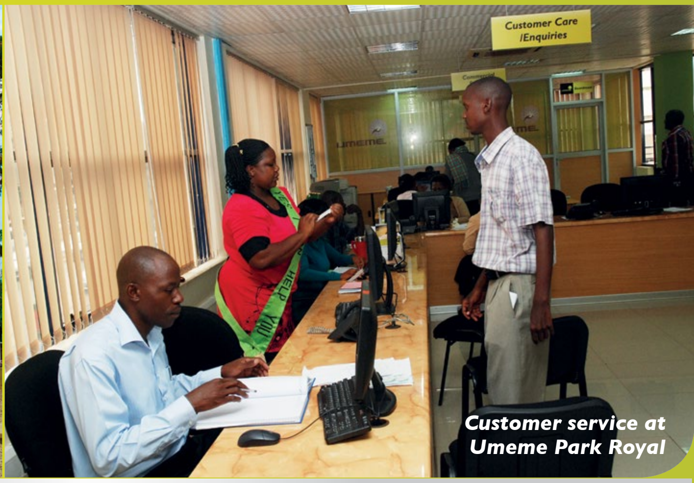
Annual Report 2013

UMEME

INVESTING IN SERVICE DELIVERY

The first Annual General Meeting held at the Serena Kampala Hotel in April 2013 following Umeme's listing on the Uganda Securities Exchange

New sub station at Lumpewo in Luweero



Customer service at Umeme Park Royal

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1. CORPORATE PROFILE

Background of Umeme Limited

Umeme 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 including; Eskom (U) Limited, operators of the Nalubaale and Kiira hydropower generation stations; Bujagali Energy Limited which operates the Bujagali hydroelectric power plant; Jacobsen Elektro AS, Electro-Maxx, Tronder Power Ltd, and other smaller IPPs (Independent power producers).

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 upgrade, expansion and 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

Key shareholder information

Umeme Limited became a public company under the Companies Act on the 28 June 2012.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) on the 30 November 2012 and a cross listing on the Nairobi Securities Exchange (NSE) by introduction, on 14 December 2012.

Umeme is 60.08% owned and controlled by Umeme Holdings Limited, an investment holding company domiciled in Mauritius. Umeme Holdings Limited is fully owned by Actis Infrastructure Umeme Limited which is 97.77% owned by Actis Infrastructure 2 LP.

The Company is a major investment of Actis Infrastructure 2 LP. Actis Infrastructure 2 LP is a leading private equity manager of investment funds specializing in emerging markets, with investments in Africa, Asia and Latin America. Actis Infrastructure 2 LP 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. CDC is the largest investor in Actis Infrastructure 2 LP and, as such, continues as an indirect investor in the Company.

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 & Co Advocates
SM Chambers
14 Hannington Road,
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

UMEME DISTRIBUTION NETWORK

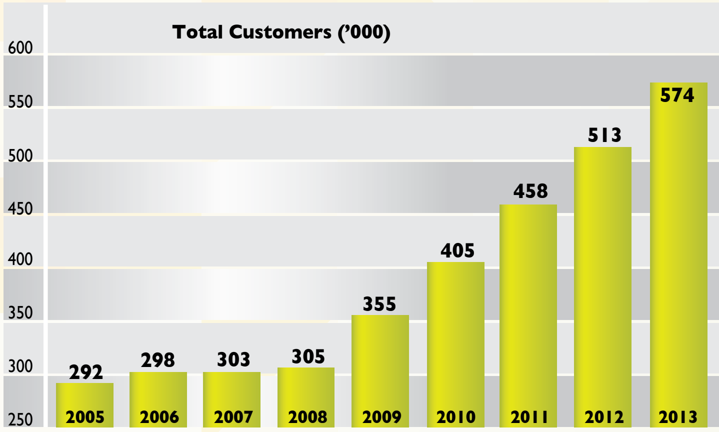
2. FINANCIAL AND OPERATIONAL HIGHLIGHTS

Financial statistics	2013 Ushs million	2012 Ushs million
For the year		
Revenue	965,752	859,552
Gross profit	289,886	235,317
Operating profit	137,851	93,975
Profit before tax	115,272	60,921
Profit for the year	83,667	57,110
Capital investments	146,824	98,074
At year-end		
Total Assets	888,906	755,933
Shareholder's Equity	285,765	239,447
Outstanding Interest Bearing Debt	91,032	54,861
Cash flows		
Net cash flows from operating activities	111,250	106,697
Net cash flows used in investing activities	(146,772)	(97,908)
Net cash flows from/ (used in) financing activities	2,758	(9,106)
Per share	**Ushs**	**Ushs**
Basic and diluted Earnings Per Share	52	42
Proposed Dividend per Share	24.8	15

Operating and other statistics	FY 2013	FY 2012
Electricity sales during the year (GWh)	2,118	1,937
Electricity purchases during the year (GWh)	2,800	2,622
Energy losses (percentage)	24.3%	26.1%
Revenue collections rate (percentage)	100.3%	94.0%
Total length of distribution lines (km)	11,184	11,109
Total length of low voltage lines (km)	15,018	14,908
Total distribution transformers at the end of the year	8,216	7,509
Bulk Supply offtake points (UETCL Substations 132KV / 66KV / 33KV / 11KV)	15	15
Distribution Substations (33KV / 11KV)	52	49
Number of pending service applications	3,008	1,398
Number of new customers connected (net of disconnections)	60,967	55,690
Total number of customers	574,465	513,498
Total number of company employees	1,375	1,384
Exchange Rate: US Dollar to Uganda Shilling (at year end)	2,522	2,691
Exchange Rate: US Dollar to Uganda Shilling (average for the year)	2,587	2,517

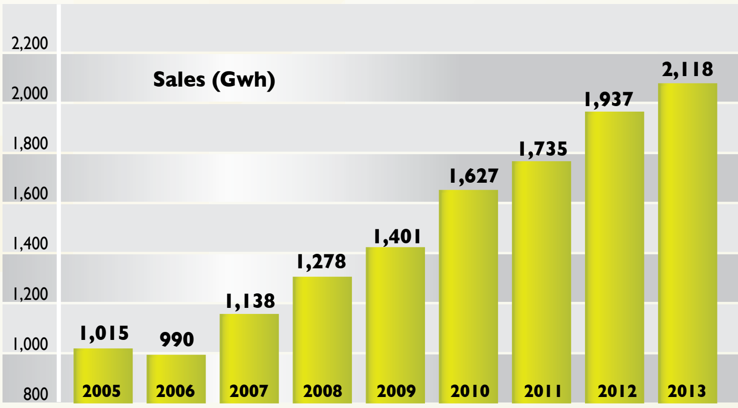
3. FINANCIAL AND OPERATIONAL CHARTS

Customer growth : +12%



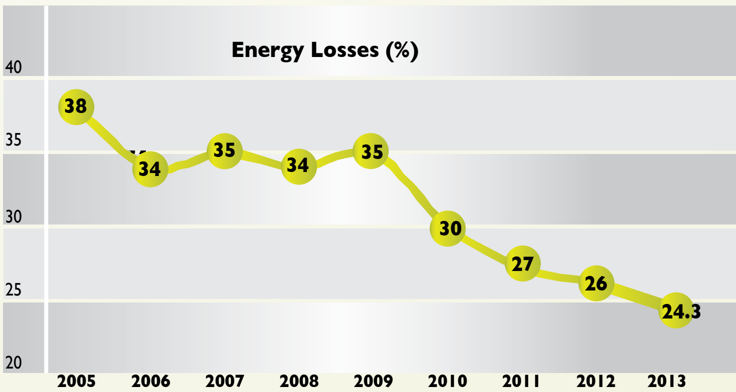
- Total number of customers increased to 574,465 from 513,498
- 60,967 new connections were made, reflecting a 12% growth in customer numbers in 2013
- 52,000 customers were on prepayment metering by 31 December 2013
- The company has simplified the new connection process with faster response times
- The Company is implementing a World Bank funded Output Based Aid (OBA) project to accelerate connections in rural areas

Increasing sales: +9%



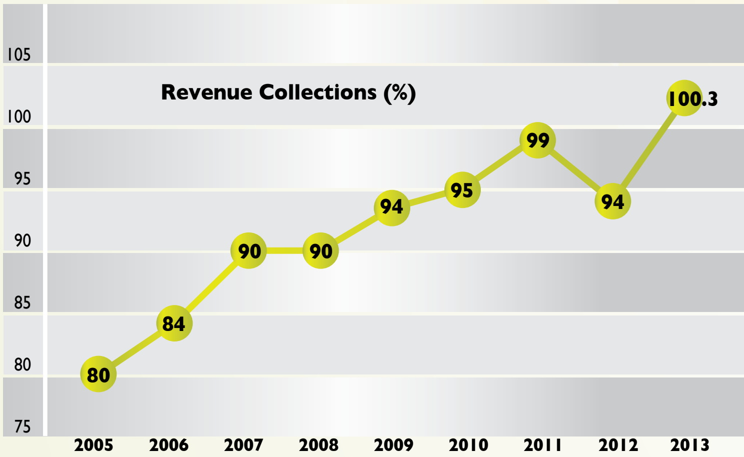
- Electricity units sold (Gwh) increased by 9% in 2013, driven by power availability and reduction of energy losses to 24.3%.

Energy loss reduction: 24.3%



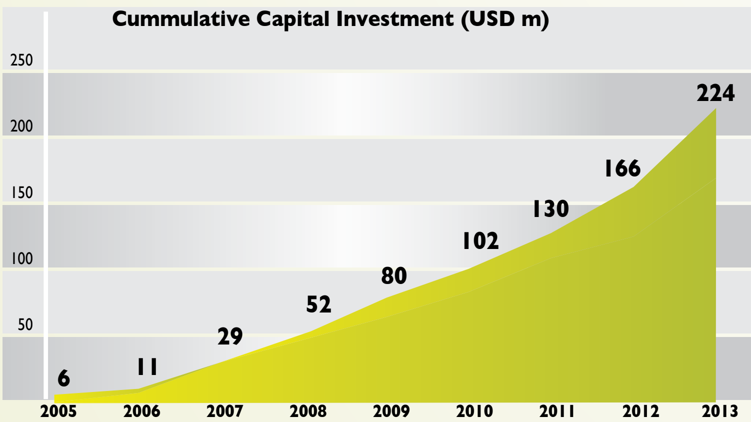
- Energy losses reduced to 24.3%, with 23.5% achieved in Q4 2014 (3 months rollling average). The initiatives implemented include:
  - Investment in the networks to address technical losses
  - Automated Meter Reading system for industrial consumers
  - Prepayment meters for domestics consumers
  - Improvement in the management of the revenue cycle
  - Patrols and public sensitization

Revenue collection rate: 100.3%



- A collection rate of 100.3% was achieved in 2013 partly driven by the recovery of 2012 Government of Uganda arrears.

Investment in the distribution system: USD 58m



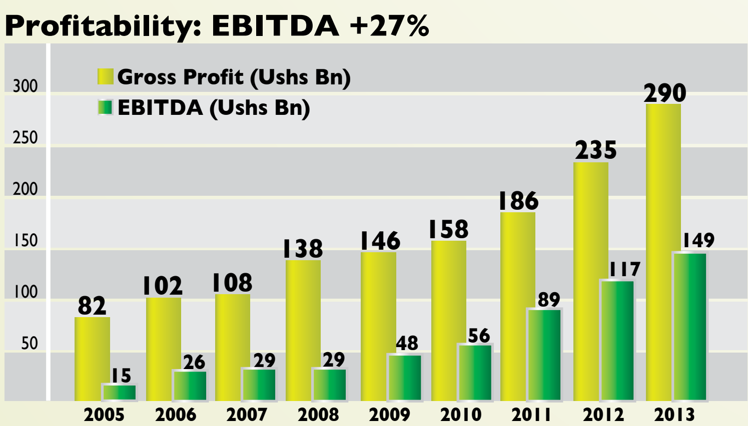
In 2013, USD 58m was invested in the distribution network.

Projects totalling USD 53m were completed and closed in the year. Among the projects completed were:

- 3 substations at Lubowa, Waliggo and Lumpewo in Luwero
- Construction of interconnecting lines among substations in Kampala
- Pre-Payment metering with 34,000 additional connections
- 60,967 new customer connections
- Technical losses projects in Nateete.

Cumulative capital investments from the start of the concession total USD 224m and the undepreciated asset base as at the end of 2013 was USD 172m

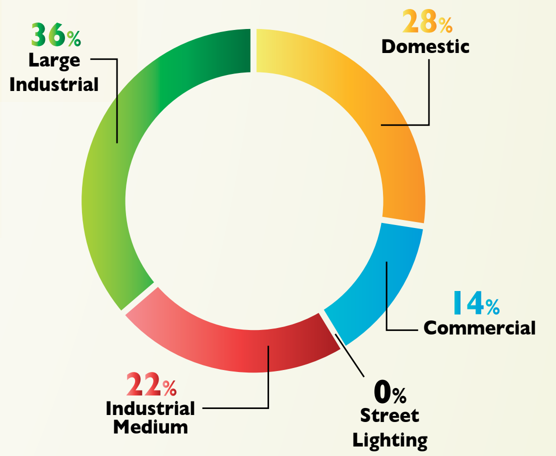
Profitability – EBITDA: +27%



- In 2013, gross profit grew to Ushs 290bn (USD112m)
- EBITDA grew to Ushs 149bn (USD 58m), an increase of 27% compared to 2012
- The drivers of the increased profitability were:
  - Additional capital investments
  - Growth in sales units
  - Strong performance against regulatory targets

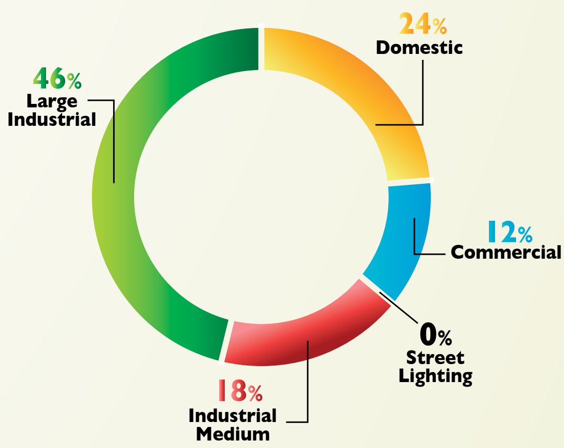
Revenue Analysis

Revenue (Ushs'Bn)	2013	2012	Growth
Electricity Sales			
Domestic	252	235	7%
Commercial	126	111	13%
Street Lighting	1	1	32%
Industrial - Medium	204	180	13%
Industrial - Large	335	307	9%
Sub-Total	**918**	**834**	**10%**
Other Revenue/Lease recovery	48	26	
Total	**966**	**860**	**12%**



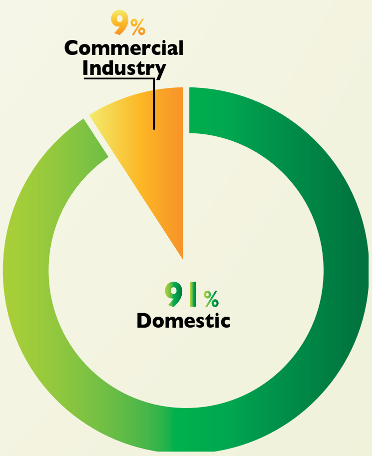
Electricity Sales (GWh)

Sales breakdown (GWh)	2013	2012	Growth
Domestic	503	455	11%
Commercial	257	230	12%
Street Lighting	2	1	30%
Industrial - Medium	382	338	13%
Industrial - Large	974	913	7%
	2,118	**1,937**	**9%**



Number of Customers

Customer Number Breakdown	2013	2012	Growth
Domestic	521,284	468,461	11%
Commercial	50,301	42,355	19%
Street Lighting	359	369	-3%
Industrial - Medium	2,108	1,946	8%
Industrial - Large	413	367	13%
	574,465	**513,498**	**12%**



Switch gear at the new Lubowa sub-station

Contractors refurbishing the Mbarara-Ishaka distribution line

4. ANALYSIS OF THE FINANCIAL RESULTS

4.1 Revenue

Revenues increased to Ushs 966 billion in 2013 compared to Ushs 860 billion 2012, reflecting a growth of 12%. Electricity sales revenue increased by 10% in 2013 compared to 2012, driven by increase in sales units of 9% while retail tariffs remain at same levels as 2012.

