

Utilico Finance Limited

Report and accounts for the six months to 31 December 2011

Utilico Finance Limited

Report and accounts for the six months to 31 December 2011

Contents	Page
Company Directory	2
Directors' Report	3
Directors' Statement of Principal Risks and Uncertainties	4
Directors' Statement of Responsibilities	4
Unaudited Condensed Statement of Comprehensive Income	5
Unaudited Condensed Balance Sheet	6
Notes to the Accounts	7

Utilico Finance Limited

Company Directory At 31 December 2011

Registered Office	Canon's Court 22 Victoria Street Hamilton HM 12 Bermuda
Directors	Roger Urwin (Chairman) Peter Burrows (appointed 16 September 2011) J. Michael Collier Susan Hansen Eric Stobart
Company Number	39479
Auditors	Grant Thornton UK LLP 30 Finsbury Square London, UK EC2P 2YU
Date of Formation	17 January 2007
Nature of Business	Closed end investment company
Ordinary Shareholder and Parent Company	Utilico Investments Limited

Utilico Finance Limited

Directors' Report

Principal activity and status

The Company is a Bermuda exempted, closed ended investment company with company registration number 39479. The Company's issued zero dividend preference ("ZDP") shares are listed on the standard segment of the main market of the London Stock Exchange.

Objective

The Company's investment objective is to finance and repay the ZDP shares.

Investment policy

The Company seeks to finance its ZDP shares debt by lending current asset funds to its Parent Company, Utilico Investments Limited ("UIL").

Regulatory and Competitive Environment

The Company is a closed ended company and is obliged to comply with Bermuda law, the rules of the UK Listing Authority and International Financial Reporting Standards as Adopted by the European Union. The Company is exempt from taxation, except insofar as it is withheld from income received. Under Bermuda law, the Company may not distribute income by way of a dividend unless, after distribution of the dividend, the realisable value of the Company's assets would be greater than the aggregate of its liabilities.

Strategy for Achieving Objectives

The Company's performance in pursuing its objective is based on the ability of its Parent Company (see note 9 to the accounts) to repay the intra-group loan to the Company.

Key Performance Indicators

The Board assesses the Company's success in pursuing its objectives in the ability to provide for the amounts due to the ZDP shareholders.

Statement of Changes in Equity

There were no movements in equity attributable to equity holders and a statement of changes in equity has therefore not been prepared.

Cash Flow

There were no cash flows in the period and therefore a cash flow statement has not been prepared.

Ordinary shares of UIL

Ordinary shares of UIL rank behind the ZDP shares (save for any undistributed revenue on a winding up).

Redemption of 2012 ZDP shares and issue of new 2018 ZDP shares

The redemption date for the 2012 ZDP shares is 31 October 2012. In December 2011 the Company announced proposals to offer the holders of these 2012 ZDP shares the opportunity to elect to roll part of their investment into a new 2018 ZDP share. This offer closed on 13 January 2012 with 6.1m 2012 ZDP shares rolled into the 2018 ZDP shares. The 39.3m 2012 ZDP shares not rolled over will be redeemed on their redemption date for cash. To provide funds for this redemption the Company placed out £11.9m 2018 ZDP shares for cash with new investors. Further, the Company is proposing to place out a further 10.0m 2014 ZDP shares and 10.0m 2016 ZDP shares and up to a further 27.6m 2018 ZDP shares to raise cash in advance of the redemption. Details of these proposals were set out in a prospectus which can be found on the Company's website, www.utilico.bm.

By order of the Board

F&C Management Limited, Secretary
21 February 2012

Utilico Finance Limited

DIRECTORS' STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The principal underlying risk of the Company continues to relate to its ability to repay the ZDP shares in October 2012, October 2014 and October 2016. This is dependent on the asset performance of the Parent Company. At 31 December 2011, the Parent Company had net assets of £229,125,000 (31 December 2010: £204,491,000) and 30 June 2011: £201,477,000) after providing for amounts due to ZDP shareholders. Details of the ZDP shares are set out in note 7 to the Accounts and financial risk management is set out in note 13 to the Accounts.

A further risk faced by the Company is that of a regulatory nature. A breach of Bermuda law could lead to financial penalties or a qualified audit report. Appleby (Bermuda) Limited uses all reasonable efforts to ensure that the Company adheres to Bermuda law.

