Annual Report 2012

POWERING UGANDA

Umeme Ltd's first trading on the Uganda Securities Exchange (USE)

1. Uganda's Vice President H.E. Edward Ssekandi gives a speech at the Kampala Sheraton Hotel for the listing on the USE on the 30 November 2012.
2. Uganda's Vice President H.E. Edward Ssekandi rings the bell at the start of the Umeme trading.

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Shared Purpose

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:

- Ensuring a high degree of customer satisfaction
- Supporting and continuously developing employees
- Conducting our work with integrity founded on honesty and ethical behaviour
- Allowing safety to govern all our actions
- Respecting the environment

Directors of Umeme Ltd. (L-R):

PATRICK BITATURE | YOUNES MAAMAR | IAN FRANCIS | CHARLES CHAPMAN | STUART DAVID MICHAEL GRYLLS | ADRIAN MUCALOV

1. Corporate Profile

Umeme Ltd ("Umeme", "the Company") took over the distribution system for the distribution and supply of electricity in Uganda from Uganda Electricity Distribution Company Limited (UEDCL) under the Concession for a period of 20 years, commencing 1 March 2005.

Under the Concession, Umeme is also required to repair, upgrade, and expand the Distribution System within Uganda and such contiguous areas as Umeme and Electricity Regulatory Authority (ERA) may agree.

Through the Concession, Umeme operates as the primary electricity distribution company in Uganda, responsible for distributing electricity to Ugandan residents and commercial entities. UEDCL owns the Distribution Network that has been leased to Umeme under the Privatisation Agreements. Umeme purchases electricity from Uganda Electricity Transmission Company Limited (UETCL), which owns and operates the high voltage transmissions network of up to 132kV. UETCL purchases electricity from several sources. The primary source is Uganda Electricity Generation Company Limited (UEGCL), which owns the Nalubaale and Kiira hydropower generation stations and equipment in Jinja that are concessioned to Eskom (U). Sithe Global Power and Industrial Promotion Services Kenya which operate the Bujagali hydroelectric power plant are now the second key supplier in the country. Additional sources include: Jacobsen Elektro AS, which owns and operates a plant at Namanve; Electro-Maxx, which owns and operates a heavy fuel oil plant in Tororo; TrønderEnergi, which operates hydropower generation stations at Bugoye and Ishasha; and other smaller IPPs.

The management of the Distribution System in Uganda requires Umeme to maintain and operate the Distribution Network; to collect revenues from customers based on the prevailing tariff set by the ERA in accordance with the Licences and the Privatisation Agreements; to make investments in maintenance of the assets forming the Distribution Network; and to return control of the distribution assets, including new investments, to UEDCL at the end of the Concession.

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

a) Electricity distribution that involves the operation, maintenance, upgrading and expansion of the Distribution Network within Uganda. The Distribution Network consists of approximately 25,000 kilometres of medium- and low-voltage lines covering all major hubs in the country and concentrated in the southeast of Uganda; and

b) Electricity supply and after sales service, which include;

- connection of new customers to the grid
- meter reading, billing and revenue collections
- customer complaints resolution
- restoration of power after interruptions
- general customer care including provision of information on services
- customer sensitization on energy efficiency, energy losses and safety
- Marketing of available power to customers

Our commitment to the environment guides us to continually strive to work with our local suppliers who share our vision and exhibit leadership in sustainable environmental management in their business practices.

One of Umeme's leading pole supplier in Uganda

(L-R) Eng. Paul Mubiru of the Ministry of Energy & Mineral Development, the Energy minister Hon. Eng. Irene Muloni and Mr. Sam Zimbe, GM of Umeme Ltd. at the opening of 2012 Energy Conference at Kampala Sheraton Hotel

Key shareholder information

As at 1 January 2012 Umeme was wholly owned and controlled by Umeme Holdings Limited. Umeme Holdings Limited is fully owned by Actis Infrastructure Umeme Limited which is 97.77% held by Actis Infrastructure 2 LP, a fund managed by Actis LLP.

On 28 June 2012, Umeme was converted into a public company under the Companies Act. Umeme Holdings Limited sold 39.92% of its holding to the public through an Initial Public Offering and listing on the Uganda Securities Exchange (USE) and a cross listing on the Nairobi Securities Exchange (NSE). The Umeme shares were listed on the Uganda Securities Exchange on 30 November 2012 and subsequently cross listed on the Nairobi Securities Exchange, by introduction, on 14 December 2012.

Actis LLP is a leading private equity manager of investment funds specializing in emerging markets, with investments in Africa, Asia and Latin America. Actis LLP has specialist teams dedicated to private equity, energy and real estate and has a track record in building capital growth across its sectors and markets. Actis has over 105 investment professionals managing funds of US$ 5 billion and a portfolio of 65 investments on behalf of 130 institutional investors. CDC Group is the largest investor in Actis Infrastructure 2 LP and, as such, continues as an indirect investor in the Company.

As at 31st December 2012, Umeme Holdings Limited held 60.08% of the Company's issued share capital.

Administrative structure

The countrywide operations are divided, for administrative purposes into, the following six regions under the supervision of Regional Managers: Kampala Central, Kampala East, Kampala South, Eastern, Northern and Western. These regions are further subdivided into 25 districts under the supervision of a District Manager reporting to the Regional Manager. The company delivers its strategic business objectives through the devolved district structure.

UMEME


Kitgum
Gulu
Lira
Masindi
Soroti
Hoima
Bombo
Mbale
Tororo
Mityana
Iganga
Fort Portal
Kampala
Jinja
Kasese
Entebbe
Masaka
Bushenyi
Mbarara
Kabale
Kisoro

Umeme Contacts in Your Area

Kampala Central Region

Regional Office
Plot 22B Lumumba Avenue
0312 360 609

Natete District
Plot 617 Gamba Plaza
0312 360 725

Nakulabye District
Plot 419 Kibuga, Mengo
0312 360 730

Wandegeya District
Plot 1064 & 956, Bombo Road
0312 360 643

Kampala Metro District
Plot 5 Pilkington Road
0392 961 259, 0312 360 605

Kampala East Region

Regional Office
Plot 1-2 Enterprise Close
0312 360 379

Kitintale District
Plot 243 Luzira-Kitintale
0312 360 707

Banda District
Plot 1-2 Enterprise Close
0312 360 702

Mukono District
Plot 98-102 Kampala Road
0392 948 109, 0312 360 797

Kampala South Region

Regional Office
Plot 1207 Gaba Road, Nsambya
0312 360 679

Kabalagala District
Plot 1207 Gaba Road, Nsambya
0312 360 633

Najjanankumbi District
2nd Floor, Freedom City Mall,
Namasuba, Entebbe Road
0312 360 732

Entebbe District
Plot 26 FRV 369 Folio 22
0312 360 755

Eastern Region

Regional Office
Plot 26 Kampala Rd
Plot 14/16 Oboja Road
FRV 201 F2, Jinja
0312 360 676

Mbale District
Plot 42 Cathedral Avenue
0312 360 355

Iganga District
Plot 109 Old Market Street
0312 360 325

Tororo District
1A & 1B Bazaar Street
0454 445 162/160

Jinja District
Plot 26 Kampala Rd
Plot 14/16 Oboja Road
FRV 201 F2
0312 360 311

Northern Region

Regional Office
Plot 1 Maruzi Road, Lira
0312 360 235

Bombo District
Plot 12 Kalangala Road, Bombo
0312 360 672

Lira District
Plot 1 Maruzi Road
0312 360 234

Hoima District
Plot 10 Main Street
0312 360 210

Gulu District
Plot 28 Gulu Street
0312 360 778

Western Region

Regional Office
Plot 19 High Street, Mbarara
0312 360 463/470, 048 520 310

Mbarara District
Plot 19 High Street
0312 360 463/470
048 520 310

Fort Portal District
Plot 31 Magambo Street
0312 360 743

Bushenyi District
Plot 76 Rwabutongo Cell

Masaka District
Plot 30 Kampala Road
0312 360 450

Kabale District
Plot 127 Kabale Rd
LRV 544 Folio 8
0486 422 075 / 0486 423 673

Kasese District
Plot 39 Block 425 Margarita Road

Mityana District
Plot 39 Mityana Road
0464 444 2010

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

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

Corporate Information

Principal place of business and Registered address

Umeme Limited
Rwenzori House, Plot 1 Lumumba Avenue
P. O. Box 23841, Kampala, Uganda
Tel: 0312 360 600
Email: info@umeme.co.ug, www.umeme.co.ug

Company Secretary

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

Auditors

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

Share Registrars

Custody and Registrar Services Uganda Ltd.
12th Floor DTB Centre
Kampala Road
Kampala, Uganda
www.crsltd.co.ke

Main Bankers

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

Stanbic Bank Uganda Limited
Corporate Branch, Crested Towers
P. O. Box 7131, Kampala, Uganda

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

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

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

2. Financial and Operational Highlights

Financial Statistics

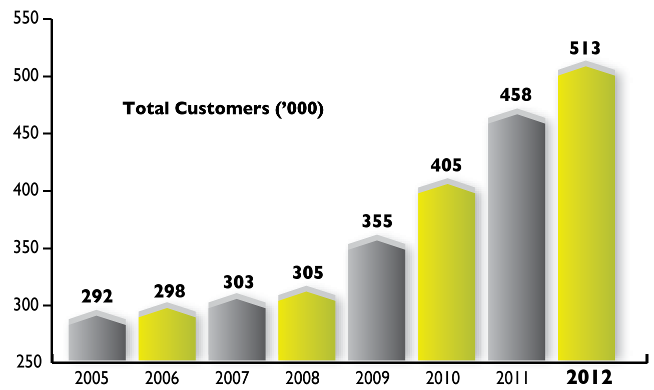
	2012 Ushs million	2011 Ushs million
For the Year		
Revenue	859,552	457,063
Gross Profit	235,317	186,434
Operating Profit	93,975	76,116
Profit before tax	60,921	44,616
Profit for the year	57,110	23,009
Capital Investments	98,073	68,519
At Year-End		
Total Assets	755,933	559,249
Shareholder's Equity	239,447	107,167
Outstanding interest bearing debt	54,861	128,212
Cash Flow Data		
Cash Flows from operating activities	106,696	57,669
Net cash flows used in investing activities	(97,908)	(82,793)
Net cash flows (used in) / from financing activities	(9,106)	17,603
Per Share		
Basic and Diluted Earnings Per Share	42	17
Proposed Dividend per Share	15	-

Operating and Other Statistics

	2012	2011
Electric Energy sold during the year (GWh)	1,937	1,735
Electric Energy purchased during the year (GWh)	2,622	2,387
Energy losses (percentage)	26.1%	27.3%
Revenue collections rate (percentage)	94.0%	98.9%
Total length of distribution lines (km)	11,109	8,897
Total length of low voltage lines (km)	14,908	10,477
Total distribution transformers at the end of year	7,509	6,496
Number of pending service applications	1,398	1,544
Number of new consumers connected (net of disconnections)	55,690	52,349
Total number of consumers	513,498	457,808
Total number of company employees	1,384	1,213
Exchange Rate: US Dollar to Uganda Shilling (at year end)	2,691	2,498
Exchange Rate: US Dollar to Uganda Shilling (average for the year)	2,517	2,529

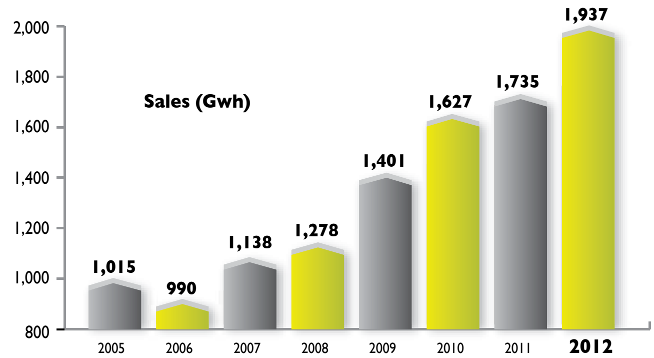
Financial and Operational Charts

Customer growth



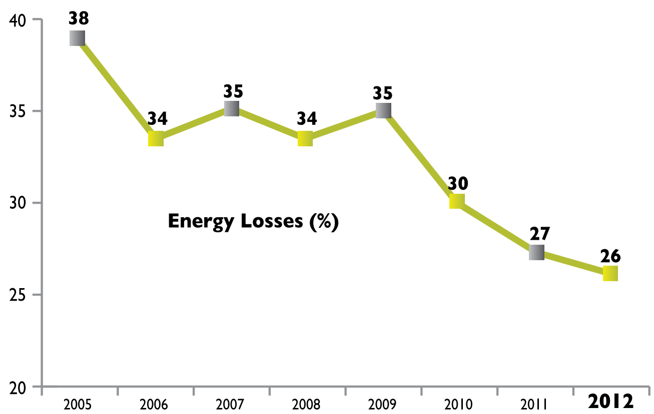
- Total customers now exceeds 513,000
- 55,000 new connections equivalent to 12% growth in 2012
- 17,000 prepayment meters installed to date
- The new connection process was simplified. Average connection times reduced to 7 days from 14 in 2010
- In 2012 we launched Touchpay, a multi faceted payment solution to improve convenience for our customers

Increasing sales



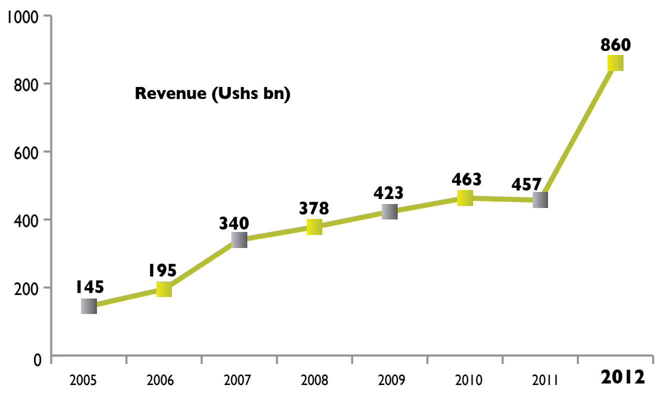
- Electricity units sold (Gwh) increased by 12% in 2012. The commissioning of Bujagali hydroelectric power plant (250 MW) moved the country from a power rationing environment

Energy loss reduction



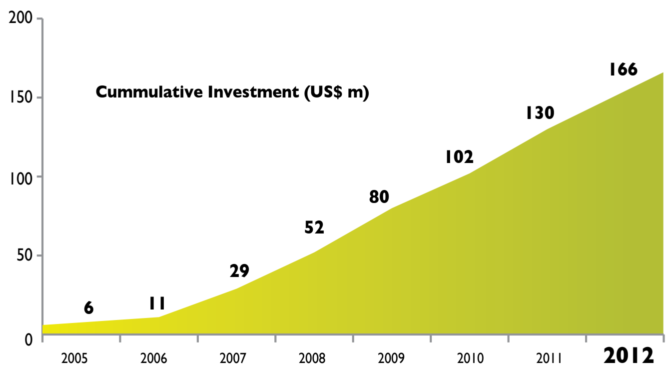
- Energy losses reduced from 27.3% to 26.1% in 2012. The implementation of the loss reduction strategy continues to deliver the intended results. The initiatives implemented include:
  - o Investment in the networks to address technical losses
  - o Automated Meter Reading system for industrial consumers
  - o Prepayment meters for domestics consumers
  - o Improvement in the revenue management cycle
  - o Patrols and public sensitization

Sector revenue growth



- Total revenues grew by 88% in 2012. This is attributed to:
  - Increase in end user tariffs by an average of 52% on 15th January 2012, primarily due to removal of sector subsidies
  - Increased supply
  - Reduction in energy losses
  - Increase in customer base
- 72% of sales revenues are to government, commercial and industrial consumers, while 28% are to domestic consumers
- Although total collections significantly increased, the tariff adjustment caused a drop in the collection rate from 98.9% to 94.0%

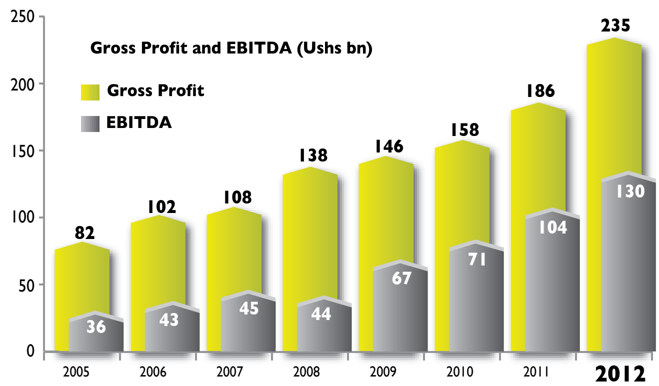
Investment in the distribution system



- In 2012, US$36m was invested in capital assets taking the total cumulative investment to US$166m and the undepreciated asset base to US$127m.

