

# **Utilico Finance Limited**

Report and accounts for the year to 30 June 2013

# Utilico Finance Limited

## Report and accounts for the year to 30 June 2013

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## Utilico Finance Limited

### Company Directory

Registered Office	Trinity Hall 43 Cedar Avenue Hamilton HM 12 Bermuda
Directors	Dr Roger J Urwin, CBE (Chairman) Peter I Burrows, AO J. Michael Collier Susan Hansen (resigned 17 September 2013) Warren McLeland (appointed 17 September 2013) Eric St C Stobart
Company Number	39479
Auditor	KPMG Audit Plc 15 Canada Square Canary Wharf London E14 5GL
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

Utilico Finance Limited (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.

### Results and Dividends

The results for the year are set out in the attached accounts.

The Company is unable to declare a dividend in respect of the year ended 30 June 2013 as there is no profit to distribute.

### Business Review

The Business Review is designed to provide shareholders with an insight into the operations of the Company during the year. In particular, it gives information on:

- the Company's objective and investment policy;
- the regulatory and competitive environment within which the Company operates;
- the Board's strategy for achieving its stated objectives;
- principal risks and risk management; and
- key performance indicators.

### Objective

The Company's investment objective is to finance and fund the final capital entitlements of the ZDP shares.

### Investment policy

The Company seeks to fund the final capital entitlements of the ZDP shares by lending current asset funds to its parent company, Utilico Investments Limited.

### Regulatory and Competitive Environment

The Company is obliged to comply with Bermuda law, the rules of the UK Listing Authority and International Financial Reporting Standards ("IFRS") 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 to repay the intra-group loan to the Company.

### Principal Risks

The principal underlying risk of the Company continues to relate to its ability to repay the ZDP shares in October 2014, October 2016 and October 2018. This is dependent on the asset performance of the parent company. At 30 June 2013, the parent company had net assets of £147,245,000 (2012: £208,911,000) after providing for amounts due to ZDP shareholders. Details of the ZDP shares are set out in note 7 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. The Company's assistant secretary, BCB Charter Corporate Services Limited, and its legal adviser in Bermuda, Appleby (Bermuda) Limited, use all reasonable efforts to ensure that the Company adheres to Bermuda law.

### 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.

## Directors' Report (continued)

### Auditor

In keeping with FRC guidance, the Board decided to re-tender for the provision of audit services. Following the tender, the Board decided to recommend KPMG Audit Plc for appointment as auditor to the Company for the year ending 30 June 2013, including the interim review as at 31 December 2012.

KPMG Audit Plc ("KPMG") was the Company's auditor for the year ended 30 June 2013 and was responsible for the audit of these accounts.

Audit fees relating to the year amounted to £7,000 (2012: £7,000) and were settled by the parent company, Utilico Investments Limited.

No fees were paid or payable to KPMG for non-audit work for the year under review (2012: £nil).

KPMG Audit Plc has advised that it has instigated an orderly wind down of its business, with future audit work being transferred to a parent entity, KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning its appointment will be put to the Annual General Meeting, together with a resolution authorising the Directors to determine the fees payable to KPMG.

### Corporate Governance

Bermuda does not have its own corporate governance code and, as a Bermuda incorporated company, the Company is not required to comply with the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the "Code"). However, it is the Company's policy to comply with best practice on good corporate governance and maintain the same level of governance as UK listed investment companies. The Board has therefore considered the principles set out in the AIC Code of Corporate Governance revised in October 2010 (the "AIC Code") and the relevant provisions of the Code.

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the Code. The provisions of the Code regarding the role of chief executive and on Directors' remuneration are not relevant to the Company and are not reported on further.

In view of the requirement of the Bye-Laws that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for specified terms as recommended by provision B.2.3 of the Code. However, in accordance with provision B.7.1 of the Code and principle 3 of the AIC Code, all Directors are subject to election by shareholders at the first annual general meeting following their appointment, and to re-election thereafter at intervals of no more than three years. Any Director serving beyond nine years is required to seek annual re-election. The Board of Directors does not consider it appropriate to appoint a Senior Independent Director as recommended by principle 1 of the AIC Code and provision A.4.1 of the Code.