DIRECTORS' STATEMENT OF RESPONSIBILITIES

In accordance with Chapter 4.2 of the Disclosure and Transparency Rules the Directors confirm that to the best of their knowledge:

- i) the condensed set of financial statements has been prepared in accordance with applicable International Accounting Standards and gives a true and fair view of the assets, liabilities, financial position and profit of the Company;
- ii) the Director's Statement report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- iii) the Directors' Statement of Principal Risks and Uncertainties shown above is a fair review of the principal risks and uncertainties for the remaining six months of the financial year; and
- iv) the condensed set of financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

The financial statements are published on the Company's website, www.utilico.bm, the maintenance and integrity of which is the responsibility of the Company.

Signed on behalf of the Board
Dr Roger Urwin
Chairman
21 February 2012

Utilico Finance Limited

Unaudited Condensed Statement of Comprehensive Income

		Six months to 31 December 2011 £'000s	Six months to 31 December 2010 £'000s	Year to 30 June 2011 £'000s
	Note			
Interest income	2	6,173	5,754	11,602
Total income		6,173	5,754	11,602
Other expenses		-	-	-
Profit before finance costs and taxation		6,173	5,754	11,602
Finance costs	3	(6,173)	(5,754)	(11,602)
Profit before tax		-	-	-
Taxation		-	-	-
Profit for the period		-	-	-
Earnings per share – pence	4	-	-	-

The Company does not have any income or expense that is not included in the profit for the period, and therefore the 'profit for the period' is also the 'total comprehensive income for the period', as defined in International Accounting Standard 1 (revised).

All items in the above statement are derived from continuing operations.

Utilico Finance Limited

Unaudited Condensed Balance Sheet

	Note	31 December 2011 £'000s	31 December 2010 £'000s	30 June 2011 £'000s
Current assets				
Other receivables	6	178,935	166,914	172,762
Current liabilities				
Zero dividend preference shares	7	(76,313)	-	-
Net current assets				
		102,622	166,914	172,762
Total assets less current liabilities				
		102,622	166,914	172,762
Non current liabilities				
Zero dividend preference shares	7	(102,622)	(166,914)	(172,762)
Net assets				
		-	-	-
Equity attributable to equity holders				
Ordinary share capital	8	-	-	-

Utilico Finance Limited

Notes to the Accounts for the six months to 31 December 2011

1. Accounting policies

The unaudited condensed Company Accounts have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 'Interim Financial Reporting'.

The condensed Company Accounts do not include all of the information required for full annual accounts and should be read in conjunction with the consolidated Accounts of the Company for the year ended 30 June 2011, which were prepared under full IFRS requirements.

The Company is an investment company incorporated in Bermuda on 17 January 2007. The accounting policies below are unchanged from the previous year.

(a) Basis of accounting

The financial statements have been prepared on a historical cost basis.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards Committee that remain in effect.

A Statement of Changes in Equity has not been presented as there is no movement in the current or prior period.

(b) Zero dividend preference shares

The ZDP shares, due to be redeemed on 31 October 2012, 2014 and 2016 at a redemption value of 177.52 pence per share, 167.60 pence per share and 192.78 pence per share respectively, have been classified as liabilities, as they represent an obligation on behalf of the Company to deliver to their holders a fixed and determinable amount at the redemption date. They are accordingly accounted for at amortised cost, using the effective interest method. Under Bermuda company law ZDP shares are recognised as share capital in the Company.

(c) Cash flow statement

There were no cash flows in the period or in the prior year and therefore a cash flow statement has not been prepared. All transaction movements were through the intra-group loan account.

(d) Foreign currency

The functional and reporting currency is pounds sterling because the Company's ZDP share capital was raised, and will be repaid, in pounds sterling, and has been lent to, and will be repaid by the Parent Company, in that currency.

(e) Interest income

Interest on debt is accrued on a time basis using the effective interest method.

(f) Other expenses

The Parent Company incurs all expenses on behalf of the Company.

(f) Finance costs

Finance costs are accounted for on an effective interest method.

(g) Intra-group loan

UIL has agreed to place the Company in sufficient funds to enable the Company to pay the capital entitlement of each class of ZDP Share on their respective redemption dates. The amount owed in the accounts is based on the entitlements of the ZDP share holders at the relevant date.