  The projects completed include:
  - Pre-Payment Metering
  - SCADA
  - Lira – Gulu Feeder refurbishment
  - Lira – Apac – Masindi line refurbishment
  - Jinja – Kamuli line refurbishment
- 80% of cummulative investments have been invested in the network and sub-stations

Profitability



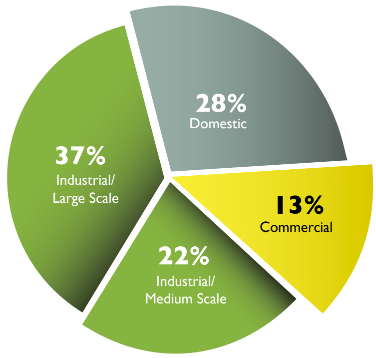
- In 2012, gross profit grew to Ushs 235bn (US$93m)
- EBITDA *(operating profit before amortisation adjusted for foreign exchange losses)* grew to Ushs 130bn (US$52m), an increase of 25%
- The drivers of the increased profitability were:
  - Additional capital investments
  - Growth in sales units
  - Strong performance against regulatory targets
  - Full recovery of direct operating and maintenance costs

Operational Statistics

Revenue

Revenue (Ushs bn)

	2012	2011	Growth
Electricity Sales			
Domestic	235	147	60%
Commercial	111	77	44%
Industrial - Medium Scale	180	101	78%
Industrial - Large Scale	307	165	86%
Street Lighting	1	1	23%
Sub-Total	**834**	**491**	**70%**
Other revenue/lease recovery	25	-34	
Total	**860**	**457**	**88%**

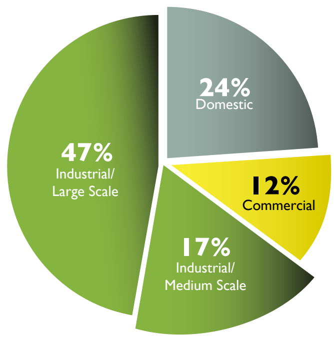


Revenue breakdown (2012)

Sales of Electricity in GWh

Sales breakdown (Gwh)

	2012	2011	Growth
Domestic	455	397	15%
Commercial	230	214	8%
Industrial - Medium Scale	338	286	18%
Industrial - Large Scale	913	836	9%
Street Lighting	1	1	-7%
Total	**1,937**	**1,735**	**12%**

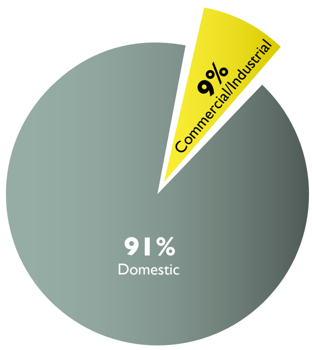


Sales breakdown (2012)

Number of Customers

Customer numbers breakdown

	2012	2011	Growth
Domestic	468,461	419,025	12%
Commercial	42,355	36,438	16%
Industrial - Medium Scale	1,946	1,653	18%
Industrial - Large Scale	367	365	1%
Street Lighting	369	327	13%
Total	**513,498**	**457,808**	**12%**



Customer breakdown (2012)

3. Analysis of the Financial Results

3.1 Revenue

Revenues increased to Ushs. 860 billion in 2012 compared to Ushs 457 billion in 2011, (reflecting 88% growth) due increase in retail tariffs by an average of 52% and 12% increase in electricity units sold. Retail tariffs were increased to enable full recovery of electricity sector costs, as the Government of Uganda withdrew subsidies to the sector.

The increase in units sold is attributed to the commissioning of Bujagali hydroelectric power plant (250 MW) that eliminated power supply deficits and increased electricity supply by 10% during the year. In addition, the Company reduced the amount of distribution energy losses from 27.3% recorded in 2011 to 26.1% in 2012.

3.2 Gross Profit

The Company's gross profit increased by 26% from Ushs 186 billion in 2011 to Ushs 235 billion in 2012. The main drivers for this increase were: the 2011 capital investments that were recognized in the 2012 tariffs; 12% increase in electricity units sold and an inflation adjustment of Umeme's operating costs.

3.3 Operating Profits

Operating Profits increased by 23% to Ushs 94 billion for the year ended 31 December 2012, compared to 2011 (Ushs 76 billion). In 2012 the Company's operating expenses increased by 10% from Ushs 114 billion to Ushs 126 billion.

Annualized inflation for the year 2012 was 14% (Source: Bank of Uganda).

For the year ended 31 December 2012, network repairs and maintenance costs increased by 8%, administration costs by 11% and other expenses increased by 7%, compared to 2011 out turn. Other than inflation, the business costs expanded with number of customers increasing by 12% over the same period.

3.4 Profit Before Tax

Profit before tax increased from Ushs 44.6 billion for the year ended 31 December 2011 to Ushs 60.9 in 2012, an increase of 37%.

3.5 Income Taxes

Corporation tax charge for the period reduced to Ushs 3.8 billion from Ushs 21.6 billion charged in 2011. As explained under Note 11 in the financial statements, the change in tax treatment of the Umeme Concession from Finance to Operating lease, reversed Ushs 14.9 billion of deferred tax charged in the prior periods.

During the year, the company paid corporation tax of Ushs 12 billion to Uganda Revenue Authority.

3.6 Profit After Tax

Profit for the year ended 31 December 2012 was Ushs 57 billion (2011: Ushs 23 billion). The increase in profits is explained by improved performance in operating profits and lower income tax charge for the year.

3.7 Balance Sheet Analysis

Total assets as of 31 December 2012 were Ushs 756 billion compared to Ushs 559 billion in 2011. Shareholder Equity increased from Ushs 107 billion in 2011 to Ushs 239 billion in 2012. The increase is attributed to the profit for the period (Ushs. 57 billion) and new subscription shares (including share grant to staff) issued during the Initial Public Offering of the Company.

Outstanding interest bearing debt reduced to Ushs 54.8 billion in 2012 from Ushs 128.2 billion in 2011, as the entire shareholder loan of Ushs 74.6 billion was repaid using IPO proceeds.

3.8 Cash Flows Analysis

In the year ended 31 December 2012, the company generated Ushs 106.7 billion from operations (2011: Ushs 57.7 billion), of which Ushs 98 billion was used to fund the 2012 capital investments (2011: Ushs 68.5 billion) and the remainder was used to settle financing and tax obligations.

The net cash available relatively reduced by Ushs 0.3 billion when compared to the balance of Ushs 47.3 billion as of 31 December 2011.

4. The Board of Directors

Patrick Bitature

Mr. Bitature has been the chairman of the Board since September 2007. Mr. Bitature is the founder, Chairman and CEO of Simba Group of Companies, a conglomerate spanning telecoms, properties, power generation (Electro-Maxx), agro-business, mining, tourism and media interests. Mr. Bitature is the chairman of the Uganda Investment Authority, member of the Presidential Investors Round Table and is Honorary Consul, Australian Consulate in Uganda.

Mr. Bitature is a member of the Institute of Chartered Secretaries and Administrators, UK.

Charles Chapman

Mr. Chapman joined Umeme in 2009 as Chief Operating Officer and was appointed as Managing Director in the same year. Mr. Chapman has been on the Board since May 2009. Prior to joining Umeme, Mr. Chapman worked for Ireland's leading utility, Electricity Supply Board, as the head of Customer Supply. Mr. Chapman has extensive international experience in previous roles as managing director of Toyota Hellas, regional director of Inchcape plc, Middle East and previously working for Boots Company plc and GlaxoSmithKline plc.

Mr. Chapman is a BSc (Management) honours graduate of Trinity College, Dublin.

Stuart David Michael Grylls

Mr. Grylls joined Actis LLP in 2007 and is currently Actis LLP's investment partner for Umeme. Mr. Grylls has been on the Board since 2007. Before joining Actis LLP, Mr. Grylls worked at Globeleq Ltd (an Actis Infrastructure 2 LP investee company) for five years, where he was responsible for business development, mainly in Africa. Previously, Mr. Grylls was the managing director of Midlands Power International, and prior thereto, he worked at Covanta, Mission Energy and BP.

Mr. Grylls is a chartered engineer and holds a Master of Business Administration from Kingston University and a Bachelor of Science (Honours) from Bath University.

Ian Francis

Mr. Francis joined the Board in December 2009. Mr. Francis was previously a senior audit partner at Ernst & Young LLP in London. He is a non-executive director and audit committee chairman of Optimal Payments Plc. as well as a member of the Institute of Chartered Accountants in England & Wales and the Institute of Chartered Accountants of New Zealand.

Mr. Francis holds a Bachelor of Business Studies from Massey University in New Zealand.

Younes Maamar

Mr. Maamar has been on the Board since July 2009. Mr. Maamar's experience in power utilities operations, financing and equity investments in relation to energy and infrastructure assets began in 1996 with the World Bank Group and the IFC, before joining the AES Corporation in 2001 as project director. In 2006 Mr. Maamar was appointed as chief executive officer of the Office National de l'Electricité (the Moroccan Integrated Power Utility). Mr. Maamar holds board directorship positions in various energy companies, such as eONE, Morocco-based energy developer focusing on power projects in emerging markets and Silicon CPV, photovoltaic manufacturing.

Mr. Maamar is an Electrical Engineer and holder a Post Master Degree in Economics.

Adrian Mucalov

Mr. Mucalov joined Actis in 2009 and has worked actively to support Actis' investment in Umeme since that time. Adrian's prior experience includes four years as a management consultant with Monitor Group & Monitor Corporate Finance, one year as Director of International Expansion for Endeavor Global, and a variety of engagements working in Africa, Asia and Europe.

Mr. Mucalov is a C.F.A. charterholder and holds a Master of Business Administration from Harvard Business School, a Master of Public Administration (International Development) from Harvard Kennedy School, and a Bachelor of Commerce (Honours) from Queen's University in Canada.

5. The Management Team

Charles Chapman
Managing Director

(Refer to page 16)

Sam Zimbe
General Manager: Corporate and Regulatory Affairs

Sam is a qualified professional accountant with a Masters degree in Finance and Investment and has more than 20 years experience in strategic senior management roles in Uganda, UK and the Caribbean, mostly in the electricity sector. Prior to joining Umeme, Sam managed the Uganda Electricity Distribution Company Limited (UEDCL) for two years following the unbundling of the electricity sector.

Selestino Babungi
Chief Financial Officer

Selestino is an accountant with over a decade of experience in financial management, accounting, external audit and credit management. Selestino is a graduate of Statistics, a Certified Public Accountant (CPA) of Uganda and a Fellow of the Association of Certified Chartered Accountants of UK (FCCA). Selestino was appointed as CFO after serving as Regional Manager responsible for operations and Credit Manager at Umeme. Prior to joining Umeme, Selestino worked at Ernst & Young, Kampala Office in several capacities and on diverse assignments.

Florence Nsubuga
Chief Operations Officer

Florence took up her role as COO in January 2012 after several years of extensive operational experience as a Regional, Area and District Manager with Umeme. Florence holds a Masters degree in Economic Policy and Planning.

Phil Ball
Chief Safety Officer

Phil is responsible for Umeme's public safety programs across the country. Phil has over 25 years experience in construction engineering and electrical distribution safety and quality management.

Phil has a MSc in Occupational Safety and Health and is a Chartered Fellow of the Institution of Occupational Safety & Health.

Simbiso Chimbima
Chief Technical Officer

Simbiso is an electrical engineer and an MBA holder. Simbiso brings to Umeme 20 years experience in the electricity supply industry across Southern Africa including overseeing the pre-payment metering installation project in Zimbabwe as General Manager of Zimbabwe Electricity Distribution Company.

Eamonn Furniss
Chief Information Officer

Eamonn Furniss is the Chief Information Officer at UMEME Ltd. Eamonn holds an MBA, MA and Bsc in financial information systems from Trinity College Dublin, Ireland. He is an accomplished Business and ICT professional with significant international experience with leading consultancies (IBM, EDS, and Accenture) in Europe, (PARC, and Globeleq) in the Middle East and Africa. He has extensive experience in International IT Projects, IT Management, Tendering, Bid evaluation, Implementation, Project Management, and Business Continuity.

Aidan Byrne
Head of Customer Service

Aidan is responsible for Customer Relationship Management and business process optimization at Umeme. Prior to joining Umeme, Aidan spent 38 years with Electricity Supply Board Ireland in a variety of roles focused on Customer Billing and Payments, Customer Relationship Management and Business Process Optimization.

Aidan has a B.A Economics from University College, Dublin

Henry Rugamba
Head of Communications

A seasoned Public Relations practitioner, Henry spent 10 years with British American Tobacco Uganda in marketing and corporate affairs roles before going into private PR consultancy operating in Rwanda and Uganda where he consulted for MTN Uganda, MTN Rwanda, PwC, IFC, The World Bank and the United Nations Economic Commission for Africa.

Henry has a BA. Politics and International Law, Makerere Unversity.

David Alderton
Corporate Development Manager

David joined Umeme from Actis in 2010 to work on several priority strategic initiatives for Umeme. As an executive with Actis, David was involved in a number of corporate transactions and programs for portfolio companies across Africa. Prior to joining Actis, David worked with HSBC investment bank in London and has a Masters degree in Development Economics.

6. Chairman's Report

Mr. Patrick Bitature
Chairman of the Board, Umeme

Civil Works at the Ushs 10bn Walligo Substation which will improve quality of supply to 10,000 customers in the area.

On behalf of the Directors, Management and Staff, I am pleased to present this report on our performance in 2012

Umeme Initial Public Offer (IPO)

Without a doubt the highlight of our year was the IPO in October and commencement of trading of Umeme shares on 30 November 2012. The IPO was 37% oversubscribed and raised over US$65 million. I am extremely pleased to welcome our 6,471 new shareholders, including customers, staff, NSSF, International Finance Corporation (IFC) and other international and regional investors. The IPO was the largest in Uganda and first cross-listing into Kenya and has significantly raised Uganda's profile as an international investment destination.

I would like to thank our partners Ministry of Finance, Planning and Economic Development, and Ministry of Energy and Mineral Development as well as the Electricity Regulatory Authority, Capital Markets Authorities of Uganda and Kenya, Uganda Securities Exchange and Nairobi Securities Exchange and our transaction advisory team for making the IPO a success.

Electricity Sector Growth

The policy of liberalisation of the energy sector, which started more than a decade ago, has significantly strengthened the economy. This is evidenced by the significant increases in investment and efficiency across distribution, transmission and generating companies. With the withdrawal of subsidies, tariffs are close to being cost reflective which is important for the long term sustainability of the sector.

Thanks to the enabling environment provided by the Government of Uganda, the landmark 250 MW Bujagali hydroelectric power plant, together with several other generation plants in the country, were commissioned in 2012.

Umeme has grown in strength and stature since the Company was awarded the Concession in 2005. In 2012 we marked a major milestone in completing the first regulatory review. I am pleased to announce that we achieved all our original targets and have agreed new tariff parameters through to 2018. We are happy to note that the Concession has another thirteen years to run, which encourages medium-term investments. We realise that long-term investments are required in the sector, which will be addressed alongside discussions over the term of the Concession, buttressed by the successes that the Company has delivered to date.

As the primary distribution company, Umeme has registered significant contributions to the sector through:

- reduction of energy losses from over 38% at the commencement of the Concession in 2005 to 26.1% in 2012;
- increasing customer connections that have doubled to over 513,000 over the period of the Concession;
- increase in electricity sales from 1,015 Gwh in 2005 to 1,937 GWh in 2012;
- Improvement in revenue collections from 80.0% in 2005 to over 94.0% in 2012; and
- Investment of US$166 million over the last 8 years in revamping and expanding the distribution system, information technology and other assets.

These successes have contributed to the stability of the sector and the overall economic development of the country.

Umeme has grown in strength and stature since the Company was awarded the Concession in 2005

Macro-economic Overview

Uganda's economy grew at a 3.4% rate in 2012 down from the 6.7% rate it achieved in 2011. The cost of doing business continued to be high due to high interest rates and inflation, which affected all our customers.

Company Performance

Despite the tough economic environment, I am pleased to report that Umeme returned commendable results for the year ended 31 December 2012. The Company recorded growth in EBITDA, profit before tax, profit after tax and assets.

The underlying drivers of the good performance were:

- growth in sales units of 12% in 2012 due to more power availability as a result of the commissioning of Bujagali hydroelectric power plant (250 MW);
- reduction in energy losses to 26.1% from 27.3% achieved in 2011;
- cumulative capital investments in the distribution network;
- growth in customer connections, with 55,000 new connections on the grid in the year; and
- recovery of operating costs

The Company paid Ushs. 12 billion in corporation tax to Uganda Revenue Authority during the year.

The total assets of the Company grew by 35% from Ushs. 559 billion as of 31 December 2011 to Ushs. 756 billion as of 31 December 2012.

The net equity of the Company has also increased from Ushs. 107 billion as of 31 December 2011 to Ushs. 239 billion as of 31 December 2012. The sale of subscription shares during the IPO and the profitability for the year are the reason for the increased equity.

The Directors are happy to recommend a final dividend for the year 2012 of Ushs. 24.4 billion (Ushs. 15 per share) to be declared at the forthcoming Annual General Meeting.

Capital Expenditure

The capital expenditure of the Company in 2012 was Ushs. 98 billion (2011: Ushs. 69 billion), which was fully funded using retained earnings. Continued investment in the network infrastructure and technical solutions is the bedrock of enhancing our ability to distribute power to meet the ever increasing demand, while improving on supply reliability and achieving the regulatory targets.

After the IPO, the Company repaid the entire Umeme Holdings Limited loans of Ushs. 75 billion (US$ 28 million). The IFC loan of US$ 20 million is the only debt on the Company's books. With the improved balance sheet, the Company can now source for additional low cost funds to finance its forthcoming capital programme.

A tribute to the late

James Ssenkaali Mulwana

We were honoured at Umeme to have had on our Board James Mulwana, one of the most respected and highly distinguished Ugandans. We pay tribute to Mr Mulwana, who sadly passed on at the start of 2013, leaving behind a legacy that is testimony to the benefits of working diligently. He will be sorely missed but we will honour him by ensuring that we build on the strong foundation he helped foster at Umeme.

May his soul rest in eternal peace.

Board Changes

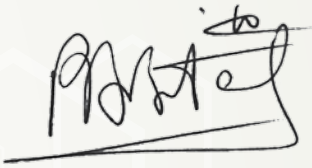
Following the passing of James Mulwana, the Board appointed Adrian Mucalov as a non-executive director. We are pleased to have Adrian on the Board and look forward to benefiting from his diverse skills and experience.

Appreciation

On behalf of the Board I would like to commend the Management and Staff for successfully navigating the business through 2012.

Conclusion

Finally, I take this opportunity to express my gratitude and appreciation to the Government of Uganda, customers, shareholders, stakeholders and business partners, for their support of Umeme and the Uganda electricity sector.



