

## NOTE 13. INTANGIBLES

|   | Jan 1, 2012 | Additions | Foreign Exchange | Transfers | Dec 31, 2012 |
|---|-------------|-----------|------------------|-----------|--------------|
| <b>Assets</b>                                 |             |           |                  |           |              |
| Computer software                             | 4,220       | 28        | 758              | 2,538     | 7,544        |
| Electricity supply and gas purchase contracts | 108,048     | —         | —                | —         | 108,048      |
| Water rights                                  | 73,018      | —         | —                | —         | 73,018       |
| Licence                                       | 21,012      | —         | 504              | —         | 21,516       |
| Goodwill                                      | 135,512     | —         | 4,200            | —         | 139,712      |
| <b>Accumulated amortization</b>               |             |           |                  |           |              |
| Computer software                             | (550)       | (2,060)   | (659)            | —         | (3,269)      |
| Electricity supply and gas purchase contracts | (43,395)    | (7,572)   | —                | —         | (50,967)     |
| Water rights                                  | (9,561)     | (2,122)   | —                | —         | (11,683)     |
|   | 288,304     | (11,726)  | 4,803            | 2,538     | 283,919      |
| <b>Provisions</b>                             |             |           |                  |           |              |
| Electricity supply and gas purchase contracts | 12,257      | —         | —                | —         | 12,257       |
| Utilization                                   | (7,363)     | (1,634)   | —                | —         | (8,997)      |
|   | 4,894       | (1,634)   | —                | —         | 3,260        |

|   | Jan 1, 2011 | Business Acquisition | Additions | Foreign Exchange | Transfers | Dec 31, 2011 |
|---|-------------|----------------------|-----------|------------------|-----------|--------------|
| <b>Assets</b>                                 |             |                      |           |                  |           |              |
| Computer software                             | 56          | 3,973                | 60        | (116)            | 247       | 4,220        |
| Electricity supply and gas purchase contracts | 108,048     | —                    | —         | —                | —         | 108,048      |
| Water rights                                  | 73,018      | —                    | —         | —                | —         | 73,018       |
| Licence                                       | —           | 21,591               | —         | (579)            | —         | 21,012       |
| Goodwill                                      | —           | 139,255              | —         | (3,743)          | —         | 135,512      |
| <b>Accumulated amortization</b>               |             |                      |           |                  |           |              |
| Computer software                             | (77)        | —                    | (486)     | 13               | —         | (550)        |
| Electricity supply and gas purchase contracts | (35,954)    | —                    | (7,441)   | —                | —         | (43,395)     |
| Water rights                                  | (7,445)     | —                    | (2,116)   | —                | —         | (9,561)      |
|   | 137,646     | 164,819              | (9,983)   | (4,425)          | 247       | 288,304      |
| <b>Provisions</b>                             |             |                      |           |                  |           |              |
| Electricity supply and gas purchase contracts | 12,257      | —                    | —         | —                | —         | 12,257       |
| Utilization                                   | (5,733)     | —                    | (1,630)   | —                | —         | (7,363)      |
|   | 6,524       | —                    | (1,630)   | —                | —         | 4,894        |

On the acquisition of Bristol Water, Capstone recognized an indefinite life intangible asset for the value of the licence to operate the water network granted by the regulator ("Ofwat"). The licence is related to the exclusive right to operate and invest in the water network within the licenced geographic area. Ofwat grants a perpetual licence with a 25-year notice.

Goodwill is attributed to the utilities – water reporting segment which forms a CGU. The calculation of goodwill for Bristol Water is described in Note 3.

## NOTE 14. RETIREMENT BENEFIT PLANS

### Defined Contribution Plan

Bristol Water and Cardinal operate defined contribution retirement plans for certain employees. The total cost recorded in the statement of income for the year ended December 31, 2012 was \$1,319 (December 31, 2011 – \$431).

### Defined Benefit Plan

Defined benefit pension arrangements for Bristol Water's employees are provided through Bristol Water's membership in the WCPS, which provides defined benefits based on final pensionable pay. Bristol Water's membership in the WCPS is through a separate section (the "Section") of the plan. The assets of the Section are held separately from those of Bristol Water and are invested by discretionary fund managers appointed by the trustees of the plan. The Section has been closed to new entrants and all new eligible employees are offered membership in the defined contribution pension plan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the Section provides benefits to former Bristol Water plc employees who transferred to Bristol Wessex Billing Services Ltd. The majority of the Section assets and liabilities relate to Bristol Water plc employees and ex-employees.

