Annual Report 2011

Yaka!
Introducing Pre-payment Technology

UMEME

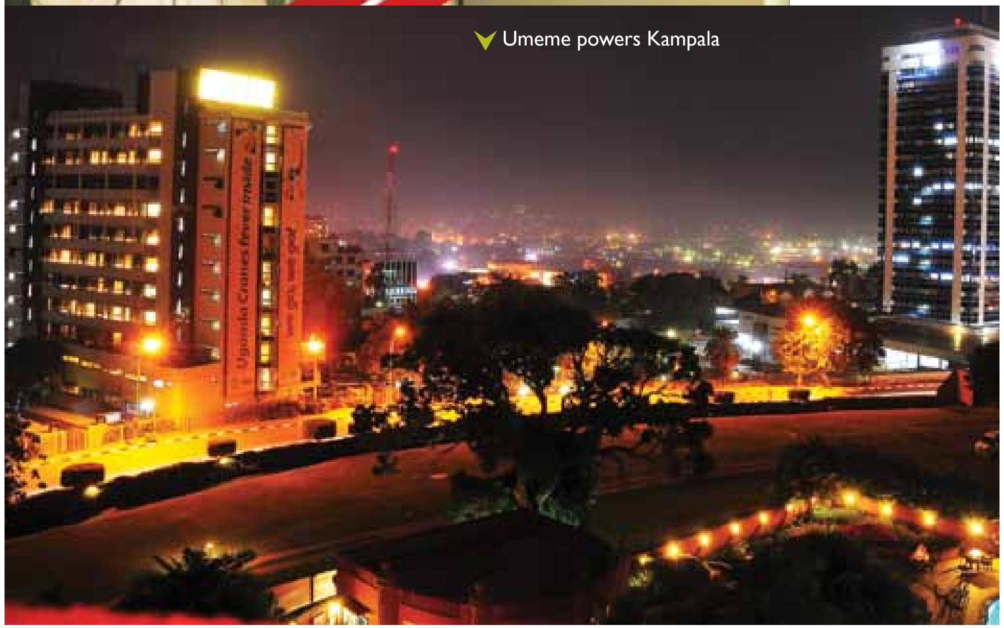
Our Network Distribution in Uganda

Umeme's 458,000 customers are located mainly in urban centres.

Umeme's footprint extends for 1 km around the backbone line

Contents

Umeme's Control Centre

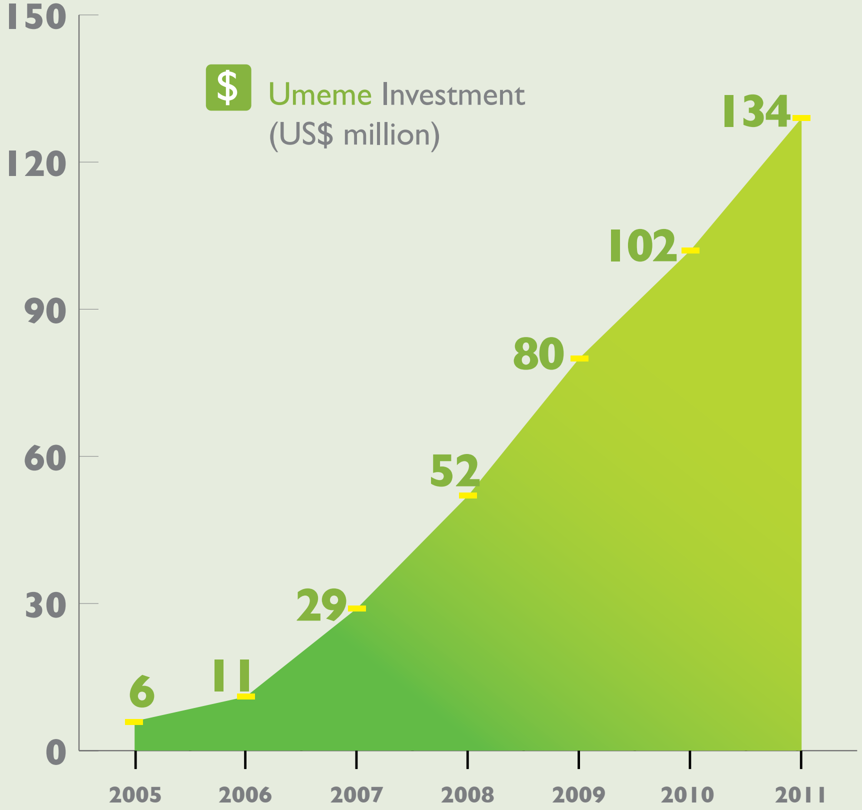


Umeme powers Kampala

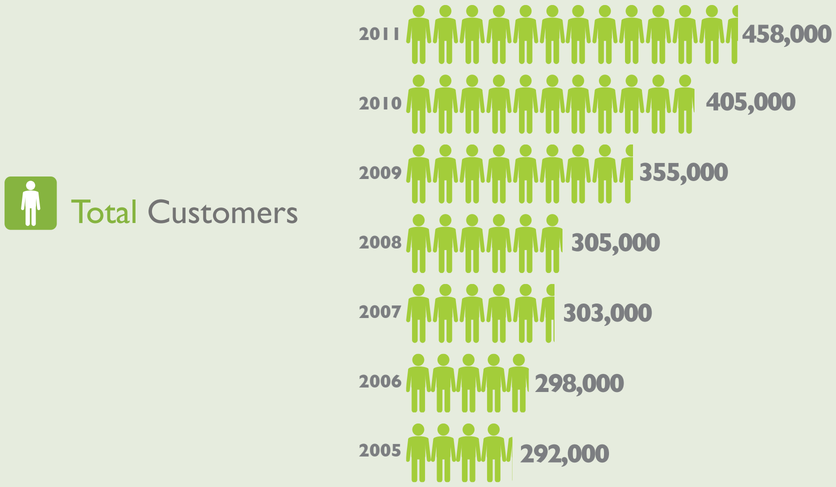
Cover: Pre-payment customers can purchase vouchers at supermarkets like Nakumatt

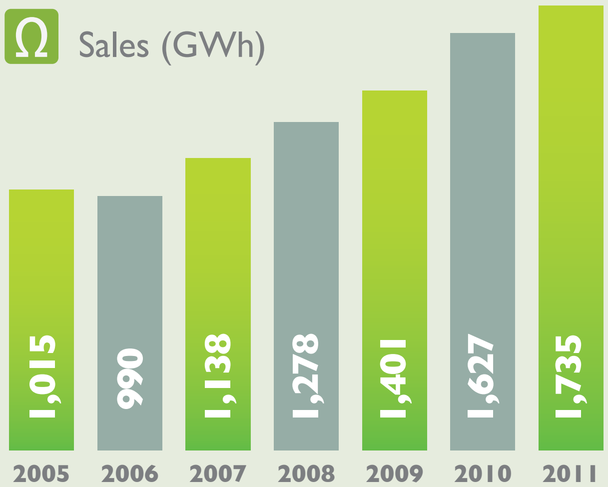
2011 highlights

Umeme is one of the biggest investors in Uganda...

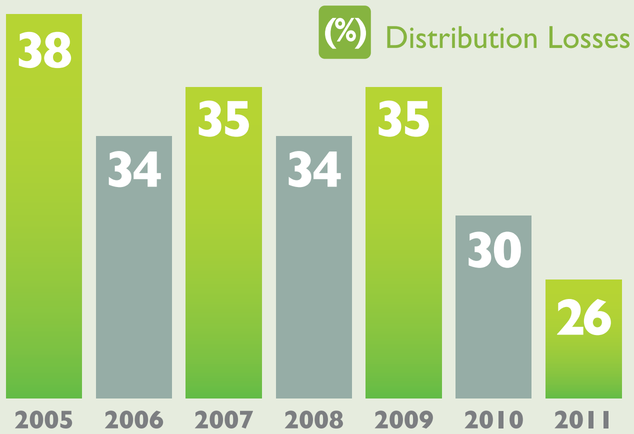


...resulting in sustained growth in the electricity distribution sector...

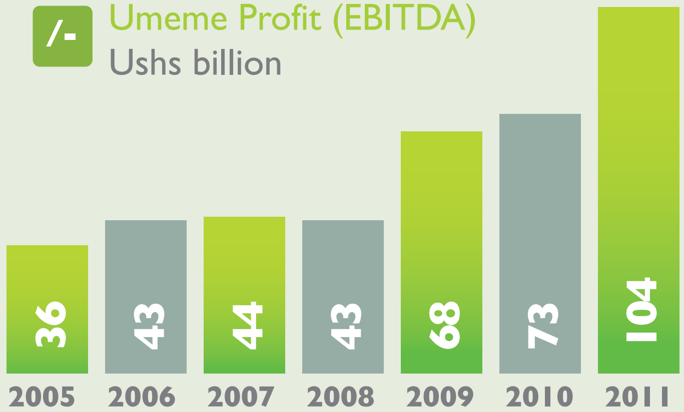




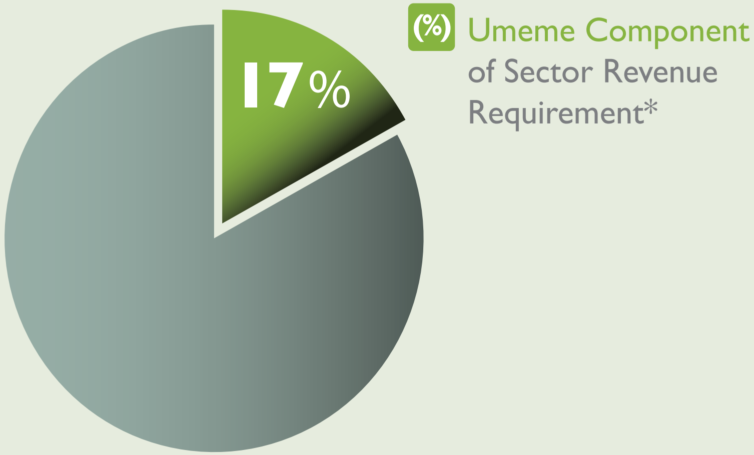
...and significant improvement in operational performance...



...whilst delivering value to our shareholders...



...and stakeholders.



*Excluding repayment of historic UEB debt

Selestino Babungi
Chief Finance Officer

Florence Nsubuga
Chief Operations Officer

We are delighted by the good financial performance recorded in the 2011. In 2011, Umeme recorded EBITDA of US$ 41m, up from US$ 31m in 2010. Operating cash flows from operations increased by 38% and shareholder distribution of US$ 6.2m was paid.

Umeme continued to invest in network expansion, network restoration/rehabilitation, customer connections, and energy loss reduction and operational efficiency. A total of US$ 27.4m of investments was made during the year, financed by IFC debt and internally generated cash.

The main drivers for the good performance were reduction in energy losses to 27.3%, improved cash collections, to 98.9%, growth in purchases of 4% and capital investments of US$ 27.4m. Our customer base grew by 13%, to 458,000, of which 8,000 were converted to pre-payment metering. The performance management system introduced in 2009 continues to drive improvements in operations and customer service.

We will continue to focus on a variety of solutions like automated metering, SCADA, aerial bundle conductor, contact centre, SMS and internet-based solutions and mobile money technology to improve operations, deliver on regulatory targets and enhance our relationship with customers.

"In 2011 Umeme spent more than Ushs 500 billion locally on operations, power purchases and capital expenditure."

Umeme adopted a multifaceted approach to manage the challenges it faced in 2011.

The power shortfall, which worsened further in July 2011, was one the major challenges Umeme had to address during the year; another was the consequences of major faults on the network.

As a result, communication with customers was identified as a priority. One of the wide-reaching communications initiatives involves the appointment of an Outage Projects Manager, who analyses the load-shedding schedule to ensure transparency, and constantly engages with stakeholders to provide information. Implementing a system of SMS alerts and radio broadcasts has reduced the number of calls to the call centre.

Umeme's image as a professional service provider has been enhanced by improvements to service centres. Clear signage and visual display of explanations of matters relating to connection, billing, payments and disconnection should contribute customer satisfaction, as we find that much dissatisfaction is rooted in misunderstanding. We've continued with initiatives to address corruption from both within and outside the company.

Customer feedback about the implementation of pre-paid meters under a pilot project has been very positive. Further initiatives in the pipeline include expansion of the pre-paid metering project, and implementing additional payment options, including Mobile Money.

In 2011, Umeme successfully realigned its processes to improve service delivery to a growing number of customers.

One of Umeme's achievements in 2011 was reducing the wait for a new connection from about 14 days to an average of seven days for domestic customers, and to 25 days (from two months) for commercial customers. Further, more than 80% of reported faults are being resolved within 24 hours, and another 10% within 48 hours.

