UMEME

Annual Report 2010

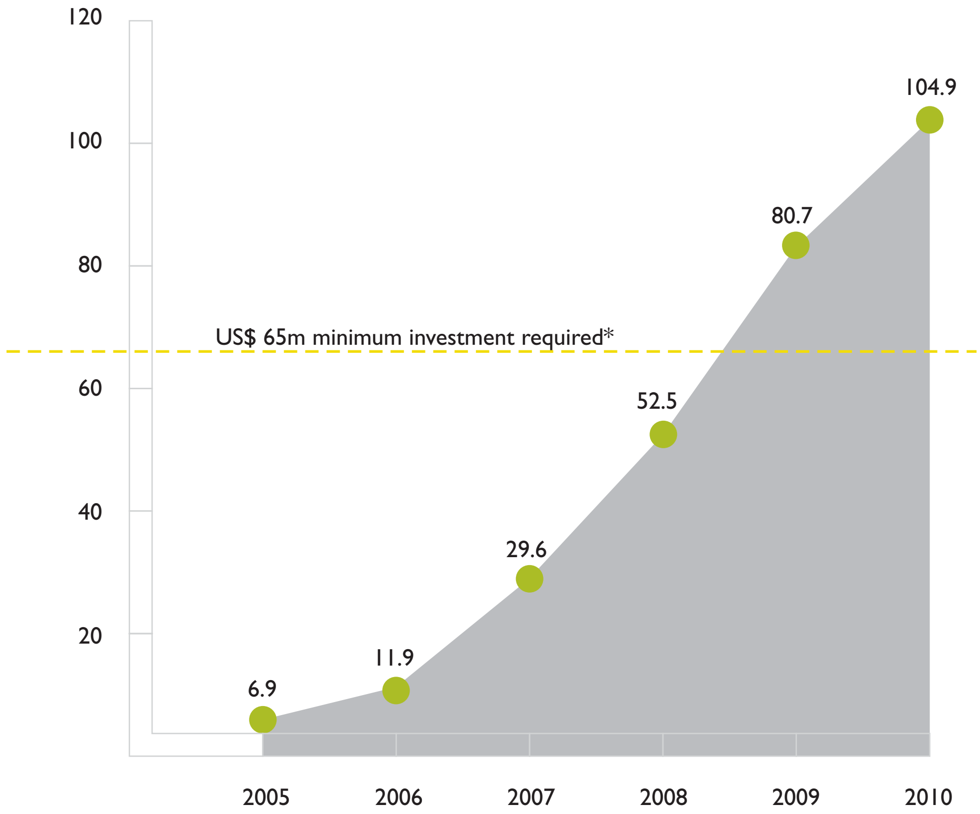
Umeme Footprint

Contents

Kampala is powered by Umeme
Cover: Hima Cement is one of Umeme's largest industrial customers

By the end of 2010 Umeme had invested US$ 105m in the distribution system

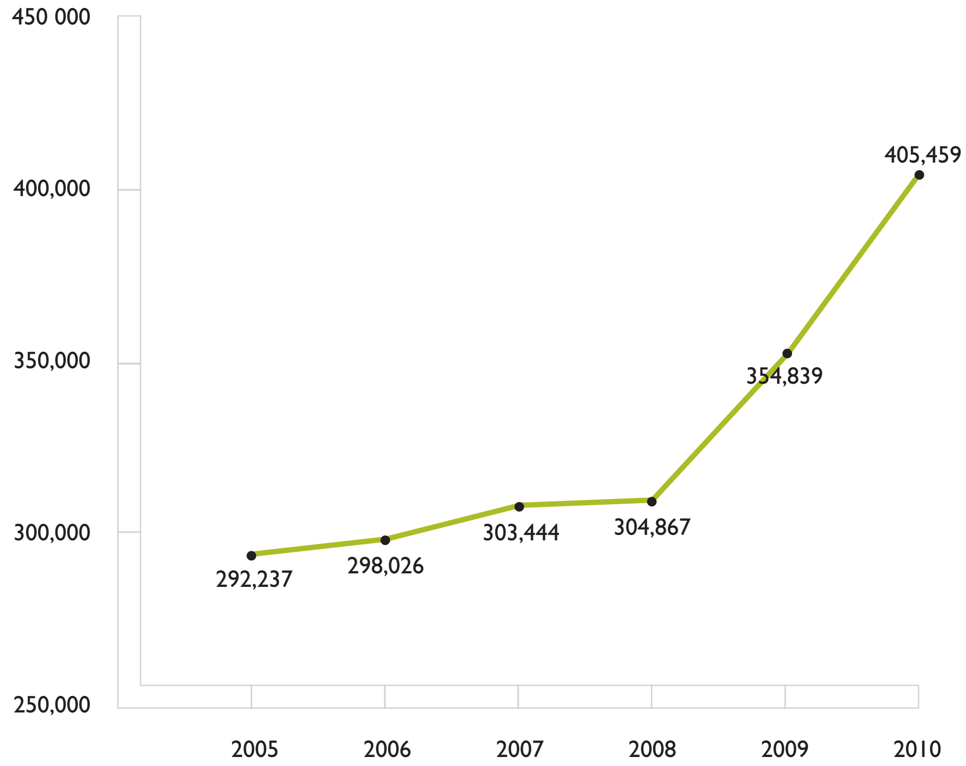
Umeme Investment (US$m)



*Under the terms of the Lease and Assignment Agreement, Umeme was obliged to invest a minimum of US$ 65m in the distribution system by 1 March 2010.

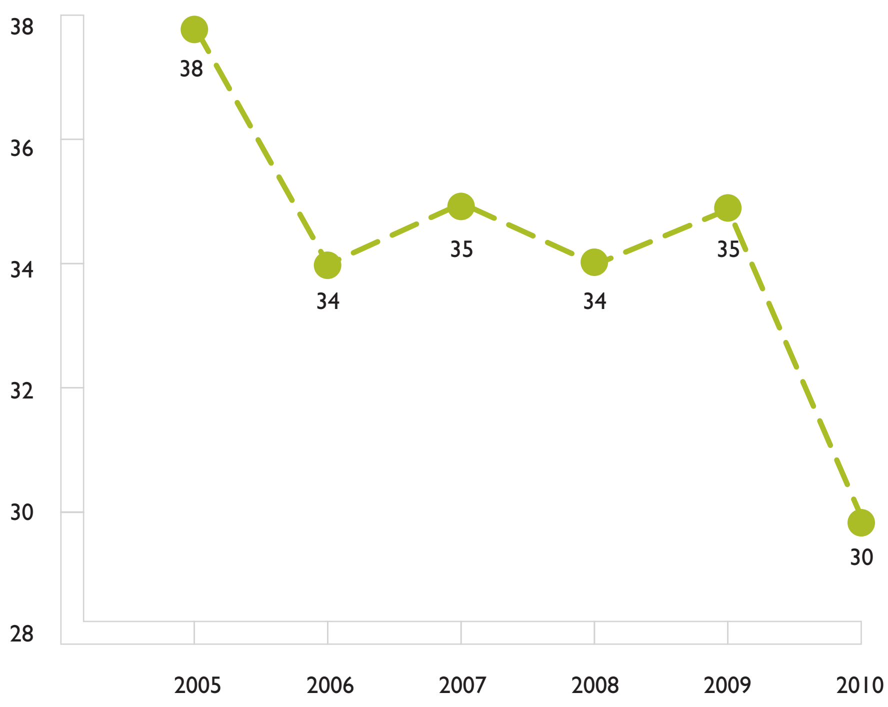
Umeme is connecting more people than ever

Total Customers



Losses have come down since the start of the concession and remain a top priority

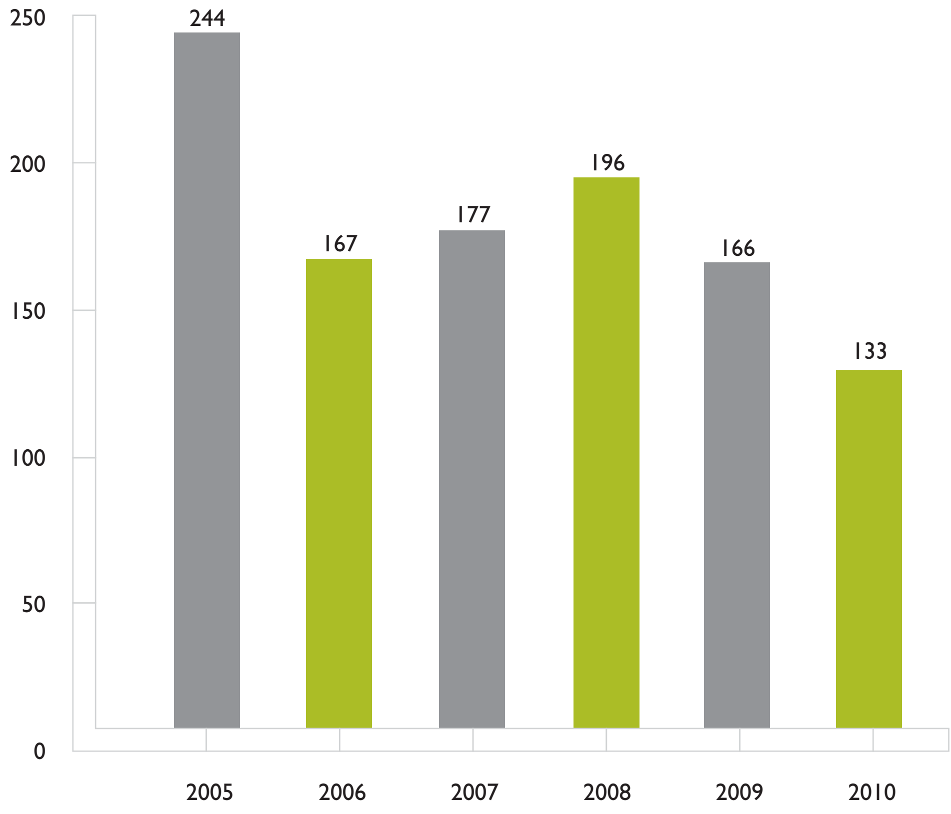
Annual Average Distribution Losses (%)*



*2005 figure includes the two months prior to Umeme taking over the Concession.

Umeme's component of the retail tariff has fallen significantly over the past six years

Umeme Distribution Price (Ushs/kWh)*



*Adjusted for inflation.

Board of Directors

Patrick Bitature

PATRICK BITATURE
Board Chairman

Patrick Bitature is a Ugandan businessman, entrepreneur and industrialist.

Patrick started his business empire with a single company, Simba Telecom.

From there he expanded into broadcasting, with the acquisition of Dembe FM, a radio station, followed by Simba Electronics, an upscale chain of stores trading in electronic goods. He also has interests in insurance, banking, hotels and resorts. Today, his businesses have subsidiaries in Uganda, Kenya, Tanzania and Nigeria.

Patrick is Chairman of Uganda Investment Authority and is one of the most respected business leaders in Uganda.

Charles Chapman

CHARLES CHAPMAN
Managing Director

Since joining Umeme in 2009, Charles has launched a successful business transformation programme, improving safety and customer service and reducing energy losses.

Prior to joining Umeme, Charles worked for Ireland's leading utility, Electricity Supply Board (ESB), as Head of ESB Customer Supply, and prepared the utility for competition.

Charles has extensive international experience in previous roles as Managing Director Toyota Hellas, Regional Director Inchcape plc Middle East and is an Honours graduate of Trinity College Dublin.

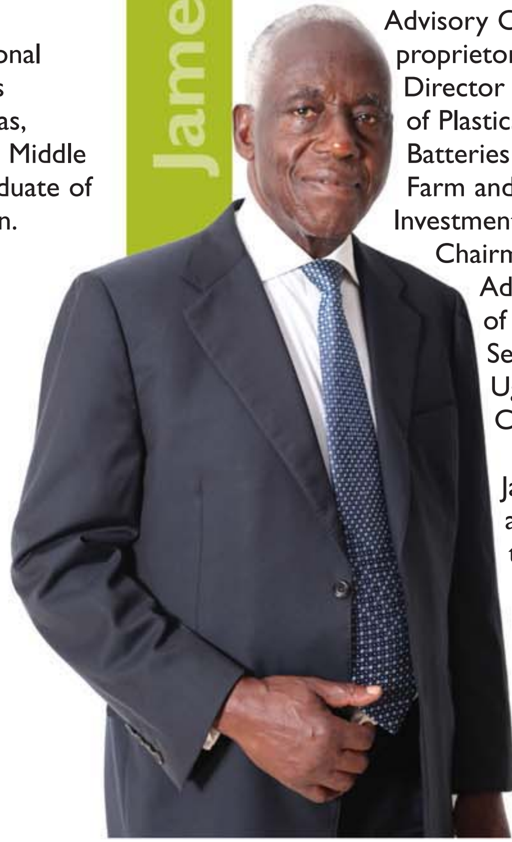
James Mulwana

JAMES MULWANA
Non-executive Director

James is a highly respected entrepreneur with vast business knowledge and over 40 years experience in the Ugandan corporate sector.

James was a founding Chairman of the Uganda Manufacturers Association and is the Chairman of its Advisory Council. He is the proprietor and Managing Director of Nice House of Plastics, Uganda Batteries Ltd, JESA Dairy Farm and JESA Investments Ltd. He is Chairman of the Advisory Council of the Private Sector Foundation Uganda and Vice Chairman of SOS.

James also serves as Chairman to the Boards of Standard Chartered Bank, ZAIN Uganda Ltd and Nile Breweries Ltd.



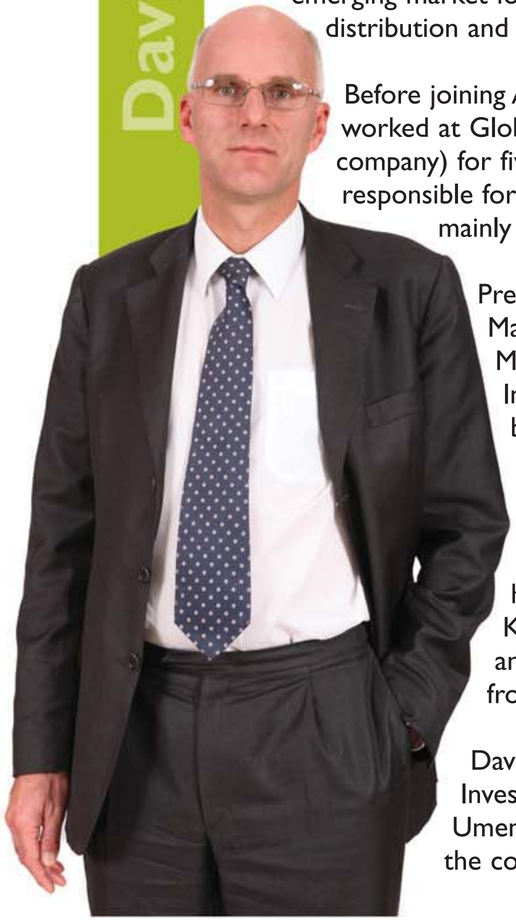
David Grylls

DAVID GRYLLS

Chairman: Environmental, Social and Governance Committee

David has over 20 years of experience developing, financing and managing power and energy projects.

Within Actis' Infrastructure fund, David has an emerging market focus on power distribution and generation.



Before joining Actis in 2007 David worked at Globeleq (an Actis investee company) for five years, where he was responsible for business development, mainly in Africa.

Previously David was Managing Director of Midlands Power International, and before that, he worked at Covanta, Mission Energy and BP. David, a Chartered Engineer, has an MBA from Kingston University and a BSc (Hons) from Bath University.

David is also Actis's Investment Manager for Umeme and a Director of the company.

Younes Maamar

YOUNES MAAMAR

Chairman: Customer Service and Loss Reduction Committee

Younes's extensive experience in power utilities operations, financing and equity investments of energy and infrastructure assets began in 1996 with the World Bank Group and the IFC, before joining AES Corporation as Project Director.

