuck continues an active public relations effort, regularly publishing newsletters to keep customers in our core and community systems informed about system upgrades and changes in service. These newsletters are supported by supplemental mailings to new and existing customers that explain the details and the importance of special programs such as our summer conservation program. On September 1, 1998, we also produced our first "Water Quality Report" that gives an overview of our source of supply and water quality statistics. Although this communication will be

published annually per federal regulations, we are very pleased to have completed our first issue one full year ahead of the government's October 1999 deadline.

Of course, our public relations efforts go beyond printed material. Once again, we enjoyed a very successful "Water Week" when we conducted tours of our treatment plant for local schoolchildren, and explained the process of delivering quality water to customers' homes. We also launched our website, providing all our latest news and financial information at "www.pennichuck.com."

REAL ESTATE ACTIVITIES

Throughout our 150 year history, Pennichuck Corporation and its predecessors made strategic land purchases. Today, we are one of the largest land owners in southern New Hampshire. Not only is real estate investment a prudent business practice, providing a means to diversify corporate holdings, it also enables us to better control and manage the ongoing development in critical areas adjacent to our watershed.

[PHOTO: Housing development]

Bowers Pond Development
Nashua, NH

[PHOTO: House]

Heron Cove
Merrimack, NH

Southwood Corporation is Pennichuck Corporation's real estate subsidiary. It has always been our corporate mandate that real estate projects undertaken by Southwood must be environmentally compatible with our natural watershed resources.

Currently, Southwood is involved with two residential projects undertaken as a joint venture with a major regional developer. The Village at Bowers Pond project is nearing completion, with all 46 units either sold or under P & S agreement. We sold 19 lots in this development during 1998,

[PHOTO: Office building]

Delta Education
Westwood Park, Nashua, NH

and we expect the remaining three lots to close in the first six months of 1999.

Heron Cove at Merrimack is a community of 87 single-family detached condominiums designed to preserve the natural beauty and integrity of the existing land. These units are geared toward the mature segment of the population, offering convenient, single-story living in a quiet and picturesque setting. In 1998, we gained approval and began construction of the development's infrastructure. Construction of the condominiums themselves started in late '98. We anticipate a three-or four-year build-out on this project, with the first closings occurring in the first quarter of '99.

On the commercial side, Southwood completed construction of the infrastructure, including roads, utilities and lighting, for the first phase of Westwood Park. This is a 90-acre industrial park we're developing as a joint venture with Winstanley Enterprises, Inc. The first sale has already occurred; a 23-acre parcel bought by Delta Education. Winstanley Enterprises is also our partner in Southwood Corporate Park. While no sales were made in this development during 1998, our joint venture partner will continue to aggressively market both Southwood Corporate Park and Westwood Park throughout 1999.

In addition, Southwood gained approval to construct a 39,000-square-foot office building to be known as Heron Cove Office Park. We expect this building will be ready for occupancy around May 1, 1999, with the anchor tenant being H.J. Stabile & Son, Inc., our joint venture partner in this project.

We believe that bringing dormant land into mainstream use is beneficial to the economic growth of the region. With Southwood, Pennichuck leads by example, creating developments that satisfy both business and environmental objectives.

PENNICHUCK PEOPLE

In 1998, Stephen J. Densberger, executive vice president of Pennichuck Corporation, received the prestigious George Warren Fuller Award from the New England Water Works Association.

Established in 1937, this award is presented annually for distinguished service in the water supply field, and in commemoration of the sound engineering skill, brilliant diplomatic talent and constructive leadership which characterized the life of George Warren Fuller, one of America's most eminent engineers. Annually, each regional section of the American Water Works Association may designate one of its members to receive a Fuller award to recognize publicly that individual's contributions toward the advancement of water works practice in the local region. In presenting him with the Fuller Award, the New England Water Works Association recognized Stephen for his many years of leadership and dedicated service to the industry.

[PHOTO: Executive]

Stephen J. Densberger
Executive Vice President

During the year, our ranks increased from 57 employees to 66. Most of these new hires came from the companies that previously operated Pittsfield Aqueduct and Pennichuck East utilities. They brought with them invaluable experience that contributed to our success in operating these systems. Indeed, the effort put forth by all the employees of Pennichuck before, during and after the acquisitions is truly commendable. Everyone embraced the challenge, doing whatever was necessary to ensure our success, in what proved to be an incredibly rewarding year for Pennichuck.

Board
of
Directors and Officers

[PHOTO: Board members]

Board of Directors

Seated left to right: Charles J. Staab, Stephen J. Densberger, Maurice L. Arel, John R. Kreick, Joseph A. Bellavance Standing left to right: Hannah M. McCarthy, Robert P. Keller, Charles E. Clough, Martha E. O'Neill

BOARD OF DIRECTORS

Maurice L. Arel, President, Chief Executive Officer, Pennichuck Corporation

Joseph A. Bellavance, President, Bellavance Beverage Company, Inc.

Charles E. Clough, President, Freedom Partners, LLC

Stephen J. Densberger, Executive Vice President, Pennichuck Corporation

Robert P. Keller, President and Chief Executive Officer, Eldorado Bancshares, Inc.

John R. Kreick, Phd., CEO, Lockheed Sanders, retired

Hannah M. McCarthy, President, Daniel Webster College

Martha E. O'Neill, Esq., Clancy and O'Neill, P.A.

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer, Pennichuck Corporation

SENIOR BOARD OF DIRECTORS

John C. Collins

OFFICERS

Maurice L. Arel, President, Chief Executive Officer

Stephen J. Densberger, Executive Vice President

Charles J. Staab, Vice President, Chief Financial Officer and Treasurer

Bonalyn J. Hartley, Vice President-Controller

Donald L. Ware, Vice President, Chief Engineer

James L. Sullivan Jr., Secretary

Management's Discussion and Analysis

Pennichuck Corporation (the "Company") has five wholly-owned subsidiaries. Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East") and Pittsfield Aqueduct Company, Inc. ("Pittsfield") are involved in water supply and distribution in cities and towns throughout southern and central New Hampshire. These water subsidiaries are regulated by the New Hampshire Public Utilities Commission (the "NHPUC") and, as such, they must obtain approval to increase their water rates to recover increases in operating expenses and to obtain the opportunity to earn a return on rate base investments. Pennichuck Water Service Corporation (the "Service Corporation") is involved in non-regulated, water-related services and operations and The Southwood Corporation

("Southwood") owns, manages and develops real estate.

In Management's Discussion and Analysis we explain the general financial condition and the results of operations for the Company and its operating subsidiaries, including:

* What factors affect our business,
* What our earnings and costs were in 1998, 1997 and 1996,
* Why those earnings and costs were different from the year before,
* Where our earnings come from,
* How all of this affects our overall financial condition,
* What our expenditures for capital projects were in 1998, and
* Where cash will come from to pay for future capital expenditures.

As you read Management's Discussion and Analysis, please refer to our Consolidated Financial Statements contained in this Report and the Selected Financial Data appearing on page three.

RESULTS OF OPERATIONS

In this section, we discuss our 1998, 1997 and 1996 results of operations and the factors affecting them. We begin with a general overview of our earnings per share (EPS) generated by our businesses and a discussion of an accounting change we recently made that affects our historical financial statements.

TOTAL EARNINGS PER SHARE OF COMMON STOCK

Twelve Months Ended December 31

	1998	1997	1996
Water Utility Operations	$1.44	$ .83	$ .91
Real Estate and Other Operations	.17	.18	.18
Consolidated EPS	$1.61	$1.01	$1.09

RESTATEMENT FOR MERGER WITH PITTSFIELD

On January 30, 1998, we merged with Pittsfield by

exchanging 49,428 of our shares for substantially all of the outstanding common stock of Pittsfield. We used the pooling-of-interests method to account for this merger. This methodology requires us to add Pittsfield's historical financial statements with the Company's historical financial statements for all periods which are shown prior to January 30, 1998.

You will notice that our consolidated net income and earnings per share actually decreased from $1.09 in 1996 to $1.01 in 1997. This is not indicative of the expected trend in future earnings of our Company. The decrease is caused, primarily, by a one-time charge of approximately $.07 per share against our 1997 earnings per share. That charge related to certain merger and other one-time costs of Pittsfield which were written off in the fourth quarter of 1997. The inclusion of Pittsfield's financial data did not have a material impact on any other aspects of the consolidated financial statements of your Company.

