Annual Report 2014

INVESTING
IN ELECTRICITY DISTRIBUTION INFRASTRUCTURE

UMEME


PEOPLE
INVESTMENT
GROWTH

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CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED ADDRESS

Umeme Limited
Rwenzori House, Plot 1 Lumumba Avenue
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Tel: 0312 360 600, 0800185185
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

1. CORPORATE PROFILE

1. GENERAL INFORMATION

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 hydroelectric power generation stations; Bujagali Energy Limited which operates the Bujagali hydroelectric power plant; Jacobsen Elektro AS, Electro-Maxx, Tronder Power Ltd, and other smaller Independent Power Producers (IPPs).

The management of the distribution system in Uganda requires Umeme to maintain and operate the distribution network; to collect revenues from customers based on the prevailing tariff set by ERA in accordance with the licences and the privatisation agreements; to make investments in upgrading 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 26,202 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 includes:
- connection of new customers to the distribution network
- 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

Administrative structure

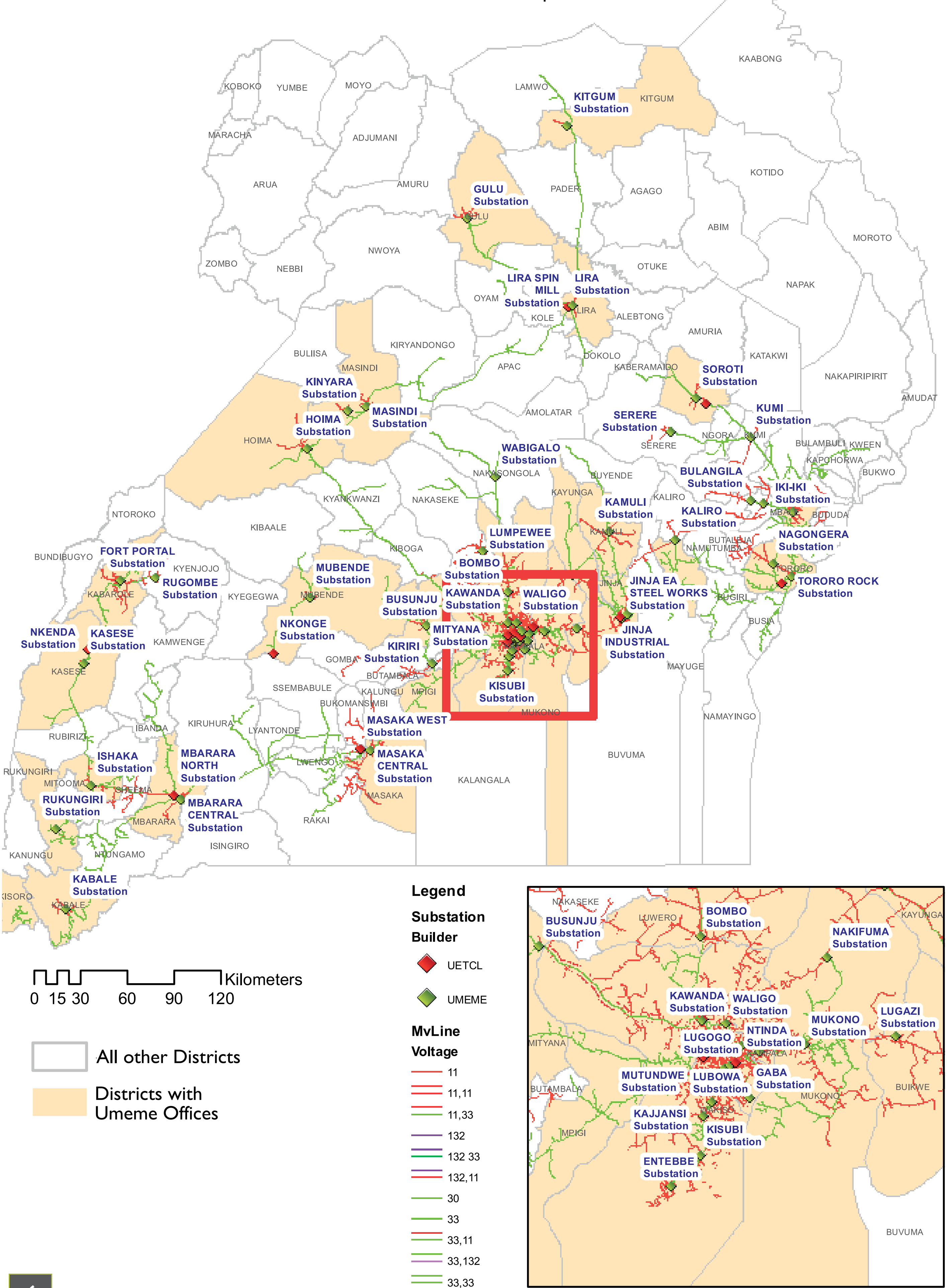
The countrywide operations are divided, for administrative purposes into the following six regions under the supervision of Regional Managers: Kampala Central, Kampala East, Kampala South, Eastern, Northern and Western. All these regions are further subdivided into 25 districts under the supervision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

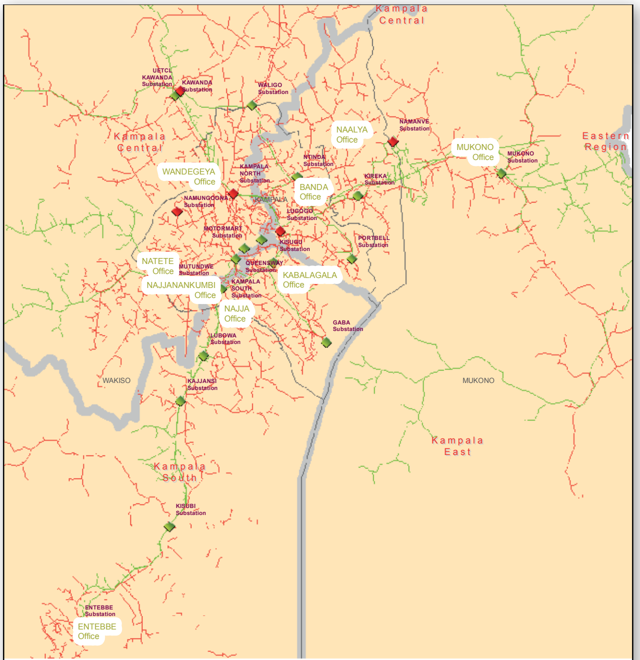
2. KEY SHAREHOLDER INFORMATION

Umeme Limited is a public company listed on the Uganda Security Exchange (USE) and cross listed on the Nairobi Stock Exchange (NSE).

The top 10 shareholders are listed on page 80 of this report.

Umeme Footprint





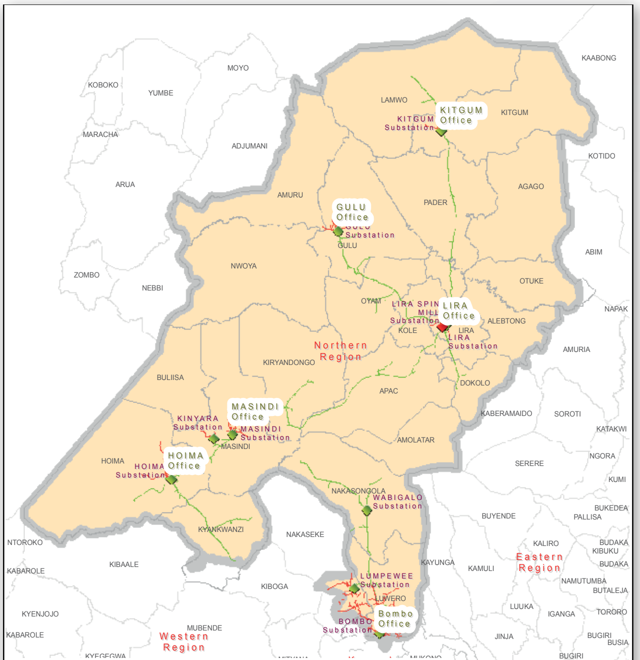
KAMPALA REGION

0 1 2 4 6 8 Kilometers

Population (2014)	6,346,538
Umeme Customers	**394,022**
Substations (UMEME)	20
Substations (UETCL)	6
Distribution Transformers	3,539
Route Length MV Line (Kms)	2,230
Route Length LV Line (Kms)	6,676

Legend

- UETCL
- UMEME
- Kampala Districts
- Kampala Region

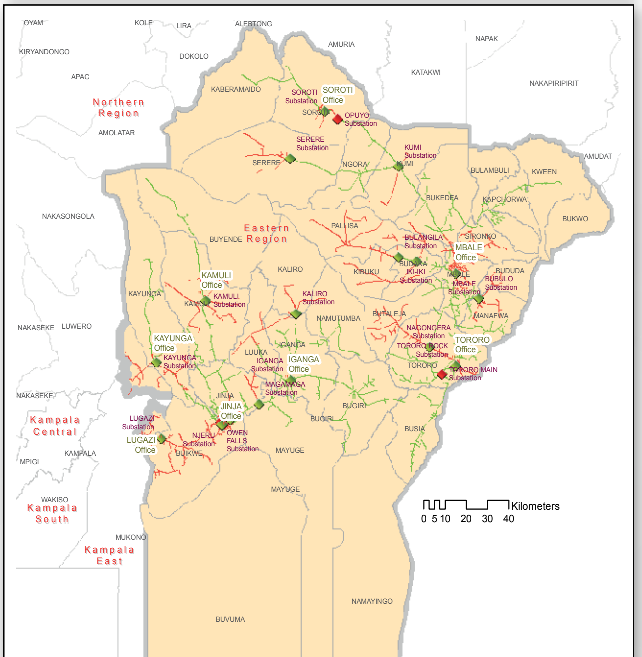


NORTHERN REGION

Population (2014)	6,039,221
Umeme Customers	**58,367**
Substations (UMEME)	9
Substations (UETCL)	1
Distribution Transformers	1,050
Route Length MV Line (Kms)	1,820
Route Length LV Line (Kms)	2,037

Legend

- UETCL
- UMEME
- Nothern Districts
- Nothern Region

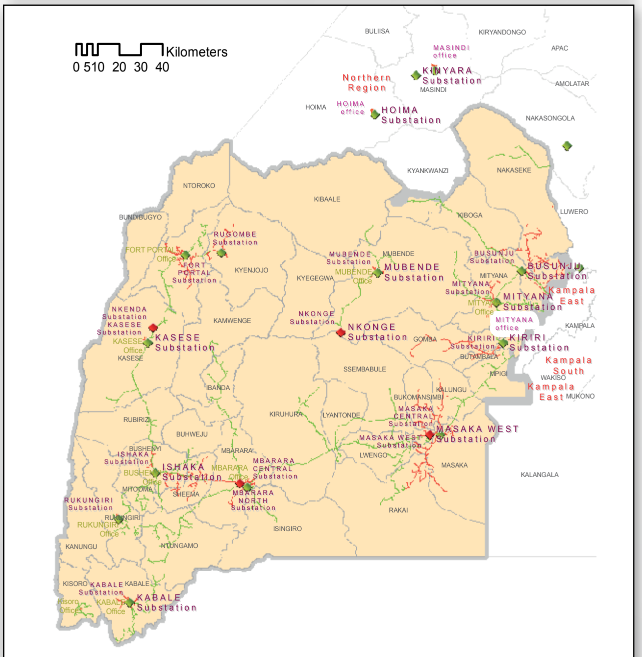


EASTERN REGION

Population (2014)	9,558,059
Umeme Customers	**93,987**
Substations (UMEME)	17
Substations (UETCL)	4
Distribution Transformers	2,321
Route Length MV Line (Kms)	3,646
Route Length LV Line (Kms)	3,799

Legend

- UETCL
- UMEME
- Eastern Districts
- Eastern Region



WESTERN REGION

Population (2014)	11,333,217
Umeme Customers	**104,197**
Substations (UMEME)	10
Substations (UETCL)	4
Distribution Transformers	2,171
Route Length MV Line (Kms)	3,876
Route Length LV Line (Kms)	3,858

Legend

- UETCL
- UMEME
- Western Districts
- Western Region

ANNUAL GENERAL MEETING HELD IN MAY 2014

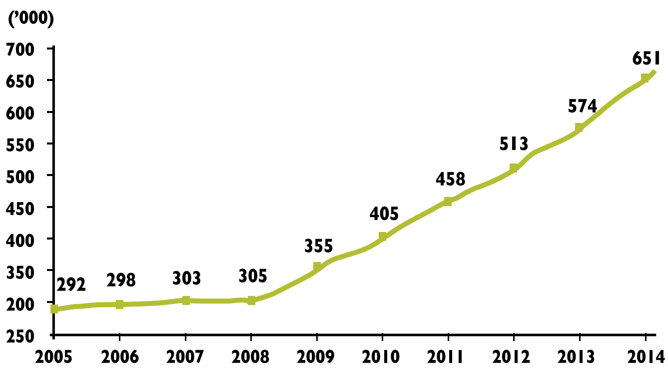
2. FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL STATISTICS	2014 Ushs million	2013 Ushs million
For the year		
Revenue	977,644	965,752
Gross profit	318,468	289,886
Operating profit	124,110	137,851
Profit before tax	101,674	115,272
Profit for the year	70,493	83,667
Capital investments	268,837	146,824
At year-end		
Total Assets	1,211,939	888,906
Shareholder's Equity	313,712	285,765
Outstanding Interest Bearing Debt	265,525	91,032
Cash flow data		
Net cash flows from operating activities	143,205	109,600
Net cash flows used in investing activities	(268,837)	(146,772)
Net cash flows from/ (used in) financing activities	110,324	2,758
Per share	**Ushs**	**Ushs**
Basic and diluted Earnings Per Share	43	52
Proposed Dividend per Share	28.9	24.8

Operating and other statistics	FY2014	FY 2013
Electricity sales during the year (GWh)	2,277	2,118
Electricity purchases during the year (GWh)	2,893	2,800
Energy losses (percentage)	21.3%	24.3%
Revenue collections rate (percentage)	99.1%	100.3%
Total length of distribution lines (km)	11,572	11,184
Total length of low voltage lines (km)	16,370	15,018
Total distribution transformers at the end of the year	9,081	8,216
Bulk Supply off take points (UETCL Substations 132KV/66KV/33KV/11KV)	15	15
Distribution Substations (33KV/11KV)	56	52
Number of pending service applications	1,884	3,008
Number of new consumers connected (net of disconnections)	76,108	60,967
Total number of consumers	650,573	574,465
Total number of company employees	1,389	1,375
Exchange Rate: US Dollar to Uganda Shilling (at year end)	2,778	2,522
Exchange Rate: US Dollar to Uganda Shilling (average for the year)	2,620	2,587

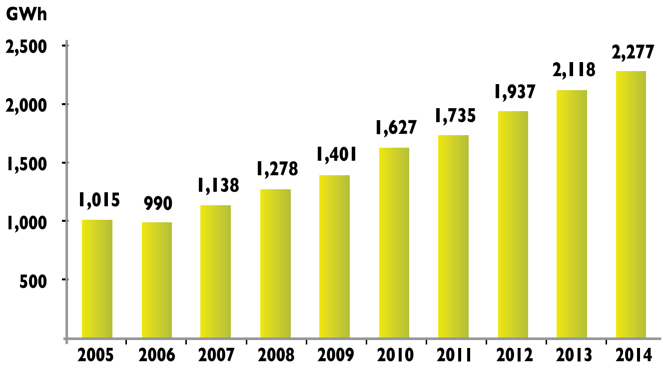
3. FINANCIAL AND OPERATIONAL CHARTS

CUSTOMER GROWTH: 13%



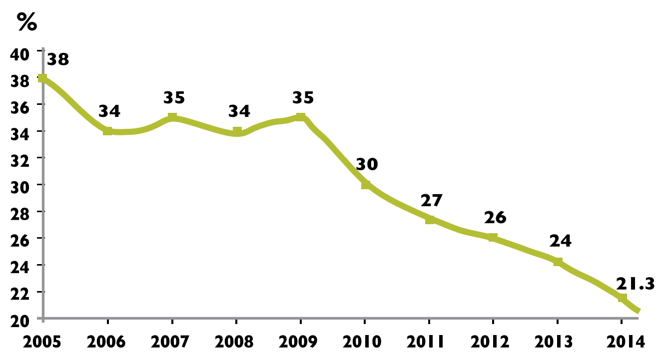
- Total number of customers increased by 13% to 650,573 from 574,465
- 76,108 new connections were made, reflecting a 13% growth in customer numbers in 2014
- 184,000 domestic household customers were on prepayment metering by 31 December 2014
- The Company continues to implement the World Bank funded Output Based Aid (OBA) project to accelerate connections in rural areas. There are ongoing discussion for further subsidised connections under the Energy for Rural Transformation - 3 (ERT 3)

INCREASING SALES +7%



- Electricity units sold (GWh) increased by 7% in 2014, driven by power availability and reduction of energy losses to 21.3% from 24.3%.
- Purchases from UETCL increased by 3.3%

ENERGY LOSS REDUCTION: 21.3%

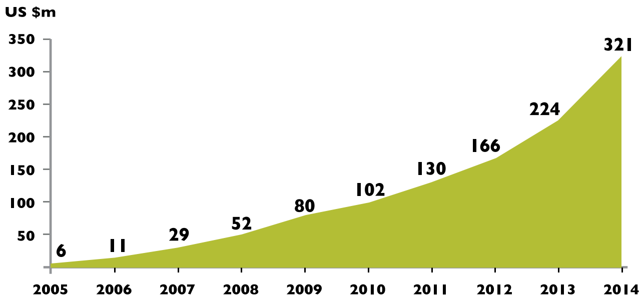


- Energy losses reduced to 21.3% in 2014, from 24.3% in 2013. The initiatives implemented in the year, guided by the loss reduction strategy include:
  - Investment in the network to address technical losses
  - Rollout of an enhanced Automated Meter Reading system for industrial consumers
  - Rollout Prepayment meters for domestic consumers, with 28% of domestic customers converted by 31 December 2014
  - Improvement in the management of the revenue cycle with handheld meter reading system
  - Community engagements and public sensitisation.

