AFFINITY WATER SOUTHEAST LIMITED
(FORMERLY VEOLIA WATER SOUTHEAST LIMITED)

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

(Registered Number 2724316)

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

Contents

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

Directors and advisers

Directors

Richard Bienfait	(appointed 6 July 2012)
Duncan Bates	(appointed 27 July 2012)
Olivier Bret	(resigned 28 June 2012)
Janette McKay	(resigned 27 July 2012)
Nevil Muncaster (Managing Director)	(resigned 28 June 2012)
Paul Sabin (Chairman)	(resigned 27 July 2012)
Neil Summerton	(resigned 27 July 2012)

Company Secretary

Denise Roberts (Joint Secretary, resigned 15 November 2012)
Tim Monod

Registered Office

Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Registered Auditors

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

Registered Number

2724316

Affinity Water Southeast Limited
(formerly Veolia Water Southeast 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 was changed from Veolia Water Southeast Limited to Affinity Water Southeast Limited on 1 October 2012.

Principal activity

The principal activity of the company was the supply of water to an estimated population of 160,000 in an area of 420 square kilometres in the south east of England.

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 Southeast Limited (formerly Veolia Water Southeast 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.

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 Southeast Limited received £66.2m 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 UK Limited, on 1 October 2012, the name of the company changed from Veolia Water Southeast Limited to Affinity Water Southeast Limited.

Directors

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

Business review and financial performance

The turnover for the year is £5.9m (2012: 12 months £19.5m) and operating costs are £5.8m (2012: 12 months £13.5m). Turnover has been lower than the prior year on a proportionate basis due to reduced volume of distribution as a result of the wet summer. Operating costs are higher than the prior year primarily due to the effect of the asset limit on the defined benefit pension asset for the period. Interest income from the long term loan of £66.2m to Affinity Water Capital Funds Limited is £2.6m (2012: £nil). The overall profit after tax for the year is £5.3m (2012: £4.7m) which includes £3.3m 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 will earn interest on the £66.2m 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	1,707
Interim – paid January 2013	1,349
	3,056

The company's parent company, Affinity Water Capital Funds Limited waived £30,000 of their £1,314,000 January 2013 interim dividend.

Employees

The company consults and informs employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings and the intranet. The company continued to discuss ways to enhance and improve its communications and consultation channels with its Trade Unions.

On-going training was provided on technical, managerial and health and safety skills and awareness. The company continued to provide driver assessment and training to all individuals driving on company business. The company also continued the programme of increasing awareness for all executives and senior managers on health and safety issues.

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. Employees who become disabled whilst employed by the company are actively encouraged to find appropriate employment within the business.

Several initiatives were also introduced with the aim of improving the health and well-being of the company's employees.

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
- assist customers in financial hardship, via a charitable trust
- 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: £13,411) 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 114 (2012: 82).

Corporate governance

From 27 July 2012, the principal business of Affinity Water Southeast 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' 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 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 Southeast 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). The financial statements are required by law to 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 year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper 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 to 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.

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

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 no seeking reappointment and a resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the annual general meeting.

By order of the Board

Tim Monod
Company Secretary
26 July 2013

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

We have audited the financial statements of Affinity Water Southeast Limited (formerly Veolia Water Southeast 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 27. 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 Southeast Limited (formerly Veolia Water Southeast 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 Southeast Limited
(formerly Veolia Water Southeast Limited)

Profit and loss account
for the year ended 31 March 2013
(Registered Number 2724316)

	Note	2013 £000	2012 £000
Turnover	2	**5,863**	19,505
Cost of sales		**(4,562)**	(8,214)
Gross profit		**1,301**	11,291
Customer services and administrative expenses		**(1,236)**	(5,300)
Other operating income	3	**170**	192
Operating profit	4	**235**	6,183
Profit on disposal of business – exceptional item	12	**3,292**	-
Profit on disposal of fixed assets	5	**96**	650
Profit on ordinary activities before interest and taxation		**3,623**	6,833
Interest receivable and similar income	7	**2,585**	-
Interest payable and similar charges	8	**(446)**	(1,345)
Other finance income	9	**75**	317
Profit on ordinary activities before taxation		**5,837**	5,805
Tax on profit on ordinary activities	10	**(557)**	(1,153)
Profit on ordinary activities after taxation and for the financial year		**5,280**	4,652

Interest receivable of £2.6m relates to interest earned on the £66.2m 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 37 form part of these financial statements.