### Directors' Disclosures

At 30 June 2013, no Director had any interest in the Company's shares (2012: Dr Roger Urwin held 52,029 2012 ZDP shares). No other Director acquired or disposed of any interest in the shares in the Company during the year or since the year end.

The following Directors held office throughout the year:

Dr Roger Urwin (Chairman)  
Peter Burrows  
J. Michael Collier  
Susan Hansen  
Eric Stobart

Since the year end, Mrs Hansen stood down as a Director of the Company on 17 September 2013 and Mr McLeland has been appointed in her place on the same date. Mr McLeland will retire at the Annual General Meeting and, being eligible, offers himself for election (Resolution 3).

Mr Burrows will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election (Resolution 4). Mr Collier retires annually and will do so at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election (Resolution 5).

## **Directors' Report (continued)**

The Board has considered the re-election of Mr Burrows and Mr Collier and the election of Mr McLeland and has reviewed the composition of the Board as a whole and borne in mind the need for a proper balance of skills and experience. Following an appraisal of the performance of each of the Directors, the Board believes that these Directors make a valuable contribution based on their individual skills, knowledge and experience. They have commitment to their roles and the Board believes that their re-election would be in the best interests of the Company.

Each Director has signed a letter of appointment setting out the terms of their engagement as a Director, but does not have a service agreement with the Company.

### **Board Meetings**

The Board meets at least twice a year to consider strategic affairs and to approve the interim report and the annual report and accounts. In view of the nature of the Company's business the Board does not consider it necessary to appoint a separate audit committee or nominations committee.

### **Donations**

No donations were made by the Company during the year.

### **Directors' Remuneration**

No Director received or is entitled to receive any remuneration from the Company.

### **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.

### **Going Concern**

The Directors believe that it is appropriate to adopt the going concern basis in preparing the accounts as the Company can continue to operate due to the support of the parent company.

### **Share Capital**

Full details of the changes to the Company's authorised and issued share capital during the year can be found in note 8 to the accounts.

### **Ordinary shares of Utilico Investments Limited**

Ordinary shares of Utilico Investments Limited rank behind the ZDP shares on a winding up of the Company and Utilico Investments Limited, together referred to as the Group (save for any undistributed revenue reserves of Utilico Investments Limited on a winding up).

### **Issue of new 2018 ZDP shares and redemption of 2012 ZDP shares**

Pursuant to the supplementary prospectus relating to the "Proposed placing of new 2018 ZDP Shares" published by the Company on 28 September 2012 the Company issued 27,592,413 new 2018 ZDP shares at 105.37p per share raising £29.1m. The new 2018 ZDP shares were admitted to the Official List and to trading on the London Stock Exchange on 25 October 2012.

15,305,037 of the new 2018 ZDP Shares were placed with certain institutional and other investors raising gross proceeds of £16.1 million. The remaining 12,287,376 new 2018 ZDP Shares were subscribed for by Utilico Investments Limited and will be held by Utilico Investments Limited for investment purposes in accordance with its investing policy. In the period from 25 October 2012 to 30 June 2013, Utilico Investments Limited sold 6,475,000 2018 ZDP shares in the market, receiving £7.3m. Since the period end Utilico Investments Limited has sold a further 1,075,000 2018 ZDP shares in the market, receiving £1,216,000.

On 31 October 2012 the 39,342,809 2012 ZDP shares that were in issue were redeemed at 177.52p per 2012 ZDP share.

**By order of the Board**  
**ICM Limited, Secretary**  
**17 September 2013**

### **DIRECTORS' STATEMENT OF RESPONSIBILITIES**

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable Bermuda law and IFRS, as adopted by the European Union.

The Directors must not approve the Company's financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements and estimates that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

To the best of the knowledge of the Directors: (i) the accounts which have been prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; (ii) the Directors' Report includes a fair review of development and performance of the business and a description of the principal risks and uncertainties that the Company faces. The financial risks are also provided in note 12 to the accounts.