RESULTS OF OPERATIONS -
1998 COMPARED TO 1997

In this section, we discuss the factors that affected our earnings for 1998 and 1997. Our consolidated revenues are generally seasonal, due to the overall significance of the water sales of our water utility business as a percent of consolidated revenues. Water revenues are typically at their lowest point during the first and fourth quarters of the calendar year. Water revenues tend to be greater in the second and third quarters because of increased water consumption by our residential customers during the late spring and summer months. In addition, our consolidated revenues are significantly affected by sales of major real estate parcels which may occur from time to time (see discussion below).

For the twelve-month period that ended on December 31, 1998, our consolidated net income exceeded $2.1 million, or $1.61 per common share, compared to $1.2 million, or $1.01 per common share, for 1997. The consolidated revenues from all of our business activities in 1998 were nearly $17.4 million, representing a $5.34 million, or 44.3%, increase over last year. As we discuss below, that increase in consolidated operating revenues is principally attributable to:

* Our water utility operations which now include the operating activities of Pennichuck and our two new subsidiaries, Pennichuck East and Pittsfield; and

* A major land sale which occurred in the third quarter of 1998.

WATER UTILITY OPERATIONS

The operating revenues from our water utility operations totaled nearly $15 million in 1998. This represents a $3.56 million increase in water revenues compared to 1997. There are several reasons for this increase:

* First, our largest water utility, Pennichuck,

was granted a permanent rate increase of approximately 16.8% by the NHPUC effective on April 1, 1998. Beginning on that date, we were authorized to increase our rates on water billings to our customers. For 1998, our water utility revenues include approximately $1.2 million relating to that rate increase.

* Second, Pittsfield's revenues more than doubled, from $215,000 in 1997, to $443,000 in 1998. The 106% increase in Pittsfield's revenues resulted from a 101% rate increase which was approved by the NHPUC in December 1997. We were granted that increase in rates principally to allow us to recover the costs associated with a $900,000 water treatment facility completed in October 1997.

* The third major factor affecting our increased water revenues was the addition of our newly created water subsidiary, Pennichuck East. Pennichuck East was formed in April 1998 and serves approximately 3,600 customers in southern New Hampshire. Pennichuck East contributed approximately $1.93 million in water revenues during its first nine months of operation in 1998.

Our actual expenses for operating our water utility business include Such broad categories as:

* Water treatment and purification,

* Pumping and other distribution system functions,

* General and administrative functions,

* Depreciation on existing operating assets, and

* Taxes other than income taxes.

On a combined basis, those utility operating expenses increased by $1.75 million to $9.9 million for calendar year 1998. The principal reasons for this increase were:

* $1.27 million relating to the additional operations of Pennichuck East which commenced on April 8, 1998,

* $267,000 of additional depreciation expense recorded by Pennichuck as a result of a higher composite depreciation rate which we began using on April 1, 1998 (from 2.15% to 2.44%), and nearly $4.2 million of new plant assets, and

* $116,000 of additional water treatment costs, principally due to increased pumpage over 1997.

CONTRACT OPERATIONS

In April 1998, the Service Corporation signed a five year contract with the neighboring Town of Hudson, New Hampshire ("Hudson"). We provide certain operations and maintenance functions for Hudson in

exchange for a fixed monthly fee as agreed upon by us and Hudson. In 1998, revenues from this contract and other non-regulated operating activities totaled $436,000. For the same period in 1997, revenues from our Service Corporation were approximately $66,000, consisting of $46,000 from contract operations and $20,000 from sundry leases and rents.

REAL ESTATE OPERATIONS

For the twelve months ended December 31, 1998 and 1997, we recognized revenues from our real estate business activities of $1.91 million and $514,000, respectively. In the third quarter of 1998, we recognized $1.3 million from the sale of a certain land parcel by Westwood Park LLC, of which Southwood is a 60% owner. In addition, Southwood has recognized $488,000 in revenues earned through its Bowers Pond LLC joint venture, and $89,000 of option fee income earned under a development option agreement with a regional developer.

The expenses associated with our real estate activities increased from $198,000 in 1997 to $1.42 million in 1998. Of that increase, approximately $1.1 million relates to the allocable land and infrastructure costs for the major land parcel we sold in the third quarter of 1998. In addition, Southwood adjusted its basis in a certain piece of residential property, reflecting the demolition of an existing dwelling which was no longer deemed useful. That write-down, together with the cost of razing the dwelling, amounted to nearly $90,000 in the third quarter of 1998. The remaining expenses are primarily for property taxes on Southwood's real estate holdings, which were $76,000 in 1998 compared to $80,000 in 1997.

RESULTS OF OPERATIONS -

1997 COMPARED TO 1996

For the year ended December 31, 1997, our restated consolidated net income was $1.2 million, or $1.01 per share, compared to $1.3 million, or $1.09 per share, in 1996. That decline was a result of certain one-time merger costs recorded by Pittsfield and the write-off of certain Pittsfield deferred charges during the fourth quarter of 1997. We also had two major real estate sales in 1996, which provided us with $1.0 million of real estate revenues, and we did not have any such major land sales in 1997.

WATER UTILITY OPERATIONS

Our water utility businesses provided us with operating revenues of $11.4 million for 1997 which is a 4.6% increase over 1996. This increase resulted primarily from:

* A 5.1% temporary rate increase granted to Pennichuck,

* A 3.6% increase in water consumption, and

* A 1.1% increase in new customers.

The increase in consumption reflects the drier and warmer than normal third quarter we experienced in 1997 compared to 1996, and a 3.6% increase in industrial and commercial consumption within Pennichuck's core system.

In May 1997, we filed a petition with the NHPUC requesting authority to increase Pennichuck's water rates by approximately 18%. This increase was necessary because Pennichuck's actual overall rate of return had declined below its then authorized rate of return of 8.81%. Our rate of return declined primarily because of:

* $4.5 million in additional investment in operating assets made since our last rate increase in 1994, and

* Increased operating costs totaling nearly $300,000 for property taxes and water treatment expenses incurred in 1996 and 1997.

In August 1997, the NHPUC granted Pennichuck's request for a temporary rate increase, resulting in approximately $175,000 of additional revenues which we realized in 1997. In February 1998, the NHPUC approved a permanent rate increase of 16.8%, which we expect will provide approximately $1.7 million of additional revenues on an annualized basis.

In December 1997, the NHPUC granted a 101% increase in Pittsfield's water rates, to recover the operating and capital costs associated with the construction of its new water treatment facility which became operational in October 1997.

The operating expenses for our water utility businesses increased 5.2% from $7.7 million in 1996 to $8.1 million in 1997. The increased operating expenses were principally due to:

* A $211,000 increase in additional treatment and production costs incurred at Pennichuck's main water treatment facility in Nashua, New Hampshire,

* A tripling in unit rates charged by the city of Nashua for treatment plant by-products, and sludge generated by our treatment facility and ultimately introduced into the city's sewer treatment system ($154,000 in 1997 compared to $89,000 in 1996),

* Electrical and other power costs associated with Pennichuck's

treatment plant and outlying pumping stations increased by nearly $39,000 over 1996, reflecting a 5.25% increase in per kilowatt charges incurred during 1997, and

* Depreciation and property taxes related to $5.3 million of new investment increased by $75,000 and $32,000 for calendar years 1997 and 1996, respectively.

In addition, during the fourth quarter of 1997, the

NHPUC disallowed approximately $88,000 of deferred expenses and miscellaneous studies which Pittsfield had incurred. Since those costs will not be recoverable through future rates, they were written off in December 1997.