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

Statement of total recognised gains and losses for the year ended 31 March 2013
(Registered Number 2724316)

	Note	**2013** **£000**	2012 £000
Profit for the financial year		**5,280**	4,652
Actuarial gain/(loss) recognised in the pension scheme	20	**381**	(1,109)
Deferred tax movement relating to actuarial gain/(loss)	20	**(88)**	266
Total recognised gains for the year		**5,573**	3,809

The notes on pages 13 to 37 form part of these financial statements.

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

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

(Registered Number 2724316)

	Note	**2013 £000**	2012 £000
Reported profit on ordinary activities before taxation		**5,837**	5,805
Realisation of property revaluation gains of previous years	20	**-**	510
Realisation of balance on revaluation reserve at date of sale of business	20	**43,999**	-
Historical cost profit on ordinary activities before taxation		**49,836**	6,315
Historical cost profit for the year retained after taxation		**49,279**	5,162

The notes on pages 13 to 37 form part of these financial statements.

Affinity Water Southeast Limited
(formerly Veolia Water Southeast Limited)

Balance sheet
as at 31 March 2013
(Registered Number 2724316)

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	13	-	84,916
Financial assets	15	**66,200**	-
Other long term assets		-	100
		66,200	85,016
Current assets			
Stocks	14	-	220
Debtors	15	**1,279**	6,135
Cash at bank and in hand		-	68
		1,279	6,423
Creditors – amounts falling due within one year	16	**(619)**	(8,258)
Net current assets/(liabilities)		**660**	(1,835)
Total assets less current liabilities		**66,860**	83,181
Creditors – amounts falling due after more than one year	17	**(100)**	(37,825)
Provisions for liabilities	18	-	(3,887)
Net assets excluding pension liability		**66,760**	41,469
Net pension asset	24	-	2,244
Net assets including pension liability		**66,760**	43,713
Capital and reserves			
Called up share capital	19	**146**	146
Share premium account	20	**214**	214
Revaluation reserve	20	-	23,499
Capital redemption reserve	20	**2,500**	2,500
Profit and loss account	20	**63,900**	17,354
Shareholders' funds	21	**66,760**	43,713

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:

D Bates

Duncan Bates
Director

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 Southeast 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.

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 providing a percentage of current year debt based on two years of historical averages of collectability over a 12 month period. Older debt outstanding is provided at 100 per cent.

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

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 financial 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.

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.

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

1. Statement of accounting policies (continued)

Financial assets (continued)

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.

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.

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

1. Statement of accounting policies (continued)

Deferred taxation (continued)

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.

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.

1. Statement of accounting policies (continued)

Tangible fixed assets and depreciation (continued)

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:

Leasehold property	Term of the lease
Buildings, reservoirs and wells	40 - 100 years
Plant, machinery and equipment	3 - 20 years
Vehicles and mobile plant	4 - 5 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 13.

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 an operating lease are charged against profits on a straight-line basis over the life of the lease.

1. Statement of accounting policies (continued)

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.

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	**455**	1,992
Measured supplies	**5,406**	17,075
Chargeable services	**2**	438
	5,863	19,505

3. Other operating income

	2013	2012
	£000	£000
Commission and rentals	**170**	166
Option to purchase land	**-**	26
	170	192

4. Operating profit

	2013 **£000**	2012 £000
Operating profit is stated after charging/(crediting):		
Depreciation of mains and other infrastructure assets	**758**	2,273
Depreciation of tangible fixed assets	**1,120**	3,194
Amortisation of deferred credit	**(13)**	(38)
Research and development	**-**	131
Operating lease rentals - other	**32**	78
Auditors' remuneration		
Audit of the financial statements	**30**	58
Other non-audit services	**-**	30

5. Profit on disposal of fixed assets

	2013 **£000**	2012 £000
Profit on disposal of freehold land	**-**	646
Profit on disposal of other fixed assets	**96**	4
	96	650