In 2006 Younes was appointed as CEO of Office National de l'Electricité (ONE), the Moroccan Integrated Power Utility, one of the largest power utilities in Africa.

Younes holds Board Directorship positions in various energy companies, such as Wilton Petroleum (a UK-based junior oil company with exploration permits in Africa), eONE (Morocco-based energy developer focussing on power projects in emerging markets) and Silicon CPV (cutting edge photovoltaic manufacturing).

Ian Francis

IAN FRANCIS

Chairman: Audit and Remuneration Committees

Ian joined the Umeme Board in October 2009 and is Chairman of the Board's audit subcommittees.

He was formerly a Senior Audit Partner with Ernst & Young LLP in London. He is also a Non-executive Director and audit committee Chairman of Optimal Payments plc.

Safety is paramount

To reduce accidents caused by electricity in Uganda, a comprehensive safety campaign aims to educate customers on the safe use of electricity, and ensures that equipment does not pose danger to the general public:

- A 24-hour toll-free national contact centre passes on reports of safety hazards to technical teams that can respond without delay.
- By the end of 2010, Umeme had replaced over 96,000 rotten poles as part of its refurbishment programme. Substations were fenced to limit access by adults and children.
- As part of a school safety campaign thousands of scholars were educated about using electricity safely. Radio bulletins, talk shows and print advertisements were used to educate people about electricity.
- In some areas, traditional uninsulated overhead conductors were replaced by aerial bundle conductors, which are much safer.
- Staff are issued with protection gear and equipment. Contractors are expected to undergo appropriate training and certification.

Report hazardous situations by phoning **0800 185 185** or **0800 186 186** toll free, or sending an email to **callcentre@umeme.co.ug.**

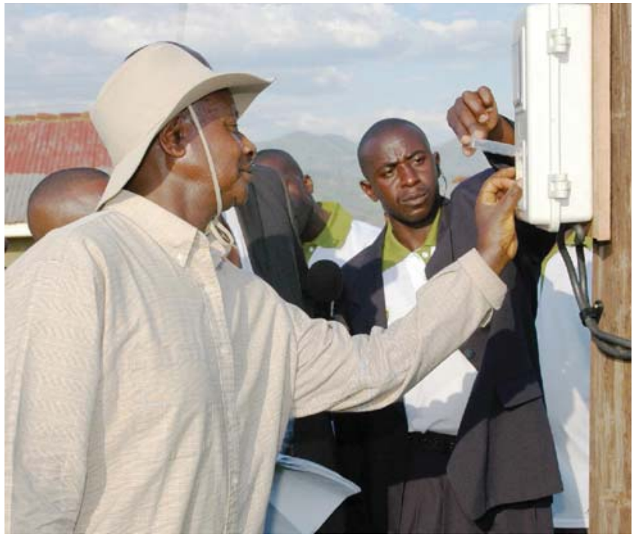
A Message from our Board Chairman

On behalf of the Board of Directors of Umeme, I extend my heartfelt appreciation to all staff members, stakeholders and customers for the support we were given in 2010. Umeme is one of the leading investors in Uganda. Working closely with the Electricity Regulatory Authority, Umeme's focus was on safety, loss reduction, business efficiency and customer service improvement.

As a developing economy, reliable electricity is vital for the growth of both the private and the public sector in Uganda, through expansion of the industrial and manufacturing sectors. At Umeme, we are working closely with the Government of Uganda on tariff management, loss-reduction initiatives and working towards world-class governance and customer service standards.

We congratulate His Excellency Yoweri Kaguta Museveni on his re-election as President of the Republic of Uganda. Under his stewardship the electricity sector has been transformed over the past decade and we applaud the Government of Uganda's commitment to significantly increase generation capacity, which is critical to the economic development of the nation. We stand ready, working with our fellow stakeholders in the sector, to rapidly increase the number of customers with access to power.

In 2010 the Government launched its five-year National Development Plan, according to which the private sector will be the engine of economic growth. Therefore it is an exciting time for companies like Umeme, who will be expected to contribute to employment creation and prosperity to insure socio-economic transformation in the country.



"We stand ready to rapidly increase the number of customers with access to power."

Patrick Bitature
Umeme Board Chairman

The National Energy Policy's goal is to meet the energy needs of Uganda's population for social and economic development in an environmentally sustainable manner. This goal ties in well with the role that the Government will expect Umeme to play in the National Development Plan. Our objectives as members of the energy sector include increasing access to modern, affordable and reliable energy services as a contribution to poverty eradication and improving energy governance and administration.

Umeme has managed to achieve these objectives over the past six years and in 2011 will strive to improve its performance even further. Our challenge and our goal are to transform into a modern, efficient and successful organisation with people driven by a passion for customer service and making a positive contribution to the economy of Uganda.

Uganda is on the brink of great things. It is our spirit of entrepreneurship that makes me believe that we will see much more growth in the coming years. We, the Board of Directors, look forward to another successful year for Umeme; success that will be possible with the support of the Government of Uganda, various stakeholders, our customers and staff.

"It is exciting to see how far Umeme has come since we began operations in 2005."

Charles Chapman
Umeme Managing Director

It is exciting to see how far Umeme has come since it began operations in 2005. The company has made visible progress in improving customer service in a safe, reliable and cost-effective manner, with a more motivated and better skilled workforce, generating sufficient profits and cash, which Umeme reinvests to build the business while providing value to customers, shareholders and the Government of Uganda. Umeme is committed to continue working to transform the company into a modern and efficient organisation, staffed by people dedicated to customer service and with a desire to make a positive contribution.

Our key focus areas as a business have been safety, improving the supply of electricity, reducing energy losses, improving customer service and investing in the development of Uganda's distribution network. Though we have made significant strides, there is still much to do.

Safety is paramount

The product Umeme deals with has the potential, if mishandled, to kill.

Within the company structure, we have established a proactive safety team whose critical role is to prevent accidents relating to Umeme's lines and installations. In line with Umeme's philosophy that community involvement reduces risks, the team has engaged community members through a variety of methods, among which public safety talks and school visits. Children are a particularly vulnerable group, so special

A Message from our Managing Director

attention is paid to teaching them about the safe use of electricity and the danger involved in mishandling any equipment related to electricity. In addition to providing information, public-education campaigns are focussed on changing attitudes and restoring a culture that recognises that power theft is socially inappropriate behaviour that harms society as a whole.

The 24-hour toll-free service (0800 185 185 and 0800 186 186) that has been instituted has proven to be very effective in dealing with reports of safety breaches. Umeme appeals to members of the public to alert it to possible safety hazards immediately, so that corrective action can be taken before harm can be done.

Safety has also been enhanced considerably by active refurbishment and continuous maintenance activities on the network. The safety team conducts continuous network patrols to ensure that equipment functions optimally and that safety is not compromised in any way.

Ownership and mandate

Umeme is a major investment of Actis's Infrastructure 2 Fund, a leading emerging-market investment firm with US$ 4.6 billion funds under management and operating across Africa, Asia and Latin America.

Following restructuring of Uganda's energy sector under the advisement of the World Bank and the Ugandan Government, in 2005 Umeme was awarded a 20-year concession to run Uganda's distribution network.

Keeping the lights on

With an eye to the future, the Government installed emergency generation capacity to limit interruptions to the supply of electricity. Umeme can report that load-shedding has gone down, from 288,000 hours in 2006, to fewer than 6,000 hours in 2010. Sometimes, power outages are unavoidable due to work being done to improve the system, and Umeme has great appreciation for the patience of customers in this regard.

Since starting operations, Umeme has invested heavily in expanding and refurbishing Uganda's electricity distribution network. By the end of 2010, the business has invested over US$105 million, the equivalent of Ushs 246 billion. Among the network infrastructure improvements have been the replacement of conductors and poles, purchase of assets, development of billing systems and the refurbishment of substations.

Pushing the distribution price down

The cost of electricity comprises three components, namely generation, transmission and distribution.

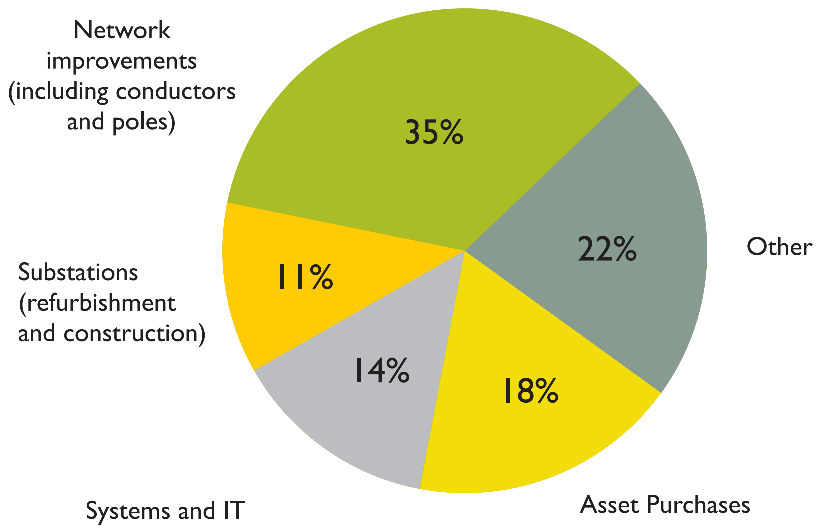
Together the three components determine the price, of which distribution by Umeme is about a quarter of the total cost. Even though the cost of generating electricity increased, in 2010 Umeme was able to report a significant reduction in the price of distribution from the previous year.

This achievement is due to increasing the efficiency of our operations; success in reducing losses and recording an increase in the number of customers.

Umeme is proud to report that it has far exceeded the target it was set of connecting 60,000 new customers to the grid in the first five years of operation. By the end of 2010 Umeme had 405,459 customers.

Over the past five years, the distribution component per kW/h has fallen dramatically. In 2005, Umeme's proportion of the tariff was Ushs 162 per unit, but by the end of 2010 it had reduced to Ushs 95. In spite of high generation costs, which pushed the tariff up, average domestic tariff today is Ushs 385.6 per unit. Working with the Electricity Regulation Authority (ERA) and other stakeholders, Umeme has managed to bring down the electricity tariff by 9.8% for 2010.

Capex investment 2005-2009



"Umeme is connecting more than 50,000 customers a year."

Curbing energy loss through technical inefficiency and theft remain one of Umeme's main focus areas. Losses have been brought down from over 38% in 2005 to 30%, resulting in significant cost savings to customers. Umeme relies on continued support by customers to continue this successful trend.

In the 2010 financial year, Umeme registered a cash collection of 93% of sales, which is in line with its target. The loyalty and commitment of Umeme staff are paying off, as the improvement of relations with customers reflects in their willingness to pay for the electricity consumed, which is facilitated by the assistance of customer-oriented staff.

Serving the customer

As is the case with any business, long-term sustainability is dependent on customer satisfaction. In Umeme's case, customer service involves two aspects, namely the technical side of electricity provision, and the personal side of dealing with individual customers with regard to their electricity needs.

For Umeme, customer service encompasses a comprehensive range of services, from establishing and maintaining the physical infrastructure required to distribute electricity, to attending to the personal needs of customers, such as safety concerns and billing.

By decentralising its service provision Umeme has shortened the time needed to solve customer queries and complaints. Under the new system involving six areas and 25 district offices, the time needed to effect a new connection has reduced from several months to, on average, 14 days.

"Losses have come down since the start of the Concession and remain a top priority."

Customers now have access to staff located in their own district office - a team of professional and dedicated staff working in pleasant environment.

A fully fledged national contact centre involves more than 25 agents working around the clock to provide a comprehensive service to customers. Queries range from issues related to billing, connections and disconnections and safety-related concerns.

It did not take long for Umeme's national contact centre to become an institution among customers who readily report faults and other concerns, enabling Umeme to be fully informed and continuously updated about network-related problems and customer concerns.

Since the toll-free numbers 0800 185 185 and 0800 186 186 have been operational, resolution time for faults reported to the national contact centre has reduced from more than a month to an average of 24 hours.

Tackling corruption

Umeme takes allegations of corruption seriously and has launched an anti-corruption drive to fight corruption both within the organisation and among members of the public. Some of the key anti-corruption activities are:

- Partnering with Transparency International to provide expertise in fighting corruption among staff, contractors and customers.
- Presenting awareness campaigns among Umeme staff across the country on corruption and its consequences for service delivery, safety, our business and the law.

Looking forward, we will continue to enhance avenues for reporting corruption and to improve the Umeme customer service experience.

Investing in Uganda

Umeme is one of the largest investors in Uganda and in 2009 signed a US$ 25 million loan agreement with the International Finance Corporation (IFC), a member of the World Bank Group. Raising such significant funding from such a credible source is a powerful indication of the strength of Umeme's business model and of that of the electricity sector in Uganda.

By the end of 2010, Umeme had collected over Ushs 65 billion in value-added tax, and has paid over Ushs 34.5 billion in corporation tax since 2005.

Umeme appreciates customers' patience. Umeme is changing and we recognise the contribution of staff and customers.

I would like to thank Umeme staff for their dedication and commitment in working to achieve our goals, and customers for their prompt payment and other support that is making it possible for us to build a more effective business.

Umeme's call centre responds to customers around the clock.

Customers can report service interruptions and equipment damage to Umeme's toll-free national contact centre. Field teams are dispatched immediately to deal with technical faults, paying priority attention to hazardous situations.

The team of 25 agents who are on duty around the clock also deal with billing and other queries.

For immediate response, call **0800 185 186** or **0800 185 185** toll free, or send an email to **callcentre@umeme.co.ug**. Provide your account number to help staff pinpoint your location.