CONTRACT OPERATIONS

The Service Corporation was a 50% partner in a joint venture with a regional water engineering firm from July 1, 1995 to June 30, 1998. The purpose of the joint venture was to provide water-related operations and maintenance contract services to municipalities, especially those that may face financial difficulty complying with the required provisions of the federal Safe Drinking Water Act ("SDWA"). Contract operations and public-private partnerships provide viable alternatives for such municipalities. During 1997, the joint venture provided operations and maintenance contract services to the Town of Cohasset, Massachusetts, which included the operation of its water treatment plant and distribution system. This joint venture was not successful in renewing this three year contract, which expired on June 30, 1998. For the twelve months ended December 31, 1997, the Service Corporation had revenues of approximately $66,000, resulting in pretax income of $19,000.

REAL ESTATE OPERATIONS

Southwood generated revenues of $514,000 for the year ended December 31, 1997, which was a significant decrease of $807,000 from 1996. Operating results in 1996 included sales of Southwood's last two parcels in Southwood Business Park, totaling $1.0 million. Southwood did not have any major land sales in 1997.

Southwood is a 50% partner in Bowers Pond LLP, a joint venture for the construction and sale of 46 homes. In 1997, we recorded approximately $408,000 of revenues for this project, compared to $208,000 in 1996. At the end of 1997, there were 22 lots still unsold in that development, of which we sold 19 in 1998.

Other revenues from our real-estate-related activities during 1997, included approximately $92,000 of option income earned under a September 1995 development agreement with a regional developer, with respect to 47 acres in the Southwood Corporate Park.

The operating expenses of Southwood totaled $198,000 for 1997, a $784,000 decrease from 1996. In 1996, we recorded $730,000 of infrastructure costs attributable to the 1996 Southwood Business Park land sales discussed previously. The major components of Southwood's operating expenses are property taxes and property management costs. In 1997, those expenses were approximately $80,000 and $23,000, respectively. Property taxes for 1997 increased $24,000 over 1996, principally due to the receipt of certain tax abatements from the city of Nashua during 1996. There were no significant adjustments to Southwood's property assessments during 1997.

LIQUIDITY AND FINANCIAL CONDITION

In the following paragraphs, we discuss the financial condition of the Company and its wholly-owned subsidiaries. This discussion focuses primarily on the change in our consolidated balance sheet accounts from December 31, 1997 to December 31, 1998, and on the adequacy of capital needed for our business activities.

The primary source of cash, which we need for normal operating activities, capital projects and dividend payments to our shareowners, is the operating cash flow which we generate from day-to-day activities. Historically, during those periods where operating cash flow was not sufficient, we have borrowed funds under a revolving loan facility (the "Loan Agreement") with our bank, Fleet Bank-NH ("Fleet"). The Loan Agreement allows us to borrow up to $4.5 million at interest rates tied to Fleet's cost of funds or LIBOR, whichever is lower. At December 31, 1998, there were no borrowings outstanding under this Loan Agreement.

For 1999 and 2000, our cash flow needs are expected to be met by short-term investments of nearly $3.6 million available at the end of 1998, and from internally-generated funds projected during these years. The short-term investments which we had on hand at the end of 1998 are the remaining proceeds from an underwritten public offering which we completed on November 30, 1998. In that offering, we issued 483,000 new common shares which was nearly a 40% increase in the number of shares issued and outstanding of the Company at that time. The net proceeds to us were approximately $8.8 million, of which we used $4.5 million to repay outstanding interim bank debt.

During the first quarter of 1998, we refinanced a $1.1 million mortgage note issued by Pittsfield to a local bank using our Loan Agreement. On April 24, 1998, we refinanced $1.5 million of outstanding indebtedness under the Loan Agreement into a seven year note. This note is payable interest only for seven years and is secured by, among other things, the guarantees of Southwood and the Service Corporation.

As we discuss in Note H- "Acquisition" in the Notes to the Consolidated Financial Statements, we purchased Pennichuck East's assets with the proceeds of two bank loans totaling $7.5 million. Those loans of $4.5 million and $3.0 million are for terms of 7 years and 2 years, respectively, and the latter loan was repaid in November 1998 from the proceeds of our common stock offering. In connection with the $1.5 million and $4.5 million, seven year notes, we have entered into certain interest rate swap agreements which fix the interest rates at 6.50% for the term of these notes.

Excluding the acquisition of the Pennichuck East assets, our capital expenditures totaled $4.4 million in 1998. Practically all of our capital expenditures in 1998 were for projects relating to our water utility business. Those projects included:

* The replacement of 8,800 linear feet of pre-1900 distribution mains,

* The addition of more efficient motor starters on Pennichuck's major electric pumps at its treatment plant,

* The reconstruction of one of Pennichuck's dams, and

* The relocation of distribution mains to accommodate ongoing state highway construction projects.

The remaining items in the Company's 1998 capital program reflect expenditures for ongoing, routine investment in new meters, services, distribution mains and hydrants. For 1999, we expect that our total expenditures for capital projects will be approximately at the same level as in 1998.

The Consolidated Balance Sheet at December 31, 1998 also reflects a line item captioned "Minority Interest" totaling $314,000. This represents a 40% interest held by a third party in Westwood Park LLC ("Westwood"), a real estate development venture. Southwood owns the remaining 60% majority interest in Westwood, whose financial statements are included in the accompanying consolidated financial statements at December 31, 1998. In May 1998, Westwood sold a tract of land to a third party for approximately $1.3 million. The terms of that sale required Westwood to use the sales proceeds to construct the necessary access road and infrastructure for the purchaser. The gain from this sale was recognized in the third quarter of 1998 when the infrastructure work was completed.

We offer a Dividend Reinvestment and Common Stock Purchase program which is available to our shareholders and our residential New Hampshire customers. Under this program, our shareholders may reinvest all or a portion of their common dividends into shares of common stock at a 5% discount from prevailing market prices. We also accept optional cash payments to purchase additional shares at 100% of the prevailing market prices. Since its inception in 1993, this program has provided us with over $900,000 of additional common equity.

ENVIRONMENTAL MATTERS

Our water utility subsidiaries are subject to the water quality regulations set forth by the United States Environmental Protection Agency ("EPA") and the New Hampshire Department of Environmental Services. The EPA is required to periodically set new maximum contaminant levels for certain chemicals as required by the federal Safe Drinking Water Act ("SDWA"). The quality of our treated water currently meets or exceeds all standards set by the EPA, and we do not anticipate that any significant capital expenditures for regulatory compliance will be required in the next three years, given the present water quality standards set by the SDWA. However, the re-

authorization of the SDWA by Congress in 1996 will lead to increased monitoring standards which may require additional operating costs for us. It is expected that any additional monitoring and testing costs arising from EPA mandates should eventually be recouped through water rates.

YEAR 2000 ISSUE

We have performed an exhaustive review of our hardware and software systems in order to determine their level of readiness to meet the next millennium. Because we own some operating assets which pre-date 1900, we have been aware of the potential Year 2000 problem well before the recent publicity, and in fact, 8-digit dates have been a requirement for all in-house software developed since 1987. The Year 2000 issue has also been addressed and included in all computer migration and upgrades since 1990.

As part of our Year 2000 project planning, we identified mission-critical applications and implemented a 5-year plan in early 1994 to replace or upgrade both hardware and software. Our central computer platform, consisting primarily of its minicomputer servers, is not completely Year 2000 ready. However, those servers that are not Year 2000 ready are expected to be retired and replaced with Year 2000 ready servers during 1999.

Additionally, all of our software applications have been evaluated to identify any Year 2000 problems, their importance to our operations, and efficiencies to be gained with newer and updated software. A software development schedule has been created based on this risk assessment, with the most critical applications being implemented first. At this time, our NT network, financial accounting, billing, customer service information and meter management, human resources and SCADA management systems are all Year 2000 ready. Our remaining software systems for work orders, inventory control, and various maintenance programs are 90% compliant, and are expected to be fully ready by the end of 1999.

We have identified and contracted all external vendors who provide and/or require date dependent information, and those customers who are material to our operations, to ensure that they will be in compliance with the Year 2000 issue. For any vendors or customers who are determined to be critical to our operations, we are developing a disaster recovery plan outlining alternative action plans in the event of vendor non-compliance. We anticipate having all critical resource alternative plans in place by May 1999.

NEW ACCOUNTING STANDARDS

We adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" for the year ended December 31, 1997. This accounting statement replaces primary earnings per share with basic earnings per share. Basic earnings per share is calculated by dividing earnings available to common

shareholders by the weighted average shares outstanding. SFAS No. 128 also requires us to present diluted earnings per share, which is calculated similarly to fully-diluted earnings per share.