Patrick Bitature
Chairman

7. Managing Director's Report

Mr. Charles Chapman
Managing Director, Umeme Limited

I would like to join our Chairman in welcoming our new shareholders to Umeme

Media on a tour of the Ushs 10bn new Lubowa substation serving over 10,000 domestic and industrial customers

Retail Tariff Changes

The year began with a significant retail tariff increase on 15 January 2012 of an average of 52% as government withdrew subsidies in order to make electricity tariffs reflective of actual sector costs. Whilst cost reflective tariffs are important for the long term sustainability of the sector, invariably the first couple of months were difficult for our customers as they came to terms with the new tariff.

Regulatory Environment

During the year we had a successful review of our initial seven year performance and agreed new regulatory targets through to 2018 with the Electricity Regulatory Authority. Whilst ambitious, these targets are achievable and focus on driving down energy losses and improving collections.

In December 2012, the Parliamentary ad hoc committee on energy tabled its report in Parliament and we await the outcome of the debate of the report. We hope that our achievements to date in transforming the distribution sector will reassure Parliamentarians and the public of Umeme's ability and commitment to making the management and execution of the Concession a benchmark for our country.

During the year we held dialogue with the Electricity Regulatory Authority on a number of matters including proposed amendments to the licences and the retail tariff review for 2013. It is our expectation that these outstanding matters will be resolved during the first half of 2013.

Financial Performance

We closed the year with strong results, driven in part by improved revenues, by new generation from the Bujagali hydroelectric power plant, by the effective investments in the network, technology and by improved service delivery to our customers. The performance highlights are:

- Earnings before tax, depreciation, interest and amortisation (EBITDA) at Ushs. 130 billion compared to Ushs 104 billion in 2011
- Profit before tax growth from Ushs. 44 billion in 2011 to Ushs. 61 billion in 2012 .
- Profit after tax of Ushs. 57 billion (2011: Ushs. 23 billion)

Operational Performance

Last year we registered strong operational performance by being focused on our key drivers;

1. Safety

Safety is of paramount importance to the Directors and Management. There has been further progress in developing the safety culture of Umeme and its contractors during 2012 with the significant progress achieved in 2011 sustained in 2012. The year saw one fatality attributed to a failure in the Umeme network, 47 attributable to illegal activity and two Umeme employees and one contractor fatalities.

The Aerial Bundle Conductor technology we are putting in place as we roll out Prepayment Systems in Natete is a deliberate effort to reduce fatalities arising from illegal activity. We are investing in staff training, provision of appropriate equipment and we have intensified school and community visits to inform and sensitise the public on dangers of electricity.

2. Energy Losses

We achieved the lowest ever energy loss level of 26.1%. We are determined to sustain this trajectory and bring losses down to 14.7% by 2018 through continued investment in the distribution network and deployment of new technology.

3. Investment

During the year we invested Ushs. 98 billion in line refurbishment, construction of new substations, conversion to prepayment metering for over 9,000 customers and in technology to improve customer service and delivery.

4. Collections

Notwithstanding the significant tariff increase in the year we averaged 94% collection rate driven mainly by introduction of mobile money payment platforms and through renewed partnership and convergence of our systems with partner banks. Collection from Government of Uganda institutions continued to lag behind.

5. Increased Customers Connections

We closed the year with 513,000 customers including 55,000 new customers added to the national grid in 2012. This has been achieved by bringing down connection lead times and improved access to our services through 33 decentralised service centres located in major towns.

6. Customer Service Improvements

To enhance the customer experience we invested in technologies such as prepayment metering, mobile money payment options, SMS platform, eBilling and additional 3rd party collection agencies.

Through Umeme Touchpay, a multi faceted payment platform solution, customers can now pay their bills through our partner banks including: ***Bank of Africa, Bank of Baroda, Barclays Bank, Centenary Bank, Citibank, Crane Bank, DFCU Bank, Post Bank, Stanbic Bank*** and ***Standard Chartered Bank***. In addition, customers can also use ***Airtel Money, MTN Mobile Money*** and ***Warid Pesa.***

To improve management of outages, we are effectively utilising our Supervisory Control And Data Acquisition (SCADA) which can now monitor and control 50% of our substations across the country. We will achieve 100% monitoring by mid 2013. Furthermore we have registered 86% of customer telephone contacts enabling us to use the SMS platform to notify customers of planned or unplanned outages as well as reminders on safety and other customer service issues.

- In 2012 we invested 90% of our US$ 36 million capital expenditure on refurbishing and restoration, construction of new substations and new power lines in Lira, Tororo, Gulu, Kamuli, Jinja, Mukono, Kampala and other areas across the country.
- Following the completion of the Prepayment pilot project in the Kitintale area we began the rollout to Natete. We closed 2012 with 17,000 customers converted and utilising prepayment meters.

Company Outlook

The success of the IPO in the fourth quarter of the year enabled us to repay our shareholder loans of US$28 million and positions the Company to raise significant debt financing that will be used:

- to expand and strengthen the distribution network;
- to reduce power losses through use of technologies like Automated Meter Reading, Aerial Bundled Conductor and distribution network optimisation;
- to invest in extension of the Prepayment Metering System and achieve our target of prepayment for all new connections in 2014; and
- for further introduction of new technologies such as Hand Held Sets for meter reading and bill delivery to enhance efficiency.

Our overall success will fundamentally be anchored on our ability to bring down energy losses over the next few years. On the technical front we are investing in new technology to reduce energy losses. Where we need a collective effort and support is on power theft because the bulk of our losses are down to illegal connections enabled by unscrupulous individuals who have exposed innocent people to live, direct and extremely dangerous power. My concern is that with a very weak legal framework most cases are settled with minimal punishment to these perpetrators. We are working with Parliament to fast track legislation that mirrors the very punitive law that was introduced in Kenya which fines convicted power thieves up to the equivalent of Ushs. 150 million or 10 years imprisonment or both. As customers and shareholders you have a pivotal role to play in seeing the enactment of legislation that will help us achieve our mission of zero fatalities in the very near future.

Sector Outlook

In her budget speech for fiscal year 2012/13, the Honourable Minister of Finance, Planning and Economic Development outlined the Government of Uganda's commitment to bringing on stream new generation. We are excited about this commitment and we are making the necessary investment to be able to manage the increased capacity once it comes on line. I cannot overstate the urgency for new generation to enable us meet the demand our growing economy is presenting us with on a daily basis. I want to urge investors to take a second look at the energy sector and recognise the enormous potential for hydro electric power generation offered by the many lakes and rivers that flow across Uganda and importantly the country's potential to consume way above our current capacity.

Our People Are Our Champions

There is nothing more important to me and to our leadership than the safety of our workforce. We commiserated together when two of our employees and one of our contractors lost their lives while on duty in 2012. These are immeasurable losses for their loved ones, their colleagues and for Umeme. These tragic events are a reminder to everyone at Umeme of the importance of having strong safety policies and procedures in place to ensure we manage the risks we face on the job.

I am deeply grateful for our employees' personal dedication to serving our customers. Every time power outages occur, our line crews and customer service teams leave their bases committed to restoring service as safely and efficiently as possible. I would like to assure all our customers and you our shareholders of our commitment to visible customer service improvement.

Appreciation

I equally take this opportunity to thank our stakeholders, shareholders, the Government of Uganda, financiers, suppliers, other partners and our customers for their continued support. The operational and financial results could not be achieved without your input and support.

Charles Chapman
Managing Director

8. Sustainability Statement

The Board, Management and Staff recognise that our organisation's commitment to sustainability can be seen not only in our financial results, but also in our customer relations, employee satisfaction, operational processes, safety and regulatory compliance, environmental performance and community support.

Environmental, Social and Governance policy

Umeme is committed to the best practice environmental, social and governance standards. On 1st November 2012 Umeme reinforced this commitment by formally adopting the World Bank's and International Finance Corporation's (IFC):

a) Performance Standards on Environmental and Social Sustainability ("the Performance Standards") as the Company's performance standards in relation to environmental and social sustainability; and

b) Anti-bribery and Anti-corruption Guidelines as the Company's policy in relation to anti-bribery and anti-corruption matters

The Performance Standards are independently monitored by the IFC[1] and cover the following areas:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- Performance Standard 2: Labour and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention
- Performance Standard 4: Community Health, Safety, and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainability Management of Living Natural Resources
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

The standards and policy are accessible via the Company website (www.umeme.co.ug).

The Board of Directors will recommend to shareholders that the Articles of Association of the Company be amended to reflect the adoption, as Company policy, of the Performance Standards and the Anti-Bribery and Anti-Corruption Policy at the AGM. More information on the Board recommendation is included on page 96 of this annual report.

1 http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/ESRS32795

Safety

Safety is of paramount importance to the Directors and Management of Umeme, and will continue to be a priority. The Company is firmly committed to minimising the safety risk of its operations to both workers and members of the public. The decentralisation of the business and the localisation of safety ownership have been key contributors in this achievement. Safety will remain a key focus area of the business as we work towards a target of zero public and employee fatalities.

There has been further progress developing the safety culture of Umeme during 2012 and the statistics show that the significant progress achieved in 2011 was sustained. The quality of the safety data capture has also improved as the Company has invested in better reporting.

The following is a summary of fatal accident statistics with comparison to 2011:

Category	2012	2011
Public accidents	1	1
Umeme worker (Employee, Direct Labour or Contractor)	3	4

The number of fatal public accidents continues to fall from its peak in 2005; The accident rate amongst Umeme's employees and contractors is also continuing to show improvements.

Each year, there are a number of fatalities that are a result of illegal activity. In 2012, 47 members of the public were fatally injured, eight more than were reported to Umeme in 2011. The reported increase is primarily due to improved reporting resulting from ongoing education programmes and interaction with community leaders.

Overview of 2012 performance

Continued network restoration

Umeme met and exceeded its original target of replacing 120,000 rotten poles by the end of 2012 with 145,000 poles already replaced by May. 48 safety projects in high risk areas including ten schools and two larger projects were completed using Aerial Bundle Conductor (ABC). No accidents were recorded whilst these works were being undertaken.

Refurbishing and maintaining the network is essential to reducing risk, but must be carried out safely and to the highest standard. As a consequence, Umeme has started work on the construction of a purpose built training school in Jinja, adjacent to our Njeru substation. The school is expected to open in Q2 2013 and will comprise 4 classrooms, office and practical training areas. We expect that these facilities will contribute to raising construction and safety standards of Umeme and contractors' technical personnel.

Prioritising high risk districts

The safety priority projects were prioritised on a risk basis; accident numbers, emergencies reported through the Contact Centre and network audits.

Safety communication and response

Engagement with the public included 6,098 community and school talks, with SMS, print media, radio and television also being used to educate the public on health and safety. During the year we made changes to the call waiting message so the reporting of an emergency was the first prompt heard by a caller to the contact centre.

Work continued in coordination with the National Curriculum Development Committee to develop approved educational materials to cover the dangers of electricity, to be included in our school programme and new school safety clubs.

Developing a culture of safety ownership

Personal safety targets continue to be reflected in annual performance bonuses to staff. Additionally the Company's commitment to safety culture was re-enforced through disciplinary action when there were serious breaches of our safety policies and procedures

Improving contractor safety performance

The performance of our contractors, particularly those pre-qualified to undertake capital works has continued to improve. A number have been appointed Safety Advisers and the quality of their plans and monthly reporting has greatly improved. The practical implementation of the fundamentals such as risk assessment, daily briefings and provision and wearing of appropriate personal protective equipment has been positive and consistent.

Mobilising stakeholder support for Umeme safety plans

We have established contacts with other companies in the region and within Uganda to ensure we are working to best practice.

Environment

The principal environmental objectives for 2012 were:

- Disposal of Poly Chlorinated Biphenyls (PCBs)
- Improving the disused pole disposal policy
- Organising the storage of transformers in our engineering depot to prevent oil spillage, and
- To introduce waste recycling to the organisation

An Environmental Adviser was recruited to the Safety Department to focus on these areas as well as looking at the wider environmental aspects of the company and associated potential impacts to the environment.

The priority environmental management issue was to reduce the number of distribution transformers that potentially contained PCBs, which is classified internationally as a persistent organic pollutant. In agreement with the National Environment Management Agency (NEMA) we implemented a strategy to achieve 30% of transformers PCB free by year end 2012. We exceeded this target confirming 41% of our transformers are PCB safe and that the method for treatment was consistently in line with the agreed process.

This equates to over 14,000 litres of potentially contaminated oil being transported and treated under controlled procedures to an agreed treatment process facility, a policy which was introduced the previous year. The process, which is continuously audited, was recognised as successful by NEMA and stakeholders following a visit to our Lugogo Engineering Depot, which contains the transformer maintenance compound. Comments from visiting delegates who had visited previously in 2010 remarked positively on the significant improvement observed and the stakeholders, predominantly from industry, recognised the efforts being made. The storage of transformers and waste oil has greatly improved.

Waste recycling was introduced to all offices in Kampala with plastics, paper and cardboard being segregated and collected for recycling after waste streams were identified. Quantities of materials recycled were:

- Paper, cardboard = 1,185 kg
- Plastics = 205 kg

The warning notice provided to recipients of old poles has been improved and translated into a number of languages, however there is much work to do on controlling the use and destination of old poles. This is a priority for 2013.

As an organisation we have formally documented our commitment to conformity to IFC Environmental Standards. The overall requirement for environmental protection requires an effective environmental management system which is dynamic and continuous using a Plan, Do, Check, Act philosophy. The activities in 2012 were in accordance with this system.

Umeme staff from Wandegeya and Kampala Central taking part in KCCA's monthly cleaning of the city.

Labour and Management Relations

We respect the right of our employees to join a union in accordance with applicable labour union and employment laws. None of our operations pose any threat or risk to the freedom of association and collective bargaining. The Labour Union is permitted to conduct its elections on our premises and appropriate time off is granted to employees to participate in the Unions polling process. The elected Union Office Bearers are recognized by the Management as the representative body of the employees. The recognized Trade Union is a party to decide on wages, allowances and benefits/welfare of its members, through collective bargaining process. There are regular meetings held between management representatives and representatives of the Trade Union.

Creating Value for Stakeholders

Umeme takes proactive measures for engaging with their stakeholders, as we believe that our stakeholders play a significant role in the growth and development of the company. During the year discussions were held with representatives of our customers, suppliers and contractors. At these events we were able to share information and understand key concerns like, Tariff, Prepayment Metering, Safety, Power Theft and Outage Management.

Umeme was one of the major sponsors of Team Uganda to London Olympics 2012. Umeme staff welcome home Gold Medalist Stephen Kiprotich

Corporate Social Responsibility (CSR)

Our CSR policy is built on the principle that community investment should create a meaningful and sustainable impact.

In 2012 Umeme partnered with Actis to adopt a successful solar lantern initiated by The Energy Resource Institute of India (TERI) based in Delhi. We selected to launch this project in Kwarakari Village; a part of the Greater Mbale district (220kms form Kampala). Today this locally managed project has delivered 600 lamps to as many homes providing valuable lighting.

During the year our CSR investment supported;

- The Surgeons Camp in Fort Portal where over 200 people received much needed medical attention free of any charge
- I-Child 'Support a caretaker' – we are sponsoring a caretaker looking after orphans
- The Nambi Foundation has defined itself as a trusted partner in the care of children and Umeme is proud to have supported their work.
- In Partnership with the Rotary Clubs of Uganda we have contributed to their cancer awareness campaign
- Umeme was one of the few companies to support the Uganda National Olympic Team which won the first Olympic Gold medal in 40 years.

9. Corporate Governance Statement

Introduction

The Board of Directors (the "Board") of Umeme Limited (the "Company") understands and appreciates that sound governance practices are critical to the sustainability of the Company. The Board is also acutely aware that the Company's regulators, customers, partners, shareholders and the public can only comfortably deal with the Company if it espouses and demonstrates best in class governance standards.

The Board has implemented a corporate governance framework that it considers appropriate for the Company and continues to ensure that its approach to governance is aligned to current best practice.

Sitting at the helm of the Company and tasked with oversight of all the Company's affairs, the Board's process and functioning is enabled by the Company's governance framework. This position is demonstrated by the type of committees that the Board has established.

Actis (majority shareholder) integrates environmental, social and governance considerations into all its investment decisions and promotes world class standards in health and safety, climate change and corporate governance.

Shared purpose and values

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

The Company's governance framework is underpinned by the Company's values which are:

- Ensuring a high degree of customer satisfaction
- Supporting and continuously developing employees
- Conducting our work with integrity founded on honesty and ethical behaviour
- Allowing safety to govern all our actions
- Respecting the environment

Umeme district teams attending training on the new SMS platform designed to improve customer service delivery

Compliance with laws, regulations and guidelines

The Company is a public company that is licensed and regulated by the Electricity Regulatory Authority (ERA). Compliance with the terms of its license is of utmost importance to the Company and without the license the Company cannot continue in business.

The Company is in material compliance with all laws, regulations, standards and codes governing the electricity sector in Uganda, and its operations.

By reason of its listing on 30th November 2012, the Company became bound by the Corporate Governance Guidelines of the Capital Markets Authority (CMA) and the corporate governance requirements of the Uganda Securities Exchange.

The Board exercises oversight of compliance and has ensured that there is a framework for the identification and management of compliance risk within the Company. Ongoing compliance is monitored by the Audit Committee and the Environmental, Social and Governance (ESG) Committee of the Board through quarterly management reports.

During 2012, the Company complied with all laws, regulations, rules and guidelines on corporate governance including the Capital Markets (Corporate Governance) Guidelines.

Governance Structure

Board of Directors

Structure

The Company is managed by the Board which assumes the primary responsibility of fostering the sustainability of the Company's business.

The Company has a unitary board structure with the roles of Chairman and Managing Director, who is the chief executive officer of the Company, separate and distinct. The Chairman of the Board is an independent non-executive director.

The directors understand their responsibility to act in the best interest of the Company and accordingly discharge their duties independently. The directors guide Management in the execution of its duties and firmly challenge Management's actions and assumptions as and when the need arises.