Key Umeme staff in your area

KAMPALA CENTRAL


Robert Mubiru
Area Manager - Eastern
O. 0434 12 1964
C. 0772 22 2102
E. robert.mubiru@umeme.co.ug


Richard Issac Katewanga
District Manager Kampala metro
O. 0312 36 0901
C. 0776 36 0369
E. issac.katewanga@umeme.co.ug


Thomas Tondo
District Manager - Natete & Mpigi
O. 0392 22 2386
C. 0772 49 0201
E. thoms.tondo@umeme.co.ug


Herbert Kanyali
District Manager - Wandegeya
O. 0312 36 0600
C. 0776 36 0132
E. herbertkanyali@umeme.co.ug

KAMPALA SOUTH


Agnes Nalwanga
Area Manager - Kampala South
O. 0312 36 0600
C. 0772 406 522
E. agnes.nalwanga@umeme.co.ug

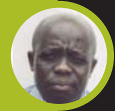

Johnson Okochi
District Manager - Najjanankumbi
O. 0414 50 1655
C. 0772 44 8459
E. johnson.okochi@umeme.co.ug

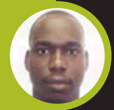

Miriam Musinguzi
District Manager - Kabalagala
O. 0414 50 1683
C. 0772 53 5629
E. miriam.musinguzi@umeme.co.ug

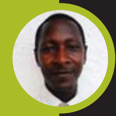

Trevor Kigenyi
District Manager - Entebbe
O. 0414 32 0620
C. 0772 488 667
E. trevor.kigenyi@umeme.co.ug


Richard Lubega
District Manager - Mbarara
O. 0485 42 0310
C. 0776 36 1031
E. richard.lubega@umeme.co.ug


David Birungi
District Manager - Fort Portal
O. 0392 22 2378
C. 0772 30 1145
E. david.birungi@umeme.co.ug


Martin Okuyo
District Manager - Kasese
O. 0392 79 9045
C. 0772 50 2826
E. martin.okuyo@umeme.co.ug

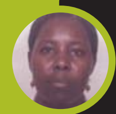

George D'Ujang Ufoyuru
District Manager Kabale & Kisoro
O. 0486 42 2075 / 0486 42 3673
C. 0772 49 1454
E. george.ufoyuru@umeme.co.ug


Gyaviira Katongole
District Manager - Mbale & Soroti
O. 0392 79 9774
C. 0772 47 0865
E. gyaviira.katongole@umeme.co.ug

NORTHERN


Elizabeth Muhanga
Area Manager - Northern
O. 0392 22 2375
C. 0772 22 2391 / 0392 96 4134
E. elizabeth.muhanga@umeme.co.ug


David Serunkuma
District Manager - Bombo
O. 0932 22 2372 / 0414 63 0323
C. 0772 41 4975
E. david.serunkuma@umeme.co.ug


Doreen Ogenga
District Manager - Hoima & Masindi
O. 0465 44 0045 / 0392 79 0595
C. 0776 36 0368
E. doreen.ogenga@umeme.co.ug


James Okwi
District Manager - Lira
O. 0473 42 0089
C. 0772 35 5615
E. james.okwi@umeme.co.ug


Harriet Mukisa
District Manager - Gulu (acting)
O. 0471 43 2200
C. 0776 36 0355
E. harriet.mukisa@umeme.co.ug

KAMPALA EAST


Florence Nsubuga
Area Manager - Kampala East
O. 0312 36 0504
C. 0776 36 1060 / 0772 22 2350
E. florence.nsubuga@umeme.co.ug


Ethel Katabazi
District Manager - Kitintale
O. 0392 22 2387 / 0414 22 2965
C. 0773 31 6361
E. ethel.katabazi@umeme.co.ug


Hussein Mubiru
District Manager - Banda
O. 0392 22 2387 / 0414 22 2965
C. 0772 46 0977
E. hussein.mubiru@umeme.co.ug


Joyce Nanziri
District Manager - Mukono (acting)
O. 0392 22 374 / 0414 29 0355
C. 0772 59 5875
E. joice.nanziri@umeme.co.ug

WESTERN

VACANT POSITION
Area Manager - Western
O. 0312 36 0470

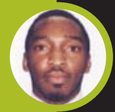

Kirunda A. Magoola
District Manager - Masaka
O. 0481 42 0006
C. 0774 16 8994
E. kirundamagoola@umeme.co.ug


Solomon Kajumba
District Manager - Mityana
O. 0392 22 2379 / 0464 44 2010
C. 0776 36 0367
E. solomon.kajumba @umeme.co.ug


Enock Mutinga
Acting District Manager Bushenyi & Rukungiri
O. 0392 22 2382 / 0392 78 3814
C. 0774 13 9765
E. enock.mutinga@umeme.co.ug

EASTERN


Rose Oyella
Area Manager - Eastern
O. 0434 12 1964
C. 0772 488 945
E. rose.oyella@umeme.co.ug


Andrew Mwesigye
District Manager - Jinja, Kayunga & Lugazi
O. 0392 73 5906
C. 0772 83 4950
E. andrew.mwesigye@umeme.co.ug


Micheal Oputo
District Manager - Iganga & Kamuli
O. 0434 24 2073 (Iganga)
C. 0772 42 0790
E. michel.oputo@umeme.co.ug


Stephen Epilu
District Manager - Tororo
O. 0454 44 5162
C. 0772 60 1939
E. stephen.epilu@umeme.co.ug

Annual Report and Financial Statements for the Year ended 31 December 2010

Financial Statements

Kampala is powered by Umeme

Corporate Information

Principal Place Of Business

Umeme Limited
Rwenzori House
Plot 1 Lumumba Avenue
P. O. Box 23841, Kampala

Registered Address

Shonubi, Musoke & Company Advocates
SM Chambers
Plot 36 Nile Avenue
P. O. Box 3213, Kampala

Solicitors

Shonubi, Musoke & Company Advocates
SM Chambers
Plot 36 Nile Avenue
P.O. Box 3213, Kampala

Auditors

Ernst & Young
Ernst & Young House
Plot 18 Clement Hill Road
P.O. Box 7215, Kampala

Bankers

Standard Chartered Bank Uganda Limited
Plot 5 Speke Road
P.O. Box 7111, Kampala

Stanbic Bank Limited
Corporate Branch, IPS Building
P.O. Box 7131, Kampala

Citibank Limited
Centre Court, Ternan Avenue
P.O. Box 7505, Kampala

Barclays Bank of Uganda
Plot 4 Hannington Road
P.O. Box 7101, Kampala

DFCU Bank Limited
Impala House
Plot 13 Kimathi Avenue
P.O. Box 70, Kampala

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010 which disclose the state of affairs of Umeme Limited ("Umeme" or "the Company").

Report of the Directors

1. GENERAL INFORMATION

Company Background and Values

Umeme Limited was incorporated on 6 May 2004 as a joint venture between Globeleq Holdings (Conco) Limited ("Globeleq") and Eskom Enterprises (Pty) Limited ("Eskom") with 56% and 44% shares respectively. On 28 November 2006, Eskom sold its 44% investment in Umeme to Globeleq, thus making Globeleq the sole shareholder with 100% ownership by the end of 31 December 2006. In October 2009, the ownership of Globeleq was transferred to CDC Group plc.

On 15 October 2009, Globeleq was renamed Umeme Holding Limited, and on 3 December 2009, the ownership of Umeme Holding Limited was transferred from CDC to Actis Infrastructure 2 LP.

Umeme took over the distribution system and licence to distribute and supply power in the Authorised Territory from UEDCL under a Concession arrangement with effect from 1 March 2005 for a period of 20 years. Under the Concession, Umeme is also required to repair, upgrade and expand the Distribution System within the Authorised Territory and such contiguous areas as the Company and the Electricity Regulatory Authority ("ERA") may agree.

UEDCL owns the distribution and transmission equipment not exceeding 33 kV which were concessioned to Umeme as outlined above. Umeme purchases electricity from Uganda Electricity Transmission Company Limited ("UETCL"), which owns and operates the high voltage transmission network of up to 132 kV. Uganda Electricity Generation Company Limited ("UEGCL") owns the Nalubaale and Kiira hydropower generation stations and equipment in Jinja, concessioned to Eskom (Uganda) Limited, and sells electricity to UETCL. Aggreko Ltd owns thermal (diesel) generation plants at Mutundwe and Jinja and Jacobsen owns a plant at Namanve.

Other power generation companies, Electromax (thermal) and Bugoye (hydro) were commissioned in 2009. These companies also sell their electricity to UETCL.

Umeme's shared purpose is "electricity retail and distribution business providing exceptional customer services in a safe, reliable and cost effective manner with a workforce that is well motivated and skilled, generating sufficient profits to sustain and build the business while providing value to shareholders."

Umeme's values are:

- Customer is number one
- Employees are fundamental
- Integrity/honesty informing all our actions
- Safety of staff and people is important to us
- Transparency and openness in all our dealings
- Environment.

Statistics

The following statistics indicate the performance of the Company:

	31 Dec 2010	31 Dec 2009
Number of consumers connected during the year	50,620	34,543
Number of pending service applications	2,037	4,560
GWh units sold during the year	1,627	1,401
GWh units purchased during the year	2,324	2,146
Additional 33 kV and 11 kV lines in kilometres (km)	50	348
Total length of distribution lines at the end of the year (km)	8,828	8,778
Total length of low voltage lines at the end of the year (km)	9,963	9,643
Distribution transformers installed during the year	111	305
Total distribution transformers at the end of year	6,355	6,244
Total number of customers at the end of the year	405,459	354,839
Total number of company employees at the end of the year	1,145	1,156
Year end foreign exchange rate (Ushs:US$)	2,344	1,915

The entire network was fully audited as of 2009 and a Geographical Information System (GIS) database for the network created, forming a detailed asset register demarcated by poles, transformers, conductors and other accessories. This information is analysed to study the status of the network in order to establish investment requirements. The results are also used to perform impairment reviews of the assets in relation to the life expectancy of the assets.

Capital Investment

The Company, in accordance with the terms of the Concession agreements, made an initial investment of at least US$ 5 million in the first 18 months. As indicated in note 28 (iv) to the financial statements, Umeme was required to make a minimum capital investment of up to US$ 65 million by end of February 2010. Umeme's investments exceeded this target by the end of February 2010.

Reduction of Technical and Commercial Losses

The Company embarked on a strategic plan to reduce technical and commercial losses (energy losses) from 38% at the beginning of March 2005 to 28% over 7 years as per the original Concession requirement.

Umeme is implementing a loss reduction plan through the decentralised district structures. Technical losses are being addressed through implementation of the Rehabilitation and Reinforcement Plan.

As at 31 December 2010, the total energy losses stood at 30% (2009: 34.7%).

Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of financial risks including credit risk and the effects of changes in foreign currency exchange rates, as most of the transactions are executed in foreign currency. The Company's overall risk management programme focusses on the unpredictability of customers' settlement trends and seeks to minimise potential adverse effects on its financial performance within the options available to mitigate against such risks. The main challenges facing the Company which may expose it to financial risk include:

- Shortage of hydro-electricity supply due to low lake levels, and more expensive thermal electricity;
- Energy losses (both technical and non-technical);
- Billing anomalies leading to inaccurate customer bills (statements);
- Revenue collection levels;
- Need to maintain power quality, reliability, standards and safety as stipulated by Statutory Codes;
- Availability of quality materials and logistics;
- System vandalism and theft of operational materials;
- Significant capital financing requirements to rehabilitate the aged distribution network; and
- Volatility of foreign exchange rates.

The Company has policies in place to ensure that invoices for electricity consumed by customers are collected within an appropriate period.

2. PRINCIPAL ACTIVITIES

Umeme's core business activities can be summarised as follows:

a) Electricity distribution that entails

- Operation, maintenance and upgrading of the electricity network not exceeding 33 kilovolt (kV) within Uganda.

b) Electricity supply and service after sales that entails

- Connection of new customers
- Meter reading
- Billing customers
- Revenue collection
- Addressing customer queries
- Restoration of power after interruptions
- General customer care
- Customer sensitisation on energy efficiency and
- Marketing available power to customers.

The operations countrywide are divided for administrative purposes into six regions under the supervision of Area Managers as listed below:

- Northern
- Eastern
- Western
- Kampala South
- Kampala East
- Kampala Central

All the above regions are further subdivided into 25 districts under the supervision of a District Manager reporting to the Area Manager. The district structure was strengthened in 2009 and the staffing complement changed to offer better customer service delivery. More responsibility was given to the district management.

The areas of focus have been and will continue to be:

- Safety
- Commercial losses

- Technical losses
- Customer service improvement
- Cost and efficiency improvement

3. RESULTS

The results for the year ended 31 December 2010 and comparatives for 2009 are stated on page 20.

4. DIVIDENDS

The Directors do not recommend payment of a dividend for the current year (2009: Nil).

5. RESERVES

The reserves of the Company are set out on page 23.

6. DIRECTORS

The Directors who held office during the year and to the date of this report were:

Mr Patrick Bitature - Chairman
Mr Stuart David Michael Grylls
Mr James Mulwana
Mr Charles Chapman - Managing Director
Mr Ian Francis
Mr Younes Maamar

6. AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office in accordance with section 159 (2) of the Ugandan Companies Act (Cap 110).

By order of the Board

Signed.. Date: 14 April 2011
SECRETARY

Statement of the Directors' Responsibilities for the year ended 31 December 2010

The Ugandan Companies Act (Cap 110) and Electricity Act, 1999 (Cap 145) require the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the Directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors are ultimately responsible for the internal control. The Directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the Company's assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and using the going-concern basis. These systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The Directors accept responsibility for the year's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act (Cap 110) and Electricity Act, 1999 (Cap 145). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Company entered into a concession arrangement effective 1 March 2005 in which among others it signed a Lease and Assignment Agreement ("LAA" or "the Agreement") with UEDCL for the power distribution system for a period of 20 years. Restructuring agreements which included the introduction of an Electricity Sector Stabilisation Period ("ESSP") effective 30 December 2006 were entered into in November 2006 to take account of the period of shortage of electricity supply in Uganda. According to section 2.1.5 of the fourth amendment of the LAA, Umeme may at any time during the ESSP, other than the first 365 days thereof, in its sole discretion, commence the termination of the Agreement by delivery to UEDCL of a notice of intent to terminate at least 180 days prior to the date elected for such termination and a termination notice at least 90 days prior to the date elected for such termination.

As at 31 December 2010 and to the date of this report, the Directors have confirmed that the Company does not intend to commence the termination of the Concession agreement and the Company will continue in operational existence for the foreseeable future. Thus, the financial statements have been prepared on the going-concern basis.

The financial statements were approved by the Board of Directors on 14 April 2011 and signed on its behalf by:

....

Director

Charles C.T. Chapman.

....

Director

Report of the Independent Auditors to the Shareholders of Umeme Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Umeme Limited, which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 20 to 60.

Directors' Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in a manner required by the Ugandan Companies Act (Cap 110) and Electricity Act, 1999 (Cap 145), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Umeme Limited as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act (Cap 110) and Electricity Act, 1999 (Cap 145).

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Ugandan Companies Act (Cap 110) we report to you, based on our audit, that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

KAMPALA

14 April 2011

Income Statement For Year Ended 31 December 2010

	Note	2010 Ushs'000	2009 Ushs'000 Restated
Revenue	3	462,849,774	422,508,759
Cost of sales	4	(305,261,186)	(276,825,021)
GROSS PROFIT		**157,588,588**	**145,683,738**
Other operating income	5(a)	5,785,410	7,691,743
Finance income	5(b)	16,557,570	19,739,751
		179,931,568	173,115,232
Distribution costs	6	(14,867,419)	(16,726,998)
Administration expenses	7	(91,259,092)	(86,056,125)
Foreign exchange losses	8(a)	(18,895,614)	-
Other operating expenses	8(b)	(22,281,534)	(17,462,753)
OPERATING PROFIT		**32,627,909**	**52,869,356**
Finance costs	9	(26,276,844)	(27,239,608)
PROFIT BEFORE TAX	**10**	**6,351,065**	**25,629,748**
Income tax credit/(expense)	11(a)	637,723	(10,661,383)
PROFIT FOR THE YEAR		**6,988,788**	**14,968,365**
EARNINGS PER SHARE	**12**	**522**	**1,118**
DILUTED EARNINGS PER SHARE	**12**	**522**	**1,118**

Statement of Comprehensive Income for the Year Ended 31 December 2010

	2010 Ushs'000	2009 Ushs'000
Profit for the year	6,988,788	14,968,365
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	**6,988,788**	**14,968,365**

Statement of Financial Position as at 31 December 2010

	Note	2010 Ushs'000	2009 Ushs'000 Restated	2008 Ushs'000 Restated
NON CURRENT ASSETS				
Intangible assets	13	157,963,892	126,830,254	86,887,670
Financial asset: Non-current portion	14	160,181,071	154,226,395	175,143,694
Deferred income taxes	11(c)	16,043,509	5,346,687	5,833,616
		334,188,472	286,403,336	267,864,980
CURRENT ASSETS				
Financial asset: Current portion	14	24,966,135	18,885,945	17,623,960
Inventories	15	20,986,360	23,670,848	18,382,290
Trade and other receivables	16	92,820,637	76,193,748	77,668,645
Current tax recoverable	11(b)	-	3,045,423	-
Bank balances	17	54,810,419	38,184,896	43,646,446
		193,583,551	159,980,860	157,321,341
TOTAL ASSETS		527,772,023	446,384,196	425,186,321

Statement of Financial Position as at 31 December 2010

	Note	2010 Ushs'000	2009 Ushs'000 Restated	2008 Ushs'000 Restated
EQUITY AND LIABILITIES				
EQUITY				
Issued capital	18	22,870,262	22,870,262	22,870,262
Retained earnings		75,681,942	8,693,154	3,724,7896
		98,552,204	1,563,416	6,595,0519
NON-CURRENT LIABILITIES				
Shareholder's loan: Non-current portion	19	64,243,913	40,123,809	48,161,904
IFC Loan: Non-current portion	20	29,299,998	9,575,000	-
Concession obligation: Non-current portion	21	160,181,071	154,226,395	175,143,694
		253,724,982	203,925,204	223,305,598
CURRENT LIABILITIES				
Shareholder's loan: Current portion	19	9,376,000	19,639,153	10,203,292
IFC loan: Current portion	20	7,321,958	-	-
Concession obligation: Current portion	21	24,966,135	18,885,945	17,623,960
Customer security deposits	22	21,322,992	15,208,785	10,495,983
Deferred construction income	23	10,780,264	4,384,869	8,177,895
Trade and other payables	24	101,195,639	92,776,824	78,332,073
Current tax payable	11(b)	531,849	-	452,469
		175,494,837	150,895,576	125,285,672
TOTAL EQUITY AND LIABILITIES		527,772,023	446,384,196	425,186,321

These financial statements were approved by the Board of Directors on 14 April 2011, and signed on its behalf by:

Charles C.T. Chapman.