The increase in units sold is attributed to power availability during the year and reduction of distribution energy losses from 26.1% in 2012 to 24.3% in 2013.

4.2 Gross Profit

The Company's gross profit increased by 23% from Ushs 235 billion in 2012 to Ushs 290 billion in 2013. The main drivers for this increase were; increase in capital investments, energy losses reduction, higher allowed operating costs and an inflation adjustment of the company's revenue requirements.

4.3 Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)

EBITDA is defined as Operating Profits adjusted for amortisation, foreign exchange losses/gains and finance lease income from concession assets.

EBITDA increased by 27% in 2013 to Ushs 149 billion compared to Ushs 117 billion. The growth in US Dollar terms was 26%, from USD 46m in 2012 to USD 58m in 2013. This growth is attributed to returns on investments earned for investments implemented up to 2012, coupled with performance of the company against regulatory targets.

Operating costs increased by 19%, due to inflation, increase in staff costs and general business volume resulting from increase in customer numbers.

4.4 Profit Before Tax

Profit before tax increased from Ushs 61 billion for the year ended 31 December 2012 to Ushs 115 billion in 2013, due to improved operating profits and reduction in financing costs. The company repaid the shareholder loan and incurred Initial Public Offering and listing costs in 2012, with the IFC loan repaid in December 2013 with funds from the new term loans.

4.5 Income tax expense

The income tax expense for the period is Ushs 32 billion, reflecting an effective average tax rate of 28%. The 2012 tax charge was Ushs 3.8 billion, net of Ushs 14.9 billion deferred tax reversal arising from re-characterisation of Umeme's concession from finance to operating lease by Uganda Revenue Authority.

4.6 Profit after Tax

Profit for the year ended 31 December 2013 was Ushs 84 billion (2012: Ushs 57 billion). The increase in profits is explained by improved performance in operating profits and lower financing costs for the year.

4.7 Balance Sheet Analysis

Total assets as of 31 December 2013 were Ushs 889 billion compared to Ushs 756 billion in 2012. Shareholder Equity increased from Ushs 239 billion in 2012 to Ushs 286 billion in 2013. The increase is attributed to profits after tax for the year net of dividends paid.

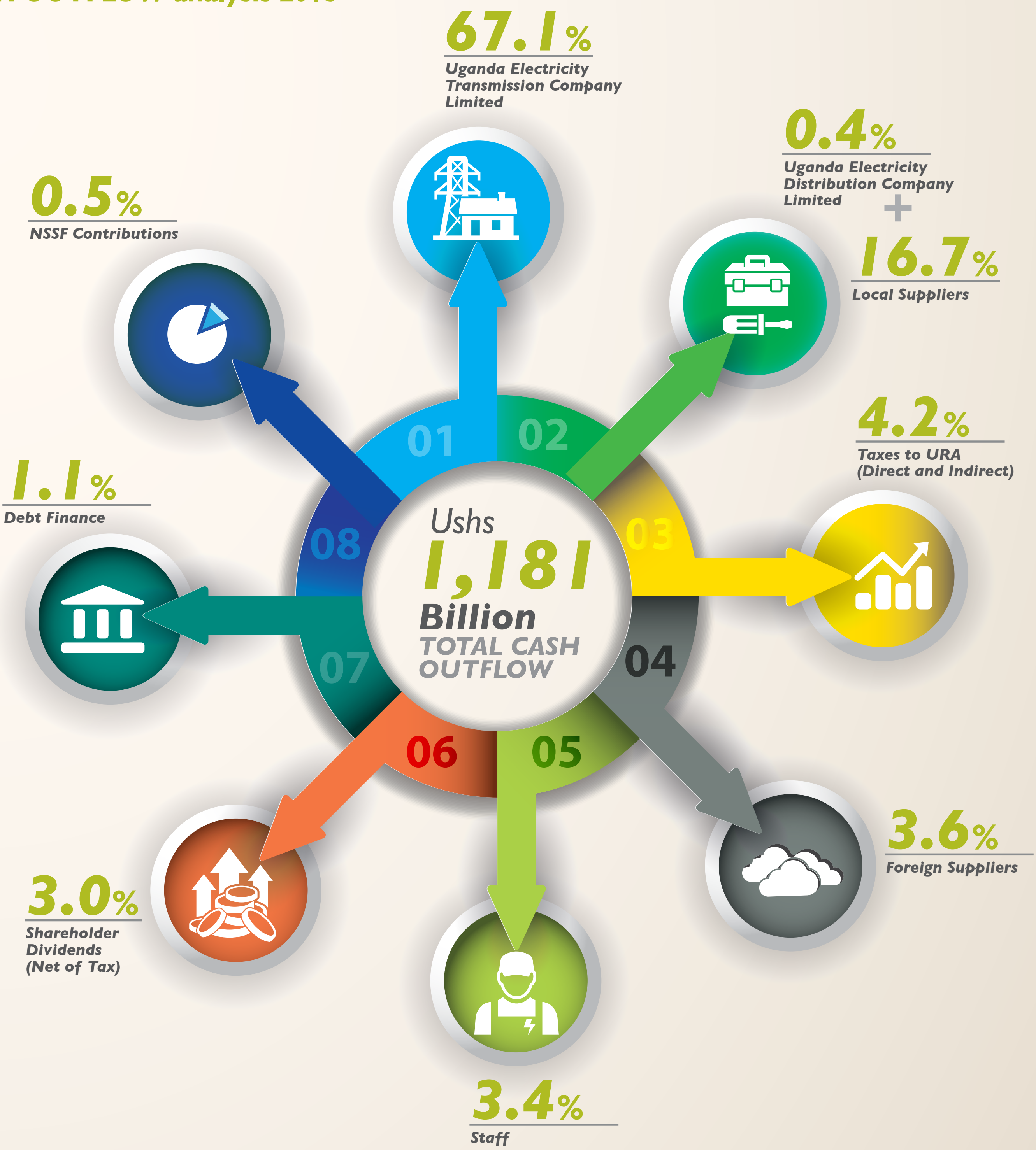
Outstanding interest bearing debt increased to Ushs 91 billion in 2013 from Ushs 54.8 billion in 2012. A new financing facility of USD 190m with IFC, Stanbic Bank Uganda Limited and Standard Chartered Bank was signed in November 2013, with an initial drawdown of USD 40m used to refinance the existing IFC loan (USD 17.5m) and capital investments.

4.8 Cash flows analysis

During the year under review, the company generated Ushs 111 billion from operations (2012: Ushs 107 billion), of which Ushs 37 billion was used to finance dividends and the remainder was used to finance capital investments. Cash generation was affected by the implementation of Amendments 2 and 4, by ERA during the year.

The net cash available reduced by Ushs 32.7 billion when compared to 31 December 2012.

CASH OUTFLOW analysis 2013



	Ushs' Bn
1. Uganda Electricity Transmission Company Limited	792.6
2. Local Suppliers	196.9
Uganda Electricity Distribution Company Limited	4.4
3. Taxes to URA (direct & indirect)	49.6
4. Foreign Suppliers	42.1
5. Staff	40.0
6. Shareholder Dividends (Net of tax)	35.9
7. Debt Financing Costs	13.7
8. NSSF Contribution	5.5
Total Cash Out	***1,181***

5. THE BOARD OF DIRECTORS

Hon. Gerald Ssendaula | Mr. Stuart David Michael Grylls | Mr. Charles Chapman | Mr. Adrian Mucalov.
Mr. Younes Maamar | Mr. Patrick Bitature | Mr. Ian Francis

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

5. THE BOARD OF DIRECTORS

Patrick Bitature

Mr. Bitature has been the chairman of the Board since September 2007. Mr. Bitature is an independent and non-executive Director. Mr. Bitature is the founder, Chairman and CEO of Simba Group of Companies, a conglomerate spanning telecoms, real estate, power generation (Electro-Maxx), agro-business, mining, tourism and media interests. Mr. Bitature is the chairman of the Uganda Investment Authority, 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 November 2007. Mr. Grylls is a non-executive Director. 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 2009and is a non-executive Director. 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. Ian holds a Bachelor of Business Studies from Massey University in New Zealand.

Younes Maamar

Mr. Maamar has been on the Board since July 2009 and is a non-executive Director. 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. Mr. Mucalov is a non-executive Director. Mr. Mucalov'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 CFA charter holder 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.

Gerald Ssendaula

Honourable Ssendaula joined the Board in November 2013 and is an independent and non-executive Director. Honourable Ssendaula is the Chairman of Private Sector Foundation Uganda and Chairman Board of Directors Uganda Revenue Authority. He is the Special Advisor to the President of Uganda on finance. He is a retired Member of Parliament and Cabinet Minister, who held the portfolios of Energy and Finance and was previously a banker on the Barclays Management team. Hon. Ssendaula holds a Bachelor of Commerce degree from Nairobi University, Kenya.

6. THE MANAGEMENT TEAM


Charles Chapman


Sam Zimbe


Selestino Babungi


Florence Nsubuga


Phil Ball


Simbiso Chimbima


Eamonn Furniss


Henry Rugamba


George van der Merve


Josepha Tibendarana Ndamira


Patrick Ngolobe

6. THE MANAGEMENT TEAM

Charles Chapman
Managing director

(*Refer to* ***page 15***)

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 14 yearsof experience in financial management, accounting, audit, financial advisory, consulting, operations management 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 in audit, financial advisory and management consultancy, from a diverse client base that included private sector, international agencies and the public sector.

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 Manager

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.

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 prepayment 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 Middle East and Africa. He has extensive experience in International IT projects, IT Management, Tendering, Bid evaluation, Implementation, Project Management, and IT Business Continuity.

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.

George van der Merwe:
General Manager: Capital and Contracts Division

George has 44 years of international experience in Transmission and Distribution electrical utilities. He spent most of his working career with Eskom (South Africa) where he held various senior management positions. He was also involved in the formative years of Umeme as the Chief Technical Officer from 2004 to 2006.

George is registered as Professional Engineer with ECSA, is a Fellow member of SAIEE and he holds a B.Sc. (Hons) (University of Pretoria), the Advanced Executive Management Programme (UNISA), Project Management Diploma (UNISA) and Government Competency Certificates for both Electrical and Mechanical Engineer.

Josepha Tibendarana Ndamira
Head of Internal Audit

Josepha is an experienced internal audit practioner with over 10 years experience in external and internal audit. Prior to joining Umeme Limited, she worked with Ernst & Young (Uganda), Barcalys Bank and Uganda Telecom as an internal audit manager and Baylor College of Medicine as Head of Internal audit.

Josepha holds an MBA from Edinburgh Business School (Heriot-Watt University-UK) and a Bachelor of Commerce (Accounting) from Makerere University, she is a Certified Internal Auditor (CIA), a fellow of the Association of Certified Chartered Accountants (UK), a Certified Public Accountant (Uganda).

Patrick Ngolobe
Head of Human Resources

Patrick has a passion for employee engagement, safety, talent growth and excellent customer service and is an active member in the streamlining of the Retirement Benefits & Pensions sector in Uganda. Patrick is a professional coach and mentor and he has previously worked with Uganda Revenue Authority, MTN, and Diageo (East African Breweries/Uganda Breweries).

Patrick holds a Post graduate diploma in Human Resources management and bachelors degree in Economics. He is also a member of the Human Resources Managers' Association of Uganda, where he is the HR Director in- charge of professional Development.

7. CHAIRMAN'S REPORT

On behalf of the Directors, Management and Staff, I am pleased to present this report on our performance in 2013.

Patrick Bitature
Board Chairman

The year 2013 was a very successful and an eventful year for Umeme, it was a first full year of operation since the commissioning of Bujagali Dam in July 2012 giving us more power to distribute to our customers, and it was also our first full year of trading on the Uganda Securities Exchange delivering steady growth to our shareholders whose confidence in Umeme is immensely appreciated.

Investing in human resources, technology and networks for operational efficiency

This year's results reflect the commitments and investments the company has made in its human capital, technology and networks. The company continues to source, attract and develop the best human resource talent and we shall continue to do so. We continue to invest in technology to enable and enhance customer convenience, today one can pay their bill using a score of platforms like through all the major banks, through mobile money with the majority of providers and online. We have invested in building new sub stations, new distribution infrastructure and refurbishment of old lines to improve stability and quality of supply.

The company delivered good operational results with; improvement in safety performance, reduction in energy losses, improvement in revenue collections, increase in customer connections and increase in capital investments.

Regulatory Environment

Amendments 2 and 4 to the Supply Licence

Further to the disclosures contained in the IPO Prospectus, the Annual Report 2012 and the press release accompanying the interim 2013 financial results, the Electricity Regulatory Authority (ERA) has now implemented Amendments 2 & 4 to the Supply Licence.

As a result, the company has recognised revenues of Ushs 37.8 billion that are not currently being recovered through the tariff. Umeme has challenged the legality of the amendments and has filed an appeal with the Electricity Dispute Tribunal (EDT), which is awaiting resolution.