REVENUE COLLECTION RATE: 99.1%

- The collection rate achieved in the year was 99.1% compared to 100.3% of 2013. Offsets for Government account arrears against UETCL invoices accounted for 2.3% of the annual collection rate.
- By the end of the year, 28% of domestic customers were on Prepaid metering system
- The company partnered with 2 more additional collection agents to ease customer payments.

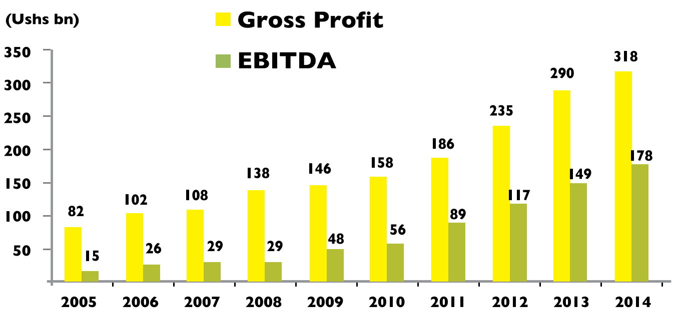
INVESTMENT IN THE DISTRIBUTION SYSTEM: USD 97M



In 2014, USD 97m was invested on capital projects, increasing the total cumulative investment to USD 321m and the undepreciated asset base to USD 250m. Significant projects completed in the year include Queensway 2 and Nagongera substations, technical loss reduction on Kampala North-Gayaza and Kawempe, Bombo-Luwero, Bombo-Namulonge feeders and network refurbishment in Mbarara Central-Masaka West and Hoima-Busunju. Other projects implemented included:

- Rollout of pre-paid metering
- Rollout of enhanced Automated Metering System
- Creation of 865 new distribution zones

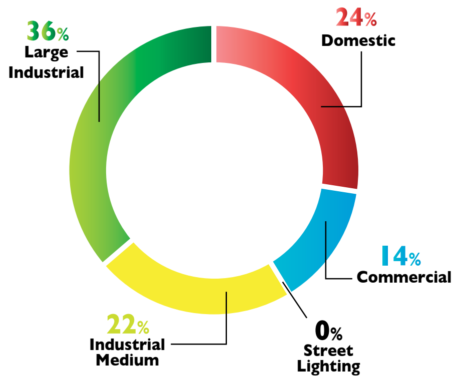
PROFITABILITY - EBITDA: +19%



- In 2014, gross profit grew to Ushs 318 billion from Ushs 290 billion.
- EBITDA grew to Ushs 178 billion (USD 67.9m) from Ushs 149 billion (USD 58m), an increase of 19% compared to 2013.
- The drivers of the increased profitability were:
  - Additional capital investments in the distribution network completed in 2013.
  - Growth in sales units.
  - Strong performance against regulatory targets.

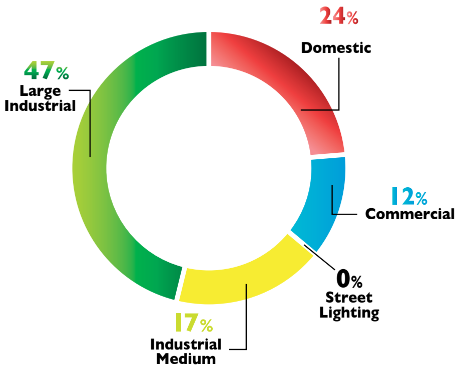
REVENUE ANALYSIS

Revenue (Ushs'Bn)	2014	2013	Growth
Electricity Sales			
Domestic	273	252	8%
Commercial	137	126	8%
Street Lighting	1	1	3%
Industrial - Medium	208	204	2%
Industrial - Large	354	335	6%
Sub-Total	**972**	**918**	**6%**
Other Revenue/Lease recovery	5	48	
Total	**978**	**966**	**1%**



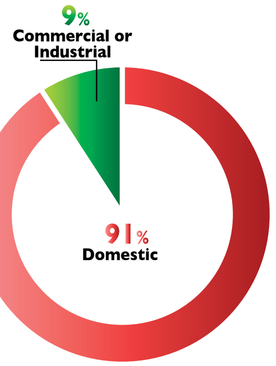
ELECTRICITY SALES (GWh)

Sales Breakdown (GWh)	2014	2013	Growth
Domestic	541	503	7%
Commercial	284	257	10%
Street Lighting	2	2	4%
Industrial - Medium	390	382	2%
Industrial - Large	1,060	974	9%
	2,277	**2,118**	**7%**



NUMBER OF CUSTOMERS

Customer Number Breakdown	2014	2013	Growth
Domestic	590,677	521,284	13%
Commercial/Industrial	56,891	50,301	13%
Street Lighting	307	359	-14%
Industrial - Medium	2,234	2,108	6%
Industrial - Large	464	413	12%
	650,573	**574,465**	**13%**



4. ANALYSIS OF THE FINANCIAL RESULTS

4.1 Revenue

Revenues increased to Ushs 978 billion in 2014 compared to Ushs 966 billion in 2013. Electricity sales revenue increased by 6% to Ushs 972 billion in 2014 compared to Ushs 918 billion in 2013, driven by increase in sales units.

The increase in units sold is attributed to power availability during the year and reduction of distribution energy losses from 24.3% in 2013 to 21.3% in 2014.

4.2 Gross Profit

The Company's gross profit increased by 10% to Ushs 318 billion in 2014 from Ushs 290 billion in 2013. The main drivers for this increase were; increase in capital investments completed in 2013, reduction in energy losses, higher allowed operating costs and inflation and foreign exchange adjustments of the company's underlying 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 19% in 2014 to Ushs 178 billion compared to Ushs 149 billion in 2013. The growth in US Dollar terms was 18%, from USD 57.8 m in 2013 to USD 67.9m in 2014. This growth is attributed to; the increase in capital investments base as of 31 December 2013, increase is electricity sales units and general performance of the Company against its regulatory targets.

Operating costs increased by 2% in line with the Country's general inflation trends.

4.4 Profit Before Tax

Profit before tax decreased from Ushs 115 billion for the year ended 31 December 2013 to Ushs 102 billion in 2014, mainly due to foreign exchange losses of Ushs 29 billion arising out of the depreciation of the Uganda Shilling against the US Dollar. The Uganda shilling depreciation is attributed to the global strengthening of the US Dollar, low country export earnings and continued increase in demand for imports. The US Dollar denominated borrowings increased to USD 100 million as of 31 December 2014, compared to USD 40 million in 2013.

4.5 Income taxes

The corporation tax for the period is Ushs 31 billion, reflecting an effective average tax rate of 30.7% compared to Ushs 32 billion of 2013.

4.6 Profit after Tax

Profit for the year ended 31 December 2014 was Ushs 70 billion (2013: Ushs 84 billion). The decrease in profits is attributed to the higher foreign exchange losses. Profits after tax adjusted for foreign exchange losses/gains increased by 26% to Ushs 99 billion in 2014 from 78 billion in 2013. As the sector revenues are US Dollar dominated, the effects of foreign exchange fluctuations are adjusted for through the automatic quarterly tariff adjustments.

4.7 Balance Sheet Analysis

Total assets as of 31 December 2014 were Ushs 1,212 billion compared to Ushs 889 billion in 2013. Shareholders' Equity increased from Ushs 286 billion in 2013 to Ushs 314 billion in 2014. The increase is attributed to profit after tax for the year Ushs 70 billion net of dividends paid during the year.

Outstanding interest bearing debt increased to Ushs 265 billion (USD 100m) in 2014 from Ushs 91 billion (USD 40m) in 2013. An additional USD 60m was drawn from the USD 170m term facility with Standard Chartered Bank, Stanbic Bank Uganda Limited and International Finance Corporation (IFC), to fund the Company's capital investment plan for the year. The balance of undrawn funds from the facility is USD 70m.

Capital investments implemented in the year totalled USD 97m, with cumulative investments since the commencement of the concession being USD 321m and the undepreciated asset base of USD 250m.

4.8 Cash flows analysis

During the year under review, the company generated Ushs 143 billion from operations compared to Ushs 110 billion of 2013. The cash generated was used to fund some of the capital investments, dividends and financing obligations.

The company also drew Ushs 155 billion (USD 60m) from its term loans to finance the capital investment plans for the year.

The net cash available reduced by Ushs 15 billion in 2014 compared to the opening cash balances of 2013. The company has working capital facilities of USD 20m with Standard Chartered Bank and Stanbic Bank Uganda Limited and undrawn credit facilities of USD 70m.

5. THE BOARD OF DIRECTORS

Mr. Piet Faling | Mr. Charles Chapman | Mr. Stuart David Michael Grylls | Hon. Gerald Sendaula | Mr. Samuel Zimbe | Mr. Adrian Mucalov
Mr. Ivan Kyayonka | Mr. Selestino Babungi | Mr. Patrick Bitature | Mrs. Florence N. Nsubuga

OUR 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".

OUR 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

PATRICK BITATURE
(Non-executive Director)

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 a member of the Presidential Investors' Round Table (PIRT) and is the Honorary Consul, Australian Consulate in Uganda.
Mr. Bitature is a member of the Institute of Chartered Secretaries and Administrators, UK.

CHARLES CHAPMAN
(Non-executive Director)

Mr. Chapman joined Umeme in 2009 as Chief Operating Officer and was appointed as Managing Director in the same year, a position he held until 31st March 2015. 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 worked for Boots Company plc and GlaxoSmithKline plc. Mr. Chapman is a BSc (Management) honours graduate of Trinity College, Dublin.

STUART DAVID MICHAEL GRYLLS
(Non-executive Director)

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 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.

ADRIAN MUCALOV
(Non-executive Director)

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
(Non-executive Director)

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. Honourable Ssendaula holds a Bachelors of Commerce degree from the Nairobi University, Kenya.

SAM ZIMBE
(Executive Director)

Mr. Zimbe joined the Board in November 2014 as an executive Director and Deputy Managing Director. Mr. Zimbe is a qualified 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, Mr. Zimbe managed the Uganda Electricity Distribution Company Limited (UEDCL) for two years following the unbundling of the electricity sector.

PIET FALING
(Non-executive Director)

Mr. Faling joined the Board in February 2015 as an independent and non-executive Director. Mr. Faling has worked extensively in the electricity sector since 1972. As Executive Director of Transmission, Mr. Faling was a member of Eskom's Management Board from 1993 to 1999 and also played a key role in the restructuring of Eskom's generation business. For the past 16 years, Mr. Faling has acted in advisory and management capacity to multiple energy projects in South Africa, Kosovo, Nigeria and Mozambique.

IVAN KYAYONKA
(Non-executive Director)

Mr. Kyayonka joined the Board in February 2015 as a non-executive Director. Mr. Kyayonka is a highly respected businessman and thought leader with a successful career with Shell in East Africa where he latterly acted as chairman and Managing Director of Shell Uganda and Chairman of Shell Tanzania. Since 2012, Mr. Kyayonka has served as Chairman of the National Social Security Fund (NSSF) Uganda.

FLORENCE N. NSUBUGA
(Executive Director)

Mrs. Nsubuga was appointed to the Board in March 2015 as an Executive Director. Mrs. Nsubuga has served as Umeme's Chief Operations Officer and a key member of the senior management team since 2012, after several years of extensive operational experience as a Regional, Area and District Manager with Umeme and Uganda Electricity Distribution Company Limited.

SELESTINO BABUNGI
(Managing Director)

Mr. Babungi was appointed an Executive Director in March 2015 and as the Managing Director of the Company with effect from 01 April 2015. Mr. Babungi has served as Umeme's Chief Financial Officer (CFO) since January 2011. Prior to his appointment as CFO, Mr. Babungi served in Operations as a Regional Manager and Credit Control Manager. Prior to joining Umeme in 2006, he worked with Ernst & Young Uganda for six years, providing audit and advisory services to clients in the private and public sector. Mr. Babungi is a graduate of Statistics from Makerere University, Fellow of the Association of Certified Chartered Accountants (UK) (FCCA) and a Certified Public Accountant - Uganda (CPA).

6. THE MANAGEMENT TEAM

Selestino Babungi

Florence N. Nsubuga

Phil Ball

Sam Zimbe

George Van Der Merve

Henry Rugamba

Simbiso Chimbima

Patrick Ngolobe

Josepha Tibenderana Ndamira

Eamonn Furniss

SELESTINO BABUNGI

Managing Director

(Refer to page 15)

SAM ZIMBE

Deputy Managing Director/Executive Director

(Refer to page 15)

FLORENCE N. NSUBUGA

Chief Operations Officer/Executive Director

(Refer to page 15)

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 & 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 a registered 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 TIBENDERANA NDAMIRA

Head of Internal Audit

Josepha is an experienced internal audit practitioner 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) and 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 a bachelors degree in Economics. He is also the president of the Human Resources Managers' Association of Uganda.

7. CHAIRMAN'S REPORT

Dear Shareholder,

On behalf of your Board I am pleased to present our 2014 Annual Report. We continue to register growth in the electricity sector, with Government policy initiatives of increasing electricity penetration from the current estimate of 15% to 40% by 2025. As Umeme, we achieved a 13% increase in customer connections leading to a total customer base of 651,000. The sales (GWh) grew by 7% to 2,277 GWh from 2,118 GWh achieved in 2013.

Patrick Bitature - Board Chairman

We continue to improve the distribution efficiencies of the sector, which directly impact the end user tariffs to our customers. The tariffs remained relatively at 2013 rates due Umeme's contribution through energy losses reduction and revenues collections, coupled with generation mix skewed towards hydro as opposed to expensive thermal generation. The energy losses reduced to 21.3% in 2014 from 24.3% achieved in 2013. The revenue collection rate was 99.1%.

Due to the strong operation performance, I am glad to report a 19% increase in EBITDA in 2014 to Ushs 178 billion from Ushs 149 billion in 2013. Profit after tax decreased to Ushs 70 billion from Ushs 84 billion reported in 2013. The reduction is due foreign exchange losses of Ushs 29 billion arising out of the 10% depreciation of Uganda Shilling against the US Dollar. The Uganda Shilling depreciation is attributed to the global strengthening of the US Dollar, lower country export earnings and increase in demand for imports. The weakening Uganda Shilling shall certainly negatively impact end user tariffs, as the significant element of the sector revenues are denominated in US Dollars.