Utilico Finance Limited

Notes to the Accounts (continued)

2. Interest income

	Six months to 31 December 2011 £'000s	Six months to 31 December 2010 £'000s	Year to 30 June 2011 £'000s
Loan to parent company - interest receivable	6,173	5,754	11,602

3. Finance costs

	Six months to 31 December 2011 £'000s	Six months to 31 December 2010 £'000s	Year to 30 June 2011 £'000s
ZDP shares	6,173	5,754	11,602

4. Earnings per share

The calculation of earnings per share is based on a profit after tax for the period of £nil (for the period to 31 December 2010: £nil and for the year to 30 June 2011: £nil) and a weighted average number of 10 ordinary shares in issue during the period (for the period to 31 December 2010 and for the year to 30 June 2011: 10 ordinary shares in issue).

5. Dividends

There were no dividends paid or declared in respect of the period.

6. Other receivables

	31 December 2011 £'000s	31 December 2010 £'000s	30 June 2011 £'000s
Loan to parent company - Utilico Investments Limited	178,935	166,914	172,762

Utilico Finance Limited

Notes to the Accounts (continued)

7. Zero dividend preference shares

Three classes of ZDP shares have been issued as follows:

	2012		2014		2016		Total
	Number	£'000s	Number	£'000s	Number	£'000s	£'000s
Authorised ZDP shares of 10p each	60,592,190	6,059	50,000,000	5,000	50,000,000	5,000	16,059
31 December 2011							
Balance at 30 June 2011	45,486,200	73,756	37,500,000	49,532	37,500,000	49,474	172,762
Finance charges		2,557		1,813		1,803	6,173
Balance at 31 December 2011	45,486,200	76,313	37,500,000	51,345	37,500,000	51,277	178,935
	2012		2014		2016		Total
	Number	£'000s	Number	£'000s	Number	£'000s	£'000s
31 December 2010							
Balance at 30 June 2010	45,486,200	68,936	37,500,000	46,112	37,500,000	46,112	161,160
Finance charges		2,389		1,683		1,682	5,754
Balance at 31 December 2010	45,486,200	71,325	37,500,000	47,795	37,500,000	47,794	166,914
	2012		2014		2016		Total
	Number	£'000s	Number	£'000s	Number	£'000s	£'000s
30 June 2011							
Balance at 30 June 2010	45,486,200	68,936	37,500,000	46,112	37,500,000	46,112	161,160
Finance charges		4,820		3,420		3,362	11,602
Balance at 30 June 2011	45,486,200	73,756	37,500,000	49,532	37,500,000	49,474	172,762

2012 ZDP shares

ZDP shares with a redemption date of 31 October 2012 were issued in Utilico Investment Trust plc ("UIT") on 7 May 2004. As part of the scheme of reconstruction implementing the proposals for the voluntary winding-up and reconstruction of UIT, each UIT ZDP shareholder received one ZDP share in the Company for every UIT ZDP share held on 8 June 2007. Based on the initial entitlement of a UIT ZDP share of 100p on 7 May 2004, a 2012 ZDP share will have a final capital entitlement at the end of its life on 31 October 2012 of 177.52p, equating to a 7 per cent. per annum gross redemption yield. The capital entitlement (excluding issue costs) per 2012 ZDP share at 31 December 2011 is 167.77p (31 December 2010: 156.81p and 30 June 2011 is 162.15p).

Utilico Finance Limited

Notes to the Accounts (continued)

7. Zero dividend preference shares (continued)

2014 ZDP shares

Based on the initial entitlement of a 2014 ZDP share of 100p on 15 June 2007, a 2014 ZDP share will have a final capital entitlement at the end of its life on 31 October 2014 of 167.60p equating to a 7.25 per cent. per annum gross redemption yield. The capital entitlement (excluding issue costs) per 2014 ZDP share at 31 December 2011 is 137.45p (31 December 2010: 128.16p and 30 June 2011 is 132.69p).

2016 ZDP shares

Based on the initial entitlement of a 2016 ZDP share of 100p on 15 June 2007, a 2016 ZDP share will have a final capital entitlement at the end of its life on 31 October 2016 of 192.78p equating to a 7.25 per cent. per annum gross redemption yield. The capital entitlement (excluding issue costs) per 2016 ZDP share at 31 December 2011 is 137.45p (31 December 2010: 128.16p and 30 June 2011 is 132.69p).