Umeme has also filed a tariff adjustment application pursuant to Section 7 (Change of Law) of Annex A (the Tariff Methodology) of the Supply License, on the grounds that Umeme is entitled under the provisions of its licence to be compensated for any additional costs resulting from ERA's introduction of these amendments. The change of law remedy, giving rise to the tariff adjustment application, is based on ERA having introduced amendments to the Umeme licences which depart from the tariff methodology agreed at the outset of the concession. The tariff adjustment application has been submitted without prejudice to the EDT disputes process, discussed above, which is being progressed in parallel. The Company shall continue to utilise the contractual remedies available to it under the concession agreements in compensating the Company for any unrecovered costs incurred as a result of the amendments

The Escrow Account is currently depleted and not funded.

The Lease and Assignment Agreement requires UEDCL to establish an Escrow Account in order to compensate Umeme in the event of certain contingencies, including Government non-payment of electricity bills and ERA non-compliance with the terms of Umeme's electricity licences in establishing the retail tariff. The Escrow Account also serves as security for government obligations under the Support Agreement. The Escrow Account is currently not funded.The lease payments to UEDCL, which were formerly used to fund the Escrow Account from time to time, have been excluded from the retail tariff by ERA. Notwithstanding the removal of the lease payments from the tariff, UEDCL is nevertheless obliged to fund the Escrow Account to the required minimum balance, in accordance with UEDCL's obligations under the Lease and Assignment Agreement.

Parliamentary Adhoc Committee on Energy

The final report on the Parliamentary Ad-hoc Committee on Energy established in July 2011 and as disclosed in the IPO Prospectus, was tabled for parliamentary debate in March 2013.

Umeme Chaiman (C) briefing the media on signing of the USD 190m financing agreement with Stanbic Bank Uganda Limited, International Finance Corporation (IFC) and Standard Chartered Bank in November 2013.

Umeme General Manager Mr. Sam Zimbe handing over a dividend cheque to the NSSF MD Mr. Richard Byarugaba in 2013.

The Government of Uganda will decide which recommendations will be adopted but is however not bound by the recommendations of Parliament and may elect to disregard all or part of the recommendations. Our view nevertheless remains that Government is fully committed to encouraging private sector investment in Uganda and will be highly unlikely to initiate any actions that deter investment in Uganda's energy sector.

Financial Performance

Umeme continued to return strong results for the year ended 31 December 2013, underpinned by capital investments, increase in sales and improved performance against the regulatory targets.
EBITDA grew by 27% to Ushs 149 billion in 2013 from Ushs 117 billion in 2012. Profit after tax increased to Ushs 84 billion from Ushs 57 billion in 2012.

Total assets as of 31 December 2013 were Ushs 889 billion compared to Ushs 756 billion in 2012, reflecting an 18% growth. Shareholders' Equity increased to Ushs 286 billion from Ushs 239 billion in 2012. Total dividends paid during the year to shareholders totaled Ushs 37 billion, composed of final dividend for 2012 of Ushs 24 billion and interim dividend for 2013 of Ushs 13 billion.

Dividends

Based on the Company's performance for the six months ended 30 June 2013, the Directors approved an interim dividend for the year ending 31 December 2013 of Ushs 8 per share, paid in December 2013.

The Directors recommend a final dividend for the year ended 2013 of Ushs 16.8 per share to be declared at the forthcoming AGM. If approved, the total dividend for 2013 shall be Ushs 24.8 per share compared to Ushs 15 per share in 2012.

Governance and Board Changes

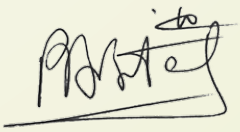
Tragically we lost our long serving board member and dear friend Dr James Mulwana early in the year. James brought to the board invaluable experience, local knowledge and wisdom, we shall forever be in his gratitude.

We are proud to have welcomed The Honourable Gerald Ssendaula and Mr. Adrian Mucalov to the board. I know my new colleagues very well and know they bring to the board unique individual qualities that will strengthen us and support us in building a stronger Umeme.

Conclusion

Finally, I take this opportunity to express my appreciation to the Government of Uganda, customers, shareholders, stakeholders and business partners, for their support to Umeme Limited and the Uganda electricity sector during the year. We will continue with our commitment to executing our strategy aimed at increasing electricity access in Uganda, improving customer service, investing in the distribution network and improving distribution efficiencies with a motivated, dedicated and skilled workforce.

On behalf of the Board



Patrick Bitature
Chairman

Yaka!

Prepaid Electricity

Umeme's pre-payment solution lets you manage your electricity consumption and offers you utter convenience.

UMEME

For customer enquiries, please call us on **0800 185185** (Toll-Free), **0312 185185** or **0752 185185** or email **info@umeme.co.ug** website: **www.umeme.co.ug** or follow us on Umeme limited @umemelimited

8. MANAGING DIRECTOR'S REPORT

CHARLES CHAPMAN
MANAGING DIRECTOR

We are anchored for Success

It is my distinct pleasure to once again present to our shareholders the Annual Report for the year ended 31 December 2013.

We began the year in high gear after a very successful Initial Public Offer (IPO) and listing on the Uganda Securities Exchange and Nairobi Securities Exchange. We ended the year anchored for success after securing USD 190 million financing from 3 distinguished partners; the International Finance Corporation (IFC), Standard Chartered Bank and Stanbic Bank, a huge statement of confidence in our company, strategy and medium term capital investment plan of USD 440m.

Our commitment to safety in our workplace, for our people and across the network remains our number one priority. I am proud to report that for the first time, we recorded zero non illegal public fatalities since the start of the concession and a 24% reduction in all fatalities compared to 2012. Over the past year we have maintained a positive safety culture through continuous training for our staff and our contractors, and we have intensified school and community visits to inform and sensitise the public on dangers of electricity. The company continues to direct investments in the distribution infrastructure to improve safety, supply reliability and distribution efficiency.

2013 was also a strong year in overall operational performance. We achieved the lowest ever energy loss level of 24.3% from 26.1% in 2012 as a result of implementing our energy loss reduction strategy addressing both technical and commercial losses. The company continued to invest in use of aerial bundled conductor, automated meter reading, reconfiguration of the distribution network and rollout of pre-paid metering.

During the year a study on the distribution energy losses was concluded, with technical losses estimated at 17% and commercial losses accounting for the reminder. These results will be used to inform our loss reduction plans to sustain the downward trajectory.

Revenue collections improved during the year, with a rate of 100.3% achieved compared to 94% attained in 2012. Rollout of pre-payment metering and improved collections from Government of Uganda institutions significantly contributed to this performance.

We continue to make investments in service delivery and overall improvement of customer service. During the year, we invested USD 58 million in the distribution infrastructure that included 3 new substations, construction of new lines and network refurbishment. We continue to rollout pre-payment metering to domestic consumers, where 52,000 connections had been made by the year end. On our strategy front of increasing access, the Company connected 60,967 new customers to the grid.

We equally continue investing in technological solutions that improve customer convenience including SCADA, TouchPay, eBill, call centre and SMS solutions.

Our continued focus on our key financial performance drivers, has translated into good financial results. Our Earnings before tax, depreciation, interest and amortisation (EBITDA) grew to Ushs 149 billion compared to Ushs 117 billion in 2012. Profit before tax grew to Ushs 115 billion from Ushs 61 billion in 2012 and we achieved Profit after tax of Ushs 84 billion.

We did face a number of challenges in regulation and in Parliament, the concerns are being addressed and are detailed in this report. It is my sincere hope that in the course of 2014 we shall find common and workable solutions to these concerns.

Importantly, the successes above could not have been achieved without a committed and focused workforce. The company is continuing to implement its human resources strategy aimed at attracting, developing and retaining a skilled workforce, committed to delivering the Company's objectives. The Company has recruited a new Head of Internal Audit, Josepha Ndamira and Head of Human Resources, Patrick Ngolobe. We welcome the new managers to Umeme and believe they will add value to the company, given their varied experiences.

A new department, capital and contracts division, was created and appointed George van der Merwe as its head. The department focuses on: capital investments execution, procurement and supplier relations.

I would like to thank the directors, management and staff, for their hard work and enthusiasm over the last year. With their continued drive and determination, we can continue to deliver for our customers, our communities and our shareholders, building a bigger and better business for the years to come.

Charles Chapman
Managing Director

Newly constructed Waliggo sub-station in Kyanja, Gayaza Road.

9. 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 / stakeholder support.

Environmental, Social and Governance policy

Umeme adopted the World Bank's International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability ("the Performance Standards") as the Company's performance standards in relation to environmental and social sustainability as well as the 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 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 detailed at the Company web site **(www.umeme.co.ug).**

The Company has done the following activities during the year to enhance compliance with the above standards;

Safety

There has been further progress in developing the safety culture of staff and its contractors during 2013 and the statistics show that the company's safety performance reflects sustained improvement, particularly for public and employee fatalities. This is the first calendar year since the start of the concession, which recorded zero non illegal public fatalities; notably there was also a 24% reduction in fatalities arising from illegal activities.

This followed the introduction of a specific strategy for mitigating risks particularly in respect to power theft and way leaves interference. The company has continued to invest in the safety department with the appointment of a specialist safety engineer and improving the competence of the team, with 70% of safety advisers now holding internationally recognised qualifications.

The following is a summary of fatal accident statistics with comparison to 2012:

Category	2012	2013
Public	1	0
Worker (Employee, Direct labour or Contractor)	3	1

Overview of 2013 performance

Continued network restoration

Safety refurbishment projects were undertaken in 7 districts completing the original list of priority projects identified in 2010. Works undertaken in 2013 included the implementation of insulated conductor projects in 22 school environments. The risk reduction afforded by these projects is supported by improved network inspections and associated data capture, emergency response time reduction associated with the full roll out of SCADA, improvements in protection device settings and replacement of historic handmade joints.

Prioritising high risk districts

The safety 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 10,798 school talks and 9,896 community presentations, which was supported by the use of the new SMS platform, print media, radio and television.

As part of our strategy to combat illegal fatalities an additional 194 community visits were undertaken with the Police who were also actively involved in undertaking joint investigations with Umeme personnel following a fatality or serious incident. This developing partnership is having a positive response in the communities visited as it is seen as a wider societal issue rather than only a Umeme concern.

Developing a culture of safety ownership

Safety continued to form part of the bonus structure with companywide and personal safety targets being set for all staff. The aim is to continually challenge and encourage each individual to contribute to safety whether by identifying hazards, undertaking schools talks or completing a Don't Walk By! In addition, a training and recognition day was held with designated safety champions to encourage culture change at all levels.

Improving contractor safety performance

The performance of our contractors, particularly those pre-qualified to undertake capital expenditure works has continued to improve. A number have appointed Safety Advisers and the quality of their safety plans and monthly reporting have greatly improved. The practical implementation of safety fundamentals such as risk assessment,

Sensitisation of Umeme staff on prepaid metering technology

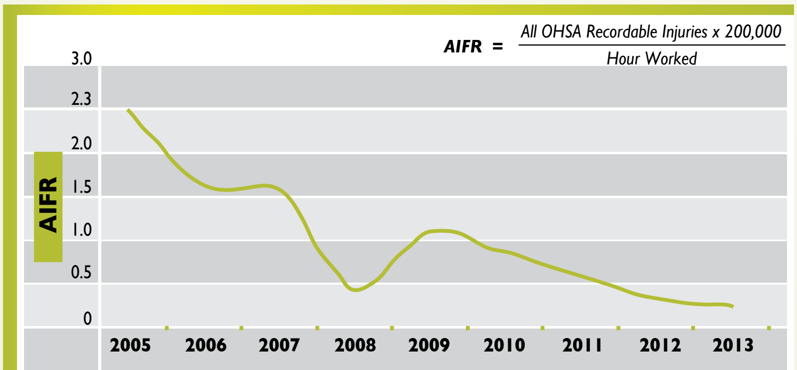
daily briefings and provision and wearing of appropriate safety gear has progressively improved.

At the biannual contractor's forum held in August three contractors presented the benefits of safety management programmes to their business and the lessons they had learned. We held monthly safety briefings with all contractors and practical training was arranged for contractor personnel on the improved pole climbing procedure over a series of weekends.

Mobilising stakeholder support for Umeme safety plans

Stakeholder support is essential for Umeme's safety initiatives. We have maintained contacts with distribution companies in the region to ensure we are working to best practice.

The following charts reflect the consistent reduction in the accident rate for Umeme's employees and contractors and the achievement of zero fatalities to members of the public.



Note: This reflects network related incidents only and is calculated as the product of the number of recordable injuries and 200,000, then divided by the number of hours worked. The calculation excludes first aid cases and near misses since they are not included in OSHA recordable injuries.

Environment

Umeme is committed to environmental best practice and has formally adopted the IFC environmental standards as company policy and appointed an environmental specialist to the safety department in order to raise the profile of environmental management.

The primary focus for 2013 continued to be a reduction in the number of distribution transformers that potentially contained harmful levels of polychlorinated biphenyls (PCBs), which are classified as a persistent organic pollutant. In agreement with the National Environment Management Authority we continued to implement a strategy which has resulted in 47% of our 8,216 distribution transformers being identified as PCB safe by year end.

This equates to over 77,510 litres of potentially contaminated oil being transported and treated under controlled procedures during the year.

Waste recycling has been encouraged in all business units with the following quantities collected for recycling in 2013

- Paper, cardboard = 1,300 kg
- Plastics = 205 kg

Some of the recycled paper was used to make Christmas cards, which were purchased for internal use.

In line with the adoption of IFC Performance Standards, a safe pole disposal process was introduced. This resulted in 1,936 poles being transferred to third parties with information on their potential environmental and health risks and prohibitions of future use.

Proactively we continue to work with stakeholders and contribute to events such as those arranged by the Power Institute for East and Southern Africa. Umeme hosted the Ugandan environmental working group meeting in May, which considered new waste management guidelines and their potential impacts on business.

Labour and Management Relations

We respect the right of our employees to join a union in accordance with applicable labour union and employment laws. As at year end, 364 staff were members of the labour union. 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 Labour Union is party to decisions on wages, allowances and benefits/welfare of its members, through the collective bargaining process. There are regular meetings held between management representatives and representatives of the Labour Union.

Employment Structure

As at 31 December 2013, the Company employed 1,375 personnel, 310 females against 1,065 males, 1361 Ugandan Nationals and 14 expatriates. 1345 of the employees are permanent staff and 30 are contractors.

Remuneration structure

The Remuneration of each employee is subject to an annual performance review process conducted by their supervisors and approved by their heads of departments.