The diversity of skills and experiences on the Board ensures that the Board functions effectively.

Composition

There are six directors on the Board of whom five are non-executive. The Managing Director is the executive director on the Board. The details of the directors are on page16 and 17 of the Annual Report.

As part of the annual review of the Board's effectiveness, the Board evaluated the appropriateness of its composition and agreed measures to further strengthen the Board structure.

Competencies Of Directors

In order to effectively fulfil its mandate, the Board ensures that directors possess the right skills, knowledge and experience.

The directors' academic qualifications and experience can be viewed at page 16 and 17 of the Annual Report.

Managing Director

It is the Board's responsibility to ensure that effective management is in place to implement Company strategy. For that reason, the Board has appointed from among its number a Managing Director. The Managing Director leads the Management team in implementing the Company's strategy and Board decisions, and ensuring that the business and affairs of the Company are effectively managed. The Managing Director reports to the Board on a quarterly basis and more frequently where necessary.

Board And Management Engagement

The senior Management team and the Board interact regularly both at Board and Committee meetings, and other fora. Directors are at liberty to engage with senior managers directly on matters of interest or concern.

Access To Information

During its meetings, the Board receives information and reports from Management to the satisfaction of the board.

Appointment, Resignation, Removal

The appointment, resignation, retirement and removal of directors is governed by the Company's Articles of Association.

One third of non-executive directors are required to retire at each AGM and may offer themselves for re-election. There is no limitation on the number of times a non-executive director may stand for re-election.

No director appointments were made in 2012. One director, James Mulwana, who had been on the Board since September 2007 passed away on 15 January 2013. The Board has appointed Adrian Mucalov to replace the deceased director.

Delegation of Authority

The Board maintains a clear delegation of authority framework to ensure that the operations of the Company run smoothly but within an acceptable control framework.

To ensure efficiency within the governance structure, the Board has delegated some of its functions to Committees with clear terms of reference and reporting requirements.

Each Committee's terms of reference set out its responsibilities, scope of authority, composition and procedures to be followed.

Audit Committee

The Audit Committee is responsible for the oversight of the financial reporting and related disclosures of the Company including the Company's audit and control functions.

The Committee generally oversees:

- the adequacy of the Company's accounting system and internal control environment;
- the adequacy of the Company's system for compliance with relevant laws, regulations, standards and codes;
- the identification of improvements that can or should be made to the Company's internal controls, policies and financial disclosures;
- that the internal auditor has an unobstructed and clear communication channel to the Committee and the Board;
- the frequency and significance of all transactions with related parties and assessing their propriety;
- the integrity and quality of the Company's financial information; and
- the independence, objectivity, scope and quality of the external audit.

The Committee meets quarterly but can meet more frequently if the circumstances require. Four meetings were held in 2012.

Composition: Ian Francis (Chairman), Stuart David Michael Grylls and Younes Maamar

Environmental, Social and Governance (ESG) Committee

The ESG Committee advises the Board in relation to environment, social and governance matters arising out of the activities of the Company as they affect employees, contractors, visitors and communities.

The Committee's responsibilities include:

- recommending changes to policy;
- monitoring compliance;
- assessing standards for minimising risks;
- assessing compliance with legislation;
- considering issues that may have strategic, business and reputational implications for the Company;
- recommending appropriate measures and responses; and
- reviewing significant incident investigation reports.

The Committee meets no fewer than two times a year. Three meetings were held in 2012.

Composition: Stuart David Michael Grylls (Chairman), Patrick Bitature, Charles Chapman and Younes Maamar

Customer Service and Loss Reduction Committee

The Committee is responsible for overseeing and advising on two important pillars of the Company's strategy. It is generally responsible for ensuring that the Company provides the best services to all of its customers and remains focused on reducing energy losses in an effective and efficient way, within its financial and policy constraints.

The Committee's responsibilities include:

- ensuring that the Company has in place robust customer service and loss reduction strategies and implementation plans ("CSLRs");
- providing guidance to Management in developing relevant CSLRs plans;
- monitoring the progress of implementation of the CSLRs plans; and
- providing status updates of Management's performance against the CSLRs plans and making relevant recommendations to the Board.

Three meetings were held in 2012.

Composition: Younes Maamar (Chairman), Stuart David Michael Grylls, Patrick Bitature and Charles Chapman

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has coherent remuneration policies and practices which are consistent with human resources objectives and which enable the Company to attract and retain executives and directors who will create value.

The Committee assumes responsibility for equitably, consistently and responsibly rewarding Management having regard to the performance of the Company, the performance of the individual manager and the general pay environment.

The Committee's other responsibilities include:

- review of the Company's approach to compensation;
- oversight of the establishment of compensation proposals;
- considering all material remuneration decisions; and
- making recommendations as to appropriate incentive schemes.

In the performance of its mandate, the Committee has full authority to commission any reports or surveys which it deems necessary to help it fulfill its obligations.

No director or manager is involved in any decisions as to their own remuneration.

Five meetings were held in 2012.

Composition: Stuart David Michael Grylls (Chairman), Charles Chapman and Younes Maamar

Nomination Committee

The Nomination Committee reviews and considers the structure and balance of the Board and makes recommendations regarding appointments, retirements and terms of office of directors.

The Committee's responsibilities include:

- identifying and recommending to the Board, candidates for the board and competencies of new directors;
- reviewing induction procedures;
- assessing and considering the time required of directors to fulfil their duties;
- reviewing succession plans for the Board and senior Management; and
- reviewing measures for keeping directors up to date with the Company's activities and external developments.

Composition: Younes Maamar (Chairman), Patrick Bitature, Stuart David Michael Grylls, Ian Francis

Board Meetings

The Board meets at least once a quarter. Ad hoc meetings are held when required by the circumstances. Directors are provided with detailed papers and reports well in advance of meetings.

The attendance of Board meetings in 2012 was as follows:

Director	26 Apr	18 Jul	18 Oct	6 Dec
P. Bitature	√	√	√	√
C. Chapman	√	√	√	√
D. Grylls	√	√	√	√
J. Mulwana*	A	A	A	√
I. Francis	√	√	√	A
Y. Maamar	√	√	√	A

Deceased

√ = *Attendance;* *A = Apology*

Directors are entitled to appoint alternates who can attend meetings on their behalf when they are unable to do so. The appointment of alternate directors is governed by the Articles of Association.

Board Effectiveness

The Board is committed to effective discharge of its mandate. The Board assessed its performance and effectiveness and that of its Committees in 2012. Evaluation questionnaires were completed by each director, and the results considered by the directors. The action points from the Board and Committee evaluations will be implemented in the course of 2013. The evaluation also covered the Chairman's performance and that of the Board Committees.

Director Development

The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant energy sector developments, which could potentially impact the Company and its operations.

Company Secretary

The Board has appointed a Company Secretary whose duties are to ensure that the Board remains cognisant of its duties and responsibilities and to maintain Board and Company records. All directors have access to the services of the Company Secretary. Although the Company Secretary function is currently outsourced, the Board is considering the appointment of a Company Secretary who will be a full time employee of the Company.

Shareholder Relations

The Board is excited to have new shareholders in the Company and considers the successful Initial Public Offer (IPO) in 2012 a mark of confidence in the Management of the Company. The Board will ensure that regular and pertinent communication on the Company's affairs is provided to all its shareholders. In addition to the AGM, which all shareholders are encouraged to attend, the Board will provide other opportunities for shareholders to engage with the Management and the Directors of the Company.

The Board will ensure that it implements an effective investor relations function and process to assist it in executing its responsibility of ensuring appropriate shareholder engagement.

Umeme Holdings Limited, as majority shareholder of the Company, is supportive of the Company's operations and advanced a loan to the Company which was repaid in 2012. More information on Umeme Holdings Limited is at page 7 of the Annual Report.

Stakeholder Engagement

The Board is focused on ensuring that the Company maintains appropriate engagement with its key stakeholders who include the Government of Uganda, ERA, customers and the general public. The goodwill of stakeholders is critically important to the Company's long-term future.

Insider Trading

Prior to the listing of the Company's shares on the Uganda Securities Exchange and the Nairobi Securities Exchange, the Board developed and approved an Insider Trading Policy whose purpose is to ensure that dealings in the Company's shares by directors, major shareholders, employees in senior management roles and their related parties are conducted in an ethical manner that does not prejudice other current and prospective investors of the Company.

Under the policy, certain employees and directors are prohibited from trading in the Company's shares during closed periods which are eight weeks before the dates of publication of the Company's annual and interim results.

Conflicts Of Interest

The Company's Articles of Association provide that a director who is in any way interested in a contract or proposed contract with the Company or in any matter which is about to be discussed or determined by the Board or a committee of the Board shall declare the nature of his or her interest at the meeting of the Board discussing the contract or matter and to the extent that the discussion or decision concerns that interest, he or she shall exclude himself or herself from further attendance at that meeting. Conflicts that arose during the year were appropriately dealt with in accordance with the Articles of Association.

The Board maintains a register of conflicts for both directors and Management.

Sustainability

The Sustainability Report on pages 26 to 28 aims to provide an analysis of the Company's sustainability performance in relation to issues that are relevant and material to the Company and to its stakeholders.

10. Remuneration Report

Overview

The Remuneration committee takes overall responsibility to determine and recommend to the board the framework or broad policy for the remuneration of the company's executive directors, and such other members of the senior management as it is designated to consider.

Remuneration policy takes into account all factors which are deemed necessary. The objective of such policy is to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company.

The committee also considers the ongoing appropriateness and relevance of the remuneration policy as well as the Company's performance against set financial objectives and other targets and the performance of individual employees.

Remuneration philosophy and policy

The objective of the remuneration policy to ensure that employees receive appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company. A Total Reward philosophy is pursued in order that the whole package available to employees is considered.

Benchmarking

When considering the appropriateness of the Company's remuneration structure and determining the remuneration structure for the ensuing year, the Remuneration committee reviews reliable, up-to-date market data and trends collected by credible surveying entities.

Remuneration structure

Fixed pay

Fixed pay is intended to attract and retain employees by ensuring both competitive positioning in the local market and internal equity within Umeme. It is reviewed annually.

Variable pay

Annual incentives in the form of bonuses are provided to qualifying employees to ensure appropriate reward for performance.

Individual employee bonus awards are based on agreed and reviewed performance and overall contribution to the Company's results for the relevant year.

Benefits

In order to provide a Total Rewards package, the Company provides senior managers with the benefit of a motor vehicle or allowance.

The Company also offers medical services and a Death Benefit Fund to all employees.

The work environment is made more conducive for employees to achieve their objectives through the provision of tools of the trade such as security, voice and data airtime, fuel and other expense reimbursements and allowances.

Long term performance incentives

The Board recognizes that the Company could derive significant benefits from an employee share-based incentive programme that is designed to:

- align the interests of employees with those of shareholders, in that employees receive financial benefits that are linked directly to the creation of shareholder value in terms of higher earnings and dividend streams over a period of time;
- promote retention of employees, in that employees receive financial incentives that are only paid out if the employee continues to remain an employee in good standing with the Company; and
- reward past performance in a manner where the ultimate financial reward that the employee receives depends on the continued good performance of the Company.

Consequently, on 28 June 2012 the Board approved the implementation of the share-based employee incentivisation programmes on page 86 to 88 which implementation took place as part of the initial public offering (IPO) of the Company.

As at 31 December 2012, employees and executive directors of the Company owned, in aggregate, 41,049,205 shares (2.5%) of the issued shares of the Company, that they acquired through the application of these programmes and the IPO.

Directors' Remuneration

Remuneration of Managing Director

The remuneration package and long-term incentives for the Managing Director are determined on the same basis and using the same qualifying criteria as for other employees.

The remuneration of the Managing Director is subject to an annual performance review process conducted by the board.

Non-executive Directors' Remuneration

The Company's articles of association provide that each director shall be paid remuneration at such rate as the Company in a general meeting shall direct and each director shall be entitled to be paid his reasonable travelling and other expenses incurred by him whilst employed in the business of the Company and any amount fixed by the board according to the circumstances of each case for attending Board meetings.

In 2012, non-executive directors received a retainer for their service on the board and board committee meetings. Fees were paid monthly in arrears.

In determining the remuneration of non-executive directors, the board considers the extent and nature of their oversight responsibilities, the time demanded of them in attending to Company matters, the level of risk assumed by them in performing their duties, changes in the cost of living as a result of inflation or otherwise, reviews of comparative remuneration offered by other major Ugandan companies and other factors that are deemed relevant at the time.

Non-executive directors do not receive short-term incentives, nor do they generally participate in any long-term incentive schemes. However, as part of the IPO of the Company in 2012, directors on the board were given an opportunity to acquire shares in the Company. The non-executive directors' remuneration for board and committee service was US$ 452,670 in 2012.

At the AGM, the board will recommend revised non-executive director fees for shareholder approval.

umeme

Directors' Report & Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2012

11. Report of the Directors

Introduction

The directors submit their report together with the audited financial statements for the year ended 31 December 2012, which disclose the state of affairs of Umeme Limited ("the Company").

Principal activities

The Company is licensed by Electricity Regulatory Authority to carry on electricity distribution and supply business in Uganda.

Financial results

The Company's results for the year ended 31 December 2012 and comparatives for 2011 are presented on page 40:

A general review of the business is given by the Chairman and Managing Director on pages 20 to 25.

Dividends

Subject to the approval of the shareholders, the directors recommend to members that a final dividend of UShs. 15 per ordinary share be paid for the year ended 31 December 2012, subject to deduction of withholding tax where applicable, to shareholders registered in the books of the Company at close of business 24 May 2013. The total dividend for the year will total Ushs. 24.4 billion. If approved, the dividend will be paid on or about 24 June 2013.

Share Capital

Details of the company's share capital can be found on page 66 of this Annual report.

Reserves

The Company's retained earnings increased from Ushs 84 billion to Ushs 141 billion during the year. The reserves of the Company are set out on page 43.

Directors

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

Patrick Bitature	-	Chairman
Charles Chapman	-	Managing Director
Stuart David Michael Grylls	-	Non executive Director
James Mulwana	-	Non executive Director (Deceased 15 January 2013)
Younes Maamar	-	Non executive Director
Ian Francis	-	Non executive Director
Adrian Mucalov	-	Non executive Director (Appointed 19 March 2013)

Directors' interest in shares

At the date of this report, the following directors held directly an interest in the Company's ordinary issued share capital as reflected in the table below:

Director	Number of shares
Patrick Bitature	4,950,000
Charles Chapman	4,169,000
Stuart David Michael Grylls (as UHL Nominee)	100,000
Total	**9,219,000**

Insurance

The Company maintained directors' and officers' liability insurance during the year.

Events subsequent to balance sheet date

There is no material event that has occurred between the balance sheet date and the date of this report that would require adjustment to these financial statements.

Management by third parties

None of the business of the Company has been managed by a third person or a company in which a director has had an interest during the year.

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

Shonubi, Musoke & Co Advocates
Secretary, Board of Directors
Date: 2013

Statement of Directors' Responsibilities

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 judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act (Cap 110). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The 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 21 March 2013 and signed on its behalf by:

………………………………………………	………………………………………………
Patrick Bitature	**Charles Chapman**
Chairman	Managing Director

Report of the Independent Auditors

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 2012, 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 40 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 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 2012, 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
2013

	Note	2012 Ushs million	2011 Ushs million
Revenue	3	859,552	457,063
Cost of sales	4	(624,235)	(270,629)
GROSS PROFIT		**235,317**	**186,434**
Other operating income	5(a)	4,980	15,306
Finance income	5(b)	15,032	16,029
		255,329	217,769
Repair and maintenance expenses	6	(18,059)	(16,767)
Administration expenses	7	(105,363)	(95,342)
Foreign exchange losses	8(a)	(13,441)	(5,912)
Other expenses	8(b)	(2,243)	(2,092)
OPERATING PROFIT BEFORE AMORTISATION		**116,223**	**97,656**
Amortisation of intangible assets	8(c)	(22,248)	(21,540)
OPERATING PROFIT		**93,975**	**76,116**
Finance costs	9	(33,054)	(31,500)
PROFIT BEFORE TAX	**10**	**60,921**	**44,616**
Income tax expense	11(a)	(3,811)	(21,607)
PROFIT FOR THE YEAR		**57,110**	**23,009**

		2012 Ushs	2011 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	**12**	**42**	**17**

	2012 Ushs million	2011 Ushs million
Profit for the year	**57,110**	**23,009**
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	**57,110**	**23,009**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 Ushs million	2011 Ushs million
NON CURRENT ASSETS			
Intangible assets	13	279,683	204,870
Concession arrangement financial asset: Non-current portion	14	152,936	141,968
		432,619	346,838
CURRENT ASSETS			
Concession arrangement financial asset: Current portion	14	43,892	28,567
Inventories	15	36,460	27,485
Amount recoverable from customer capital contributions	16	723	9,987
Trade and other receivables	17	188,256	96,640
Current income tax recoverable	11(b)	3,323	-
Bank balances	18	50,660	49,732
		323,314	212,411
TOTAL ASSETS		**755,933**	**559,249**
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	19	27,748	22,870
Share premium	20	70,292	-
Retained earnings		141,407	84,297
		239,447	107,167
NON-CURRENT LIABILITIES			
Shareholder's loan: Non-current portion	22	-	55,414
IFC Loan: Non-current portion	23	47,093	49,960
Concession obligation: Non-current portion	24	152,936	141,968
Deferred income tax liability	11(c)	12,100	8,289
		212,129	255,631
CURRENT LIABILITIES			
Shareholder's loan: Current portion	22	-	15,549
IFC loan: Current portion	23	7,768	7,289
Concession obligation: Current portion	24	43,892	28,567
Customer security deposits	25	3,688	2,443
Deferred construction income	26	4,270	16,198
Trade and other payables	27	244,739	117,728
Current income tax payable	11(b)	-	8,677
		304,357	196,451
TOTAL EQUITY AND LIABILITIES		**755,933**	**559,249**

These financial statements were approved by the Board of Directors on 21 March 2013 and signed on its behalf by:

Patrick Bitature
Chairman

Charles Chapman
Managing Director

	Issued capital (Note 19) Ushs million	Share premium (Note 20) Ushs million	Retained earnings Ushs million	Total equity Ushs million
At 1 January 2011	22,870	-	61,288	84,158
Profit for the year	-	-	23,009	23,009
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	23,009	23,009
At 31 December 2011	**22,870**	**-**	**84,297**	**107,167**
At 1 January 2012	22,870	-	84,297	107,167
Profit for the year	-	-	57,110	57,110
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	57,110	57,110
Issue of shares: public	4,235	63,927	-	68,162
Issue of shares: directors and employees	419	6,322	-	6,741
Issue of shares: employee share grant scheme	224	3,379	-	3,603
Share issue costs	-	(3,336)	-	(3,336)
At 31 December 2012	**27,748**	**70,292**	**141,407**	**239,447**

	Note	2012 Ushs million	2011 Ushs million
Net cash flows from operating activities	**28(a)**	**106,696**	**57,669**
Investing activities			
Purchase of intangible assets	13	(98,074)	(68,518)
Proceeds from sale of motor vehicles		166	269
Recovery of concession arrangement financial asset	14	-	27,295
Payment of concession obligation: finance costs	24	-	(14,544)
Payment of concession obligation: principal	24	-	(27,295)
Net cash flows used in investing activities		**(97,908)**	**(82,793)**
Financing activities			
Net proceeds from issue of shares (less shares granted to employees)		71,568	-
Repayment of shareholder's loans	22	(74,670)	-
Repayment of IFC loan	23	(6,004)	(6,057)
Proceeds from IFC loan	23	-	23,660
Net cash flows (used in)/from financing activities		**(9,106)**	**17,603**
Net decrease in cash and cash equivalents		(318)	(7,521)
Cash and cash equivalents at 1 January		47,289	54,810
Cash and cash equivalents at 31 December	**28(b)**	**46,971**	**47,289**

1. COMPANY INFORMATION AND GOING CONCERN

1.1 Company information

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. The LAA also provides for termination of the agreement by either party, but a buy-out amount (as defined in the agreement) is payable to the company by GoU.

