

lien thereof or to refund the same so long as any of the Series I Bonds remain outstanding.

(D) The Company covenants and agrees that so long as any Series I Bonds shall remain outstanding it will not cause to be authenticated and delivered pursuant to this Indenture any bonds of any other series, maturing on or prior to December 1, 1996, unless provision shall be made for a sinking fund (payable in cash and/or by the surrender or use of bonds of the new series) for the benefit of the holders of the bonds of such series, whereby through the application on a basis of annual or semi-annual sinking fund payments at least the same percentage of bonds of such series will be retired prior to maturity as the percentage of Series I Bonds retired through the sinking fund above provided for in Subdivision (C) of this Section 2.

SECTION 3. (A) The Company covenants and agrees that so long as any of the Series I Bonds are outstanding, the Company will not declare or pay any dividend (other than a dividend payable in shares of its capital stock) or make any other distribution, on or with respect to any class of its capital stock, or purchase or otherwise acquire any shares of its capital stock, of any class, unless after giving effect to such dividend, distribution, purchase, or other acquisition, the sum of (a) the aggregate amount of all dividends declared and all other distributions made (other than dividends declared or distributions made in shares of its capital stock) on shares of its capital stock, of any class, subsequent to December 31, 1965, plus (b) the excess, if any, of the amount applied to or set apart for the purchase or other acquisitions of any shares of its capital stock, of any class, subsequent to December 15, 1966, over such amounts as shall have been received by the Company as the net cash proceeds of sales of shares of its capital stock, of any class, subsequent to December 15, 1966, shall not be in excess of the sum of \$450,000, plus the cumulative net income of the Company for the period from January 1, 1966, to the date of such dividend, distribution, purchase or other acquisition; provided, however, that notwithstanding the foregoing restrictions the Company may pay cash dividends and make sinking fund payments on any preferred stock of the Company at any time issued in exchange for cash or other property and then outstanding which may be required by the terms thereof.

For purposes of this Section 3, the term "net income" of the Company for any period shall mean the net income (or the net deficit) of the Company for such period, determined in the following manner:

(A) The gross revenues and other proper income credits of the Company shall be computed for such period in accordance with generally accepted accounting principles consistently applied throughout the entire period involved, provided that in any event there shall not be included in such gross revenues and income credits any of the following items: (i) any proceeds of any life insurance policy; (ii) any gain or credit arising (a) from any sale, exchange, disposition or write-up of capital assets, or (b) from appreciation in value of any other assets not realized by exchange with or sale in disposition to a person other than United Utilities, Incorporated or any subsidiary thereof, or (c) from any acquisition or retirement or sale of stock or securities issued by the Company; or (iii) any restoration of any contingency reserve to income except to the extent that provision for such contingency reserve was made out of income accrued subsequent to December 31, 1965.

(B) From the amount of such gross revenues and other proper income credits for such period determined as provided in the preceding clause (A) there shall be deducted an amount equal to the aggregate of all expenses and other proper income charges (exclusive of losses from the sale, exchange or abandonment of capital assets) for such period, determined in accordance with generally accepted accounting principles consistently applied throughout the entire period involved but in any event including (without in any respect limiting the generality of the foregoing) the following items: (i) all interest and rental charges; (ii) amortization of debt discount and expense and amortization of all other deferred charges properly subject to amortization; (iii) provision for all taxes in respect of property and in respect of income, excess profits or otherwise, excluding, however, any tax or tax credit applicable to any gain or loss arising from any sale of capital assets or from any acquisition or retirement or sale of stock or securities issued by the Company; (iv) provision for contingency reserves, whether general or specific, properly deductible from income; (v) provision for depreciation, depletion, obsolescence and/or amortization (including depreciation and amortization of leasehold improvements); and (vi) all items charged or chargeable to surplus less credits thereto which are applicable to periods subsequent to December 31, 1965 (including, without limiting the generality thereof, items charged or chargeable to retained earnings, surplus reserves, and