During the year, the company generated Ushs 143 billion from operations compared to Ushs 110 billion of 2013. The cash generated was used to fund some of the capital investments, dividends and financing obligations. The company also drew Ushs 155 billion (USD 60m) from its long term loans to finance the capital investment plans for the year. In total our capital investments implemented in the year were USD 97m, with cumulative investments since the commencement of the concession being USD 321m and the un-depreciated asset base of USD 250m.

This year, the Board recommends a final dividend of Ushs 19.5 per share, bringing the full year dividend to Ushs 28.9 per share, an increase of 16.5% from 2013 (Ushs 24.8 per share).

Regulatory Update

As reported at the half year, in March 2014 the Parliament passed a vote to terminate the concession of Umeme following an investigation by an Ad Hoc Committee on the energy sector set up by the Parliament. The Company provided all the information clarifying Umeme's role and contribution to the electricity sector in Uganda. The resolutions were forwarded to The Executive for a final decision. We are assured it is not the intention of government to reconsider its contractual obligations and we remain committed to our obligation to grow the distribution network and access to electricity in Uganda.

There have also been numerous mentions in Parliament on the purchase of Umeme shares by NSSF. I would like to assure our shareholders there was absolutely no illicit

In the medium term, after comissioning of Isimba and Karuma hydro power dams, coupled with other generation initiatives, Uganda's effective generation will triple, from 650MW to over 1700MW.

activity by the board or management of Umeme in this very transparent and rigorously regulated capital markets.

As detailed in the press release for the 2014 results two items remain outstanding on the regulatory front: Amendments 2 and 4 to the supply Licence currently in the Electricity Disputes Tribunal and the Escrow Account that is currently depleted and not funded. The Company is continuing to engage government to ensure the matters are amicably resolved. The Company shall also continue to pursue its legal and commercial remedies as outlines in the agreements.

Secondary Sale of Umeme Shares

I am pleased to report the secondary sale of Umeme Shares in April 2014 has been described as the most successful process in the Uganda Security Exchange history. We welcomed new shareholders who missed out on the IPO and saw confident shareholding increases by many existing shareholders. Thank you for the confidence you have in our company and its management.

Changes in Governance

Our continuing success is due to the 1,400 colleagues who work at different locations across the country. Their hard work and commitment is a key factor in the success of our business and it is thanks to them that we continue to see an improved public perception of our company.

We announced in March 2015 that Charles Chapman will step down in April 2015 after six years as Managing Director. His leadership transformed our business and has seen Umeme continue to deliver on its regulatory targets, increase in customer connections, investments and overall financial performance. In addition, Charles has strengthening the management structures of the Company through attraction and development of talent. Charles has been a truly exceptional leader and, on behalf of the Board and all our colleagues, I thank him for his outstanding achievements. Charles shall continue to serve on the Umeme Board as a Non-Executive Director.

The Board has appointed Selestino Babungi as the next Managing Director, effective 1 April 2015. Selestino will lead Umeme on the next phase of its journey, focusing on projected growth. Selestino has significant experience and a proven track record of success, well respected by colleagues and within the wider industry.

I am also pleased to welcome Sam Zimbe and Florence Nsubuga to the board as Executive Directors, like Selestino, they have deep understanding of the business and will bring expert technical knowledge to the board.

It is a great pleasure to welcome Mr. Piet Faling and Mr. Ivan Kyayonka to our Board as Non-Executive Directors. Both Piet and Ivan bring a wealth of experience in the sector and in private enterprise that we shall no doubt benefit from tremendously.

In November 2014 the board accepted the resignations of Mr. Ian Francis and Mr. Younes Maamar who have served the board exceptionally for 6 years. I want thank them for their dedication to Umeme.

Sector Outlook

The Government has pronounced itself on its determination to complete the Karuma, Ayago and Isimba Dam projects in the medium term. The respective contractors have commenced construction of Isimba and Karuma Hydro Power projects. We are excited by this policy determination and we pledge our commitment to support this initiative. Once these projects are completed, coupled with other generation initiatives, Uganda's effective generation capacity is projected to triple in the next six years. As the primary distributors, the Company projects significant investment requirements in the distribution sector to match the new generation capacity.

Umeme shall continue with its investment strategy focusing on; substations, line refurbishments and extensions to connect over a million customers to our network. I call on the support of all shareholders and stakeholders, as we work with government to transform the electricity infrastructure and sector as a whole, in the overall country transformation agenda.

Patrick Bitature
Chairman

8. MANAGING DIRECTOR'S REPORT

To Our Shareholders, Our Customers & Our Staff

It is my pleasure to report that Umeme has completed a year of significant improvements while achieving and sustaining regulatory, operational and financial targets.

CHARLES CHAPMAN - Outgoing Managing Director

1. Customer Care:

The company invested Ushs 269 billion to improve reliability and quality of supply. During the year we began converting all new retail customers to prepayment metering and by year end a total of 186,000 (28%) of our customers were on the new system

I am pleased to report that 100,000 postpaid customers now receive their bills by email. The E-bill initiative is a very efficient form of communication which we are actively recommending to all account holders to address the bill delivery challenges that have been an issue of concern to our customers.

Umeme Touch Pay, the alternative pay channels through the partner banks and Mobile Money has tremendously improved customer experience and convenience and we have registered and increased transaction on this platform.

2. Safety:

Regrettably in April 2014 the company suffered two fatalities due to network failure.

Notwithstanding this significant setback, the company is confident that major safety improvements are being made particularly in the areas of;

- Organizational safety culture
- Operational procedures
- Investment in Restoration projects
- Emergency response times

3. Regulatory Targets / Efficiency Improvements:

In 2012 Umeme agreed seven year targets with ERA to reduce energy losses enhance collections and work within specific annual budgets.

These targets offer significant financial benefits to electricity consumers and I am pleased to report that Umeme has continued to meet and in some cases exceed these targets during the year. Our estimate is that the cumulative impact of achieving these targets allows the regulator to suppress earlier price increases by up to 30%.

We thank all our customers who continue to pay their bills on time and enabled us to sustain the electricity sector and continued investment in service delivery.

4. Cash Flow:

We thank all our customers who continue to pay their bills on time and enabled us to sustain the electricity sector and continued investment in service delivery. All the cash generated plus a further Ushs 155 billion in borrowing from external banks has been reinvested in the distribution network.

Investments in the Umeme Network:

In 2014 the Capital and Contracting Division completed its first full year supported by 33 external contractors employing approximately 4,000 personnel. We managed to achieve the highest ever level of capital investment of US$ 97 million bringing the total investments of US$ 321 million and undepreciated asset base to US$ 250 million.

Invariably this level of investment did cause some disruption to our customers and we are grateful for their patience and support. Overall the feedback is positive as projects to improve quality and stability of supply and reduce technical losses are implemented. For our shareholders the significant increase in 2014 investments will be recovered in the following year and this leaves the company well positioned for 2015.

5. Financial Results:

The Chairman has highlighted the financial results for the year 2014, with increase in net profit adjusted for foreign losses/gains by 26% to Ushs 99 billion.

This sustained level of profitability has enabled Umeme invest in the network, make distributions to shareholders and grow the balance sheet for external funding.

6. People

Umeme's ten year successful development has been built around a cadre of talented indigenous and international managers working as a focused and well-motivated team.

We were very proud to read a national survey of fresh graduates' first choice employers audited by Deloitte name Umeme 10^{th} preferred destination. The previous survey of 50 choices had put us at 42^{nd}.

The succession of our new Managing Director, Executive Directors and Board augurs well for the future development of the company as one of the best performing distribution companies in Africa.

7. Company Support

The Umeme achievements to date are a result of dedication, focus, foresight and perseverance.

On the occasion of my last report I would like to thank His Excellency the President, the Government, Ministers, ERA and the Board past and present for their consistent support.

Also the management and staff for their unwavering support and dedication.

Charles Chapman

9. SUSTAINABILITY REPORT

The Board, Management and staff of Umeme Limited recognise our obligation in building a sustainable organisation and society. At the helm of the electricity sector, we take pride in our role as the engine of growth to Uganda's economy. We see our long term sustainability not only in our financial results but also in our ability to deliver a remarkable customer experience, firm employee value proposition, an outstanding partnership with our community and stakeholders, growth in shareholder value, safety, environmental performance, regulatory compliance and operational processes.

We appreciate the importance of sustainability to our Company and nation's economy. We continue to seek ways to develop and implement activities and operational processes that shall continuously enhance the experience and livelihood of all who interact with the company and enshrine them in the organisation's core values and business activities.

In addition, the company adopted the World Bank's International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability ('the Performance Standards') to enhance its business operations. The following activities done during the year fostered the Company's sustainability agenda;

Safety

Umeme limited distributes and supplies electricity, a necessary and important commodity although dangerous in nature and therefore safety of staff, contractors and the communities in our footprint are important to us.

Public Fatalities

There has been progress in developing the safety culture of staff and our contractors due to the various safety strategies implemented during the year, consisting of technical mitigation measures such as education programs, high quality safety messaging and safety sensitisation visits to the communities and schools.

Despite our good progress in our safety performance, the Company was challenged with 2 public fatalities due to the state of the distribution network.

The incidents were investigated and the key learnings were disseminated to all staff, to deter recurrence of similar incidents.

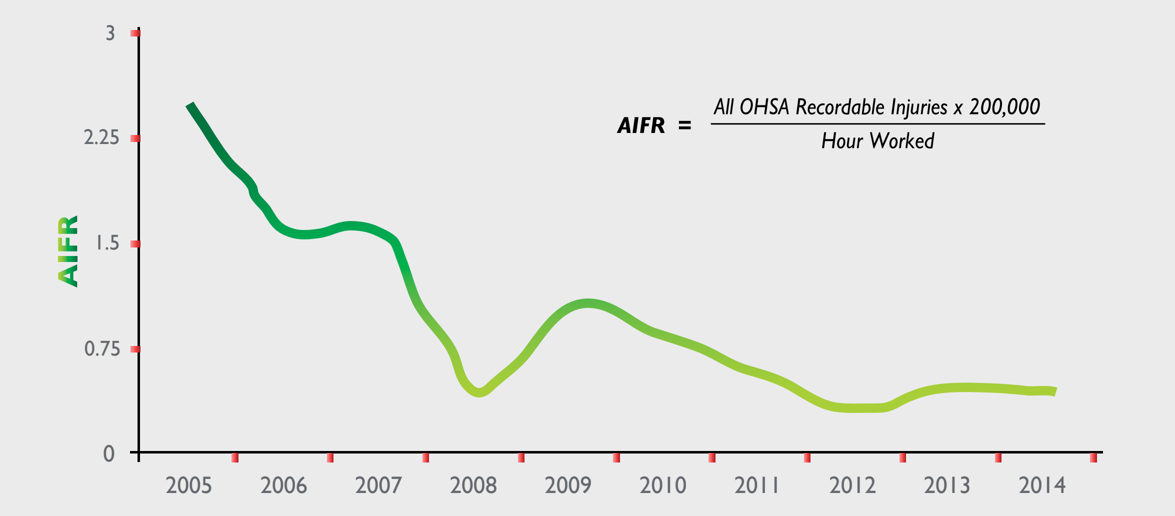
There have been reductions in accidents resulting from illegal activity, such as power theft and illegal operation of the network as a result of management's deliberate implementation of safety strategies of mitigating risks associated with third party activity.

A summary of fatal accident statistics with comparison to 2013:

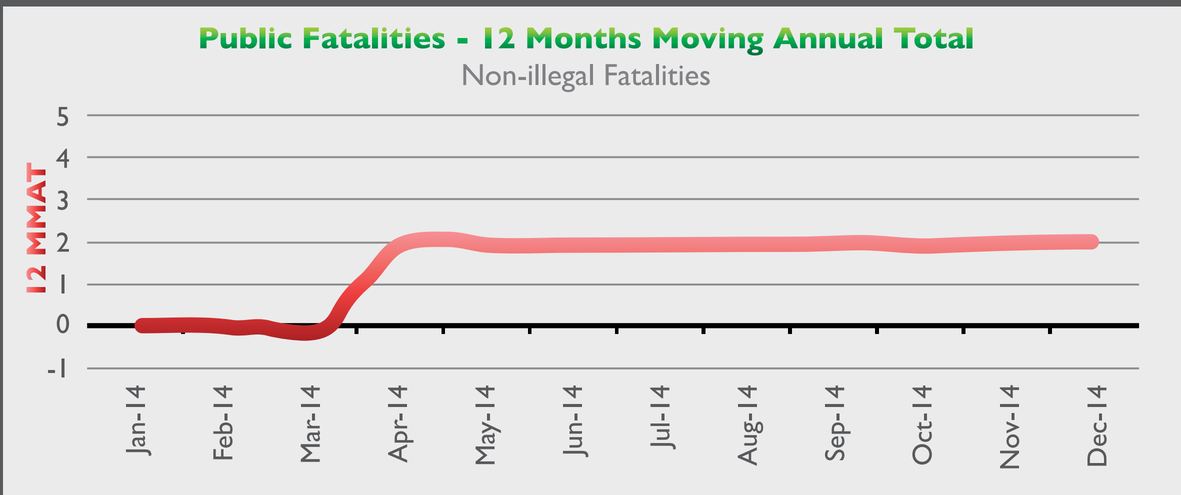
Category	2014	2013
Public	2	0
Worker (Employee, Direct labour or Contractor)	0	1

Umeme launches Safety Club at Mbarara Junior School

The following charts reflect the overall improvement in 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.*



Safety Sensitisation and Response

Engagement with communities included 7,588 school talks and 7,674 community presentations, which was supported by the use of the new SMS platform, print media, radio and television. In addition 106 school safety clubs were established in high risk districts. Working with local education authorities, electricity safety programmes are discussed as part of extra curriculum primary school activities; delivered by primary school teachers, after training was provided by Umeme Limited district personnel. Ongoing support and monitoring of these projects are provided to ensure the safety sensitisation is deliberate and consistent.

As part of our strategy to combat illegal fatalities, with the support of Uganda Police, an additional 225 community visits were undertaken for joint investigations following a fatality, serious incident or where patrols had identified significant illegal activity. This partnership has had a positive response in the communities visited as it is seen as a wider societal issue rather than only an Umeme concern.

The New Queen's Way 2 Substation

From 80% in 2005 to
99% Revenue Collection

We partnered with 14 banks, signed up alternative payment solutions like ***Mobile Money, Payway*** and ***EZEE Money*** to deliver expectational customer convenience 24 hours / 7 days a week

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

Continued Network Restoration

Safety refurbishment projects were undertaken in 4 districts, focusing primarily on insulated conductor projects in close proximity to schools and other high risk environments such as trading centres. 19 schools and 8 trading centres benefitted from such projects. The safety projects were prioritised on a risk basis; accident numbers, emergencies reported through the Contact Centre and network audits. The risk reduction afforded by these projects is supported by district risk registers introduced in quarter four to facilitate improved prioritisation of work and maintenance plans, which will improve the asset management of networks and substations going forward.

Developing a culture of safety ownership

Personal safety targets have been established for all staff and safety continues to form part of the company's bonus structure. Staff are continuously challenged and encouraged to contribute to driving the improvement of the safety agenda. The newly developed engineering division/ department provides for further local ownership with engineers taking the lead on all technical safety issues and investigations arising out of contact with electrical apparatus or associated work activities.

Improving contractor safety performance

The performance of our contractors, particularly those pre-qualified to undertake capital expenditure works has continued to improve. This continued improvement has been driven by the newly developed Capital Contracts Division which has enhanced Umeme's contractor management capabilities.

At the 6-month contractor's forum held in August 2014 contractors presented specific safety challenges and discussed how to improve the transportation of workers to their places of work, which has been an ongoing concern. This became a particular focus when 2 contractor personnel were fatally injured following an accident resulting from 3rd party road use. The new policy arising from these discussions was that from quarter 2015, movement of materials and workers would be completely segregated.

