AFFINITY WATER EAST LIMITED
(FORMERLY VEOLIA WATER EAST LIMITED)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013

(Registered Number 2663338)

Affinity Water East Limited
(formerly Veolia Water East Limited)

Contents

Affinity Water East Limited
(formerly Veolia Water East Limited)

Directors and advisers

Directors

Richard Bienfait	(appointed 11 July 2012)
Duncan Bates	(appointed 27 July 2012)
Nevil Muncaster (Managing Director)	(resigned 27 June 2012)
Jeffrey Herbert (Chairman)	(resigned 27 July 2012)
Peter Martin	(resigned 27 July 2012)
Olivier Bret	(resigned 27 June 2012)

Company Secretary

Tim Monod
Tim Charlesworth (Joint Secretary) (appointed 1 June 2012, resigned 22 January 2013)
Graham Oliver (resigned 13 April 2012)

Registered Office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Registered Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Number

2663338

Affinity Water East Limited
(formerly Veolia Water East Limited)

Directors' report
for the year ended 31 March 2013

Introduction

The directors present their annual report and the audited statutory financial statements for the year ended 31 March 2013.

The name of the company changed from Veolia Water East Limited to Affinity Water East Limited on 1 October 2013.

Principal activity

The principal activity of the company was the supply of water to an estimated population of 157,000 in an area of 352 square kilometres in the north-east Essex.

Following the sale of all the company's trade, assets and liabilities to Affinity Water Limited on 27 July 2012, the company's main activity is to manage its financial resources to maximise returns to the company's shareholders.

Significant events during the year

On 6 December 2011, the company's then ultimate parent company and controlling party, Veolia Environnement S.A., announced its intention to sell its regulated water interests in the United Kingdom. On 28 June 2012, the majority shareholding in the group of companies, of which Affinity Water East Limited (formerly Veolia Water East Limited) was a wholly owned subsidiary, and of which Affinity Water Capital Funds Limited (formerly Veolia Water Capital Funds Limited) was the ultimate parent undertaking, was sold by Veolia Water UK Limited (formerly Veolia Water UK Plc) to Affinity Water Acquisitions Limited (formerly Rift Acquisitions Limited), an acquisition entity formed by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. has retained a 10 per cent minority shareholding through its subsidiary Veolia Water UK Limited.

On 27 June 2012, in accordance with the terms of the sale of the Affinity Water Capital Funds Limited group by Veolia Water UK Limited, an exceptional deficit repair contribution amounting to £0.75m was made into the Veolia UK Pension Plan (the 'VUKPP').

Following discussions with Ofwat during 2011, Affinity Water Limited (formerly Veolia Water Central Limited) made a formal application to Ofwat on 23 February 2012 to unify the licenses of the formerly named companies Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited so as to operate the three areas under a single licence. Approval was received from Ofwat following a period of formal public consultation. The unification of the regulated businesses was effected on 27 July 2012. Affinity Water East Limited received £65m from Affinity Water Limited as consideration for the transfer of the trade and net assets on that date. This amount was then transferred to Affinity Water Capital Funds Limited as a long term loan.

As a part of the rebranding of the whole retained group post divestment from Veolia Water Limited, on 1 October 2012, the name of the company changed from Veolia Water East Limited to Affinity Water East Limited.

Directors

The directors of the company, together with their periods of office, are shown on page 1.

Directors' report
for the year ended 31 March 2013 (continued)

Business review and financial performance

The turnover for the year is £5.2m (2012: 12 months £15.1m) and operating costs are £3.6m (2012: 12 months £11.4m), remaining fairly consistent with the previous year on a proportionate basis. Interest income from the long term loan of £65m to Affinity Water Capital Funds Limited is £3.3m (2012: £nil). The overall profit after tax for the year is £8.9m (2012: £2.9m) which includes £5.7m from the profit on the sale of the business to Affinity Water Limited on the unification of the water licences.

Future developments

The company will continue to manage the business and its financial resources to maximise returns to the company's shareholders for the long term. The company will earn interest charged against the £65m loan to Affinity Water Capital Funds Limited.

Dividends

The directors have declared and paid the following dividends during the year ended 31 March 2013:

Ordinary dividends:	**£000**
Interim – paid June 2012	2,392
Interim – paid January 2013	1,733
	4,125

The company's parent company, Affinity Water Capital Funds Limited waived £90,000 of their £1,706,000 January 2013 interim dividend.

Employees

Communication and participation is a central theme to maintaining the employee relationship throughout the company. The company's policy is to consult both formally and informally, on matters that affect employees, through a planned system of team briefings and other meetings.

The company continued to place the highest priority on health and safety, and this subject remained the first agenda item at its Board meetings and monthly management meetings.

The company gives full consideration to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Directors' report
for the year ended 31 March 2013 (continued)

Charitable and political contributions

The company continues to make donations, largely to water-related and local organisations which aim to:

- improve opportunities and create worthwhile experiences for the disadvantaged
- improve the quality of life of senior citizens and the vulnerable within the community and
- educate young people about water and sustainability issues.

Donations are funded through operating expenditure and in 2013 £4,000 (2012: £12,000) was contributed to the Affinity Water Trust (formerly the Veolia Water Trust). The Affinity Water Trust is a charitable fund with a board of trustees administered by Charis Grants Limited.

No political contributions were made during the year.

Creditor payment policy

The company recognises the importance of having a reasonable payment policy with its suppliers to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. The average number of creditor days is 102 (2012: 60).

Corporate governance

From 27 July 2012, the principal business of Affinity Water East Limited is to manage its financial resources to maximise returns to the company's shareholders and the company is a wholly owned subsidiary of Affinity Water Capital Funds Limited. Both of the company's directors are also directors of Affinity Water Limited.