During the second quarter of 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." Our Company was not materially affected by the new reporting standards set forth in these Statements.

In June 1998, the Financial Accounting Standards Board also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of SFAS No. 133 will not have a material impact on the Company.

EFFECTS OF INFLATION

The effects of inflation on the utility operations of the consolidated group are not material since the NHPUC allows most prudent and reasonable cost increases to be recouped through increased water rates. It should be noted, however, that a regulatory lag exists from the time that the utility incurs higher costs to the time that it is allowed to bill revenues sufficient to cover these cost increases. In times of high inflation, this lag could have a detrimental effect on the profitability of our water utility companies and the Company. Conversely, during periods of lower inflation and lower interest rates, the rates of return granted by the NHPUC have tended to be reduced reflecting that lower inflation and interest rate environment. There can be no assurance that the NHPUC will approve rate increases to recover any future increased operational costs.

Auditor's
Report

REPORT OF ARTHUR ANDERSEN LLP, INDEPENDENT PUBLIC ACCOUNTANTS
TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF PENNICHUCK CORPORATION:

We have audited the accompanying consolidated balance sheets of Pennichuck Corporation and subsidiaries (a New Hampshire corporation) as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pennichuck Corporation and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Boston, Massachusetts
January 26, 1999

Consolidated
Balance Sheets

<TABLE>
<CAPTION>

ASSETS	December 31 1998	1997
<S>	<C>	<C>
Property, Plant and Equipment		
Land	$ 998,916	$ 424,421
Buildings	22,248,416	19,539,208
Equipment	53,104,353	45,414,514
Construction work in progress	295,846	139,511
	76,647,531	65,517,654
Less accumulated depreciation	(18,258,227)	(16,561,266)
	58,389,304	48,956,388
Current Assets		
Cash	3,601,648	447,921
Restricted cash	639	905,768
Accounts receivable, net of reserves of $37,000 in 1998 and 1997	1,024,329	671,086
Unbilled revenue	1,307,000	1,083,800
Refundable income taxes	51,519	12,971
Materials and supplies, at cost	319,744	207,832
Prepaid expenses and other current assets	470,352	484,429

	6,775,231	3,813,807
Other Assets		
Deferred land costs	3,029,243	2,408,321
Deferred charges and other assets	2,169,775	1,751,722
Investment in real estate partnerships	474,628	310,211
	5,673,646	4,470,254
	$70,838,181	$57,240,449

</TABLE>

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated
Balance Sheets - CONTINUED

<TABLE>
<CAPTION>

STOCKHOLDERS' EQUITY AND LIABILITIES	December 31 1998	1997
<S>	<C>	<C>
Stockholders' Equity		
Common stock-$1 par value - authorized 2,400,000 shares; issued 1,714,236 in 1998 and 1,213,001 shares in 1997	$ 1,714,236	$ 1,213,001
Additional paid in capital	13,820,759	5,229,727
Retained earnings	9,335,414	8,199,557
	24,870,409	14,642,285
Less cost of 4,412 shares of common stock in treasury in 1998 and 3,962 shares in 1997	(59,240)	(52,940)
	24,811,169	14,589,345
Minority Interest	314,078	--
Preferred stock, no par value, 100,000 shares authorized, no shares issued in 1998 and 1997	--	--
Long-Term Debt, Less Current Portion	28,001,997	26,577,618
Current Liabilities		
Current portion of long-term debt	183,000	100,000
Accounts payable	568,391	408,022
Accrued interest payable	350,065	350,597
Accrued post-retirement benefits	414,231	330,485
Other current liabilities	765,809	596,893
	2,281,496	1,785,997
Commitments and Contingencies		
Deferred Credits and Other Reserves		
Deferred income taxes	3,415,154	2,763,579

Deferred investment tax credits	1,131,318	1,164,354
Regulatory liability	1,213,605	1,217,040
Customer advances and other liabilities	160,467	162,951
	5,920,544	5,307,924
Contributions in Aid of Construction	9,508,897	8,979,565
	$70,838,181	$57,240,449

</TABLE>

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

30

Consolidated Statements of Income

<TABLE>
<CAPTION>

	Year Ended December 31 1998	1997	1996
<S>	<C>	<C>	<C>
Revenues			
Water utility operations	$14,972,347	$11,415,065	$10,907,679
Real estate and other operations	2,422,447	640,452	1,509,537
	17,394,794	12,055,517	12,417,216
Operating Expenses			
Water utility operations	9,898,732	8,148,894	7,726,897
Real estate and other operations	1,776,938	189,817	982,293
	11,675,670	8,338,711	8,709,190
Operating Income	5,719,124	3,716,806	3,708,026
Other Income	33,586	42,277	9,183
Interest Expense	(2,263,636)	(1,812,091)	(1,645,254)
Income Before Provision for Income Taxes	3,489,074	1,946,992	2,071,955
Provision for Income Taxes	1,342,405	739,969	782,937
Net Income Before Minority Interest	2,146,669	1,207,023	1,289,018
Minority Interest in Earnings of Westwood Park LLC	(40,616)	--	--
Net Income	$ 2,106,053	$ 1,207,023	$ 1,289,018

Earnings Per Common Share:

Basic	$ 1.61	$ 1.01	$ 1.09
Diluted	$ 1.59	$ 1.00	$ 1.09
Weighted Average Shares Outstanding:			
Basic	1,306,286	1,200,287	1,178,883
Diluted	1,327,383	1,207,173	1,183,455

</TABLE>

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

<TABLE>
<CAPTION>

<S>	Common Stock-Shares <C>	Common Stock-Amount <C>	Additional Paid - in Capital <C>	Retained Earnings <C>	Treasury Stock <C>
Balances at December 31, 1995	1,157,004	$1,157,004	$ 4,675,980	$7,276,308	$(51,079)
Net income				1,289,018	
Dividend reinvestment plan	39,327	39,327	426,337		
Common dividends declared - $.65 per share				(765,367)	
Common equity issuance costs			(1,770)		
Exercise of stock options	510	510	3,930		
Repurchase of 153 common shares					(1,861)
Balances at December 31, 1996	1,196,841	1,196,841	5,104,477	7,799,959	(52,940)
Net income				1,207,023	
Dividend reinvestment plan	14,585	14,585	147,625		
Common dividends declared -- $.68 per share				(807,425)	
Common equity issuance costs			(34,300)		
Exercise of stock options	1,575	1,575	11,925		
Balances at December 31, 1997	1,213,001	1,213,001	5,229,727	8,199,557	(52,940)
Net income				2,106,053	
Common stock offering, net	483,000	483,000	8,319,337		
Dividend reinvestment plan	12,322	12,322	194,027		
Common dividends declared -- $.79 per share				(970,196)	
Exercise of stock options	6,378	6,378	52,785		(6,300)
Retirement of repurchased shares	(465)	(465)	(5,248)		
Directors' deferred compensation plan			30,131		
Balances at December 31, 1998	1,714,236	$1,714,236	$13,820,759	$9,335,414	$(59,240)