Mobilising stakeholder support for Umeme safety plans

Stakeholder support is essential for Umeme's safety initiatives. We have conducted joint workshops with the Electricity Regulatory Authority addressing registered domestic electrical contractors with the aim of improving and agreeing standards of equipment and installation practices in homes and commercial premises.

Environment

Umeme is committed to environmental best practice. As highlighted in paragraph three of this report, we formally adopted the IFC environmental standards as company policy and an environmental specialist was appointed to the safety department in order to raise the profile of environmental management.

In line with the adoption of IFC group standards 15 substations were audited in order to identify whether there were potential ground water contamination issues. Apart from minor leaks, which were rectified immediately, no significant issues were identified. This programme will continue through 2015.

The company also continues to make progress on the safe removal and destruction of polychlorinated biphenyls (PCBs) from old or damaged transformers 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 56% of our 9,081 distribution transformers being identified as PCB safe by year end.

This equates to over 84,968 litres of potentially contaminated oil being transported and treated under controlled procedures during the year. In addition our main supplier has established a new facility in Kampala for the supply, maintenance and testing of transformers, which facilitates improvements in the PCB programme as controls can be more easily monitored.

Waste recycling has been encouraged in all business units with the total quantity collected for recycling in 2014 standing at 2,025kgs.

In addition, during 2014 a tree planting project commenced as part of our sustainable business plans. In support of the schools education programme 300 trees were planted where safety clubs and been established in the year, this initiative will be continuously implemented to ensure all locations that have such a club have tree planting undertaken. The importance of both the environmental and safety programmes is broadcast on local radio stations.

People

The place to be

We remain dedicated to attract, develop & retain talented staff to deliver the right results. We are mindful of the role our talent plays in delivering the regulatory targets, customer service and general growth of the electricity distribution sector. The Company deliberately focuses on developing internal capability alongside attracting, developing and retaining critical skills from the market.

All our processes are consistently reviewed with the purpose of becoming the destination of choice for high performing staff across all our functions.

Culture

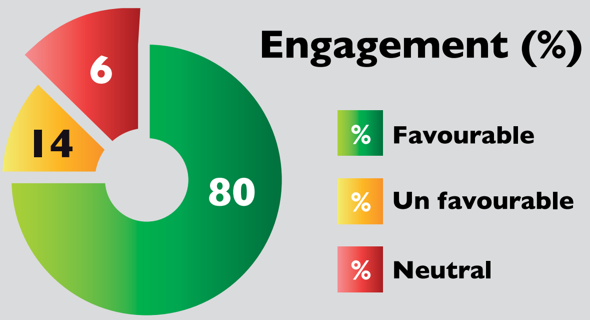
During the year, our journey of building an empowering culture for our people led us to implementing focused interventions that foster respect, openness, transparency, integrity, and professionalism. Through empowering employee communication and alignment, channels of communication were reinforced by the development of a business partnering and service delivery model. Our ability to partner with leaders across the business enabled prioritization of their goals and priorities.

New employees were given a strong start through a renewed on boarding process that involves all around business appreciation. The Company's recruitment and selection process emphasizes equal opportunity for all. This was enhanced through hosting an Open day career fair, which had an attendance of over 700 graduates, to provide an understanding of Umeme and career opportunities available.

The employee engagement survey highlighted the views of our staff in key themes that drive the required service culture to deliver our goals and priorities. These themes included Passion for our customers, Integrity in our actions, Leadership, Communication, Performance management, Reward and Benefits management.

Our staff engagement rating was 80% against a global benchmark of 60% and Continental Benchmark of 61% for the themes assessed. Town hall meetings at regional level were held to disseminate the findings and develop an action plan for further improvements. Various online platforms such as **askhr@umeme.co.ug**, the Onliner, were launched in an effort to increase interaction between staff and management.

Employee Engagement score across key culture themes



Talent Development

We took a deliberate and customized approach to focus on staff development across two broad competence areas. Technical/Functional competencies and the Leadership/ management competencies. The Technical competencies aim to build functional expertise while the management/ Leadership competencies aim to enable staff to manage self, manage others and to manage the business.

The following management/leadership development initiatives were implemented during the year:

- Harvard Manage Mentor to support managerial competence to manage self, manage others and manage the business through delivery of modules that promote awareness on different leadership gaps.
- The John Maxwell's Leadership simulcast exposed key managers to leadership best practices relating to the importance of asking great questions as a manager.
- An in-house strategic intervention to boost business results was rolled out midyear to rally 100 key managers and supervisors towards achieving the second half year business results in 2014. This resulted into special projects and focus groups to harness opportunities to achieve our annual targets.
- Performance management training for all staff across the company was rolled out at district and section level to support in streamlining the 2014 end of year appraisals and also kick start the 2015 performance agreements. The training was to enhance knowledge on Targets, improve transparency & fairness; and also call for accountability in the appraisal process.

To develop functional skills, a number of technical courses were rolled out during the year.

- Finance for non-finance managers as an intervention equipped managers with relevant financial and business skills to make key decisions that facilitate achievement of our goals and priorities for the business.
- Prepaid Metering Training promoted further awareness and capacity of our teams to not only roll out YAKA but to do so with consideration to customers' expectations so as to deliver the intended objectives of efficiency.
- We worked with consultants from *PKF* to deliver Training of Enterprise Risk management to all managers, Senior Management and the Board. This promoted risk consciousness during delivery of business objectives.
- Effective Asset Management, Investment and Planning was fundamental to align the Network Investment & Planning initiatives towards achieving key targets like reduction of Technical losses.
- Valuing safety of our staff and contractors ORHVS (SOR) which is rolled out every year intends to guarantee that all persons that operate our Network are authorized to do so and uphold safety regulations
- Other technical trainings rolled out included Transformer Maintenance, Defensive Driving, First Aid Training, Occupational Health & Safety, Managing Logistics and also system trainings like ITRON Metering, GIS mapping techniques and Billing Processes.
- We partner with professional bodies to ensure our staff remain professional and aware of emerging trends within each profession body.

All the above interventions aimed to build capability of internal managers and supervisors to deliver on the Company goals and priorities.

Umeme ladies commemorate the 2014 International Womens' Day

Ms. Rosemary Mutyabule of Enterprise Uganda, inspires Umeme Ladies on being ***'A holistic Woman'***

In 2014, the Umeme Training School was launched and partnered with DIT – Ministry of Energy and Kafue Gorge regional Training Centre – Zambia to deliver technical training. Since inception 40% of our Engineers have been trained at the school in various programs like ORVHS (SOR) and Line construction standards.

Diversity

We are an equal opportunity employer and work towards gender diversity of our staff. Of the 1,389 staff complement, 336 are female and 1053 males. The average age profile of our staff is 35 years.

In 2014, 48% of promotions were through internal appointments. This is in line with our internal career development program based on competence and delivery of company goals. As a retention scheme internal staff are given opportunity to assume higher responsibility and advance their careers through the numerous career opportunities across the organization.

Benefits & Rewards

We reward good performance and have constituted a performance related reward mechanism. This is also in line with a framework to recognize staff across the company who champion our values and objectives.

Annually at the close of the year, the Umeme family meets to celebrate achievements for the year and to share focus for the coming year. The 2014 staff party was one with a difference, with staff from across our country office locations attending one party. The event provided a perfect opportunity to put names to faces, meet and greet while creating bonds that will strengthen our performance in 2015.

To firm up our dedication to staff, we rolled out an updated Human Resources manual that reflects the changes in trends. We also implemented the Drug & Alcohol policy which reiterates our stand in enhancing professionalism at work. This was alongside firming up our collaboration with St. John's Ambulance to aid evacuation in case of accidents.

We are proud to provide employment to over 2,000 contractors as part of our outsourced labour working with our team to deliver a renewed customer experience.

None of our operations pose any threat or risk to the freedom of association and collective bargaining. The recognized labour union is party to decisions on wages, allowances and benefits/welfare of its members, through the collective bargaining process. The relationship between the union and management remained smooth and dedicated to mutual agreement and understanding.

Occupational Health and Safety

The health and safety of our employees at work is paramount and we have, in addition to insurance taken out for that purpose, put in place policies and practices that ensure that employees do their work in a safe and hygienic environment and that their health is taken care of.

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 and the economy.

Customers

Customer numbers have continued to grow with a 13% increase in the year 2014. The growth in our customer base is closely intertwined with our strategy to increase access of electricity to all Ugandans, where only 15% of households have access to the grid. The Company is committed to improving its customer service through investment in the distribution network and technologies, coupled with staff training.

Umeme continues to invest in the distribution network to ensure reliability and quality of electricity supply. During the year 2014, we invested Ushs 269 billion in line refurbishment, construction of new substations, construction of new distribution zones, conversion to prepayment metering for over 88,508 Customers and new connections.

The Company realigned its personnel to enable the engineering team to timely interact with our customers and provide timely solutions to network related challenges and outages.

In addition to the customer service and call centres available to address customer queries, the Company



Umeme's first supplier conference in February 2014

introduced monthly one on one engagements with key customers in all our district offices and regular local stakeholder meetings involving district/council leadership, police and customers in the regions we operate.

The company continues to introduce and improve technology solutions that target to improve the experience of our customers. Innovations implemented throughout the year include;

- Increased the number of customers on prepayment metering system. With effect from 01 September 2014, all new connections have been connected to prepayment metering system.
- Increasing the alternative payment platforms to include Finance Trust Bank, Ezee mobile money and Orange Money.
- Introducing of Hand held devices that ensure efficiency of revenue cycle and maintenance of customers' history.
- Improvement of SCADA and GIS systems to manage our Distribution Network.
- Promotion of E-bill.

Suppliers and contactors

Umeme Limited launched its first supplier conference in quarter one of 2014.The conference provided a platform for our suppliers and Umeme team to discuss service delivery opportunities, challenges and impacts on their business.

The Conference enabled Board members, senior management and Umeme employees interact with our suppliers and explain our procurement procedures, invoicing, Tax management, quality expectations and contact persons.

The Company also highlighted to suppliers available opportunities within the banks that they could leverage, Umeme trainings in health and safety for personnel and business growth opportunities for their companies.

Engagements with Regulators and other sector players

Umeme is regulated by various bodies, however, its primary regulator is the Electricity Regulatory Authority (ERA). During the year, management had several interactions with the Government of Uganda at the highest level, our line ministry, the parliament of Uganda and ERA alongside other electricity sector players in distribution, transmission and generation, on sector issues including tariffs, investments, customer service and licences.

Umeme and ERA boards of directors committed to having regular meetings to discuss areas highlighted above. Representatives of the two boards met twice in 2014.

The Company has implemented structures that ensures its excellent operational performance enables it to also achieve its regulatory targets of losses, collections and efficient management of costs.

During the year 2014, the Company was able to achieve strong results in the above mentioned targets as presented in our analysis of the financial results on page 13.

Umeme has also enjoyed very good relations with other electricity sector players during the year that have enabled it meet its obligations to the electricity sector and the general public.

Umeme continues to perform excellently on both the Uganda stock exchange and Nairobi Stock exchange and meet its listing obligations to both Uganda and Kenya concerning its listing obligations.

International bodies

Umeme partners with other international bodies to deliver services to the people of Uganda.

During the year, Umeme was one of World Bank partners to deliver the Output Based Aid (OBA) project of increasing electricity accessibility to people. The Company was given a target of connecting 3,000 people to the electricity grid by January 2015. As at 31 December, the company had connected 1,274 people on this project.

The Company also had discussions in the year with international bodies, for example, World Bank and German Financial Cooperation (KFW) regarding ERT 3, Peri-Urban and Get–Fit projects that should also contribute to increasing accessibility and quality of energy supply especially in rural areas in the country.

Umeme also received technical teams from Ghana, Tanzania and Cameroon that were in admiration of Uganda's performance in the Utility sector after privatisation and wanted to benchmark their strategies, policies and procedures with Umeme's as they plan to privatise their utility companies in their respective countries.

Hon. Eng. Irene N. Muloni *(front center)* the Energy Minister, ministry officials and Umeme after consultations with the Technical team, from Ghana.

Corporate Social Investment (CSI)

Our CSI policy is built on the principle that community investment should create a meaningful and sustainable impact reinforced by our share value.

The following are some of the CSI activities undertaken by the Company during the year 2014;

- Umeme made a contribution to the Association of Surgeons of Uganda who held their annual camp in Kabale and Kisoro where they were able to see about 3000 patients and operated on over 500 patients.
- Umeme partnered with the Kampala Art festival team as main sponsors of the art festival. The festival took place at the Kampala railway station and different locations in and around the city showcasing art as a communication medium and urging the communities to practice safety when in touch with our product by reporting illegal activities on the Umeme network.
- Umeme supported the Nyakisenyi church construction in Rukungiri District
- In Partnership with the Rotary clubs in Uganda, we participated in the 3rd cancer Run held on 31st August. The Run which was dubbed "the final Mile" aimed at raising 300 million shillings for the completion of a cancer ward at Nsambya Hospital. As a means towards team building, Umeme staff were mobilized to participate and support the cause. Our involvement and participation was not only in support of the cause, but also to strengthen our relationship with the Rotary fraternity in Uganda, and to promote staff involvement in CSI activities.

Stakeholder meeting in Mbale

Customer engagement meeting in Entebbe

From 0 in 2005 to **300,000 Calls monthly**

Our state of the art, 24/7 toll-free call centre installed in 2006 is available as a tool to serve you more efficiently and has the capacity to handle 300,000 calls a month.

Umeme Kampala East Regional Manager Agnes Nalwanga (centre) after completion of CEO Apprenticeship Course from Strathmore Business School

Mr. Herbert Kanyali, the Umeme Safety, Health and Environment Manager awarding Kitintale District Team for ***Best Safety Performance 2014***

10. CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Directors (the "Board") of Umeme Limited ("Umeme" or the "Company") understands and appreciates that sound governance practices are critical to the sustainability of the Company. The Board is also acutely aware that the Company's regulators, customers, partners, shareholders and the public can only comfortably deal with the Company if it espouses and demonstrates best in class governance standards. The Company's best practices are benchmarked against recognised local standards as well as international standards such as those set out in the UK Corporate Governance Code and King III.

The Company's corporate governance framework adopted the world class standards on health and safety, climate change and corporate governance which underpin the environmental, social and governance considerations behind all of Actis' investment decisions and the businesses it promotes.

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.

The Company is also a corporate member of the Institute of Corporate Governance of Uganda.

Shared Purpose And Values

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

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

- Ensuring a high degree of customer satisfaction/ centricity
- 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

Ethics

Employees, contract staff and third parties with whom Umeme has a business relationship (such as customers, suppliers and agents), and any member of the public (including shareholders) may raise ethics and compliance concerns through the ***Umeme Helpline +256 312 360600.***

Furthermore, there is a whistle blower line open to the public and our employees to discuss or report any integrity and corruption related case in confidence. The whistle blower line is managed by an independent firm, Transparent international. Our confidential whistle blower line is ***+256312 360777.*** The Company's commitment to ethical conduct is further strengthened by the existence of the Integrity department which handles all such reports including carrying out investigations and preparing conclusion reports.

Compliance With Laws, Regulations And Guidelines

The Company is a public listed company that is licensed and regulated by ERA. Compliance with the terms of its licenses is of utmost importance to the Company as without the licenses 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. Day to day compliance risk management is undertaken by Management. The Head of Compliance oversees the implementation of the Company's risk management framework and supports management and staff in achieving compliance across all relevant parameters. Ongoing compliance is monitored by the Audit Committee and the Environmental, Social and Governance (ESG) Committee of the Board through quarterly management reports.
During 2014, the Company was in material compliance with all laws, regulations, rules and guidelines on corporate governance including the Capital Markets Corporate Governance Guidelines.

The Environmental, Social and Governance Committee (ESG) will continue to monitor legislative and regulatory developments and their impact on the Company.

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 and non-executive director. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

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

Composition

The diversity of skills, knowledge and experiences on the Board ensures that the Board functions effectively and with appropriate regard to relevant domestic and foreign developments and micro and macro economic factors.