6. Employees and directors

	2013 **£000**	2012 £000
Staff costs (including executive directors) consist of:		
Wages and salaries	**958**	2,785
Social security costs	**92**	279
Defined contribution pension costs	**22**	66
Defined benefit pension costs – current service cost (note 24)	**109**	317
Effect of pension asset limit (note 24)	**354**	(1,815)
	1,535	1,632

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

	2013 **Number**	2012 Number
Operations	**62**	62
Customer service and administration	**35**	35
	97	97

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

6. Employees and directors (continued)

Directors' emoluments

	2013	**2013**	**2013**	2012
	Salary and fees	**Other***	**Total**	Total
	£000	**£000**	**£000**	£000
Non-executives				
F Devos	**-**	**-**	**-**	15
P Sabin	**11**	**63**	**74**	32
J McKay	**6**	**37**	**43**	18
N Summerton	**6**	**37**	**43**	18
	23	**137**	**160**	83

*Other emoluments relate to compensation for loss of office.

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.

The emoluments of N Muncaster have been paid during the current year by Affinity Water East Limited, a fellow subsidiary company which has recharged an amount of £12,000 (2012: £101,381) to the company.

Pensions paid to former directors (or surviving spouses) amounted to £nil (2012: £14,023).

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**

7. Interest receivable and similar income

	2013	2012
	£000	£000
Interest receivable from parent company	**2,585**	-

The interest receivable from parent company relates to the £66.2m loan to Affinity Water Capital Funds Limited (see notes 12 and 26).

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

8. Interest payable and similar charges

	2013 £000	2012 £000
Interest payable to parent company	**432**	1,326
Guaranteed income agreements	**-**	5
Preference dividends payable	**14**	14
	446	1,345

9. Other finance income

	2013 £000	2012 £000
Expected return on pension scheme	**417**	1,431
Interest on pension scheme liabilities	**(342)**	(1,114)
	75	317

10. Tax on profit on ordinary activities

	2013 £000	2012 £000
Current taxation		
Current tax on profit of the year	**787**	683
Adjustment in respect of prior years	**(2)**	20
Current taxation	**785**	703
Deferred taxation		
Origination and reversal of timing differences	**(115)**	1,031
Adjustment in respect of prior years	**(2)**	(124)
Impact of change in tax rate	**(390)**	(815)
Decrease in discounting	**279**	358
Deferred tax charge for the year	**(228)**	450
Tax on profit on ordinary activities	**557**	1,153

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

10. Tax on profit on ordinary activities (continued)

Current taxation reconciliation		
Profit on ordinary activities before taxation	**5,837**	5,805
Theoretical tax at UK corporation tax rate of 24% (2012: 26%)	**1,401**	1,509
Effects of:		
Adjustment to tax in respect of prior years	**(2)**	20
Accelerated capital allowances	**22**	(260)
Other short term timing differences	**-**	(14)
Permanent differences	**61**	103
Other timing differences	**93**	(655)
Non taxable income	**(790)**	-
Actual current taxation charge	**785**	703

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.

11. Dividends on equity shares

	2013	2012
	£000	£000
Ordinary:		
First interim of 584p per share (2012: 533p)	**1,707**	1,557
Second interim of 462p per share (2012: 529p)	**1,349**	1,548
	3,056	3,105

The company's parent company, Affinity Water Capital Funds Limited waived £30,000 of their £1,314,000 January 2013 interim dividend.

12. 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 water 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 Southeast Limited, were sold to Veolia Water Central Limited for a consideration of £66.2m. On the same day, Veolia Water Southeast Limited transferred £66.2m to its parent company, Veolia Water Capital Funds Limited, as a long term loan (see note 7).

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

	£000
Tangible fixed assets	107,030
Cash at bank and in hand	58
Stocks	190
Debtors	6,688
Creditors: amounts falling due within one year	(36,812)
Creditors: amounts falling due after more than one year	(12,500)
Provisions for liabilities	(4,012)
Net pension liability	2,266
	62,908
Cash consideration	66,200
Profit on sale of business	**3,292**

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 Southeast Limited to Affinity Water Southeast Limited on 1 October 2012.