Umeme's supply was negatively affected by transformer failure, caused either by theft and vandalism, or destruction as a result of overload. Even though it is sometimes difficult to obtain replacement transformers at short notice, we have decentralised decision making in relation to upgrading or replacement of transformers, and investigated new suppliers, thereby reducing the time needed to replace a transformer to an average of five days.

Communication with customers received a boost as a result of a campaign to capture customer data – half of customers' mobile phone numbers are now tagged to their bills. Engaging social media has also yielded positive results, as we've found that open channels of communication leads to more constructive engagement.

In the eight years I've worked for Umeme, I've served as a meter reader and a data clerk. I've been in my current position, Customer Care Executive, for two years now. Reading meters is not an easy job, and is riddled with challenges. In those days, there was no pre-payment, and now that I'm working with pre-payment customers everyday, I realise how much things have improved.

During 2011, most of the queries related to shortage of supply, which affected all customers, big and small. I feel very proud when I succeed in helping customers with their queries and issues. When this happens, I know I'm making a difference. I've had training in customer care and learnt how to deal with people. Customers who visit our offices or call our 24-hour free line deserve professional service, and I want to help them. Umeme has been a good employer to me. I have been able to educate my three children and my job is very rewarding. I enjoy the trust my manager has placed in me.

"Customers who visit our offices or call our 24 hour free phone line deserve professional service."

Emmanuel Katongole
CEO, Quality Chemicals

The relationship between the team at Quality Chemicals Industries Limited (QCIL) and Umeme staff is very good, and characterised by timely communications, advice and visits to our site to check on our supply system – it is clear that Umeme understands our operations. Even though the electricity supplied has not always been sufficient, Umeme has always tried to give priority to large industrial consumers like QCIL, and informs us in good time about load shedding and emergency shutdowns, enabling us to plan better. Umeme even goes as far as adjusting routine maintenance and load-shedding schedules to meet QCIL's critical times of operation. In order to meet our increasing demand for power, Umeme has continuously communicated whenever there has been a need to upgrade conductors or transformers.

"QCIL employs thousands of people directly and indirectly, and Umeme helps us make a vital contribution to the Ugandan economy."

Fred Kalule
Woodworker, Luzira

I've been a customer of Umeme for seven years. My business would be impossible to operate if I did not have power, as I specialise in cutting timber, for which I need to operate power saws and other heavy machinery.

I don't have a generator, as it's too expensive to run. So, when there is load shedding, I can't work. I have four employees, so you can see that power cuts really affect my business. I receive my bill regularly every month, and I can talk to Umeme when I experience problems.

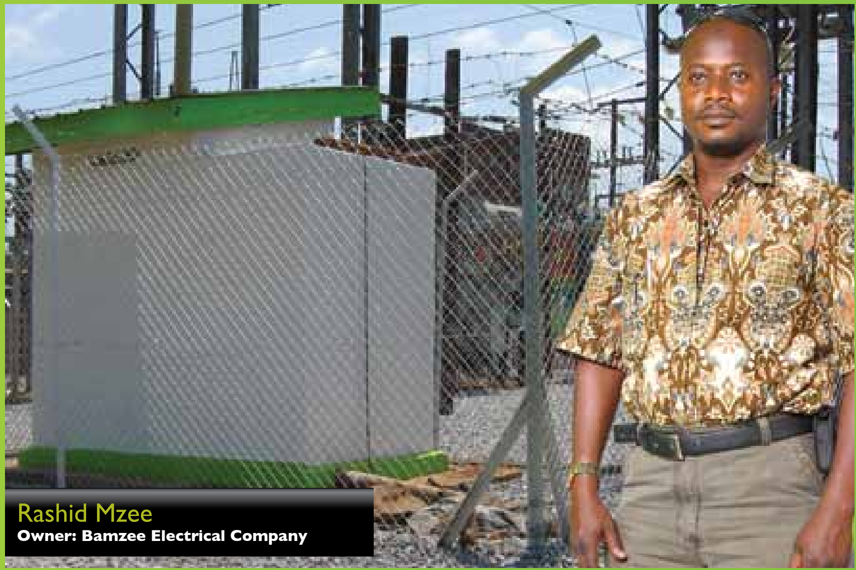
"...I can talk to Umeme when I experience problems."

TS Sundaram
Resident Director: Cable Corporation Ltd

Cable Corporation, a division of the Metha Group and the biggest cable company in the country, has been supplying Uganda's electricity industry with cable and conductor since 1968. We started off supplying UEB, then, from 2001 to 2005, we supplied UEDCL, and today Umeme is our biggest client. About 60% of our production is destined for Umeme. Of the products we supply, only about 10% are imported.

One of the benefits to Umeme of doing business with a local firm like ours is that it does not have to keep a lot of stock. For instance, we supply Umeme with 40 km of ACSR conductor every day, and we are ready to supply stock in case of an emergency. The relationship we have with Umeme is like that of partners, and we attach great value to the professional en personal relationship we have developed over the years. The future of our company is highly reliant on this relationship.

"The value of our business with Umeme is about US$ 500,000 per month."



Rashid Mzee
Owner: Bamzee Electrical Company

I started doing work for Umeme as a contractor in 2005. Since then my business has taken off - working with Umeme has helped me and my staff become more professional and expand our client list.

My company has worked on improving more than 30 offices and 40 sub-stations. In Mbale and Lira we've replaced more than, in total, 100 km 50 mm steel conductor with 100 mm aluminium. Even before Umeme, we had been involved in work relating to electrical distribution, but we have now expanded our skills and knowledge – we presently work on projects up to 33 kV. Of course, it costs the company money to implement safety measures, but I've learnt that it is an investment that we just have to make.

I employ about 200 people – 100 of them casual labourers, the rest semi-skilled workers and technical professionals like engineers.

"My association with Umeme has taught me the importance of safe work practices, quality of work and delivering work on time."

PATRICK BITATURE
Board Chairman

Patrick Bitature has been the chairman of Umeme's Board since September 2007. After establishing Simba Telecom Limited (Uganda) he expanded into broadcasting with the acquisition of Dembe FM, a radio station, and Simba Electronics Limited (Uganda), a chain of stores trading in electronic goods. Patrick also has interests in insurance, banking, hotels and resorts and power generation in Uganda.

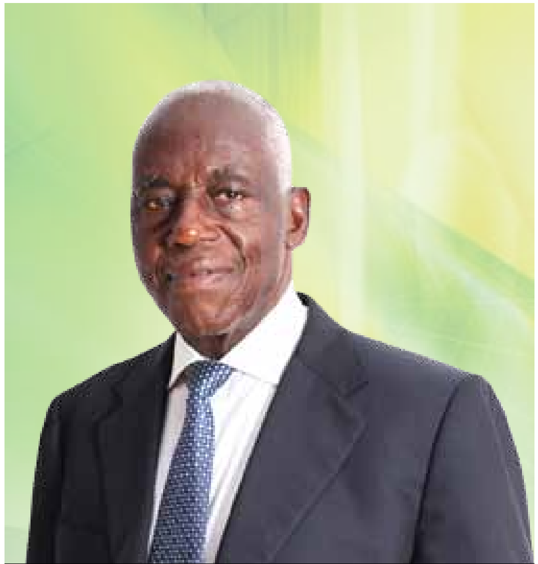
Patrick is the chairman of the Uganda Investment Authority and a member of the following boards of directors: National Insurance Corporation Limited (Uganda), Global Trust Bank Limited (Uganda), Radio West FM 100.2 (a subsidiary of the New Vision Group), and Electro-Maxx. He is a member of the Institute of Chartered Secretaries and Administrators in the United Kingdom.

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. He also worked for Boots Company PLC and GlaxoSmithKline PLC and is a BSc Honours graduate of Trinity College Dublin.



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.

He 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 Children's Village.

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

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

Chairman: Customer Service & Loss Reduction, and Nomination Committees

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

Chairman: Audit and Renumeration Committees

Ian Francis joined the Board in December 2009. He is a member of the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of New Zealand. He holds a Bachelor of Business Studies from Massey University in New Zealand and was previously a senior audit partner at Ernst &Young LLP in London.

He is also a Non-executive Director and Audit Committee Chairman of Optimal Payments plc.

Umeme's Mustafa teaching scholars in Kiwatule how to use electricity safely

Safety is Paramount

Safety is Umeme's No.1 priority and to enact this philosophy everyone has a responsibility to act in a way to prevent accidents to the public, employees and contractors. Our approach includes the following:

- Educating the population through face to face contact and media messages. In 2011, Umeme visited over **1,500** schools and conducted a similar number of community visits to explain the risks associated with electricity, and what each person can do to promote safety by avoiding illegal activity, ensuring that domestic wiring is safe and reporting dangers to Umeme on our toll-free line. We continue to use local radio stations for routine and specific safety broadcasts and safety talk shows as well as using public address systems and print media.
- Umeme has embarked on an ambitious network refurbishment programme, which includes work at high-risk locations such as schools, road crossings, water collection points and markets. At the end of 2011 Umeme had replaced over **100,000** rotten poles and approximately **1,500** km of worn-out conductor.
- A dedicated team of eleven health and safety specialists conduct training and audits and ensure that the plans we have to make employees, contractors and the public safe are implemented.

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

"The Board of Directors is proud to see the results of the hard work that the people at Umeme have put into making last year a success."

A message from our **Board Chairman**

Patrick Bitature - Board Chairman, Umeme

It was the great inventor, Thomas Edison, who once said,

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

Edison was a champion of applying effort, and a firm believer in the tenet that hard work pays off in the long run. Stories abound of how resilient Edison was as an inventor, going through thousands of ideas, concepts and tests until he found the one that worked. His life's work stands to this day as a testament to choosing one's course and staying on it until the successful end. Edison's most notable invention, the lightbulb, should be an easy reminder for us at Umeme since we deal with it in one way or another every day.

Hard work and resilience lead to opportunity, and today we can proudly say that the people at Umeme - staff and shareholders alike - are also testimonies to this.

Last year was difficult in a number of ways for Uganda, what with the economic downturn, the increase in operational costs across the board, and serious generation shortfalls. Umeme bore the brunt of the public disaffection that this caused, because we are at the frontline of economic development, being distributors of the electricity that is so sorely needed to run the economy. We took a beating and worked hard to stay the course because we knew there was an opportunity coming up ahead.

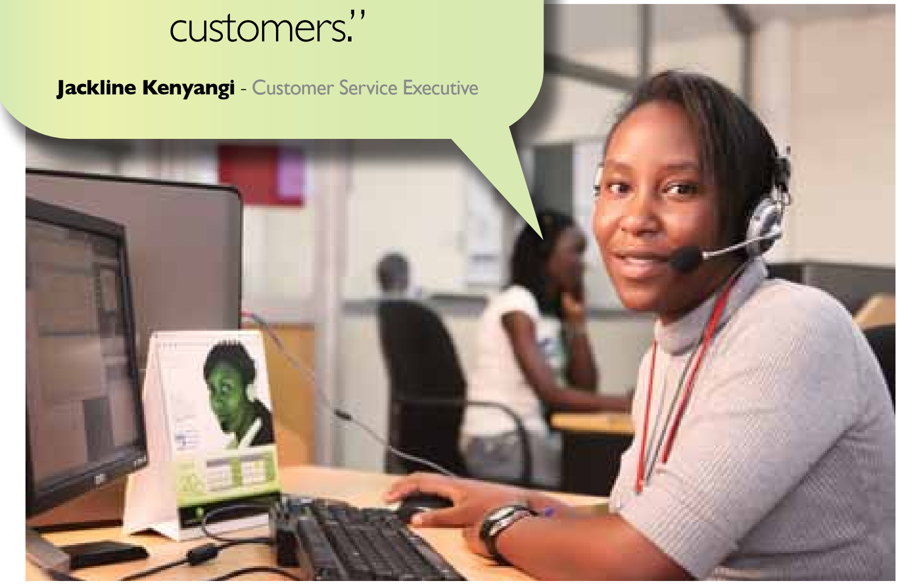
Today, the story has changed significantly, with Bujagali Power coming online to provide more electricity for us to distribute.

Now there is more public talk of investment opportunities in the Ugandan economy, including the possibility of Umeme going public. This is an opportunity borne by hard work. Shareholders and employees both invest in a company, in different ways but with similar aspirations. Shareholders invest capital and employees invest their energy and effort in work - human capital. We all stand to benefit from the opportunities that lie before us.

The Board of Directors is proud to see the results of the hard work that the people at Umeme have put into making last year a success.

"We work around the clock to serve our customers."