....

Director Director

Statement of Changes in Equity for the Year ended 31 December 2010

	Issued capital (Note 18) Ushs'000	Retained earnings Ushs'000	Total equity Ushs'000
At 1 January 2009	22,870,262	(14,522,082)	8,348,180
Prior year adjustment	-	68,246,871	68,246,871
At 1 January 2009 - As restated	22,870,262	53,724,789	76,595,051
Profit for the year	-	14,968,365	14,968,365
Other comprehensive income	-	-	-
Total comprehensive income	-	14,968,365	14,968,365
At 31 December 2009	22,870,262	68,693,154	91,563,416
At 1 January 2010	22,870,262	68,693,154	91,563,416
Profit for the year	-	6,988,788	6,988,788
Other comprehensive income	-	-	-
Total comprehensive income	-	6,988,788	6,988,788
At 31 December 2010	22,870,262	75,681,942	98,552,204

Statement of Cash Flows for the Year ended 31 December 2010

	Note	2010 Ushs'000	2009 Ushs'000
Operating activities			
Profit before tax		6,351,065	25,629,748
Adjustment for:			
Amortisation of intangible assets		19,692,253	14,144,112
Interest on shareholders' loans		7,500,800	7,157,838
Interest on IFC loan		2,190,576	-
Interest from bank deposits		(1,149,038)	(1,099,824)
Unrealised foreign exchange loss/(gain)		17,690,588	(1,920,072)
		52,276,244	**43,911,802**
Decrease/(increase) in inventory		2,684,488	(5,288,558)
(Increase)/decrease in trade and other receivables		(16,626,889)	1,474,897
Increase/(decrease) in deferred construction income		6,395,395	(3,793,026)
Increase in customer security deposits		6,114,207	4,712,802
Increase in trade and other payables		8,418,815	14,444,751
Cash generated from operating activities		59,262,260	55,462,668
Interest paid on IFC loan	20	(783,056)	-
Interest paid on shareholder's loan	19	(6,945,000)	(3,840,000)
Interest received from banks		1,149,037	1,099,824
Current tax paid	11	(6,481,827)	(13,672,346)
Net cash from operating activities		**46,201,414**	**39,050,146**

Statement of Cash Flows for the Year ended 31 December 2010

	Note	2010 Ushs'000	2009 Ushs'000
Investing activities			
Purchase of intangible asset	13	(50,825,891)	(54,086,696)
Recovery of financial asset		12,471,412	15,679,478
Payment of concession obligation		(12,471,412)	(15,679,478)
Net cash used in investing activities		**(50,825,891)**	**(54,086,696)**
Financing activities			
Proceeds from IFC loan	20	21,250,000	9,575,000
Net cash from financing activities		**21,250,000**	**9,575,000**
Net increase/(decrease) in cash and cash equivalents		16,625,523	(5,461,550)
Cash and cash equivalents at 1 January		38,184,896	43,646,446
Cash and cash equivalents at 31 December	17	**54,810,419**	**38,184,896**

Notes to the Financial Statements

1. COMPANY INFORMATION AND GOING CONCERN

The Company entered into a concession arrangement effective 1 March 2005 in which among others it signed a Lease and Assignment Agreement ("LAA") with Uganda Electricity Distribution Company Limited (UEDCL) for the power distribution system for a period of 20 years. Amendments were made to the Concession agreements in November 2006 to take account of the period of shortage of electricity supply in Uganda and included the introduction of an Electricity Sector Stabilisation Period ("ESSP") effective 30 December 2006 and ending on the earliest to occur of the following:

- 270 days have elapsed since the last Commercial Operation Date pertaining to any new generation plants with aggregate available capacity of at least 150 MW at an adjusted weighted average price of no more than US$ 0.12 kWh that begin generating electricity in Uganda subsequent to the ESSP effective date;
- There has been no Special Provision Period (SSP) for a period of at least two years; or
- Seven years have passed since the ESSP effective date.

Capacity of at least 150 MW at an adjusted weighted average price of no more than US$ 0.12 kWh is expected to start becoming available from Bujagali Hydropower Dam in the last quarter of 2011, and there has been no SSP since 30 September 2009.

According to section 2.1.5 of the fourth amendment of the LAA, Umeme may at any time during the ESSP, other than the first 365 days thereof, in its sole discretion, commence the termination of the Concession arrangement by delivery to UEDCL of a notice of intent to terminate at least 180 days prior to the date elected for such termination and a termination notice at least 90 days prior to the date elected for such termination. As at 31 December 2010 and to the date of this report, the Directors have confirmed that the Company does not intend to commence the termination of the Concession agreement and the Company will continue in operational existence for the foreseeable future.

Thus, the financial statements have been prepared on the going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company does not continue as a going concern.

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 30 June 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of Accounting

The financial statements are prepared under the historical cost convention unless otherwise stated. The financial statements are presented in Uganda Shillings rounded to the nearest thousand (Ushs'000).

b) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Ugandan Companies Act (Cap 110).

c) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Power Sales
Revenue is recognised when customers are billed for the power consumed. It is recognised in the financial statements net of Value Added Tax (VAT).

Finance Income
Interest income is recognised as interest accrues using the effective interest rate method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Other Income
Other revenues are recognised as they are earned.

Construction Revenue
Construction revenue is recognised as revenue in the income statement in the accounting periods in which the work is performed. Construction costs are recognised as expenses in the income statement in the accounting periods in which the work to which they relate is performed. Any expected excess of total construction costs over total construction revenue for the project is recognised as an expense immediately.

d) Deferred Construction Income

Customers are required to fund the cost of new installations to their facilities. This amount is paid in advance to the Company as a non-refundable capital contribution. The non-refundable capital contribution is treated as deferred income until utilised for the construction of the installation paid for. Deferred income is reduced by the construction cost recognised by reference to the stage of completion of the project paid for at the end of the reporting period.

e) Intangible Assets

Property, plant and equipment concessioned from UEDCL are not recognised in the Company's financial statements in accordance with IFRIC 12. Under the Concession agreements, the Company received the right to access, operate and use the concessioned assets, charge customers for the supply of electricity, and other rights in form of government support and assurances for a period of 20 years in exchange for the transaction fee, monthly rental payments and obligations to restore, reinforce and modify the distribution network.

The Company recognised an intangible asset for the initial transaction fee. The distribution network restoration, reinforcement and modification costs that are funded by the Company and meet the recognition criteria of property, plant and equipment are added to the intangible asset in cases where they are not recoverable through the Buy-Out-Amount (financial asset). The Buy-Out-Amount represents capital investments by the Company in the distribution system which would not have been recovered through the tariff methodology at the end of the Concession. The Buy-Out-Amount is adjustable depending on the initiator of the termination. The intangible assets are amortised using the straight line method over the shorter of the concession period (20 years) and the useful lives of underlying property, plant and equipment.

The following are the rates for the underlying property, plant and equipment that are used to amortise the intangible assets.

Buildings	(shorter of the concession period or 5%)
Substations	9%
Low voltage lines	6.3%
Pole and no-pole service lines (Services)	5%
Furniture and fittings, tools and other equipment	25-30%
Computer equipment and other office equipment	30%
Motor vehicles	25%

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss for the year.

No amortisation is charged for the intangible asset arising from property, plant and equipment in the course of construction (capital work in progress). Upon completion of the project, the accumulated cost is amortised using the amortisation rate of the underlying property, plant and equipment category set out above.

f) Impairment of Intangible Assets

The Company assesses at each reporting date whether there is an objective indication that long term assets other than deferred tax assets are impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses recognised in prior years are reversed through the income statement if and only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of amortisation or depreciation) had no impairment loss been recognised in prior years.

g) Significant Accounting Judgements and Estimates

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Government Taxes

The Company is subject to various government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement.

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment Losses on Receivables

The Company reviews its debts at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual may differ, resulting in future changes to the allowance.

h) Inventories

Inventories comprise mainly spares and supplies and are stated at the lower of cost and net realisable value. Cost is determined as the weighted average purchase cost and includes transport, handling costs, duties and other costs incurred in bringing the inventories to their present location and condition.

i) Financial Instruments - Initial Recognition and Subsequent Measurement

Date of Recognition

Purchases or sales of financial assets that require delivery of assets within a time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Initial Recognition of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue. The Company's financial assets include cash and short-term deposits and trade and other receivables, and the Company's financial liabilities include trade and other payables and loans and borrowings.

Financial Asset, Bank Balances and Trade Receivables

The Company recognised a financial asset in respect to the consideration for the payment of rentals to UEDCL as the Company will always receive the rental payments made regardless of the performance of the distribution network assets taken over from UEDCL.Therefore, the Company does not assume any demand risk in respect to the rental payments. Bank balances and trade receivables are classified as loans and receivables, as they are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as Financial Assets Held for Trading, designated as Financial Investments Available for Sale, or Financial Assets Designated at Fair Value Through Profit or Loss. After initial measurement, the financial asset, amounts due from banks and trade receivables are subsequently measured at amortised cost using the effective interest rate method, less allowances for impairment. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortisation is included in the income statement. The losses arising from impairment are recognised in the income statement.

Borrowings and Trade Payables

After initial measurement, borrowings and trade payables are subsequently measured at amortised cost using the effective interest rate method. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortisation is included in the income statement.

Customer Deposits

Customers are required to pay a specified amount as a deposit before they are connected to the power distribution system. The deposit acts as security for any unpaid bills in case of termination of the supply agreement with the customer.

The supply agreement can be terminated at the customer's discretion or by the Company in case of non payment of bills or other instances of non compliance with the power supply agreement. The customer deposits are classified as financial liabilities as they meet the definition of a financial liability. The customer deposits are initially measured at fair value. The fair value is equal to the amount of deposit received and the amount is not discounted since the deposits are due on demand.

j) De-recognition of Financial Assets and Financial Liabilities

Financial Assets

A financial asset is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- 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 "pass-through" 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 assets, but has transferred control of the asset.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

k) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

l) Impairment of Financial Assets - Bank Balances and Trade Receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably be estimated.

Evidence of impairment may include indications that the debtor or group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from banks and trade receivables 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 the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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 income statement.

Trade receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. 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 the income statement.

m) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments.

n) National Social Security Fund Contribution and Other Employee Benefits

National Social Security Fund Contribution

The Company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The Company's contributions are charged to the income statement in the period to which they relate.

Other Employee Benefits

The estimated monetary value for employee benefits paid and accrued entitlements is recognised in the income statement at the reporting date.

o) Issued Capital

Ordinary shares and shareholder's contributions pending allotment are classified as equity.

p) Tax

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, in accordance with the provisions of the Ugandan Income Tax Act (Cap 340). The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred Income Tax

Deferred income tax is provided for in full at the reporting date, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries,

associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in other comprehensive income is recognised in the statement of other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity in the same taxation authority.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of goods and services is not recoverable from Uganda Revenue Authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense for the item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

r) Translation of Foreign Currencies

Transactions in foreign currencies during the year are converted into Uganda Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

s) Adoption of New and Revised Standards

The accounting policies adopted are consistent with those used in the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 2 Share-based payment: Group cash-settled share based payment transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible hedged items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to owners effective 1 July 2009
- IFRIC 18 Transfers and Assets from Customer effective 1 July 2009

- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

Standards Issued but not Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 32 Financial Instruments: Presentation, Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company after initial application.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished.

Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

IAS 12 Recovery of Underlying Assets - Amendments

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendment is expected to have no impact on the financial statements of the Company.

3. REVENUE

	2010 Ushs'000	2009 Ushs'000
Domestic	155,694,286	150,765,697
Commercial	22,573,267	19,556,569
Medium industrial	590,922	1,013,762
Street lighting	896,169	878,371
Commercial - time of use	65,173,991	64,159,605
Medium industrial - time of use	90,612,894	89,981,726
Large industrial - time of use	140,597,507	118,612,740
Total amount billed to customers	**476,139,036**	**444,968,470**
Less: Recovery of financial asset - principal (note 14)	(12,471,412)	(15,679,478)
Recovery of financing income (note 14)	(15,408,532)	(18,639,927)
	448,259,092	410,649,065
Construction revenue - construction of assets	14,590,682	11,859,694
	462,849,774	**422,508,759**

Out of the total power purchased of 2,324 million units (2009: 2,146 million units), the Company billed 1,627 million units (2009: 1,401 million units). This represents an average system power loss of 30% (2009: 34.7%) for the year. Management is implementing a loss reduction strategy and plan to reduce both commercial and technical losses to set contractual targets.

The Company provides construction services for assets additions to the distribution network that are financed by customers in accordance with the concession agreements. As required by IFRIC 12, the expenses that are incurred on the assets additions are recognised in the income statement as construction cost of sales. The amounts paid by the Company's customers for service installations ("non refundable capital contributions" or "NRCC") are recognised as construction revenue when utilised.

4. COST OF SALES

	2010 Ushs'000	2009 Ushs'000
Electricity power purchase from UETCL	290,670,504	264,965,327
Construction costs - construction of assets	14,590,682	11,859,694
	305,261,186	**276,825,021**

This represents costs for energy purchased from Uganda Electricity Transmission Company Limited (UETCL), generation levy on sales and construction costs for assets additions that are financed by customers.

The Company only recovers the actual costs incurred in constructing the customer financed assets. Thus construction revenue is equal to the construction costs.