The company benefits from the corporate governance arrangements established by Affinity Water Limited, full details of which can be found in Affinity Water Limited's own annual report and financial statements, together with more detailed corporate reporting disclosures.

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring the company meets its obligations to its shareholders and meets from time to time to facilitate this.

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the company's budgeted cash flows, long term forecasts and related assumptions. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Directors' report
for the year ended 31 March 2013 (continued)

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Regulatory accounts

The regulatory financial statements are prepared to enable the Director General of Water Services (the Regulator) to monitor the financial performance of the regulated water businesses. At the request of the Regulator, the regulatory accounts of Affinity Water Limited (formerly Veolia Water Central Limited) have been prepared on the basis that the combination of the licences of the companies formerly called Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited was in effect from 1 April 2012, rather than 27 July 2012 as is the case for statutory accounts. Hence this annual report only includes the statutory financial statements of Affinity Water East Limited.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, and
- be responsible for the maintenance and integrity of the website on which the financial statements have been published.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report
for the year ended 31 March 2013 (continued)

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 485 of the Companies Act 2006, Ernst and Young LLP are not seeking reappointment and a resolution to appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the annual general meeting.

By order of the Board

Tim Monod
26 July 2013

Independent Auditor's Report to the Members of Affinity Water East Limited (formerly Veolia Water East Limited)

We have audited the financial statements of Affinity Water East Limited (formerly Veolia Water East Limited) for the year ended 31 March 2013 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, note of historical cost profits and losses and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of Affinity Water East Limited (formerly Veolia Water East Limited) (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
31 July 2013

Affinity Water East Limited
(formerly Veolia Water East Limited)

Profit and loss account
for the year ended 31 March 2013
(Registered Number 2663338)

	Note	**2013 £000**	2012 £000
Turnover	2	**5,171**	15,105
Cost of sales		**(2,981)**	(8,778)
Gross profit		**2,190**	6,327
Customer services and administrative expenses		**(642)**	(2,602)
Other operating income	3	**309**	491
Operating profit	4	**1,857**	4,216
Profit on disposal of business – exceptional item	11	**5,750**	-
(Loss)/profit on disposal of fixed assets		**(52)**	11
Profit on ordinary activities before interest and taxation		**7,555**	4,227
Interest receivable and similar income	6	**3,274**	-
Interest payable and similar charges	7	**(214)**	(622)
Other finance income	8	**3**	47
Profit on ordinary activities before taxation		**10,618**	3,652
Tax on profit on ordinary activities	9	**(1,676)**	(750)
Profit on ordinary activities after taxation and for the financial year		**8,942**	2,902

Interest receivable of £3.3m relates to interest earned on the £65.0m loan to Affinity Water Capital Funds Limited. Interest receivable and tax charges thereon are the only continuing business of the company.

All other amounts in the year are from discontinued operations.

All amounts in 2012 are from discontinued operations.

The notes on pages 13 to 36 form part of these financial statements.

Affinity Water East Limited
(formerly Veolia Water East Limited)

Statement of total recognised gains and losses
for the year ended 31 March 2013
(Registered Number 2663338)

	Note	**2013** **£000**	2012 £000
Profit for the financial year		**8,942**	2,902
Actuarial loss recognised in the pension scheme	21	**(298)**	(812)
Deferred tax movement relating to actuarial loss	21	**69**	195
Total recognised gains for the year		**8,713**	2,285

The notes on pages 13 to 36 form part of these financial statements.

Affinity Water East Limited
(formerly Veolia Water East Limited)

Note of historical cost profits and losses for the year ended 31 March 2013

(Registered Number 2663338)

	Note	**2013 £000**	2012 £000
Reported profit on ordinary activities before taxation		**10,618**	3,652
Realisation of property revaluation gains of previous years	21	**158**	561
Realisation of balance on revaluation reserve at date of sale of business	21	**43,022**	**-**
Historical cost profit on ordinary activities before taxation		**53,798**	4,213
Historical cost profit for the year retained after taxation		**52,122**	3,463

The notes on pages 13 to 36 form part of these financial statements.

Affinity Water East Limited
(formerly Veolia Water East Limited)

Balance sheet
as at 31 March 2013
(Registered Number 2663338)

	Note	2013 £000	Restated 2012 £000
Fixed assets			
Tangible assets	12	-	65,630
Investment	13	-	1
Financial assets	15	65,000	-
		65,000	65,631
Current assets			
Stocks	14	-	212
Debtors	15	1,610	3,521
Cash at bank and in hand		-	225
		1,610	3,958
Creditors – amounts falling due within one year	16	(785)	(4,045)
Net current assets/(liabilities)		825	(87)
Total assets less current liabilities		65,825	65,544
Creditors – amounts falling due after more than one year	17	(446)	(16,150)
Provisions for liabilities	18	-	(2,090)
Deferred income	19	-	(48)
Net assets excluding pension liability		65,379	47,256
Net pension liability	25	-	(655)
Net assets including pension liability		65,379	46,601
Capital and reserves			
Called up share capital	20	728	728
Capital redemption reserve	21	1,500	1,500
Revaluation reserve	21	-	29,080
Profit and loss account	21	63,151	15,293
Shareholders' funds	22	65,379	46,601

The notes on pages 13 to 36 form part of these financial statements. The statutory financial statements on pages 9 to 36 have been approved by the Board of Directors and were signed on 26 July 2013 on its behalf by:

Duncan Bates

Duncan Bates
Director

Notes to the financial statements for the year ended 31 March 2013

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets described below, and in accordance with the Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410), which forms part of the Companies Act 2006, and applicable UK accounting standards, except for the treatment of certain grants and contributions, described below.