The Remuneration of Senior Management is also subjected to annual review performance process conducted by the Managing Director and approved by the Board of Directors.

The performance reviews are done twice in the year, half year and end of year.

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.

The Company also implemented a share-based employee incentive programme for all its staff who were employees at its IPO.

Benefits

The company provides medical health insurance to all staff, and provides voice and data airtime, fuel and other expense reimbursements to its staff who require the above facilities in their course of duty.

Training

The Company would not have achieved the operational and financial success over the past years without a dedicated, competitive and competent workforce. The management of Umeme supports skills development of its personnel. During the year, the company financed and facilitated the following trainings for its personnel;

- Best practices in Simulation & Performance of Electrical Systems – Network Planning
- Software functionality training on power on fusion SCADA systems
- Contract Management for Engineers
- Harvard Management mentor
- Systems Operating Regulations (SOR)
- Open Integrated Customer System (OICS)
- Excel training
- Financial modelling
- Tax and International Financial Reporting Standards

Creating Value for Stakeholders

Umeme takes proactive measures for engaging with its 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.

Engagements with Regulators

Umeme operates in a highly regulated sector and being a listed company is subject to obligations in that regard. During the year, Management had several interactions with its primary regulator, ERA on sector issues including tariffs, investments, customer service and licences. Umeme continued to engage with the capital markets regulators in both Uganda and Kenya concerning its listing obligations and facilitation of trading activity in its shares.

Corporate Social Investment (CSI)

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

In 2013, Umeme partnered with the Rotary Club of Uganda to raise funds for cancer screening and construction of a new cancer ward at Nsambya Hospital.

Umeme also partnered with the Uganda Blood Transfusion Services and conducted a blood donation drive in different parts of the country where they have offices.

Other CSI activities undertaken are;

- Supporting the Association of Surgeons of Uganda on their annual outreach programmes including a surgical camp in Soroti where over 300 people received much needed medical attention free of any charge
- Sponsoring the Monitor Thought Leaders Forum aimed at improving business
- Partnering with Lions Club of Kampala Central in aid of children for sight screening; and
- Supported some activities of Hospice Africa in their fight against HIV/AIDS

Umeme in partnership with the Uganda Blood Transfusion Services for a blood donation drive at our Service Centres countrywide.

Umeme partnered with the Rotary Club of Uganda to raise funds for construction of a new cancer ward at Nsambya Hospital.

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.

Although the Board has implemented a corporate governance framework that it considers appropriate for the Company, it 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 and the levels of authority it has delegated to Management.

As ultimate majority shareholder, Actis, will at all times ensure that the Company's governance framework is solid. Actis 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 under-pinned 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

Compliance with laws, regulations and guidelines

The Company is a public company that is licensed and regulated by 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.

The Company is 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 2013, 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 seven directors on the Board of whom six are non-executive and four are independent. The Managing Director is the executive director on the Board. The details of the directors are on pages 14 to 15 of the Annual Report.

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 15 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 and where such information is deemed insufficient, Management is requested to provide additional information.

Appointment, resignation, removal

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

Directors are appointed by shareholders at annual general meetings (AGM) but interim appointments by the Board are allowed between AGMs. These appointments are then confirmed at the following AGM. 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.

The Board appointed Honourable Gerald Ssendaula as an independent non-executive director on the 14th November 2013. One director, James Mulwana, who had been on the Board since September 2007 passed away on 15 January 2013. The Board appointed Adrian Mucalov as a a non-executive director on 19th March 2013 and his appointment was subsequently confirmed at the 2013 AGM. The shareholders' confirmation of Hon Ssendaula's appointment will be sought at the 2014 AGM.

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 2013.

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

The attendance of Audit committee meetings in 2013 was as follows:

Director	**21 March**	**18 June**	**14 August**	**14 November**
Ian Francis	√	√	√	√
Younes Maamar	√	√	√	A
David Grylls	√	A	A	√
Adrian Mucalov	√	A	√	A

√ = Attendance; ***A*** = Apology

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. Four meetings were held in 2013.

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

The attendance of ESG committee meetings in 2013 was as follows:

Director	***21 March***	***18 June***	***14 August***	***11 November***
David Grylls	√	√	√	√
Charles Chapman	√	√	√	√
Patrick Bitature	A	A	√	A
Younes Maamar	√	√	√	√
Adrian Mucalov	A	A	√	A

√ = Attendance; ***A*** = Apology

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 CLSRs;
- monitoring the progress of implementation of the CLSRs; and
- providing status updates of Management's performance against the CLSRs and making relevant recommendations to the Board.

Four meetings were held in 2013.

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

The attendance of Customer Service and Loss Reduction Committee meetings in 2013 was as follows:

Director	**20 March**	**18 June**	**13 August**	**13 November**
Younes Maamar	√	√	√	A
Charles Chapman	√	√	√	√
David Grylls	√	√	A	√
Patrick Bitature	√	A	√	A

√ = Attendance; ***A*** = Apology

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 e.g. those relating to the Managing Director and the Chief Financial Officer; 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 fulfil its obligations.

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

Two meetings were held in 2013.

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

The attendance of Remuneration Committee meetings in 2013 was as follows:

Director	28 February	19 June
David Grylls	√	√
Charles Chapman	√	√
Younes Maamar	√	√

√ = Attendance

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.

One committee meeting was held on 14 November 2013, that recommended to the Board the appointment of Hon Ssendaula Gerald as a director of the company. All the members of the committee attended the meeting

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. Additional information is provided by Management when requested for. Where urgency demands, the Board and its committees can make decisions by way of circulated resolutions.

The attendance of Board meetings in 2013 was as follows:

Director	21 March	20.June	15 August	14 November	16 December
Patrick Bitature	√	√	√	A	√
Charles Chapman	√	√	√	√	√
David Grylls	√	√	√	√	√
Adrian Mucalov	√	√	√	A	√
Ian Francis	√	√	√	√	A
Younes Maamar	√	√	√	A	A
Gerald Ssendaula	N/A	N/A	O	√	√

√ = Attendance; A = Apology; O= Observer

Board effectiveness

The Board is committed to effective discharge of its mandate and conducts its proceedings in a manner that supports the due exercise and performance of its oversight role.

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. The Company Secretary function is currently outsourced to Shonubi, Musoke & Co Advocates.

Shareholder relations

The Board ensures 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 provides other opportunities for shareholders to engage with the Management and the Directors of the Company. Institutional investors meet with Management to discuss performance and corporate governance matters at least twice a year following the publication of periodic reports and exercise their votes during AGMs.

The Board has implemented an effective investor relations function and process to assist it in executing its responsibility of ensuring appropriate shareholder engagement.

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.

During the year, several stakeholder engagements took place and some of the key events are highlighted in the Sustainability Statement included in this Annual Report.

Insider trading

The Board has approved a Prohibition of Insider Trading Policy whose purpose is to ensure that dealings in the Company's shares by directors, major shareholders, contractors, employees in senior Management 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.

Management of 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. No Conflicts of interest arose during the year.

Sustainability

The Sustainability Report on pages 24 to 27 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.

11. 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, the Non-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 shall be 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.

Remuneration philosophy and policy

The objective of the remuneration policy is 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 safety gear, security, voice and data airtime, fuel and other expense reimbursements and allowances.

Long term performance incentives

The Board recognises 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 incentive programmes on page 76 to 77, which implementation took place as part of the initial public offering (IPO) of the Company.

As at 31 December 2013, employees and executive directors of the Company owned, in aggregate, 28,693,500 shares (1.8 %) of the issued shares of the Company (2012: 32,175,500) shares that they acquired through the application of these programmes.

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 2013, non-executive directors received a retainer for their service on the board and a board committee membership fee. 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 initial public 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 service on the board and committees was USD 820,093 in 2013. (2012: USD 452,670). The Board does not propose an increase in the non-executive director remuneration in 2014 as the fees approved in 2013 are still adequate taking into account the extent and nature of their oversight responsibilities.

12. Directors' Report & Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2013

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The directors submit their report together with the audited financial statements for the year ended 31 December 2013 which show the state of affairs of Umeme Limited ("Umeme" or "the Company").

Principal Activities

The Company is licensed by the 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 2013 are presented on page 42.

A general review of the the business is given by the Chairman and Managing Director on Pages 18 to 23.

Dividends

Subject to the approval of the shareholders, the directors recommend to members that a final dividend of Ushs 16.8 per ordinary share be paid for the year ended 31 December 2013 (2012: Ushs 15), subject to deduction of withholding tax where applicable, to shareholders registered in the books of the Company at close of business 6 June 2014. The total dividend for the year will be Ushs 40.272 billion (2012: Ushs 24.358 billion). If approved, the outstanding dividend will be paid on or about 30 June 2014. An interim dividend for the year of Ushs 12.991 billion was paid in December 2013 (2012: Nil).

Share Capital

Details of the Company's share capital can be found on page 72.

Reserves

The Company's retained earnings increased to Ushs 187.7 billion during the year from Ushs 141.4 billion as of 31 December 2012.

Directors

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

a) Patrick Bitature - Chairman
b) Charles Chapman - Managing Director
c) Stuart David Michael Grylls - Non executive Director
d) Gerald Ssendaula - Non executive Director (Appointed 14 November 2013)
e) Younes Maamar - Non executive Director
f) Ian Francis - Non executive Director
g) Adrian Mucalov - Non executive Director (Appointed 19 March 2013)
h) James Mulwana - Non executive Director (Deceased 15 January 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 Umeme Holdings Limited nominee)	100,000
Total	**9,219,000**

Management by third parties

No 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.

Insurance

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

Events after the reporting period

There is no material event that has occurred between the reporting date and the date of this report that would require adjustment of or disclosure in these financial statements.

Auditors

The auditors, Ernst & Young, have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012 of Uganda.

By order of the Board,

Signed.. Date: **24th March 2014**

Shonubi, Musoke & Co Advocates
Secretary, Board of Directors

The Companies Act, 2012 and Electricity Act, 1999 (Cap 145) of Uganda require the directors to prepare financial statements for each financial year, which present fairly, in all material respects, the state of the financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

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

The directors accept responsibility for the year's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012 of Uganda. 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 20th March 2014 and signed on its behalf by:

....

Director

....

Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF UMEME LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Umeme Limited, which comprise the statement of financial position as at 31 December 2013, 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 42 to 94.

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 Companies Act, 2012 of Uganda, 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 2013, 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 Companies Act, 2012 of Uganda.

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Companies Act, 2012 of Uganda 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

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

24 March 2014

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 Ushs million	2012 Ushs million
Revenue	3	965,752	859,552
Cost of sales	4	(675,866)	(624,235)
GROSS PROFIT		**289,886**	**235,317**
Other operating income	5(a)	13,677	4,980
Finance income	5(b)	17,499	15,032
		321,062	255,329
Repair and maintenance expenses	6	(17,319)	(18,059)
Administration expenses	7	(132,201)	(105,363)
Foreign exchange losses	8(a)	-	(13,441)
Other expenses	8(b)	(502)	(2,243)
OPERATING PROFIT BEFORE AMORTISATION		**171,040**	**116,223**
Amortisation of intangible assets	8(c)	(33,189)	(22,248)
OPERATING PROFIT		**137,851**	**93,975**
Finance costs	9	(22,579)	(33,054)
PROFIT BEFORE TAX	**10**	**115,272**	**60,921**
Income tax expense	11(a)	(31,605)	(3,811)
PROFIT FOR THE YEAR		**83,667**	**57,110**

		2013 Ushs	2012 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	**12**	**52**	**42**

	2013 Ushs million	2012 Ushs million
Profit for the year	**83,667**	**57,110**
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	**83,667**	**57,110**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 Ushs million	2012 Ushs million
ASSETS			
NON CURRENT ASSETS			
Intangible assets	13	392,764	279,683
Concession financial asset: Non-current portion	14	91,787	152,936
		484,551	432,619
CURRENT ASSETS			
Concession financial asset: Current portion	14	109,234	43,892
Inventories	15	29,593	36,460
Amount recoverable from customer capital contributions	16	774	723
Trade and other receivables	17	230,813	187,963
Current income tax recoverable	11(b)	-	3,616
Bank balances	18	33,941	50,660
		404,355	323,314
TOTAL ASSETS		**888,906**	**755,933**
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	19	27,748	27,748
Share premium	20	70,292	70,292
Retained earnings		187,725	141,407
		285,765	239,447
NON-CURRENT LIABILITIES			
Borrowings: Non-current portion	22	90,798	47,093
Concession obligation: Non-current portion	23	91,787	152,936
Deferred income tax liability	11(c)	37,905	12,100
Provisions	24	3,018	-
		223,508	212,129
CURRENT LIABILITIES			
Borrowings: Current portion	22	234	7,768
Concession obligation: Current portion	23	109,234	43,892
Customer security deposits	25	6,716	3,688
Deferred income	26	8,234	4,393
Trade and other payables	27	241,952	244,616
Current income tax payable	11(b)	246	-
Bank overdraft	28	13,017	-
		379,633	304,357
TOTAL EQUITY AND LIABILITIES		**888,906**	**755,933**

These financial statements were approved by the Board of Directors on **20 March 2014** and signed on its behalf by:

....

Director **Director**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued capital (Note 19) Ushs million	Share premium (Note 20) Ushs million	Retained earnings Ushs million	Total equity Ushs million
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**
At 1 January 2013	27,748	70,292	141,407	239,447
Profit for the year	-	-	83,667	83,667
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	83,667	83,667
Dividends paid	-	-	(37,349)	(37,349)
At 31 December 2013	**27,748**	**70,292**	**187,725**	**285,765**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 Ushs million	2012 Ushs million
Net cash flows from operating activities	**29(a)**	**111,250**	**106,697**
Investing activities			
Purchase of intangible assets	13	(146,824)	(98,074)
Proceeds from sale of motor vehicles		52	166
Net cash flows used in investing activities		**(146,772)**	**(97,908)**
Financing activities			
Net proceeds from issue of shares (less shares granted to employees)		-	71,568
Repayment of shareholder's loans		-	(74,670)
Repayment of IFC loan	22	(50,691)	(6,004)
Proceeds from borrowings (net)	22	90,798	-
Dividends paid		(37,349)	-
Net cash flows from/(used in) financing activities		**2,758**	**(9,106)**
Net decrease in cash and cash equivalents		(32,764)	(317)
Cash and cash equivalents at 1 January		46,972	47,289
Cash and cash equivalents at 31 December	**29(b)**	**14,208**	**46,972**

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 Network for a period of 20 years. The LAA 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 capital investments 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 USD 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 revenues 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 underperformance. 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 5 years to 2018 as agreed between Umeme Limited and ERA. The tariff year runs from 1 March to 28 February of the next year.