5. OTHER OPERATING AND FINANCE INCOME

	2010 Ushs'000	2009 Ushs'000
a) Other operating income		
Reconnection fees	188,982	445,025
Meter/transformer test fees	3,433	4,760
Inspection fees	2,281,458	2,130,040
Sale of tender documents	5,200	12,460
Foreign exchange gains	-	1,029,055
Fines and sundry income	3,306,337	4,070,403
	5,785,410	7,691,743
b) Finance income		
Interest on bank deposits	1,149,038	1,099,824
Financing income from financial asset	15,408,532	18,639,927
	16,557,570	19,739,751
Total other operating and finance income	**22,342,980**	**27,431,494**

6. DISTRIBUTION COSTS

	2010 Ushs'000	2009 Ushs'000
Distribution (overhead & underground)	4,936,550	7,335,488
Transformers, meters & other electrical test instruments	3,077,756	2,257,570
Repair and maintenance	6,853,113	7,133,940
	14,867,419	**16,726,998**

7. ADMINISTRATION EXPENSES

	2010 Ushs'000	2009 Ushs'000
Staff costs (7a)	37,663,027	30,563,656
Transport costs	5,244,867	5,284,604
Other administration costs	22,587,036	20,030,415
Insurance charge	2,812,445	2,408,286
Impairment provision for bad and doubtful debt	22,951,717	27,769,164
	91,259,092	**86,056,125**

7(a) Staff costs

	2010 Ushs'000	2009 Ushs'000
Salaries and wages	27,293,995	23,636,067
National Social Security Fund (NSSF) contribution	2,169,661	2,026,284
Other staff related costs	8,199,371	4,901,30
	37,663,027	**30,563,656**

8. OTHER OPERATING EXPENSES

	2010 Ushs'000	2009 Ushs'000
a) Net foreign exchange losses	18,895,614	-
b) Other expenses		
Amortisation of intangible assets	19,692,253	14,144,112
Other taxes and statutory fines	2,589,281	3,318,641
	22,281,534	17,462,753
Total other operating expenses	**41,177,148**	**17,462,753**

9. FINANCE COSTS

	2010 Ushs'000	2009 Ushs'000
Interest on shareholder's loans	7,500,800	7,157,838
Incidental costs on shareholder's loans	754,661	-
Finance charge on Concession obligation	15,408,532	18,639,927
Interest and incidental costs on IFC loan	2,612,851	1,441,843
	26,276,844	**27,239,608**

10. PROFIT BEFORE TAX

	2010 Ushs'000	2009 Ushs'000
Profit before tax is stated after charging:		
Amortisation of intangible assets	19,692,253	14,144,112
Auditors' remuneration	301,860	259,647
NSSF - Employer's contribution	2,169,661	2,026,284
Directors' expenses	1,233,041	468,318
Performance bonus	3,007,209	1,753,360
Donations	54,978	15,600
Management fees	3,415,327	2,519,683
Unrealised foreign exchange losses	17,690,588	-
Staff medical and welfare expenses	1,607,532	1,222,563
And after crediting:		
Unrealised foreign exchange gains	-	1,920,072
Interest on bank deposits	1,149,038	1,099,824

11. TAX

Current income tax is provided for in the financial statements on the basis of the results included therein adjusted in accordance with the provisions of the Ugandan Income Tax Act (Cap 340) less any tax credits and withholding tax recoverable.

	2010 Ushs'000	2009 Ushs'000
a) Income tax credit/(expense)		
Current income tax charge for the year	(10,059,099)	(10,174,454)
Deferred income tax credit/(charge) for the year	10,696,822	(486,929)
	637,723	**(10,661,383)**

The average effective tax rate is 10% (2009: 45%). The reconciliation between the tax (credit)/expense and the product of accounting profit and the tax rate is as follows:

11. TAX (CONTINUED)

	2010 Ushs'000	2009 Ushs'000
Accounting profit before income tax	6,351,065	23,735,582
At statutory income tax rate of 30% (2009: 30%)	1,905,320	7,120,675
Tax effect of:		
Add: 30% of non-deductible tax expenses	10,684,286	8,491,188
Less: 30% of non-taxable income	(12,847,039)	(4,316,124)
Prior year over provision of income tax	(380,290)	(634,356)
Income tax (credit)/expense reported in the income statement	(637,723)	10,661,383

	2010 Ushs'000	2009 Ushs'000
b) Current tax payable/(recoverable)		
Tax (recoverable)/payable brought forward	(3,045,423)	452,469
Current tax charge for the year	10,059,099	10,174,454
Current tax paid during the year	-	(506,273)
Withholding tax recoverable	(202,771)	-
Payment on provisional tax return	(6,279,056)	(13,166,073)
Current tax payable/(recoverable)	**531,849**	**(3,045,423)**

11. TAX (CONTINUED)

c) Deferred income tax asset

Deferred income tax is calculated on all temporary differences using the liability method at the applicable rate of 30%. The net deferred tax asset is attributed to the following:

	2010 Ushs'000	Movement Ushs'000	2009 Ushs'000
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	36,348,405	(6,458,650)	29,889,755
Provision for bad debts	(29,951,466)	1,270,631	(28,680,835)
Provision for bonus	(1,268,974)	743,014	(525,960)
Unrealised foreign exchange loss	(21,171,474)	15,141,827	(6,029,647)
Net deferred tax asset	**(16,043,509)**	**10,696,822**	**(5,346,687)**

	2009 Ushs'000	Movement Ushs'000	2008 Ushs'000
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	29,889,755	(4,507,912)	25,381,843
Provision for bad debts	(28,680,835)	5,463,832	(23,217,003)
Provision for bonus	(525,960)	(250,820)	(776,780)
Unrealised foreign exchange loss	(6,029,647)	(1,192,029)	(7,221,676)
Net deferred tax asset	**(5,346,687)**	**(486,929)**	**(5,833,616)**

The deferred tax asset of Ushs 16 billion (2009: Ushs 5.4 billion) has been recognised in the financial statements on the basis that realisation of the related tax benefit is probable.

12. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is the same as the basic earnings per share.

	2010	2009
Profit attributable to shareholders (Ushs'000)	6,988,788	14,968,365
Basic weighted average number of ordinary	13,384	13,384
Diluted weighted average number of ordinary	13,384	13,384
Earnings per share (Ushs'000)	522	1,118
Diluted earnings per share (Ushs'000)	522	1,118

Reconciliation of basic to diluted weighted average number of shares:

	2010	2009
Basic weighted average number of ordinary shares	13,384	13,384
Diluting shares	-	-
Diluted weighted average number of ordinary shares	13,384	13,384

13. INTANGIBLE ASSETS

	GOU support & assurances rights Ushs'000	Other concession rights Ushs'000	Total Ushs'000
Cost			
At 1 January 2008	**2,457,000**	**239,773,401**	**242,230,401**
Adjustment - Derecognition on application of IFRIC 12	-	(186,384,725)	(186,384,725)
At 1 January 2008 - Restated	**2,457,000**	**53,388,676**	**55,845,676**
Additions	-	46,130,798	46,130,798
Disposals	-	(2,550)	(2,550)
At 31 December 2008	**2,457,000**	**99,516,924**	**101,973,924**
Additions	-	54,086,696	54,086,696
Disposals	-	(2,250)	(2,250)
At 31 December 2009	**2,457,000**	**153,601,370**	**156,058,370**
Additions	-	50,825,891	50,825,891
At 31 December 2010	**2,457,000**	**204,427,261**	**206,884,261**
Amortisation			
At 1 January 2008	**(327,601)**	**(62,968,630)**	**(63,296,231)**
Adjustment - Derecognition on application of IFRIC 12	-	56,027,754	56,027,754
At 1 January 2008 - Restated	**(327,601)**	(6,940,876)	(7,268,477)
Charge for the year	(122,850)	(7,695,628)	(7,818,478)
Disposals	-	701	701
At 31 December 2008	**(450,451)**	**(14,635,803)**	**(15,086,254)**
Charge for the year	(122,850)	(14,021,262)	(14,144,112)
Disposals	-	2,250	2,250
At 31 December 2009	**(573,301)**	**(28,654,815)**	**(29,228,116)**
Charge for the year	(122,850)	(19,569,403)	(19,692,253)
At 31 December 2010	**(696,151)**	**(48,224,218)**	**(48,920,369)**

	GOU support & assurances rights Ushs'000	Other concession rights Ushs'000	Total Ushs'000
Net carrying amount			
At 31 December 2010	**1,760,849**	**156,203,043**	**157,963,892**
At 31 December 2009	**1,883,699**	**124,946,555**	**126,830,254**
At 31 December 2008	**2,006,549**	**84,881,121**	**86,887,670**

GOU Support and Assurance Rights

The Support Agreement of the Lease and Assignment Agreement between GOU and the Company required Umeme to pay a transaction fee of US$ 1.4 million to the GOU Privatisation Unit as consideration for the rights and assurances granted by GOU to Umeme Limited in the Distribution Support Agreement. These rights and assurances are specified in Article IV of the Distribution Support Agreement and include, among others, support for obligations, security protection, obtaining of agency loans, expeditious clearance of imported equipment and notice and opportunity to be heard. The transaction fees were capitalised and are being amortised over the lease period of 20 years.

Other Concession Rights

The Concession agreements do not convey to the Company the right to control the use of the investments in the distribution network but rather the right to operate and use the assets and charge customers. Accordingly, in line with IFRIC 12, the assets added to the distribution network are not recognised as property, plant and equipment. An intangible asset equal to the net carrying value of the assets added to the distribution network by the Company is recognised, and is amortised over the shorter of the Concession period and the useful lives of the property, plant and equipment.

14. FINANCIAL ASSET

	2010 Ushs'000	2009 Ushs'000	2008 Ushs'000
At 1 January	173,112,340	192,767,654	182,219,435
Financing income for the year	5,972,441	15,904,654	13,513,250
Recoveries - principal	(12,471,412)	(15,679,478)	(10,602,983)
Recoveries - financing income	(15,408,532)	(18,639,927)	(15,331,105)
Foreign exchange gain/(loss)	33,942,369	(1,240,563)	22,969,057
At 31 December	185,147,206	173,112,340	192,767,654
Maturity analysis of the Financial Asset			
Outstanding financial asset	185,147,206	173,112,340	192,767,654
Less: Amount recoverable within one year	(24,966,135)	(18,885,945)	(17,623,960)
Non-current portion of Financial Asset	**160,181,071**	**154,226,395**	**175,143,694**
The financial asset is recoverable as analised below:			
Within one year	24,966,135	18,885,945	17,623,960
Between one and two years	26,963,426	20,396,821	19,033,877
Between two and three years	29,120,500	22,028,567	20,556,587
Between three and four years	29,310,077	23,790,852	22,201,114
Between four and five years	7,185,650	23,945,733	23,977,203
After five years	67,601,418	64,064,422	89,374,912
	185,147,206	**173,112,340**	**192,767,654**

Previously, the Company presented the consideration arising from the Concession arrangement as an intangible asset as it was assumed that demand risk was held by the Company. It was assumed that the only manner of recovery of the rental payments made to UEDCL was via the Tariff Methodology. However, under the Lease and Assignment Agreement (LAA), Umeme will always receive the rental payments made to UEDCL regardless of the performance of the distribution network assets and therefore the Company does not assume any demand risk. Umeme has, in terms of the rental payments, an unconditional right to receive cash. The amount is first collected via the Tariff Methodology and if the amount is not collected via the tariff, Umeme is entitled to calculate a Lease Reconciliation Payment (LRP) element and have this applied (as a gross-up to the lease payment element) in the following year's retail tariff in circumstances where rental payments paid by Umeme to UEDCL exceed the revenues collected from customers with respect to the lease payment component, for the previous tariff year.

Section 4.2 of the LAA sets out the Company's remedies for setting off any revenue deficiency resulting from Electricity Regulatory Authority's (ERA) failure to approve an increase in the tariff consistent with the LRP component of the Tariff Methodology against the rent payable to UEDCL and for claiming any further deficiency through the Escrow Account. In addition, should the LAA be terminated or come to its natural end with any amount due to Umeme in terms of the LRP, Umeme shall be entitled to recover the deficiency against the Escrow Account before the Escrow Account is used to settle any Buy-Out amount payable. Therefore, the amount paid as "rental" to UEDCL is guaranteed as a minimum amount that will be collected by the Company during the period of the Concession.

The terms of the LAA indicate that demand risk for the rental payments made by the Company is borne by UEDCL. The Company has an unconditional right to receive cash to the extent that UEDCL bears the risk that the cash flows generated by the users of the distribution network will not be sufficient to recover the rentals paid by the Company to UEDCL. In other words, UEDCL bears the demand risk and the Company's cash flows relating to recovery of the rental payments are not dependent on the usage of the distribution network assets. The Company's cash flows relating to the rentals paid are effectively secured, which results in a financial asset as the consideration received. The service concession arrangement is subject to a grantor (UEDCL) guarantee and payments made by the users are effectively regarded as cash collected on behalf of the grantor and this gives rise to a financial asset for the commitment made by the grantor.

As a consequence of the fact that the right to collect the LRP is raised because of Umeme's obligation to pay rental amounts to UEDCL which are denominated in US Dollars, the financial asset is also denominated in US Dollars.

15. INVENTORIES

	2010 Ushs'000	2009 Ushs'000
Overhead materials & accessories	7,893,011	6,787,258
Underground cables, materials & accessories	5,306,922	6,044,531
Substation transformers & accessories	3,079,116	3,315,190
Meters, metering equipments & accessories	1,944,372	1,635,815
Moveable plants and vehicle spares	896	1,152
Tools and other equipment	579,954	1,204,894
Stationery	423,699	271,094
Expense on goods in transit	1,758,390	4,410,914
	20,986,360	**23,670,848**

16. TRADE AND OTHER RECEIVABLES

	2010 Ushs'000	2009 Ushs'000
Trade receivables	207,543,143	202,507,302
Add: Advance payments by energy customers	10,954,844	10,857,672
	218,497,987	213,364,974
Less: Allowance for impairment	(134,563,565)	(144,086,449)
Net trade receivables	**83,934,422**	**69,278,525**
Prepayments	3,901,011	2,524,122
Letters of credit	513,186	2,333,198
Other receivables	2,273,096	2,057,903
VAT claimable	2,198,922	-
	8,886,215	6,915,223
Trade and other receivables	**92,820,637**	**76,193,748**

Trade receivables represent energy debtors including those taken over from UEDCL as at 1 March 2005 amounting to Ushs 84.9 billion and the associated allowance for impairment of Ushs 80.6 billion. Trade receivables are non-interest bearing and are generally on 14-30 days' terms. The trade receivables include advance payments by customers amounting to Ushs 10.95 billion (2009: Ushs 10.86 billion) which have been reclassified to other payables.

The movement in the allowance for impairment is shown below:

	2010 Ushs'000	2009 Ushs'000
At the beginning of the year	144,086,449	129,721,256
Adjustment to the 1 March 2005 opening balance	(12,345,272)	(3,847,578)
Allowance for impairment for the year	22,951,717	27,769,164
Less: Bad debts written off (see below)	(20,129,329)	(9,556,393)
At the end of the year	**134,563,565**	**144,086,449**

Bad debts written off are made up as follows:

	2010 Ushs'000	2009 Ushs'000
UEDCL trade receivables	1,413,050	-
Umeme trade receivables	18,716,279	9,556,393
	20,129,329	**9,556,393**

Bad debts are written off after the Company's debt collectors have performed all the necessary debt collection procedures and processes as agreed upon with Uganda Revenue Authority and certifying that there are no chances of recovering the debts.

As at 31 December, the ageing analysis of trade receivables was as follows:

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Year	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			<30 days	30-60 days	60-90 days	
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
2010	207,543,143	42,789,272	1,862,236	16,756,890	11,571,180	134,563,565
2009	202,507,302	35,038,364	3,895,896	16,405,505	3,081,088	144,086,449

17. BANK BALANCES

	2010 Ushs'000	2009 Ushs'000
Bank balances	54,810,419	38,184,896

The Company holds no collateral in respect to the bank balances. Bank balances are short-term deposits made for varying periods depending on the cash requirements of the Company, and earn interest at the applicable market deposit rates.

Cash and cash equivalents are equal to the bank balances.

As disclosed in note 22, effective 1 January 2011, the Company is required to ring fence and invest the cash and cash equivalents held in respect to customer security deposits. Hence, bank balances representing the carrying amount of the customer security deposits shall not be available for use in the Company's operations.