The Company's board composition strategy is well balanced to include Executive, Non-Executive, independent, resident and non-resident Directors.

The directors' profiles and competencies can be seen on pages 14 to 15

Board Terms of Reference

The objectives of the Board Charter and the Terms of Reference are to ensure that all Board members acting as directors of the Company are aware of their duties and responsibilities as Board members, and the various legislation and regulations affecting their conduct, and to ensure that the principles of good corporate governance are applied in all their dealings in respect of, and on behalf, of the Company.

The Board is tasked with amongst others reporting to the shareholders, ensuring regulatory compliance, ensuring adequate risk management processes exist and are complied with, approval of key policies including investment and strategy as well as risk management, reviewing internal controls and internal and external audit reports, reviewing financial statements, ensuring good corporate governance and monitoring and influencing the ethical standards of the Company, monitoring and implementing the Board composition strategy and director selection, processing and performance as well as succession planning, approving key executive appointments and ensuring executive succession planning, reviewing the performance of the Managing Director and Senior management, reviewing and approving senior executive remuneration, validating and approving corporate strategy, reviewing the assumptions and rationale underlying the annual operating plans and approving such plans and such other matters as are incidental to the above and relevant to fostering business growth and success.

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 members a Managing Director and two other executive directors. 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 and Executive Directors report to the Board on a quarterly basis and more frequently where necessary. During 2014, the Board for the first time decided to appoint a deputy Managing Director to support the Managing Director on the various activities undertaken in the leadership of the Company.

Following more than five years of diligent service to the Company, Mr. Charles Chapman had notified the board of his desire to retire as the Managing Director on attaining the age of 60 years, which the board accepted effective 31 March 2015. He remains a Non-executive Director and he is eligible for re-election at the AGM. Mr. Selestino Babungi has been appointed Managing Director with effect from 1st April 2015.

Board Induction and Training

Following appointment to the Board, Directors receive a comprehensive induction tailored to their individual needs. This includes documented information, site visits and meetings with senior management to enable them to build up a detailed understanding of Umeme's business and strategy, and the key risks and issues which it faces.

Throughout the year, 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.

In line with their responsibility to remain informed of key developments and changes in the operating environment, 2014 an externally facilitated Enterprise risk management session was conducted for all directors in June 2014. The Company is also in the process of finalising board induction and training for its new directors to be conducted in 2015.

Board Evaluation

The Board acknowledges the need to continually assess and improve its effectiveness and process. In this regard, the Board appreciates the need to carry out an evaluation of itself, its Committees, the Chairman and each of the other Directors in order to remain effective.

The audit and remuneration committees carried out assessments of their performance in quarter four of 2014. The evaluations covered effectiveness, process and overall compliance with the terms of reference of the committee. The results of the assessments and evaluations are to be discussed and any action implemented in 2015.

The performance of the Managing Director is evaluated annually against targets set by the Board at the beginning of each year. This evaluation is done by the Board and the results are considered by the remuneration committee when considering the Managing Director's remuneration.

Board and Management engagement

The Senior Management Team (SMT) and the Board interact regularly both at Board and Committee meetings, and other fora. Members of SMT attend and actively participate in board committee meetings and present reports and proposals. Directors are at liberty to engage with senior managers directly on matters of interest or concern and to obtain information as required.

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 of directors

The appointment, resignation, retirement and removal of directors is governed by the Companies Act, 2012 and the Company's Articles of Association with the active involvement of the Nomination Committee. 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 to fill casual vacancies or otherwise are allowed between AGMs. These appointments are then subject to rotation at the next AGM following the director appointment. Before selecting directors, the Board through the Nomination Committee, considers the requirements of the Board and the company in terms of skills, experience, knowledge and other competencies and selects those individuals whose skills, experience and knowledge complement those already on the Board.

One third of non-executive directors are required to retire at each AGM and may offer themselves for re-election. There is no limit on the number of times a non-executive director may stand for re-election. Executive Directors of the Company are, by their employment contracts, not subject to rotation.

The following movements have occurred in the Board since the last annual report:

Appointments:

1. Sam Zimbe – executive director – 27th November 2014
2. Piet Faling – independent and non-executive director – 23rd February 2015
3. Ivan Wambuzi Kyayonka - independent and non-executive director – 23rd February 2015
4. Selestino Babungi – executive director – 13th March 2015
5. Florence Nsubuga – executive director – 13th March 2015

Resignations:

1. Ian Francis – non-executive director – 25th November 2014
2. Younes Maamar - non-executive director – 25th November 2014

All the above appointments were considered and recommended by the Nomination Committee. With the exception of the executive directors all the above appointments shall be subject to re-election at the 2015 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. The Managing Director is fully empowered to manage the operational aspects of the company's business and he performs this role with the support of the SMT.

To ensure efficiency within the governance structure and comprehensive focus on critical company issues, the Board has delegated some of its functions to Committees with clear terms of reference and reporting requirements. The following committees have been established by the Board:

1. Audit Committee;
2. Environmental, Social and Governance Committee;
3. Customer Service and Loss Reduction Committee;
4. Remuneration Committee; and
5. Nomination Committee.

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

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 or round robin approvals. The Board is briefed by Management prior to each board meeting which facilitates more effective utilisation of board meeting time.

The attendance of Board meetings in 2014 was as follows:

Director	20.03.2014	19.06.2014	14.08.2014	20.11.2014
Patrick Bitature	√	√	√	√
Charles Chapman	√	√	√	√
David Grylls	√	√	√	√
Adrian Mucalov	√	√	√	√
Ian Francis	√	√	√	A
Younes Maamar	√	√	√	A
Gerald Ssendaula	√	A	√	√

√ = Attendance; A = Apology; N/A= not yet appointed

Board Committees

Audit Committee

Composition: Ian Francis (Chairman) (resigned on 25.11.2014), Younes Maamar (resigned on 25.11.2014) and Adrian Mucalov.

The Committee was established by the Board of Directors to assist the Board in its oversight of:

- 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;
- the functioning of the internal audit function and ensuring 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 Company's risk management system;
- the integrity and quality of the Company's financial information; and
- the independence, objectivity, scope and quality of the external audit.

The Committee met three times in 2014 and approved the following:

- a Risk Management framework in line with ISO 310000 in accordance with PKF guidance;
- a revised Internal Audit charter;
- a revised risk based Internal audit methodology; and
- revised Audit Committee terms of reference.

The attendance of Audit Committee meetings in 2014 was as follows:

Director	19.03.2014	18.06.2014	13.08.2014
Ian Francis	√	√	√
Younes Maamar	√	√	√
Adrian Mucalov	√	√	√

√ = Attendance

No meeting was held at the time of the last quarter meetings due to lack of quorum.

Environmental, Social and Governance (ESG) Committee

Composition: Stuart David Michael Grylls (Chairman), Patrick Bitature, Charles Chapman, Adrian Mucalov and Younes Maamar (resigned 25.11.2014)

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:

- assessing and monitoring compliance with legislation and the regulatory requirements;
- assessing standards for minimizing risks;
- considering issues that may have strategic, business and reputational implications for the Company and recommending appropriate measures and responses; and
- reviewing significant incident investigation reports including fatality reports.

The Committee meets no fewer than two times a year. The Committee met four times in 2014 and, amongst other things, approved the establishment of a compliance department to enhance the level of compliance, monitoring and assurance across the business.

The attendance of ESG committee meetings in 2014 was as follows:

Director	18.03.2014	18.06.2014	13.08.2014	19.11.2014
David Grylls	√	A	√	√
Charles Chapman	√	√	√	√
Younes Maamar	√	√	√	A
Patrick Bitature	A	√	A	√
Adrian Mucalov	A	√	√	√

√ = Attendance; A = Apology

Customer Service and Loss Reduction Committee (CSLRs)

Composition: Younes Maamar (Chairman; resigned 25.11.14), Stuart David Michael Grylls, Patrick Bitature, Charles Chapman and Gerald Ssendaula (Chairperson since 20.11.14)

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

The Committee's responsibilities include:

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

In 2014, the committee assisted Management in developing relevant customer service and loss reduction strategies ("CSLRs"), monitored the progress of implementation of these CSLRs and updated the Board on Management's performance against the CSLRs.

Four meetings were held in 2014.

The attendance of Customer Service and Loss Reduction Committee meetings in 2014 was as follows:

Director	18.03.2014	17.06.2014	12.08.2014	02.12.2014
Younes Maamar	√	√	√	A
Charles Chapman	√	√	√	√
David Grylls	A	A	A	A
Patrick Bitature	A	A	A	A
Gerald Ssendaula	√	√	√	√

√ = Attendance; A = Apology

Mr David Grylls and Mr Patrick Bitature were absent from these meetings

Remuneration Committee

Composition: Stuart David Michael Grylls (Chairman), Charles Chapman, Adrian Mucalov (appointed 16.12.14) and Younes Maamar (resigned 25.11.14)

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.

No director or manager is involved in any decisions as to their own remuneration. The Directors' remuneration is highlighted under the remuneration report on page 41 to 42

Five meetings were held in 2014. The Committee undertook an evaluation of its performance in 2014. The results of the evaluation were collated and, together with the remedial action, discussed at the Committee meeting in March 2014. The main area of improvement noted was training.

The attendance of Remuneration Committee meetings in 2014 was as follows:

Director	28.02.2014	14.03.2014	13.08.2014	20.11.2014	16.12.2014
DavidGrylls	√	√	√	√	√
Charles Chapman	√	√	√	√	√
YounesMaamar	√	√	√	A	N/A
Adrian Mucalov	N/A	N/A	N/A	N/A	N/A

√ = Attendance; A = Apology; N/A = not yet appointed

Nomination Committee

Composition: Younes Maamar (Chairman; resigned 25.11.14), Patrick Bitature, Stuart David Michael Grylls and Adrian Mucalov (chairperson from 20.11.14)

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.

Owing to the resignation of two members of the Board, the committee recommended the appointment of Mr Samuel Zimbe, Mr Piet Faling and Mr Ivan Wambuzi Kyayonka to the Board of directors.

The committee is also tasked with reviewing succession plans for Senior Management team and was actively involved in the selection and appointment of the new executive directors.

In line with its mandate to hold at least one meeting a year, the Committee held three meetings in 2014, the attendance was as follows:

Director	23.09.2014	19.11.2014	30.12.2014
David Grylls	√	√	A
Patrick Bitature	√	√	√
Adrian Mucalov	√	√	√
Younes Maamar	√	A	N/A

√ = Attendance; A = Apology

Strategic Planning

The Board is responsible for providing the strategic direction of the company. It approves the medium and long term strategy of the company and engages with SMT at least once a year to review the strategic initiative so far undertaken and agree any changes. At the strategy sessions, the non-executive directors constructively challenge and help develop proposals on strategy. Performance against the approved strategic objectives is monitored at quarterly Board and committee meetings and assessed annually.

Company Secretary

The Board has appointed a Company Secretary whose duties are to ensure that the Board remains cognisant of its duties and responsibilities, to conduct the induction of new directors, coordinate board trainings and 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 who are empowered to play their pivotal role in the Company's corporate governance framework.

Succession Planning

The Board's commitment to succession planning through supporting local and foreign leadership training and talent identification and management continued in 2014. The Board's efforts in this regard bore significant fruit in late 2014 and early 2015 when the Board was able to draw from its current talent pool to appoint a new managing director and two executive directors. The Board is confident that its succession planning and talent management strategy will ensure continuing of the company's business in the long term.

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 and which all directors 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. At the AGM, the Chairman explains each proposed resolution and grants reasonable time for discussions and questions on the proposal before a vote is taken.

The Board has implemented an effective investor relations function and process to assist it in executing its responsibility of ensuring appropriate shareholder engagement. The Company has engaged a share registrar to handle day to day shareholder issues. Dividends, when declared, are paid on time. The interim dividend of Ush 9.4 per share approved by the Board on 14th August 2014 was paid to eligible shareholders from 22 December 2014.

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 and the Board pursues the engagement directly and through the Management team, specifically the Corporate and Regulatory Affairs function. At Board and committee meetings, the Directors discuss the state of stakeholder engagement and the steps to remedy any gaps in those relationships.

During the year, several stakeholder engagements took place and some of the key events are highlighted in the Sustainability Report included at pages 22 to 32 of this Annual Report.

Dealing in securities of the Company

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. The policy is strictly applied.

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 on any contracts or matter before the board were disclosed during the year.

Related Party Transactions

Other than disclosures given in Note 33 to the "Financial Statements", there were no transactions or proposed transactions that were material to either the Company or any related party. There were no other transactions with any related party that were unusual in their nature or conditions.

Sustainability

The Sustainability Report on pages 22 to 32 provides an analysis of the Company's sustainability performance in relation to issues that are relevant and material to the Company and to its stakeholders.

Risk Management

The Board is responsible for the risk management process of the Company and has delegated the in-depth focus on key risks relevant to the Company to the audit and ESG committees. Management is responsible for the implementation of the risk management framework and plans and for reporting to the Board the significant risk issues.

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 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 84 to 85, which implementation took place as part of the initial public offering (IPO) of the Company.

As at 31 December 2014, employees and executive directors of the Company owned, in aggregate 68,474,330 shares, 4.2 % of the issued shares of the Company (2013: 28,693,500) 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 2014, non-executive directors received a retainer for their service on the board and a board committee membership fee.

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 865, 198 in 2014. (2013: USD 820, 093).

Directors' Report & Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors submit their report together with the audited financial statements for the year ended 31 December 2014 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 2014 are presented on page 49.

A general review of the the business is given by the Chairman and Managing Director on pages 18 to 21.

DIVIDENDS PAID TO SHAREHOLDERS

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 19.5 per ordinary share be paid for the year ended 31 December 2014 (2013: Ushs 16.8), subject to deduction of withholding tax where applicable, to the shareholders registered in the books of the Company at close of business on 15 June 2015. The total dividend for the year will be Ushs 46.96 billion (2013: Ushs 40.27 billion). If approved, the outstanding dividend will be paid on or about 30 June 2015. An interim dividend for the year of Ushs 15.26 billion was paid in December 2014 (2013: Ushs 12.99 billion).

SHARE CAPITAL

Details of the Company's share capital can be found on page 79.

RESERVES

The Company's retained earnings increased to Ushs 215.7 billion during the year from Ushs 187.7 billion as at 31 December 2014.

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.

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		
E)	YOUNES Maamar	-	Non-Executive Director	-	Resigned on 25 November 2014
F)	IAN Francis	-	Non-Executive Director	-	Resigned on 25 November 2014
G)	ADRIAN Mucalov	-	Non-Executive Director		
H)	SAMUEL Zimbe	-	Executive Director	-	Appointed 27 November 2014
I)	PIET Faling	-	Non-Executive Director	-	Appointed 23 February 2015
J)	IVAN Kyayonka	-	Non-Executive Director	-	Appointed 23 February 2015
K)	FLORENCE N. Nsubuga	-	Executive Director	-	Appointed 13 March 2015
L)	SELESTINO Babungi	-	Executive Director	-	Appointed 13 March 2015

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	% of shareholding	Number of shares	% of shareholding
	2014		2013	
Patrick Bitature	20,228,300	1.25%	4,950,000	0.30%
Charles Chapman	10,290,000	0.63%	4,169,000	0.23%
Samuel Zimbe	3,660,000	0.23%	2,056,000	0.13%
Stuart David Michael Grylls (as UHL nominee)	100,000	0.01%	100,000	0.01%
Ivan Kyayonka	3,199,990	0.20%	2,100,00	0.13%
Gerald Ssendaula	825,000	0.05%	-	-
Florence N. Nsubuga	2,260,000	0.14%	2,056,000	0.13%
Selestino Babungi	2,700,000	0.17%	2,056,000	0.13%

RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks including liquidity risk, interest rate risk, credit risk, foreign exchange risk, and regulatory risks. The Company's overall risk management strategy focuses on analysis, quantification and implementation of mitigation options available against such risks. The main challenges facing the Company which may expose it to financial risk include:

- Sustainable end user tariff regime that is adequate to meet the electricity sector revenue requirements.
- Ability of the Company to meet set regulatory targets of; energy losses, revenue collections, working capital and operating costs.
- Compliance with Statutory Codes on power quality, reliability, standards and safety.
- The regulatory environment.
- The general economic conditions that impact the cost to do business and customers' ability to settle their electricity bills in time.
- Vandalism of the distribution network and theft of operational materials.
- Significant capital financing requirements to rehabilitate and expand the distribution network.
- Volatility of foreign exchange rates.
- Power supply availability to meet the growing electricity demand.