Tariff parameter	2014	2015	2016	2017	2018
Distribution losses (%)	20.0	18.3	16.9	15.7	14.7
DOMC (US$' million)	44.6	46.2	47.7	49.3	51.1
Uncollected debt (%)	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 the going concern basis.

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 20th March 2014.

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 Companies Act, 2012 of Uganda.

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 34. The Company assessed that the concession is within the scope of IFRIC 12 *Service Concession Arrangement* (IFRIC 12) 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 Network 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. ERA may also include within the tariff and component for recovery of funds from customers for the purpose of financing assets that are not directly used in the Distribution Network but are necessary for the operation of the Distribution Network (non-network assets).

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. IDA funds were fully utilised during the year.

UEDCL retains title to the modifications and additions funded by the Company and/or customers from the effective date of the modification. The investment made 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 Network and earn a return, such investments need to be approved by ERA. The Company earns no profit on the construction services provided for the customer funded instalments 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 five categories of assets i.e., assets taken over from UEDCL, assets financed by the Company, assets financed by customers cash capital contributions, assets financed by customer capital contributions collected through the tariffs and the modifications financed by the IDA financing.

Infrastructure within the scope of IFRIC 12 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 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

2. Summary of significant accounting policies (continued)

b) Service concession arrangement (Continued)

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 34. 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 on post-paid metering are billed for the power consumed. The billing is done for each monthly billing cycle based on the units consumed as read on the customers' electricity meters and the approved consumer tariffs. Electricity sales revenue for customers on prepaid metering is recognised when customers purchase electricity units and then adjusted for the estimated amount of unconsumed power based on the consumption rate in that month. 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.

ERA may also include in the tariff a component for recovery of funds to finance non-network assets. The amounts billed to customers in this respect are offset from revenue and any unutilised amounts at the reporting date are treated as deferred income.

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.

2. *Summary of significant accounting policies (continued)*

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 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	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 units (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.

2. Summary of significant accounting policies (continued)

g) Significant accounting judgements and estimates (Continued)

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 are from Standard Chartered Bank, Stanbic Bank Uganda Limited and International Finance Corporation.

2. *Summary of significant accounting policies (continued)*

l) Impairment of financial assets- bank balances, trade receivables and concession financial asset (Continued)

Bank balances, trade receivables and concession financial asset

The Company recognised a financial asset, the concession 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, bank balances, trade receivables and the concession arrangement financial asset are subsequently measured at amortised cost using the effective interest rate method, less allowances for impairment. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate.

The amortisation is included in the income statement. The losses arising from impairment are recognized in the income statement.

Borrowings, concession obligation and trade payables

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

Customer deposits

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

The supply agreement can be terminated at the customer's discretion or by the Company in case of non-payment of bills or other instances of noncompliance with the power supply agreement. The customer deposits are initially measured at fair value and subsequently at amortised cost. ERA issued guidelines that require the Company to ring-fence the cash held in respect of customer security deposits from any other funds of the Company. The Company is required to invest the deposits in government securities or approved assets with similar risk profile. The Company shall pay to the customer an interest rate equivalent to the annualised rate on a 360-treasury bill as published by Bank of Uganda.

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 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.

2. *Summary of significant accounting policies (continued)*

l) Impairment of financial assets- bank balances, trade receivables and concession financial asset (Continued)

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 inequity, 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 2012 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.

2. Summary of significant accounting policies (continued)

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

2. Summary of significant accounting policies (continued)

r) Translation of foreign currencies (Continued)

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 and approved by the members. The approved dividends are recognised as liabilities until when paid. Interim dividends are charged to equity when paid.

v) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases which do not transfer to the Company substantially all the risk and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

w) Fair value measurement

For the purposes of impairment testing, the Company uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements when the carrying amounts are not a reasonable approximation of the fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- ***Level 1 -*** Quoted (unadjusted) market prices in active markets for identical assets or liabilities

2. *Summary of significant accounting policies (continued)*

w) Fair value measurement (Continued)

- ***Level 2*** - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- ***Level 3*** - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(x) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

y) 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 except for some additional disclosure requirements under IFRS 13 *Fair Value Measurements*:

- IFRS 1 First time Adoption of IFRS (Amendment) - Government Loans
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities.
- IFRS 13 Fair Value Measurement
- IAS 19 Post employee benefits (Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Improvements to IFRSs (issued in 2012)

The adoption of the new or revised standards or interpretations that could be relevant to the Company's operations is described below.

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. The amendments had no impact on the Company's financial statements as the Company has no financial assets and financial liabilities that it offsets.

y) Adoption of new and amended standards and interpretations (continued)

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 standard had no impact on the Company's financial position or performance as the Company has no assets and liabilities that are measured at fair value. However, the standard has additional disclosure requirements regarding fair value disclosures.

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

- 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 above improvements did not have an impact on the Company's financial statements as there were no accounting items that are the subject of the improvements.

The new and amended standards and interpretations that are not described above are not relevant to the Company's operations.

y) Adoption of new and amended standards and interpretations (Continued)

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 described below. This description 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.

Standard	Pronouncement	Description	Effective date
IAS 32 Financial Instruments: Presentation	Amendments relating to the offsetting of assets and liabilities	The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP.	Annual periods beginning on or after 1 January 2014
IAS 24 Related Party Disclosures	Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities)	The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively. ***Impact:*** Even though an entity incurs key management personnel expenses, detailed key management personnel compensation disclosures (IAS 24.17) do not apply if the individual is part of a separate management entity. Less information on the individual's remuneration is required.	Annual periods beginning on or after 1 July 2014

2. *Summary of significant accounting policies (continued)*

y) Adoption of new and amended standards and interpretations (Continued)

Standards issued but not yet effective (Continued)

Standard	Pronouncement	Description	Effective date
IFRS 2 Share-based Payment	Amendments resulting from Annual Improvements 2010-2012 Cycle (definition of 'vesting condition')	The IASB amended the definitions relating to vesting conditions. Performance condition and service condition are defined in order to clarify various issues, including the following: ~ A performance condition must contain a service condition ~ A performance target must be met while the counterparty is rendering service ~ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group ~ A performance condition may be a market or non-market condition ~ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied **Clarification of Impact**: The period of the performance target must not extend beyond the end of the service period, but may start earlier if the service period is not 'substantially before the commencement of the service period', e.g., a performance target for an entity-wide scheme could be set prior to the counterparty becoming an employee. If an employee does not meet a service condition for any reason, no amount is recognised for the services received and any cumulative expense is reversed. This does not apply when there is full or partial vesting of an award on cessation of employment. The amendment is effective prospectively.	Annual periods beginning on or after 1 July 2014

2. *Summary of significant accounting policies (continued)*

y) Adoption of new and amended standards and interpretations (Continued)

Standards issued but not yet effective (Continued)

Standard	Pronouncement	Description	Effective date
IFRS 7 Financial Instruments: Disclosures	Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	The IASB has published an amendment to IFRS 9, 'Financial instruments,' that delays the effective date to annual periods beginning on or after 1 January 2018.The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time.The requirement to restate comparatives and the disclosures required on transition have also been modified.	Applies when IFRS 9 is applied (1 January 2018)
IFRS 9 Financial Instruments	Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	- Mandatory effective date for IFRS 9 is 1 January 2018. - Amendments to IFRS 7 depend on when IFRS 9 is adopted and affect the extent of comparative information required to be disclosed.	Annual periods beginning on or after 1 January 2018
	Original issue (Classification and measurement of financial assets)	- This, the first phase of the IASB's project to replace IAS 39 in its entirety, addresses the classification and measurement of financial instruments. Financial assets - All financial assets are initially measured at fair value. - Subsequent measurement of debt instruments is only at amortised cost if the instrument meets the requirements of the 'business model test' and the 'characteristics of financial asset test'. - All other debt instruments are subsequently measured at fair value. - Embedded derivatives contained in non-derivative host contracts are not separately recognised. Unless the hybrid contract qualifies for amortised cost accounting, the entire instrument is subsequently recognised at fair value through profit and loss.	Annual periods beginning on or after 1 January 2018.

2. *Summary of significant accounting policies (continued)*

y) Adoption of new and amended standards and interpretations (Continued)

Standards issued but not yet effective (Continued)

The following standards, interpretations and improvements 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.

Standard	Pronouncement
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets	Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)
IAS 19 Employee Benefits	Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service
IAS 27 Separate Financial Statements (as amended in 2011)	Amendments for investment entities
IAS 36 Impairment of Assets	Amendments arising from Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 Financial Instruments: Recognition and Measurement	Amendments for novations of derivatives
	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
IAS 40 Investment Property	Amendments resulting from Annual Improvements 2011-2013 Cycle (interrelationship between IFRS 3 and IAS 40)
IFRS 10 Consolidated Financial Statements	Amendments for investment entities
IFRS 12 Disclosure of Interests in Other Entities	Amendments for investment entities
IFRS 13 Fair Value Measurement	Amendments resulting from Annual Improvements 2011-2013 Cycle (scope of the portfolio exception in paragraph 52)
IFRS 3 Business Combinations	Amendments resulting from Annual Improvements 2010-2012 Cycle (accounting for contingent consideration)
	Amendments resulting from Annual Improvements 2011-2013 Cycle (scope exception for joint ventures)
IFRS 7 Financial Instruments: Disclosures	Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9
IFRS 9 Financial Instruments	Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9
	Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements
IFRIC 21	Levies
IFRS 8 Operating Segments	Amendments resulting from Annual Improvements 2010-2012 Cycle (aggregation of segments, reconciliation of segment assets)

3. REVENUE

	Note	2013 Ushs million	2012 Ushs million
Domestic		252,302	235,260
Commercial		32,006	27,734
Street lighting		891	673
Commercial - time of use		94,038	83,480
Medium industrial		4,894	2,194
Medium industrial -time of use		198,875	178,067
Large industrial - time of use		334,767	306,950
Total amount billed to customers		**917,773**	**834,358**
Add: Revenue reconciliation adjustment	3(a)	3,868	-
Revenue reconciliation adjustment	3(b)	37,826	-
Less: Recovery of income for funding non-network assets	3(c)	(9,065)	-
Recovery of rental payments to UEDCL – Principal (Note 14)	3(d)	-	-
Recovery of financing income (Note 14)	3(d)	-	-
		950,402	**834,358**
Construction revenue-construction of assets	3(e)	15,350	25,194
		965,752	**859,552**

3(a) The Company has rights to earn a return on investment through the retail tariff approved by ERA in accordance with the Privatisation Agreements. The Company is entitled to recover any revenues that are not factored into the tariffs by ERA in accordance with the tariff methodology. The recovery of such revenue reconciliation adjustments can be done through adjustment of future tariffs, offsets from concession rentals payable to UEDCL or withdrawals from the Escrow Account. During the year, the Company recovered assessed revenue shortfalls amounting to Ushs 3.868 billion by withdrawing the amount from the Escrow Account.

3(b) In contradiction to the rights granted to the Company under the Privatisation Agreements, ERA implemented Amendments Number 2 and 4 of the Supply License relating to reconciliation of the total energy purchased from UETCL and income tax provision on the return on investment components of the tariff. The implementation resulted in clawing back through the bulk supply tariff payable by the Company for electricity purchases of Ushs 37.826 billion of the Company's revenue. The Company has a right to recover the amount clawed back by ERA through commercial and legal remedies provided for under the Privatization Agreements. As such, the company has accrued for Ushs 37.826 billion as revenue for the year in accordance with IAS 18 *Revenue*.

3(c) In accordance with Amendment Number 4 of the Company's Electricity Supply License, ERA approved Ushs 9.065 billion to be collected from customers through the retail tariffs for purchase of non-network assets. Non-network assets are those which do not directly improve or expand the Distribution Network but are necessary for operation of the Distribution Network. The Company has no control over the assets funded by these amounts. As such, this amount has been offset from the reported revenue.

3(d) 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 (2012: Nil) since this parameter was not included in the tariff for the year.

3(e) 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 direct cash contributions paid 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 utilised. 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.

4. COST OF SALES

	2013 Ushs million	2012 Ushs million
Electricity purchase from UETCL	657,768	596,558
Generation levy	2,748	2,483
Construction costs-construction of assets	15,350	25,194
	675,866	**624,235**

This represents costs for energy purchased from UETCL, generation levy on sales and construction costs for assets additions that are financed by direct cash contributions paid by customers.

5. OTHER OPERATING AND FINANCE INCOME

	2013 Ushs million	2012 Ushs million
a) Other operating income		
Regulated income		
Reconnection fees	2,157	1,191
Meter/transformer test fees	6	6
Inspection fees	2,965	2,666
	5,128	**3,863**
Non-regulated income		
Sale of tender documents	-	1
Sale of scrap and other disposals	62	289
Foreign exchange gains	5,066	-
Recovery of VAT on bad debts	1,471	-
Fines and other income	1,950	827
	8,549	**1,117**
	13,677	**4,980**

5. Other operating and finance income (continued)

b) Finance income

	2013 Ushs million	2012 Ushs million
Interest on bank deposits	566	1,914
Financing income on concession financial asset	16,933	13,118
	17,499	**15,032**
Total other operating and finance income	**31,176**	**20,012**

6. REPAIR AND MAINTENANCE EXPENSES

Distribution (over-head & underground)	6,180	8,201
Transformers, meters & other electrical test instruments	2,027	1,710
Other repairs and maintenance	9,112	8,148
	17,319	**18,059**

7. ADMINISTRATION EXPENSES

Staff costs (7a)	64,671	50,685
Transport costs	9,665	7,553
Other administration costs	32,616	22,051
Provision for impairment of inventories	303	-
Consultancy fees	6,065	4,476
Telephone expenses	4,558	3,765
Debt collection expenses	3,175	2,088
Insurance charges	4,226	4,622
Impairment provision for bad and doubtful debts	6,922	10,123
	132,201	**105,363**

7(a) Staff costs

Salaries and wages	45,148	36,102
National Social Security Fund (NSSF) contributions	3,545	3,301
Share grant and deferred bonus schemes expenses	3,018	-
Staff allowances and other staff related costs	12,960	11,282
	64,671	**50,685**

8 OTHER OPERATING EXPENSES

a) Net foreign exchange losses	-	13,441
b) Other expenses		
Loss on disposal of assets	502	847
Other non-income tax related expenses and statutory fines	-	1,396
	502	2,243
c) Amortisation		
Amortisation of intangible assets	33,189	22,248
Total other operating expenses	**33,691**	**37,932**

9. FINANCE COSTS

	2013 Ushs million	2012 Ushs million
Interest on shareholder's loans	-	7,341
Withholding tax expense on shareholder's loans	-	1,883
Initial Public Offering and listing costs	-	6,726
Accrued interest on customer security deposits	997	591
Finance charge on concession obligation	16,933	13,118
Interest on IFC loan	2,547	3,062
Incidental costs on IFC loan	42	333
Amortised borrowing costs	44	-
Interest expense on Facility A	72	-
Interest expense on Facility B	162	-
Other financing costs	1,782	-
	22,579	**33,054**

10. PROFIT BEFORE TAX

	2013 Ushs million	2012 Ushs million
Profit before tax is stated after charging:		
Amortisation of intangible assets	33,189	22,248
Auditors' remuneration	518	402
NSSF-Employer's contributions	3,545	3,301
Directors' expenses and allowances	2,680	1,491
Performance bonus	6,940	2,808
Share grant and deferred bonus schemes expenses	3,018	-
Loss on disposal of assets	502	847
Donations	128	83
Management fees	8,537	5,271
Unrealised foreign exchange losses	-	1,211
Staff medical and welfare expenses	1,646	1,703
And after crediting:		
Unrealised foreign exchange gains	3,150	-
Interest on bank deposits	566	1,914

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 Income Tax Act (Cap 340) of Uganda less any tax credits and withholding tax recoverable.