18. ISSUED CAPITAL

	2010	2009
Number of shares	13,384	13,384
Nominal value	US$ 1,000 ea converted at 1,708.7763 Ushs/US$	US$ 1,000 ea converted at 1,708.7763 Ushs/US$
Issued capital (Ushs'000)	22,870,262	22,870,262

Name of the person or group of related persons who hold 5% or more of the total voting rights in the Company:

Name	Number of shares	Shareholding	Value Ushs'000
Umeme Holding Limited	13,384	100%	22,870,262

19. SHAREHOLDER'S LOAN

	2010 Ushs'000	2009 Ushs'000
Umeme Holdings Limited	73,619,913	59,762,962
Movement on the account	**59,762,962**	**58,365,196**
Balance at the beginning of the year	13,301,151	(1,920,072)
Foreign exchange loss/(gain) on translation	7,500,800	7,157,838
Capitalised interest for the year	(6,945,000)	(3,840,000)
Less: Payments during the year (interest)	73,619,913	59,762,962
Less: Current portion - Amount due within one year	(9,376,000)	(19,639,153)
Non-current portion	**64,243,913**	**40,123,809**
The loan is due as follows:		
Due within one year	9,376,000	19,639,153
Due between one and two years	32,990,581	7,773,988
Due between two and three years	8,929,524	7,773,988
Due between three and four years	8,929,524	7,773,988
Due between four and five years	8,929,524	7,773,988
Due after five years	4,464,760	9,027,857
	73,619,913	**59,762,962**

19. SHAREHOLDER'S LOAN (CONTINUED)

The loan is unsecured and attracts interest at a rate of 12% per annum. The loan had a grace period of 4 years and repayment of the loan principal was expected to be in 7 equal annual instalments effective 2009. The interest payable on the loan was accrued up to the end of the grace period. Interest of US$ 3 million was paid in 2010 (2009: US$ 2 million).

Ushs 33 billion would have been due within one year as per the shareholder's loan agreement. However, the shareholder has confirmed to the Company that it will not demand for repayment of the shareholder loan for the next one year effective 28 June 2011 except for interest payment of US$ 4 million (Ushs 9.376 billion) as provided for in the Company's 2011 budget. The analysis of the total amount that would have been due within one year from 31 December 2010 is as shown below:

	2009 Ushs'000	2010 Ushs'000	2011 Ushs'000	TOTAL Ushs'000
Pre-Concession expenses	1,195,860	-	-	1,195,860
Interest due	2,416,588	7,500,800	-	9,917,388
Principal payments due	4,464,761	8,929,524	8,929,524	22,323,809
	8,077,209	16,430,324	8,929,524	33,437,057

20. INTERNATIONAL FINANCE CORPORATION (IFC) LOAN

	2010 Ushs'000	2009 Ushs'000
IFC loan	36,621,956	9,575,000
Movement on the account		
Balance at the beginning of the year	9,575,000	-
Additional loan during the year	21,250,000	9,575,000
Foreign exchange loss on translation	4,389,436	-
Interest charge for the year	2,190,576	-
Less: Interest payment during the year	(783,056)	
	36,621,956	**9,575,000**
Less: Current portion - Amount due within one year	(7,321,958)	-
Non-current portion	**29,299,998**	**9,575,000**

In 2009, the Company signed a borrowing agreement with IFC worth US$ 25 million. The loan attracts interest of 6 months LIBOR + 5% interest and is repayable in 10 years. As at 31 December 2010, US$ 15 million had been drawn down.

21. CONCESSION OBLIGATION

	2010 Ushs'000	2009 Ushs'000	2008 Ushs'000
At 1 January	173,112,340	192,767,654	182,219,435
Financing expense for the year	5,972,441	15,904,654	13,513,250
Payment - principal	(12,471,412)	(15,679,478)	(10,602,983)
Payment - financing cost	(15,408,532)	(18,639,927)	(15,331,105)
Foreign exchange loss/(gain)	33,942,369	(1,240,563)	22,969,057
At 31 December	185,147,206	173,112,340	192,767,654
Maturity analysis of the obligation			
Outstanding obligation	185,147,206	173,112,340	192,767,654
Less: Due within one year	(24,966,135)	(18,885,945)	(17,623,960)
Non-current portion of the obligation	**160,181,071**	**154,226,395**	**175,143,694**
The obligation is due as analysed below:			
Within one year	24,966,135	18,885,945	17,623,960
Between one and two years	26,963,426	20,396,821	19,033,877
Between two and three years	29,120,500	22,028,567	20,556,587
Between three and four years	29,310,077	23,790,852	22,201,114
Between four and five years	7,185,650	23,945,733	23,977,203
After five years	67,601,418	64,064,422	89,374,912
	185,147,206	**173,112,340**	**192,767,654**

On 1 March 2005, Umeme took over the operation of the electricity power distribution network that was being operated by UEDCL under a 20 year Concession arrangement. The present value of the obligation arising from the rental payments under the Concession agreements at the commencement of the Concession was estimated to be Ushs 244.639 billion (US$ 132,955,910) using a discounting rate of 8.911%.

22. CUSTOMER SECURITY DEPOSITS

	2010 Ushs'000	2009 Ushs'000
Balance at 1 January	15,208,785	10,558,216
Amount received during the year	6,165,100	5,465,499
Amount refunded during the year	(50,893)	(814,930)
Balance at 31 December	**21,322,992**	**15,208,785**

Customer security deposits relate to the amounts required to be paid by customers before they are connected to the power distribution system. The deposits act as security for any unpaid bills in case of termination of the energy supply agreement. The deposits paid per customer vary depending on the energy consumption of the customer as follows:

	2010 Ushs'000	2009 Ushs'000
Domestic customers	100	100
Commercial customers - ordinary	200	200
Commercial customers - commercial time	500	500
Industrial customers - ordinary	1,000	1,000
Industrial customers - heavy	2,000	2,000

23. DEFERRED CONSTRUCTION INCOME

Deferred construction income relates to capital contributions paid by customers for new electricity service connections that are not yet utilised on asset construction works. The amounts paid by the customers for the assets construction expenses ("non refundable capital contributions" or "NRCC") are recognised as construction cost of sales when utilised.

	2010 Ushs'000	2009 Ushs'000
Balance at 1 January	4,384,869	8,177,895
Amount received	20,986,077	8,066,668
Amount utilised	(14,590,682)	(11,859,694)
Unutilised customer contributions at 31 December	**10,780,264**	**4,384,869**

24. TRADE AND OTHER PAYABLES

	2010 Ushs'000	2009 Ushs'000
Trade payables	77,135,855	73,475,243
Accrued expenses and other payables	13,104,940	7,400,544
Advance payments by energy customers	10,954,844	10,857,672
VAT Payable	-	1,043,365
	101,195,639	**92,776,824**

Accrued expenses and other payables include Ushs 4.23 billion (2009: Ushs 1.75 billion) relating to the performance bonus for the year as indicated below:

	2010 Ushs'000	2009 Ushs'000
Balance as at 1 January	1,753,200	2,589,266
Accrual for the year	3,007,209	1,753,360
Bonus paid during year	(1,817,353)	(1,527,725)
Reclassification from other accruals	1,286,857	-
Write back of prior year over accrual	-	(1,061,701)
Balance as at 31 December	**4,229,913**	**1,753,200**

Trade and other payables are non-interest bearing and normally settled on 30-60 day terms.

25. LETTERS OF CREDIT

Umeme has a letters of credit facility from Standard Chartered Bank Uganda Limited of up to US$ 4.5 million. This is to facilitate the purchase and importation of network equipment and related electricity distribution accessories.

By the end of the year, the facility had not been utilised and no security has been pledged as collateral.

26. RELATED PARTIES

The Company's related parties include Globeleq Expatriate Services Ltd and Globeleq Africa Holdings Ltd. These entities are ultimately owned by CDC Group Plc.

The following transactions were carried out with related parties:

	2010 Ushs'000	2009 Ushs'000
i) Management and secondment services		
Globeleq Expatriate Services Ltd - Management fees	2,078,139	1,100,866
ii) Compensation of key management personnel		
Short-term employee benefits	1,817,353	1,527,725

The related party transactions were entered into in the normal course of business and were at arm's length.

The following are the related party balances at the end of the year:

	2010 Ushs'000	2009 Ushs'000
i) Outstanding balances at year end		
Payable to Globeleq Expatriate Services Ltd	238,714	91,431
Payable to Globeleq Africa Holdings Ltd	3,755	57,272
	242,469	**148,703**

ii) **Loans due to related parties:**
As disclosed under note 19.

27. CONTINGENCIES

Legal Claims

The Company is a defendant in various legal actions. In the opinion of the Directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

VAT Refund on Receivables Taken Over by Umeme

Umeme took over receivables of Ushs 84.5 billion from UEDCL on 1 March 2005. The Concession agreement required Umeme to pay to UEDCL the VAT component of the amounts collected from these receivables. As at 31 December 2010, Umeme had paid Ushs 705 million in this regard. The computation of the final amount payable involves the use of assumptions and estimates. As at 31 December 2010, Umeme and UEDCL had not yet firmed up on the assumptions and estimates to be used in the computation of the VAT refundable. Therefore, the additional obligation, if any, arising from this matter has not been recognised in these financial statements. Further information on this matter has not been presented as the Directors consider that disclosure of the information could prejudice the Company's position.

28. COMMITMENTS

(i) Concession Commitments

Future minimum rental payments under the Concession agreements together with the present value of the minimum rental payments are estimated as follows:

As at 31 December 2010

	Minimum rental payments Ushs'000	Present value of payments Ushs'000
After one year	24,966,135	15,796,356
After one year but not more than five years	92,579,653	48,707,394
After five years	67,601,418	16,173,142
	185,147,206	**80,676,891**
Less: Amounts representing finance charges	(104,470,315)	-
Present value of minimum rental payments	**80,676,891**	**80,676,891**

28. COMMITMENTS (CONTINUED)

As at 31 December 2010

	Minimum rental payments Ushs'000	Present value of payments Ushs'000
After one year	18,885,945	13,937,723
After one year but not more than five years	90,161,973	45,612,343
After five years	64,064,422	19,261,112
	173,112,340	78,811,178
Less: Amounts representing finance charges	(94,301,163)	-
Present value of minimum rental payments	**78,811,178**	**78,811,178**

(ii) Overdraft Facilities

The Company has an overdraft facility with Standard Chartered Bank Uganda Limited of up to US$ 5 million for a period of 12 months at an interest rate of 10.5%. The overdraft facility is for working capital purposes.

By the end of the year, the facility had not been utilised.

(iii) World Bank Funded Project (IDA)

Under the Concession agreements, Umeme Limited, through UEDCL, received materials of US$ 11.8 million from the International Development Agency (IDA) funded project for the reinforcement and rehabilitation of the electricity distribution system. The Company makes additional rental payments associated with this funding.

(iv) Minimum Investment Requirements

During the Electricity Sector Stabilisation Period, the Company was obliged to invest in the distribution system substantially all of the following cumulative amounts by the following anniversaries of the transfer date of 1 March 2005:

- US$ 10 million by the anniversary of the transfer date in 2007;
- US$ 20 million by the anniversary of the transfer date in 2008;
- US$ 40 million by the anniversary of the transfer date in 2009; and
- US$ 65 million by the anniversary of the transfer date in 2010.

The investments made in the distribution system by Umeme as at 31 December 2010 are disclosed in note 34.

29. CONCESSION ARRANGEMENT

The Company signed various contracts with GOU institutions and with the shareholders on 17 May 2004 to support the 20 year Concession which took effect on 1 March 2005. These agreements have since been amended a number of times. The agreements set out terms, conditions and obligations of the parties to the different contracts as follows:

Lease and Assignment Agreement (LAA)

The Company signed the Lease and Assignment Agreement with UEDCL under which:

a) The Company received "possession of the concessioned assets but not ownership" and thus assumed the exclusive right to use, maintain and retire the Distribution Network Assets and related systems and retransfer the assets back to UEDCL after 20 years, unless the contract is terminated before that date.

b) Umeme is required to make monthly rental payments into an "Escrow Account" for the Concessioned Assets, Assigned Interest and Other Rights equivalent to: debt service for loans of UEDCL; actual depreciation and interest expenses related to the portion of the concessioned assets acquired on or after 1 January 2002; a maximum return on equity of 10% on the asset carrying amount effective January 2009; and administration fees. Umeme will always receive the rental payments made to UEDCL regardless of the performance of the distribution network assets that were taken over from UEDCL and therefore the Company does not assume any demand risk. Umeme has, in terms of the rental payments, an unconditional right to receive cash as indicated in note 14. The right to receive cash is accounted for by the Company as a financial asset.

c) Umeme has the rights and obligation to make the necessary modifications to the distribution system as deemed desirable to be in proper conduct and in accordance with the requirements of the laws of Uganda. However, UEDCL retains title to the modifications and additions from the effective date of the modification. In order for Umeme to recover its investments in the distribution system and earn a return, such investments need to be approved by the Electricity Regulatory Authority (ERA).

29. CONCESSION ARRANGEMENT (CONTINUED)

d) Umeme at its sole cost and expense is required to obtain and maintain insurance policies from insurers that are financially sound and commercially viable in Uganda. In the event of loss which prevents the Company from performing under the Lease and Assignment Agreement, UEDCL is named as "loss payee" under all property casualty insurance procured by Umeme to cover loss or damage to the Distribution System.

e) The agreement may be terminated either by UEDCL where the Company fails to meet its obligations or by the Company where UEDCL, UETCL or GOU fail to meet their respective obligations as specified under the original agreement or under the fourth amendment to the LAA of 28 November 2006.

f) Restructuring agreements, including introduction of an Electricity Sector Stabilisation Period ("ESSP"), were entered into in November 2006 to take account of the period of shortage of electricity supply in Uganda. According to section 2.1.5 of the fourth amendment to the LAA, Umeme may at anytime during the ESSP, other than the first 365 days thereof, in its sole discretion, commence the termination of the agreement by delivery to UEDCL of a notice of intent to terminate at least 180 days prior to the date elected for such termination and a termination notice at least 90 days prior to the date elected for such termination.

g) Umeme and UEDCL are required to agree on an agent who will be a bank designated and enter into an Escrow Agreement. The parties shall open up both Uganda Shilling and US Dollar accounts. The Company shall deposit all rent net of the administration fee component that will be paid directly to UEDCL. GOU and UEDCL may deposit funds in the Escrow Accounts at any time.

Power Sales Agreement (PSA)

Under the Power Sales Agreement entered into with UETCL and the third amendments thereto:

The Company is required to purchase electricity declared available and delivered by UETCL. In the event the amount of electricity delivered by UETCL falls short of a pre-agreed minimum threshold, the Company is supposed to be compensated for the resultant revenue shortfall as specified in the agreement.

Although the Company may not purchase electricity from a third party or generate its own power without the prior consent of UETCL, it has the right, but not obligation, to do so in the event that UETCL is unable or failed to supply.

Support Agreement

The support agreement between Umeme and GOU and the third amendment thereto of 28 November 2006 stipulate conditions to be fulfilled before the transfer date, during the Concession period and the date for handing over the distribution systems at the end of Concession term; and the obligations of the contract parties and the mechanisms for handling disputes arising during the Concession. GOU undertook to use its good office, upon reasonable request from the Company, to support the Company's performance of its obligations of managing the distribution system as long as that will not relieve the Company from fulfilling its obligations as defined in the agreement.

Licence for Supply and Distribution of Electricity

Umeme was granted this licence by ERA to perform the necessary activities for supply of electricity within a defined geographic area in accordance with specific licence conditions and pursuant to the Electricity Act, 1999. Umeme is required to adopt Prudent Utility Practices but taking into account the state of the distribution network and ERA providing the necessary regulatory mechanism and tariff methodology for the Company to meet its obligations pursuant to the various Concession agreements.

Escrow Agreement

This agreement was signed on 18 February 2005 between UEDCL and Umeme to establish an "Escrow Account" with Citibank N.A., London, the appointed "Escrow Agent". The account was opened and initially funded by UEDCL and thereafter by Umeme's monthly deposit of rental payments due to UEDCL under the LAA. Although the escrow amount is exclusively owned by UEDCL, in combination with a "Letter of Credit" facility funded by the World Bank and issued by the Escrow Agent, the escrow amount will accumulate up to a predetermined amount ("the Required Amount") that would be used to compensate Umeme in the event of certain contingencies defined in the LAA and will also serve as security for government obligations under the Support Agreement.