</TABLE>

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	Year Ended December 31 1998	1997	1996
Operating Activities			
Net income	$ 2,106,053	$ 1,207,023	$ 1,289,018
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,935,581	1,486,655	1,246,410
Amortization of deferred investment tax credits	(33,036)	(33,036)	(33,036)
Provision for deferred income taxes	651,575	483,505	493,293
Changes in assets and liabilities:			
Accounts receivable and unbilled revenue	(576,443)	470,458	(384,858)
Refundable income taxes	(38,548)	36,499	(48,757)
Materials and supplies	(111,912)	36,559	(4,606)
Prepaid expenses	14,077	(83,330)	7,067
Deferred charges and other assets	(1,594,872)	(824,553)	(253,658)
Accounts payable and accrued expenses	389,865	282,663	(247,680)
Other	18,713	(91,352)	311,438
Net cash provided by operating activities	2,761,053	2,971,091	2,374,631
Investing Activities:			
Purchases of property, plant & equipment	(11,278,815)	(5,974,194)	(3,224,742)
Contributions in aid of construction	676,190	101,665	467,577
(Increase) decrease in restricted cash	905,129	(905,768)	--
(Increase) decrease in investment in real estate partnerships	154,942	(156,851)	(36,877)
Net cash used in investing activities	(9,542,554)	(6,935,148)	(2,794,042)
Financing Activities:			
Proceeds from long-term borrowings	9,446,395	5,197,618	8,000,000
Proceeds from common stock offering, net	8,802,337	--	--
Payments on long-term debt	(4,259,016)	(950,603)	(6,124,635)
Net (decrease) increase in notes payable to bank	(3,680,000)	485,000	(1,100,000)
Increase in minority interest	314,078	--	--
Dividends paid	(970,197)	(807,425)	(765,367)
Proceeds from dividend reinvestment plan and other, net	281,631	141,410	466,474
Net cash provided from financing activities	9,935,228	4,066,000	476,472
Increase in cash	3,153,727	101,943	57,061
Cash at beginning of year	447,921	345,978	288,917
Cash at end of year	$ 3,601,648	$ 447,921	$ 345,978

</TABLE>

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

PENNICHUCK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of Pennichuck Corporation and subsidiaries are as follows:

Basis of Presentation: The financial statements include the accounts of Pennichuck Corporation, an investor-owned holding company (the "Company") and its subsidiaries, Pennichuck Water Works, Inc. ("Pennichuck"), Pennichuck East Utility, Inc. ("Pennichuck East"), Pittsfield Aqueduct Company, Inc. ("Pittsfield"), The Southwood Corporation ("Southwood") and Pennichuck Water Service Corporation (the "Service Corporation").

Nature of Operations: Pennichuck, Pennichuck East and Pittsfield (collectively referred to as the "Company's utility subsidiaries") are engaged principally in the gathering and distribution of potable water to approximately 26,400 customers in southern and central New Hampshire. The Service Corporation is involved in non-regulated, water-related services and operations. Southwood owns, manages and develops real estate.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 subsidiaries, is recorded at cost plus an allowance for funds used during construction on major additions. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets including property funded with contributions in aid of construction. The useful lives range from six to ninety years and the average composite depreciation rate was 2.47%, and 2.29% in 1998 and 1997, respectively.

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

Allowance for Funds Used During Construction ("AFUDC"): AFUDC represents a non-cash credit to income with a corresponding charge to plant in service. AFUDC amounts reflect the cost of borrowed funds and, if applicable, equity capital when used to fund major plant construction projects. Such AFUDC amounts were immaterial for 1998, 1997 and 1996.

Revenues: Standard charges for water utility services to customers are recorded as revenue, based upon meter readings. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the financial statements for estimated uncollectible accounts.

Deferred Charges and Other Assets: Deferred charges include certain regulatory assets and costs of obtaining debt financing. Regulatory assets are amortized over periods being recovered through authorized rates. Debt expenses are amortized over the term of the related bonds and notes.

Regulatory Assets: The Company's utility subsidiaries are subject to the provisions of Statement of Financial Accounting Standard ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulations". Such utility subsidiaries have recorded certain

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

regulatory assets in cases where the New Hampshire Public Utilities Commission (the "NHPUC") has permitted, or is expected to permit, recovery of these costs over future periods. Included in deferred charges and other assets are regulatory assets totaling $596,107 and $541,714 at December 31, 1998 and 1997, respectively.

Deferred Land Costs: Included in deferred land costs are Southwood's original basis in its landholdings and developmental costs for its Corporate Park. Deferred land costs are stated at the lower of cost or market.

Investment in Partnerships: Southwood is a 50 percent general partner in two residential development projects and has sold certain parcels of land to those partnerships in exchange for promissory notes. Revenues relating to the sales of those parcels are deferred until the lots are ultimately sold to third parties. Real estate transactions are presented using the cost recovery method. Under this method, any deferred gain and related note receivable are offset for financial statement purposes. Southwood's investment in these partnerships is recorded using the equity method of accounting. As of December 31, 1998 and 1997, the notes receivable balance was $1,060,500 and $440,000, respectively, which was offset by the deferred gain of approximately $1,053,000 and $433,000 in 1998 and 1997, respectively. During 1998, one of the residential joint venture partnerships sold land and a home to an executive officer of the Company. The terms of that sale were the same as the terms which would be given to any independent third party purchaser.

Income Taxes: The provision for federal and state income taxes is based on income reported in the 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. Investment credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property giving rise to the credit.

Contributions in Aid of Construction ("CIAC"): Under construction contracts with real estate developers and others, Pennichuck receives non-refundable advances for the costs of new main installation. The CIAC account and related plant asset are amortized over the life of the property. Pennichuck also credits to 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.

to
Consolidated Financial Statements-CONTINUED

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS PER SHARE:

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share for the twelve months ended December 31, 1998, 1997 and 1996.

<TABLE>
<CAPTION>

Twelve Months Ended	1998	1997	1996
Basic earnings per share	$1.61	$1.01	$1.09
Dilutive effect of unexercised stock options	(.02)	(.01)	--
Diluted earnings per share	$1.59	$1.00	$1.09
Numerator:			
Basic net income	$2,106,053	$1,207,023	$1,289,018
Diluted net income	$2,106,053	$1,207,023	$1,289,018
Denominator:			
Basic weighted average shares outstanding	1,306,286	1,200,287	1,178,883
Dilutive effect of unexercised stock options	21,097	6,886	4,572
Diluted weighted average shares outstanding	1,327,383	1,207,173	1,183,455

</TABLE>

NOTE B - INCOME TAXES

The components of the federal and state income tax provision at December 31 are as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
Federal	$1,088,849	$599,533	$642,444
State	286,592	173,472	173,529
Amortization of investment tax credits	(33,036)	(33,036)	(33,036)
	$1,342,405	$739,969	$782,937
Currently payable	$856,765	$245,139	$341,942
Deferred	485,640	494,830	440,995
	$1,342,405	$739,969	$782,937

</TABLE>

Notes
to
Consolidated Financial Statements-CONTINUED

NOTE B - INCOME TAXES (CONTINUED)

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 1998, 1997 and 1996:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Statutory federal rate	34.0%	34.0%	34.0%
State tax rate, net of federal benefit	5.4	5.6	5.6
Amortization of investment tax credits	(.9)	(1.6)	(1.8)
Effective tax rate	38.5%	38.0%	37.8%

</TABLE>

The Company made income tax payments of $802,564, $353,000 and $403,000 in 1998, 1997 and 1996, respectively.

The Company has $214,732 and $384,289 of alternative minimum tax credits available at December 31, 1998 and 1997, respectively. These credits may be carried forward indefinitely to offset future regular tax and are recorded as a reduction to accumulated deferred income taxes.

The Company has a regulatory liability related to income taxes of $1,213,605 and $1,217,040 at December 31, 1998 and 1997, respectively. This represents the amount of deferred taxes recorded at rates higher than currently enacted rates and the impact of deferred investment tax credits on future revenue. The liability is being amortized consistent with the Company's ratemaking treatment.

