

it and any bondholder making a tender, to reject any or all tenders if in its opinion Series J Bonds can be otherwise purchased at a lower price or prices than those contained in the tenders. Interest on all Series J Bonds purchased for the sinking fund through tenders shall cease on the date fixed for such purchase in the notice.

In the event the retirement of Series J Bonds is to be made by purchases in the open market, such purchases may be made by the Trustee in any market where the Series J Bonds are ordinarily traded, all as the Trustee acting in its unrestricted discretion may determine.

In the event the retirement of Series J Bonds is to be made by redemption, such Series J Bonds shall be redeemed in the manner provided in Article 4 of the original Indenture. Series J Bonds shall be callable for the sinking fund at the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption.

All Series J Bonds purchased by the Company or purchased or redeemed by the Trustee pursuant to the provisions of this Subdivision (C) of this Section 2, and any appurtenant coupons, shall be forthwith cancelled and shall thereafter be delivered upon the written order of any officer of the Company, and no Series J Bonds shall be issued in lieu thereof or to refund the same, nor shall any bonds of any other series be issued in lieu thereof or to refund the same so long as any of the Series J Bonds remain outstanding.

(D) The Company covenants and agrees that so long as any Series J 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 November 1, 1969, 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 J 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 J 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, 1968, 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 November 18, 1969, 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 November 18, 1969, shall not be in excess of the sum of \$1,000,000, plus the cumulative net income of the Company for the period from January 1, 1969, to the date of such dividend, distribution, purchase or other acquisition; provided, however, that notwithstanding the foregoing restriction 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,