Uganda Distribution Concession Project Agreement

This agreement was signed on 23 February 2005 between Umeme and IDA. Under this agreement, IDA with the agreement of GOU committed to allow disbursements under the Development Credit Agreement (and relevant amendments) directly to the bank issuing the Letter of Credit (LC) in the event that Umeme has carried out proper drawings from the IDA-Support LC and in the event that UEDCL defaults on the payment of the IDA-

29. CONCESSION ARRANGEMENT (CONTINUED)

Supported Loan and interest thereof within the repayment period specified under the Reimbursement and Credit Agreement. In consideration of the IDA obligation, Umeme is required to pay IDA support and other fees in instalments.

Reimbursement and Credit Agreement

This agreement, which was signed on 18 February 2005 between UEDCL and Citibank Uganda Limited (the bank), requires the bank to issue, maintain and renew a Letter of Credit for the benefit of the Company for an initial period of 3 years, renewable up to a maximum of 7 years. The Company can make drawings against the Letter of Credit in accordance with the Uganda Distribution Concession Project Agreement and the Escrow Agreements. Drawings made on the Letter of Credit are to be repaid to the Issuing Bank from funds in the "Escrow Account" held for UEDCL and Umeme in Citibank Uganda Limited under the terms and conditions of the Escrow Agreement.

IDA Commitment Agreement

This agreement was signed on 23 February 2005 between IDA, as the Letter of Credit reimbursement commitment provider, and Citibank Uganda Limited (Letter of Credit issuing bank). Upon the request of GOU, IDA committed to provide support guarantee to reimburse the Letter of Credit issuing bank for any advances (Letter of Credit Loan) and interest thereof made to UEDCL by the Issuing Bank and which UEDCL has defaulted to repay within the repayment period defined in the Reimbursement and Credit Agreement.

30. RISK MANAGEMENT

The Company's financial instruments include bank guarantees, letters of credit, Concession obligation, borrowings (shareholder's loans and IFC loan) and cash held with commercial banks. The main purpose of these financial instruments is to raise finance for Umeme's operations. The Company has other financial instruments such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Company's financial instruments are foreign currency risk, credit risk and liquidity risk.

The Company's short term financial liabilities are interest free. The shareholder's loans have fixed interest rates and the IFC loan has a variable interest rate. The interest rate risk exposure arising from the shareholder's loans assuming a movement in interest rates of 3% is Ushs 225 million (2009: Ushs 184 million). The interest rate risk exposure arising from the IFC loan, assuming a movement in interest rates by 3% is Ushs 58 million (2009: Ushs 15.5 million). The interest rate risk exposure relates to the effect that a reasonably possible movement in interest rates would have on profit or loss. The Company also has interest bearing bank deposits but these do not present a material interest rate risk exposure to the Company.

The Board of Directors reviews and agrees policies for managing each of these risks as summarised below:

Foreign Exchange Risk

Umeme's operations are only in Uganda and the main income from power sales is billed in the local currency while significant costs of equipment and material purchases are denominated in foreign currencies. Foreign exchange spot rates are negotiated with bankers on a competitive basis. The Company mitigates the effect of its structural currency exposure mainly through a provision in the tariff methodology that allows for adjustment for inflation and exchange rate movements.

The Company's profit before income tax would (decrease)/increase by Ushs 7.2 billion (2009: UShs 5.3 billion) were the Ushs:US$ exchange rate to change by 5%. This variation in profitability is measured by reference to foreign currency exposures existing at year end. Movements in the foreign exchange rates for GBP and Euro do not have a material impact on the Company's results.

30. RISK MANAGEMENT (CONTINUED)

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2010 and 31 December 2009. All balances are in thousands of Uganda Shillings.

At 31 December 2010	US$	GBP	EURO	Ushs	TOTAL
Assets					
Intangible assets	-	-	-	157,963,892	157,963,892
Financial asset: Non-current portion	160,181,071	-	-	-	160,181,071
Deferred income tax asset	-	-	-	16,043,509	16,043,509
Financial asset: Current portion	24,966,135	-	-	-	24,966,135
Inventories	-	-	-	20,986,360	20,986,360
Trade and other receivables	-	-	-	92,820,637	92,820,637
Bank balances	3,289,187	-	-	51,521,232	54,810,419
Total assets	188,436,393	-	-	339,335,630	527,772,023
Equity and liabilities					
Issued capital	22,870,262	-	-	-	22,870,262
Accumulated losses	-	-	-	75,681,942	75,681,942
Shareholder's loan: Non-current portion	64,243,913	-	-	-	64,243,913
IFC loan: Non-current portion	29,299,998	-	-	-	29,299,998
Concession obligation: Non-current portion	160,181,071	-	-	-	160,181,071
Shareholder's loan: Current portion	9,376,000	-	-	-	9,376,000
IFC loan: Current portion	7,321,958	-	-	-	7,321,958
Concession obligation: Current portion	24,966,135	-	-	-	24,966,135
Customer security deposits	-	-	-	21,322,992	21,322,992
Deferred construction income	-	-	-	10,780,264	10,780,264
Trade and other payables	13,986,750	1,272,541	2,407,430	83,528,918	101,195,639
Current tax payable	-	-	-	531,849	531,849
Total equity and liabilities	**332,246,087**	**1,272,541**	**2,407,430**	**191,845,965**	**527,772,023**
Overall open position	**(143,809,694)**	**(1,272,541)**	**(2,407,430)**	**147,489,665**	**-**

30. RISK MANAGEMENT (CONTINUED)

At 31 December 2009 (Restated)	US$	GBP	EURO	Ushs	TOTAL
Assets					
Intangible assets	-	-	-	126,830,254	126,830,254
Financial asset: Non-current portion	154,226,395	-	-	-	154,226,395
Deferred income tax asset	-	-	-	5,346,687	5,346,687
Financial asset: Current portion	18,885,945	-	-	-	18,885,945
Inventories	-	-	-	23,670,848	23,670,848
Trade & other receivables	-	-	-	76,193,748	76,193,748
Current tax recoverable	-	-	-	3,045,423	3,045,423
Bank balances	526,647	-	-	37,658,249	38,184,896
Total assets	173,638,987	-	-	272,745,209	446,384,196
Equity and liabilities					
Issued capital	22,870,262	-	-	-	22,870,262
Accumulated losses	-	-	-	68,693,154	68,693,154
Shareholder's loan: Non-current portion	40,123,809	-	-	-	40,123,809
IFC loan	9,575,000	-	-	-	9,575,000
Concession obligation: Non-current portion	154,226,395	-	-	-	154,226,395
Shareholder's loan: Current portion	19,639,153	-	-	-	19,639,153
Concession obligation: Current portion	18,885,945	-	-	-	18,885,945
Customer security deposits	-	-	-	15,208,785	15,208,785
Deferred construction income	-	-	-	4,384,869	4,384,869
Trade & other payables	13,513,433	1,161,927	2,678,971	75,422,493	92,776,824
Total equity and liabilities	**278,833,997**	**1,161,927**	**2,678,971**	**163,709,301**	**446,384,196**
Overall open position	**(105,195,010)**	**(1,161,927)**	**(2,678,971)**	**109,035,908**	**-**

30. RISK MANAGEMENT (CONTINUED)

Credit Risk

Credit risk is the financial exposure generated by the potential default of third parties in fulfilling their obligations. The Company uses international financial institutions approved by the parent Company. Major suppliers are approved following specific eligibility criteria and provide performance guarantees or enter into Letter of Credit contracts. Customers are required to pay security deposits equivalent to three months' estimated energy consumption, unpaid amounts from GOU bodies are recoverable through the Escrow Account arrangement and there is a provision in the tariff methodology to mitigate unrecoverable receivables. The Concession agreements have additional comprehensive mechanisms to mitigate against performance failures of all contract parties.

There are no significant concentrations of credit risk within the Company. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The maximum exposure is the carrying amount as disclosed in Note 16 less amounts receivable from GOU institutions and customer security deposits as follows:

	2010 Ushs'000	**2009 Ushs'000**
Carrying amount (note 16)	92,820,637	76,193,748
Less: Amounts receivable from GOU bodies	(12,870,341)	(12,084,873)
Customer security deposits (note 22)	(21,322,992)	(15,208,785)
Maximum exposure	**58,627,304**	**48,900,090**

Liquidity Risk

The Company monitors its risk to shortage of funds using budget analysis. This involves analysing maturities of both its financial investments and financial assets (e.g. trade receivables and other financial assets) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings, shareholder's funds and cash collections from customers. 41% of the Company's debt will mature in less than one year at 31 December 2010 (2009: 43%) based on the carrying value of the liabilities reflected in the financial statements.

30. RISK MANAGEMENT (CONTINUED)

The table below summarises the maturity profile of the Company's assets and liabilities based on contractual undiscounted payments.

At 31 December 2010	Up to 1 Month Ushs'000	1 - 3 Months Ushs'000	3 - 12 Months Ushs'000	Over 1 year Ushs'000	TOTAL Ushs'000
Assets					
Intangible assets	1,932,695	3,865,391	17,394,260	134,771,546	157,963,892
Financial asset: Non-current portion	-	-	-	160,181,071	160,181,071
Deferred income tax asset	1,623,669	3,247,339	11,172,501	-	16,043,509
Financial asset: Current portion	1,845,640	3,691,281	19,429,214	-	24,966,135
Inventories	4,140,545	8,281,090	8,564,725	-	20,986,360
Trade and other receivables	42,789,272	50,031,365			92,820,637
Bank balances	54,810,419	-	-	-	54,810,419
Total assets	**107,142,240**	**69,116,466**	**56,560,700**	**294,952,617**	**527,772,023**
Equity and liabilities					
Issued capital	-	-	-	22,870,262	22,870,262
Accumulated losses	-	-	-	75,681,942	75,681,942
Shareholder's loan: Non-current portion	-	-	-	64,243,913	64,243,913
IFC loan: Non-current portion	-	-	-	29,299,998	29,299,998
Concession obligation: Non-current portion	-	-	-	160,181,071	160,181,071
Shareholder's loan: Current portion	-	-	9,376,000	-	9,376,000
IFC loan: Current portion	-	4,391,958	2,930,000	-	7,321,958
Concession obligation: Current portion	1,845,640	3,691,281	19,429,214	-	24,966,135
Customer security deposits	-	-	21,322,992	-	21,322,992
Deferred construction income	3,593,421	7,186,843	-	-	10,780,264
Trade and other payables	101,195,639	-	-	-	101,195,639
Current tax payable	-	-	531,849	-	531,849
Total equity and liabilities	**106,634,700**	**15,270,082**	**53,590,055**	**352,277,186**	**527,772,023**
Overall open position	**507,540**	**53,846,384**	**2,970,645**	**(57,324,569)**	**-**

30. RISK MANAGEMENT (CONTINUED)

At 31 December 2010 (Restated)	Up to 1 Month Ushs'000	1 - 3 Months Ushs'000	3 - 12 Months Ushs'000	Over 1 year Ushs'000	TOTAL Ushs'000
Assets					-
Intangible assets	663,572	1,327,143	5,972,144	118,867,395	126,830,254
Financial asset: Non-current portion	-	-	-	154,226,395	154,226,395
Deferred income tax asset	639,622	1,279,245	3,427,820		5,346,687
				-	
Financial asset: Current portion	1,573,828	3,147,658	14,164,459	-	18,885,945
Inventories	1,764,875	3,529,750	18,376,223	-	23,670,848
Trade and other receivables	38,997,842	37,195,906	-	-	76,193,748
	-		3,045,423		3,045,423
Current tax recoverable		-		-	
Bank balances	38,184,896	-	-	-	38,184,896
Total assets	**81,824,635**	**46,479,702**	**44,986,069**	**273,093,790**	**446,384,196**
Equity and liabilities					
Issued capital	-	-	-	22,870,262	22,870,262
Accumulated losses	-	-	-	68,693,154	68,693,154
Shareholder's loan: Non-current portion	-	-	-	40,123,809	40,123,809
IFC loan	-	-	-	9,575,000	9,575,000
Concession obligation: Non-current	-			154,226,395	154,226,395
portion		-	-		
Shareholder's loan: Current portion	-	-	19,639,153	-	19,639,153
Concession obligation: Current portion	1,573,828	3,147,658	14,164,459	-	18,885,945
Customer security deposits	-	-	15,208,785	-	15,208,785
Deferred construction income	2,203,297	2,181,572	-	-	4,384,869
	92,776,824				92,776,824
Trade and other payables		-	-	-	
Total equity and liabilities	**96,553,949**	**5,329,230**	**49,012,397**	**295,488,620**	**446,384,196**
Overall open position	**(14,729,314)**	**41,150,472**	**(4,026,328)**	**(22,394,830)**	**-**

30. RISK MANAGEMENT (CONTINUED)

Fair Value

There are no material differences between the fair values and the carrying amounts of the Company's financial assets and liabilities unless otherwise indicated in the respective notes. The Company held no financial assets or liabilities measured at fair value at reporting date.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains compliance with the Concession investment obligations and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may call for more capital investments from shareholders or adjust the timing of the repayments on the shareholder's loans. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Company monitors capital using a gearing ratio, which is computed as net debt divided by total capital plus net debt. The Company includes within net debt, interest bearing borrowings, the Concession obligation, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company.

The Company's gearing ratio as at 31 December 2010 was 78% (2009: 76%), shown below:

	Note	2010 Ushs'000	2009 Ushs'000
Shareholder's loan	19	73,619,913	59,762,962
IFC loan	20	36,621,956	9,575,000
Concession obligation	21	185,147,206	173,112,340
Trade and other payables	24	101,195,639	92,776,824
Less: cash and cash equivalents	17	(54,810,419)	(38,184,896)
Net debt		341,774,295	297,042,230
Issued capital	18	22,870,262	22,870,262
Retained earnings		75,681,942	68,693,154
Total capital		98,552,204	91,563,416
Net debt and capital		440,326,499	388,605,646
Gearing ratio		78%	76%

31. EMPLOYEES

The number of employees as at 31 December 2010 was 1,145 (2009: 1,156).

32. EVENTS AFTER THE REPORTING PERIOD

There are no reportable events after the reporting period.

33. INCORPORATION AND LICENSING

The Company is incorporated in Uganda under the Ugandan Companies Act (Cap 110), and licensed under Licence No. 047 to carry on business by Electricity Regulatory Authority under the provisions of the Electricity Act 1999, (Cap 145).

34. MINIMUM INVESTMENT REQUIREMENTS

Under the Lease and Assignment Agreement, the Company has the rights and obligation to make the necessary modifications to the distribution system as deemed desirable to be in proper conduct and in accordance with the requirements of the laws of Uganda. Accordingly, the Company is obliged to invest in the distribution system the following amounts in the respective years, by the anniversary of the transfer date of 1 March 2005: US$ 10 million by the anniversary of the transfer date in 2007, US$ 20 million by the anniversary of the transfer date in 2008, US$ 40 million by the anniversary of the transfer date in 2009 and US$ 65 million by the anniversary of the transfer date in 2010.