The temporary items that give rise to the net deferred tax liability at December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Liabilities:		
Property related	$5,368,591	$4,917,513
Other	320,295	254,542
	5,688,886	5,172,055
Assets:		
Investment tax credits	706,908	710,343
Regulatory liability	197,282	197,282
Alternative minimum tax carry forward	214,732	384,289
Prepaid taxes on contributions in aid of construction	876,819	912,328
Other	277,991	204,234
	2,273,732	2,408,476
Net Deferred Tax Liabilities	$3,415,154	$2,763,579

========== ==========

</TABLE>

Notes
to
Consolidated Financial Statements-CONTINUED

NOTE C - DEBT

Long-term debt at December 31 consists of the following:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Unsecured notes payable to various insurance companies:		
9.10%, due April 1, 2005	$ 3,500,000	$ 3,500,000
7.40%, due March 1, 2021	8,000,000	8,000,000
Unsecured Industrial Development Authority Revenue Bond (1988 Series), 7.50%, due July 1, 2018	1,300,000	1,300,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series A), 6.35%, due December 1, 2019	3,000,000	3,060,000
Unsecured Business Finance Authority 1994 Revenue Bond (Series B), 6.45%, due December 1, 2016	1,900,000	1,940,000
Unsecured Business Finance Authority 1997 Revenue Bond, 6.30%, due May 1, 2022	4,000,000	4,000,000
Unsecured notes payable and line of credit revolving loan facility at rates ranging from 7.44% to 8.50% due June 30, 2000	--	3,680,000
Secured notes payable to bank, floating rate due April 8, 2005	6,000,000	--
Mortgage note payable to bank, 10%, due January 31, 2008	--	1,141,792
Mortgage construction loan to bank at LIBOR plus 175 points due September 11, 2000	446,360	--
Capitalized lease obligation	38,637	55,826
	28,184,997	26,677,618
Less current portion	183,000	100,000
	$28,001,997	$26,577,618

</TABLE>

The 1994 Series A and B Bonds are not subject to optional redemption until 2004 at which time they may be redeemed in whole or in part at a premium not to exceed 2% and may be redeemed at par on or after December 1, 2008. The notes and bonds payable require periodic interest payments (either monthly or semi-annually) which are based on the outstanding principal balances.

The aggregate principal payment requirements subsequent to December 31, 1998 are as follows:

<TABLE>

<S>	<C>
1999	$ 183,000
2000	779,360
2001	317,637
2002	315,000
2003	315,000
2004 and thereafter	26,275,000

</TABLE>

Notes
to
Consolidated Financial Statements-CONTINUED

NOTE C - DEBT (CONTINUED)

The note and bond agreements require, among other things, the maintenance of certain financial ratios and restrict the payment or declaration of dividends by Pennichuck. Under Pennichuck's most restrictive covenant, cumulative common dividend payments or declarations by Pennichuck subsequent to December 31, 1989 are limited to cumulative net income earned after that date plus $1,000,000. At December 31, 1998, approximately $4,382,000 of Pennichuck's retained earnings was unrestricted for payment or declaration of common dividends.

During 1998, 1997 and 1996, the Company paid interest of $2,200,659, $1,759,000 and $1,482,000, respectively.

The Company has available a $4,500,000 unsecured, revolving credit facility with a bank and at December 31, 1998, there were no outstanding borrowings under this facility. Any outstanding borrowings under this facility are due on June 30, 2000. The weighted average interest rate on borrowings under this facility of the Company was 7.66% and 7.75% during 1998 and 1997, respectively.

The Company has entered into interest rate exchange agreements to mitigate interest rate risks associated with its floating-rate loans. The agreements provide for the exchange of fixed rate interest payment obligations for floating rate interest payment obligations on notional amounts of principal. The net amounts paid and received under the agreements are reflected as interest expense.

On April 24, 1998, the Company entered into two interest rate swap agreements at a fixed rate of 6.50%. The notional amount of the debt for which interest rate exchanges have been entered into under these agreements is $6,000,000 at December 31, 1998. The Company has only the above mentioned limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage specific interest rate risks.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of certain financial instruments included in the accompanying Consolidated Balance Sheet as of December 31, 1998 is as follows:

<TABLE>
<CAPTION>

<S>	Carrying Value <C>	Fair Value <C>
Long-term debt	$28,184,997	$29,916,747
Interest rate swaps	$ -0-	$ 324,500

</TABLE>

There are no quoted market prices for the Company's various long-term debt issues and thus, their fair values have been determined based on quoted market prices for securities similar in nature and in remaining maturities.

The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of the Company's interest rate swaps represents the estimated cost to terminate these agreements based upon current interest rates.

The carrying values of the Company's cash and restricted cash approximate their fair values because of the short maturity dates of those financial instruments.

Notes to Consolidated Financial Statements-CONTINUED

NOTE E - BENEFIT PLANS

PENSION PLAN

The Company has a defined benefit pension plan covering substantially all full-time employees. The benefits are formula-based, giving consideration to both past and future service. The Company's funding policy is to contribute annually up to the maximum amount deductible for federal tax purposes. 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.

The following table sets forth the plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $2,435,571 in 1998 and $2,014,577 in 1997	$ 2,445,822	$ 2,023,847
Projected benefit obligation for service rendered to date	(2,949,116)	(2,451,150)
Plan assets at a fair value (insurance contracts)	2,974,201	2,656,625
Plan assets in excess of projected benefit obligation	25,085	205,475
Prior service costs	7,521	8,306
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	340,814	64,854
Unrecognized net transition asset	(110,872)	(124,679)
Prepaid pension cost included in "Deferred charges and other assets"	$ 262,548	$ 153,956

</TABLE>

Net pension cost for 1998, 1997 and 1996 includes the following components:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Service cost - benefits earned during the period	$ 149,581	$ 138,996	$ 126,933
Interest cost on projected benefit obligation	180,820	163,290	145,325
Expected return on plan assets	(226,636)	(200,193)	(149,411)

Amortization of (gains) and deferrals	(12,708)	(11,596)	(47,956)
Net periodic pension cost	$ 91,057	$ 90,497	$ 74,891

</TABLE>

For the years ended December 31, 1998 and 1997, the actuarial present value of the projected benefit obligation was determined using a discount rate of 7.0 percent in 1998 and 7.5 percent in 1997 and an assumed rate of increase in future compensation levels of 5 percent in 1998 and 1997. The expected long-term rate of return on plan assets was 9 percent in 1998, 1997 and 1996.

NOTE E - BENEFIT PLANS (CONTINUED)

SALARY DEFERRAL PLAN

In addition, the Company has a salary deferral plan covering substantially all full-time employees. Under this plan, the Company matches 100% of the first 3% of the employee's salary contributed to the plan. The matching employer's contributions were $78,312, $68,103 and $61,882, respectively, for 1998, 1997 and 1996.

OTHER POST RETIREMENT BENEFITS

The Company provides post retirement medical benefits to current and retired employees, which are payable upon reaching normal retirement date. Future benefits payable to current employees are capped based on the actual percentage of wage and salary increases earned from the plan inception date to normal retirement date. The accumulated benefit obligation, unrecognized transition obligation and net periodic post retirement benefit cost for the years ended December 31, 1998 and 1997 are as follows:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Accumulated post retirement benefit obligation:		
Current active employees	$(430,743)	$(300,339)
Retirees	(226,202)	(198,457)
Total	(656,945)	(498,796)
Plan assets at fair value	0	0
Funded status (underfunded)	(656,945)	(498,796)
Unrecognized net (gain)	(4,486)	(124,289)
Unrecognized prior service cost	124,600	139,100
Unrecognized transition obligation	122,600	153,500
Accrued post retirement benefit cost	$(414,231)	$(330,485)
Service cost	$ 24,805	$ 22,478
Interest cost	37,136	33,928
Amortization of prior service cost	14,500	14,500
Amortization of transition obligation	30,900	30,900

Amortization of unrecognized (gains)	(3,598)	(4,385)
	$ 103,743	$ 97,421

</TABLE>

The Company is presently allowed to recover a portion of the post retirement benefits relating to active employees and retirees in its rates. To calculate the estimated accumulated benefit obligation for 1998 and 1997, the Company has assumed a discount rate of 7.0 percent and 7.5 percent, respectively and a maximum medical care cost trend rate of 5 percent, which is the projected annual increase in future compensation levels. A one percent increase in the assumed health care cost trend rate would have increased the post retirement benefit cost by $19,091 and the accumulated post retirement benefit obligation by $121,894 in 1998.

NOTE F - STOCK BASED COMPENSATION PLANS

The Company has a stock option plan for officers and key employees which provides for incentive options. The Company accounts for the plan under APB Opinion No. 25, under which no compensation cost has been recognized in the Consolidated Statements of Income. On a pro forma basis, the Company's net income and earnings per share would have been reduced to the following amounts had compensation cost for the plan been determined consistent with SFAS No. 123, "Accounting for Stock Based Compensation."