EVENTS AFTER THE REPORTING DATE

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: 26 March 2015

Shonubi, Musoke & Co. Advocates
Secretary, Board of Directors

The Companies Act, 2012 of Uganda 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 26 March 2015 and signed on its behalf by:

....
Director

....
Director

REPORT OF THE INDEPENDENT AUDITOR 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 2014, and the statement of profit or loss, statement of other 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 54 to 102.

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.

Auditor's 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 2014, 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

KAMPALA
27 March 2015

	Note	2014 Ushs million	2013 Ushs million
Revenue	3	977,664	965,752
Cost of sales	4	(659,196)	(675,866)
GROSS PROFIT		**318,468**	**289,886**
Other operating income	5(a)	11,117	13,677
Finance income	5(b)	17,563	17,499
		347,148	321,062
Repair and maintenance expenses	6	(22,054)	(17,319)
Administration expenses	7	(129,227)	(132,201)
Foreign exchange losses	8(a)	(28,907)	-
Other expenses	8(b)	(1,479)	(502)
OPERATING PROFIT BEFORE AMORTISATION		**165,481**	**171,040**
Amortisation of intangible assets	8(c)	(41,371)	(33,189)
OPERATING PROFIT		**124,110**	**137,851**
Finance costs	9	(22,436)	(22,579)
PROFIT BEFORE TAX	**10**	**101,674**	**115,272**
Income tax expense	11(a)	(31,181)	(31,605)
PROFIT FOR THE YEAR		**70,493**	**83,667**

		2014 Ushs	2013 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	**12**	**43**	**52**

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 Ushs million	2013 Ushs million
Profit for the year	**70,493**	**83,667**
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	**70,493**	**83,667**

	Note	2014 Ushs million	2013 Ushs million
ASSETS			
Non-current assets			
Intangible assets	14	618,976	392,764
Concession Financial asset: Non-current portion	15	107,489	91,787
		726,465	484,551
Current assets			
Concession financial asset: Current portion	15	131,650	109,234
Inventories	16	37,250	29,593
Amount recoverable from customer capital contributions	17	3,488	774
Trade and other receivables	18	283,712	230,813
Bank balances	19	29,374	33,941
		485,474	404,355
TOTAL ASSETS		**1,211,939**	**888,906**
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		215,672	187,725
		313,712	285,765
Non-current liabilities			
Borrowings: Non-current portion	23	265,484	90,798
Concession obligation: Non-current portion	24	107,489	91,787
Deferred income tax liability	11(c)	50,356	37,905
Provisions	25	5,431	3,018
		428,760	223,508
Current liabilities			
Borrowings: Current portion	23	41	234
Concession obligation: Current portion	24	131,650	109,234
Customer security deposits	26	3,576	6,716
Deferred income	27	16,701	8,234
Trade and other payables	28	286,134	241,952
Current income tax payable	11(b)	2,992	246
Bank overdraft	30	28,373	13,017
		469,467	379,633
TOTAL EQUITY AND LIABILITIES		**1,211,939**	**888,906**

These financial statements were approved by the Board of Directors on 26 March 2015 and signed on its behalf by:

....

Director

....

Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Issued capital (Note 20) Ushs million	Share premium (Note 21) Ushs million	Retained earnings Ushs million	Total Equity Ushs million
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
Dividend paid	-	-	(37,349)	(37,349)
At 31 December 2013	**27,748**	**70,292**	**187,725**	**285,765**
At 1 January 2014	27,748	70,292	187,725	285,765
Profit for the year	-	-	70,493	70,493
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	70,493	70,493
Dividend paid	-	-	(42,546)	(42,546)
At 31 December 2014	**27,748**	**70,292**	**215,672**	**313,712**

	Note	2014 Ushs million	2013 Ushs million
Net cash flows from operating activities	**31(a)**	**143,205**	**109,600**
Investing activities			
Purchase of intangible assets	14	(268,837)	(146,824)
Proceeds from sale of assets		-	52
Net cash flows used in investing activities		**(268,837)**	**(146,772)**
Financing activities			
Repayment of borrowings	23	-	(50,691)
Net proceeds from borrowings	23	152,870	90,798
Dividends paid		(42,546)	(37,349)
Net cash flows from financing activities		**110,324**	**2,758**
Net decrease in cash and cash equivalents		(15,308)	(34,414)
Cash and cash equivalents at 1 January		14,208	46,972
Foreign exchange (loss)/gain		(1,475)	1,650
Cash and cash equivalents at 31 December	**31(b)**	**(2,575)**	**14,208**

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 Government of Uganda ("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 United States Dollar ("USD") and working capital in nominal Ugandan Shillings ("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 4 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	2015	2016	2017	2018
Distribution losses (%)	18.3	16.9	15.7	14.7
DOMC (US$' million)	46.2	47.7	49.3	51.1
Uncollected debt (%)	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 2014 were authorised for issue in accordance with a resolution of the directors on 26 March 2015.

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 a historical cost basis except for derivative financial instruments that have been measured at fair value. The financial statements are presented in Uganda Shillings rounded to the nearest million (Ushs million) except when otherwise indicated.

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.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

b) Service concession arrangement

The Company signed a 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 note34. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Service concession arrangement (continued)

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

The Company is required to make monthly rental payments to UEDCL for the concession assets taken over from UEDCL and the IDA financed modifications as indicated in Note 35. 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 2h). 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 15.

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 14.

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").

Rate-regulated activities

Effective January 2014, the end-user tariffs approved by ERA at the beginning of each year shall be the Base Tariffs and will be subject to quarterly adjustments for changes in the macro-economic factors of fuel prices, foreign exchange rates and inflation rates (together, 'the adjustment factors'). Estimates for the three macro-economic factors are used in the Base Tariffs and the variations between the estimated and actual factors are adjusted for in the end-user tariffs for the subsequent quarter. As such, the end-user tariffs for a given quarter are comprised of the tariff for the quarter plus an adjustment to consider the variation between the estimated and actual adjustment factors.

The future price that the Company is allowed to charge its customers is therefore influenced by past levels of fuel prices, foreign exchange rates and inflation rates. The Company does not recognise assets and liabilities arising from the future price that the Company will be required to charge since the ability to charge a higher or lower price in the future does not meet the definition for an asset or a liability respectively. The ability to charge higher tariffs for electricity to be supplied in the future does not meet the definition of an intangible asset in IAS 38. In particular, the right obtained from the regulator to set higher prices in prices in future is not accompanied by

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
c) Revenue and other incomes recognition (continued)

a legal requirement for a customer to buy electricity in future, meaning that the Company cannot demonstrate sufficient control over the related benefits to meet the definition of an intangible asset. The requirement to charge a lower price for the supply of electricity in the future does not meet the definition of a past obligating event, or a liability.

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 statement of profit or loss.

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 statement of profit or loss in the accounting periods in which the work is performed. Construction costs are recognised as expenses in the statement of profit or loss 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.

e) Intangible assets

Property, plant and equipment included in the concession arrangement 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. Under the LAA, the investment in the intangible assets is recovered basing on depreciation rates of the underlying property, plant and equipment. The intangible assets are amortised using the straight line method over the useful lives of the underlying property, plant and equipment as this reflects the pattern in which the asset's future economic benefits are expected to be consumed by Umeme. 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 residual values, useful lives and amortisation methods of the intangible assets are reviewed and adjusted through review and adjusting prospectively, if appropriate, of the underlying assets' residual values, useful lives and methods of depreciation at each financial year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Intangible assets (continued)

An item of the intangible assets is derecognised when the underlying property, plant and equipment 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 statement of profit or loss 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 statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses recognised in prior years are reversed through the statement of profit or loss 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) 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.

h) 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.

Financial liabilities are classified and subsequently measured at amortised cost using effective interest method.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial Instruments - Initial recognition and subsequent measurement (continued)

The Company's financial assets include cash and short-term deposits, trade and other receivables and 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. The Company's financial instruments also include interest rate swap derivatives which are designated as hedging instruments for the term of the borrowings.

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 statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss.

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 statement of profit or loss.

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges i.e., hedge the exposure to variability in cash flows that is attributable to the interest rate risks associated with the term borrowings.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial Instruments - Initial recognition and subsequent measurement (continued)

instrument's fair value in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, i.e., when the hedged financial expense is recognised.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs.

i) 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 statement of profit or loss.

j) 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.

k) 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Impairment of financial assets- bank balances, trade receivables and concession financial asset (continued)

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.

l) 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.

m) 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.

n) 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.

o) 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 statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Tax - Current income tax (continued)

Management periodically evaluates positions taken in the tax returns with respect to situations in which the Ugandan Income Tax (Cap 340) is subject to interpretation and establishes provisions were appropriate.

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 statement of profit or loss.

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.

p) 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.

q) 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Translation of foreign currencies (continued)

are retranslated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

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.

r) 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.

s) 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.

t) Cash dividend

The Company recognises a liability to make cash distributions to shareholders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in Uganda, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. The approved dividends are recognised as liabilities until when paid. Interim dividends are charged to equity when paid.

u) 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.

v) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments measured at fair value, or where fair values of financial instruments measured at amortised cost are disclosed, are summarised in Note 37.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Fair value measurement (continued)

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
- ***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.

w) 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.

x) Significant accounting judgements, estimates and assumptions

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 accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties are included in Note 37 and discuss the following:

- Capital management
- Financial risk management and policies
- Sensitivity analyses disclosures.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Revenue reconciliations – Amendments Number 2 and 4 of the Supply Licence

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 results in clawing back through the bulk supply tariff payable by the Company for electricity purchases of part of the Company's revenue. The directors have determined, based on an evaluation

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Significant accounting judgements, estimates and assumptions (continued)

of the terms and conditions and remedies under the Privatisation Agreements, that 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 accrues for and recognises the revenue clawed back in the bulk supply tariff during the year.

The directors have used judgement in determining the Company's contractual entitlement and other mechanism to recover the above revenues and has therefore accrued for revenue. Further details are disclosed in Note 3.

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 that are 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.

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.

Further details on taxes are disclosed in Note 11.

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 statement of profit or loss. 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.

Further details on impairment losses are disclosed in Note 18 and 37 (Credit risk).

Share grant scheme payments

Estimating the value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the grant, changes in the inputs to the valuation and making assumptions about them. The liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating the value for share-based payment transactions are disclosed in Note 25.

(y) Changes in accounting policies and disclosures

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. In cases where it will have an impact, the Company is still assessing the possible impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and disclosures (continued)

The following standards and interpretations have been issued or revised but were not yet effective for financial year ended 31 December 2014

- ***IFRS 15: Revenue from Contracts with Customers (Effective 1 January 2017)***

  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

- ***IFRS 9: Financial instruments (Effective 1 January 2018)***

  IFRS 9, as issued in July 2014, reflects the completion of all the phases of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, impairment as well as hedge accounting.

  Classification and measurement of financial instruments

  Financial Assets: Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics.

  Equity securities are measured at fair value through profit or loss unless the entity chooses, on initial recognition, to present fair value changes in other comprehensive income (OCI).This option is irrevocable and applies only to equity instruments, which are not held for trading. Unlike debt instruments, gains and losses in OCI are not recycled on sale and there is no impairment accounting.

  Derivatives are also measured at fair value through profit or loss. In comparison to IAS 39, there is no bifurcation of embedded derivatives for financial assets recorded at amortised cost or FVOCI.

  The derecognition principles in terms of IAS 39 remain the same in IFRS 9.

  Financial Liabilities: For liabilities designated at fair value through profit and loss, the change in the fair value of the liability attributable to changes in credit risk is presented in OCI.

  All other classification and measurement requirements in IAS 39 have been carried forward into IFRS 9.

  Impairment of financial assets

  The expected credit loss model applies to debt instruments recorded at amortised cost or at fair value through other comprehensive income (such as loans, debt securities and trade receivables), lease receivables and most loan commitments and financial guarantee contracts.

  Entities are required to recognise either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

  The measurement of expected credit losses would reflect a probability-weighted outcome, the time value of money and reasonable and supportable information.

  Effective date and transition

  The standard applies to annual periods beginning on or after 1 January 2018, although early application is permitted. Retrospective application is required, however, transition reliefs are provided (including no restatement of comparative period information). Entities will only be permitted to early apply a previous version of IFRS 9 if their date of initial application is before 1 February 2015. However, if an entity has early applied a previous version of IFRS 9 before 1 February 2015, the entity is permitted to continue to apply that version until IFRS 9 becomes mandatorily effective in 1 January 2018.

- ***IFRS 9: Financial instruments (Effective 1 January 2018) - continued***

  Moreover, it will be possible to apply early just the new accounting treatment of fair value gains and losses arising from own credit risk on liabilities designated at fair value through profit or loss without applying the other requirements of IFRS 9, until IFRS 9 becomes mandatorily effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Changes in accounting policies and disclosures (continued)

The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

Other standards issued but not yet effective which the Company does not expect to have an impact on the financial statements are listed below:

- ***IFRS 14:*** Regulatory Deferral Accounts (Effective 1 January 2016)
- ***IAS 16 and IAS 38:*** Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)
- ***IAS 16 and IAS 41:*** Accounting for bearer plants (Effective 1 January 2016)
- ***IAS 19:*** Defined Benefit Plans: Employee Contributions (Effective 1 July 2014)
- ***IFRS 11:*** Accounting for the acquisition of interests in a Joint Operation (Effective 1 January 2016)
- ***IAS 27:*** Equity method in separate financial statements (Effective 1 January 2016)
- ***IAS 1:*** Disclosure Initiative – Amendments to IAS 1 (Effective 1 January 2016)
- ***IFRS 10 and IAS 28:*** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (Effective 1 January 2016)
- ***IFRS 10, IFRS 12 and IAS 28*** Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 (Effective 1 January 2016)

Improvement projects

As part of the Improvements project, the IASB has issued various improvements to the standards. These improvements are not expected to have an impact on the financial position or performance of the Company.

3. REVENUE

	Note	2014 Ushs million	2013 Ushs million
Domestic		272,843	252,302
Commercial		35,101	32,006
Street lighting		915	891
Commercial - time of use		101,519	94,038
Medium industrial		4,216	4,894
Medium industrial -time of use		203,821	198,875
Large industrial - time of use		353,809	334,767
Total amount billed to customers		**972,224**	**917,773**
Revenue reconciliation adjustment	3(a)	5,984	3,868
Revenue adjustment (Amendment 2 & 4)	3(b)	3,865	37,826
Recovery of income for funding non-network assets	3(c)	(9,819)	(9,065)
Deferred income for LED bulbs Project	3(d)	(10,778)	-
Recovery of rental payments to UEDCL – Principal (Note 14)	3(e)	-	-
Recovery of financing income (Note 14)	3(e)	-	-
		961,476	**950,402**
Construction revenue-construction of assets	3(f)	16,188	15,350
		977,664	**965,752**

3(a) The Company is entitled to recover its revenue requirements as earned, through set tariffs or through offsets from lease rentals payable to UEDCL or withdrawals from the Escrow Account. As of 31 December 2014, the Company had not recovered Ushs 5.984 billion relating to the cost net of proceeds of the Company's impaired capital assets decommissioned from the distribution network that was due. During the year 2013, the Company recovered assessed revenue shortfalls amounting to Ushs 3.868 billion through withdrawals 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 3.865 billion (2013: Ushs 37.826 billion) of the Company's revenue. The company has taken extensive legal advice and believes that, based on this advice it is entitled 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 3.865 billion (2013: 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 9.819 billion (2013: Ushs 9.065 billion) to be collected from customers through the retail tariffs for purchase of non-network assets. Non-network assets are those capital assets which do not directly improve or expand the distribution network but are necessary for operation of the distribution network. As such, this amount has been offset from the reported revenue.