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

13. Tangible fixed assets

	Land, Buildings & Operational Structures £000	Mains & Other Infrastructure Assets £000	Fixed Plant £000	Vehicles & Mobile Plant £000	Assets in course of construction £000	Total £000
Cost						
At 1 April 2012	21,963	59,452	29,566	4,426	6,960	122,367
Additions	-	-		-	3,492	3,492
Transfers to complete	1,936		3,983	1,041	(6,960)	-
Revaluation	-	20,500	-	-	-	20,500
Transfer to AWL*	(23,899)	(79,952)	(33,549)	(5,467)	(3,492)	(146,359)
At 31 March 2013	**-**	**-**	**-**	**-**	**-**	**-**
Accumulated Depreciation						
At 1 April 2012	4,269	15,101	14,453	3,628	-	37,451
Charge for the year	127	758	816	177	-	1,878
Transfer to AWL*	(4,396)	(15,859)	(15,269)	(3,805)	-	(39,329)
At 31 March 2013	**-**	**-**	**-**	**-**	**-**	**-**
Net book value						
At 31 March 2013	**-**	**-**	**-**	**-**	**-**	**-**
At 31 March 2012	17,694	44,351	15,113	798	6,960	84,916

*Affinity Water Limited

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited.

The net book value of land, buildings and operational structures includes:

	2013 £000	2012 £000
Freehold land	**-**	3,464
Long term leasehold	**-**	257
	-	3,721

13. Tangible fixed assets (continued)

The net book value of mains and other infrastructure assets for the company is stated after the deduction of grants and contributions received since April 1990 amounting to £nil (2012: £9.802m) in order to give a true and fair view.

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.

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 £20.5m 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.

14. Stocks

	2013	2012
	£000	£000
Raw materials and consumables	**-**	209
Work in Progress	**-**	11
	-	220

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited.

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

15. Debtors

	2013	2012
	£000	£000
Due within one year		
Trade debtors and customers' water charges	**-**	5,103
Deposit with parent company	**-**	527
Amounts due from parent company	**1,279**	-
Other debtors	**-**	405
Prepayments and accrued income	**-**	100
	1,279	6,135

Refer to note 12 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 £66.2m loan to Affinity Water Capital Funds Limited.

Due after more than one year

	2013	2012
	£000	£000
Amounts due from parent company	**66,200**	-

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited. Refer to note 26 for terms of the loan.

16. Creditors – amounts falling due within one year

	2013	2012
	£000	£000
Payments received in advance	**-**	655
Trade creditors	**-**	2,568
Amounts due to fellow subsidiaries	**-**	1,366
Corporation tax	**619**	486
Taxation and social security	**-**	105
Other creditors	**-**	2,914
Deferred income	**-**	160
Accruals	**-**	4
	619	8,258

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited.

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

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

	2013 £000	2012 £000
Deferred credit – contributions to surface assets	**-**	121
4% irredeemable debenture stock	**-**	1
5% irredeemable debenture stock	**-**	3
Loan from Affinity Water Capital Funds Limited	**-**	37,500
Preference shares	**100**	100
Long term creditor	**-**	100
	100	37,825

The liability for preference shares relates to 200,247 14 per cent irredeemable preference shares of 50p each (2012: 200,247). The preference shareholders are entitled to a fixed cumulative 14 per cent of the nominal value, payable half yearly on 1 April and 1 October.

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited.

18. Provisions for liabilities

	Insurance £000	Deferred tax £000	Total £000
At 1 April 2012	-	3,887	3,887
Adjustment in respect of prior years	-	(2)	(2)
Charged/(Credited) to the profit and loss account	237	(110)	127
Transfer to Affinity Water Limited	(237)	(3,775)	(4,012)
At 31 March 2013	**-**	**-**	**-**

Deferred tax (see note 10)