The regulatory financial statements are prepared to enable the Director General of Water Services (the Regulator) to monitor the financial performance of the regulated water businesses. At the request of the Regulator, the regulatory accounts of Affinity Water Limited have been prepared on the basis that the combination of the licences of the companies formerly called Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited was in effect from 1 April 2012, rather than 27 July 2012 as is the case for statutory accounts. Hence this annual report only includes the statutory financial statements of Affinity Water East Limited.

The company is a wholly owned subsidiary of Affinity Water Capital Funds Limited which in turn is a wholly owned subsidiary of Affinity Water Acquisitions Limited, a company which produces publicly available consolidated financial statements in which this company is included. Consequently the company is exempt under the terms of Financial Reporting Standard 1 (revised 1996): ‘Cash flow statements’, from publishing a cash flow statement.

According to the Articles of Association, the preference shareholders are entitled to fixed cumulative dividends as a priority to distributions to ordinary shareholders and as such the company has elected to reclassify the preference shares of £446,000 outstanding to liabilities as per Financial Reporting Standard 25: ‘Financial instruments: Presentation’. Prior year figures have been reclassified accordingly.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Revenue recognition

Revenue is recognised in accordance with Financial Reporting Standard 5: 'Reporting the substance of transactions’ in the period in which it is earned. The company does not recognise revenue where payment is received in advance. However, payments made in the previous period in respect of the current period will be recorded as revenue in the current period. In accordance with Application Note G of Financial Reporting Standard 5, the company does not recognise revenue where historic evidence indicates that the company will probably never be able to collect the revenue billed. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end, exclusive of value added tax.

Bad debt provisioning

The bad debt provision is calculated by applying a range of different percentages to debt of different ages. These percentages also vary between categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the debt provision is sensitive to the specific percentages applied.

1. Statement of accounting policies (continued)

Financial instruments

Income and expenditure arising on financial instruments is recognised on an accruals basis, and credited or charged to the profit and loss in the financial period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets within the scope of Financial Reporting Standard 26: 'Financial instruments: recognition and measurement' are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The company's financial assets include cash, trade and other receivables and loan notes.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest ('EIR') method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the profit and loss account. The losses arising from impairment are recognised in the profit and loss account in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when

(i) the rights to receive cash flows from the asset have expired or
(ii) the company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'passthrough' arrangement; and either

    (a) the company has transferred substantially all the risks and rewards of the asset, or
    (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

1. Statement of accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expense in the profit and loss account.

Research and development

The costs of research and development are written off in the period in which they are incurred.

Current taxation

Current taxation is corporation tax in the United Kingdom based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Taxable profit differs from the net profit as reported in the profit and loss account as it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Notes to the financial statements for the year ended 31 March 2013 (continued)

1. Statement of accounting policies (continued)

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

In accordance with Financial Reporting Standard 19: 'Deferred tax', deferred tax is not provided on timing differences arising from:

(a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
(b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets; and
(c) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

The company has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money. Deferred tax assets and liabilities are discounted using a discount rate equivalent to the post tax yield that could be obtained at the balance sheet date on government bonds with similar maturity dates and currencies. The increase or decrease in the discount deducted in arriving at the deferred tax balance is included in the deferred tax charge or credit in the profit and loss account.

Pension costs

As a result of the unification of the regulated businesses on 27 July 2012, the pension commitments of the company were transferred to Affinity Water Limited. Until that date, the company participated in the Veolia UK Pension Plan.

The company operated a pension scheme providing benefits based on final pensionable salary. The assets of the scheme were held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

For the defined contribution scheme, the company paid contributions on a contractual or voluntary basis. Contributions were expensed as incurred.

The company also operated a contributory, money purchase scheme which was open to all new employees.

1. Statement of accounting policies (continued)

Tangible fixed assets and depreciation

Financial Reporting Standard 15: 'Tangible fixed assets' requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this, all tangible fixed assets are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

Tangible fixed assets comprise:

- Infrastructure assets – mains and associated underground pipe-work.
- Other assets – land and buildings, operational structures, fixed plant, vehicles and mobile plant.

Infrastructure assets (being mains and associated underground pipe-work) comprise a network of systems. Expenditure on infrastructure assets, including renewals, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan. Disposals of infrastructure assets are calculated based on the estimated lives of the assets before they are replaced.

Depreciation is provided on all other fixed assets except freehold land and is calculated to write off their cost over their estimated useful lives on a straight-line basis. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term. The performance of assets is continually monitored and where impairment is identified, fixed assets are written down to the recoverable amount. Tangible fixed assets are reviewed for impairment at the end of each reporting period when the estimated remaining useful economic life of the assets exceeds 50 years. Information on the condition of assets is also provided to the Regulator every five years as part of the price review mechanism.

The estimated useful lives of these assets are:

Buildings, reservoirs and towers	50 - 80 years
Wells and boreholes	40 - 60 years
Plant and machinery	3 - 20 years
Vehicles	3 - 5 years
Fixtures, fittings and other	1 - 10 years
Meters	15 years

Land is not depreciated.

Capital contributions

Infrastructure charges received in respect of connections to the mains network are allocated to fixed assets, surface and infrastructure, in accordance with the basis on which the charges are calculated.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions are accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account. The effect of this treatment on the book value of tangible fixed assets is disclosed in note 12.

1. Statement of accounting policies (continued)

Capital contributions (continued)

Capital contributions received in respect of tangible fixed assets, other than infrastructure assets, are deferred and credited to the profit and loss account by instalments over the expected useful lives of the related assets.

Leased assets

Rentals paid under operating leases are charged against profits on a straight-line basis over the life of the lease.

Stocks and work in progress

Stocks are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry no value has been placed upon the water in reservoirs, mains or in the course of treatment. Work in progress for chargeable services is valued at cost.

Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Ardleigh Reservoir

The company and Anglian Water Services Limited own the reservoir and ancillary works jointly in approximately equal shares, the company's share of the capital expenditure being included in tangible fixed assets in note 12. The reservoir is operated on behalf of both undertakings through the Ardleigh Reservoir Committee, and the company's share of the expense is included within abstraction licences and bulk purchase.

2. Turnover

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom. Turnover relating to unmeasured supplies comprises amounts due to the company for the accounting year.

	2013	2012
	£000	£000
Turnover by class is analysed below:		
Unmeasured supplies	**1,251**	3,710
Measured supplies	**3,920**	11,010
Non-potable water	**-**	10
Chargeable services	**-**	33
Reservation fees	**-**	342
	5,171	15,105

3. Other operating income

	2013	2012
	£000	£000
Commission and rentals	**309**	491

4. Operating profit

	2013	2012
	£000	£000
Operating profit is stated after charging/(crediting):		
Operating lease rentals - other	**3**	10
Depreciation – non infrastructure assets	**700**	2,231
Amortisation of capital contributions	**-**	(13)
Depreciation – mains and infrastructure assets	**623**	1,637
Auditors' remuneration		
Audit of the financial statements	**30**	59
Other non-audit services	**3**	30

5. Employees and directors

	2013	2012
	£000	£000
Staff costs (including executive directors) consist of:		
Wages and salaries	**1,022**	2,292
Social security costs	**66**	215
Defined contribution pension costs	**18**	55
Defined benefit pension costs – current service cost (note 25)	**89**	257
	1,195	2,819

The average number of employees (including executive directors) during the four months prior to the unification of the water licences was as follows:

	2013	2012
	Number	Number
Operations	**26**	26
Finance and administration	**44**	47
	70	73

On unification of the water licences, all existing employees were transferred to Affinity Water Limited.

Directors' emoluments

	2013 Salary and fees £000	**2013 Benefits in kind £000**	**2013 Other* £000**	**2013 Total £000**	2012 Total £000
Non-executives					
Jeffrey Herbert	**11**	**-**	**-**	**11**	32
Frederic Devos	**-**	**-**	**-**	**-**	16
Peter Martin	**6**	**-**	**37**	**43**	18
Executives					
Nevil Muncaster	**20**	**4**	**-**	**24**	167
	37	**4**	**37**	**78**	233

*Other emoluments relate to compensation for loss of office.

Benefits in kind comprise company car and housing allowance. As the company is a wholly owned subsidiary, there are no listed shares and no directors are offered any share incentives. There are no other long term incentive schemes for directors.

There were no directors accruing retirement benefits under the money purchase and defined benefit schemes during the year (2012: one). On the unification of the water licences, the accrued retirement benefits transferred out to the Veolia group.

5. Employees and directors (continued)

No other remuneration or pension contributions were paid to the current executive directors for services to the company. These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £3,000 can be attributed to the company for the qualifying services performed, split as follows:

	2013
	£000
Basic salary and fees	**1.2**
Benefits	**0.6**
Performance related bonuses	**1.2**
Total	**3.0**

Highest paid director

The highest paid director has no accrued pension amounts outstanding at year end (2012: £28,000). The highest paid director did not exercise any share options during the year and did not have any benefits under any other long term incentive schemes.

6. Interest receivable and similar income

	2013	2012
	£000	£000
Interest receivable from parent company	**3,274**	-

The interest receivable from parent company relates to the £65m loan to Affinity Water Capital Funds Limited (see notes 11 and 28).

7. Interest payable and similar charges

		Restated
	2013	2012
	£000	£000
Interest payable to parent company	**170**	578
Preference dividends payable	**44**	44
	214	622

According to the Articles of Association, the preference shareholders are entitled to fixed cumulative dividends as a priority to distributions to ordinary shareholders and as such the company has elected to reclassify the preference shares of £446,000 outstanding to liabilities as per Financial Reporting Standard 25. Prior year figures have been reclassified accordingly.

8. Other finance charges

	2013	2012
	£000	£000
Expected return on pension scheme	**312**	1,032
Interest on pension scheme liabilities	**(309)**	(985)
	3	47

Notes to the financial statements for the year ended 31 March 2013 (continued)

9. Tax on profit on ordinary activities

	2013 £000	2012 £000
Current taxation		
Current tax on profit for the year	**1,176**	1,029
Adjustment in respect of prior years	**-**	(201)
Current taxation	**1,176**	828
Deferred taxation		
Origination and reversal of timing differences	**109**	144
Adjustment in respect of prior years	**(1)**	79
Impact of change in tax rate	**(239)**	(487)
Decrease in discounting	**631**	186
Deferred tax charge/(credit) for the year	**500**	(78)
Tax on profit on ordinary activities	**1,676**	750

Current taxation reconciliation

	2013 £000	2012 £000
Profit on ordinary activities before taxation	**10,618**	3,652
Theoretical tax at UK corporation tax rate of 24% (2012: 26%)	**2,548**	950
Effects of:		
Adjustment to tax in respect of prior years	**-**	(201)
Accelerated capital allowances	**27**	6
Other short term timing differences	**90**	(4)
Other timing differences	**(205)**	(86)
Permanent differences	**96**	163
Non taxable income	**(1,380)**	-
Actual current taxation charge	**1,176**	828

Non taxable income relates to the profit on sale of the business.

Factors that may affect future tax charges:

A change in the main corporation tax rate in the United Kingdom from 24 per cent to 23 per cent was substantively enacted on 3 July 2012 to become effective from 1 April 2013.