3(d) As part of the demand side energy efficiency initiative, ERA approved Ushs 10.778 billion to be collected from customers through the retail tariffs to finance the purchase and distribution of LED bulbs to customers. The Company has recognised a corresponding liability under deferred income for the amounts collected but not yet utilised.

3(e) Billings to customers are adjusted to remove the revenue collections with respect to the UEDCL lease rental payment component that is indicated in Note 15. The Company did not pay, and hence recover, the UEDCL rental payment component during the year (2013: Nil) since this parameter was not included in the tariff for the year.

3(f) 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

	2014 Ushs million	2013 Ushs million
Electricity purchase from UETCL	640,197	657,768
Generation levy	2,811	2,748
Construction costs-construction of assets	16,188	15,350
	659,196	**675,866**

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

	2014 Ushs million	2013 Ushs million
a) Other operating income		
Regulated income		
Reconnection fees	1,919	2,157
Meter/transformer test fees	3	6
Inspection fees	3,936	2,965
	5,858	**5,128**
Sale of scrap and other disposals	161	62
Foreign exchange gains	-	5,066
OBA income	71	-
Recovery of bad and doubtful debts	86	-
Recovery of VAT on bad debts	3,861	1,471
Fines and other income	1,080	1,950
	5,259	**8,549**
	11,117	**13,677**
b) Finance income		
Interest on bank deposits	843	566
Financing income on concession financial asset	16,720	16,933
	17,563	**17,499**
Total other operating and finance income	**28,680**	**31,176**

6. REPAIR AND MAINTENANCE EXPENSES

	2014	2013
Distribution (over-head & underground)	8,528	6,180
Transformers, meters & other electrical test instruments	2,297	2,027
Other repairs and maintenance	11,229	9,112
	22,054	**17,319**

7. ADMINISTRATION EXPENSES

	2014 Ushs million	2013 Ushs million
Staff costs (7a)	68,678	64,671
Transport costs	10,373	9,665
Other administration costs	36,074	32,616
Provision for impairment of inventories	-	303
Consultancy fees	2,902	6,065
Telephone expenses	4,209	4,558
Debt collection expenses	4,559	3,175
Insurance charges	2,432	4,226
Impairment provision for bad and doubtful debts	-	6,922
	129,227	**132,201**

7(a) Staff costs

	2014	2013
Salaries and wages	35,276	45,148
National Social Security Fund (NSSF) contributions	4,199	3,545
Share grant and deferred bonus schemes expenses	2,106	3,018
Staff allowances and other staff related costs	27,097	12,960
	68,678	**64,671**

8. OTHER OPERATING EXPENSES

	2014 Ushs million	2013 Ushs million
a) Net foreign exchange losses	28,907	-
b) Other expenses		
Penalties – tax	225	-
Loss on disposal of assets	1,254	502
	1,479	502
c) Amortisation		
Amortisation of intangible assets	41,371	33,189
Total other operating expenses	**71,757**	**33,691**

9. FINANCE COSTS

	2014	2013
Accrued interest on customer security deposits	1,399	997
Finance charge on concession obligation	16,720	16,933
Interest on borrowings	64	2,547
Incidental costs on IFC loan	-	42
Amortised borrowing costs	531	44
Interest expense on Facility A	418	72
Interest expense on Facility B	568	162
Swap interest on facility A	160	-
Swap interest on facility B	241	-
Other financing costs	2,335	1,782
	22,436	**22,579**

10. PROFIT BEFORE TAX

	2014 Ushs million	2013 Ushs million
Profit before tax is stated after charging:		
Amortisation of intangible assets	41,371	33,189
Auditors' remuneration	599	518
NSSF-Employer's contributions	4,199	3,545
Directors' expenses and allowances	3,063	2,680
Performance bonus	7,000	6,940
Share grant and deferred bonus schemes expenses	2,106	3,018
Loss on disposal of assets	1,254	502
Donations	228	128
Management fees	7,841	8,537
Unrealised foreign exchange losses	23,598	-
Staff medical and welfare expenses	3,046	1,646
And after crediting:		
Unrealised foreign exchange gains	-	4,800
Interest on bank deposits	843	566

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.

	2014 Ushs million	2013 Ushs million
a) Income tax expense		
Current income tax charge for the year	18,730	5,800
Deferred income tax charge for the year	12,451	25,805
	31,181	**31,605**

The average effective tax rate is 31% (2013: 28%). The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2014 Ushs million	2013 Ushs million
Accounting profit before income tax	101,674	115,272
At statutory income tax rate of 30% (2013: 30%)	30,502	34,582
Tax effect of:		
Add: 30% of non-deductible tax expenses	624	661
Impact of foreign exchange losses on shareholder's loan not deducted in prior years	-	(3,058)
Prior year (under)/over provision of current income tax	55	(580)
Income tax expense reported in the income statement	31,181	31,605

11. TAX (CONTINUED)

	2014 Ushs million	2013 Ushs million
b) Current income tax payable/(recoverable)		
Current income tax payable brought forward	246	(3,616)
Current income tax charge for the year	18,730	5,800
Under provision from prior year	55	-
Withholding tax paid	(66)	(158)
Payment on current income tax	(15,973)	(1,780)
	2,992	**246**

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.

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:

	2014 Ushs million	Movement Ushs million	2013 Ushs million
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	80,339	(14,402)	65,937
Provision for bad debts	(19,683)	(6,288)	(25,971)
IPO costs	(714)	(725)	(1,439)
Other provisions	(1,920)	924	(996)
Unrealised foreign exchange gains	-	374	374
Unrealised foreign exchange losses on borrowings	(7,666)	7,666	-
Net deferred income tax liability	**50,356**	**(12,451)**	**37,905**

	2013 Ushs million	Movement Ushs million	2012 Ushs million
Deferred tax liabilities/(assets)			
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**

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.

	2014	2013
Profit attributable to shareholders (Ushs million)	70,493	83,667
Basic number of ordinary shares at 1 January (million)	1,624	1,362
Weighted average of shares issued during the year 2012 (2013: 11/12 x 286)*	-	262
Basic and diluted weighted average number of ordinary shares (million)	1,624	1,624
Basic and diluted earnings per share (Ushs)	**43**	**52**

**The shares were in issue for one month in 2012 and 11 months in 2013.*

13. 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:

	2014		2013	
	Ushs million	US$ million	Ushs million	US$ million
Total investments	891,109	320.8	565,432	224.2
Investments yet to be approved by ERA	(359,451)	(129.4)	(214,874)	(85.2)
Total investments approved by ERA	531,658	191.4	350,558	139.0
Total investments approved by ERA	531,658	191.4	350,558	139.0
Total investments not yet approved by ERA	359,451	129.4	214,874	85.2
Less: Cumulative capital recovery charges	(198,071)	(71.3)	(132,657)	(52.6)
Unrecovered investments	693,038	249.5	432,775	171.6

Investments pending ERA approval are represented by:

	2014		2013	
	Ushs million	US$ million	Ushs million	US$ million
Completed projects under ERA verification	337,731	121.6	194,576	77.1
Work- in-progress	21,720	7.8	20,298	8.1
Total	359,451	129.4	214,874	85.2

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.

13. BUY-OUT AMOUNT (CONTINUED)

The investments yet to be approved by ERA are represented by capital investments for the year of US$ 96.8 million (2013: US$ 53.7 million), capital work-in-progress of US$ 7.8 million (2013: US$ 8.1 million) and the balance of US$ 24.8 million (2013: US$ 23.4 million) are investments related to prior periods still under verification. The cumulative capital recoveries and investments approved by ERA are inclusive of allowance for impairment charge (US$ 7.0million) related to the year ended 31 December 2010.

As of 31 December 2014, the estimated weighted average depreciation rate was 9.5 % (2013: 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 2014. 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 Ushs million	2012 Ushs million	2013 Ushs million	2014 Ushs million	Total Ushs million
In Uganda Shillings					
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	264,484	702,271
Land and Buildings	6,394	1,052	992	2,909	11,347
Furniture & Fittings, Tools & office equipment	9,427	3,143	340	780	13,690
Computers, Communication & MIS	24,459	8,393	1,334	664	34,850
Motor vehicles	18,877	875	1,217	-	20,969
Total investments	**269,392**	**98,074**	**146,824**	**268,837**	**783,127**
Represented by:					
Capitalised	257,051	101,430	135,511	267,414	761,406
Capital work in progress	12,341	(3,356)	11,313	1,423	21,721
	269,392	**98,074**	**146,824**	**268,837**	**783,127**
In US Dollars					
Foreign exchange rate–Ushs: US$	2,079	2,691	2,522	2,778	2,441
Total investment: US$ million equivalent	**$130**	**$36**	**$58**	**$97**	**$321**

14. INTANGIBLE ASSETS

	GOU support & assurances rights Ushs million	Other Concession rights Ushs million	Total Ushs million
Cost			
At 1 January 2013	**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**
Additions	-	268,837	268,837
Disposals and write offs	-	(2,939)	(2,939)
At 31 December 2014	**2,457**	**779,885**	**782,342**
Amortisation			
At 1 January 2013	**(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)**
Charge for the year	(123)	(41,248)	(41,371)
Disposals and write offs	-	1,685	1,685
At 31 December 2014	**(1,188)**	**(162,178)**	**(163,366)**
Net carrying amount			
At 31 December 2014	**1,269**	**617,707**	**618,976**
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.

Capitalised borrowing costs

Funding used to construct qualifying assets is financed out of borrowings. The capitalisation rate applied is the weighted average of the borrowings costs applicable to qualifying capital expenditure.

The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.33% and the amount of borrowing costs capitalised during the year ended 31 December 2014 was Ushs 11.3 billion (2013: Nil)

15. CONCESSION FINANCIAL ASSET

	2014 Ushs million	2013 Ushs million
At 1 January	201,021	196,828
Financing income for the year	16,720	16,933
Foreign exchange loss/(gain)	21,398	(12,740)
At 31 December	**239,139**	**201,021**
Maturity analysis of the financial asset:		
Outstanding financial asset	239,139	201,021
Less: Amount recoverable within one year	(131,650)	(109,234)
Non-current portion of financial asset	**107,489**	**91,787**
The financial asset is recoverable as analysed below:		
Within one year	131,650	109,234
Between one and two years	7,008	6,826
Between two and three years	7,568	7,372
Between three and four years	8,174	7,961
Between four and five years	8,635	8,598
After five years	76,104	61,030
	239,139	**201,021**

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, 2013 and 2014 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, 2013 and 2014 and the amounts expected to be recovered in 2015 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.

16. INVENTORIES

	2014 Ushs million	2013 Ushs million
Overhead materials & accessories	19,731	14,912
Underground cables, materials & accessories	5,223	2,632
Substation transformers & accessories	43	597
Meters, metering equipment& accessories	7,200	6,902
Moveable plants and vehicle spares	-	2
Tools and other equipment	2,663	2,668
Stationery	923	800
Expense on goods in transit	1,088	1,383
	37,267	29,896
Provision for impairment	(17)	(303)
	37,250	**29,593**

17. AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS

At 1 January	774	723
Additions to customer funded installations	6,843	3,999
Completed customer funded installations	(4,129)	(3,948)
At 31 December	**3,488**	**774**

18. TRADE AND OTHER RECEIVABLES

Trade receivables	256,956	263,850
Add: Advance payments by energy customers transferred to payables	1,437	16,213
Trade receivables	258,393	280,063
Less: Allowance for impairment	(94,185)	(120,753)
Net trade receivables	**164,208**	**159,310**
Prepayments	35,272	9,301
Letters of credit	3,724	5,635
Other receivables	49,941	40,280
OBA receivable	949	-
Income tax deposit (Note 34)	10,000	-
Withholding tax (WHT) recoverable	-	1,159
VAT claimable	19,618	15,128
	119,504	**71,503**
Trade and other receivables	**283,712**	**230,813**

Other receivables include Ushs 41,691 million (2013: Ushs 37,826 million) relating to revenue reconciliation adjustments recoverable as described in Note 3(b).

18. 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 Ushs 1,437 million (2013: Ushs 16,213 million) 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:

	2014 Ushs million	2013 Ushs million
At 1 January	120,753	123,480
Recovery of bad debts previously provided for	(86)	-
Utilization of provision of VAT on trade receivables	(5,089)	-
Allowance for impairment for the year	-	6,922
Less: Bad debts written off (see below)	(21,393)	(9,649)
At 31 December	**94,185**	**120,753**
Bad debts written off are made up as follows:		
UEDCL trade receivables	517	-
Umeme trade receivables	20,876	9,649
	21,393	**9,649**

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
2014	256,956	76,337	22,526	63,908	94,185
2013	263,850	70,328	24,360	48,409	120,753

19. BANK BALANCES

	2014 Ushs million	2013 Ushs million
Bank balances	29,374	33,941

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.

20. ISSUED CAPITAL

a) Number of shares	2014	2013
i) Authorised shares		
At 31 December	1,800,000,000	1,800,000,000
ii) Number of issued shares		
At 31 December	1,623,878,005	1,623,878,005
b) Par value of shares		
At 31 December	17.087763	17.087763

c) Value of issued shares	2014 Ushs million	2013 Ushs million
At 31 December	**27,748**	**27,748**

d) Spread of issued shares at 31 December 2014

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500 shares	91	17,742	0.001%
500 - 5,000 shares	2,591	4,892,269	0.301%
5,001 – 10,000 shares	401	2,617,925	0.161%
10,001 – 100,000 shares	1,476	31,142,818	1.918%
100,001 - 1,000,000 shares	341	89,354,601	5.503%
Above 1,000,000 shares	122	1,495,852,650	92.116%
	5,022	**1,623,878,005**	**100%**

20. ISSUED CAPITAL (CONTINUED)

e) Shareholding

Name	31 December 2014 Number of shares	31 December 2014 Percentage shareholding	31 December 2013 Number of shares	31 December 2013 Percentage shareholding
Investec Funds	297,413,000	18.31%	-	-
Umeme Holdings Limited (Including shares held by its nominees)	232,214,521	14.30%	975,653,505	60.08%
National Social Security Fund	231,722,771	14.27%	131,722,771	8.10%
CDSC Kenya Nominee	50,598,824	3.12%	-	-
International Finance Corporation	45,220,900	2.78%	45,220,900	2.78%
The Africa Emerging Markets Limited	41,000,000	2.52%	-	-
Utilico Emerging Markets Limited	40,281,788	2.48%	33,531,788	2.06%
SCB Mauritius Re All Gray Africa Equity (Rand) Fund	31,700,000	1.95%	31,700,000	1.95%
Kattagat Trust	21,751,442	1.34%	-	-
SCB Mauritius Re Allan Gray Africa Ex-SA Equity Fund Limited	21,122,062	1.30%	17,122,062	1.05%
Others	610,852,697	37.62%	285,302,369	17.58%
	1,623,878,005	**100%**	**1,623,878,005**	**100.00%**

21. SHARE PREMIUM

	2014 Ushs million	2013 Ushs million
At 31 December	**70,292**	**70,292**

22. DISTRIBUTIONS TO SHAREHOLDERS MADE AND PROPOSED

	2014 Dividend per share Ushs	2014 Total Ushs million	2013 Dividend per share Ushs	2013 Total Ushs million
Dividend paid				
Interim dividend paid	9.4	15,265	8.0	12,991
Final dividend paid	-	-	16.8	27,281
	9.4	15,265	24.8	40,272
Dividend proposed				
Proposed dividend	19.5	31,666	16.8	27,281

23. BORROWINGS

	Note	2014 Ushs million	2013 Ushs million
Amounts due to lenders	(a)	277,841	101,114
Less: Deferred transactions costs	(b)	(12,316)	(10,082)
		265,525	91,032
Less: Current portion - amount due within one year		(41)	(234)
Non - current portion		**265,484**	**90,798**

(a) AMOUNTS DUE TO LENDERS

	2014 Ushs million			2013 Ushs million			
	Facility A	**Facility B**	**Total**	**Facility A**	**Facility B**	**IFC loan**	**Total**
Movement on the account							
At 1 January	41,611	59,503	101,114	-	-	54,861	54,861
Amount received during the year	63,866	91,238	155,104	41,275	59,059	-	100,334
Interest charge for the year	4,496	6,417	10,913	72	162	2,546	2,780
Foreign exchange losses/(gains)	8,983	12,833	21,816	264	282	(3,150)	(2,604)
Less: Principal repayment	-	-	-	-	-	(50,691)	(50,691)
Interest payment	(4,551)	(6,555)	(11,106)	-	-	(3,566)	(3,566)
	114,405	**163,436**	**277,841**	**41,611**	**59,503**	**-**	**101,114**
The amounts due are made up as follows:							
Principal	114,388	163,412	277,800	41,539	59,341	-	100,880
Interest payable	17	24	41	72	162	-	234
	114,405	**163,436**	**277,841**	**41,611**	**59,503**	**-**	**101,114**

(b) DEFERRED TRANSACTION COSTS

	2014 Ushs million			2013 Ushs million			
	Facility A	**Facility B**	**Total**	**Facility A**	**Facility B**	**IFC loan**	**Total**
Movement on the account							
At 1 January	4,088	5,994	10,082	-	-	-	-
Transaction costs				2,046	2,922	-	4,968
Upfront and guarantee fees	92	56	148	1,964	3,046	-	5,010
Management, security and agency fees	1,600	2,271	3,871	88	53	-	141
Amortisation for the year	(891)	(895)	(1,786)	(10)	(27)	-	(37)
At 31 December	**4,889**	**7,426**	**12,315**	**4,088**	**5,994**	-	**10,082**

23. 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$ 70 million was designated as term Facility A to be lent by IFC and US$ 100 million 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 2014, the Company had drawn down Ushs 114,388 million (US$ 41,177million) (2013: Ushs 41,275 million (US$ 16.47 million)) on Facility A and Ushs 163,412 million (US$ 58,823 million) (2013: 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 in 2013 using proceeds from Facility B.