Insofar as the Directors are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all reasonable steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The annual report and accounts are published on Utilico Investments Limited website, [www.utilico.bm](http://www.utilico.bm), the maintenance and integrity of which is the responsibility of the Company. The work carried out by the auditor does not involve consideration of the maintenance and integrity of the website and accordingly, the auditor accepts no responsibility for any changes that have occurred in the financial statements since they were originally presented on the website. Visitors to the website need to be aware that the legislation governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

Approved by the Board on 17 September 2013 and signed on its behalf by:

Dr R J Urwin  
Chairman

## Utilico Finance Limited

### Statement of Comprehensive Income

	Note	Year to 30 June 2013 £'000s	Year to 30 June 2012 £'000s
Interest income	2	14,333	13,388
<b>Total income</b>		<b>14,333</b>	13,388
Other expenses		-	-
Profit before finance costs and taxation		14,333	13,388
Finance costs	3	(14,333)	(13,388)
<b>Profit before tax</b>		-	-
Taxation		-	-
<b>Profit for the year</b>		-	-
Earnings per share – pence		-	-

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

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

## Utilico Finance Limited

### Balance Sheet At 30 June

	Note	2013 £'000s	2012 £'000s
<b>Current assets</b>			
Other receivables	6	199,784	226,390
<b>Total assets less current liabilities</b>		<b>199,784</b>	226,390
<b>Current liabilities</b>			
Zero dividend preference shares	7	-	(68,269)
<b>Net current assets</b>		<b>199,784</b>	158,121
<b>Non-current liabilities</b>			
Zero dividend preference shares	7	(199,784)	(158,121)
<b>Net assets</b>		<b>-</b>	-
<b>Equity attributable to equity holders</b>			
Ordinary share capital	8	-	-

Approved by the Board on 17 September 2013 and signed on its behalf by:

Dr R J Urwin

E St C Stobart

# Utilico Finance Limited

## Notes to the Accounts for the year to 30 June 2013

### 1. Accounting policies

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 of the Company have been prepared on a going concern basis 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.

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

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

At the date of authorisation of these Accounts, the following standards and interpretations have not been applied in these Accounts since they were in issue but not yet effective:

International Accounting Standards (IAS/IFRS)	Effective date for accounting periods starting on or after
IFRS 9 Financial Instruments	1 January 2015
IFRS 13 Fair Value Measurement	1 January 2013

The Directors have chosen not to early adopt these standards and interpretations as they do not anticipate that they would have a material impact on the Company's Accounts in the period of initial application.

#### (b) Zero dividend preference shares

The ZDP shares, due to be redeemed on 31 October 2014, 2016 and 2018, at a redemption value of 167.60 pence per share, 192.78 pence per share and 160.52 pence per share respectively (2012: as above and the ZDP shares redeemed on 31 October 2012 at a redemption value of 177.52 pence per share), 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) Expenses

The Company incurs no expenses other than finance costs. The Directors are not entitled to receive any remuneration and all other expenses relating to the Company are paid in full by the parent company.

#### (g) Finance costs

Finance costs are accounted for on an effective interest method.

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### (h) Intra company loan

Utilico Investments Limited 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 shareholders at the relevant date.

#### 2 Interest income

	<b>2013</b>	2012
	<b>£'000s</b>	£'000s
Loan to parent company - interest receivable	<b>14,333</b>	13,388

#### 3 Finance costs

	<b>2013</b>	2012
	<b>£'000s</b>	£'000s
ZDP shares	<b>14,333</b>	13,388

#### 4. Earnings per share

The calculation of earnings per share is based on a profit after tax for the period of £nil (2012: £nil) and a weighted average number of 10 ordinary shares in issue during the year (2012: 10 ordinary shares in issue during the year).

#### 5. Dividends

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

#### 6. Other receivables

	<b>2013</b>	2012
	<b>£'000s</b>	£'000s
Loan to parent company - Utilico Investments Limited	<b>199,784</b>	226,390

The loan is repayable on demand.