	2013 £000	2012 £000
Accelerated capital allowances	**8,467**	8,859
Other timing differences	**(43)**	(45)
Undiscounted provision for deferred tax	**8,424**	8,814
Discount	**(4,649)**	(4,927)
Discounted provision for deferred tax	**3,775**	3,887
Deferred tax liability on pension asset	**677**	708
Provision transferred to Affinity Water Limited on 27 July 2012 (including deferred tax on pension liability)	**4,452**	4,595

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

18. Provisions for liabilities (continued)

Deferred tax liability relating to pension liability

	2013 £000	2012 £000
At 1 April	**708**	401
Deferred tax (credit)/charge to the profit and loss account	**(119)**	573
Deferred tax charge/(credit) to the statement of total recognised gains and losses:		
- on pension actuarial gain/(loss)	**88**	(266)
At 31 March (transferred to Affinity Water Limited on 27 July 2012)	**677**	708

The deferred tax liability of £677,000 (2012: £708,000) has been deducted in arriving at the net pension liability transferred to Affinity Water Limited on 27 July 2012.

19. Share capital

		2013 £000	2012 £000
Allotted, called up and fully paid share capital			
218,670	Ordinary shares of 50p each	**109**	109
73,700	Non-voting ordinary shares of 50p each	**37**	37
		146	146

Rights of shareholders

Ordinary shares: any profits determined as distributable will be equally distributed to both voting and non-voting shareholders.

Winding up: any surplus assets remaining after payment of liabilities will be distributed firstly to preference shareholders, then to ordinary shareholders, in accordance with the rights attached to each class of share.

20. Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000	Capital redemption reserve £000
At 1 April 2012	214	23,499	17,354	2,500
Actuarial loss recognised in the pension scheme	-	-	381	-
Deferred tax arising thereon	-	-	(88)	-
Profit for the financial year	-	-	5,280	-
Dividends paid	-	-	(3,026)	-
Revaluation during the year	-	20,500	-	-
Transfer to profit and loss account	-	(43,999)	43,999	-
At 31 March 2013	**214**	**-**	**63,900**	**2,500**

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 company declared an interim dividend of £3,056,000 during the year. The company's parent company, Affinity Water Capital Funds Limited waived £30,000 of the January 2013 interim dividend.

21. Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Profit for the financial year	**5,280**	4,652
Actuarial gain/(loss) recognised in the pension scheme	**381**	(1,110)
Deferred tax arising thereon	**(88)**	266
Total gains recognised for the year	**5,573**	3,808
Dividends paid	**(3,026)**	(3,105)
Revaluation during the year	**20,500**	**-**
Net addition to shareholders' funds	**23,047**	703
Opening shareholders' funds	**43,713**	43,010
Closing shareholders' funds	**66,760**	43,713

22. Commitments under operating leases

Operating leases

The company leased a number of vehicles under operating leases. The annual levels of commitments under non-cancellable operating leases are as follows:

	2013	2012
	£000	£000
Operating leases which expire:		
Within one year	**-**	54
In two to five years	**-**	43
After five years	**-**	-
	-	97

Refer to note 12 for further details on the transfer of trade and net assets to Affinity Water Limited.

23. 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	**-**	1,894

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

24. 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.

24. Pension commitments (continued)

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.

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 £23.7m with a funding level of 119 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: nil).

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

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

24. Pension commitments (continued)

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.

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 £131,000 (2012: £383,000).

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

	31 March2013		31 March 2012	
	Value	**Long term rate of return expected**	Value	Long term rate of return expected
	£m	**(% pa)**	£m	(% pa)
Equities	**-**	**-**	11.2	6.90
Bonds	**-**	**-**	4.2	5.30
Gilts/cash	**-**	**-**	10.3	3.40
Fair value of assets	**-**		25.7	

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)	**-**	21.0	20.9	21.7	16.0
Plan assets (£m)	**-**	25.7	25.4	23.3	18.0
Surplus/(deficit) (£m)	**-**	4.7	4.5	1.6	2.0
Difference between expected and actual return on plan assets:					
Percentage of plan assets	**-**	4%	(5%)	19%	(21%)
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	**-**	4%	0%	0%	4%

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

24. Pension commitments (continued)

Reconciliation of present value of scheme liabilities:

	2013	2012
	£000	£000
At 1 April	**20,997**	20,879
Current service cost	**109**	317
Interest cost	**342**	1,114
Actuarial gain/(loss)	**236**	(390)
Benefits paid	**(373)**	(978)
Contributions by scheme participants	**19**	55
Transfer to Affinity Water Limited	**(21,330)**	-
At 31 March	**-**	20,997

Reconciliation of fair value of pension scheme assets:

	2013	2012
	£000	£000
At 1 April	**25,651**	25,392
Contributions paid by employer	**-**	703
Contribution by scheme participants	**19**	55
Expected return on scheme assets	**417**	1,431
Actuarial gain/(loss)	**617**	(952)
Benefits paid	**(373)**	(978)
Transfer to Affinity Water Limited	**26,331**	
At 31 March	**-**	25,651
Pension asset before deferred tax	**-**	4,654
Effect of asset limit	**-**	(1,702)
Related deferred tax	**-**	(708)
Net pension asset at 31 March	**-**	2,244

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

	2013	2012
	£000	£000
Current service cost	**109**	317
Expected return on scheme assets	**(417)**	(1,431)
Interest on pension scheme liabilities	**342**	1,114
Effect of asset limit	**354**	(1,815)
Total charge/(credit)	**388**	(1,815)

There has been a change in the maximum allowable surplus which has resulted in a loss of £354,000 (2012: £1,815,000 gain) being recognised in the profit and loss account. The contributions made into the money purchase scheme were £22,000 (2012: £66,500). At the end of the year, there were no outstanding contributions (2012: £nil). The effect of the asset limit charged to the profit and loss account is £0.4m (2012: £1.8m credit). This has arisen from a change in the maximum allowable surplus relating to the net asset position.

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

24. Pension commitments (continued)

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

	2013 £000	2012 £000
Actuarial gain/(loss) on scheme assets	**617**	(952)
Actuarial (loss)/gain on scheme liabilities	**(236)**	390
Changes in surplus cap	**-**	(547)
Total credit/(charge)	**381**	(1,109)
Deferred tax arising thereon	**(88)**	266
Credit/(charge) after deferred tax	**293**	(843)

25. 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.

Purchases	**Nature of relationship:**	**In respect of:**	**2013 Value £'000s**	**2013 Balance £000s**	2012 Value £'000's	2012 Balance £000s
Affinity Water East Limited	Common ownership	Debt collection, joint managing director and recharges	**12**	**-**	269	40
Affinity Water Shared Services Limited (formerly Veolia Water Shared Services)	Common ownership	Shared service recharges	**212**	**-**	1824	815
Affinity Water Capital Funds Limited	Parent company	Financing and dividends paid	**3,415**	**-**	3,779	37,176
Veolia Water UK Limited	Associate	Management and technical support	**120**	**-**	706	280
Other Veolia entities	Associate	Cleaning & waste contracts and other support	**23**	**-**	236	45
Southern Water Services Limited	Associate	Bulk water supply, sewerage charges and dividends paid	**178**	**-**	216	159

Affinity Water Trust	Trust fund	Donations	**4**	**-**	13	-

25. Related party transactions (continued)

Sales	Nature of relationship:	In respect of:	**2013** Value £'000's	**2013** Balance £'000's	2012 Value £'000's	2012 Balance £'000s
Affinity Water Limited	Common ownership	Call centre facility	-	-	70	20
Affinity Water East Limited	Common ownership	Telemetry and admin services	-	-	47	-
Affinity Water Shared Services Limited	Common ownership	Staff recharge	-	-	30	2
Affinity Water Capital Funds Limited	Parent company	Interest receivable	**2,604**	**67,479***	-	-
Other Veolia entities	Associate	Misc recharge	-	-	10	3
Southern Water Services Limited	Associate	Metered billing and GIS plans	-	-	296	4

*includes the principal amount outstanding of £66.2m.

26. 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 £66.2m with its parent company Affinity Water Capital Funds Limited. This loan currently carries an interest rate of 5.80 per cent, from 1 April 2013 the interest rate increases to 6.09 per cent and from 1 April 2014 to 6.36 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 12 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.

27. Ultimate parent company and controlling party

The company is a 97.39 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.