The concession is structured so that if Umeme's operational performance matches the targets used in setting the tariff, and assuming no growth in sales volume during the retail tariff year, its annual returns from operating the electricity distribution concession will be equal to a contractually allowed return on its investment of 20%. This contractual return is set through the life of the concession and is not part of the tariff review. The return is on investment in fixed assets as well as an allowed return on working capital. The return is annual, based on an approved level of capital investment in nominal US$ and working capital in nominal Ushs.

In addition, Umeme receives all of the reward and bears all the risk of achieving its tariff targets, including distribution losses, uncollected debt and Distribution Operation and Maintenance Costs (DOMC). Umeme's meeting or missing these targets results in a positive or negative impact on the Company's profitability, respectively. The Company is incentivised to meet or exceed its sales volume and tariff targets as it receives the reward of earning additional profits of growth in sales volume, following the payment of its power supply and operating costs in accordance with the tariff methodology, in circumstances where the tariff performance targets are met or exceeded, but conversely enjoys limited protection of downside risks in circumstances where targets are not met due to under-performance. The costs related to the four set tariff parameters of distribution losses, uncollected debt, DOMC and working capital days lag are reflected in the retail tariff and thereby provide the Company baseline revenues that should just cover expenses relating to these parameters. To the extent actual operating performance is better / worse than envisaged in the tariff parameters, the Company's revenues in respect of these operating parameters will / will not cover the related expenses leading to a positive / negative impact in the overall profitability of the Company

The table below provides the set tariff parameters for the 7 years through 2018 as agreed between Umeme Ltd and Electricity Regulatory Authority.

	Tariff year						
Tariff parameter	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Distribution losses (%)	25.8	23	20	18.3	16.9	15.7	14.7
DOMC (US$' million)	42.5	44.1	44.6	46.2	47.7	49.3	51.1
Uncollected debt (%)	3.1	2.7	2.5	2.3	2.1	1.8	1.5

1.2 Going concern

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 2012 were authorised for issue in accordance with a resolution of the directors on 21 March 2013.

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 and statement of compliance

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 million (Ushs million).

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).

b) Service concession arrangement

The Company signed a Lease and Assignment Agreement (LAA) and with UEDCL and other agreements to support a 20 year service concession (concession). The agreements set out terms, conditions and obligations of the parties to the different contracts as indicated in note 33. The Company assessed that the concession is within the scope of IFRIC 12 *Service Concession Arrangement* because:

- the Government (grantor) controls and regulates what services the Company must provide with the infrastructure, to whom it must provide them, and the tariffs that are charged; and
- the Government controls—through ownership and beneficial entitlement any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Company received possession of the concession 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. Umeme also 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. The Company also has an obligation to receive capital contributions from customers and construct and install the infrastructure paid for. Under the concession agreements, the Company, 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.

UEDCL retains title to the modifications and additions funded by the Company and/or customers from the effective date of the modification. The investment done by the Company into the distribution network is recovered through the tariff methodology at the agreed rate of return as the annual capital recovery charge that is factored into the tariffs charged to the customers. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate. The investments not yet recovered through the tariff methodology at the time of transfer are to be paid to the Company as a buy-out amount. The Buy-out amount is computed as the gross accumulated capital investments less cumulative capital recovery charges at the time of transfer and is accounted for as described in note 38. 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). The Company earns no profit on the construction services provided for the customer funded installments and is only allowed to recover the actual cost incurred.

IFRIC 12 is applied to the infrastructure that the Company constructs or acquires from a third party for the purpose of the service arrangement and the existing infrastructure to which UEDCL gave the Company access for the purpose of the service arrangement. The Company applies the interpretation to the four categories of assets i.e., assets taken over from UEDCL, assets financed by the Company, the assets financed by customers and the modifications financed by the IDA financing.

Infrastructure within the scope of this IFRIC 12

Service Concession Arrangements is not recognised as property, plant and equipment of the Company because the contractual service arrangement does not convey the right to control the use of the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) *Service concession arrangement (continued)*

public service infrastructure to the Company. The Company has access to operate the infrastructure to provide the public service on behalf of Government in accordance with the terms specified in the concession contracts.

The nature of the consideration received by the Company for the services performed and obligations assumed determines its subsequent accounting treatment. The consideration received or receivable by the Company for the services it performs under the concession arrangement may be rights to a financial asset or an intangible asset. The Company recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of government for the construction services; the government has little, if any, discretion to avoid payment, because the concession agreements are enforceable by law. The Company has an unconditional right to receive cash if the government contractually guarantees to pay the Company specified or determinable amounts or the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the Company ensuring that the infrastructure meets specified quality or efficiency requirements. The Company recognises an intangible asset to the extent that it receives a right (e.g. a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The nature of the consideration given by the government to the Company is determined by reference to the contract terms and relevant contract law.

The Company is required to make monthly rental payments to UEDCL for the concession assets taken over from UEDCL and the IDA financed modifications as indicated in note 33. The Company recognises a liability in respect of the unfulfilled obligations it assumed in exchange for these assets. This rental payment obligation is accounted for as a financial liability measured at amortised cost as described in note 2i). The Company 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. The right to receive cash is accounted for by the Company as a financial asset as described in note 14.

The recovery of the investment by the Company in the distribution network is dependent on the performance of the network assets over the concession period and the Company therefore assumes demand risk with respect to this investment. The Company recognises an intangible asset that is accounted for as described in notes 2e) and 13.

Under the terms of the contractual arrangements, the Company acts as a service provider with respect to construction or upgrading of the infrastructure (construction or upgrade services) used to provide the public service and operates and maintains the infrastructure (operation services). The Company accounts for revenue and costs relating to construction or upgrade services in accordance with IAS 11 as described in note 2d), and accounts for revenue relating to operations services in accordance with IAS 18 as described in note 2c).

c) Revenue and other incomes 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.

Electricity sales

Electricity sales revenue is recognised when customers are billed for the power consumed. The billing is done for each monthly billing cycle basing on the units consumed as read on the customers' electricity meters and the approved consumer tariffs. Electricity 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 concession 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 GOU 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 circumstances of the Concession 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 judgements, 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 income tax and various other 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 an element 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 amortized 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 amortization is included in the income statement. The losses arising from impairment are recognized in the income statement.

Borrowings, concession obligation and trade payables

After initial measurement, borrowings, concession obligation and trade payables are subsequently measured at amortized 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 amortization 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 and subsequently at amortised cost. 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 annualized rate on a 360-treasury bill as published by Bank of Uganda.

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 asset

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 reorganization 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) Employee defined contribution benefits

National Social Security Fund contributions

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 will recognise an annual cost of employment expense in respect of the deferred bonus scheme in each financial period covered by the scheme and will recognise a liability equal to the anticipated cash award that the employees will ultimately be entitled to when the award vests.

o) Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, the Company accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

Share based payments that vest immediately the services are received are recognised in full.

The Company implemented a one off share grant scheme during the year and approved a deferred bonus scheme with a vesting period starting 1 January 2013. Share grant costs are recognised in profit or loss in the period when incurred and issued capital is correspondingly adjusted. ,

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) Share capital and equity

Ordinary shares are classified as equity. An equity instrument is any contract that evidences a residual interest in the assets of any entity after deducting all its liabilities.

Incremental costs that are directly attributable to issuing new shares are deducted from equity (net of any income tax benefit) and costs that relate to the stock market listing, or are otherwise not incremental and directly attributable to issuing new shares, are recorded as an expense in the income statement. Costs that relate to both share issuance and listing are allocated between these functions based on the proportion of new shares issued to the total number of (new and existing) shares listed.

Equity denominated in foreign currencies is translated at the foreign exchange rate applicable on the date when the capital was received.

u) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are not shown as a separate component of equity until declared by the Annual General Meeting. When declared, the declared dividends are presented as a liability.

v) Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IAS 1 Financial statement presentation (Amendment) – 1 July 2012
- IAS 12 Income taxes (Amendment) – 1 January 2012
- IFRS 1 *First-time Adoption of international Financial Reporting Standards (Amendment)* – 1 July 2011
- IFRS 7 Financial *Instruments: Disclosures (Amendment)* – 1 July 2011

The adoption of the standards or interpretations is described below:

IAS 1 *Financial statement presentation (Amendment)*

The amendment is effective for annual periods beginning on or after 1 July 2012 and requires that items of other comprehensive income be grouped in items that would be reclassified to profit or loss at a future point (for example, upon derecognition or settlement) and items that will never be reclassified. This amendment only affects the presentation in the financial statements and had no impact on the Company's financial position or performance

IAS 12 *Income taxes (Amendment)*

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate that the investment property will be consumed in the business. If consumed, a use basis should be adopted. 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. This amendment will have no impact on the Company after initial application.

IFRS 1 *First-time Adoption of international Financial Reporting Standards (Amendment) - 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.

IFRS 7 Financial *Instruments: Disclosures - Transfer 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) - to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets

- Financial assets are not derecognised in their entirety – 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.

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.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Company's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact, the Company is still assessing the possible impact.

IAS 19 *Post employee benefits (Amendment)*

The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. The concept of expected returns on plan assets is also simplified and certain re-wording is made. Past service costs as a result of plan amendments are to be recognized immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. These amendments are not expected to have a material impact on the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. These amendments are not expected to have an impact on the Company's financial statements as the Company has no financial assets and financial liabilities that it offsets.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. This amendment is not expected to have an impact on the Company's financial statements as the Company has no financial assets and financial liabilities that it offsets.

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 liabilities as defined in IAS 39. IFRS 9 initially required the adoption of the standard for annual periods on or after 1 January 2013. Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 from 1 January 2013 to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting and manner of adoption. The completion of this project is expected during 2013. The Company is currently assessing the impact of adopting IFRS 9, however, since the impact of adoption depends on the assets held by the Company at the date of adoption, it is not practical to quantify the effect on the financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by

IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The Company will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Company 1 July 2013.

Improvements to IFRSs – 2009 – 2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013)

- Borrowing costs - clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition. Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23, including those incurred on qualifying assets under construction.
- IAS 1 Presentation of Financial Statements (Amendments). The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- IAS 16 Property, Plant and Equipment (Amendment). The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments: Presentation. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.
- IAS 34 Interim Financial Reporting. The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

The following standards were issued but were not yet effective as at the date of issuance of the Company's financial statements and are not expected to have an impact on the Company's financial statements.

- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 1 time Adoption of International Financial Reporting Standards (Amendment) - Government Loans
- IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities
- IFRS 10 Consolidated Financial Statements – Investment entities (Amendment)
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine
- Improvements to IFRSs – 2009 – 2011 Cycle (issued in 2012 effective for annual periods beginning on or after 1 January 2013): Repeated application of IFRS 1

3 REVENUE

	2012 Ushs million	2011 Ushs million
Domestic	235,260	146,954
Commercial	27,734	19,374
Medium industrial	2,194	1,007
Street lighting	673	549
Commercial - time of use	83,480	57,738
Medium industrial -time of use	178,067	100,388
Large industrial - time of use	306,950	164,611
Total amount billed to customers	**834,358**	**490,621**
Less: Recovery of rental payments to UEDCL-principal (Note 14)	-	(27,295)
Recovery of financing income (Note 14)	-	(14,544)
	834,358	**448,782**
Construction revenue-construction of assets	25,194	8,281
	859,552	**457,063**

Out of the total energy purchased of 2,622 million units (2011: 2,387 million units), the Company billed 1,937 million units (2011: 1,735 million units). This represents an average distribution loss of 26.1% (2011: 27.3%) 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 in accordance with the concession agreements. The Company only recovers the actual costs incurred in constructing the assets. Thus construction revenue is equal to the construction costs. The expenses that are incurred on the assets additions funded by customers are recognised in the income statement as construction cost of sales and the amounts paid by the customers for the service installations ('non refundable capital contributions' or 'NRCC') are recognized as construction revenue when utilized. The costs incurred on the Company financed installations are offset from the related construction revenue as this reflects the substance and legal form of the transactions.

The billings to customers are adjusted to remove the cash collections with respect to the UEDCL rental payment component that is indicated in note 14. The Company did not pay, and hence recover, the UEDCL rental payment component during the year since this parameter was not included in the tariff for the year.

4. COST OF SALES

	2012 Ushs million	2011 Ushs million
Electricity purchase from UETCL	596,558	260,886
Generation levy	2,483	1,462
Construction costs-construction of assets	25,194	8,281
	624,235	**270,629**

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

5 OTHER OPERATING AND FINANCE INCOME

	2012 Ushs million	2011 Ushs million
a) Other operating income		
Reconnection fees	1,191	874
Meter/transformer test fees	6	4
Inspection fees	2,666	2,552
Sale of tender documents	1	-
Sale of scrap and other disposals	289	-
Reversal of unutilised provisions	-	7,830
Fines and sundry income	827	4,046
	4,980	15,306
b) Finance income		
Interest on bank deposits	1,914	1,485
Financing income from concession financial asset	13,118	14,544
	15,032	16,029
Total other operating and finance income	**20,012**	**31,335**

The reversal of unutilized provisions of Ushs 7.8 billion in 2011 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 & Economic Development to clarify on the issue. The Ministry issued the clarification during 2011 confirming that utilities companies should indeed not be charging VAT on supplies to diplomatic and accredited missions and personnel.

6 REPAIR AND MAINTENANCE EXPENSES

	2012 Ushs million	2011 Ushs million
Distribution (over head & underground)	8,201	6,287
Transformers, meters & other electrical test instruments	1,710	3,633
Other repair and maintenance	8,148	6,847
	18,059	**16,767**

7 ADMINISTRATION EXPENSES

Staff costs (7a)	50,685	46,598
Transport costs	7,553	7,144
Other administration costs	22,051	23,532
Consultancy fees	4,476	4,639
Telephone expenses	3,765	3,145
Debt collection expenses	2,088	3,964
Insurance charge	4,622	3,339
Impairment provision for bad and doubtful debts	10,123	2,981
	105,363	**95,342**

7(a) Staff costs

	2012 Ushs million	2011 Ushs million
Salaries and wages	36,102	35,835
National Social Security Fund (NSSF) contribution	3,301	2,290
Staff allowances and other staff related costs	11,282	8,473
	50,685	**46,598**

8 OTHER OPERATING EXPENSES

	2012 Ushs million	2011 Ushs million
a) Net foreign exchange losses	13,441	5,912
b) Other expenses		
Loss on disposal of assets	847	-
Other non-income tax related expenses and statutory fines	1,396	2,092
	2,243	2,092
c) Amortisation		
Amortisation of intangible assets	22,248	21,540
Total other operating expenses	**37,932**	**29,544**

9 FINANCE COSTS

	2012 Ushs million	2011 Ushs million
Interest on shareholder's loans	7,341	8,141
Withholding tax expense on shareholder's loans	1,883	2,799
Initial Public Offering and listing costs	6,726	-
Accrued interest on customer security deposits	591	2,226
Finance charge on concession obligation	13,118	14,544
Interest on IFC loan	3,062	3,075
Incidental costs on IFC loan	333	715
	33,054	**31,500**

10 PROFIT BEFORE TAX

	2012 Ushs million	2011 Ushs million
Profit before tax is stated after charging:		
Amortization of intangible assets	22,248	21,540
Auditors' remuneration	402	345
NSSF-Employer's contribution	3,301	2,290
Directors' expenses and allowances	1,491	1,192
Performance bonus	2,808	7,498
Loss on disposal of assets	847	-
Donations	83	30
Management fees	5,271	4,906
Unrealised foreign exchange losses	3,596	6,620
Staff medical and welfare expenses	1,703	1,909
And after crediting:		
Profit from sale of assets	-	195
Unrealised foreign exchange gains	2,385	-
Interest on bank deposits	1,914	1,485

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.