The ZDP shares carry no entitlement to income however they have a pre-determined final capital entitlement which ranks behind all other liabilities and creditors of the Company and UIL (together the "Group") but in priority to the ordinary shares of the Company save in respect of certain winding up revenue profits.

The growth of each ZDP share accrues daily and is reflected in the return and net asset value per ZDP share on an effective interest method.

The ZDP shares do not carry any voting rights at general meetings of the Company. However the Company will not be able to carry out certain corporate actions unless it obtains the separate approval of the ZDP shareholders (treated as a single class) at a separate meeting. Separate approval of each class of ZDP shareholders must be obtained in respect of any proposals which would affect their respective rights, including any resolution to wind up the Company. In addition the approval of ZDP shareholders by the passing of a special resolution at separate class meetings of the ZDP shareholders is required in relation to any proposal to modify, alter or abrogate the rights attaching to any class of the ZDP shares and in relation to any proposal by the Company or its Parent Company which would reduce the Group's cover of the existing ZDP shares below 1.5 times.

On a liquidation of UIL and/or the Company, to the extent that the relevant classes of ZDP shares have not already been redeemed, the shares shall rank in the following order of priority in relation to the repayment of their accrued capital entitlement as at the date of liquidation:

- (i) the 2012 ZDP shares shall rank in priority to the 2014 ZDP shares and the 2016 ZDP shares; and
- (ii) the 2014 ZDP shares shall rank in priority to the 2016 ZDP Shares.

The entitlement of ZDP Shareholders of a particular class shall be determined in proportion to their holdings of ZDP shares of that class.

Utilico Finance Limited

Notes to the Accounts (continued)

8. Ordinary share capital

	Number	£
Authorised		
Ordinary shares of 10p each	160,592,200	16,059,220
Issued and nil paid		
Balance at 31 December 2011, 31 December 2010 and 30 June 2011	10	-

In addition to receiving any income distributed by way of dividend, the ordinary shareholders will be entitled to all surplus assets after payment of all debts, including ZDP shares.

Net asset value per ordinary share is nil (31 December 2010; nil and 30 June 2011: nil) based on 10 shares in issue.

9. Parent company

Utilico Investments Limited, incorporated in Bermuda, is the parent company of the Company, holding 100% of the nil paid ordinary shares.

In the opinion of the Directors, the ultimate holding undertaking is General Provincial Life Pension Fund (L) Limited that is incorporated in Malaysia, holding 56.8% of the ordinary shares in Utilico Investments Limited.

10. Related party transactions

Utilico Investment Limited, General Provincial Life Pension Fund (L) Limited and the Board of the Company are considered related parties. Amounts owing from related parties are disclosed in the financial statements in note 6 and interest receivable from related parties is disclosed in note 2.

11. Business Segments

Business segments are considered to be a secondary reporting segment. The Directors are of the opinion that the Company's activities comprise a single business segment of financing the Company's ZDP shares debt by lending current asset funds to its Parent Company and therefore no segmental reporting is provided.

12. Post balance sheet event: corporate action

On 2 December 2011, the Company published a prospectus containing details of proposals to offer the holders of 2012 ZDP Shares the opportunity to elect to roll part of their investment into a new 2018 ZDP Share issue and arrangements to enable the issue of additional 2014 ZDP Shares, 2016 ZDP Shares and 2018 ZDP Shares.

Shareholders of 6,143,391 2012 ZDP Shares elected to rollover into the new 2018 ZDP Shares and 10,356,448 new 2018 ZDP Shares were issued on the basis of each 2012 ZDP Share converting into 1.6858 2018 ZDP Shares. In addition the Company has placed 11,893,552 new 2018 ZDP Shares at 100p per share. The 22,250,000 new 2018 ZDP shares were listed on the official list and began trading on the London Stock Exchange on 26 January 2012.

Utilico Finance Limited

Notes to the Accounts (continued)

13. Financial Risk Management

The Board of Directors is responsible for the Company's risk management. The Directors' policies and processes for managing the financial risks are set out below.