Further reductions announced in the March 2013 Budget are expected to be enacted separately each year with the intention of reducing the rate to 20 per cent effective from 1 April 2015. Future changes in the main corporation tax rate from 23 per cent to 20 per cent had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Notes to the financial statements for the year ended 31 March 2013 (continued)

10. Dividends

	2013	2012
	£000	£000
Paid: Ordinary – first interim of 203.75p per share (2012: 196.57p)	**2,392**	2,307
Paid: Ordinary – second interim of 147.61p per share (2012:134.03p)	**1,733**	1,573
	4,125	3,880

The company's parent company, Affinity Water Capital Funds Limited waived £90,000 of their £1,706,000 January 2013 interim dividend.

11. Sale of business

Following discussions with Ofwat during 2011, Affinity Water Limited made a formal application to Ofwat on 23 February 2012 to unify the licences of the formerly named companies Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited so as to operate the three areas under a single licence. Approval was received from Ofwat following a period of formal public consultation. The unification of the regulated businesses was effected on 27 July 2012.

On that day the trade and net assets of the formerly named company, Veolia Water East Limited, were sold to Veolia Water Central Limited for a consideration of £65m. On the same day, Veolia Water East Limited transferred £65m to its parent company, Veolia Water Capital Funds Limited, as a long term loan (see note 6).

The book value of the identifiable assets and liabilities as at the date of acquisition, amounted to:

	£000
Tangible fixed assets	79,087
Investment	1
Cash at bank and in hand	2
Stocks	236
Debtors	2,798
Creditors: amounts falling due within one year	(13,752)
Creditors: amounts falling due after more than one year	(6,500)
Provisions for liabilities	(2,385)
Net pension liability	(237)
	59,250
Cash consideration	65,000
Profit on sale of business	**5,750**

As a part of the rebranding of the whole retained group post divestment from Veolia Water UK Limited, the name of the company changed from Veolia Water East Limited to Affinity Water East Limited on 1 October 2012.

12. Tangible Fixed Assets

	Land, Buildings & Operational Structures	Mains & Other Infrastructure Assets	Fixed Plant	Vehicles & Mobile Plant	Assets in course of construction	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2012	36,430	47,859	15,829	7,960	1,537	109,615
Additions	-	154	17	142	598	911
Capital contributions	-	(85)	-	-	-	(85)
Disposals	(149)	-	(38)	(100)	-	(287)
Revaluation	-	14,100	-	-	-	14,100
Transfer to AWL*	(36,281)	(62,028)	(15,808)	(8,002)	(2,135)	(124,254)
At 31 March 2013	-	-	-	-	-	-
Accumulated Depreciation						
At 1 April 2012	5,950	19,872	12,503	5,660	-	43,985
Charge for the year	224	623	257	219	-	1,323
Disposals	(45)	-	(34)	(62)	-	(141)
Transfer to AWL*	(6,129)	(20,495)	(12,726)	(5,817)	-	(45,167)
At 31 March 2013	-	-	-	-	-	-
Net book value						
At 31 March 2013	-	-	-	-	-	-
At 31 March 2012	30,480	27,987	3,326	2,300	1,537	65,630

*Affinity Water Limited

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

The company's tangible fixed assets were professionally valued at 31 March 2010 by independent qualified valuers, PricewaterhouseCoopers LLP ('PwC'), a firm of independent chartered accountants. This valuation was performed in accordance with Financial Reporting Standard 15 which requires that assets subject to a policy of revaluation should be carried at their current value. Current value is defined in Financial Reporting Standard 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value ('NRV') and Value in Use ('VIU').

Having considered the above definitions of value, PwC concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a water company in the United Kingdom was a two step approach:

- Step 1: Estimating the business VIU, using a discounted cash flow ('DCF') model to determine the business enterprise value, cross-checked against the Regulatory Capital Value ('RCV'), followed by

- Step 2: Allocating the VIU of the business (less relevant working capital balances, deferred tax liabilities and other adjustments) to individual classes of tangible fixed assets.

12. Tangible Fixed Assets (continued)

Such valuations were incorporated into the financial statements with the resulting revaluation adjustments taken to the revaluation reserve.

PwC carried out an update to the valuation using a consistent basis as above during the year ended 31 March 2013. The revaluation surplus of £14.1m was attributable to infrastructure assets and was taken to the revaluation reserve. Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

13. Investment

	2013	2012
	£000	£000
Investment in subsidiary undertaking	**-**	1

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

14. Stocks

	2013	2012
	£000	£000
Pipes and stores	**-**	212

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

15. Debtors

	2013	2012
	£000	£000
Due within one year		
Trade debtors	**-**	917
Accrual for unbilled metered customers	**-**	2,556
Receipts in advance	**-**	(1,235)
Amounts due from group companies	**-**	671
Amounts due from parent company	**1,610**	-
Other debtors	**-**	579
Prepayments and accrued income	**-**	33
	1,610	3,521

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited. The amount due from parent company relates to interest receivable on the £65m loan to Affinity Water Capital Funds Limited.

Notes to the financial statements for the year ended 31 March 2013 (continued)

15. Debtors (continued)

Due after more than one year

	2013 £000	2012 £000
Amounts due from parent company	**65,000**	-

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.
Refer to note 28 for the terms of the loan.

16. Creditors – amounts falling due within one year

	2013 £000	2012 £000
Payments received in advance	**-**	219
Trade creditors	**-**	1,262
Capital creditors	**-**	242
Amounts due to group companies	**-**	427
Corporation tax	**785**	381
Other taxes and social security	**-**	97
Other creditors	**-**	74
Deferred income and accruals	**-**	1,343
	785	4,045

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

17. Creditors – amounts falling due after more than one year

	2013 £000	Restated 2012 £000
Preference shares	**446**	446
Amount due to group company	**-**	15,700
Other long term liabilities	**-**	4
	446	16,150

According to the Articles of Association, the preference shareholders are entitled to fixed cumulative dividends as a priority to distributions to ordinary shareholders and as such the company has elected to reclassify the preference shares of £446,000 outstanding to liabilities as per Financial Reporting Standard 25. Prior year figures have been reclassified accordingly.