Jackline Kenyangi - Customer Service Executive



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 28 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, **0312 185 185,** or send an email to **callcentre@umeme.co.ug**. You can also follow us on Twitter **@umemeserv** or Facebook **umeme limited.**

The emergency load-management schedule is uploaded onto our website. **www.umeme.co.ug** under Outages and can also be retrieved using your phone, by typing **Umeme <space> location** and sending to **8008** or **8198.** Customers can also request their account balances by text: type **Umeme <space> account number** and send to **8008** or **8198.**

TRANSPARENCY INTERNATIONAL UGANDA

Working together to eradicate corruption.

The Umeme management team, supported by the Directors, is committed to reducing corruption and improving the level of service to our customers across the country.

To support this commitment, we have formed an association with Transparency International Uganda to continue to enhance the anti-corruption programme throughout the organisation.

"Although 2011 was a tough year for Umeme and our customers, we managed to outperform our targets and we look forward to agreeing new seven-year targets with the Electricity Regulatory Authority to further improve the sector."

Managing Director's Remarks

Charles Chapman - Managing Director, Umeme

I would like to express my deepest gratitude to all of our customers, stakeholders and staff for your unending support and encouragement throughout 2011.

The year 2011 was very difficult for many of us in Uganda.

At Umeme, the year was characterised by extensive outages caused by the shutdown of the thermal power suppliers. This was compounded further by a devastating fire at the Mutundwe substation. Total generation dropped to a low 200 megawatt (MW) at peak times giving us a deficit of approximately 250 MW at peak hours on a daily basis.

Needless to say, this unprecedented deficit dictated prolonged outages, denying our customers power for up to 24 hours at a time. The resulting public outrage, manifested in public demonstrations on the streets of Kampala, Lira, Masaka, Mbale and other places was very frustrating for all of us.

I am proud of the way our management and staff responded to the challenges, and the professionalism with which they continued to do their jobs. I am equally grateful to the Government of Uganda, our Board of Directors and our shareholder, Actis, who remained supportive and responsive, thus ensuring our investment programme stayed on track through the year.

Additionally, our operations were affected by the global financial climate, which put the US Dollar at an all time high, affecting our operations as well as placing a lot of pressure on most business ventures in Uganda.

Outperforming our Targets

Despite precarious operating conditions Umeme outperformed in every segment of our business and completed our seven-year regulatory review period significantly ahead of target.

Rolling out Pre-payment Metering

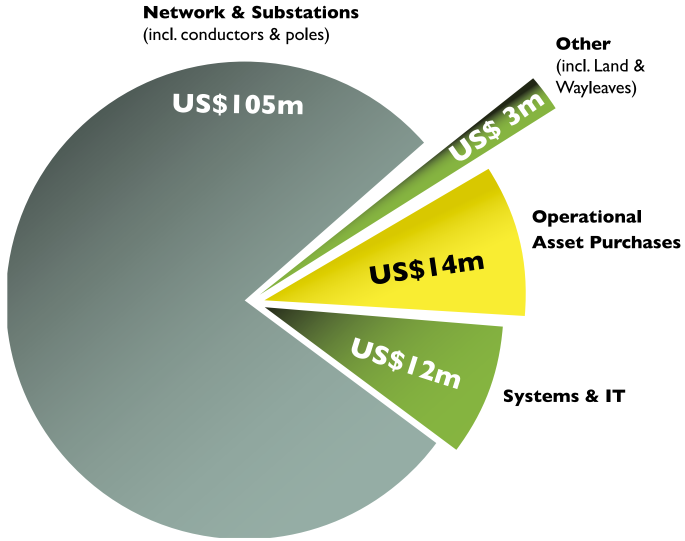
During the year we completed the rollout of pre-payment meters in our pilot district of Kitintale, achieving a conversion of 8,000 customers. The project has been very well received as customers appreciate the independence of managing their consumption costs.

Over the next few years we shall continue investing in pre-payment metering technology and will extend the service across the country for all our customers.

I am proud to share some of the highlights of this performance:

- We closed the year well on target to bring energy losses down, from 38% at the start of our concession to 27%.
- Our investment exceeded US$ 130 million.
- We connected 250,000 customers against a target of 60,000.
- We improved our collections, achieving 99% against a target of 95.6%.

CAPEX Investment 2005 - 2011



Total CAPEX Investment: US$ 134 million

Umeme's profit before tax for the year ended 31 December 2011 was Ushs 44.7 billion, which represents an 85% increase on 2010, and we brought down the cost of sales by 9% through improved efficiencies across the board.

Umeme will continue to operate in a disciplined and prudent manner with a focus on driving productivity initiatives that will deliver sustainable improvements in business performance. Our priority is to maintain a robust and stable financial and operating platform, which will enable us to support our customers and provide superior returns to shareholders.

Keeping Safety at the Heart of Umeme

We want all our employees who go out every day in response to emergencies or routine maintenance work to come back home safe and sound; and we want all our customers, wherever they may be, to be assured that our connections to their facilities are of the highest standard, and their safety is at the heart of our business.

Mr Benon Mutambi, Ag CEO, Electricity Regulatory Authority, and Mr Sam Zimbe, Umeme's General Manager, Corporate and Regulatory Affairs, discuss Umeme's targets for the next regulatory period.

These targets will be concluded in 2012 and will focus on investment in continued energy loss reduction and efficiency improvements

I have been asked many times why we put safety at the heart of our business and I would like to emphasise that when our people look out for each other, everyone performs more efficiently and effectively, accidents are reduced, creative solutions are found, and morale is much higher. A job done safely and well means reliable service to our customers and better returns for our shareholders.

That said, we are still registering unacceptably high levels of illegal accidents across the country, caused primarily by power theft. Umeme will work closely with the Government to see the enactment of deterrent regulation in the 2012/13 fiscal year.

Looking Forward

The Bujagali Dam project is almost completed and we can confidently say our customers will soon experience greatly improved power supply. The supply already made available has curbed load shedding considerably, enough to make the darkness of 2011 a distant memory.

As we celebrate the commissioning of Bujagali in 2012, we cannot lose sight of the issues that threaten to undermine the gains we have made. The fast tracking of punitive legislation on power theft is imperative.

Umeme on its part is determined to be better than we've ever been. I am pleased to confirm that our investment programme to continuously ensure system and network improvement is on schedule and we are well positioned to receive the increased supply of electricity coming online.
We are committed to investing in technological solutions that will bring convenience to our customers through:

1. Pre-payment metering for new customers
2. Bank payment interface to deliver real time account crediting
3. Mobile Money payment platform
4. e-billing
5. SMS information solutions like account balances and maintenance notifications by area

Our customers and stakeholders can be assured of our pledge to distribute electricity efficiently and to play a central role in the development of Uganda's economy.

Charles Chapman

Umeme is investing in customer services countrywide

Kampala Central Region

Regional Office
Plot 22B Lumumba Avenue
0312 360 609
0772 222102
robert.mubiru@umeme.co.ug

Natete District
Plot 617 Gamba Plaza
0772 301 145
0312 360 725
david.birungi@umeme.co.ug

Nakulabye District
Plot 419 Kibuga, Mengo
0772 420 790
0312 360 730
michael.Oputo@umeme.co.ug

Wandegeya District
Plot 1064 & 956, Bombo Road
0772 460 977
0312 360 643
hussein.mubiru@umeme.co.ug

Kampala Metro District
Plot 5 Pilkington Road
0392 961 259
0312 360 605
florence.zziwa@umeme.co.ug

Kampala East Region

Regional Office
Plot 1-2 Enterprise Close
0776 360 369
0312 360 379
isaac.katewanga@umeme.co.ug

Kitintale District
Plot 243 Luzira-Kitintale
0773 316 361
0312 360 707
ethel.katabazi@umeme.co.ug

Banda District
Plot 1-2 Enterprise Close
0772 595 875
0312 360 702
joyce.nanziri@umeme.co.ug

Mukono District
Plot 98-102 Kampala Road
0392 948 109
0312 360 797
ian.namanya@umeme.co.ug

Kampala South Region

Regional Office
Plot 1207 Gaba Road, Nsambya
0772 221 063
0312 360 679
agnes.nalwanga@umeme.co.ug

Kabalagala District
Plot 1207 Gaba Road, Nsambya
0772 570315
0312 360 633
edward.buyondo@umeme.co.ug

Najjanankumbi District
2nd Floor, Freedom City Mall,
Namasuba, Entebbe Road
0772 488 667
0312 360 732
trevor.kigenyi@umeme.co.ug

Entebbe District
Plot 26 FRV 369 Folio 22
0772 535 629
0312 360 755
miriam.ndagire@umeme.co.ug

Eastern Region

Regional Office
Plot 26 Kampala Rd
Plot 14/16 Oboja Road
FRV 201 F2, Jinja
0772 488 945
0312 360 676
rose.oyella@umeme.co.ug

Mbale District
Plot 42 Cathedral Avenue
0772 601 939
0312 360 355
stephen.epilu@umeme.co.ug

Iganga District
Plot 109 Old Market Street
0772 470 865
0312 360 325
gyaviira.katongole@umeme.co.ug

Tororo District
1A & 1B Bazaar Street
0772 880 475
0454 445 162/160
joseline.okoth@umeme.co.ug

Jinja District
Plot 26 Kampala Rd
Plot 14/16 Oboja Road FRV 201 F2
0776 360 124
0312 360 311
julius.bulamu@umeme.co.ug

Northern Region

Regional Office
Plot 1 Maruzi Road, Lira
0772 222 391
0312 360 235
elizabeth.muhanga@umeme.co.ug

Bombo District
Plot 12 Kalangala Road, Bombo
0776 360 366
0312 360 672
kevin.kabeera@umeme.co.ug

Lira District
Plot 1 Maruzi Road
0782 679 619
0312 360 234
geoffrey.muhinda@umeme.co.ug

Hoima District
Plot 10 Main Street
0776 360 368
0312 360 210
doreen.ogenga@umeme.co.ug

Gulu District
Plot 28 Gulu Street
0776 360 355
0312 360 778
harriet.mukisa@umeme.co.ug

Western Region

Regional Office
Plot 19 High Street, Mbarara
0776 361 031
0312 360 463/470
048 520 310
richard.lubega@umeme.co.ug

Mbarara District
Plot 19 High Street
0776 361 031
0312 360 463/470
048 520 310
richard.lubega@umeme.co.ug

Fort Portal District
Plot 31 Magambo Street
0772 490 201
0312 360 743
thomas.tondo@umeme.co.ug

Bushenyi District
Plot 76 Rwabutongo Cell
0774 139 765
enock.mutinga@umeme.co.ug

Masaka District
Plot 30 Kampala Road
0772 520 268
0312 360 450
duncan.mwesigwa@umeme.co.ug

Kabale District
Plot 127 Kabale Rd
LRV 544 Folio 8
0782 019 020
0486 422 075/
0486 423 673
trevor.karugonjo@umeme.co.ug

Kasese District
Plot 39 Block 425 Margarita Road
0772 490 201
thomas.tondo@umeme.co.ug

Mityana District
Plot 39 Mityana Road
0772 445 213
0464 444 2010
joseph.katende@umeme.co.ug

We now have more channels for you to reach us; our toll free line **0800 185185** or **0752185185** and **0312185185**. Email: **info@umeme.co.ug**
or follow us on Umeme limited @umemelimited

Other Upcountry Contacts

Kamuli	Tel: 0772 509660
Kisoro	Tel: 0486 430011
Kitgum	Tel: 0417 1660602
Lugazi	Tel: 0414 448 267
Masindi	Tel: 0465 420 014
Mubende	Tel: 0776 360323
Soroti	Tel: 0454 461135

Annual Report & Financial Statements

For the Year Ended 31 December 2011

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COMPANY 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 Uganda 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

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2011 which show the state of affairs of Umeme Limited ("Umeme" or "the Company").

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 Uganda Electricity Distribution Company Limited ("UEDCL") under a concession arrangement with effect from 1 March 2005 for a period of 20 years. Under the concession, Umeme also is 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 hydro power generation stations and equipment in Jinja, concessioned to Eskom (Uganda) Limited.

Uganda uses the single buyer model, where UETCL is the single buyer of bulk power from all Independent Power Generators. The current generating companies include; Eskom (Uganda) Limited at Kiira and Nalubaale Dams, Aggreko at Mutundwe, Jacobsen at Namanve, Electromax in Tororo, Kakira (Biomas), Tronder (Bugoye) and other small mini hydro plants.