The Accounting policies which govern the reported Balance Sheet carrying values of the underlying financial assets and liabilities, as well as the related income and expenditure, are set out in note 1 to the Accounts. The policies are in compliance with International Financial Reporting Standards as adopted by the European Union and best practice, and include the valuation of financial assets at fair value and liabilities at amortised cost.

Interest Rate exposure

The exposure of the financial assets and liabilities to interest risks is shown below:

	Within one year £'000s	More than one year £'000s	Total £'000s
31 December 2011			
Exposure to fixed rates			
Zero dividend preference shares	(76,313)	(102,622)	(178,935)
Intra-group loan	178,935	–	178,935
Net exposures			
At period end	102,622	(102,622)	–
Maximum in period	178,935	(178,935)	–
Minimum in period	102,622	(102,622)	–
31 December 2010			
Exposure to fixed rates			
Zero dividend preference shares	–	(166,914)	(166,914)
Intra-group loan	166,914	–	166,914
Net exposures			
At period end	166,914	(166,914)	–
Maximum in period	166,914	(166,914)	–
Minimum in period	161,160	(161,160)	–
30 June 2011			
Exposure to fixed rates			
Zero dividend preference shares	–	(172,762)	(172,762)
Intra-group loan	172,762	–	172,762
Net exposures			
At year end	172,762	(172,762)	–
Maximum in year	172,762	(172,762)	–
Minimum in year	161,160	(161,160)	–

Utilico Finance Limited

Notes to the Accounts (continued)

13. Financial Risk Management (continued)

Credit Risk exposure

The Company is exposed to potential failure by its Parent Company to settle the ZDP share liability on behalf of the Company on the respective repayment dates. The Board assesses this risk at each Board meeting.

2012 ZDP shares

Based on their final entitlement of 177.52p per share, the final entitlement of the 2012 ZDP shares were covered 4.33x times by gross assets of the Parent Company on 31 December 2011. Should the Parent Company gross assets fall by 76.9% over the remaining life of the 2012 ZDP shares, then the 2012 ZDP shares would not receive their final entitlements in full. Should gross assets fall by 95.8%, equivalent to an annual fall of 97.8%, the ZDP shares would receive no payment at the end of their life.

2014 ZDP shares

Based on their final entitlement of 167.60p per share, the final entitlement of the 2014 ZDP shares were covered 2.65x times by gross assets of the Parent Company on 31 December 2011. Should the Parent Company gross assets fall by 62.2% over the remaining life of the 2014 ZDP shares, then the 2014 ZDP shares would not receive their final entitlements in full. Should gross assets fall by 76.9%, equivalent to an annual fall of 40.4% the 2014 ZDP shares would receive no payment at the end of their life.

2016 ZDP shares

Based on their final entitlement of 192.78p per share, the final entitlement of the 2016 ZDP shares were covered 1.83x times by gross assets of the Parent Company on 31 December 2011. Should the Parent Company gross assets fall by 45.3% over the remaining life of the 2016 ZDP shares, then the 2016 ZDP shares would not receive their final entitlements in full. Should gross assets fall by 62.2%, equivalent to an annual fall of 18.2% the 2016 ZDP shares would receive no payment at the end of their life.

None of the Company's financial liabilities is past due or impaired.

Fair Values of financial assets and liabilities

The assets and liabilities of the Company are, in the opinion of the Directors, reflected in the Balance Sheet at fair value except for ZDP shares which are carried at amortised cost using effective interest method in accordance with IAS39 or at a reasonable approximation thereof.

The fair values of the ZDP shares are:

	31 December 2011 £'000s	31 December 2010 £'000s	30 June 2011 £'000s
2012 ZDP shares	78,350	74,711	76,644
2014 ZDP shares	55,451	50,813	53,531
2016 ZDP shares	55,219	49,969	50,063

Capital risk management

The objective of the Company is to finance the redemption value of the ZDP shares. The Board has a responsibility for ensuring the Company's ability to continue as a going concern and to meet the redemption of the ZDP shares.

14. RESULTS

The condensed set of financial statements, forming the half-year accounts, has been neither audited nor reviewed by the Company's auditors. The latest published accounts are for the year ended 30 June 2011; the report of the auditors thereon was unqualified. The condensed financial statements shown above for the year ended 30 June 2011 are an extract from those accounts.

By order of the Board
F&C Management Limited, Secretary
21 February 2012