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### 7. Zero dividend preference shares

	2013 £'000s	2012 £'000s
<b>ZDP shares – current liabilities</b>		
2012 ZDP shares	-	68,269
<b>ZDP shares – non-current liabilities</b>		
2014 ZDP shares	72,705	67,938
2016 ZDP shares	72,734	67,888
2018 ZDP shares	54,345	22,295
	<b>199,784</b>	158,121
<b>Total ZDP shares liabilities</b>	<b>199,784</b>	226,390

ZDP shares issued by the Company are as follows:

2013	2012		2014		2016		2018		Total £'000s
	Number	£'000s	Number	£'000s	Number	£'000s	Number	£'000s	
<b>Authorised ZDP shares of 10p each</b>	60,592,190	6,059	50,000,000	5,000	50,000,000	5,000			n/a
<b>ZDP shares of 5.9319p each</b>							49,842,413	2,956	n/a
<b>Issued</b>									
Balance at 30 June 2012	39,342,809	68,269	47,500,000	67,938	47,500,000	67,888	22,250,000	22,295	226,390
Issue of ZDP shares	-	-	-	-	-	-	27,592,413	29,074	29,074
Issue costs of ZDP shares	-	-	-	-	-	-	-	(171)	(171)
Redemption of 2012 ZDP shares	(39,342,809)	(69,842)	-	-	-	-	-	-	(69,842)
Finance costs	-	1,573	-	4,767	-	4,846	-	3,147	14,333
<b>Balance at 30 June 2013</b>	-	-	47,500,000	72,705	47,500,000	72,734	49,842,413	54,345	199,784

Pursuant to the supplementary prospectus relating to the “Proposed placing of new 2018 ZDP Shares” published by the Company on 28 September 2012 the Company issued 27,592,413 new 2018 ZDP shares at 105.37p per share raising £29.1m. The new 2018 ZDP shares were admitted to the Official List and to trading on the London Stock Exchange on 25 October 2012.

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### 7. Zero dividend preference shares (continued)

2012	2012		2014		2016		2018		Total
	Number	£'000s	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			n/a
ZDP shares of 5.9319p each							49,842,413	2,956	n/a
<b>Issued</b>									
Balance at 30 June 2011	45,486,200	73,756	37,500,000	49,532	37,500,000	49,474	-	-	172,762
Issue of ZDP shares	-	-	10,000,000	14,650	10,000,000	14,650	11,893,552	11,893	41,193
Issue costs of ZDP shares	-	-	-	(151)	-	(151)	-	(651)	(953)
Cancellation of 2012 ZDP shares and rollover to 2018 ZDP shares	(6,143,391)	(10,356)	-	-	-	-	10,356,448	10,356	-
Finance costs	-	4,869	-	3,907	-	3,915	-	697	13,388
Balance at 30 June 2012	39,342,809	68,269	47,500,000	67,938	47,500,000	67,888	22,250,000	22,295	226,390

#### 2012 ZDP shares

The 2012 ZDP shares were redeemed on 31 October 2012 at 177.52p per share. They were issued by Utilico Investment Trust plc ("UIT") on 7 May 2004 and 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, the final capital entitlement at the end of a 2012 ZDP share life on 31 October 2012 of 177.52p equated to a 7 per cent. per annum gross redemption yield.

#### 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 30 June 2013 was 152.64p (30 June 2012: 142.33p).

#### 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 30 June 2013 was 152.64p (30 June 2012: 142.33p).

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### 7. Zero dividend preference shares (continued)

##### 2018 ZDP shares

Based on the initial entitlement of a 2018 ZDP share of 100p on 26 January 2012, a 2018 ZDP share will have a final capital entitlement at the end of its life on 31 October 2018 of 160.52p equating to a 7.25% per annum gross redemption yield. The capital entitlement (excluding issue costs) per 2018 ZDP share at 30 June 2013 was 110.50p (30 June 2012: 103.03p).

All the ZDP shares are listed on the London Stock Exchange and are stated at amortised cost using the effective interest method. 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 Utilico Investments Limited but in priority to the ordinary shares of the Company and Utilico Investments Limited save in respect of certain winding up revenue profits of Utilico Investments Limited.