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:

	Dec '11	Dec '10
Profit before interest, tax and amortisation (Ushs billion)	97.7	52.3
Cash generated from operating activities (Ushs billion)	60.5	43.9
Capital expenditure in the year (Ushs billion)	78.5	50.8
Power units sold during the year (GWh)	1,735	1,627
Power units purchased during the year (GWh)	2,387	2,324
Energy Losses (Percentage)	27.3%	30.0%
Revenue collections rate (Percentage)	98.9%	95.0%
Additional 33 kV and 11 kV lines during the year in kilometers (km)	89	50
Total length of distribution lines at the end of the year (km)	8,897	8,828
Total length of low voltage lines at the end of the year (km)	10,477	9,963
Distribution transformers installed during the year	141	111
Total distribution transformers at the end of year	6,496	6,355
Number of pending service applications	1,544	2,037
Number of new consumers connected during the year (net of disconnections)	52,349	50,620
Total number of consumers at the end of the year	457,808	405,459
Total number of company employees at the end of the year	1,213	1,145

The entire network was fully audited as of 2009 and a Geographical Information System (GIS) database for the network was 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.
The year-end foreign exchange rate for Ushs: US$ was 2,498 (2010: 2,344).

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

As at 31 December 2011, the total energy losses stood at 27.3% (2010: 30%).

Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of financial risks including liquidity risk, interest rate risk, 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 focuses 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:

- Limited generation capacity in Uganda due to reduced generation capacity at Kiira and Nalubale hydro power plants and dependency on expensive thermal electricity;
- Energy losses (both technical and non-technical);
- Inefficiencies in the revenue management cycle;
- Revenue collection levels;
- Compliance with Statutory Codes on power quality, reliability, standards and safety;
- Regulatory environment;
- Availability of quality materials and logistics;
- System vandalism and theft of operational materials;
- Significant capital financing requirements to rehabilitate and expand the distribution network; and
- Volatility of foreign exchange rates.

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 distribution network not exceeding 33 kilovolt (kV) within the authorised territory 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 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 Regional Managers as listed below:
(i) Northern
(ii) Eastern
(iii) Western
(iv) Kampala South
(v) Kampala East
(vi) Kampala Central

All the above regions are further subdivided into 25 districts under the supervision of a District Manager reporting to the Regional Manager. The district structure was strengthened in 2009 and the staffing complement changed to offer better customer service delivery and drive achievement of corporate targets especially energy losses, collections and safety. More responsibility was given to the district management.

The areas of focus have been and will continue to be:
(i) Safety
(ii) Technical and commercial losses
(iii) Customer service improvement
(iv) Cost and business efficiency improvement.

3. RESULTS

The results for the year ended 31 December 2011 and comparatives for 2010 are summarised below:

	2011 Ushs'000	2010 Ushs'000 Restated
Earnings before interest expense, tax and amortisation	97,655,955	52,320,162
Profit before tax	44,616,527	6,351,065
Profit/(loss) for the year	23,009,339	(2,845,863)
Basic and diluted earnings/(loss) per share	1,719	(213)

The detailed results are presented on page 9-10.

The 2010 results have been restated to correct the deferred income tax impact of the change in accounting policy that resulted in recognising a financial asset rather than an intangible asset for the consideration arising from the rentals paid by the Company to UEDCL. The deferred income tax impact was not recognised in 2010.

	2010 As previously stated Ushs'000	Adjustment Ushs'000	2010 Restated Ushs'000
Income tax credit/(expense) for the year	637,723	(9,834,651)	(9,196,928)
Profit/(loss) for year	6,988,788	(9,834,651)	(2,845,863)

4. DIVIDENDS AND INTEREST PAID ON SHAREHOLDER'S LOAN

The Directors do not recommend payment of a dividend for the current year (2010: Nil).

The Company paid interest on shareholder's loan of Ushs 14.745 billion (US$ 6.2 million) during the current year and Ushs 6.945 billion (US$ 3 million) for the year ended 31 December 2010.

5. RESERVES

The Company's retained earnings increased from Ushs 61 billion to Ushs 84 billion during the year.The reserves of the Company are set out on page 29.

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

REPORT OF THE DIRECTORS (CONTINUED)

7. EVENTS AFTER THE REPORTING DATE

On 15 January 2012, the Government of Uganda removed subsidies to the electricity end users with the objective of letting the end user tariffs be reflective of the actual cost and allow the electricity sector to be self sustaining. This should in turn allow Government to concentrate on increasing the country's generation capacity. As a result, the retail tariffs were increased as shown in the table below:

	Domestic	Commercial	Medium industrial	Large industrial	Street lighting
Old tariff (Ushs)	385.6	358.6	333.2	184.8	364.3
New tariff (Ushs)	524.5	487.6	458.9	312.8	488.7
Percentage change	36%	36%	38%	69%	34%

The tariff changes are not expected to have a direct impact on the financial results of the Company as the Power Supply Tariffs by UETCL were adjusted to ensure adequate coverage of Umeme's distribution revenue requirements.

8. 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.. 26 April 2012

SHONUBI, MUSOKE & Co.
ADVOCATES
P. O. BOX 3213
KAMPALA

SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2011

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 of the Company. 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 basis 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.

As at 31 December 2011 and to the date of this report, the Directors and the shareholder have confirmed that the Company does not intend to terminate the concession agreements and the Company will continue in operational existence for the foreseeable future. The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. The financial statements were approved by the Board of Directors on the 26 April 2012 and signed on its behalf by:

....

Director

....

Director

Report Of The Independent Auditors
To The Members 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 2011, 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 25 to 88.

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 the 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 judgement, 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 2011, 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).

Report on other Legal Requirements

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

i) 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;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

Ernst & Young
Kampala
26 April 2012

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Ushs'000	2010 Ushs'000 Restated
Revenue	3	457,062,608	462,849,774
Cost of sales	4	(270,628,957)	(305,261,186)
GROSS PROFIT		**186,433,651**	**157,588,588**
Other operating income	5(a)	15,306,552	5,785,410
Finance income	5(b)	16,028,657	16,557,570
		217,768,860	179,931,568
Repair and maintenance expenses	6	(16,767,499)	(14,867,419)
Administration expenses	7	(95,341,327)	(91,259,092)
Foreign exchange losses	8(a)	(5,912,254)	(18,895,614)
Other expenses	8(b)	(2,091,825)	(2,589,281)
OPERATING PROFIT BEFORE AMORTISATION		**97,655,955**	**52,320,162**
Amortisation of intangible assets	8(c)	(21,539,527)	(19,692,253)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	Note	2011 Ushs'000	2010 Ushs'000 Restated
OPERATING PROFIT		**76,116,428**	**32,627,909**
Finance costs	9	(31,499,901)	(26,276,844)
PROFIT BEFORE TAX	**10**	**44,616,527**	**6,351,065**
Income tax expense	11(a)	(21,607,188)	(9,196,928)
PROFIT/(LOSS) FOR THE YEAR		**23,009,339**	**(2,845,863)**
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE	**12**	**1,719**	**(213)**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 Ushs'000	2010 Ushs'000
Profit/(loss) for the year	**23,009,339**	**(2,845,863)**
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income/(loss) for the year, net of tax	**23,009,339**	**(2,845,863)**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 Ushs'000	2010 Ushs'000 Restated	2009 Ushs'000 Restated
ASSETS				
NON CURRENT ASSETS				
Intangible assets	13	214,856,799	157,963,892	126,830,254
Concession arrangement financial asset: non-current portion	14	141,967,732	160,181,071	154,226,395
Deferred income tax asset	11(c)	-	1,649,643	787,472
		356,824,531	319,794,606	281,844,121
CURRENT ASSETS				
Concession arrangement financial asset: current portion	14	28,566,899	24,966,135	18,885,945
Inventories	15	27,484,883	20,986,361	23,670,848
Trade and other receivables	16	96,640,517	92,820,637	76,193,748
Income tax recoverable	11(b)	-	-	3,045,423
Bank balances	17	49,732,327	54,810,419	38,184,896
		202,424,626	193,583,552	159,980,860
TOTAL ASSETS		**559,249,157**	**513,378,158**	**441,824,982**
EQUITY AND LIABILITIES				
EQUITY				
Issued capital	18	22,870,262	22,870,262	22,870,262
Retained earnings		84,297,416	61,288,077	64,133,940
		107,167,678	84,158,339	87,004,202

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011 (CONTINUED)

	Note	2011 Ushs'000	2010 Ushs'000 Restated	2009 Ushs'000 Restated
NON-CURRENT LIABILITIES				
Shareholder's loan: non-current portion	19	55,414,004	64,243,913	40,123,809
IFC Loan: non-current portion	20	49,960,000	29,299,998	9,575,000
Deferred income tax liability	11(c)	8,289,340	-	-
Concession obligation: non-current portion	21	141,967,732	160,181,071	154,226,395
		255,631,076	253,724,982	203,925,204
CURRENT LIABILITIES				
Shareholder's loan: current portion	19	15,548,714	9,376,000	19,639,153
IFC loan: current portion	20	7,288,789	7,321,958	-
Concession obligation: current portion	21	28,566,899	24,966,135	18,885,945
Customer security deposits	22	2,443,340	21,322,992	15,208,785
Deferred construction income	23	16,197,633	10,780,264	4,384,869
Trade and other payables	24	117,727,791	101,195,639	92,776,824
Current income tax payable	11(b)	8,677,237	531,849	-
		196,450,403	175,494,837	150,895,576
TOTAL EQUITY AND LIABILITIES		**559,249,157**	**513,378,158**	**441,824,982**

These financial statements were approved by the Board of Directors on 26 April 2012 and signed on its behalf by:

....
Director

....
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued Capital (Note 18) Ushs'000	Retained Earnings Ushs'000	Total Equity Ushs'000
At 1 January 2010	22,870,262	68,693,154	91,563,416
Restatement of deferred tax (Note 38)	-	(4,559,215)	(4,559,215)
At 1 January 2010 - Restated	**22,870,262**	**64,133,940**	**87,004,202**
Loss for the year	-	(2,845,863)	(2,845,863)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(2,845,863)	(2,845,863)
At 31 December 2010	**22,870,262**	**61,288,077**	**84,158,339**
At 1 January 2011	22,870,262	61,288,077	84,158,339
Profit for the year	-	23,009,339	23,009,339
Other comprehensive income	-	-	-
Total comprehensive income	-	23,009,339	23,009,339
At 31 December 2011	**22,870,262**	**84,297,416**	**107,167,678**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Ushs'000	2010 Ushs'000
Operating activities			
Profit before tax		44,616,527	6,351,065
Adjustment for:			
Amortisation of intangible assets	13	21,539,527	19,692,253
Impairment provision for bad and doubtful debts	7	2,981,441	22,951,717
Interest on shareholder's loans	9	8,140,800	7,500,800
Interest on IFC loan	9	3,075,485	2,190,576
Interest on customer security deposits	9	2,225,690	-
Interest from bank deposits	5(b)	(1,485,128)	(1,149,038)
Profit on sale of assets		(195,439)	-
Finance income on concession arrangement financial asset	5(b)	(14,543,529)	(15,408,532)
Unrealised foreign exchange loss		6,620,258	17,690,588
		72,975,632	59,819,429
(Increase)/decrease in inventories		(6,498,524)	2,684,488
Increase in trade and other receivables (net)		(6,801,321)	(39,578,606)
Increase in deferred construction income		5,417,369	6,395,395
(Decrease)/increase in customer security deposits		(18,879,652)	6,114,207
Increase in trade and other payables		14,306,463	8,418,815
Cash generated from operating activities		60,519,968	43,853,728
Interest paid on IFC loan	20	(2,724,837)	(783,056)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	Note	2011 Ushs'000	2010 Ushs'000
Interest paid on shareholder's loan	19	(14,745,421)	(6,945,000)
Interest received from banks	5(b)	1,485,128	1,149,037
Recovery of finance income - concession arrangement financial asset	14	14,543,529	15,408,532
Current income tax paid	11	(3,522,816)	(6,481,827)
Net cash flows from operating activities		**55,555,551**	**46,201,414**
Investing activities			
Purchase of intangible assets	13	(78,505,467)	(50,825,891)
Proceeds from sale of motor vehicles		268,472	-
Recovery of concession arrangement financial asset	14	27,295,095	12,471,412
Payment of concession obligation	21	(27,295,095)	(12,471,412)
Net cash flows used in investing activities		**(78,236,995)**	**(50,825,891)**
Financing activities			
Repayment of IFC loan	20	(6,056,648)	-
Proceeds from IFC loan	20	23,660,000	21,250,000
Net cash flows from financing activities		**17,603,352**	**21,250,000**
Net (decrease)/increase in cash and cash equivalents		**(5,078,092)**	**16,625,523**
Cash and cash equivalents at 1 January		54,810,419	38,184,896
Cash and cash equivalents at 31 December	**17**	**49,732,327**	**54,810,419**

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:

i) 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;
ii) There has been no Special Provision Period ("SPP") for a period of at least two years; or
iii) Seven years have passed since the ESSP effective date.