	2012 Ushs million	2011 Ushs million
a) Income tax expense		
Current income tax charge for the year	-	11,668
Deferred income tax charge for the year	3,811	9,939
	3,811	**21,607**

The average effective tax rate is 6% (2011: 48%). The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2012 Ushs million	2011 Ushs million
Accounting profit before income tax	60,920	44,617
At statutory income tax rate of 30% (2011: 30%)	18,276	13,385
Tax effect of:		
Add: 30% of non-deductible tax expenses	445	14,227
Less: 30% of non taxable income	-	(6,005)
Deferred income tax impact of changes in tax treatment of concession assets	(14,910)	-
Income tax expense reported in the income statement	3,811	21,607
b) Current income tax (recoverable)/payable		
Current income tax payable brought forward	8,677	532
Current income tax charge for the year	-	11,668
Current income tax paid during the year	(8,097)	(572)
Payment on provisional current income tax return	(3,903)	(2,951)
	(3,323)	**8,677**

Uganda Revenue Authority ruled on the tax treatment of the Company's concession as an operating lease as opposed to the Company's historical treatment of the concession as a finance lease for tax purposes. The Company's interpretation at the commencement of the concession was that 58% of the concession assets from UEDCL (totalling Ushs 189.8 billion) qualified to be treated as held under finance lease for tax purposes and hence the Company claimed capital allowances on these assets but also considered only 58% of the concession obligation financing cost as the amount allowed for tax purposes. This interpretation was communicated to Uganda Revenue Authority (URA) in 2005 but no formal response was received until 2012

URA issued an assessment to the Company during the year reflecting that all the concession assets should have been treated as held under operating lease and then the full financing cost paid on the concession obligation to UEDCL allowed for tax purposes. The net impact of this change in tax treatment for the years 2005 to 2011 on the 2012 financial statements was an additional charge of Ushs 0.6 billion. The impact of the change on the current year and going forward was disallowing capital tax allowances estimated at Ushs 5.4 billion and allowing the full financing cost paid on the concession obligation that is estimated at Ushs 63 billion. These changes have been effected in the tax computations for the year.

11. TAX (CONTINUED)

c) Deferred income tax asset

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

	2012 Ushs million	Movement Ushs million	2011 Ushs million
c) Deferred tax liabilities/(assets)			
Accelerated tax depreciation	47,235	(3,277)	43,958
Provision for bad debts	(26,790)	(564)	(27,354)
IPO costs	(1,753)	1,408	(345)
Current income tax losses	(4,521)	4,521	-
Unrealised foreign exchange gains	716	(716)	-
Unrealised foreign exchange loss (Borrowings)	(2,787)	(5,183)	(7,970)
Net deferred tax liability	**12,100**	**(3,811)**	**8,289**

	2011 Ushs million	Movement Ushs million	2010 Ushs million
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	43,958	(7,610)	36,348
Provision for bad debts	(27,354)	(2,597)	(29,951)
Provision for bonus	-	(1,269)	(1,269)
IPO costs	(345)	345	-
Unrealised foreign exchange losses (Borrowings)	(7,970)	1,192	(6,778)
Net deferred tax liability/(asset)	**8,289**	**(9,939)**	**(1,650)**

As at 31 December 2012, the Company had current income tax losses carried forward of Ushs 15.070 billion (2011: Nil) on which deferred tax has been recognised. There is no limit to how long tax losses can be carried forward and the Company has assessed that it is highly probable that the losses will be utilised in future.

12. BASIC AND DILUTED EARNINGS PER SHARE

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

	2012	2011
Profit attributable to shareholders (Ushs million)	57,110	23,009
Basic number of ordinary shares at 1 January (million)	1,338	1,338
Weighted average of shares issued during the year (1/12 x 285) (million)	24	-
Diluting shares (million)	-	-
Basic and diluted weighted average number of ordinary shares (million)	1,362	1,338
Basic and diluted earnings per share (Ushs)	**42**	**17**

**The shares were in issue for one month*

13 INTANGIBLE ASSETS

	GOU support & assurances rights Ushs million	Other Concession rights Ushs million	Total Ushs million
Cost			
At 1 January 2011	**2,457**	**204,428**	**206,885**
Additions	-	78,505	78,505
Transfer to amount recoverable from customer capital contributions (Note 16)	-	(9,987)	(9,987)
Disposals and write offs	-	(663)	(663)
At 31 December 2011	**2,457**	**272,283**	**274,740**
Additions	-	98,797	98,797
Transfer to amount recoverable from customer capital contributions (Note 16)	-	(723)	(723)
Disposals and write offs	-	(2,233)	(2,233)
At 31 December 2012	**2,457**	**368,124**	**370,581**
Amortisation			
At 1 January 2011	**(696)**	**(48,224)**	**(48,920)**
Charge for the year	(123)	(21,417)	(21,540)
Disposals and write offs	-	590	590
At 31 December 2011	**(819)**	**(69,051)**	**(69,870)**
Charge for the year	(123)	(22,125)	(22,248)
Disposals and write offs	-	1,220	1,220
At 31 December 2012	**(942)**	**(89,956)**	**(90,898)**
Net carrying amount			
At 31 December 2011	**1,638**	**203,232**	**204,870**
At 31 December 2012	**1,515**	**278,168**	**279,683**

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 Privatization 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

	2012 Ushs million	2011 Ushs million
At 1 January	170,535	185,147
Financing income for the year	13,118	14,544
Recoveries-principal	-	(27,295)
Recoveries-financing income	-	(14,544)
Foreign exchange gain	13,175	12,683
At 31 December	**196,828**	**170,535**
Maturity analysis of the financial asset:		
Outstanding financial asset	196,828	170,535
Less: Amount recoverable within one year	(43,892)	(28,567)
Non-current portion of financial asset	152,936	141,968
The financial asset is recoverable as analysed below:		
Within one year	43,892	28,567
Between one and two years	33,432	31,034
Between two and three years	33,649	31,236
Between three and four years	8,250	7,658
Between four and five years	8,910	8,271
After five years	68,695	63,769
	196,828	**170,535**

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.

14. CONCESSION ARRANGEMENT FINANCIAL ASSET (CONTINUED)

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.

ERA did not include the concession obligation recovery parameter in the tariff for the year and UEDCL did not bill the Company for payment of the concession obligation during the year. As such, no payments were made to UEDCL regarding the concession obligation and no recoveries of the concession financial asset were made during the year. The concession agreement forming the basis of the concession obligation remains unmodified and it is expected that the concession obligation recovery parameter will be reintroduced into the tariff methodology in future.

15 INVENTORIES

	2012 Ushs million	2011 Ushs million
Overhead materials & accessories	14,115	9,661
Underground cables, materials & accessories	4,305	4,252
Substation transformers & accessories	6,245	4,010
Meters, metering equipments & accessories	7,475	5,901
Moveable plants and vehicle spares	2	3
Tools and other equipment	1,029	1,130
Stationery	726	418
Expense on goods in transit	2,563	2,110
	36,460	**27,485**

16 AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS

At 1 January	9,987	-
Additions to customer funded installations	5,944	18,268
Completed customer funded installations	(15,208)	(8,281)
At 31 December	**723**	**9,987**

17 TRADE AND OTHER RECEIVABLES

	2012 Ushs million	2011 Ushs million
Trade receivables	279,482	179,083
Add: Advance payments by energy customers transferred to payables	11,762	23,732
Trade receivables	291,244	202,815
Less: Allowance for impairment	(123,480)	(125,423)
Net trade receivables	**167,764**	**77,392**
Prepayments	9,265	6,728
Letters of credit	1,064	9,033
Other receivables	812	1,429
WHT receivable	1,189	-
VAT claimable	8,162	2,058
	20,492	**19,248**
Trade and other receivables	**188,256**	**96,640**

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 11.76 billion (2011: Ushs 23.73 billion) which have been reclassified to other payables.

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

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

	2012 Ushs million	2011 Ushs million
At 1 January	125,423	134,564
Adjustment to the impairment provision on the balance taken over from UEDCL on 1 March 2005	(61)	177
Allowance for impairment for the year	10,123	2,981
Less: Bad debts written off (see below)	(12,005)	(12,299)
At 31 December	**123,480**	**125,423**
Bad debts written off are made up of the following:		
UEDCL trade receivables	-	661
Umeme trade receivables	12,005	11,638
	12,005	**12,299**

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.

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Year	Total	Neither past due nor impaired <30 days	Past due but not impaired		Impaired
			30-60 days	>60 days	
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
2012	279,482	74,496	22,548	58,958	123,480
2011	179,083	30,564	12,891	10,205	125,423

18 BANK BALANCES

	2012 Ushs million	2011 Ushs million
Bank balances	50,660	49,732

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.

19 ISSUED CAPITAL

	2012	2011
a) Number of shares		
i) Authorised shares		
At 1 January	13,384	13,384
Share split (100,000 for 1 share)	1,338,386,616	-
	1,338,400,000	13,384
Authorised during the year	461,600,000	-
At 31 December	**1,800,000,000**	**13,384**
ii) Number of issued shares		
At 1 January	13,384	13,384
Share split (100,000 for 1 share)	1,338,386,616	-
	1,338,400,000	13,384
Issued during the year	285,478,005	-
At 31 December	**1,623,878,005**	**13,384**

On 28 June 2012, the Company's General Meeting approved the conversion from a private limited liability company to a public limited liability company through an Initial Public Offering (IPO) on the Uganda Securities Exchange (USE) and a cross listing on the Nairobi Stock Exchange (NSE). The meeting further approved the increase of the authorised share capital of the Company and approved the sub-division of the shares of the Company into 100,000 for 1 share split to create 1,800,000,000 authorised ordinary shares and 1,338,400,005 issued ordinary shares.

272,378,000 shares were issued for subscription to the public (247,866,700) and employees and directors (24,511,300), and 13,500,000 shares were offered to employees under an employee share grant scheme. The subscription shares were fully subscribed for and issued, while of the employee share grant scheme shares, 13,100,005 were actually issued. The value of the shares issued is indicated below:

19 ISSUED CAPITAL (CONTINUED)

b) Par value of shares

The par value of the shares before the share split was Ushs 1,708,776. This per value was reduced to Ushs 17.087763 on the splitting of the shares and this was also the per value of the shares issued during the year.

	2012 Ushs	2011 Ushs
	Ushs 17.087763	US$ 1,000 translated at 1,708.7763 Ushs/US$
At 1 January	1,708,776	1,708,776
Share split (100,000 for 1 share)	(1,708,759)	-
At 31 December	**17.087763**	**1,708,776**

The total value of the shares issued during the year was as indicated in the table below:

	Number of shares	Value of shares issued		
		Issued capital Ushs million	Premium Ushs million	Total Ushs million
Issued to the public	247,866,700	4,235	63,928	68,163
Issued to employees and directors	24,511,300	419	6,322	6,741
Employee share grant scheme	13,100,005	224	3,379	3,603
Share issue costs	-	-	(3,336)	(3,336)
	285,478,005	**4,878**	**70,292**	**75,170**

c) Value of issued shares

	2012 Ushs million	2011 Ushs million
At 1 January	22,870	22,870
Issued during the year	4,878	-
At 31 December	**27,748**	**22,870**

e) Spread of issued shares as at 31 December 2012

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500 shares	10	1,122	0.0000691%
500 - 5,000 shares	3,020	5,955,200	0.3667271%
5,001 – 10,000 shares	1584	14,290,300	0.8800107%
10,001 – 100,000 shares	1,344	33,795,068	2.0811334%
100,001 - 1,000,000 shares	232	65,342,470	4.0238534%
Above 1,000,000 shares	69	1,504,493,845	92.6482064%
	6,259	**1,623,878,005**	**100.000000%**

19 ISSUED CAPITAL (CONTINUED)

d) Shareholding

Name	31 December 2012 Number of shares	31 December 2012 Percentage shareholding	31 December 2011 Number of shares	31 December 2011 Percentage shareholding
Umeme Holdings Limited (Including shares held by its nominees)	975,653,505	60.08%	13,384	100%
National Social Security Fund	131,502,100	8.10%	-	-
Dazbog Holdings EFC Limited	52,975,000	3.26%	-	-
International Finance Corporation	45,220,900	2.78%	-	-
Standard Bank Plc	42,775,000	2.63%	-	-
Dazbog Holdings BFC Limited	36,400,000	2.24%	-	-
Dazbog Holdings AFC Limited	31,850,000	1.96%	-	-
Utilico Emerging Markets Limited	19,000,000	1.17%	-	-
SCB Mauritius Re Allan Gray Africa Equity (Rand) Fund	17,700,000	1.09%	-	-
SSB Russell Investment Company Plc Fund NAS 5	12,044,500	0.74%	-	-
Others	258,757,000	16%	-	-
	1,623,878,005	**100.00%**	**13,384**	**100%**

20 SHARE PREMIUM

	2012 Ushs million	2011 Ushs million
Total proceeds from issue of shares	78,506	-
Less: Issued capital	(4,878)	-
Less: Capital raising costs (IPO costs)	(3,336)	-
Share premium	**70,292**	**-**

21 PROPOSED DIVIDEND

	2012 Dividend per share Ushs	2012 Total Ushs million	2011 Dividend per share Ushs	2011 Total Ushs million
Proposed dividend	15	24,358	-	-

Subject to the approval of the shareholders, the directors recommend to members that a final dividend of UShs 15 per ordinary share be paid for the year ended 31 December 2012 (2011: Nil).

22 SHAREHOLDER'S LOAN

	2012 Ushs million	2011 Ushs million
Umeme Holdings Limited	-	70,963
Movement on the account:		
At 1 January	70,963	73,620
Foreign exchange loss on translation	7,486	3,947
Accrued interest for the year	7,341	8,141
Less: Payments during the year-interest	(11,120)	(14,745)
Payments during the year -principal	(74,670)	-
At 31 December	**-**	**70,963**
Less: Current portion - amount due within one year	-	(15,549)
Non-current portion	**-**	**55,414**
The loan is due as follows:		
Due within one year	-	15,549
Due between one and two years	-	31,624
Due between two and three years	-	9,516
Due between three and four years	-	9,516
Due between four and five years	-	4,758
	-	**70,963**

The shareholder's loan was unsecured and attracted 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 was subordinated to the IFC loan. The loan was fully repaid during the year using the proceeds from shares issued and sold in the Company's Initial Public Offering.

23 INTERNATIONAL FINANCE CORPORATION (IFC) LOAN

	2012 Ushs million	2011 Ushs million
IFC loan	54,861	57,249
Movement on the account		
At 1 January	57,249	36,623
Additional loan during the year	-	23,660
Foreign exchange loss on translation	3,596	2,673
Interest charge for the year	3,062	3,075
Less: Principal repayment during the year	(6,004)	(6,057)
Less: Interest payment during the year	(3,042)	(2,725)
	54,861	**57,249**
Less: Current portion - amount due within one year	(7,768)	(7,289)
Non - current portion	**47,093**	**49,960**
The amount due is made up as follows:		
Principal	53,859	56,205
Interest payable	1,002	1,044
	54,861	**57,249**

In 2009, the Company signed a borrowing agreement with IFC worth US$ 25 million. The loan attracts interest of 6 months LIBOR + 5% interest. The entire loan amount of US$ 25 million was fully drawn down in 2011. 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 and a share pledge agreement.

24 CONCESSION OBLIGATION

	2012 Ushs million	2011 Ushs million
At 1 January	170,535	185,147
Financing expense for the year	13,118	14,544
Payment-principal	-	(27,295)
Payment-financing cost	-	(14,544)
Foreign exchange loss	13,175	12,683
At 31 December	**196,828**	**170,535**
Maturity analysis of the concession obligation:		
Outstanding obligation	196,828	170,535
Less: Due within one year	(43,892)	(28,567)
Non-current portion of the obligation	**152,936**	**141,968**

24. CONCESSION OBLIGATION (CONTINUED)

The concession obligation is due as analysed below:

	2012 Ushs million	2011 Ushs million
Within one year	43,892	28,567
Between one and two years	33,432	31,034
Between two and three years	33,649	31,236
Between three and four years	8,250	7,658
Between four and five years	8,910	8,271
After five years	68,695	63,769
	196,828	**170,535**

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%. The present value of the concession obligation is adjusted in case of changes in the estimated repayments schedule.

25 CUSTOMER SECURITY DEPOSITS

	2012 Ushs million	2011 Ushs million
At 1 January	2,443	21,323
Amount received during the year	7,701	7,385
Amount refunded during the year	(6,456)	(26,327)
Write off of unrecoverable rebates	-	62
At 31 December	**3,688**	**2,443**

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:

	2012 Ushs million	2011 Ushs million
Domestic customers	0.1	0.1
Commercial customers-ordinary	0.2	0.2
Commercial customers-commercial time	0.5	0.5
Industrial customers-ordinary	1	1
Industrial customers-heavy	2	2

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 annualized rate on a 360-treasury bill as published by Bank of Uganda. The guidelines were effective from 1 January 2011. To comply with the guidelines, the Company has provided for interest payable on the security deposits for the year.