Preference shares relate to 4,456,116 shares of 10p each.

Rights to dividends

Preference shares are entitled to a fixed cumulative 10 per cent of the nominal value, payable half yearly on 1 November and 15 July. Deferred shares have no entitlement to dividends.

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

18. Provisions for liabilities and charges

	Deferred tax £000
At 1 April 2012	2,090
Charge to the profit and loss account	296
Transfer to Affinity Water Limited	(2,386)
At 31 March 2013	**-**

Deferred tax (see note 9)

	2013 £000	2012 £000
Accelerated capital allowances	**5,609**	5,859
Other timing differences	**(106)**	(20)
Undiscounted provision for deferred tax	**5,503**	5,839
Discount	**(3,118)**	(3,749)
Discounted provision for deferred tax	**2,385**	2,090
Deferred tax asset on pension liability	**(71)**	(207)
Provision transferred to Affinity Water Limited on 27 July 2012 (including deferred tax on pension liability)	**2,314**	1,883

Deferred tax asset relating to pension deficit

	2013 £000	2012 £000
At 1 April	**207**	100
Deferred tax charged to the profit and loss account	**(205)**	(88)
Deferred tax charged to the statement of total recognised gains and losses:		
- on actuarial loss	**69**	195
At 31 March (transferred to Affinity Water Limited on 27 July 2012)	**71**	207

The deferred tax asset of £71,000 (2012: £207,000) has been deducted in arriving at the net pension liability transferred to Affinity Water Limited on 27 July 2012.

19. Deferred income

	2013	2012
	£000	£000
Third party contributions		
At 1 April	**48**	61
Less credited to profit and loss account	**-**	(13)
Less transfer to Affinity Water Limited	**(48)**	-
At 31 March	**-**	48

20. Share capital

		2013	Restated 2012
		£000	£000
Allotted, called up and fully paid share capital			
1,088,860	Ordinary shares of 25p each	**272**	272
84,770	Ordinary non voting shares of 25p each	**21**	21
4,346,109	Deferred shares of 10p each	**435**	435
		728	728

According to the Articles of Association, the preference shareholders are entitled to fixed cumulative dividends as a priority to distributions to ordinary shareholders and as such the company has elected to reclassify the preference shares of £446,000 outstanding to liabilities as per Financial Reporting Standard 25. Prior year figures have been reclassified accordingly.

Rights to dividends

Deferred shares have no entitlement to dividends.

Priority and amounts receivable on a sale or winding up

In the event of liquidation or a repayment only of the capital, the surplus assets after the payment of liabilities of the company shall be applied in the following priority:

Firstly, to the preference shareholders for any arrears, deficiencies or accruals of dividends (refer to note 17).

Secondly, to the holders of the ordinary and ordinary non-voting shares one million times the paid up capital.

Thirdly, to the holders of the preference and deferred shares, the capital paid on such shares who shall not otherwise be entitled to share in surplus assets.

The balance shall be distributed amongst the holders of the ordinary shares and the ordinary non-voting shares according to the amount paid up thereon.

Voting rights

Non-voting ordinary shareholders have the right to receive notice of but not to attend or to vote at any general meeting unless the meeting involves a variation in any rights attached to such shares.

Ordinary shareholders have the right to receive notice of, attend and vote at all general meetings.

21. Reserves

	Profit and loss account £000	**Capital redemption reserve £000**	**Revaluation reserve £000**
At 1 April 2012	15,293	1,500	29,080
Dividends	(4,035)	-	-
Actuarial gain recognised in the pension scheme	(298)	-	-
Movement on deferred tax relating to pension liability	69		-
Transfer to profit and loss account from revaluation reserve	158	-	(158)
Profit for the financial year	8,942	-	-
Revaluation during the year	-	-	14,100
Transfer to the profit and loss account	43,022	-	(43,022)
At 31 March 2013	**63,151**	**1,500**	**-**

On the transfer of the trade and net assets to Affinity Water Limited on the unification of the water licences, the revaluation reserve was transferred into the profit and loss account as it was realised on the sale of the business.

The total dividend declared during the year was £4,125,000. The company's parent company, Affinity Water Capital Funds Limited waived £90,000 of the January 2013 interim dividend.

22. Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Profit for the financial year	**8,942**	2,902
Actuarial loss recognised in the pension scheme	**(298)**	(812)
Deferred tax arising thereon	**69**	195
Total gains recognised for the year	**8,713**	2,285
Dividends paid	**(4,035)**	(3,924)
Revaluation during the year	**14,100**	-
Preference shares disclosed as liabilities in the year	**(446)**	-
Net increase/(reduction) to shareholders' funds	**18,332**	(1,639)
Opening shareholders' funds	**47,047**	48,686
Closing shareholders' funds	**65,379**	47,047

23. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as follows:

	2013	2012
	£000	£000
Operating leases which expire:		
Within one year	-	10
In two to five years	-	2
	-	12

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

24. Capital commitments

The directors have authorised the following capital expenditure which is not provided for in the accounts:

	2013	2012
	£000	£000
Contracted capital expenditure	-	293

The company has not entered into any guarantee arrangement or had legal disputes that would represent contingent liabilities at 31 March 2013, other than those provided for in these financial statements.

Refer to note 11 for further details on the transfer of trade and net assets to Affinity Water Limited.

25. Pension commitments

Composition of the pension scheme

As a result of the unification of the regulated businesses on 27 July 2012, the pension commitments of the company were transferred to Affinity Water Limited. Until that date, the company participated in the Veolia UK Pension Plan ('VUKPP').