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. These termination rights ended in October 2011 under ii) above. However, the LAA also provides for termination of the agreement out of the ESSP by either party, but a buy-out amount (as defined in the agreement) is payable to the company by Government of Uganda.

The Company is in the process of agreeing with Electricity Regulatory Authority ("ERA") the performance targets for the next seven years in accordance with the power supply and distribution licences. At the time of issuing these financial statements, ERA had issued its proposed targets and the Company was still negotiating with ERA and other stakeholders for agreement on feasible and achievable targets. ERA had also issued a notice of amendment of the tariff methodology that was still being discussed with the Company in line with the provisions of the concession agreements.
ERA notified the Company that a comprehensive review of the tariffs will be undertaken after the performance targets for the next seven years have been agreed. Thereafter, reconciliation will be done to determine and rectify any over or under collection arising from using the tariffs in force.

As at 31 December 2011 and to the date of this report, the Directors and the shareholder have confirmed that the Company does not intend to terminate the concession agreements and the Company will continue in operational existence for the foreseeable future.

The Company's Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any other material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 26 April 2012..

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 on the historical cost basis 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"), as issued by the International Accounting Standards Board ("IASB"), 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

Power sales revenue is recognised when customers are billed for the power consumed. The billing is done for each monthly billing cycle based on the units consumed as read on the customers' electricity meters and the approved consumer tariffs. Power sales revenue 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 include reconnection fees, meter testing fees, inspection fees, fines and other sundry incomes. They are recognised as they are earned at the rates prescribed by applicable regulations or at the amounts agreed with the customers.

d) Deferred Construction Income, Construction Revenue and Construction Costs

Customers are required to fully or part-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.

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. Construction revenue and construction costs are recognised by reference to the stage of completion of the project. Any expected excess of total construction costs over total construction revenue for the project is recognised as an expense immediately.

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 the 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 i.e. the amount paid for Government of Uganda support and assurance rights. 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 the 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.

An item of the property, plant and equipment underlying the intangible assets is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognised.

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 an asset is impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. The recoverable amount of an asset is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or group of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:

- the asset's fair value less costs to sell is higher than its carrying amount; or
- the asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Value in use is determined using budgets.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses recognised in prior years are reversed through the income statement if, and only if, there has been a change in the assumptions 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.

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 the actual may differ from the estimation, resulting in future changes to the allowance.

Provisions

Provisions are recognised based on a reliable estimate of the amount that the Company expects to incur and involve a high degree of judgement as disclosed in Note 2(q).

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

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial instruments at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) 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 assets and financial liabilities are recognised initially at fair value plus transaction costs, except in the case of financial instruments recorded at fair value through profit or loss. The Company's financial assets include cash and short-term deposits and trade and other receivables and the concession arrangement financial asset, and the Company's financial liabilities include trade and other payables, concession obligation and borrowings. Borrowings include the shareholder's loan and the IFC loan.

Bank Balances, Trade Receivables and Concession Arrangement Financial Asset

The Company recognised a financial asset, the concession arrangement financial asset, in respect of 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. The Company does not assume any demand risk in relation to the rental payments and classified the concession arrangement financial asset as loans and receivables. 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, amounts due from banks, trade receivables and the concession arrangement financial asset 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, Concession Obligation and Trade Payables

After initial measurement, borrowings, concession obligation 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 (carrying amount) 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 de-recognised 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 de-recognition 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, Trade Receivables and Concession Arrangement Financial Assets

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 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, trade receivables and the concession arrangement financial asset 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 Company is in the process of firming up an employee defined contribution staff provident fund. The terms and conditions of the fund are being firmed up for approved by the Board of Directors. However, the Company communicated to employees that they are already entitled to the Company's contributions to the provident fund and this creates a constructive obligation.

An estimate of the cost arising from the constructive obligation is accrued based on the amounts assessed by management and approved by the Directors. The Company has no legal or constructive obligation to pay more than the amount accrued. The estimated monetary value for the accrued employee benefits is recognised in the income statement at the reporting date.

o) Issued Capital

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

- when the deferred tax asset relating to the deductible temporary difference 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 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 that 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

The Company's financial statements are presented in Uganda Shillings, which is also the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

s) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

t) Adoption of New and Revised Standards

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

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (amendment) – 1 July 2010
- IAS 24 Related Party Disclosures (revised) effective 1 January 2011
- IAS 32 Classification of Rights Issues (Amendment) (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010

Notes to the Financial Statements (continued)

- Improvements to IFRSs (May 2010) effective 1 July 2010 or 1 January 2011 as listed below:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards
  - IFRS 3 Business CombinationsIFRS 7 Financial Instruments: Disclosures
  - IAS 1 Presentation of Financial Statements
  - IAS 27 Consolidated and Separate Financial Statements
  - IAS 34 Interim Financial Statements
  - IFRIC 13 Customer Loyalty Programm

The adoption of the standards or interpretations is described below:

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment) – 1 July 2010

The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures, as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the Company as it is not a first-time adopter.

IAS 24 Related Party Disclosures (Revised)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplifies 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 amendment had no impact, as the definitions were already applied according to these amendments.

IAS 32 Classification of Rights Issues (Amendment)

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. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. This amendment had no impact on the Company as no such transactions were entered into.

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 corrects an unintended consequence of IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. 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 had no impact on the financial statements of the Company as it does not operate a defined benefit scheme.

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 the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). 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 that this cannot be reliably measured, the instruments 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 had no effect on the financial position or performance of the Company, as no such transactions were entered into.

Notes to the Financial Statements (continued)

Improvements Issued in May 2010

IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from 1 January 2011)

- Accounting policy changes in the year of adoption: The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.
- Revaluation basis as deemed cost: The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).
- Use of deemed cost for operations subject to rate regulation: The amendment expands the scope of "deemed cost" for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulate activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16, Property, Plant and Equipment, IAS 23, Borrowing Costs, and IAS 38, Intangible Assets. The amendments to IFRS 1 had no impact on the Company, as it already reports in terms of IFRS.

IFRS 3 Business Combinations (effective from 1 July 2010)

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. The amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively. This had no impact on the Company, as there is no contingent consideration on business combinations.
- Measurement of non-controlling interests (NCI): The amendment limits the scope of the measurement choices only to the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. This had no impact on the Company, as there is no NCI.
- Un-replaced and voluntarily replaced share-based payment awards: The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. This had no impact on the Company, as there has been no share-based payment transactions entered into.

IFRS 7 Financial Instruments - Disclosures (effective 1 January 2011) - Clarification of Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in the notes.

IAS 1 Presentation of Financial Statements – Clarification of statement of changes in equity (effective 1 January 2011)
The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively. This amendment has no impact as the Company has no other comprehensive income.

IAS 27 Consolidated and Separate Financial Statements (effective from 1 July 2010)
The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively. This had no impact on the Company, as there are no transactions subject to these amendments.

IAS 34 Interim Financial Statements - Significant Events and Transactions
The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification. This will have an impact on interim reports, but not the annual financial statements.

IFRIC 13 Customer Loyalty Programmes - Fair Value of Award Credit (effective 1 January 2011)
The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively. This had no impact on the Company, as it has no customer loyalty programmes.

u) Standards Issued but Not Yet Effective

The standards and interpretations issued, which the Company reasonably expects to be applicable at a future date are listed below. The Company intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amendments become effective for annual periods beginning on or after 1 January 2013. Although the Company will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities
The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts". This means that the right of set-off:

i) must not be contingent on a future event;

ii) must be legally enforceable in all of the following circumstances:
- the normal course of business;
- the event of default; and the event of insolvency or bankruptcy of
- the entity and all of the counterparties.

The amendment is effective for annual periods beginning on or after 1 January 2014 and the Company is still in the process of determining how it will impact the disclosures upon adoption.

IFRS 7 Financial Instruments: Disclosures (Amendment) - Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Company is still in the process of determining how it will impact the disclosures upon adoption.

IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:
- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

This amendment will result in additional disclosures with regard to transfers of financial assets.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 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, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The standards issued, which the Company does not reasonably expect to be applicable at a future date are listed below:

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. This amendment will have no impact on the Company, as it has no investment properties or non-depreciable assets that are revalued.

IAS 27 Separate Financial Statements (as Revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Company as it does not have any investments in subsidiaries and associates, and interests in joint arrangements.

IAS 28 Investments in Associates and Joint Ventures (as Revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Company as it does not have any investments in associates and interests in joint arrangements.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require entities to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the Financial Statements (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 1 First-time Adoption of international Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS. This will have no impact on the Company, as it has no operations in hyperinflationary economies.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

This new interpretation provides guidance on how to account for stripping cost in the development phase of a surface mine. This standard will become effective 1 January 2013 and will have no impact, as the Company is not involved in mining activities.

3. REVENUE

	2011 Ushs'000	2010 Ushs'000
Domestic	146,954,337	155,694,286
Commercial	19,373,773	22,573,267
Medium industrial	1,007,108	590,922
Street lighting	548,833	896,169
Commercial time of use	57,737,605	65,173,991
Medium industrial time of use	100,387,676	90,612,894
Large industrial time of use	164,610,447	140,597,507
Total amount billed to customers	**490,619,779**	**476,139,036**
Less: Recovery of rental payments to UEDCL -Principal (Note 14)	(27,295,095)	(12,471,412)
Recovery of financing income (Note 14)	(14,543,529)	(15,408,532)
	448,781,155	**448,259,092**

	2011 Ushs'000	2010 Ushs'000
Construction revenue - customer contributions	8,281,453	14,590,682
	457,062,608	**462,849,774**

Out of the total power purchased of 2,387 million units (2010: 2,324 million units), the Company billed 1,735 million units (2010: 1,627 million units). This represents an average system power loss of 27% (2010: 30%) for the year. Management is continuing to implement the loss reduction strategy and plan to reduce both commercial and technical losses to agreed 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.

Notes to the Financial Statements (continued)

4. COST OF SALES

	2011 Ushs'000	2010 Ushs'000
Electricity power purchase from UETCL	260,886,006	289,357,566
Generation levy	1,461,498	1,312,938
Construction costs - customer contributions	8,281,453	14,590,682
	270,628,957	305,261,186

This represents costs for energy purchased from 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

	2011 Ushs'000	2010 Ushs'000
a. Other operating income		
Reconnection fees	873,786	188,982
Meter/transformer test fees	4,215	3,433
Inspection fees	2,552,146	2,281,458
Sale of tender documents	-	5,200
Reversal of unutilised provisions	7,829,872	-
Fines and sundry income	4,046,533	3,306,337
	15,306,552	5,785,410
b. Finance income		
Interest on bank deposits	1,485,128	1,149,038
Financing income from concession arrangement financial asset	14,543,529	15,408,532
	16,028,657	16,557,570
Total other operating and finance income	**31,335,209**	**22,342,980**

The reversal of unutilised provisions of Ushs 7.8 billion relates to reversal of the provisions for VAT on supplies to diplomatic and accredited missions and personnel that had been made in the prior years. The VAT Regulations of 1996 exempted Uganda Electricity Board (UEB) from charging VAT on power supplies to diplomatic and accredited missions and personnel. The Company relied on the same regulations but made a provision for the VAT not charged since the regulations referred to UEB and not utilities companies. The Company engaged Ministry of Finance, Planning and Economic Development to clarify on the issue. The Ministry issued the clarification during the year confirming that utilities companies should indeed not be charging VAT on supplies to diplomatic and accredited missions and personnel.