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Net income:		
As reported	$2,106,053	$1,207,023
Pro forma	$2,070,895	$1,200,626
Earnings per share:		
As reported	$ 1.61	$ 1.01
Pro forma	$ 1.59	$ 1.00

</TABLE>

Because the methodology prescribed by SFAS 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. At December 31, 1998, all options which had been granted were exercisable and 75,000 shares were available for future grants under the plan as shown in the following table:

<TABLE>
<CAPTION>

<S>	Reserved Shares <C>	Options Outstanding <C>	Price Per Share <C>
Balance at December 31, 1995	75,000	28,890	$ 8.33-$10.00
Granted		6,788	$11.50

Expired			
Exercised		(510)	$ 8.33-$11.50
Balance at December 31, 1996	75,000	35,168	$ 8.33-$11.50
Granted		6,788	$10.83
Expired		--	
Exercised		(1,575)	$ 8.33-$10.83
Balance at December 31, 1997	75,000	40,381	$ 8.33-$11.50
Granted		11,288	$12.67
Expired		(646)	$8.33
Exercised		(6,378)	$ 8.33-$12.67
Balance at December 31, 1998	75,000	44,645	$10.00-$12.67

</TABLE>

NOTE F - STOCK BASED COMPENSATION PLANS (CONTINUED)

Of the 44,645 options outstanding at December 31, 1998, 21,050 have an exercise price of $10.00 and a remaining contractual life of one to two years; 6,505 shares have an exercise price of $11.50 and a remaining life of 7 years; and 6,025 shares have an exercise price of $10.83 and a remaining life of 8 years; and 11,065 shares have an exercise price of $12.67 and a remaining life of 9 years. Shares acquired pursuant to such options are subject to a restriction against transfer for a period of twelve months after acquisition by the employee. The fair value of each option grant is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants in 1998 and 1997, respectively: risk-free interest rates of 6.3% and 5.5%; expected dividend yields of 5.4% and 5.2%; expected lives of 5 years; and expected volatility of 22% and 34%.

In September 1997, the Company amended its deferred compensation plan for its directors. Under the terms of the amended plan, directors may elect to receive their directors' fees in common shares of the Company or in cash upon either attaining age 70 or retirement from the board of directors. As of December 31, 1998, 14,136 common shares of the Company had been reserved for issuance under this plan.

NOTE G - MERGER OF THE COMPANY AND PITTSFIELD AQUEDUCT COMPANY

On January 30, 1998, Pittsfield Aqueduct Company ("Pittsfield") was merged with and into the Company through the issuance of 49,428 shares of Pennichuck Corporation which were exchanged for substantially all of the outstanding common shares of Pittsfield. The merger has been accounted for as a pooling-of-interests. Accordingly, the Company's financial statements have been restated to include the results of Pittsfield for all periods presented.

The combined and separate results of the Company and Pittsfield during the periods preceding and after the merger were as follows:

<TABLE>
<CAPTION>

	Pennichuck Corporation Consolidated	Pittsfield	Combined

<S>	<C>	<C>	<C>
Year ended December 31, 1998:			
Operating revenues	$16,952,067	$442,727	$17,394,794
Net income	$ 2,070,747	$ 35,306	$ 2,106,053
Year ended December 31, 1997:			
Operating revenues	$11,840,700	$214,817	$12,055,517
Net income	$ 1,290,091	$(83,068)	$ 1,207,023
Year ended December 31, 1996:			
Operating revenues	$12,202,688	$214,528	$12,417,216
Net income	$ 1,238,485	$ 50,533	$ 1,289,018

</TABLE>

NOTE H - ACQUISITION

On November 5th, 1997, the Company entered into an Agreement of Purchase and Sale of Assets with the Town of Hudson, New Hampshire (the "Town") whereby the Company agreed to purchase from the Town certain water utility assets located outside of the Town's municipal jurisdiction for $7.5 million. This purchase occurred in April 1998 once those assets , in addition to certain water utility assets located within the Town, were purchased by the Town from an investor-owned water utility previously serving the Town and certain surrounding communities. Those assets purchased by the Company were transferred into a new, wholly-owned, operating subsidiary of the Company, Pennichuck East, which is a regulated entity similar to Pennichuck. As a result of this purchase, the Company has added approximately 3,600 customers to its existing customer base. Based on unaudited data if the Company had acquired Pennichuck East at the beginning of each period reported, consolidated revenues would have been approximately $18,038,000 and $14,506,000 for 1998 and 1997, respectively.

In order to fund this purchase from the Town, the Company obtained a commitment for permanent debt financing from its bank. The $7.5 million financing consisted of two notes, $3 million and $4.5 million, with maturities of 2 and 7 years, respectively. In connection with this debt, the Company entered into two interest rate swap agreements which fix the interest rates at 6.20% and 6.50%, respectively. In November 1998, the Company repaid the $3 million note. The remaining note is secured by the operating assets of the new operating subsidiary.

In addition, the Service Corporation and the Town entered into a long-term contract whereby the Service Corporation will provide certain operations and maintenance functions for the Town in exchange for an annual fee. The initial term of this agreement is for five years with options to renew thereafter.

NOTE I-STOCK SPLIT

On August 7, 1998, the Company's Board of Directors declared a three for two stock split effected in the form of a stock dividend payable on September 1, 1998 to shareholders of record on August 18, 1998. The Company's retained earnings have been charged for the aggregate par value of the shares issued as a dividend and such aggregate par value has been transferred to the Company's common stock account for all periods presented in the financial statements.

NOTE J-BUSINESS SEGMENT INFORMATION

Pennichuck Corporation's operating activities are grouped into two primary business segments as follows:

Water utility - Involved in the collection, treatment and distribution of potable water for domestic, industrial, commercial and fire protection service in the City of Nashua and certain surrounding communities in southern and central New Hampshire. Real estate - Involved in the ownership, development, management and sale of industrial and residential property in Nashua and Merrimack, New Hampshire. Other - Includes the operations and maintenance activities of the Service Corporation and sundry activities of the Company.

The tables below present information about Pennichuck Corporation's two primary business segments for the years ended December 31, 1998, 1997 and 1996.

NOTE J - BUSINESS SEGMENT INFORMATION (CONTINUED)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Operating revenues:			
Water utility	$14,972,347	$11,415,065	$10,907,679
Real estate	1,909,793	514,143	1,320,676
Other	512,654	126,309	188,861
Total operating revenues	$17,394,794	$12,055,517	$12,417,216
Operating income:			
Water utility	$ 5,073,615	$ 3,266,171	$ 3,180,782
Real estate	489,940	316,411	421,025
Other	155,569	134,224	106,219
Total operating income	$ 5,719,124	$ 3,716,806	$ 3,708,026
Capital additions:			
Water utility	$11,208,746	$ 5,974,194	$ 3,205,211
Real estate	--	--	--
Other	70,069	--	19,531
Total capital additions	$11,278,815	$ 5,974,194	$ 3,224,742
Identifiable assets:			
Water utility	$62,392,754	$53,331,333	$45,894,108
Real estate	3,666,320	2,554,608	3,223,048
Other	4,779,107	1,354,508	2,239,979
Total identifiable assets	$70,838,181	$57,240,449	$51,357,135
Depreciation and amortization expense:			
Water utility	$ 1,792,739	$ 1,452,757	$ 1,217,038

Real estate	80,833	4,385	--
Other	62,009	29,513	29,372
Total depreciation and amortization expense	$ 1,935,581	$ 1,486,655	$ 1,246,410

</TABLE>

NOTE J - BUSINESS SEGMENT INFORMATION (CONTINUED)

The operating revenues within each business segment are sales to unaffiliated customers. Operating income is defined as segment revenues less operating expenses including allocable Parent Company expenses attributable to each business segment as shown below.

<TABLE>
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	1998	1997	1996
Allocated parent expenses:			
Water utility	$416,106	$345,785	$273,983
Real estate and other	21,635	50,970	39,823
Total allocated parent expenses	$437,741	$396,755	$313,806

</TABLE>

Within the water utility business segment, one customer accounted for over 10 percent of total operating revenues. During 1998, 1997, and 1996, the water utility recorded $1,726,000, $1,693,000 and $1,685,000, respectively, in water revenues which were derived from fire protection and other billings to the City of Nashua.