### Basis of Valuation

The formal actuarial valuation of Bristol Water's Section of the WCPS as at March 31, 2011 was updated to December 31, 2012, by Lane, Clark & Peacock LLP, using the following significant assumptions in accordance with IAS19:

| Assumptions                      | 2012 | 2011 |
|----------------------------------|------|------|
| Inflation – Retail Price Index   | 3.1% | 3.2% |
| Inflation – Consumer Price Index | 2.6% | 2.5% |
| Pension increases uncapped       | 2.6% | 2.5% |
| Pension increases capped at 5%   | 2.6% | 2.5% |
| Salary increases                 | 4.1% | 4.2% |
| Discount rate                    | 4.3% | 4.7% |

### Asset Distribution and Expected Return

The following table sets out the key assumptions used for the valuation of Bristol Water's Section of the WCPS. The table also sets out as at the accounting date the fair value of the assets, a breakdown of the assets into the main asset classes, the present value of the Section liabilities, and the resulting surplus.

| As at                              | Dec 31, 2012 |                                   |                    | Dec 31, 2011 |                                   |                    |
|------------------------------------|--------------|-----------------------------------|--------------------|--------------|-----------------------------------|--------------------|
|                                    | Amount       | Expected Long-term Rate of Return | Current Allocation | Amount       | Expected Long-term Rate of Return | Current Allocation |
| Equities                           | 22,788       | 7.0%                              | 8%                 | 32,260       | 7.5%                              | 12%                |
| Diversified growth funds           | 8,526        | 6.3%                              | 3%                 | 10,574       | 6.8%                              | 4%                 |
| Bonds                              | 229,192      | 3.0%                              | 85%                | 223,362      | 3.5%                              | 84%                |
| Emerging markets multi-asset funds | 5,366        | 7.1%                              | 2%                 | —            | —                                 | —%                 |
| High yield bonds                   | 5,216        | 5.8%                              | 2%                 | —            | —                                 | —%                 |
| Other                              | 562          | 3.0%                              | —%                 | 918          | 3.5%                              | —%                 |
| Market value of assets             | 271,650      | 3.6%                              | 100%               | 267,114      | 4.2%                              | 100%               |
| Present value of liabilities       | (234,075)    |                                   |                    | (207,010)    |                                   |                    |
| Surplus                            | 37,575       |                                   |                    | 60,104       |                                   |                    |

The overall expected rate of return on assets of 3.6% per annum was derived by taking the weighted average of the long term expected rate of return on each of the above asset classes (December 31, 2011 – 4.2%).

### Demographic Assumptions

The mortality assumptions have been drawn from actuarial table PNA00 with a 110% adjustment to mortality rates and with future improvements in line with “medium cohort” projections from 2000, subject to a minimum increase of 1.0% per annum. Per the mortality assumptions used the average life expectancy for a male pensioner currently aged 60 is 26.9 years and for a female pensioner currently aged 60 is 29.2 years (December 31, 2011 – 26.5 male, 29.1 female).

The allowance made for future improvements in longevity is such that a male member retiring at age 60 in 2036 (i.e. in 25 years' time) is assumed to have an increased average life expectancy from retirement of 28.9 years, and for a female retiring at age 60 in 2036 is assumed to have increased to 30.8 years (December 31, 2011 – 29.1 male, 31.5 female).

### Sensitivity

The assets and liabilities of the Section are subject to volatility as the assets are linked to government bonds and equity markets and the liabilities are linked to yields on AA-rated bonds.

As an indication of sensitivity to changes in assumptions for the year ended December 31, 2012, all other things being equal:

- an increase in the discount rate of 0.1% would lead to a reduction in the value placed on the liabilities of the Section of approximately \$3,721 (£2,300) (December 31, 2011 – \$3,213 (£2,000)); and
- a 5% rise in the value of the Section's return seeking assets portfolio would increase the surplus (before the consideration of any balance sheet limitation that might apply) by approximately \$2,103 (£1,300) (December 31, 2011 – \$2,124 (£1,322)).