6. REPAIR AND MAINTENANCE EXPENSES

	2011 Ushs'000	2010 Ushs'000
Distribution (overhead and underground)	6,286,945	4,936,550
Transformers, meters and other electrical test instruments	3,633,187	3,077,756
Other repair and maintenance	6,847,367	6,853,113
	16,767,499	**14,867,419**

7. ADMINISTRATION EXPENSES

Staff costs (7a)	46,598,037	37,663,027
Transport costs	7,144,192	5,244,867
Consultancy fees	4,638,676	2,720,752
Telephone expenses	3,144,706	2,428,354
Debt collection expenses	3,963,097	2,119,280
Insurance charge	3,339,115	2,812,445
Impairment provision for bad and doubtful debts	2,981,441	22,951,717
Other administration costs	23,532,063	15,318,650
	95,341,327	**91,259,092**

7. ADMINISTRATION EXPENSES (CONTINUED)

	2011 Ushs'000	2010 Ushs'000
7(a) Staff costs		
Salaries and wages	35,834,751	27,293,995
National Social Security Fund (NSSF) contributions	2,289,571	2,169,661
Other staff related costs	8,473,715	8,199,371
	46,598,037	**37,663,027**

8. OTHER OPERATING EXPENSES

a. Foreign exchange differences		
Net foreign exchange losses	5,912,254	18,895,614
b. Other expenses		
Other tax related expenses and statutory fines	2,091,825	2,589,281
c. Amortisation		
Amortisation of intangible assets (Note 13)	21,539,527	19,692,253
Total other operating expenses	**29,543,606**	**41,177,148**

Notes to the Financial Statements (continued)

9. FINANCE COSTS

	2011 Ushs'000	2010 Ushs'000
Interest on shareholder's loan	8,140,800	7,500,800
Incidental costs on shareholder's loan	2,799,468	754,661
Provision for interest on customer deposits	2,225,690	-
Finance charge on concession obligation	14,543,529	15,408,532
Interest on IFC loan	3,075,485	2,190,576
Incidental costs on IFC loan	714,929	422,275
	31,499,901	**26,276,844**

10. PROFIT BEFORE TAX

	2011 Ushs'000	2010 Ushs'000
Profit before tax is stated after charging:		
Amortisation of intangible assets	21,539,527	19,692,253
Auditors' remuneration	344,931	301,860
NSSF - Employer's contributions	2,289,571	2,169,661
Directors' fees and expenses	1,192,289	1,233,041
Employee performance bonus - accrual	7,498,370	3,007,209
Donations	29,605	54,978
Management fees	4,906,245	3,415,327
Unrealised foreign exchange losses	6,620,260	17,690,588
Staff medical and welfare expenses	1,909,465	1,607,532
and after crediting:		
Profit on sale of assets	195,439	-
Interest on bank deposits	1,485,128	1,149,038

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.

a. Income tax expense		
Current income tax charge for the year	11,668,204	10,059,099
Deferred income tax charge/(credit) for the year (Note 11(c))	9,938,984	(862,171)
	21,607,188	**9,196,928**

The average effective tax rate is 48% (2010: 145%). The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2011 Ushs'000	2010 Ushs'000
Accounting profit before income tax	44,616,527	6,351,065
At statutory tax rate of 30% (2010: 30%)	13,384,958	1,905,320
Tax effect of:		
Add: 30% of non deductible tax expenses	14,227,496	10,684,286
Less: 30% of non taxable income	(6,005,266)	(3,012,388)
Prior year over provision of current tax	-	(380,290)
Income tax expense reported in the income statement	**21,607,188**	**9,196,928**

b. Current tax payable

	2011 Ushs'000	2010 Ushs'000
Tax (recoverable)/payable brought forward	531,849	(3,045,423)
Current tax charge for the year	11,668,204	10,059,099
Current tax paid during the year	(571,899)	-
Withholding tax recoverable	-	(202,771)
Payment on provisional tax return	(2,950,917)	(6,279,056)
	8,677,237	**531,849**

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 liability/(asset) is attributed to the following:

	2011 Ushs'000	Movement Ushs'000	2010 Ushs'000 (Restated)
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	43,957,952	(7,609,547)	36,348,405
Provision for bad debts	(27,354,038)	(2,597,428)	(29,951,466)
Provision for bonus	-	(1,268,974)	(1,268,974)
IPO costs	(345,331)	345,331	-
Unrealised foreign exchange losses	(7,969,243)	1,191,635	(6,777,608)
Net deferred tax liability/ (asset)	**8,289,340**	**(9,938,984)**	**(1,649,643)**

	2010 Ushs'000 (Restated)	Movement Ushs'000 (Restated)	2009 Ushs'000 (Restated)
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 losses	(6,777,608)	5,307,176	(1,470,432)
Net deferred tax asset	**(1,649,643)**	**862,171**	**(787,472)**

12. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

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

	2011	2010
Profit/(loss) attributable to shareholders (Ushs'000)	23,009,339	(2,845,863)
Basic and diluted weighted average number of ordinary shares	13,384	13,384
Basic and diluted earnings/(loss) per share (Ushs'000)	1,719	(213)

The basic and diluted weighted average number of ordinary shares as at 31 December 2011 and 31 December 2010 was the same.

13. INTANGIBLE ASSETS

	GoU Support & Assurances Rights Ushs'000	Other Concession Rights Ushs'000	Total Ushs'000
At 1 January 2010	**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**
Additions	-	78,505,467	78,505,467
Disposals	-	(663,039)	(663,039)
At 31 December 2011	**2,457,000**	**282,269,689**	**284,726,689**

Notes to the Financial Statements (continued)

	GoU Support & Assurances Rights Ushs'000	Other Concession Rights Ushs'000	Total Ushs'000
Amortisation			
At 1 January 2010	**(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)**
Charge for the year	(122,850)	(21,416,677)	(21,539,527)
Disposals	-	590,006	590,006
At 31 December 2011	**(819,001)**	**(69,050,889)**	**(69,869,890)**
Net carrying amount			
At 31 December 2011	**1,637,999**	**213,218,800**	**214,856,799**
At 31 December 2010	**1,760,849**	**156,203,043**	**157,963,892**

GoU Support and Assurance Rights

The Support Agreement of the Lease and Assignment Agreement between Government of Uganda (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 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. CONCESSION ARRANGEMENT FINANCIAL ASSET

	2011 Ushs'000	2010 Ushs'000
At 1 January	185,147,206	173,112,340
Financing income for the year	14,543,529	5,972,441
Recoveries - principal	(27,295,095)	(12,471,412)
Recoveries - financing income	(14,543,529)	(15,408,532)
Foreign exchange gain	12,682,520	33,942,369
At 31 December	170,534,631	185,147,206
Maturity analysis of the financial asset:		
Outstanding financial asset	170,534,631	185,147,206
Less: Amount recoverable within one year	(28,566,899)	(24,966,135)
Non-current portion of financial asset	141,967,732	160,181,071
The concession arrangement financial asset is recoverable as analysed below:		
Within one year	28,566,899	24,966,135
Between one and two years	31,033,936	26,963,426
Between two and three years	31,235,975	29,120,500
Between three and four years	7,657,992	29,310,077
Between four and five years	8,270,629	7,185,650
After five years	63,769,200	67,601,418
	170,534,631	185,147,206

Under the Lease and Assignment Agreement ("LAA"), the Company 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. The Company 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, the Company 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

	2011 Ushs'000	2010 Ushs'000
Overhead materials and accessories	9,661,908	7,893,011
Underground cables, materials and accessories	4,252,059	5,306,922
Substation transformers and accessories	4,009,540	3,079,116
Meters, metering equipments and accessories	5,900,948	1,944,372
Moveable plants and vehicle spares	2,508	896
Tools and other equipment	1,129,988	579,954
Stationery	417,565	423,699
Costs incurred on goods-in-transit	2,110,367	1,758,391
	27,484,883	**20,986,361**

16. TRADE AND OTHER RECEIVABLES

	2011 Ushs'000	2010 Ushs'000
Trade receivables	179,082,504	207,543,143
Add: Advance payments by energy customers	23,732,527	10,954,844
	202,815,031	218,497,987
Less: Allowance for impairment	(125,422,935)	(134,563,565)
Net trade receivables	**77,392,096**	**83,934,422**
Prepayments	6,728,225	3,901,011
Amounts held by banks under letters of credit	9,033,402	513,186
Other receivables	1,428,676	2,273,096
VAT claimable	2,058,118	2,198,922
	19,248,421	**8,886,215**
Total trade and other receivables	**96,640,517**	**92,820,637**

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.

The trade receivables include advance payments by customers amounting to Ushs 23.73 billion (2010: Ushs 10.95 billion) which have been reclassified to other payables.

Trade receivables are non-interest bearing and are generally on 14-30 days' terms.

Notes to the Financial Statements (continued)

The movement in the allowance for impairment is as shown below:

	2011 Ushs'000	2010 Ushs'000
At 1 January	134,563,565	144,086,449
Adjustment to the impairment provision on the balance taken over from UEDCL on 1 March 2005	177,058	(12,345,272)
Allowance for impairment for the year	2,981,441	22,951,717
Less: Bad debts written off (see below)	(12,299,129)	(20,129,329)
At 31 December	**125,422,935**	**134,563,565**

Bad debts written off are made up of the following:

Trade receivables taken over from UEDCL	660,594	1,413,050
Trade receivables from Umeme billings	11,638,535	18,716,279
	12,299,129	**20,129,329**

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:

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
2011	179,082,504	27,932,643	2,630,770	12,891,560	10,204,596	125,422,935
2010	207,543,143	42,789,272	1,862,236	16,756,890	11,571,180	134,563,565

17. BANK BALANCES

	2011 Ushs'000	2010 Ushs'000
Bank balances	**49,732,327**	**54,810,419**

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 was required to ring fence and invest the cash and cash equivalents held in respect of customer security deposits. Hence, bank balances representing the carrying amount of the customer security deposits would not be available for use in the Company's operations.

18. ISSUED CAPITAL

	2011	2010
Number of shares	13,384	13,384
Nominal value	US$ 1,000 each converted at 1,708.7763 Ushs/US$	US$ 1,000 each 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

	2011 Ushs'000	2010 Ushs'000
Umeme Holdings Limited	70,962,718	73,619,913
Movement on the account:		
Balance at the beginning of the year	73,619,913	59,762,962
Foreign exchange loss on translation	3,947,426	13,301,151
Accrued interest for the year	8,140,800	7,500,800
Less: Payments during the year (interest)	(14,745,421)	(6,945,000)
	70,962,718	73,619,913
Less: Current portion - Amount due within 1 year	(15,548,714)	(9,376,000)
Non-current portion	55,414,004	64,243,913
The loan is due as follows:		
Due within one year	15,548,714	9,376,000

	2011 Ushs'000	2010 Ushs'000
Due between one and two years	31,623,529	32,990,581
Due between two and three years	9,516,190	8,929,524
Due between three and four years	9,516,190	8,929,524
Due between four and five years	4,758,095	8,929,524
Due after five years	-	4,464,760
	70,962,718	73,619,913

The shareholder's 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 loan is subordinated to the IFC loan. The interest payable on the loan was accrued up to the end of the grace period. Interest of US$ 6.2 million was paid in 2011 (2010: US$ 3 million and 2009: US$ 2 million).

Ushs 37.7 billion (2010: 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 from the date of approval of the financial statements except for interest and principal repayments amounting to Ushs 15.549 billion (2010: Ushs 9.376 billion). The analysis of the total amounts that would have been due within one year from 31 December 2011 and 31 December 2010 is as shown below:

As at 31 December 2011:

	2009 Ushs'000	2010 Ushs'000	2011 Ushs'000	2012 Ushs'000	Total Ushs'000
Pre-concession expenses	1,274,428	-	-	-	1,274,428
Interest due	-	-	3,074,958	-	3,074,958
Principal payments due	4,758,096	9,516,190	9,516,190	9,516,190	33,306,666
	6,032,524	**9,516,190**	**12,591,148**	**9,516,190**	**37,656,052**

As at 31 December 2010:

	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

	2011 Ushs'000	2010 Ushs'000
IFC loan	**57,248,789**	**36,621,956**
Movement on the account		
Balance at the beginning of the year	36,621,956	9,575,000
Additional loan during the year	23,660,000	21,250,000
Foreign exchange loss on translation	2,672,833	4,389,436
Interest charge for the year	3,075,485	2,190,576
Less: Principal repayment during the year	(6,056,648)	-
Less: Interest payment during the year	(2,724,837)	(783,056)
	57,248,789	**36,621,956**
Less: Current portion - amount due within 1 year	(7,288,789)	(7,321,958)
Non-current portion	**49,960,000**	**29,299,998**
The amount due is made up of the following:		
Principal	56,205,000	35,160,000
Interest payable	1,043,789	1,461,956
	57,248,789	**36,621,956**

In 2009, the Company signed a borrowing agreement with IFC worth US$ 25 million. The loan attracts interest of 6 months LIBOR + 5% interest. As at 31 December 2011, the entire loan amount of US$ 25 million (2010: US$ 15 million) had been drawn down. The loan is repayable in twenty semi-annual instalments of US$ 1.25 million commencing on 28 February 2011. The loan is secured by registered debenture, a share pledge agreement and an English law assignment by way of security of the shareholder loan.