	2013 Ushs million	2012 Ushs million
a) Income tax expense		
Current income tax charge for the year	5,800	-
Deferred income tax charge for the year	25,805	3,811
	31,605	**3,811**

11. TAX (CONTINUED)

The average effective tax rate is 28% (2012: 6%). The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2013 Ushs million	2012 Ushs million
Accounting profit before income tax	115,272	60,921
At statutory income tax rate of 30% (2012: 30%)	34,582	18,276
Tax effect of:		
Add: 30% of non-deductible tax expenses	661	445
Impact of foreign exchange losses on shareholder's loan not deducted in prior years	(3,058)	-
Prior year over provision of current income tax	(580)	-
Deferred income tax impact of changes in tax treatment of concession assets	-	(14,910)
Income tax expense reported in the income statement	31,605	3,811
b) Current income tax payable/(recoverable)		
Current income tax payable brought forward	(3,616)	8,677
Current income tax charge for the year	5,800	-
Withholding tax paid	(158)	(293)
Current income tax paid during the year	-	(8,097)
Payment on provisional current income tax return	(1,780)	(3,903)
	246	**(3,616)**

Uganda Revenue Authority (URA) 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 in 2005 but no formal response was received until 2012.

URA issued an assessment to the Company in 2012 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. These changes were effected in the tax computations for the year ended 2012 and the tax treatment communicated by URA applied going forward.

11. TAX (CONTINUED)

c) Deferred income tax liability

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

	2013 Ushs million	Movement Ushs million	2012 Ushs million
Deferred tax liabilities			
Accelerated tax depreciation	65,937	(18,702)	47,235
Provision for bad debts	(25,971)	(819)	(26,790)
IPO costs	(1,439)	(314)	(1,753)
Current income tax losses utilised	-	(4,521)	(4,521)
Other provisions	(996)	996	-
Unrealised foreign exchange gains	374	342	716
Unrealised foreign exchange losses on borrowings	-	(2,787)	(2,787)
Net deferred income tax liability	**37,905**	**(25,805)**	**12,100**

	2012 Ushs million	Movement Ushs million	2011 Ushs million
c) Deferred tax liabilities			
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 carried forward	(4,521)	4,521	-
Unrealised foreign exchange gains	716	(716)	-
Unrealised foreign exchange losses on borrowings	(2,787)	(5,183)	(7,970)
Net deferred income tax liability	**12,100**	**(3,811)**	**8,289**

As at 31 December 2013, the Company had current income tax losses carried forward of Ushs 15.070 billion on which a deferred income tax was recognised. These losses were utilised during the year.

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.

	2013	2012
Profit attributable to shareholders (Ushs million)	83,667	57,110
Basic number of ordinary shares at 1 January (million)	1,362	1,338
Weighted average of shares issued during the year 2012 (11/12 x 286)/ (1/12x 286) (million)*	262	24
Diluting shares (million)	-	-
Basic and diluted weighted average number of ordinary shares (million)	1,624	1,362
Basic and diluted earnings per share (Ushs)	**52**	**42**

**The shares were in issue for one month in 2012 and 12 months in 2013.*

13. INTANGIBLE ASSETS

	GOU support & assurances rights	Other Concession rights	Total
	Ushs million	Ushs million	Ushs million
Cost			
At 1 January 2012	**2,457**	**272,283**	**274,740**
Additions	-	98,074	98,074
Disposals and write offs	-	(2,233)	(2,233)
At 31 December 2012	**2,457**	**368,124**	**370,581**
Additions	-	146,824	146,824
Disposals and write offs	-	(961)	(961)
At 31 December 2013	**2,457**	**513,987**	**516,444**
Amortisation			
At 1 January 2012	**(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)**
Charge for the year	(123)	(33,066)	(33,189)
Disposals and write offs	-	407	407
At 31 December 2013	**(1,065)**	**(122,615)**	**(123,680)**
Net carrying amount			
At 31 December 2012	**1,515**	**278,168**	**279,683**
At 31 December 2013	**1,392**	**391,372**	**392,764**

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 carrying value of the assets added to the distribution network by the Company, less the residual amount (buy-out amount) is recognised, and is amortised over the useful lives of the property, plant and equipment.

14. CONCESSION FINANCIAL ASSET

	2013 Ushs million	2012 Ushs million
At 1 January	196,828	170,535
Financing income for the year	16,933	13,118
Foreign exchange (loss)/gain	(12,740)	13,175
At 31 December	**201,021**	**196,828**
Maturity analysis of the financial asset:		
Outstanding financial asset	201,021	196,828
Less: Amount recoverable within one year	(109,234)	(43,892)
Non-current portion of financial asset	**91,787**	**152,936**
The financial asset is recoverable as analysed below:		
Within one year	109,234	43,892
Between one and two years	6,826	33,432
Between two and three years	7,372	33,649
Between three and four years	7,961	8,250
Between four and five years	8,598	8,910
After five years	61,030	68,695
	201,021	**196,828**

The terms of the Lease and Assignment Agreement (LAA), indicate that the Company has an unconditional right to receive cash from the users of the distribution network for concession rental payments to UEDCL through the tariff methodology.

No concession rental payments were made to UEDCL regarding the concession obligation during the years ended 31 December 2012 and 2013 and no recoveries of the same were made during these years since ERA excluded the concession rental payments from the tariffs for the years. The amount recoverable within one year is made up of the amounts due but not recovered in 2012 and 2013 and the amounts expected to be recovered in 2014 per the Lease and Assignment Agreement.

UEDCL bears the risk that the cash flows generated by the users of the Distribution Network using the tariff approved by ERA will not be sufficient to recover the concession rental amounts paid by the Company to UEDCL. 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.

15. INVENTORIES

	2013 Ushs million	2012 Ushs million
Overhead materials & accessories	14,912	14,115
Underground cables, materials & accessories	2,632	4,305
Substation transformers & accessories	597	6,245
Meters, metering equipment& accessories	6,902	7,475
Moveable plants and vehicle spares	2	2
Tools and other equipment	2,668	1,029
Stationery	800	726
Expense on goods in transit	1,383	2,563
	29,896	36,460
Provision for impairment	(303)	-
	29,593	**36,460**

16. AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS

At 1 January	723	9,987
Additions to customer funded installations	3,999	5,944
Completed customer funded installations	(3,948)	(15,208)
At 31 December	**774**	**723**

17. TRADE AND OTHER RECEIVABLES

Trade receivables	263,850	279,482
Add: Advance payments by energy customers transferred to payables	16,213	11,762
Trade receivables	280,063	291,244
Less: Allowance for impairment	(120,753)	(123,480)
Net trade receivables	**159,310**	**167,764**
Prepayments	9,301	9,265
Letters of credit	5,635	1,064
Other receivables	40,280	519
Withholding tax (WHT) recoverable	1,159	1,189
VAT claimable	15,128	8,162
	71,503	**20,199**
Trade and other receivables	**230,813**	**187,963**

Other receivables include Ushs 37.826 billion (2012: Nil) relating to revenue reconciliation adjustments recoverable as described in Note 3.

17. Trade and other receivables (continued)

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 Ushs16.213 billion (2012: Ushs11.76 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:

	2013 Ushs million	2012 Ushs million
At 1 January	123,480	125,423
Adjustment to the impairment provision on the balance taken over from UEDCL on 1 March 2005	-	(61)
Allowance for impairment for the year	6,922	10,123
Less: Bad debts written off (see below)	(9,649)	(12,005)
At 31 December	**120,753**	**123,480**
Bad debts written off are made up as follows:		
UEDCL trade receivables	-	-
Umeme trade receivables	9,649	12,005
	9,649	**12,005**

Bad debts are written off after the Company's debt collectors have performed the debt collection procedures and processes as agreed upon with URA and certifying that the chances of recovering the debts are remote.

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

Year	Total	Neither past due nor impaired	Past due but not impaired		Impaired
		<30 days	30-60 days	>60 days	
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
2013	263,850	70,328	24,360	48,409	120,753
2012	279,482	74,496	22,548	58,958	123,480

18. BANK BALANCES

	2013 Ushs million	2012 Ushs million
Bank balances	33,941	50,660

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

a) Number of shares

i) Authorised shares	2013 Ushs	2012 Ushs
At 1 January	1,800,000,000	13,384
Share split (100,000 for 1 share)	-	1,338,386,616
	1,800,000,000	1,338,400,000
Authorised during the year	-	461,600,000
At 31 December	**1,800,000,000**	**1,800,000,000**

ii) Number of issued shares	2013 Ushs	2012 Ushs
At 1 January	1,623,878,005	13,384
Share split (100,000 for 1 share)	-	1,338,386,616
	1,623,878,005	1,338,400,000
Issued during the year	-	285,478,005
At 31 December	**1,623,878,005**	**1,623,878,005**

b) Par value of shares

	2013 Ushs	2012 Ushs
At 1 January	17.087763	1,708,776
Share split (100,000 for 1 share)	-	(1,708,759)
At 31 December	**17.087763**	**17.087763**

c) Value of issued shares

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

d) Spread of issued shares as at 31 December 2013

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500 shares	64	14,461	0.001%
500 - 5,000 shares	2656	5,167,520	0.318%
5,001 – 10,000 shares	1271	11,443,141	0.705%
10,001 – 100,000 shares	1021	25,084,588	1.545%
100,001 - 1,000,000 shares	178	52,412,691	3.228%
Above 1,000,000 shares	80	1,529,755,604	94.204%
	5,270	**1,623,878,005**	**100.000%**

19. Issued capital (continued)

e) Shareholding

Name	31 December 2013 Number of shares	31 December 2013 Percentage shareholding	31 December 2012 Number of shares	31 December 2012 Percentage shareholding
Umeme Holdings Limited (Including shares held by its nominees)	975,653,505	60.08%	975,553,500	60.08%
National Social Security Fund	131,722,771	8.11%	131,502,100	8.10%
International Finance Corporation	45,220,900	2.78%	45,220,900	2.78%
Dazbog Holdings EFC Limited	39,893,920	2.46%	52,975,000	3.26%
Utilico Emerging Markets Limited	33,531,788	2.06%	19,000,000	1.17%
SCB Mauritius Re All Gray Africa Equity (Rand) Fund	31,700,000	1.95%	17,700,000	1.09%
Dazbog Holdings BFC Limited	27,016,368	1.66%	36,400,000	2.24%
Dazbog Holdings AFC Limited	23,639,322	1.46%	31,850,000	1.96%
SCB Mauritius Re Allan Gray Africa Ex-SA Equity Fund Limited	17,122,062	1.05%	5,300,000	0.33%
Central Bank of Kenya Pension Fund	13,075,000	0.81%	5,375,000	0.33%
Others	285,302,369	17.58%	303,001,505	18.66%
	1,623,878,005	**100.00%**	**1,623,878,005**	**100.00%**

20. SHARE PREMIUM

	2013 Ushs million	2012 Ushs million
Total proceeds from issue of shares	70,292	78,506
Less: Issued capital	-	(4,878)
Less: Capital raising costs (IPO costs)	-	(3,336)
Share premium	**70,292**	**70,292**

21. PROPOSED DIVIDEND

	2013 Dividend per share Ushs	2013 Total Ushs million	2012 Dividend per share Ushs	2012 Total Ushs million
Interim dividend paid	8.0	12,991	-	-
Proposed dividend	16.8	27,281	15.0	24,358
	24.8	40,272	15.0	24,358

22. BORROWINGS

	Note	2013 Ushs million	2012 Ushs million
Amounts due to lenders	(a)	101,114	54,861
Less: Deferred transactions costs	(b)	(10,082)	-
		91,032	54,861
Less: Current portion - amount due within one year		234	7,768
Non - current portion		**90,798**	**47,093**

(a) AMOUNTS DUE TO LENDERS

	2013 Ushs million				2012 Ushs million
	Facility A	Facility B	IFC loan	Total	IFC loan
Movement on the account					
At 1 January	-	-	54,861	54,861	57,249
Amount received during the year	41,275	59,059	-	100,334	-
Interest charge for the year	72	162	2,546	2,780	3,062
Foreign exchange losses/(gains)	264	282	(3,150)	(2,604)	3,596
Less: Principal repayment	-	-	(50,691)	(50,691)	(6,004)
Interest payment	-	-	(3,566)	(3,566)	(3,042)
	41,611	**59,503**	**-**	**101,114**	**54,861**
The amounts due are made up as follows:					
Principal	41,539	59,341	-	100,880	53,859
Interest payable	72	162	-	234	1,002
	41,611	**59,503**	**-**	**101,114**	**54,861**

(b) DEFERRED TRANSACTION COSTS

	Facility A	Facility B	IFC loan	Total	IFC loan
Movement on the account					
At 1 January	-	-	-	-	-
Transaction costs	2,046	2,922	-	4,968	-
Upfront & guarantee fees	1,964	3,046	-	5,010	-
Management, security and agency fees	88	53	-	141	-
Amortisation for the year	(10)	(27)	-	(37)	-
At 31 December	**4,088**	**5,994**		**10,082**	**-**

22. Borrowings (continued)

Facilities A and B and the revolving credit facility

The Company signed a term and revolving credit facilities agreement worth US$ 190 million with International Finance Corporation (IFC), Standard Chartered Bank and Stanbic Bank Uganda Limited as the mandated lead arrangers. US$ 70million was designated as term Facility A to be lent by IFC and US$ 100million as term Facility B to be lent by Stanbic Bank Uganda Limited and Standard Chartered Bank. US$ 15 million and US$ 5 million were designated as revolving credit facilities with Standard Chartered Bank and Stanbic Bank Uganda Limited respectively. Standard Chartered Bank is the issuing bank, security agent and the facility agent.