26 DEFERRED CONSTRUCTION INCOME

	2012 Ushs million	2011 Ushs million
At 1 January	16,198	10,780
Amount received	13,266	13,699
Amount utilised	(25,194)	(8,281)
Unutilised customer contributions at 31 December	**4,270**	**16,198**

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

27 TRADE AND OTHER PAYABLES

	2012 Ushs million	2011 Ushs million
Trade payables	209,702	70,773
Accrued expenses and other payables	23,275	23,223
Advance payments by energy customers	11,762	23,732
	244,739	**117,728**

Accrued expenses and other payables include Ushs 6 billion (2011: Ushs 7.69 billion) relating to the performance bonus for the year as indicated below:

	2012 Ushs million	2011 Ushs million
At 1 January	7,694	4,230
Accrual for the year	2,808	7,498
Bonus paid during the year	(4,265)	(4,035)
Write back of prior year over accrual	(237)	1
At 31 December	**6,000**	**7,694**

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

28 CASH FLOWS FROM OPERATING ACTIVITIES AND CASH AND CASH EQUIVALENTS

a) **Cash flows from operating activities**	**Note**	**2012 Ushs million**	**2011 Ushs million**
Profit before tax		60,920	44,617
Adjustment for:			
Interest from bank deposits	5(b)	(1,914)	(1,485)
Finance income on concession arrangement financial asset	5(b)	(13,118)	(14,544)
Amortisation of intangible assets	13	22,248	21,540
Impairment provision for bad and doubtful debts	7	10,123	2,981
Interest on shareholder's loans	9	7,341	8,141
Interest on IFC loan	9	3,062	3,075
Interest on customer security deposits	9	591	2,226
Finance cost on concession obligation	9	13,118	14,544
Loss/(profit) on sale of assets		847	(195)
Unrealised foreign exchange loss		3,596	6,620
		106,814	87,520
Increase in inventories		(8,975)	(6,499)
Increase in amounts due from customer capital contributions		9,264	(9,987)
Increase in trade and other receivables		(91,616)	(6,801)
(Decrease)/increase in deferred construction income		(11,928)	5,417
(Decrease)/increase in customer security deposits		1,245	(18,880)
Increase in bank balances not available for use		(1,245)	(2,443)
Increase in trade and other payables		127,385	14,306
Cash generated from operating activities		130,944	62,633
Interest received from banks	5(b)	1,914	1,485
Recovery of finance income - concession arrangement financial asset	14	-	14,544
Current income tax paid	11(b)	(12,000)	(3,523)
Interest paid on shareholder's loan	22	(11,120)	(14,745)
Interest paid on IFC loan	23	(3,042)	(2,725)
Net cash flows from operating activities		**106,696**	**57,669**

b) **Cash and cash equivalents**		
Bank balances (Note 18)	50,660	49,732
Bank balances not available for use (Note 25)	(3,689)	(2,443)
	46,971	**47,289**

As disclosed in note 25, effective 1 January 2011, the Company is 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 are not be available for use in the Company's operations.

29. LETTERS OF CREDIT

As at 31 December 2012, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited. The letters of credit facilitate the purchase and importation of network equipment and related electricity distribution accessories. A total of Ushs 1.064 billion had been deposited under the letters of credit facilities as at 31 December 2012 (2011: Ushs 9 billion) as disclosed under note 17. The amounts deposited with the bank act as the collateral for the active letters of credit.

30. 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. Umeme Holding Limited owns and controls 60.08% of the Company's issued shares. The Company is ultimately controlled by CDC Group Plc through Actis Infrastructure 2 LP which owns Umeme Holding Limited. The Company is also related to Globeleq Expatriate Services Limited, Globeleq Africa Holdings Limited and DFCU Bank Limited through common shareholding.

The following transactions were carried out with related parties:

	2012 Ushs million	2011 Ushs million
i) Management and secondment services		
Globeleq Expatriate Services Ltd - Management fees	2,328	2,939
ii) Other transactions		
GQ Africa Holdings-recharges	86	96
GQ-Transactional service fees	130	144
	216	**240**
iii) Compensation of key management personnel		
Short-term employee benefits	3,751	3,160

The above benefits include directors' emoluments and expenses and expatriate expenses.

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

	2012 Ushs million	2011 Ushs million
i) Amounts due to related parties		
Globeleq Expatriate Services Ltd	646	288
Globeleq Africa Holdings Ltd	22	2
Actis - recharges	987	78
Umeme Holdings Limited	1,528	-
	3,183	**368**

30. RELATED PARTIES (CONTINUED)

	2012 Ushs million	2011 Ushs million
ii) Amounts due from related parties		
GQ-Mini Generation Project	-	4
GQ-Distribution Projects	-	18
	-	**22**
iii) Bank balances due from related parties		
DFCU Bank Limited	2,579	12,056

The bank balances above are demand deposits and are at the banks' 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 notes 22.

31. CONTINGENT LIABILITIES

Legal claims

The Company is a defendant in various legal actions arising in the normal course of business. The Company has been advised by its legal counsel that it is only possible, but not probable, that actions whose estimated cost is Ushs 1.354 billion 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.

32. COMMITMENTS

(i) 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 2013 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.

(ii) 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.

32. COMMITMENTS (CONTINUED)

(iii) 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 million	Present value of payments Ushs million
As at 31 December 2012:		
After one year	43,892	16,791
After one year but not more than five years	84,240	37,668
After five years	68,696	18,568
	196,828	**73,027**
Less: Amounts representing finance charges	(123,801)	-
Present value of minimum rental payments	**73,027**	**73,027**
At 31 December 2011:		
After one year	28,567	15,531
After one year but not more than five years	78,199	34,841
After five years	63,769	17,174
	170,535	**67,546**
Less: Amounts representing finance charges	(102,989)	-
Present value of minimum rental payments	**67,546**	**67,546**

(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 2012 are disclosed in note 41.

33. CONCESSION ARRANGEMENT

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

Lease and Assignment Agreement (LAA)

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

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

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

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

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

e) The agreement may be terminated either by UEDCL where the Company fails to meet its obligations or by the Company where UEDCL, UETCL or GOU fail to meet their respective obligations as specified under the original agreement or under the fourth amendment to the LAA of 28 November 2006. A buy-out amount (as defined in the agreement) is payable to the Company.

f) 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 Ushs 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.

33. CONCESSION ARRANGEMENT (CONTINUED)

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 short fall 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.

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.

33. CONCESSION ARRANGEMENT (CONTINUED)

Reimbursement and Credit Agreement

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

IDA Commitment Agreement

This agreement was signed on 23 February 2005 between IDA, as the Letter of Credit reimbursement commitment provider, and Citibank Uganda Limited (Letter of Credit Issuing Bank). Upon the request of GOU, IDA committed to provide 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.

34. RISK MANAGEMENT

The Company's financial instruments include trade receivables, trade payables, letters of credit, concession obligation, borrowings (IFC loan), cash held with commercial banks and the 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. The Board of Directors reviews and agrees policies for managing each of these risks as summarised below:

Interest rate risk

The Company's short term financial liabilities are interest free. The shareholder's loan which was fully repaid during the year had a fixed interest rate and hence presented 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 92.3 million (2011: Ushs 92 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.

Foreign exchange risk

The Company'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 foreign exchange rate movements.

The Company's profit before income tax and equity would (decrease)/increase by Ushs 3.5 billion (2011: Ushs 6.56 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 South African Rand (ZAR) do not have a material impact on the Company's results.

34. RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (continued)

The table below summarises the Company's exposure to foreign currency exchange rate risk as at 31 December 2012 and 31 December 2011. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2012	US$	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession arrangement financial asset	196,828	-	-	-	-	196,828
Amount recoverable from customer capital contributions	-	-	-	-	723	723
Trade and other receivables	-	-	-	-	169,640	169,640
Bank balances	4,013	-	-	-	46,647	50,660
Total financial assets	200,841	-	-	-	217,010	417,851
Financial liabilities						
IFC loan	54,861	-	-	-	-	54,861
Concession obligation	196,828	-	-	-	-	196,828
Customer security deposits	-	-	-	-	3,688	3,688
Deferred construction income	-	-	-	-	4,270	4,270
Trade and other payables	19,160	160	5,113	1,047	219,259	244,739
Total financial liabilities	**270,849**	**160**	**5,113**	**1,047**	**227,217**	**504,386**
Overall open position	**(70,008)**	**(160)**	**(5,113)**	**(1,047)**	**(10,207)**	**(86,535)**

At 31 December 2011	US$	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession arrangement financial asset	170,535	-	-	-	-	170,535
Amount recoverable from customer capital contributions	-	-	-	-	9,987	9,987
Trade and other receivables	5,367	-	95	205	82,187	87,854
Bank balances	17,582	-	-	-	32,150	49,732
Total financial assets	193,484	-	95	205	124,324	318,108
Financial liabilities						
Shareholder's loan	70,963	-	-	-	-	70,963
IFC loan	57,249	-	-	-	-	57,249
Concession obligation	170,535	-	-	-	-	170,535
Customer security deposits	-	-	-	-	2,443	2,443
Deferred construction income	-	-	-	-	16,198	16,198
Trade and other payables	25,936	271	2,540	318	88,663	117,728
Total financial liabilities	**324,683**	**271**	**2,540**	**318**	**107,304**	**435,116**
Overall open position	**(131,199)**	**(271)**	**(2,444)**	**(113)**	**17,020**	**(117,008)**

34. RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the financial exposure generated by the potential default of third parties in fulfilling their obligations. The Company uses financial institutions regulated by Bank of Uganda and 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 before being connected to the distribution network equivalent to three months' estimated energy consumption, unpaid amounts from Government of Uganda bodies are recoverable through contractual rights in the concession agreements 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 17 less amounts receivable from GOU institutions and customer security deposits as follows:

	2012 Ushs million	2011 Ushs million
Carrying amount of trade receivables (note 17)	167,764	77,392
Less: Amounts receivable from GOU bodies	(51,496)	(12,140)
Customer security deposits (note 25)	(3,689)	(2,443)
Maximum exposure	**112,579**	**62,809**

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 bank balances) 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. 54% of the Company's debt will mature in less than one year at 31 December 2012 (2011: 51%) based on the carrying value of the liabilities reflected in the financial statements.

The primary objective of the Company's liquidity management is to ensure that it maintains compliance with the creditor commitments and obligations. To maintain or adjust the liquidity position, the Company may call for more capital from shareholders, get financing facilities or adjust the timing of capital expenditure and / or repayments to some creditors, where possible. The company also has an unutilised short term financing facility as disclosed in note 32(i).

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

34. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

At 31 December 2012	Up to 1 Month Ushs million	1 - 3 Months Ushs million	3 - 12 Months Ushs million	Over 1 year Ushs million	Total Ushs million
Financial assets					
Concession arrangement financial asset	3,673	11,018	29,382	203,230	247,303
Amount recoverable from customer capital contributions	-	-	723	-	723
Trade and other receivables	169,640	-	-	-	169,640
Bank balances	50,660	-	-	-	50,660
Total financial assets	**223,973**	**11,018**	**30,105**	**203,230**	**468,326**
Financial liabilities					
IFC loan	-	4,907	4,835	57,308	67,050
Concession obligation	3,673	11,018	29,382	203,230	247,303
Customer security deposits	-	3,689	-	-	3,689
Deferred construction income	1,423	2,847	-	-	4,270
Trade and other payables	244,739	-	-	-	244,739
Total financial liabilities	249,835	22,461	34,217	260,538	567,051
Overall open position	**(25,863)**	**(11,442)**	**(4,112)**	**(57,308)**	**(98,725)**
At 31 December 2011					
Financial assets					
Concession arrangement financial asset	3,398	10,191	27,176	187,974	228,739
Amount recoverable from customer capital contributions	-	-	9,987	-	9,987
Trade and other receivables	87,854	-	-	-	87,854
Bank balances	49,732	-	-	-	49,732
Total financial assets	**140,984**	**10,191**	**37,163**	**187,974**	**376,312**
Financial liabilities					
Shareholder's loan	-	-	-	74,670	74,670
IFC loan	-	4,726	4,654	62,017	71,397
Concession obligation	3,397	10,192	27,176	187,974	228,739
Customer security deposits	-	2,443	-	-	2,443
Deferred construction income	5,399	10,798	-	-	16,198
Trade and other payables	117,728	-	-	-	117,728
Total financial liabilities	126,524	28,159	31,830	324,661	511,175
Overall open position	**14,459**	**(17,968)**	**(5,333)**	**(136,687)**	**(134,863)**

34. RISK MANAGEMENT (CONTINUED)

Fair value

There are no material differences between the fair values and the carrying amounts of the Company's financial assets and liabilities. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly from the market
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company did not hold any financial assets or liabilities measured at fair value at the reporting date. There were therefore no transfers into and out of the above fair value hierarchies.

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 2012 and 31 December 2011.

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 and 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 2012 was 51% (2011: 65%) as shown in the table below:

	Note	2011 Ushs million	2011 Ushs million
Shareholder's loan	22	-	70,963
IFC loan	23	54,861	57,249
Trade and other payables	27	244,739	117,728
Less: Cash and cash equivalents	29	(46,971)	(47,289)
Net debt		**252,629**	**198,650**
Issued capital	19(c)	27,748	22,870
Share premium	20	70,292	-
Retained earnings		141,407	84,297
Total capital		**239,447**	**107,168**
Net debt and capital		492,076	305,818
Gearing ratio		**51%**	**65%**

35. EMPLOYEES

The number of employees as at 31 December 2012 was 1,384 (2011: 1,213).

36. EVENTS AFTER THE REPORTING DATE

There are no reportable events after the reporting period.

37. 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).

38. BUY-OUT AMOUNT

The Buy-out amount represents the capital investment by the company which will not have been recovered through the tariff methodology at the time of transferring the distribution network to Government, as adjusted depending on the termination conditions. It is computed as the gross accumulated capital investments less cumulative capital recovery charges at the time of transfer. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate. The unrecovered capital investments as of the end of the year were as follows:

	2012		2011	
	Ushs million	US$ million	Ushs million	US$ million
Total investments	446,706	166.0	324,740	130.0
Investments yet to be approved by ERA	(133,151)	(49.5)	(96,872)	(38.8)
Total investments approved by ERA	313,555	116.5	227,868	91.2
Total investments approved by ERA	313,555	116.5	227,868	91.2
Total investments not yet approved by ERA	133,151	49.5	96,872	38.8
Less: Cumulative capital recovery charges	(104,403)	(38.8)	(70,993)	(28.4)
Unrecovered investments	342,303	127.2	253,747	101.6

The buy-out amount is contractually denominated in US$. The US$ balances above have been translated to Uganda shillings at the reporting date spot exchange rates.

The investments yet to be approved by ERA are inclusive of capital investments for the year ended 31 December 2012 (US$ 36 million), capital work-in-progress (US$ 3.3 million) and the remainder are investments related to prior periods still under review. The cumulative capital recoveries and investments approved by ERA are inclusive of allowance for impairment charge (US$ 7.0 million) related to 2010.

As of 31 December 2012, the estimated weighted average depreciation rate was 9.5% and it is hence estimated that all capital investments done of that date will be recovered through the tariff methodology.

It is expected that as concession years decrease, part of the investments made will not have been recovered through the tariff methodology by the natural end of the concession. The buy-out amount shall be paid in cash and hence any amounts due shall be accounted for as a financial asset.

39. SEGMENT INFORMATION

The Company is organised into one single business unit for management purposes. Management monitors the operating results of the business as a single unit for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which is measured the same as the operating profit or loss in the financial statements.

The Company's core business activities are electricity distribution and electricity supply and service after sales. Electricity distribution entails operation, maintenance and upgrading of the electricity distribution network not exceeding 33 KiloVolt (KV) within the authorised territory within Uganda. Electricity supply and service after sales 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 revenue from these business activities is categories into energy sales (billings to customers), construction income and other operating income as presented in notes 3 and 5.

The Company's customers are categorised into domestic, commercial, medium industrial, large industrial and street lighting. The retail tariff rates are broken into categories based on the type of customer and generally charged based on relative usage levels plus a fixed monthly service charge. The ERA approved retail tariff rates for 2012, effective as of 15 January 2012, are shown in the table below:

Customer segment	Description	Based on usage		Fixed monthly charge
		Usage	**Ushs/kWh**	**Ushs**
Domestic	Low voltage supply to residential houses, small shops and kiosks	</> 15kWh	100-524.5	33,360
Commercial	Low voltage supply to three phase low voltage, small scale industries like maize mills	Peak, shoulder and off peak	380.8-550.9	3,360
Medium industrial	Low voltage supply to medium scale industries, taking power at low voltage (415 V), with maximum demand of up to 500kVA	Peak, shoulder and off peak	376.3-518.6	22,400
Large industrial	High voltage supply to large scale industrial users, taking power at high voltage (11,000 or 33,000 V), with maximum demand exceeding 500kVA but up to 10,000kVA	Peak, shoulder and off peak	266.6-375.4	
		Additional maximum demand charge	5,548-11,096 per Kw/month	70,000
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	488.7	N/A

Usage time periods are set based upon observed consumption levels and specific times will vary by customer category. The time period is specified by hour by category but may also vary based on seasonal changes. Generally the time periods can be described as follows:

39. SEGMENT INFORMATION (CONTINUED)

- **Peak** – time period of highest consumption levels, generally during the day time hours
- **Shoulder** – time period of moderate consumption levels, depending upon category it may be during certain hours of the day or on the weekend
- **Off peak** – time period of low consumption, generally overnight and depending upon category it may be during the weekend

The company prepares a tariff submission to ERA once each year, including the fixed targets and updates for actual performance. The retail tariff is set annually from January, and is adjusted quarterly for changes in the Bulk Supply Tariff as well as changes in foreign exchange rates and inflation. The retail tariff is set to be close to fully cost reflective and thereby captures most of the costs of the industry.

The revenue generated from each of the above customer categories is as presented in note 3. All the revenue is generated from external customers domiciled in Uganda. No single external customer contributes revenue amounting up to 10% of the Company's revenue.

All the Company's assets are located in Uganda.

40. EMPLOYEE SHARE INCENTIVE SCHEMES

Umeme wishes to better incentivise its workforce to deliver the Company's objectives in terms of safety, customer service, increased access and financial performance. The directors believe that an important route to achieving this goal is to have employees who are also shareholders in the Company. Consequently, the directors approved two Employee Share Incentive Schemes as part of the IPO process.

Under both schemes, the Company has granted to participating employees, at the commencement of the scheme, a right to be eligible to receive a cash award on the Vesting Date.

To qualify to receive an award an individual participating employee must be the registered owner throughout the Vesting Period of a specified number of qualifying shares.