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 Utilico Investments Limited 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 2014 ZDP shares shall rank in priority to the 2016 ZDP Shares and the 2018 ZDP shares; and
- (ii) the 2016 ZDP shares shall rank in priority to the 2018 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		
<b>Balance at 30 June 2013 and 30 June 2012</b>	<b>10</b>	<b>-</b>

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 (30 June 2012: £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 57.2% of the ordinary shares in Utilico Investments Limited.

#### 10. Related party transactions

Utilico Investments 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. Details of the issue of new 2018 ZDP shares and redemption of 2012 ZDP shares are disclosed in note 7.

Pursuant to the supplementary prospectus published on 28 September 2012 by the Company, in connection with the placing of up to 27,592,413 new 2018 ZDP shares, on 25 October 2012 the Company issued to Utilico Investments Limited 12,287,376 new 2018 ZDP shares at 105.37p per 2018 ZDP share. In the year to 30 June 2013, Utilico Investments Limited sold in the open market 6,475,000 of these 2018 ZDP shares and at the year end held 5,812,376 2018 ZDP shares. Since the year end the Utilico Investments Limited has sold a further 1,075,000 2018 ZDP shares in the open market.

#### 11. Operating Segments

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. 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 in the interest rate exposure and credit risk management 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.

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### 12. Financial Risk Management (continued)

##### Interest Rate exposure

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

	Total	Within	More than
	£'000s	one year	one year
30 June 2013	£'000s	£'000s	£'000s
Exposure to fixed rates			
Zero dividend preference shares	(199,784)	-	(199,784)
Intra-group loan	199,784	199,784	-
Net exposures			
At period end	-	199,784	(199,784)
Maximum in period	-	260,804	(260,804)
Minimum in period	-	191,015	(191,015)

	Total	Within	More than
	£'000s	one year	one year
30 June 2012	£'000s	£'000s	£'000s
Exposure to fixed rates			
Zero dividend preference shares	(226,390)	(68,269)	(158,121)
Intra-group loan	226,390	226,390	-
Net exposures			
At period end	-	158,121	(158,121)
Maximum in period	-	172,762	(172,762)
Minimum in period	-	158,121	(158,121)

##### 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.

##### 2014 ZDP shares

Based on their final entitlement of 167.60p per share, the final entitlement of the 2014 ZDP shares were covered 3.19x times by Utilico Investments Limited's gross assets on 30 June 2013. Should gross assets fall by 68.6% 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 100%, equivalent to an annual fall of 100%, 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 1.82x times by Utilico Investments Limited's gross assets on 30 June 2013. Should gross assets fall by 45.1% 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 68.6%, equivalent to an annual fall of 29.3%, the 2016 ZDP shares would receive no payment at the end of their life.

## Utilico Finance Limited

### Notes to the Accounts (continued)

#### 12. Financial Risk Management (continued)

##### 2018 ZDP shares

Based on their final entitlement of 160.52p per share, the final entitlement of the 2018 ZDP shares were covered 1.32x by Utilico Investments Limited's gross assets on 30 June 2013. Should the gross assets falls by 24.5% over the remaining life of the 2018 ZDP shares, then the 2018 ZDP shares would not receive their final entitlements in full. Should gross assets fall by 45.1%, equivalent to an annual fall of 10.6%, the 2018 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 based on their quoted market value at 30 June are:

	<b>2013</b>	2012
	<b>£'000s</b>	£'000s
2012 ZDP shares	-	67,030
2014 ZDP shares	<b>75,288</b>	73,150
2016 ZDP shares	<b>78,613</b>	70,538
2018 ZDP shares	<b>56,511</b>	23,140

##### Capital risk management

The objective of the Company is to finance and fund 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.

## **Independent Auditor's Report To The Members Of Utilico Finance Limited**

We have audited the financial statements of Utilico Finance Limited for the year ended 30 June 2013 set out on pages 7 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Section 90(2) of the Companies Act 1981 of Bermuda. 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 auditor**

As explained more fully in the Directors' Statement of Responsibilities set out on page 6, the Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, 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 Report and Accounts 2013 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 30 June 2013 and of the Company's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with IFRS as adopted by the EU.

Gareth Horner  
For and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square London E14 5GL

17 September 2013