Veolia UK Pension Plan

Until 31 March 1996, the company was a member of The Water Companies' Association Pension Scheme, which provided benefits based on final pensionable pay. On 1 April 1996 the assets and liabilities of the General Utilities Plc subsidiaries which participated in the Water Companies' Association Scheme were transferred to a "mirror image" plan called the Veolia Water Supply Companies' Pension Plan ('VWSCPP') which was closed to new members. This plan continued to provide benefits on a no less favourable basis than those previously provided for existing members of the scheme.

A new scheme was inaugurated as at 1 April 1996, the Générale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Générale des Eaux UK Pension Plan on 1 April 1998 to form the VUKPP, which was open to all new staff and existing members. The scheme provided a selection of benefits based upon final pensionable pay or money purchase according to the members' wishes. The final salary section was closed to new members on 30 September 2004.

25. Pensions commitments (continued)

On 31 May 2011, each of the divisions of the VWSCPP was merged into its corresponding division of the VUKPP.

The latest formal valuation of the plan for the company, determined by an independent qualified actuary, was at 31 December 2010, prior to the merger. The following disclosure is therefore presented for both the VWSCPP and VUKPP schemes combined. The actuarial valuation was made on the “attained age” funding method, based on the following assumptions:

Rate of investment return	6.2% (pre-retirement), 5.2% (post-retirement)
Rate of increase in remuneration	4.8%
Rate of pension increase	2.8% (former members of VWSCPP scheme)
Rate of pension increase	3.3% (VUKPP other members)

The valuation as at 31 December 2010 stated the market valuations of the plan to be £16.6m with a funding level of 93 per cent.

Contributions to the VUKPP over the period ended 31 March 2013 were paid by members in accordance with the rules of the plan and by the company expressed as fixed monetary amounts according to the size of the relevant payroll and any surplus or deficit in the relevant division of the plan.

No contributions are expected to be paid in the year from the balance sheet date (2012: £0.571m).

Principal assumptions

The pension liability was transferred to Affinity Water Limited on 27 July 2012 on the unification of the water licences (see note 12). Until then the present values of pension liabilities were estimated by discounting pension commitments, including salary growth, at an AA corporate bond yield. In calculating the liabilities of the plan, the following financial assumptions were used:

	2013	2012	2011
Discount rate	-	4.95% pa	5.5% pa
Salary growth	-	4.70% pa	4.9% pa
RPI	-	3.20% pa	3.4% pa
CPI*	-	2.50% pa	2.9% pa
VWSCPP pension-in payment increases	-	2.50% pa	2.9% pa
VUKPP pension-in payment increases	-	3.20% pa	3.4% pa
VWSCPP – Life expectancy for a male pensioner age 65 (yrs)	-	22.6	22.2
VWSCPP – Life expectancy for a male non-pensioner age 65 (yrs)	-	24.7	25.8
VUKPP – Life expectancy for a male pensioner age 65 (yrs)	-	22.6	23.0
VUKPP – Life expectancy for a male non-pensioner age 65 (yrs)	-	24.7	26.7

* The impact of statutory increases is now being linked to the movement in CPI rather than RPI based on legal advice received by the Trustees as follows:

- VUKPP - the change applies to deferred revaluation only
- VWSCPP (former members of) - the change applies to deferred revaluation and pension increases in payment

Deferred pensions were revalued to retirement age in line with the CPI assumption of 2.5 per cent per annum unless otherwise prescribed by statutory requirements or the plan rules.

Notes to the financial statements for the year ended 31 March 2013 (continued)

25. Pensions commitments (continued)

The assets of the above plans were held separately to those of the company, being invested by independent fund managers.

Until the transfer of the liability to Affinity Water Limited, contributions to the plan were charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

The total pensions charge including the defined contributions scheme for the period ended 31 March 2013 was £107,000 (2012: £312,000).

The assets of the scheme and the weighted average expected rate of return were:

	31 March 2013		31 March 2012	
	Value	**Long term rate of return expected**	Value	Long term rate of return expected
	£m	**(% pa)**	£m	(% pa)
Equities	**-**	**-**	9.2	6.90
Bonds	**-**	**-**	3.5	5.30
Gilts/cash	**-**	**-**	5.4	3.40
Fair value of assets	**-**		18.1	

Amounts for the current period and the previous four periods are as follows:

	Year ended 31 March 2013	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009
Defined benefit obligation (£m)	**-**	18.9	18.2	18.7	13.4
Plan assets (£m)	**-**	18.1	17.9	16.1	12.4
Deficit (£m)	**-**	(0.8)	(0.3)	(2.6)	(1.0)
Difference between expected and actual return on plan assets:					
Percentage of plan assets	**-**	4%	(5%)	19%	(22%)
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	**-**	2%	0%	0%	(4%)

Notes to the financial statements for the year ended 31 March 2013 (continued)

25. Pensions commitments (continued)

Reconciliation of present value of scheme liabilities:

	2013	2012
	£000	£000
At 1 April	**18,948**	18,237
Current service cost	**89**	257
Interest cost	**309**	985
Actuarial (loss)/gain	**(441)**	165
Benefits paid	**(202)**	(744)
Contributions by scheme participants	**15**	48
Transfer to Affinity Water Limited	**(18,718)**	-
At 31 March	**-**	18,948

Reconciliation of fair value of pension scheme assets:

	2013	2012
	£000	£000
At 1 April	**18,086**	17,858
Contributions paid by employer	**938**	540
Contribution by scheme participants	**15**	48
Expected return on scheme assets	**312**	1,031
Actuarial loss	**(739)**	(647)
Benefits paid	**(202)**	(744)
Transfer to Affinity Water Limited	**(18,410)**	-
At 31 March	**-**	18,086
Pension liability before deferred tax	**-**	862
Related deferred tax	**-**	(207)
Net pension liability at 31 March	**-**	655