After the vesting date, the employee will receive the appropriate cash award (after deduction of any PAYE tax which may be payable), provided that the employee has fulfilled the service, qualifying shareholding and performance conditions that will have been specified and which will have been designed to promote employee retention and continued performance.

The cash award that an employee may receive will be also be dependent on the Company achieving minimum financial performance target in terms of EBITDA over the three years ending 31 December 2013, 31 December 2014 and 31 December 2015 compared to the year ended 31 December 2012,

The Company expects that the aggregate number of qualifying shares that will form the basis of computing the ultimate cash award will not exceed 22,750,000 shares. Further, the Company expects that the maximum number of qualifying Shares that employees need to hold to receive a cash award will be as set out in the table below

Employee level	Maximum number of qualifying Shares per employee
Senior management	1,400,000 to 2,790,000
Middle management	230,000
Other employees	10,000

40. EMPLOYEE SHARE INCENTIVE SCHEMES (CONTINUED)

a) Share Grant Scheme

This scheme involved Umeme making a grant of up to 10,000 shares in Umeme, aggregating to 13,100,005 shares, to all its eligible employees. Participant employees may also be eligible for a cash award, not exceeding the equivalent of US$ 1,000 at the end of the Vesting Period, 31 December 2015, provided they continue to own the grant shares over the Vesting Period.

The scheme was approved and initiated during the year. The Company has recognised a cost of employment expense in these financial statements in respect of the share grant scheme. The employment expense recognised was measured as the fair value of the shares issued. The shares granted were valued at the share price offered to the public as indicated in note 19.

b) Deferred Bonus Scheme

This scheme was open to eligible employees in the middle and senior management grades, who were invited to apply to purchase offer shares during the offer as part of the employee and directors' pool mechanism and thus increase their shareholding in the Company to be in a position to receive a further cash award.

The higher the amount that such employees have invested in the Company's shares, the higher will be the ultimate deferred cash award that they receive (subject to the maximum number of qualifying shares and provided that they meet the other criteria for the cash awards). Employees who choose to buy and hold shares that, in aggregate, exceed the maximum qualifying shares will only receive cash awards computed with reference to the maximum number of qualifying shares.

Employees in senior and middle management grades, who were eligible for the Deferred Bonus Scheme, were paid a cash bonus during the year as part of this scheme and the aggregate expense of this bonus was Ushs 2.5 billion. This expense has been recognised in these financial statements.

In accordance with IFRS, the Company will recognise an annual cost of employment expense in each financial period from the financial year ended 31 December 2013 in respect of the Deferred Bonus Scheme and will recognise a liability equal to the anticipated cash award (gross of PAYE) that the employees will ultimately be entitled to when the award vests. The directors estimate that the expense to be recognised in the financial year ended 31 December 2013 will be approximately Ushs 4 billion although the actual expenses recognised will depend on the final terms of the scheme, the date on which the initial awards are actually made and the financial performance of the Company in terms of EBITDA. Annual expenses recognised in the financial periods to 31 December 2014 and onwards will depend on the financial performance of the Company in terms of EBITDA. The Company will seek approvals from its Remuneration Committee and the Board.

1. SUMMARY OF UMEME INVESTMENTS

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 2012, Ushs 368 billion (equivalent to US$ 166 million) had been invested in the distribution system as shown below (exclusive of customer funded assets and World Bank funded materials):

1. SUMMARY OF UMEME INVESTMENTS (CONTINUED)

a. Umeme funded investments

	2005-2007 Ushs million	2008 Ushs million	2009 Ushs million	2010 Ushs million	2011 Ushs million	2012 Ushs million	Total Ushs million
In Uganda Shillings							
Substations, Low Voltage Lines & Services	34,186	26,750	41,382	44,762	63,154	84,610	**294,844**
Land and Buildings	433	2,658	1,191	1,727	384	1,052	**7,445**
Furniture & Fittings, Tools & office equipment	3,086	1,955	2,195	1,058	1,134	3,143	**12,571**
Computers, Communication & MIS	3,746	12,192	5,732	1,209	1,581	8,393	**32,853**
Motor vehicles	8,379	2,576	3,587	2,070	2,266	875	**19,753**
Total investments	**49,830**	**46,131**	**54,087**	**50,826**	**68,519**	**98,073**	**367,466**
Represented by:							
Capitalised	42,498	44,634	60,872	40,589	68,459	101,430	**358,482**
Capital work in progress	7,332	1,497	(6,785)	10,237	60	(3,357)	**8,984**
	49,830	**46,131**	**54,087**	**50,826**	**68,519**	**98,073**	**367,466**
In US Dollars							
Foreign exchange rate-Ushs:US$	1,731	1,967	1,915	2,344	2,498	2,691	
Total investment: US$ million equivalent	**$29**	**$23**	**$28**	**$22**	**$27**	**$36**	**$166**

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

	2005-2007 US$' 000	2008 US$' 000	2009 US$' 000	2010 US$' 000	2011 US$' 000	2012 US$' 000	Total US$' 000
Receipts	11,749	15	-	-	-	-	11,764
Issues/usage	(8,358)	(2,533)	(156)	(71)	(81)	(232)	(11,431)
	3,391	**(2,518)**	**(156)**	**(71)**	**(81)**	**(232)**	**333**

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

2. 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 summarized 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.

At 31 December 2012	Substations, Low Voltage Lines & Services Ushs million	Land & Buildings Ushs million	Furniture & Fittings, Tools & Office Equip Ushs million	Computers, Comm. Equip't & MIS Ushs million	Motor Vehicles Ushs million	CWIP Ushs million	Total Ushs million
At 1 January 2012, net of accumulated depreciation and impairment	234,172	9,066	2,386	4,859	4,722	12,340	267,545
Additions	-	-	-	-	-	98,074	98,074
Transfer from Capital Work in Progress	87,966	1,053	3,143	8,393	874	(101,429)	-
Net disposals	(1,028)	-	-	-	(2)	-	(1,030)
Depreciation charge for the year	(26,432)	(717)	(1,567)	(3,958)	(2,233)	-	(34,907)
At 31 December 2012, net of accumulated depreciation and impairment	**294,678**	**9,402**	**3,962**	**9,294**	**3,361**	**8,985**	**329,682**
At 31 December 2012							
Cost	459,982	13,552	14,367	38,915	20,596	8,985	556,397
Accumulated depreciation	(165,304)	(4,150)	(10,405)	(29,621)	(17,235)	-	(226,715)
Net Carrying Amount	**294,678**	**9,402**	**3,962**	**9,294**	**3,361**	**8,985**	**329,682**
At 1 January 2012							
Cost	373,043	12,499	11,225	30,522	19,724	12,340	459,353
Accumulated depreciation	(138,871)	(3,433)	(8,839)	(25,663)	(15,002)	-	(191,808)
Net Carrying Amount	**234,172**	**9,066**	**2,386**	**4,859**	**4,722**	**12,340**	**267,545**

2. CONCESSIONED ASSETS SUMMARY (CONTINUED)

At 31 December 2011	Substations, Low Voltage Lines & Services Ushs million	Land & Buildings Ushs million	Furniture & Fittings, Tools & Office Equip Ushs million	Computers, Comm. Equip't & MIS Ushs million	Motor Vehicles Ushs million	CWIP Ushs million	Total Ushs million
At 1 January 2011, net of accumulated depreciation and impairment	194,665	9,334	2,745	10,849	5,503	12,281	235,377
Additions	-	384	1,134	1,581	2,265	63,154	68,518
Transfer from Capital Work in Progress	63,095	-	-	-	-	(63,095)	-
Net disposals	-	-	-	-	(4)	-	(4)
Depreciation charge for the year	(23,588)	(652)	(1,493)	(7,571)	(3,042)	-	(36,346)
At 31 December 2011, net of accumulated depreciation and impairment	**234,172**	**9,066**	**2,386**	**4,859**	**4,722**	**12,340**	**267,545**
At 31 December 2011							
Cost	373,043	12,499	11,225	30,522	19,724	12,340	459,353
Accumulated depreciation	(138,871)	(3,433)	(8,839)	(25,663)	(15,002)	-	(191,808)
Net Carrying Amount	**234,172**	**9,066**	**2,386**	**4,859**	**4,722**	**12,340**	**267,545**
At 1 January 2011							
Cost	309,948	12,115	10,090	28,941	17,462	12,281	390,837
Accumulated depreciation	(115,283)	(2,781)	(7,345)	(18,092)	(11,959)	-	(155,460)
Net Carrying Amount	**194,665**	**9,334**	**2,745**	**10,849**	**5,503**	**12,281**	**235,377**

3. CONCESSIONED ASSETS-SUMMARY OF UMEME INVESTMENTS

The distribution network tangible assets funded by the Company are summarized in the table below. These assets form the basis for the intangible asset (other concession rights) recognised in note 13. The net carrying amount of the tangible assets and the intangible asset are the same.

	Substations, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Computers, Comm. Equip't & MIS	Motor Vehicles	CWIP	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 1 January 2011	**133,517**	**6,019**	**8,048**	**27,718**	**16,844**	**12,281**	**204,427**
Additions	-	384	1,134	1,581	2,265	63,155	68,519
Transfer from CWIP	63,095	-	-	-	-	(63,095)	-
Disposals	(123)	-	-	(28)	(512)	-	(663)
At 31 December 2011	**196,489**	**6,403**	**9,182**	**29,271**	**18,597**	**12,341**	**272,283**
Additions	-	-	-	-	-	98,074	98,074
Transfer from CWIP	87,967	1,052	3,143	8,393	875	(101,430)	-
Disposals	(1,319)	-	-	-	(914)	-	(2,233)
At 31 December 2012	**283,137**	**7,455**	**12,325**	**37,664**	**18,558**	**8,985**	**368,124**
Depreciation							
At 1 January 2011	**14,307**	**504**	**7,044**	**15,362**	**11,007**	**-**	**48,224**
Charge for the year	9,020	291	1,493	7,571	3,042	-	**21,417**
Disposals	(123)	-	-	(28)	(439)	-	**(590)**
At 31 December 2011	**23,204**	**795**	**8,537**	**22,905**	**13,610**	**-**	**69,051**
Charge for the year	14,016	351	1,566	3,958	2,234	-	**22,125**
Disposals	(308)	-	-	-	(912)	-	**(1,220)**
At 31 December 2012	**36,912**	**1,146**	**10,103**	**26,863**	**14,932**	**-**	**89,956**
Net carrying amount							
As at 31 December 2011	**173,285**	**5,608**	**645**	**6,366**	**4,987**	**12,341**	**203,232**
As at 31 December 2012	**246,225**	**6,309**	**2,222**	**10,801**	**3,626**	**8,985**	**278,168**

4. 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.

	2012 Ushs million	2011 Ushs million
Cost		
At 1 January	54,596	46,315
Additions	25,194	8,281
At 31 December	79,790	54,596
Depreciation		
At 1 January	(7,120)	(4,708)
Depreciation charge for the year	(3,574)	(2,412)
At 31 December	(10,694)	(7,120)
Net Carrying Amount	**69,096**	**47,477**

12. Chairman's letter to shareholders

Dear shareholder

On behalf of the board of Umeme Limited ("the Company"), I invite you to attend the first annual general meeting (AGM) of the Company since it was listed on the Uganda Securities Exchange on 30th November 2012.

The meeting will be held at the Kampala Serena Hotel on 18th April 2013 at 9:30 am.

This is your opportunity to meet and question members of the board and management regarding your Company's performance for the year ended 31 December 2012. It is also an opportunity for you to know more about the Company which most of you recently invested in and to interact with the board and senior management.

If you are not able to attend the AGM, I urge you to complete and submit the proxy form included in the annual report in accordance with the instructions and return it to the address indicated. It is important that you participate in key decisions of the Company and the proxy form will enable you to do that.

Explanatory note on resolutions to be tabled at the AGM

The AGM will deal with the following business:

- To receive the annual financial statements for the year ended 31 December 2012, including the reports of the directors and auditors
- To declare a final dividend for 2012
- To appoint external auditors for the year 2013
- To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association
- To approve the proposed fees payable to the non-executive directors for 2013
- To amend the Company's Articles of Association by including new articles 146 and 147 to reflect the Company's adoption of Environmental, Social and Governance Policies.

The board and I look forward to meeting you at the AGM.

Patrick Bitature
Chairman
25th March 2013

UMEME

NOTICE

of Annual General Meeting (AGM)

Notice is hereby given that the annual general meeting (AGM) of Umeme Limited will be held at the Kampala Serena Hotel on 18 April 2013 at 9.30 am for the following business:

Ordinary Resolutions

1. To receive the annual financial statements for the year ended 31 December 2012, including the reports of the directors and auditors.
2. To declare a final dividend for 2012.
3. To appoint external auditors for the year 2013.
4. To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association.

   Patrick Bitature and Stuart David Michael Grylls retire by rotation and both being eligible, offer themselves for re-election. Adrian Mucalov, who was recently appointed to the Board, is required to resign at the AGM and being eligible, offers himself for re-election.

   Details of the retiring directors are as follows:

   4.1 Patrick Bitature
   Age: 52
   Appointed: September 2007
   Academic qualifications: ICSA
   Directorships: Uganda Investment Authority (Chairman), Electro-Maxx [Uganda] Limited (Chairman).
   Committee member: Environmental, Social and Governance, Customer Service and Loss Reduction, Nomination.

   4.2 Stuart David Michael Grylls
   Age: 52
   Appointed: November 2007
   Academic qualifications: MBA, BSc
   Directorships: Generación Limpia Guatemala SA, Deocsa BV, Deorsa BV, Guatemel BV, Generacion Limpia BV, Recsa BV, Atlas Infrastructure Limited and Estrella Cooperatief BA.
   Committee member: Audit, Environmental, Social and Governance, Remuneration, Customer Service and Loss Reduction, Nomination.

   4.3 Adrian Mucalov
   Age: 35
   Appointed: March 2013
   Academic qualifications: CFA, MBA, MPA, BCom
   Directorships: None.
   Committee member: None.

5. To approve the proposed fees payable to the non-executive directors for 2013

Special Resolution

6. To consider and if deemed fit to pass, with or without modification, the following resolution as special resolution:

   "Resolved that the Company amends its Articles of Association to add new Articles 146 and 147 on the Company's adoption of Environmental, Social and Governance Policies. The new articles to read as follows:

   "146. The Company adopts, as Regulations within the meaning of the Act as amended or re-enacted, the following;

   (a) the IFC Performance Standards on Environmental and Social Sustainability dated January 1, 2012 (as amended from time to time); and

   (b) the Anti-Bribery and Anti-Corruption Guidelines collectively, the "Company's Policy on Environmental, Social and Governance Matters."

   "147. The Company may not alter or vary the Regulations made in accordance with Article 146 except by way of a Special Resolution passed in accordance with the provisions of these Articles of Association."

7. To conduct any other business that may be conducted at the AGM.

On behalf of the board

Shonubi, Musoke & Co Advocates
Company Secretary
25 March 2013

NOTICE OF ANNUAL GENERAL MEETING (AGM)

Proxy form

I/We ....
(Name in block letters)
of ....
(Address in block letters)

(Address in block letters)

being a member of UMEME LIMITED hereby appoint

....

of ....or failing him/her

....

of .... as my/our proxy, to vote for me/us and on my/our behalf at the

Annual General Meeting of the Company to be held at Kampala Serena Hotel on the 18th day April 2013, and at any adjournment thereof.

Signed this .... day of 2013

Please read the notes below

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. To be effective, completed proxy forms must be lodged by not later than 15 April 2013 with the Share Registrars at the address below:

   Share registrars
   Custody and Registrar Services Uganda Ltd.
   12th Floor DTB Centre
   Kampala Road
   Kampala, Uganda
   www.crsltd.co.ke
3. The completion and lodging of this form of proxy will not prevent the relevant shareholder from attending the AGM and speaking and voting in person at the AGM instead of the proxy.
4. The Chairman of the AGM may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.
5. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.
6. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company. In the case of a corporation, a resolution of the board or equivalent body shall be required.
7. Where there are joint holders of ordinary shares:
   a. any one holder may sign the proxy form; and
   b. the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholderswho tender a vote (whether in person or by proxy) appear in the Company's register) will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

Notes

1 **Details of directors**

Directors' details as required by the Listing Rules of the Uganda Securities Exchange ("the Listing Rules') are set out on page 16 and 17 of the Annual Report that accompanies this notice of annual general meeting ("the Annual Report").

2 **Directors' responsibility statement**

The Directors, whose names are given on page 16 and 17 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in the Annual Report and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listing Rules.

3 **Interests of directors**

The interest of the Directors in the share capital of the Company are set out on page 37 of the Annual Report.

4 **Major shareholders**

Details of major shareholders of the Company are set out on page 68 of the Annual Report.

5 **Share capital of the Company**

Details of the share capital of the Company are set out on pages 42 and 66-68 of the Annual Report.

6 **Material change**

There has been no material change in the financial or trading position of the Company since the date of publication of the Company's annual results on 25 March 2013.

Umeme Limited shareholders may attend, speak and vote at the AGM or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the AGM on behalf of such shareholder. A proxy form is attached to this notice of the AGM. Duly completed proxy forms must be returned to the Share Registrars of the Company at the address set out below, to be received by not later than 17h00 on 15 April 2013.

Registered office
Rwenzori House
Plot 1 Lumumba Avenue
P.O. Box 23841
Kampala, Uganda

Share registrars
Custody and Registrar Services Uganda Ltd
12th Floor, DTB Centre, Kampala Road
Kampala, Uganda
www.crsltd.co.ke

Contact details

Chief Financial Officer
Selestino Babungi
Tel: +256 312 30600

Company Secretary
Shonubi, Musoke & Co Advocates
Tel: +256 414 233204

For customer service inquiries call **0800 185185** (Toll free), **0312 185185** or **0752 185185**
or email **info@umeme.co.ug** website: **www.umeme.co.ug**

find us on Umeme limited @umemelimited