21. CONCESSION OBLIGATION

	2011 Ushs'000	2010 Ushs'000
At 1 January	185,147,206	173,112,340
Financing expense for the year	14,543,529	5,972,441
Payment-principal	(27,295,095)	(12,471,412)
Payment-financing cost	(14,543,529)	(15,408,532)
Foreign exchange loss	12,682,520	33,942,369
At 31 December	**170,534,631**	**185,147,206**
		-
Maturity analysis of the concession obligation:		
Outstanding obligation	170,534,631	185,147,206
Less: Due within one year	(28,566,899)	(24,966,135)
Non-current portion of the obligation	**141,967,732**	**160,181,071**

The concession obligation is due as analysed below:

	2011 Ushs'000	2010 Ushs'000
Within one year	28,566,899	24,966,135
Between one and two years	31,033,936	26,963,426
Between two and three years	31,235,975	29,120,500
Between three and four years	7,657,992	29,310,077
Between four and five years	8,270,629	7,185,650
After five years	63,769,200	67,601,418
	170,534,631	**185,147,206**

On 1 March 2005, the Company 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 219 billion (US$ 119 million) using a discounting rate of 8.911%.

22. CUSTOMER SECURITY DEPOSITS

	2011 Ushs'000	2010 Ushs'000
Balance at 1 January	21,322,992	15,208,785
Amount received during the year	7,385,161	6,165,100
Amount refunded during the year	(26,327,045)	(50,893)
Write off of unrecoverable rebates	62,232	-
Balance at 31 December	**2,443,340**	**21,322,992**

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:

	2011 Ushs'000	2010 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

Electricity Regulatory Authority (ERA) issued guidelines that require the Company to ring fence the cash held in respect of customer security deposits from any other funds of the Company. The Company is required to invest the deposits in government securities or approved assets with similar risk profile. The Company shall pay to the customer an interest rate equivalent to the annualised rate on a 360-treasury bill as published by Bank of Uganda. The guidelines were effective from 1 January 2011.

The Company is putting in place measures to comply with the guidelines and has provided for interest payable on the security deposits for the year.

23. DEFERRED CONSTRUCTION INCOME

	2011 Ushs'000	2010 Ushs'000
Balance at 1 January	10,780,264	4,384,869
Amount received	13,698,822	20,986,077
Amount utilised	(8,281,453)	(14,590,682)
Unutilised customer contributions at 31 December	**16,197,633**	**10,780,264**

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.

Notes to the Financial Statements (continued)

24. TRADE AND OTHER PAYABLES

	2011 Ushs'000	2010 Ushs'000
Trade payables	70,772,750	77,135,855
Accrued expenses and other payables	23,222,514	13,104,940
Advance payments by energy customers	23,732,527	10,954,844
	117,727,791	**101,195,639**

Accrued expenses and other payables include Ushs 7.69 billion (2010: Ushs 4.23 billion) relating to the performance bonus for the year as indicated below:

	2011 Ushs'000	2010 Ushs'000
Balance as at 1 January	4,229,913	1,753,200
Accrual for the year	7,498,370	3,007,209
Bonus paid during year	(4,034,754)	(1,817,353)
Reclassification from other accruals	-	1,286,857
Balance as at 31 December	**7,693,529**	**4,229,913**

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

25. LETTERS OF CREDIT

As at 31 December 2011, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited, Stanbic Bank Uganda Limited, Citibank Uganda Limited and Barclays Bank of Uganda Limited. The letters of credit facilitate the purchase and importation of network equipment and related electricity distribution accessories. A total of Ushs 9 billion had been deposited under the letters of credit facilities as at 31 December 2011 (2010: Ushs 0.5 billion) as disclosed under Note 16. The amounts deposited with the banks act as the collateral for the active letters of credit.

26. RELATED PARTIES

The Company's related parties include Umeme Holding Limited and Actis Infrastructure 2 LP. These entities are ultimately controlled by CDC Group Plc. The Company is ultimately controlled by CDC Group Plc through Actis Infrastructure 2 LP which owns Umeme Holding Limited, the holding company of Umeme Limited. The Company is also related to Globeleq Expatriate Services Limited, Globeleq Africa Holdings Limited and DFCU Bank Limited through common shareholding.

Notes to the Financial Statements (continued)

The following transactions were carried out with related parties:

	2011 Ushs'000	2010 Ushs'000
i) Management and secondment services		
Globeleq Expatriate Services Ltd - management fees	2,938,522	2,078,139
ii) Other transactions		
GQ Africa Holdings - recharges	95,863	242,758
GQ-Transactional service fees	143,844	85,882
	239,707	**328,640**
iii) Compensation for key management personnel		
Short-term employee benefits	1,192,289	1,233,041

The above benefits include Directors' emoluments and expenses.

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

	2011 Ushs'000	2010 Ushs'000
i) Amounts due to related parties		
Payable to Globeleq Expatriate Services Ltd	287,506	238,714
Payable to Globeleq Africa Holdings Ltd	1,687	3,755
Payable to Actis - Recharges	77,510	-
	366,703	**242,469**
ii) Amounts due from related parties		
GQ - Mini Generation Project	4,030	4,030
GQ - Distribution Projects	18,428	18,428
	22,458	**22,458**
iii) Bank balances due from related parties		
DFCU Bank Limited	**12,056,301**	**1,823,433**

The bank balance above is a demand deposit and is at the bank's normal commercial terms. All balances due from/to related parties are unsecured. No impairment loss has been recognised on balances due from related parties.

iv) Loans due to related parties:

As disclosed under Note 19.

27. CONTINGENT LIABILITIES

Legal claims

The Company is a defendant in various legal actions arising in the normal course of business. The Directors, after taking appropriate legal advice, have assessed the outcome of such actions and made provisions for likely payouts of Ushs 200 million (2010: Nil). The Company has also been advised by its legal counsel that it is only possible, but not probable, that actions whose estimated cost is Ushs 997 million will succeed. Accordingly, no provision for these liabilities has been made in these financial statements. The Company is defending itself against these actions and therefore it is not practical to state the timing of the payment, if any.

The Company has an insurance policy against litigation with maximum cover of Ushs 1 billion.

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:

	Minimum Rental Payments Ushs'000	Present Value of Payments Ushs'000
As at 31 December 2011:		
After one year	28,566,899	15,531,107
After one year but not more than five years	78,198,532	34,840,563
After five years	63,769,200	17,173,737
	170,534,631	**67,545,407**
Less: Amounts representing finance charges	(102,989,224)	-
Present value of minimum rental payments	**67,545,407**	**67,545,407**
As at 31 December 2010:		
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**

ii) Financing Facilities

The Company has a short-term financing facility with Standard Chartered Bank Uganda Limited of up to US$ 9.5 million for a period of up to 15 September 2012 at an interest rate of the bank's prime lending rate minus 2. The facility is made up of an overdraft facility of US$ 5 million and a trade finance facility of US$ 4.5 million. The facility is secured by a lien of 38% to be placed on the Company's collection accounts for all outstanding amounts under the overdraft facility. By the end of the year, the overdraft 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.

No minimum investment targets have been set for the Company for the subsequent period but the Company is required under the Lease and Assignment Agreement 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. Given the nature of the distribution system, the expected future cost of making such modifications cannot be reliably quantified. The investments made in the distribution system by the Company as at 31 December 2011 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:

i) 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.

ii) 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.

iii) 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).

iv) 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.

v) 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. A buy-out amount (as defined in the agreement) is payable to the Company.

vi) Restructuring agreements, including introduction of an Electricity Sector Stabilisation Period ("ESSP"), were entered into during 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.

vii) Umeme and UEDCL are required to agree on an agent who will be a designated bank and enter into an Escrow Agreement. The parties shall open up both Uganda Shillings 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:

i) 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.

ii) 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 provided that this will not relieve the Company from fulfilling its obligations as defined in the agreement.

Notes to the Financial Statements (continued)

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-Supported Loan and interest thereon 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

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 a 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 trade receivables, trade payables, letters of credit, concession obligation, borrowings (shareholder's loans and IFC loan), cash held with commercial banks and concession arrangement financial asset. The main purpose of these financial instruments is to raise finance for the Company's operations. Trade receivables and trade payables arise directly from the Company's operations. The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. Market risk is comprised of foreign exchange risk and interest rate risk.

Interest Rate Risk

The Company's short-term financial liabilities are interest free. The shareholder's loan has a fixed interest rate and hence presents no interest rate risk. The IFC loan has a variable interest rate. The interest rate risk exposure arising from the IFC loan, assuming an increase/decrease in interest rates by 3% is a decrease/increase in profit before tax and equity of Ushs 92 million (2010: Ushs 58 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 demand bank deposits but these do not present a material interest rate risk exposure to the Company given the very low interest rates offered by the banks for such deposits.

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 and equity would (decrease)/increase by Ushs 7.7 billion (2010: UShs 7.2 billion) were the Ushs:US$ exchange rate to increase/decrease respectively by 5%. This variation in profitability and equity is measured by reference to foreign currency exposures existing at year end. Movements in the foreign exchange rates for GBP, Euro and ZAR (South African Rand) do not have a material impact on the Company's results.

Notes to the Financial Statements (continued)

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2011 and 31 December 2010. The table includes both financial and non-financial instruments and all balances are in thousands of Uganda Shillings.

At 31 December 2011

	US$	GBP	EURO	ZAR	Ushs	TOTAL
Assets						
Intangible assets	-	-	-	-	214,856,799	214,856,799
Conc. arrangement financial asset: Non-current portion	141,967,732	-	-	-	-	141,967,732
Concession arrangement financial asset: Current portion	28,566,899	-	-	-	-	28,566,899
Inventories	-	-	-	-	27,484,884	27,484,884
Trade and other receivables	5,366,703	-	95,437	204,815	90,973,561	96,640,517
Bank balances	17,582,338	-	-	-	32,149,989	49,732,327
Total assets	193,483,672	-	95,437	204,815	365,465,234	559,249,157
Equity and liabilities						
Issued capital	22,870,262	-	-	-	-	22,870,262
Retained earnings	-	-	-	-	84,297,416	84,297,416
Shareholder's loan: Non-current portion	55,414,004	-	-	-	-	55,414,004
IFC loan: Non-current portion	49,960,000	-	-	-	-	49,960,000
Conc. obligation: Non-current portion	141,967,732	-	-	-	-	141,967,732

Notes to the Financial Statements (continued)

	US$	GBP	EURO	ZAR	Ushs	TOTAL
Deferred income tax liability					8,289,340	8,289,340
Shareholder's loan: Current portion	15,548,714	-	-	-	-	15,548,714
IFC loan: Current portion	7,288,789	-	-	-	-	7,288,789
Conc. obligation: Current portion	28,566,899	-	-	-	-	28,566,899
Customer deposits	-	-	-	-	2,443,340	2,443,340
Deferred construction income	-	-	-	-	16,197,633	16,197,633
Trade and other payables	25,935,574	271,455	2,539,650	318,000	88,663,112	117,727,791
Current tax payable	-	-	-	-	8,677,237	8,677,237
Total equity and liabilities	**347,551,973**	**271,455**	**2,539,650**	**318,000**	**208,568,078**	**559,249,157**
Overall open	**(154,068,301)**	**(271,455)**	**(2,444,213)**	**(113,185)**	**156,897,154**	**-**

At 31 December 2010

	US$	GBP	EURO	Ushs	TOTAL
Assets					
Intangible assets	-	-	-	157,963,892	157,963,892
Concession arrangement financial asset: Non-current portion	160,181,071	-	-	-	160,181,071
Deferred income tax asset	-	-	-	1,649,643	1,649,643
Concession arrangement 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

Notes to the Financial Statements (continued)

	US$	GBP	EURO	Ushs	TOTAL
Bank balances	3,289,187	-	-	51,521,232	54,810,419
Total assets	188,436,393	-	-	324,941,764	513,378,157
Equity and liabilities					
Issued capital	22,870,262	-	-	-	22,870,262
Retained earnings	-	-	-	61,288,077	61,288,077
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**	**177,452,100**	**513,378,158**
Overall open position	**(143,809,694)**	**(1,272,541)**	**(2,407,430)**	**147,489,665**	**-**

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 Board of Directors. 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 contract parties.

There are no significant concentrations of credit risk within the Company. The maximum exposure arising from trade receivables is the carrying amount as disclosed in Note 16 less amounts receivable from GoU institutions and customer security deposits as follows:

	2011 Ushs'000	2010 Ushs'000
Carrying amount (Note 16)	96,640,517	92,820,637
Less: Amounts receivable from GoU bodies	(12,140,049)	(12,870,341)
Customer security deposits (Note 22)	(2,443,340)	(21,322,992)
Maximum exposure	**82,057,128**	**58,627,304**

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.

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 concession arrangement financial asset) 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, equity and cash collections from customers. 43% of the Company's debt will mature in less than one year at 31 December 2011 (2010: 41%) based on the carrying value of the liabilities reflected in the financial statements.