As at 31 December 2013, the Company had drawn down Ushs 41,275 million (US$ 16.47 million) on Facility A and Ushs 59,059 million (US$ 23.53 million) on Facility B. Facilities A and B both attract interest at LIBOR (applicable screen rate) + a margin of 5%. Facilities A and B also attract commitment fees of 1.5% of the undrawn amounts per quarter.

Facility A is repayable starting six months after the availability period (October 2016), in 15 semi-annual instalments of 6.7% of the total facility draw down at the end of the availability period and 6.62% on the termination date (November 2023). Facility B is repayable starting six months after the availability period (October 2016) in nine semi-annual instalments of 9% of the total facility draw down at the end of the availability period and 28% on the termination date (November 2020).

The facilities are secured against a first ranking fixed charge on all the Company's rights, title and interest from time to time, in and to the Project Documents and all Related Rights; and all contracts of insurance in respect of the Mandatory Insurances in which the Company has an interest and all moneys from time to time payable thereunder, and related rights.

IFC loan

In 2009, the Company signed a borrowing agreement with IFC worth US$ 25 million. The loan attracted interest of 6 months LIBOR + 5% interest. The entire loan amount of US$ 25 million was fully drawn down in 2011. The loan was repayable in twenty semi-annual instalments of US$ 1.25 million commencing on 28 February 2011. The loan was secured by registered debenture and a share pledge agreement. The loan was fully paid during the year using proceeds from Facility B.

23. CONCESSION OBLIGATION

	2012 Ushs million	2012 Ushs million
At 1 January	196,828	170,535
Financing expense for the year	16,933	13,118
Foreign exchange (gain)/loss	(12,740)	13,175
At 31 December	**201,021**	**196,828**
Maturity analysis of the concession obligation:		
Outstanding obligation	201,021	196,828
Less: Due within one year	(109,234)	(43,892)
Non-current portion of the obligation	**91,787**	**152,936**

23. Concession obligation (continued)

The concession obligation is due as analysed below:

	2013 Ushs million	2012 Ushs million
Within one year	109,234	43,892
Between one and two years	6,826	33,432
Between two and three years	7,372	33,649
Between three and four years	7,961	8,250
Between four and five years	8,598	8,910
After five years	61,030	68,695
	201,021	**196,828**

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 Ushs219 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.

24. PROVISIONS

This relates to the provision for the Share Grant Scheme and Deferred Bonus Scheme as follows:

	2013 Ushs million	2012 Ushs million
At 1 January	-	-
Provision for the period	3,018	-
At 31 December	**3,018**	**-**

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, that is, Share Grant Scheme and Deferred Bonus Scheme. The Company granted to participating employees, at the commencement of the scheme, a one-off grant of shares in 2012, and effective 1 January 2013, a right to be eligible to receive a cash award on the Vesting Date of 31 December 2015 as explained below:

Share Grant Scheme: This scheme involved Umeme making a grant of up to 10,000 shares in Umeme to each of the eligible employees, aggregating to 13,100,000 shares for all its eligible employees. Effective 1 January 2013, participant employees are also be eligible for a cash award, not exceeding the equivalent of US$ 1,000 at the end of the Vesting Period of 31 December 2015, provided they continue to own the grant shares over the Vesting Period.

24 Provisions (continued)

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 chose to buy and hold shares that, in aggregate, exceeded the maximum qualifying shares will only receive cash awards computed with reference to the maximum number of qualifying shares.

To qualify to receive the cash award under both schemes, an individual participating employee must be the registered owner throughout the Vesting Period of the 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 targets 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 cash award is not dependent on the share price during the Vesting Period and at the Vesting Date.

The cost for the one-off shares granted was recognised in 2012 and no more shares are expected to be granted to employees under the schemes. The above provision represents the estimated cost of the cash awards under the two schemes for the year ended 31 December 2013 discounted to its present value at a weighted average discounting rate of 6.18%. The number of qualifying shares and staff were as indicated below:

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2013	13,100,000	1310	19,065,500	32
Forfeited shares-exited the scheme	3,260,000	326	222,000	2
At 31 December 2013	**9,840,000**	**984**	**18,843,500**	**30**

25 CUSTOMER SECURITY DEPOSITS

	2013 Ushs million	2012 Ushs million
At 1 January	3,689	2,443
Amount received during the year	7,657	7,701
Amount refunded during the year	(4,630)	(6,456)
At 31 December	**6,716**	**3,688**

25 Customer security deposits (continued)

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:

	2013 Ushs million	2012 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

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

26. DEFERRED INCOME

	Note	2013 Ushs million	2012 Ushs million
Deferred revenue on prepaid sales	**(a)**	299	123
Deferred construction income	**(b)**	4,876	4,270
Deferred capital fund	**(c)**	3,059	-
		8,234	**4,393**

(a)Deferred revenue on pre-paid sales

As at 31 December 2013, it was estimated that 89.9% of the pre-paid electricity tokens purchased in December 2013 by customers had not been consumed (2012: 89%).

	2013 Ushs million	2012 Ushs million
(b) Deferred construction income		
At 1 January	4,270	16,198
Amount received	15,956	13,266
Amount utilised	(15,350)	(25,194)
Unutilised customer contributions at 31 December	**4,876**	**4,270**

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

26 Deferred income (continued)

(c) Deferred capital fund

	2013 Ushs million	2012 Ushs million
At 1 January	-	-
Amount billed	9,065	-
Amount utilised on purchasing non-network assets	(6,006)	-
At 31 December	**3,059**	**-**

The amount utilised was spent as follows:

Furniture & Fittings, Tools & Office Equipment	2,557	-
Computers, Communication Equipment& Management Information System	2,190	-
Motor vehicles	1,259	-
	6,006	**-**

As indicated in note 3(c), this amount relates to the amount billed to customers for funding non-network assets but not yet utilised.

27 TRADE AND OTHER PAYABLES

	2013 Ushs million	2012 Ushs million
Trade payables	188,294	209,702
Accrued expenses and other payables	37,445	23,152
Advance payments by energy customers	16,213	11,762
	241,952	**244,616**

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

Accrued expenses and other payables include Ushs 7.2 billion (2012: Ushs 6 billion) relating to performance bonus for the year as indicated below:

	2013 Ushs million	2012 Ushs million
At 1 January	6,000	7,694
Accrual for the year	6,940	2,808
Bonus paid during the year	(5,740)	(4,265)
Write back of prior year over accrual	-	(237)
At 31 December	**7,200**	**6,000**

28. BANK OVERDRAFT

	Note	2013 Ushs million	2012 Ushs million
Overdraft		13,963	-
Less: Deferred transactions costs	(a)	(946)	-
		13,017	**-**

(a) Deferred transaction costs		
At 1 January	-	-
Transaction costs	584	-
Upfront and guarantee fees	358	-
Management, security and agency fees	11	-
Amortisation for the year	(7)	-
At 31 December	**946**	**-**

As at 31 December 2013, the Company had drawn down Ushs 13.963 billion from Standard Chartered Bank under the revolving credit facility as disclosed in note 22. The revolving credit facility attracts interest based on the Treasury Bill rate + a margin determined by the facility agent (if withdrawn in Ushs) or LIBOR + a margin determined by the facility agent (if withdrawn in USD dollars). The applicable interest rate as at year-end was 19.2%. Other terms and conditions are as disclosed in note 22.

29. CASH FLOWS FROM OPERATING ACTIVITIES AND CASH AND CASH EQUIVALENTS

a) Cash flows from operating activities	Note	2013 Ushs million	2012 Ushs million
Profit before tax		115,272	60,921
Adjustment for:			
Interest income from bank deposits	5(b)	(566)	(1,914)
Finance income on concession financial asset	5(b)	(16,933)	(13,118)
Amortisation of intangible assets	13	33,189	22,248
Impairment provision for bad and doubtful debts	7	6,922	10,123
Interest on shareholder's loans	9	-	7,341
Interest expense on IFC loan	9	2,546	3,062
Interest expense on Facilities A and B	9	234	-
Interest on customer security deposits	9	997	591
Provision on deferred Bonus Scheme	24	3,018	-
Finance cost on concession obligation	9	16,933	13,118
Loss on sale of assets	10	502	847
Unrealised foreign exchange (gains)/losses		(3,150)	3,596
		158,964	106,815
Decrease/(increase) in inventories		6,867	(8,975)
(Increase)/decrease in amount recoverable from customer capital contributions		(51)	9,264
Increase in trade and other receivables		(49,772)	(91,323)
Increase/(decrease) in deferred income		3,841	(12,051)
(Decrease)/increase in trade and other payables		(3,661)	127,508
Cash generated from operating activities		116,188	131,238
Interest received from banks	5(b)	566	1,914
Current income tax paid	11(b)	(1,938)	(12,293)
Interest paid on shareholder's loan		-	(11,120)
Interest paid on IFC loan	22	(3,566)	(3,042)
Net cash flows from operating activities		**111,250**	**106,697**

b) **Cash and cash equivalents**

Bank balances (Note 18)	33,941	50,660
Bank overdraft (Note 28)	(13,017)	-
Bank balances not available for use (Note 25)	(6,716)	(3,688)
	14,208	**46,972**

As disclosed in note 25, 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.

30. LETTERS OF CREDIT

As of 31 December 2013, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited. The letters of credit facilitate the purchase and importation of equipment for the Distribution Network and related electricity distribution accessories. A total of Ushs 5.635 billion had been deposited under the letters of credit facilities as at 31 December 2013 (31 December 2012: Ushs 1.064 billion) as disclosed in Note 17. The amounts deposited with the bank act as collateral for the active letters of credit to facilitate the purchase and importation of partially delivered goods.

As at 31 December 2013, the company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs14.9 billion (2012: Nil) with no cash cover. These are covered by the goods under importation and insurance.

31. RELATED PARTIES

The Company's related parties include Umeme Holdings Limited, the Globeleq group of companies, and Actis Infrastructure 2 LP. Umeme Holdings Limited owns and controls 60.08% of the Company's issued shares. The Company is ultimately controlled by Actis Infrastructure 2 LP, which owns Umeme Holdings Limited. As Actis Infrastructure 2 LP also owns and controls the power generation company Globeleq Generation Ltd, Umeme is related to Globeleq Expatriate Services Limited and Globeleq Advisors Limited (both controlled by Globeleq Generation Ltd) through their common shareholding. CDC Group Plc is the largest investor in Actis Infrastructure 2 LP.

The following transactions were carried out with related parties:

	2013 Ushs Million	2012 Ushs Million
i) Management and secondment services		
Globeleq Expatriate Services Ltd - Management fees	2,881	2,328
ii) Other transactions		
Globeleq Advisors Limited-recharges	96	86
Globeleq Advisors Limited - Transactional service fees	176	130
	272	**216**
iii) Compensation of key management personnel		
Short-term employee benefits	5,648	3,751

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

The following were the related party balances at the reporting date:

	2013 Ushs million	2012 Ushs million
i) Amounts due to related parties		
Globeleq Expatriate Services Ltd	343	646
Globeleq Advisors Limited	10	22
Actis - recharges	-	987
Umeme Holdings Limited	-	1,528
	353	**3,183**

31. Related parties (continued)

	2013 Ushs million	2012 Ushs million
ii) Amounts due from related parties		
Actis Infrastructure 2 LP	**39**	-

All balances due from/to related parties are unsecured. No impairment loss has been recognised on balances due from related parties.

32. 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 Ushs170 million will succeed. Accordingly, no provision for these liabilities has been made in these financial statements. The Company is defending itself against these actions and therefore it is not practical to state the timing of the payment, if any.

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

33. COMMITMENTS

(i) World Bank funded project (IDA)

in 2005, 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 materials were fully utilised by 31 December 2013. The Company was required to make additional rental payments associated with this funding subject to the additional rentals inclusion the tariffs by ERA.

(ii) Minimum investment requirements

No minimum investment targets have been set for the Company for the current and future periods 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 Network by the Company as at the reporting date are as disclosed in note 13.

33. 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 2013:		
After one year	109,234	39,505
After one year but not more than five years	30,757	14,794
After five years	61,030	10,572
	201,021	**64,871**
Less: Amounts representing finance charges	(136,150)	-
Present value of minimum rental payments	**64,871**	**64,871**
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**

34. 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.

a) 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.

34. Concession arrangement (continued)

a) 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 Network and earn a return through the tariff, investments need to be pre-approved by ERA.

b) 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 Network.

c) 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.

d) 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 into the Escrow Account all rent net of the administration fee component that will be paid directly to UEDCL. GOU and UEDCL may deposit funds into the Escrow Accounts at any time.

Power Sales Agreement (PSA)

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

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

34. *Concession arrangement (continued)*

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 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.

At the time of issuing these financial statements, the Escrow Account was depleted and not funded.

Uganda Distribution Concession Project Agreement

This agreement was signed on 23 February 2005 between Umeme and IDA. Under this agreement, IDA with the agreement of GOU committed to allow disbursements under the Development Credit Agreement (and relevant amendments) directly to the bank issuing the Letter of Credit (LC) in the event that Umeme has carried out proper drawings from the IDA-Support LC and in the event that UEDCL defaults on the payment of the IDA-Supported Loan and interest thereon within the repayment period specified under the Reimbursement and Credit Agreement. In consideration of the IDA obligation, Umeme is required to pay IDA support and other fees in instalments.

Reimbursement and Credit Agreement

This agreement which was signed on 18 February 2005 between UEDCL and Citibank Uganda Limited (the bank) requires the bank to issue, maintain and renew a Letter of Credit for the benefit of the Company for an initial period of 3 years, renewable up to a maximum of 7 years. Following ending of the Special Provisions Period (SPP) and the Extended SPP (ESSP), the World Bank Standby Letter of Credit-SLC (supporting the Escrow Account in the sum of USD 5 m) became ineffective, notwithstanding the fact its validity period was up to 15 January 2014. Following consultations between Umeme, UEDCL, GoU and the World Bank, the SLC was cancelled on 20th May 2013.

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. Following consultations between the LC Issuing Bank, Umeme Limited, UEDCL, Government of Uganda and the World Bank, the IDA Commitment agreement was cancelled on 2nd August 2013.