As at 31 December 2010, Ushs 200.873 billion (equivalent to US$ 102.2 million) had been invested in the distribution system as shown below (exclusive of customer funded assets and World Bank funded materials):

a. Umeme funded investments

	2005 Ushs'000	2006 Ushs'000	2007 Ushs'000	2008 Ushs'000	2009 Ushs'000	2010 Ushs'000	Total Ushs'000
In Uganda Shillings							
Substations, low voltage lines & services	6,064,793	5,827,562	22,293,223	26,750,409	41,382,454	44,762,177	147,080,618
Land and buildings	161,606	160,573	111,125	2,657,909	1,191,003	1,727,435	6,009,651
Furniture & fittings, tools & office equipment	1,460,572	944,861	680,764	1,954,894	2,194,575	1,057,774	8,293,440
Computers, communication & MIS	1,309,165	1,343,955	1,092,841	12,191,909	5,731,660	1,208,637	22,878,167
Motor vehicles	2,203,229	285,409	5,890,741	2,575,677	3,587,001	2,069,868	16,611,925
Total investments	**11,199,365**	**8,562,360**	**30,068,694**	**46,130,798**	**54,086,693**	**50,825,891**	**200,873,801**
Represented by:							
Capitalised	9,152,299	4,737,943	28,607,555	44,634,305	60,871,508	40,588,824	188,592,434
Capital work in progress	2,047,066	3,824,417	1,461,139	1,496,493	(6,784,815)	10,237,067	12,281,367
	11,199,365	8,562,360	30,068,694	46,130,798	54,086,693	50,825,891	200,873,801
In US Dollars							
Foreign exchange rate - Ushs: US$	1,820	1,741	1,697	1,967	1,915	2,344	
Total investment: US$'000 equivalent	**$6,153**	**$4,918**	**$17,719**	**$23,452**	**$28,244**	**$21,683**	**$102,169**

b. World Bank funded project (IDA) material utilisation and receipts

	2005 US$	2006 US$	2007 US$	2008 US$	2009 US$	2010 US$	Total US$
Receipts	833,197	5,567,459	5,348,467	15,349	-	-	11,764,472
Issues/usage	(329,288)	(2,135,553)	(5,893,043)	(2,533,352)	(155,850)	(71,378)	(11,118,464)
Closing stock balance/(net movement)	**503,909**	**3,431,906**	**(544,576)**	**(2,518,003)**	**(155,850)**	**(71,378)**	**646,008**

The Company maintains control over the investments and materials through review and approval procedures, segregation of duties and logical and physical access controls.

35. CONCESSIONED ASSETS SUMMARY

The Concession agreements give the Company rights and obligations to use and make necessary modification to the distribution network. The distribution network tangible assets are summarised in the table below. The table includes the carrying amounts of the distribution network tangible assets that would be recognised in the Company's financial statements if the distribution network was owned by the Company, rather than held under a Concession arrangement.

As at 31st December 2010	Substations, Low Voltage Lines & Services Ushs'000	Land & Buildings Ushs'000	Furniture & Fittings, Tools & Office Equip Ushs'000	Computers, Comm. Equip & Misc Ushs'000	Motor Vehicles Ushs'000	TOTAL Ushs'000
At 1 January 2010, net of accumulated depreciation and impairment	181,208,941	8,118,448	3,224,514	17,871,447	6,541,054	216,964,404
Additions	-	1,727,435	1,057,774	908,431	2,069,868	5,763,508
Transfer from Capital Work in Progress	34,825,216	-	-	-	-	34,825,216
Depreciation charge for the year	(21,379,187)	(511,495)	(1,537,749)	(7,930,391)	(3,108,855)	(34,467,677)
At 31 December 2010, net of accumulated depreciation and impairment	**194,654,970**	**9,334,388**	**2,744,539**	**10,849,487**	**5,502,067**	**223,085,451**
At 31 December 2010						
Cost	309,948,362	12,115,329	10,090,238	28,941,121	17,461,809	378,556,859
Accumulated depreciation	(115,293,392)	(2,780,941)	(7,345,699)	(18,091,634)	(11,959,742)	(155,471,408)
Net Carrying Amount	**194,654,970**	**9,334,388**	**2,744,539**	**10,849,487**	**5,502,067**	**223,085,451**
At 1 January 2010						
Cost	275,123,146	10,387,894	9,032,464	28,032,690	15,391,941	337,968,135
Accumulated depreciation	(93,914,205)	(2,269,446)	(5,807,950)	(10,161,243)	(8,850,887)	(121,003,731)
Net Carrying Amount	**181,208,941**	**8,118,448**	**3,224,514**	**17,871,447**	**6,541,054**	**216,964,404**

As at 31st December 2009	Substations, Low Voltage Lines & Services Ushs'000	Land & Buildings Ushs'000	Furniture & Fittings, Tools & Office Equip Ushs'000	Computers, Comm. Equip & Misc Ushs'000	Motor Vehicles Ushs'000	TOTAL Ushs'000
At 1 January 2009, net of accumulated depreciation and impairment	157,219,195	8,103,576	2,373,437	15,003,235	6,228,920	188,928,363
Umeme Limited additions	-	1,191,004	2,194,575	8,262,536	3,587,001	15,235,116
Transfer from Capital Work in Progress	45,636,392	-	-	-	-	45,636,392
Disposals - Cost	-	-	-	(2,250)	-	(2,250)
Disposal - depreciation	-	-	-	2,250	-	2,250
Depreciation charge for the year	(21,646,646)	(1,176,132)	(1,343,498)	(5,394,324)	(3,274,867)	(32,835,467)
At 31 December 2009, net of accumulated depreciation and impairment	**181,208,941**	**8,118,448**	**3,224,514**	**17,871,447**	**6,541,054**	**216,964,404**
At 31 December 2009						
Cost	275,123,146	10,387,894	9,032,464	28,032,690	15,391,941	337,968,135
Accumulated depreciation	(93,914,205)	(2,269,446)	(5,807,950)	(10,161,243)	(8,850,887)	(121,003,731)
Net Carrying Amount	**181,208,941**	**8,118,448**	**3,224,514**	**17,871,447**	**6,541,054**	**216,964,404**
At 1 January 2009						
Cost	229,486,754	9,190,784	6,836,067	19,764,523	11,804,940	277,083,068
Accumulated depreciation	(72,267,559)	(1,087,208)	(4,462,630)	(4,761,288)	(5,576,020)	(88,154,705)
Net Carrying Amount	**157,219,195**	**8,103,576**	**2,373,437**	**15,003,235**	**6,228,920**	**188,928,363**

36. CONCESSIONED ASSETS - SUMMARY OF UMEME INVESTMENTS

	Substations, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Computers, Comm. Equip & misc	Motor Vehicles	CWIP-UEDCL	CWIP-Umeme	TOTAL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 1 January 2008	30,405,463	436,200	3,089,050	3,745,961	8,379,379	84,099	7,248,523	53,388,676
Additions	-	2,657,909	1,954,894	14,795,505	2,575,677	-	24,146,813	46,130,798
Transfer from CWIP	22,650,320	-	-	-	-	(84,099)	(22,566,221)	-
Disposals	-	-	(2,550)	-	-	-	-	(2,550)
At 31 December 2008	**53,055,783**	**3,094,109**	**5,041,394**	**18,541,466**	**10,955,056**	**-**	**8,829,115**	**99,516,924**
Additions	-	1,197,110	1,948,768	8,270,417	3,818,824	-	38,851,577	54,086,696
Transfer from CWIP	45,636,393	-	-	-	-	-	(45,636,393)	-
Disposals	-	-	-	(2,250)	-	-	-	(2,250)
At 31 December 2009	**98,692,176**	**4,291,219**	**6,990,162**	**26,809,633**	**14,773,880**	**-**	**2,044,299**	**153,601,370**
Additions	-	1,727,435	1,057,774	908,431	2,069,968	-	45,062,283	50,825,891
Transfer from CWIP	34,825,215	-	-	-	-	-	(34,825,215)	-
At 31 December 2010	**133,517,391**	**6,018,654**	**8,047,936**	**27,718,064**	**16,843,848**	**-**	**12,281,367**	**204,427,261**
Depreciation								
At 1 January 2008	1,641,206	29,585	2,276,546	887,241	2,106,299	-	-	6,940,876
Charge for the year	2,058,020	66,235	1,905,750	1,144,617	2,521,008	-	-	7,695,628
Disposals	-	-	(701)	-	-	-	-	(701)
At 31 December 2008	**3,699,226**	**95,820**	**4,181,594**	**2,031,857**	**4,627,306**	**-**	**-**	**14,635,803**
Charge for the year	3,791,317	232,186	1,324,237	5,402,205	3,271,317	-	-	14,021,262
Disposals	-	-	-	(2,250)	-	-	-	(2,250)
At 31 December 2009	**7,490,543**	**328,006**	**5,505,831**	**7,431,812**	**7,898,623**	**-**	**-**	**28,654,815**
Charge for the year	6,816,773	175,635	1,537,749	7,930,391	3,108,855	-	-	19,569,403
At 31 December 2010	**14,307,316**	**503,641**	**7,043,580**	**15,362,203**	**11,007,478**	**-**	**-**	**48,224,218**

	Substations, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Computers, Comm. Equip & misc	Motor Vehicles	CWIP-UEDCL	CWIP-Umeme	TOTAL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Net Carrying Amount								
As at 31 December 2008	**49,356,557**	**2,998,289**	**859,800**	**16,509,609**	**6,327,750**	**-**	**8,829,115**	**84,881,121**
As at 31 December 2009	**91,201,633**	**3,963,213**	**1,484,331**	**19,377,821**	**6,875,257**	**-**	**2,044,299**	**124,946,555**
As at 31 December 2010	**119,210,075**	**5,515,014**	**1,004,356**	**12,355,861**	**5,836,370**	**-**	**12,281,367**	**156,203,043**

37. CUSTOMER FUNDED INSTALLATIONS

Upgrade and construction of the distribution network assets that are financed by customers through non-refundable capital contributions for both commercial schemes and new customer connections are not recognised as additions to the Company's intangible asset. The table below summarises the customer financed assets that are not recognised in the Company's financial statements.

Cost	2010 Ushs'000	2009 Ushs'000
At 1 January	31,724,596	19,864,902
Additions	14,590,682	11,859,694
At 31 December	46,315,278	31,724,596
Depreciation		
At 1 January	(2,702,467)	(1,532,214)
Depreciation charge for the year	(2,005,289)	(1,170,253)
At 31 December	(4,707,756)	(2,702,467)
Net Carrying Amount	**41,607,522**	**29,022,129**

38. PRIOR YEAR ADJUSTMENT

In the prior years, Umeme accounted for the consideration arising from the payment of rentals to UEDCL under the LAA as an intangible asset. The intangible asset was deemed to be arising from the right to use the distribution network assets taken over from UEDCL and charge customers. On further consideration and review of the Concession agreements, it has been noted that the Company has no demand risk and hence the asset arising from payment of the rentals to UEDCL is a financial asset rather than an intangible asset.

As explained in note 14, the terms of the Concession agreements are such that the rental component of the Concession arrangement is always collectible in cash and not dependent on the performance of the distribution network assets. In accordance with IFRIC 12, the consideration for the rental liability should be accounted as a financial asset since the amount is effectively guaranteed. The prior year's financial statements have been restated to reclassify the asset relating to the rental component of the Concession from intangible assets to financial asset. Below is a summary of the prior year adjustments:

Income Statement

The prior year adjustments passed in the 2009 income statement relate to the following:

- Reclassification of the cash collections relating to recovery of the financial asset (principal - Ushs 15,679,478,000 and finance income - Ushs 18,639,927,000) from revenue to financial asset and other income respectively.
- Recognition of the foreign exchange loss on the financial asset (Ushs 1,240,563,000) and recognition of the finance income (Ushs 18,639,927,000) reclassified from revenue.
- Reversal of the amortisation charge (Ushs 18,814,207,000) relating to the component reclassified from intangible assets to financial asset.

The above adjustments are summarised in the 2009 income statement extract below.

	Note	2009 As previously stated Ushs'000	Adjustment Ushs'000	2009 As restated Ushs'000
Revenue	(a)	456,828,164	(34,319,405)	422,508,759
Cost of sales		(276,825,021)	-	(276,825,021)
GROSS PROFIT		**180,003,143**	**(34,319,405)**	**145,683,738**
Other operating income	(b)	7,762,512	17,399,364	25,161,876
Distribution costs		(16,726,998)	-	(16,726,998)
Administration expenses		(86,056,125)	-	(86,056,125)
Other operating expenses	(c)	(34,007,342)	18,814,207	(15,193,135)
OPERATING PROFIT		**50,975,190**	**1,894,166**	**52,869,356**
Finance costs		(27,239,608)	-	(27,239,608)
PROFIT BEFORE TAX		**23,735,582**	**1,894,166**	**25,629,748**
Income tax expense		(10,661,383)	-	(10,661,383)
PROFIT FOR THE YEAR		**13,074,199**	**1,894,166**	**14,968,365**

Statement of Financial Position

The prior year adjustments passed in the statements of financial position as at 31 December 2008 and 31 December 2009 relate to the following:

- Reclassification of the asset relating to the rental payments from intangible assets to financial asset.
- Recognition of the financial asset relating the rental payments.
- Recognition of extra finance costs on the financial liability relating to the rental payments.

The above adjustments are summarised in the 2008 and 2009 statements of financial position extracts below.

	Note	31 December 2009 As previously stated Ushs'000	Adjustment Ushs'000	Restated Ushs'000	31 December 2008 As previously stated Ushs'000	Adjustment Ushs'000	Restated Ushs'000
NON-CURRENT ASSETS							
Intangible assets	(d)	220,892,406	(94,062,152)	26,830,254	199,764,029	(112,876,359)	86,887,670
Financial asset: Non-current portion	(e)	-	154,226,395	154,226,395	-	175,143,694	75,143,694
Deferred income tax asset		5,346,687	-	5,346,687	5,833,616	-	5,833,616
		226,239,093	**60,164,243**	**286,403,336**	**205,597,645**	**62,267,335**	**267,864,980**
CURRENT ASSETS							
Financial asset: Current portion	(e)	-	18,885,945	18,885,945	-	17,623,960	17,623,960
Inventories		23,670,848	-	23,670,848	18,382,290	-	18,382,290
Trade and other receivables		76,193,748	-	76,193,748	77,668,645	-	77,668,645
Tax recoverable		3,045,423	-	3,045,423	-	-	-
Bank balances		38,184,896	-	38,184,896	43,646,446	-	43,646,446
		141,094,915	**18,885,945**	**159,980,860**	**139,697,381**	**17,623,960**	**157,321,341**
TOTAL ASSETS		**367,334,008**	**79,050,188**	**446,384,196**	**345,295,026**	**79,891,295**	**425,186,321**
EQUITY AND LIABILITIES							
Issued capital		22,870,262	-	22,870,262	22,870,262	-	22,870,262
Accumulated losses		(1,447,883)	70,141,037	68,693,154	(14,522,082)	68,246,871	53,724,789
		21,422,379	**70,141,037**	**91,563,416**	**8,348,180**	**68,246,871**	**76,595,051**
NON-CURRENT LIABILITIES							
Shareholder's loan: Non-current portion		40,123,809	-	40,123,809	48,161,904	-	48,161,904
IFC Loan		9,575,000	-	9,575,000	-	-	-
Conc. obligation: Non-current portion	(f)	146,259,272	7,967,123	154,226,395	163,168,264	11,975,430	175,143,694
		195,958,081	**7,967,123**	**203,925,204**	**211,330,168**	**11,975,430**	**223,305,598**

	Note	31 December 2009 As previously stated Ushs'000	Adjustment Ushs'000	Restated Ushs'000	31 December 2008 As previously stated Ushs'000	Adjustment Ushs'000	Restated Ushs'000
CURRENT LIABILITIES							
Shareholder's loan: Current portion		19,639,153	-	19,639,153	10,203,292	-	10,203,292
Conc. obligation: Current portion	(f)	17,943,917	942,028	18,885,945	17954,966	(331,006)	17,623,960
Customer security deposits		15,208,785	-	15,208,785	10,495,983	-	10,495,983
Deferred construction income		4,384,869	-	4,384,869	8,177,895	-	8,177,895
Trade and other payables		92,776,824	-	92,776,824	78,332,073	-	78,332,073
Taxes payable		-	-	-	452,469	-	452,469
		149,953,548	**942,028**	**150,895,576**	**125,616,678**	**(331,006)**	**125,285,672**
TOTAL EQUITY AND LIABILITIES		**367,334,008**	**79,050,188**	**446,384,196**	**345,295,026**	**79,891,295**	**425,186,321**

Contact us toll free at 0800 185 185
email: info@umeme.co.ug or www.umeme.co.ug
Rwenzori House