Notes to the Financial Statements (continued)

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

At 31 December 2011	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				214,856,799	214,856,799
Concession arrangement financial asset: Non-current portion	-	-	-	141,967,732	141,967,732
Concession arrangement financial asset: Current portion	2,111,829	4,223,659	22,231,410	-	28,566,898
Inventories	5,422,684	10,845,368	11,216,832	-	27,484,884
Trade and other receivables	73,544,363	23,096,154	-	-	96,640,517
Bank balances	49,732,327	-	-	-	49,732,327
Total assets	**130,811,202**	**38,165,182**	**33,448,242**	**356,824,531**	**559,249,157**
Equity and liabilities					
Issued capital	-	-	-	22,870,262	22,870,262
Retained earnings	-	-	-	84,297,416	84,297,416
Shareholder's loan: Non-current portion	-	-	-	55,414,004	55,414,004
IFC loan: Non-current portion	-	-	-	49,960,000	49,960,000

Notes to the Financial Statements (continued)

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
Concession obligation: Non-current portion	-	-	-	141,967,732	141,967,732
Deferred income tax liability	-	-	-	8,289,340	8,289,340
Shareholder's loan: Current portion	-	-	15,548,714	-	15,548,714
IFC loan: Current portion	-	3,111,250	4,177,539	-	7,288,789
Concession obligation: Current portion	2,486,925	7,557,189	18,522,785	-	28,566,899
Customer security deposits	-	2,443,340	-	-	2,443,340
Deferred construction income	5,399,210	10,798,423	-	-	16,197,633
Trade and other payables	117,727,791	-	-	-	117,727,791
Current tax payable	-	-	8,677,237	-	8,677,237
Total equity and liabilities	125,613,926	23,910,202	46,926,275	362,798,754	559,249,157
Overall open position	**5,197,277**	**14,254,979**	**(13,478,033)**	**(5,974,223)**	**-**

Notes to the Financial Statements (continued)

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	-	-	-	157,963,892	157,963,892
Concession arrangement financial asset: Non-current portion	-	-	-	160,181,071	160,181,071
Deferred income tax asset	-	-	1,649,643	-	1,649,643
Concession arrangement 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	**103,585,876**	**62,003,736**	**29,643,582**	**318,144,963**	**513,378,157**
Equity and liabilities					
Issued capital	-	-	-	22,870,262	22,870,262
Retained earnings	-	-	-	61,288,077	61,288,077
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

Notes to the Financial Statements (continued)

	Up to 1 Month Ushs'000	1 - 3 Months Ushs'000	3 - 12 Months Ushs'000	Over 1 year Ushs'000	Total Ushs'000
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**	**337,883,321**	**513,378,158**
Overall open position	**(3,048,824)**	**46,733,654**	**(23,946,473)**	**(19,738,358)**	**-**

Notes to the Financial Statements (continued)

Fair Value

There are no material differences between the fair values and the carrying amounts of the Company's financial assets and liabilities. The Company did not hold any financial assets or liabilities measured at fair value at the 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, offer shares to the public 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 2011 and 31 December 2010.

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 2011 was 77% (2010: 80%) as shown in the table below:

	Note	2011 Ushs'000	2010 Ushs'000
Shareholder's loan	19	70,962,718	73,619,913
IFC loan	20	57,248,789	36,621,956
Concession obligation	21	170,534,631	185,147,206
Trade and other payables	24	117,727,791	101,195,639
Less: Cash and cash equivalents	17	(49,732,327)	(54,810,419)
Net debt		366,741,602	341,774,295

	Note	2011 Ushs'000	2010 Ushs'000
Issued capital	18	22,870,262	22,870,262
Retained earnings		84,297,416	61,288,077
Total capital		107,167,678	84,158,339
Net debt and capital		473,909,280	425,932,634
Gearing ratio		77%	80%

31. EMPLOYEES

The number of employees as at 31 December 2011 was 1,213 (2010: 1,145).

32. EVENTS AFTER THE REPORTING DATE

Refer to Note 1 to the financial statements and Note 7 to the Directors' report regarding the regulatory events subsequent to the reporting date. There are no other 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 was obliged to invest the following amounts in the distribution system 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. No minimum investment targets have been set for the Company for the subsequent period.

As at 31 December 2011, Ushs 279 billion (equivalent to US$ 134 million) had been invested in the distribution system as shown below (exclusive of customer funded assets and World Bank funded materials):

34. MINIMUM INVESTMENT REQUIREMENTS (CONTINUED)

a. Umeme funded investments

	2005-2007 Ushs'000	2008 Ushs'000	2009 Ushs'000	2010 Ushs'000	2011 Ushs'000	Total Ushs'000
In Uganda Shillings						
Substations, low voltage lines and services	34,185,578	26,750,409	41,382,454	44,762,177	73,141,273	**220,221,891**
Land and buildings	433,304	2,657,909	1,191,003	1,727,435	383,834	**6,393,485**
Furniture and fittings, tools and office equipment	3,086,197	1,954,894	2,194,575	1,057,774	1,133,891	**9,427,331**
Computers, communication and MIS	3,745,961	12,191,909	5,731,660	1,208,637	1,581,122	**24,459,289**
Motor vehicles	8,379,379	2,575,677	3,587,001	2,069,868	2,265,347	**18,877,272**
Total investments	**49,830,419**	**46,130,798**	**54,086,693**	**50,825,891**	**78,505,467**	**279,379,268**
Represented by:						
Capitalised	42,497,797	44,634,305	60,871,508	40,588,824	68,458,889	**257,051,323**
Capital work-in-progress (CWIP)	7,332,622	1,496,493	(6,784,815)	10,237,067	10,046,578	**22,327,945**
	49,830,419	**46,130,798**	**54,086,693**	**50,825,891**	**78,505,467**	**279,379,268**
In US Dollars						
Foreign exchange rate - Ushs:US$	1,731	1,967	1,915	2,344	2,498	
Total investment: US$'000 equivalent	**$28,790**	**$23,452**	**$28,244**	**$21,683**	**$31,427**	**$133,597**

Notes to the Financial Statements (continued)

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

	2005-2007 US$	2008 US$	2009 US$	2010 US$	2011 US$	Total US$
Receipts	11,749,123	15,349	-	-	-	11,764,472
Issue/usage	(8,357,884)	(2,533,352)	(155,850)	(71,378)	(80,801)	(11,199,265)
	3,391,239	**(2,518,003)**	**(155,850)**	**(71,378)**	**(80,801)**	**565,207**

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

Notes to the Financial Statements (continued)

35. CONCESSIONED ASSETS SUMMARY

The concession agreements give the Company rights and obligations to use and make necessary modification to the distributions 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 2011	Substations, Low Voltage Lines & Services Ushs'000	Land & Buildings Ushs'000	Furniture & Fittings, Tools & Office Equip Ushs'000	Computers, Comm. Equip't & MIS Ushs'000	Motor Vehicles Ushs'000	CWIP Ushs'000	Total Ushs'000
At 1 January 2011, net of accumulated depreciation and impairment	194,654,970	9,334,388	2,744,539	10,849,487	5,502,067	12,281,367	**235,366,818**
Additions	-	383,834	1,133,891	1,581,122	2,265,346	73,141,274	**78,505,467**
Transfer from capital work-in-progress	63,094,695	-	-	-	-	(63,094,695)	**-**
Depreciation charge for the year	(23,588,225)	(651,782)	(1,493,158)	(7,570,937)	(3,042,159)	-	**(36,346,261)**
At 31 December 2011, net of accumulated depreciation and impairment	**234,161,440**	**9,066,440**	**2,385,272**	**4,859,672**	**4,721,210**	**22,327,946**	**277,521,980**
At 31 December 2011							
Cost	373,043,057	12,499,163	11,224,129	30,522,243	19,723,111	22,327,946	469,339,649
Accumulated depreciation	(138,871,660)	(3,432,723)	(8,838,857)	(25,662,571)	(15,001,901)	-	(191,807,712)
Net Carrying Amount	**234,171,397**	**9,066,440**	**2,385,272**	**4,859,672**	**4,721,210**	**22,327,946**	**277,531,937**
At 1 January 2011							
Cost	309,948,362	12,115,329	10,090,238	28,941,121	17,461,809	12,281,367	390,838,226
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**	**,849,487**	**5,502,067**	**12,281,367**	**235,366,818**

35. CONCESSIONED ASSETS SUMMARY (CONTINUED)

As at 31st December 2010	Substations, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Computers, Comm. Equip't & MIS	Motor Vehicles	CWIP	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	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	2,044,299	219,008,703
Additions	-	1,727,435	1,057,774	908,431	2,069,968	45,062,283	50,825,891
Transfer from capital work-in-progress	34,825,215	-	-	-	-	(34,825,215)	-
Depreciation charge for the year	(21,379,186)	(511,495)	(1,537,749)	(7,930,391)	(3,108,955)	-	(34,467,776)
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**	**12,281,367**	**235,366,818**
At 31 December 2010							
Cost	309,948,361	12,115,329	10,090,238	28,941,121	17,461,809	12,281,367	390,838,225
Accumulated depreciation	(115,293,391)	(2,780,941)	(7,345,699)	(18,091,634)	(11,959,742)	-	(155,471,407)
Net Carrying Amount	**194,654,970**	**9,334,388**	**2,744,539**	**10,849,487**	**5,502,067**	**12,281,367**	**235,366,818**
At 1 January 2010							
Cost	275,123,146	10,387,894	9,032,464	28,032,690	15,391,941	2,044,299	340,012,434
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**	**2,044,299**	**219,008,703**

Notes to the Financial Statements (continued)

36. CONCESSIONED ASSETS-SUMMARY OF UMEME INVESTMENTS

	Substations, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Computers, Comm. Equip't & MIS	Motor Vehicles	CWIP	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
At 31 December 2009	**98,692,176**	**4,291,219**	**6,990,162**	**26,809,634**	**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**	**,018,654**	**8,047,936**	**27,718,065**	**16,843,848**	**12,281,367**	**204,427,261**
Additions	-	383,834	1,133,891	1,581,121	2,265,347	73,141,274	78,505,467
Transfer from CWIP	63,094,695	-	-	-	-	(63,094,695)	-
Disposals	(122,579)	-	-	(27,846)	(512,614)	-	(663,039)
At 31 December 2011	**196,489,507**	**6,402,488**	**9,181,827**	**29,271,340**	**18,596,581**	**22,327,946**	**282,269,689**
Depreciation							
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**
Charge for the year	9,019,576	290,847	1,493,158	7,570,937	3,042,159	-	**21,416,677**
Disposals	(122,579)	-	-	(27,846)	(439,581)	-	**(590,006)**
At 31 December 2011	**23,204,313**	**794,488**	**8,536,738**	**22,905,294**	**13,610,056**	**-**	**69,050,890**
Net Carrying Amount							
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**
As at 31 December 2011	**173,285,194**	**5,608,000**	**645,089**	**6,366,046**	**4,986,525**	**22,327,946**	**213,218,800**

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.

	Ushs'000	Ushs'000
Cost		
At 1 January	46,315,278	31,724,596
Additions	8,281,453	14,590,682
At 31 December	54,596,731	46,315,278
Depreciation		
At 1 January	(4,707,756)	(2,702,467)
Depreciation charge for the year	(2,411,620)	(2,005,289)
At 31 December	(7,119,376)	(4,707,756)
Net Carrying Amount	**47,477,355**	**41,607,522**

38. PRIOR YEAR ADJUSTMENT

In 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 in 2010, it was 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. Based on this, the Company started accounting for the consideration for the rental liability as a financial asset since the amount is effectively guaranteed.

Unrealised foreign exchange losses on the concession obligation had been recognised in the prior years and considered to be temporary differences for deferred tax purposes. Following the changes in accounting treatment

Notes to the Financial Statements (continued)

as explained above, the concession obligation is matched by the 'concession arrangement financial asset'. As such, the unrealised foreign exchange losses on the concession obligation are matched by the foreign exchange gains on the 'concession arrangement financial asset'. The impact of this on the Company's deferred income tax was not adjusted for in 2010 as part of the restatements arising from the changes in accounting treatment.

The prior year financial statements have hence been restated as shown below to derecognise the deductible temporary differences arising from the unrealised foreign exchange losses on the concession obligation.

	2010 As previously stated Ushs'000	Adjustment Ushs'000	2010 Restated Ushs'000
Income statement			
Income tax credit/(expense) for the year	637,723	(9,834,651)	(9,196,928)
Profit/(loss) for year	6,988,788	(9,834,651)	(2,845,863)
Statement of financial position			
Deferred income tax asset	16,043,509	(14,393,866)	1,649,643
Retained earnings	75,681,942	(14,393,865)	61,288,077

	2009 As previously stated Ushs'000	Adjustment Ushs'000	2009 Restated Ushs'000
Deferred income tax asset	5,346,687	(4,559,215)	787,472
Retained earnings	68,693,154	(4,559,214)	64,133,940

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

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