35. RISK MANAGEMENT

The Company's financial instruments include trade receivables, trade payables, letters of credit, concession financial asset and financial liability, borrowings and bank overdrafts, and cash and cash equivalents. 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 Company's term borrowing facilities and bank overdraft have variable interest rates. The interest rate risk exposure arising from the facilities, assuming an increase/decrease in interest rates by 3% is a decrease/increase in profit before tax and equity of Ushs161.8 million (2012: Ushs92.3 million) and Ushs 80.4 million (2012: Nil) respectively. 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 exposure to the risk of changes in foreign exchange rates relates primarily to the Company's activities (when revenue or expense is denominated in a different currency from the Company's presentation currency). 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. A significant portion of the Company's borrowings is in US Dollars. Foreign exchange spot rates are negotiated with bankers on a competitive basis.

35. *Risk Management (continued)*

The Company's profit before income tax and equity would decrease/increase by Ushs 4.84 billion (2012: Ushs 3.5 billion) were the Ushs: US$ exchange rate to increase/decrease respectively by 5%. However, the Company's exposure to foreign exchange risk is mitigated through a provision in the tariff methodology that allows for adjustment for foreign exchange rate movements on a quarterly basis for the company's revenue requirements denominated in US Dollars. The components include return on investment and related tax allowance, capital recovery and US Dollar denominated operating costs. The company's capital investments are also denominated in US Dollars, and the annual capital recovery is translated to Uganda Shillings on quarterly basis per the ruling exchange rate. As such, the impact of variations in foreign exchange rates on the results and equity of the Company are minimum, as there is a foreign exchange hedge through the tariff mechanism, subject to the USD denominated liabilities being lower than the USD revenue streams and quarterly lag in exchange rate adjustments.

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2013 and 31 December 2012. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2013	**US$**	**GBP**	**EURO**	**ZAR**	**Ushs**	**TOTAL**
Financial assets						
Concession financial asset	201,021	-	-	-	-	201,021
Trade and other receivables	4,740	-	-	471	197,560	202,771
Bank balances	19,556	-	-	-	14,386	33,942
Total financial assets	225,317	-	-	471	211,946	437,734
Financial liabilities						
Borrowings	101,114	-	-	-	-	101,114
Concession obligation	201,021	-	-	-	-	201,021
Trade and other payables	20,014	15	1,085	1,715	181,678	204,507
Bank overdraft	-	-	-	-	13,017	13,017
Total financial liabilities	**322,149**	**15**	**1,085**	**1,715**	**194,695**	**519,659**
Overall open position	**(96,832)**	**(15)**	**(1,085)**	**(1,244)**	**17,251**	**(81,925)**

At 31 December 2012	**US$**	**GBP**	**EURO**	**ZAR**	**Ushs**	**TOTAL**
Financial assets						
Concession financial asset	196,828	-	-	-	-	196,828
Trade and other receivables	1,064	-	-	-	168,576	169,640
Bank balances	4,013	-	-	-	46,647	50,660
Total financial assets	201,905	-	-	-	215,223	417,128
Financial liabilities						
IFC loan	54,861	-	-	-	-	54,861
Concession obligation	196,828	-	-	-	-	196,828
Trade and other payables	19,160	160	5,113	1,047	195,984	221,464
Total financial liabilities	**270,849**	**160**	**5,113**	**1,047**	**195,984**	**473,153**
Overall open position	**(68,944)**	**(160)**	**(5,113)**	**(1,047)**	**19,239**	**(56,025)**

Movements in the foreign exchange rates for British Pounds (GBP), Euro and South African Rand (ZAR) do not have a material impact on the Company's results.

35. 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, 10% of domestic consumers are connected to pre-paid metering and there is a target uncollected debt provision in the tariff methodology to mitigate against 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:

	2013 Ushs million	2012 Ushs million
Carrying amount of trade receivables (note 17)	159,310	167,764
Less: Amounts receivable from GOU bodies	(22,900)	(51,496)
Customer security deposits (note 25)	(6,716)	(3,688)
Maximum exposure	129,694	112,580

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. 56% of the Company's debt will mature in less than one year after 31 December 2013 (2012: 53%) 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/draw from financing facilities or adjust the timing of capital expenditure and / or repayments to some creditors, where possible.

35. Risk Management (continued)

The table below summarises the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted receipts and payments. All balances are reflected in millions of Ushs.

At 31 December 2013	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Total
Financial assets					
Concession financial asset	82,484	10,326	25,234	134,448	252,492
Trade and other receivables	202,771	-	-	-	202,771
Bank balances	33,941	-	-	-	33,941
Total financial assets	**319,196**	**10,326**	**25,234**	**134,448**	**489,204**
Financial liabilities					
Concession obligation	82,484	10,326	25,234	134,448	252,492
Borrowings: Facility A and B	-	234	-	131,806	132,040
Trade and other payables	204,507	-	-	-	204,507
Bank overdraft	13,017	-	-	-	13,017
Total financial liabilities	**300,008**	**10,560**	**25,234**	**266,254**	**602,056**
Overall open position	**19,188**	**(234)**	**-**	**(131,806)**	**(112,852)**
At 31 December 2012					
Financial assets					
Concession financial asset	3,673	11,018	29,382	203,230	247,303
Trade and other receivables	169,640	-	-	-	169,640
Bank balances	50,660	-	-	-	50,660
Total financial assets	**223,973**	**11,018**	**29,382**	**203,230**	**467,603**
Financial liabilities					
IFC loan	-	4,907	4,835	57,308	67,051
Concession obligation	3,673	11,018	29,382	203,230	247,303
Trade and other payables	244,739	-	-	-	244,739
Total financial liabilities	248,412	15,925	34,217	260,538	559,093
Overall open position	**(24,439)**	**(4,907)**	**(4,835)**	**(57,308)**	**(91,490)**

Fair value

The fair values of the Company's financial instruments are reasonably approximate to their carrying amounts. 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 borrowing covenants 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 2013 and 31 December 2012.

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 2013 was 53% (2012:51%) as shown in the table below:

	Note	2013 Ushs million	2012 Ushs million
Borrowings	22	91,032	54,861
Trade and other payables	27	241,952	244,616
Less: Cash and cash equivalents	29	(14,208)	(46,972)
Net debt		**318,776**	**252,505**
Issued capital	19	27,748	27,748
Share premium	20	70,292	70,292
Retained earnings		187,551	141,407
Total capital		**285,591**	**239,447**
Net debt and capital		604,367	491,952
Gearing ratio		**53%**	**51%**

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 Companies Act, 2012, and licensed under Licence No. 047 and 048 to carry on business of electricity distribution 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 investments 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 year-end were as follows:

	2013		2012	
	Ushs million	US$ million	Ushs million	US$ million
Total investments	565,432	224.2	446,706	166.0
Investments yet to be approved by ERA	(214,874)	(85.2)	(133,205)	(49.5)
Total investments approved by ERA	350,558	139.0	313,501	116.5
Total investments approved by ERA	350,558	139.0	313,502	116.5
Total investments not yet approved by ERA	214,874	85.2	133,205	49.5
Less: Cumulative capital recovery charges	(132,657)	(52.6)	(104,411)	(38.8)
Unrecovered investments	432,775	171.6	342,296	127.2

Investments pending ERA approval are represented by:

	2013		2012	
	Ushs million	US$ million	Ushs million	US$ million
Completed projects under ERA verification	194,576	77.1	124,220	46.2
Work- in-progress	20,298	8.1	8,985	3.3
	214,874	85.2	133,205	49.5

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 2013 (US$ 53.7 million), capital work-in-progress (US$ 8.1 million) and the remainder are investments related to prior periods still under verification (US$ 23.4 million). The cumulative capital recoveries and investments approved by ERA are inclusive of allowance for impairment charge (US$ 7.0m) related to the year ended 31 December 2010.

38. Buy-out amount (continued)

As of 31 December 2013, 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.

The table below includes a summary of Umeme's capital investments over the period 2005 to 2013. The Ushs balances reflect the cost actually incurred in Ushs and the cost incurred in foreign currencies as translated at the foreign exchange rate applicable at the time of the transaction.

At the end of the year, the total investments are converted to USD at the closing exchange rate, for the maintenance of the investment base in USD for tariffs and buy-out purposes.

	2005-2011	**2012**	**2013**	**Total**
	Ushs million	**Ushs million**	**Ushs million**	**Ushs million**
In Uganda Shillings				
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	437,787
Land and Buildings	6,394	1,052	992	8,438
Furniture & Fittings, Tools & office equipment	9,427	3,143	340	12,910
Computers, Communication & MIS	24,459	8,393	1,334	34,186
Motor vehicles	18,877	875	1,217	20,969
Total investments	**269,392**	**98,074**	**146,824**	**514,290**
Represented by:				
Capitalised	257,051	101,430	135,511	493,992
Capital work in progress	12,341	(3,356)	11,313	20,298
	269,392	**98,074**	**146,824**	**514,290**
In US Dollars				
Foreign exchange rate–Ushs: US$	2,079	2,691	2,522	2,293
Total investment: US$ million equivalent	**$130**	**$36**	**$58**	**$224**

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 Kilovolts (KV) within the authorised territory within Uganda. Electricity supply and service after sales that entails connection of new customers, meter reading, billing customers, revenue collection, addressing customer queries, restoration of power interruptions, general customer care, customer sensitisation on energy efficiency and marketing available power to customers. The 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 2013, effective as of 15 January 2012 to 15 January 2014, 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	3,360
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	70,000
		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

39. Segment information (continued)

The Company submits its tariff application 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 changes in foreign exchange rates and inflation.

The revenue generated from each of the above customer categories is as presented in note 3 and 5. The Company's operations are restricted to distribution of electricity to consumers in Uganda. No single customer contributes revenue amounting to more than 10% of the Company's revenue.

All the Company's assets are located in Uganda.

40. EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMMORTISATION (EBITDA)

The Company uses EBITDA as part of its alternative performance measures. For this purpose, EBITDA is defined as operating profits before amortisation adjusted for foreign exchange losses/gains and finance lease income. EBITDA is reconciled to the financial statements as follows:

	Note	2013 Ushs million	2012 Ushs million
Operating profit before amortisation		171,040	116,223
Financing income on concession financial asset	5(b)	(16,933)	(13,118)
Foreign exchange (gains)/losses	5(a)	(5,066)	13,441
Total EBITDA		**149,041**	**116,546**

1. **SUMMARY OF CONCESSION ASSETS: UMEME FUNDED ASSETS**

	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 2012	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	(1319)	-	-	-	(914)	-	(2233)
At 31 December 2012	**283,137**	**7,455**	**12,325**	**37,664**	**18,558**	**8,985**	**368,124**
Additions	-	-	-	-	-	146,824	146,824
Transfer from CWIP	131,628	992	339	1,335	1,217	(135,511)	-
Disposals	(961)	-	-	-	-	-	(961)
At 31 December 2013	**413,804**	**8,447**	**12,664**	**38,999**	**19,775**	**20,298**	**513,987**
Depreciation							
At 1 January 2012	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)	-	(1220)
At 31 December 2012	**36,912**	**1146**	**10,103**	**26,863**	**14,932**		**89,956**
Charge for the year	25,681	356	1,561	3,810	1,658	-	33,066
Disposals	(407)	-	-	-	-	-	(407)
At 31 December 2013	**62,186**	**1502**	**11,664**	**30,673**	**16,590**		**122,615**
Net carrying amount							
As at 31 December 2012	**246,225**	**6,309**	**2,222**	**10,801**	**3,626**	**8,985**	**278,168**
As at 31 December 2013	**351,618**	**6,945**	**1,000**	**8,326**	**3,185**	**20,298**	**391,372**

13. CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear shareholder

On behalf of the board of Umeme Limited ("the Company"), I invite you to attend the second annual general meeting (AGM) of the Company following its listing on the Uganda Securities Exchange on 30 November 2012.

The meeting will be held at the Sheraton Kampala Hotel on 15 May 2014 at 9:30 am.

This is your opportunity to meet and question the Board and Management regarding your Company's performance for the year ended 31 December 2013. It is also an opportunity for you to know more about the Company 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 at page 99 of 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.

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

Patrick Bitature
Chairman
23 April 2014

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 Sheraton Kampala Hotel on 15 May, 2014 at 9:30 am for the following business:

Ordinary resolutions

1. To receive the annual financial statements for the year ended 31 December 2013 and the directors' and auditor's reports thereon.
2. To declare a final dividend for 2013.
3. To approve the re-appointment of external auditors.
4. To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association.
5. To consider as special business, and if deemed fit to pass, with or without modification, the following resolution:
   "RESOLVED THAT the Company confirms and ratifies the Board's decision to issue and allot 13,100,000 shares under the Company Employee Share Grant Scheme established in 2012."
6. To conduct any other business that may be conducted at the AGM.

On behalf of the board

Shonubi, Musoke & Co Advocates
Company Secretary
23 April 2014

Notes

1. AGM rights

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 shareholders. A proxy form is included in the 2013 Annual Report and is available on the Company's website ***www.umeme.co.ug.*** Duly completed proxy forms must be returned to the Share Registrars of the Company or Company Secretary at the addresses set out below, to be received by not later than 17h00 on 13 May 2014.

2. Dividend payment

The dividend, if declared at the AGM, will be paid on or about 30 June 2014, to shareholders whose names appear on the register at close of business on 6 June 2014. The books closure date for purposes of dividend payment will be 6 June 2014. Shareholders are advised to contact their brokers to update their bank account details.

Company Secretary

Shonubi, Musoke & Co Advocates
SM Chambers
14 Hannington Road,
P. O. Box 3213,
Kampala, Uganda

Share Registrars

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

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 15 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 38 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 pages 39 of the Annual Report.

4 **Major shareholders**
Details of major shareholders of the Company are set out on page 73 of the Annual Report.

5 **Share capital of the Company**
Details of the share capital of the Company are set out on pages 72 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 24 March 2014.

PROXY FORM

A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

I/We ______________________________ (*Name in block letters*)

of ______________________________ (*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 Sheraton Kampala Hotel on 15 May 2014, and at any adjournment thereof.

Signed this ______________ day of ______________ 2014

Please read the notes on the next page

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 17h00 on 13 May 2014 with either the share registrars or the company secretary:

Company Secretary	Share Registrars
Shonubi, Musoke & Co Advocates SM Chambers 14 Hannington Road, P. O. Box 3213, Kampala, Uganda	**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 shareholders who 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.

Contact details

Chief Financial Officer

Selestino Babungi

Tel: +256 312 360600

Company Secretary

Shonubi, Musoke & Co Advocates

Tel: +256 414 233204

For more information, please call us on **0800 185185** (Toll Free), **0312 185185 or 0752 185185**
or email **ipo@umeme.co.ug** website: **www.umeme.co.ug/ipo**

or follow us on Umeme limited @umemelimited