## Contributions

Contributions paid in the year to the Section were \$4,400 (£2,778) (December 31, 2011 – \$659 (£410)). For normal employer contributions after April 1, 2012 Bristol Water was required to contribute at the rates of 29% for the main sub Section and 17% for the alternative benefits sub Section of the relevant payroll costs. Prior to April 1, 2012, Bristol Water contributed 21% and 10%, respectively.

The estimated amount of the total employer contribution expected to be paid to the Section for the year ending December 31, 2013 is \$3,348 (£2,070) (December 31, 2012 – \$3,729 (£2,320)).

## Changes in Comprehensive Income

Analysis of operating expense, interest expense and amounts recognized in other comprehensive income:

|  | For the year ended |               |
|--|--------------------|---------------|
|  | Dec 31, 2012       | Dec 31, 2011  |
| Current service cost   | 2,626              | 654           |
| <b>Total operating expense</b>   | <b>2,626</b>       | <b>654</b>    |
| Expected return on Section assets  | (9,056)            | (2,455)       |
| Interest expense on pension obligation   | 9,594              | 2,530         |
| <b>Interest expense</b>  | <b>538</b>         | <b>75</b>     |
| Gain/(loss) on pension Section assets  | (5,685)            | 19,182        |
| Experience gains/(losses) arising on Section liabilities                             | (1,830)            | —             |
| Gain/(loss) due to changes in assumptions  | (17,149)           | (6,689)       |
| <b>Actuarial gain/(loss) recognized in Statement of Comprehensive Income ("SCI")</b> | <b>(24,664)</b>    | <b>12,493</b> |

The cumulative actuarial gains and losses recognized in the SCI as at December 31, 2012 was a gain of \$12,171 (£7,799) (2011 – gain of \$12,493 (£7,772)).

## Changes in Financial Position

The following table summarizes the movement in Section pre-tax financial position and defined benefit obligation:

| For the year ended                      | December 31, 2012 |                  |               | December 31, 2011 |                  |               |
|---|-------------------|------------------|---------------|-------------------|------------------|---------------|
|   | Asset             | Liability        | Total         | Asset             | Liability        | Total         |
| <b>Opening Surplus in Section</b>       | <b>267,114</b>    | <b>(207,010)</b> | <b>60,104</b> | —                 | —                | —             |
| <b>Movement in year:</b>                |                   |                  |               |                   |                  |               |
| Business acquisition                    | —                 | —                | —             | 254,164           | (204,951)        | 49,213        |
| Current service cost: employee          | —                 | (633)            | (633)         | —                 | (177)            | (177)         |
| Current service cost: employer          | —                 | (1,993)          | (1,993)       | —                 | (477)            | (477)         |
| Aggregate contributions: employees      | 675               | —                | 675           | 186               | —                | 186           |
| Aggregate contributions: employer       | 3,725             | —                | 3,725         | 473               | —                | 473           |
| Benefits paid                           | (9,604)           | 9,604            | —             | (2,190)           | 2,190            | —             |
| Charge to interest expense              | 9,056             | (9,594)          | (538)         | 2,455             | (2,530)          | (75)          |
| Actuarial gain/(loss) recognized in SCI | (5,685)           | (18,979)         | (24,664)      | 19,182            | (6,689)          | 12,493        |
| Foreign exchange                        | 6,369             | (5,470)          | 899           | (7,156)           | 5,624            | (1,532)       |
| <b>Ending surplus in Section</b>        | <b>271,650</b>    | <b>(234,075)</b> | <b>37,575</b> | <b>267,114</b>    | <b>(207,010)</b> | <b>60,104</b> |

The actual return on the Section's assets for the year ended as at December 31, 2012 was a gain of \$3,371 (£2,128) (2011 – gain of \$21,634 (£13,460)).

| For the year ended | Dec 31, 2012          |                   | Dec 31, 2011          |                   |
|--------------------|-----------------------|-------------------|-----------------------|-------------------|
|                    | Actuarial Adjustments | As a % of Balance | Actuarial Adjustments | As a % of Balance |
| Asset              | (5,685)               | 2%                | 19,182                | 7%                |
| Liability          | (18,979)              | 8%                | (6,689)               | 3%                |
|                    | <b>(24,664)</b>       | <b>66%</b>        | <b>12,493</b>         | <b>21%</b>        |