The amounts recognised in the profit and loss account are as follows:

	2013	2012
	£000	£000
Current service cost	**89**	257
Expected return on scheme assets	**(312)**	(1,031)
Interest on pension scheme liabilities	**309**	985
Total charge	**86**	211

25. Pensions commitments (continued)

Total actuarial gains and losses recognised in the statement of total gains and losses:

	2013 £000	2012 £000
Actuarial losses on scheme assets	**(739)**	(647)
Actuarial gain/(loss) on scheme liabilities	**441**	(165)
Total charge	**(298)**	(812)
Deferred tax arising thereon	**69**	195
Charge after deferred tax	**(229)**	(617)

The contributions made into the money purchase scheme were £18,000 (2012: £55,500). At the end of the year, there were no outstanding contributions (2012: £nil).

26. Billing on behalf of Anglian Water

The company bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Anglian Water Services Limited. No amounts are included in the accounts in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2013 (2012: £nil).

27. Related party transactions

The company had a number of transactions with related parties, in the normal course of business, during the year. The transactions are disclosed below.

				2013		2012
Purchases	**Nature of relationship**	**In respect of**	**Value £000's**	**Balance £000's**	Value £000's	Balance £000s
Veolia Water UK Limited	Associate	Management and technical support	**119**	**-**	512	256
Affinity Water Limited	Common ownership	Central services recharges	**-**	**-**	7	3
Affinity Water Shared Services Limited	Common ownership	Central services recharges	**99**	**-**	678	87
Affinity Water Southeast Limited	Common ownership	Telemetry, payroll, regulations	**-**	**-**	47	-
Affinity Water Capital Funds Limited	Shareholder	Financing and dividends	**4,327**	**-**	4,483	65
Affinity Water Trust	Trust fund	Donations	**4**	**-**	12	-

27. Related party transactions (continued)

				2013		2012
Sales	**Nature of relationship**	**In respect of**	**Value £000's**	**Balance £000's**	Value £000's	Balance £000s
Affinity Water Limited	Common ownership	Customer services database and other recharges	-	**-**	19	10
Affinity Water Southeast Limited	Common ownership	Debt collection, joint managing director and recharges	-	**-**	269	40
Affinity Water Capital Funds Limited	Parent company	Financing	**3,274**	**66,610***	-	-

*Includes the principal amount outstanding of £65m.

28. Financial instruments and risk management

The company's financial instruments comprise long term debtor balances with its parent company, Affinity Water Capital Funds Limited.

It is the company's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged during the period.

The company does not undertake speculative transactions.

Financial assets

The company has a long term debtor balance of £65m with its parent company Affinity Water Capital Funds Limited. This loan currently carries an interest rate of 7.42 per cent, from 1 April 2013 the interest rate increases to 7.64 per cent and from 1 April 2014 to 7.83 per cent.

The loan is due for repayment on 31 March 2015.

Financial liabilities

All financial instruments were transferred to Affinity Water Limited on the unification of the water licences.

Refer to note 11 for further details.

The company has taken advantage of the exemption of Financial Reporting Standard 29: 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the Affinity Water Acquisitions Limited group's consolidated financial statements, in which the company is included, provide equivalent disclosures. All disclosure made in this note is provided on a voluntary basis

29. Ultimate parent company and controlling party

The company is a 98.45 per cent owned subsidiary of Affinity Water Capital Funds Limited.

Affinity Water Capital Funds Limited, a company registered in England and Wales, was the parent undertaking of the smallest group to consolidate the financial statements of the company for the year ended 31 March 2012. Veolia Environnement S.A., a company incorporated in France, was the parent undertaking of the largest group to consolidate the statutory financial statements of this company, through its investment in the company's intermediate parent undertaking, Veolia Water UK Limited, and was the ultimate holding and controlling company until the divestment of the majority shareholding in the Affinity Water Capital Funds Limited group by Veolia Water UK Limited on 28 June 2012.

Since 28 June 2012, Affinity Water Capital Funds Limited has been wholly owned by Affinity Water Acquisitions Limited (formerly Rift Acquisitions Limited), a company registered in England and Wales, which is the smallest group to consolidate the statutory financial statements of the company for the year ended 31 March 2013. Affinity Water Acquisitions (Investments) Limited (formerly Rift Acquisitions (Investments) Limited), a company registered in England and Wales, is the parent undertaking of the largest group to consolidate the statutory financial statements of this company.

The directors consider that Affinity Water Acquisitions (Investments) Limited is the ultimate holding and controlling company in the United Kingdom.

Copies of the group financial statements of Affinity Water Acquisitions Limited and Affinity Water Acquisitions (Investments) Limited may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Affinity Water Acquisitions (Investments) Limited is owned by a consortium of investors led by Infracapital Partners II, the infrastructure investment fund managed by M&G (the European Investment arm of Prudential Plc), and Morgan Stanley Infrastructure Partners. Veolia Environnement S.A. has retained a 10 per cent minority shareholding through its subsidiary Veolia Water UK Limited. The directors do not consider there to be an ultimate parent or controlling party.

Infracapital Partners II is one of a number of European infrastructure funds managed by M&G Investment Management Limited, a subsidiary of Prudential Plc. It was established in 2010 to make investments in income-generative infrastructure assets and business, including electricity and gas networks, water companies, transport infrastructure and renewable energy.

Morgan Stanley Infrastructure Partners is a leading global infrastructure investment fund. It is managed by Morgan Stanley Infrastructure Inc., part of the investment management division of Morgan Stanley. Morgan Stanley Infrastructure Partners targets core infrastructure assets that provide essential public goods and services to societies across the globe and seeks to improve asset performance using active management.