NOTE K - QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Operating Revenues	$2,916	$3,973	$6,404	$4,102
Operating Income	849	1,411	2,385	1,074
Net Income	236	510	1,049	311
Earnings Per Share	$ .29	$ .32	$ .85	$ .15
1997				
Operating Revenues	$2,551	$2,946	$3,571	$2,988
Operating Income	593	961	1,411	752
Net Income	122	326	589	170
Earnings Per Share	$ .10	$ .27	$ .49	$ .15

1996				
Operating Revenues	$2,961	$2,780	$3,161	$3,515
Operating Income	546	948	1,049	1,165
Net Income	79	347	396	467
Earnings Per Share	$ .07	$ .29	$ .33	$ .40

</TABLE>

Market and Dividend Information

The Company's common stock is currently traded on the Nasdaq National Market System ("NMS") under the symbol "PNNW". From December 2, 1997 to October 28, 1998, the Company's common stock had been traded on the Nasdaq Over-the-Counter ("OTC") Bulletin Board system. On December 31, 1998, there were approximately 785 holders of record of the 1,709,824 shares of the Company's common stock outstanding. The following table sets forth the comparative market prices per share of the Company's common stock based on the high and low sales prices as reported on the Nasdaq NMS and OTC Bulletin Board system during the applicable periods and the dividends declared by the Company during those periods. All amounts have been restated for the three for two stock split effected on September 1, 1998.

<TABLE>
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Period	High	Low	Dividends Declared
1998			
Fourth Quarter	$22.00	$19.00	$.22
Third Quarter	20.50	15.00	.19
Second Quarter	16.00	15.00	.19
First Quarter	16.00	12.00	.19
1997			
Fourth Quarter	$13.33	$12.09	$.17
Third Quarter	13.50	12.00	.17
Second Quarter	13.00	10.33	.17
First Quarter	12.00	10.33	.17
1996			
Fourth Quarter	$13.25	$10.33	$.17
Third Quarter	13.92	12.00	.17
Second Quarter	14.00	11.33	.16
First Quarter	14.67	11.50	.15

</TABLE>

ANNUAL MEETING AND SHAREHOLDER INFORMATION

Pennichuck Corporation's Annual Shareholders' Meeting will be held at 3:00 p.m. on Friday, April 16, 1999, at the Nashua Marriott Hotel, 2200 Southwood Drive in Nashua, New Hampshire.

Shareholder Relations: Pennichuck Corporation, 4 Water Street, PO Box 448, Nashua, NH 03061-0448, Attn: Shareholder Relations. Tel: 603/882-5191.

Stock Transfer Agent and Registrar: EquiServe, Limited Partnership, Shareholder Services Department, P.O. Box 8040, Boston, MA 02266-8040, (781) 575-3100, www.equiserve.com

Dividend Reinvestment and Common Stock Purchase Plan: Pennichuck Corporation has a Dividend Reinvestment and Common Stock Purchase Plan which is open to all holders of Pennichuck's common shares and to all of Pennichuck's New Hampshire residential customers. Participants in the Plan receive their dividends in the form of Pennichuck common shares and may also, within certain limits, make additional cash purchases through the Plan. For a copy of the Plan Prospectus and an enrollment form, please call Shareholder Relations.

Five Year Selected Financial Data

<TABLE>
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<S>	1998	1997	1996	1995	1994
Operating revenues (in 000's)	$17,395	$12,056	$12,417	$11,700	$10,430
Net income (in 000's)	$ 2,106	$ 1,207	$ 1,289	$ 1,148	$ 966
Earnings per share-basic	$ 1.61	$ 1.01	$ 1.09	$ 1.00	$ .84
Cash dividends declared per share of common stock	$ .79	$ .68	$ .65	$ .57	$ .48
Total assets (in 000's)	$70,838	$57,240	$51,357	$49,136	$47,719
Long-term debt & redeemable preferred stock (in 000's)	$28,185	$26,678	$21,946	$21,028	$17,032
Weighted average shares outstanding-basic	1,306,286	1,200,287	1,178,883	1,148,610	1,146,240
Book value per share	$14.51	$12.07	$11.78	$11.32	$11.04
Utility plant additions (in 000's)	$11,209	$5,974	$3,205	$2,569	$2,413
Water delivered (million gallons per day)	14.44	12.74	12.51	13.03	12.75
Mains (miles)	470	364	361	356	355
Services:					
Core & community systems	21,422	21,037	20,805	20,622	20,294
Pittsfield Aqueduct	623	615	615	616	622
Pennichuck East	3,766				
Meters	25,984	21,759	21,526	21,279	21,034
Hydrants	2,540	2,194	2,190	2,182	2,177
Rainfall (in inches)	47.15	47.36	53.24	38.94	42.70
Number of employees at year end	66	57	56	55	57

</TABLE>

Prior year numbers have been restated to reflect the merger of Pittsfield Aqueduct Company, Inc. and the three-for-two stock split. 1998 numbers reflect the acquisition of Pennichuck East Utility, Inc.

Map of Service Territory

[A map of the service territory of Pennichuck Corporation]

PITTSFIELD
HOOKSETT
NEWMARKET
EPPING

GOFFSTOWN
RAYMOND
AUBURN
FREEMONT
MANCHESTER
BRENTWOOD
CHESTER
SANDOWN
BEDFORD
DANVILLE
KINGSTON
LONDONDERRY
DERRY
HAMPSTEAD
MERRIMACK
AMHERST
PLAISTOW
LITCHFIELD
ATKINSON
WINDHAM
MILFORD
SALEM
HUDSON
NASHUA
HOLLIS
PELHAM

Retail Service Area
Wholesale Water Sales
Operations & Maintenance Agreement

[A representation of the State of New Hampshire]

State of New Hampshire

and advice of elderly members. After considering all sides of the issue, the sagamore would make a decision that best reflected the consensus of the whole group.

Between 1650 and 1800, the quiet existence of the Abenaki began to change dramatically with the coming of the Europeans. Vast numbers succumbed to diseases the foreigners brought with them, and a series of ensuing wars caused the Abenaki to migrate into Canada in search of safer places to live. After the conquest of Canada in 1759, New England was opened up to great numbers of English settlers who established settlements in the same areas once occupied by the Abenaki. Indeed, many of the Indian names still live on today, including Nashua, meaning "between streams," and Pennichuck, meaning "crooked stream."

Originally founded under the name of Dunstable, in 1673, the area now known as Nashua was the fifth place in present day New Hampshire that was chartered. By 1820, the population of Dunstable had grown to 2,400, marking the change from a sleepy agricultural village to a fast-growing industrial center. On January 1, 1837, Dunstable officially became Nashua, and in 1852, a group of investors incorporated Nashville Aqueduct for the purpose of bringing water to the inhabitants of Nashua and the then independent town of Nashville. Within a year, the initial capitalization was found to be insufficient, so in 1853, new funding was raised and the name changed to Pennichuck Water Works.

The company founders identified Pennichuck Brook as being the best source to meet all the requirements for a water supply. More than 150 years later, their wisdom is still confirmed today. The first supply was taken from a pond created by damming Pennichuck Brook just west of Concord Road. Between 1866 and 1883, the Holt, Harris and Bowers dams were constructed, to supply water to Nashua's textile mills, and the city's growing industry.

Early on, Pennichuck management recognized the importance of ensuring a protected source of supply for the future, and purchased key portions of the watershed area. Today, Pennichuck continues the effort to ensure a safe supply of high quality source water, through special remediation projects and more effective management and treatment of stormwater runoff. As a result, portions of the land surrounding Pennichuck's source of supply remains in the same pristine condition that was once enjoyed by the Abenaki when they were living here in the Dawnland.

Pennichuck Corporation
4 Water Street
PO Box 448
Nashua, NH 03061-0448
603 882 5191
Fax 603 882 4125
www.pennichuck.com

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Pennichuck Corporation:

As independent public accountants, we hereby consent to the incorporation by reference of our report dated January 26, 1999, into Pennichuck Corporation's Form 10-KSB for the year ended December 31, 1998 and into the Company's previously filed Registration Statement on Form S-3 (No. 33-98188). It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 1998 or performed any audit procedures subsequent to the date of our report.

/s/ Arthur Andersen LLP

Boston, Massachusetts
March 26, 1999

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