24. CONCESSION OBLIGATION

	2014 Ushs million	2013 Ushs million
At 1 January	201,021	196,828
Financing expense for the year	16,729	16,933
Foreign exchange gain/(loss)	21,398	(12,740)
At 31 December	**239,138**	**201,021**
Maturity analysis of the concession obligation:		
Outstanding obligation	239,139	201,021
Less: Due within one year	(131,650)	(109,234)
Non-current portion of the obligation	**107,489**	**91,787**

The concession obligation is due as analysed below:

	2014 Ushs million	2013 Ushs million
Within one year	131,650	109,234
Between one and two years	7,008	6,826
Between two and three years	7,568	7,372
Between three and four years	8,174	7,961
Between four and five years	8,635	8,598
After five years	76,104	61,030
	239,139	**201,021**

On 1 March 2005, the Company took over the operation of the electricity power distribution network that was being operated by UEDCL under a 20 year concession arrangement. The present value of the obligation arising from the rental payments under the concession agreements at the commencement of the concession was estimated to be Ushs 219 billion (US$ 119 million) using a discounting rate of 8.911%. The present value of the concession obligation is adjusted in case of changes in the estimated repayments schedule.

25. PROVISIONS

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

	2014 Ushs million	2013 Ushs million
At 1 January	3,018	-
Provision for the period	2,106	3,018
Foreign exchange loss	307	-
At 31 December	**5,431**	**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 13,110,000 shares for all its eligible employees. Effective 1 January 2013, participant employees are also 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.

Deferred Bonus Scheme: This scheme was open to eligible employees in the middle and senior management grades, who were invited to apply to purchase 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 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 discounted to its present value at a weighted average discounting rate of 6.18%. The number of qualifying shares and staff were as indicated on the next page:

25. PROVISIONS (CONTINUED)

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2014	9,850,000	985	18,843,500	30
Forfeited shares - exited the scheme	(3,990,000)	(399)	-	-
At 31 December 2014	**5,860,000**	**586**	**18,843,500**	**30**

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2013	13,110,000	1,311	19,065,500	32
Forfeited shares-Exited the scheme	(3,260,000)	(326)	(222,000)	(2)
At 31 December 2013	**9,850,000**	**985**	**18,843,500**	**30**

26. CUSTOMER SECURITY DEPOSITS

	2014 Ushs million	2013 Ushs million
At 1 January	6,716	3,689
Amount received during the year	5,276	7,657
Amount refunded during the year	(8,416)	(4,630)
At 31 December	**3,576**	**6,716**

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:

	2014 Ushs million	2013 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.

27. DEFERRED INCOME

	Note	2014 Ushs million	2013 Ushs million
Deferred revenue on prepaid sales	(a)	951	299
Deferred construction income	(b)	4,970	4,876
Deferred capital fund – Non network assets	(c)	2	3,059
Deferred capital fund – LED bulbs	(d)	10,778	-
		16,701	**8,234**

(a) Deferred revenue on pre-paid sales

As at 31 December 2014, it was estimated that 13% of the pre-paid electricity tokens purchased in December 2014 by customers had not been consumed (2013: 10%).

	2014 Ushs million	2013 Ushs million
(b) Deferred construction income		
At 1 January	4,876	4,270
Amount received	16,282	15,956
Amount utilised	(16,188)	(15,350)
Unutilised customer contributions at 31 December	**4,970**	**4,876**

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.

(c) Deferred capital fund – Non network assets	2014 Ushs million	2013 Ushs million
At 1 January	3,059	-
Amount billed	9,819	9,065
Amount utilised on purchasing non-network assets	(12,876)	(6,006)
At 31 December	**2**	**3,059**

	2014 Ushs million	2013 Ushs million
The amount utilised was spent as follows:		
Furniture & Fittings, Tools & Office Equipment	2028	2,557
Computers, Communication Equipment& Management Information System	8,201	2,190
Motor vehicles	2,647	1,259
	12,876	**6,006**

As indicated in note 3(c), the balance as at 31 December 2015 relates to the amount billed to customers for funding non-network assets but not yet utilised.

27. DEFERRED INCOME (CONTINUED)

(d) Deferred capital fund – LED bulbs

As at 31 December 2014, funds worth Ushs 10,778 million collected from customers to improve efficiency of the demand side energy through the use of LED bulbs had been committed but not yet utilised.

28. TRADE AND OTHER PAYABLES

	2014 Ushs million	2013 Ushs million
Trade payables	243,689	188,294
Accrued expenses and other payables	37,557	37,445
Withholding tax payable	3,451	-
Advance payments by energy customers	1,437	16,213
	286,134	**241,952**

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

Accrued expenses and other payables include Ushs 7,000 million (2013: Ushs 7,200 million) relating to performance bonus for the year as indicated below:

	2014 Ushs million	2013 Ushs million
At 1 January	7,200	6,000
Accrual for the year	7,000	6,940
Bonus paid during the year	(7,200)	(5,740)
At 31 December	**7,000**	**7,200**

29. INTEREST RATE SWAP

During the year ended 31 December 2014, the Company entered into Interest Rate Swaps (IRS) with ABSA Bank Limited to mitigate the volatility of the interest rate of Facility A of USD 16.47 million and Facility B of USD 33.53 million for a period of 3 years. The effective date of commencement of the IRS contracts is 19 June 2014 and 13 June 2014 for Facility A and Facility B respectively. The fixed interest swap rates are 0.9577% and 0.9519% for Facility A and Facility B respectively. Hedge accounting has not been applied for the IRS instruments as the hedging arrangements did not meet the criteria for hedge accounting stipulated in IAS 39 Financial Instruments: *Recognition and Measurement.*

The result of measuring the IRS instruments at fair value resulted into a financial liability that was settled during the year as indicated below:

	2014 Ushs million	2013 Ushs million
At 1 January	-	-
Change in fair value - charge to profit	401	-
Settlement during the year	(401)	
At 31 December	**-**	**-**

30. BANK OVERDRAFT

	Note	2014 Ushs million	2013 Ushs million
Overdraft		29,344	13,963
Less: Deferred transactions costs	**(a)**	(971)	(946)
		28,373	**13,017**

	2014	2013
(a) Deferred transaction costs		
At 1 January	946	-
Transaction costs	160	584
Upfront and guarantee fees	-	358
Management, security and agency fees	11	11
Amortisation for the year	(146)	(7)
At 31 December	**971**	**946**

As at 31 December 2014, the Company had drawn down Ushs 29,344 million, USD $ 10.5m (2013: Ushs 13,963 billion) from Standard Chartered Bank under the revolving credit facility as disclosed in Note 23. 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 8.0336% (2013: 19.2%). Other terms and conditions are as disclosed in Note 23.

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

a) Cash flows from operating activities	Note	2014 Ushs million	2013 Ushs million
Profit before tax		101,674	115,272
Adjustment for:			
Interest income from bank deposits	5(b)	(843)	(566)
Finance income on concession financial asset	5(b)	(16,720)	(16,933)
Amortisation of intangible assets	14	41,371	33,189
(Recovery of)/impairment provision for bad and doubtful debts	7	(86)	6,922
Interest expense on IFC loan	23	-	2,546
Interest expense on Facilities A and B	23	10,913	234
Interest on customer security deposits	9	1,399	997
Provision for deferred bonus scheme	25	2,106	3,018
Finance cost on concession obligation	9	16,720	16,933
Loss on sale of assets	10	1,254	502
Unrealised foreign exchange losses/(gains)		23,598	(4,800)
		181,386	157,314
(Increase)/ decrease in inventories		(7,657)	6,867
Increase in amount recoverable from customer capital contributions		(2,714)	(51)
Increase in trade and other receivables		(42,813)	(49,772)
Increase in tax deposit paid		(10,000)	-
Increase in deferred income		8,467	3,841
Increase/(decrease) in trade and other payables		42,838	(3,661)
Cash generated from operating activities		169,507	114,538
Interest received from banks	5(b)	843	566
Current income tax paid	11(b)	(16,039)	(1,938)
Interest paid on loan A and B	23	(11,106)	-
Interest paid on IFC loan	23	-	(3,566)
Net cash flows from operating activities		**143,205**	**109,600**

b) Cash and cash equivalents	2014 Ushs million	2013 Ushs million
Bank balances (Note 19)	29,374	33,941
Bank overdraft (Note 30)	(28,373)	(13,017)
Bank balances not available for use (Note 26)	(3,576)	(6,716)
	(2,575)	**14,208**

As disclosed in Note 26, 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 available for use in the Company's operations.

32. LETTERS OF CREDIT

As of 31 December 2014, 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 3.7 billion had been deposited under the letters of credit facilities as at 31 December 2014 (31 December 2013: Ushs 5.635 billion) as disclosed in Note 18. 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 2014, the Company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs 15.3 billion (2013: 14.9 billion) with no cash cover. These are covered by the goods under importation and insurance.

33. RELATED PARTIES

The Company's related parties include Umeme Holdings Limited, Umeme Management Services Limited and Actis Infrastructure 2 LP. Umeme Holdings Limited owns and controls 14.3% (2013: 60.08%) of the Company's issued shares and owns and controls 100% of the Umeme Management Services Limited's issued shares. Umeme Management Services Limited offers management services to the Company. Actis Infrastructure 2 LP owns Umeme Holdings Limited (through its ownership of Actis Infrastructure Umeme Limited). The Company is also related to Globeleq Expatriate Services Limited and Globeleq Advisors Limited which are also controlled by Actis Infrastructure 2 LP (through its ownership of Globeleq Generation Limited).CDC Group Plc is the largest investor in Actis Infrastructure 2 LP.

The following transactions were carried out with related parties:

	2014 Ushs million	2013 Ushs million
i) Management and secondment services		
Umeme Management Services Limited	1,062	-
Globeleq Expatriate Services Limited	1,236	2,881
	2,298	2,881
ii) Other transactions		
Globeleq Advisors Limited-recharges	72	96
Globeleq Advisors Limited-Transactional service fees	79	176
	151	**272**
iii) Compensation of key management personnel		
Short-term employee benefits	6,077	5,648
Contributions to NSSF	608	565
Share based payments	2,172	1,207

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

33. RELATED PARTIES (CONTINUED)

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

	2014 Ushs million	2013 Ushs million
i) Amounts due to related parties		
Globeleq Expatriate Services Ltd	91	343
Globeleq Advisors Limited	-	10
Actis - recharges	39	-
Umeme Management Services Limited	110	-
	240	**353**

	2014 Ushs million	2013 Ushs million
ii) Amounts due from related parties		
Actis Infrastructure 2 LP	**-**	**39**
	-	**39**

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

34. CONTINGENT LIABILITIES

Legal claims and tax assessments

a) 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 suits whose estimated cost is Ushs 117 million (2013: Ushs 170 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.

Company has an insurance policy against litigation with maximum cover of Ushs 1 billion (2013: Ushs 1 billion).

b) Uganda Revenue Authority (URA) issued an assessment to the Company indicating that all investments in the Distribution Network (concession assets) accounted for under concession accounting (IFRIC 12) in the financial statements should have been treated as intangible assets on adoption of IFRIC 12 in 2008 for purposes of determining taxable income, and that the company is not entitled to tax depreciation allowances. URA issued an assessment indicating that the impact of this change in tax treatment for the years 2008 to 2012 is an additional principal tax charge of Ushs 36.85 billion and penal tax of Ushs 29.2 billion. The Company is objecting to this assessment on the following basis:

I. Based on the Income Tax Act (ITA) cap 340, URA should use specific principles of taxation for purposes of determining taxable income and not just accounting standards as the sole basis for determination of taxable income.

II. URA has previously provided a private ruling to another concessionaire giving them the right to claim tax depreciation allowances on concession assets. The Company's tax treatment of concession assets should be consistent with other tax payers operating under concession arrangements.

III. The concession agreement between Umeme Limited and Government of Uganda conferred Umeme the right to claim capital allowances for investments in the modification of the distribution network.

34. CONTINGENT LIABILITIES

Legal claims and tax assessments

Notwithstanding the disagreement in principle with the change in tax treatment, the Company is also objecting to the basis used in the tax computations that informed the tax assessment for the following reasons:

I. The tax computations are grossly erroneous as they exclude some deductible costs in the determination of taxable income.

II. In 2012, URA ruled on the tax treatment of the Company's concession assets for the years 2005 to 2012 and the Company adopted URA's ruling. As such, penal tax for the years 2008 to 2012 should not arise.

The Company is appealing the objection decision in the High Court. The process of mediation between Umeme Limited and Uganda Revenue Authority in relation to the above case commenced in January 2015 and it is still ongoing to the date of issue of these financial statements.

The Company has been advised by its legal counsel of the merits of the case with a high likelihood of success. Accordingly no provision of the liability has been made in the financial statements.

In accordance with the Income Tax Act, the Company deposited Ushs 10 billion with URA pending disposal of the objection. This deposit has been recognised under trade and other receivables.

35. 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 2014. The Company was required to make additional rental payments associated with this funding subject to the additional rentals inclusion the tariffs by ERA. These additional lease rentals were not included in the tariffs for the year ended 31 December 2014 (Nil: 31 December 2013)

(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 14.

(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
At 31 December 2014:		
After one year	131,650	44,012
After one year but not more than five years	31,385	17,604
After five years	76,104	5,781
	239,139	**67,397**
Less: Amounts representing finance charges	(171,742)	-
Present value of minimum rental payments	**67,397**	**67,397**

35. COMMITMENTS (CONTINUED)

	Minimum rental payments Ushs million	Present value of payments Ushs million
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**

36. 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 assets under 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 is required to make monthly rental payments into an "Escrow Account" for the assets under concession, Assigned Interest and Other Rights equivalent to: - debt service for loans of UEDCL; actual depreciation and interest expenses related to the portion of the assets under concession 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 15. The right to receive cash is accounted for by the Company as a financial asset.

b) 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.

c) 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.

d) 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.

e) 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.

36. CONCESSION ARRANGEMENT (CONTINUED)

Power Sales Agreement (PSA)

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

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

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

Support Agreement

The support agreement between Umeme and GOU and the third amendment thereto of 28 November 2006 stipulate conditions to be fulfilled before the transfer date, during the concession period and the date for handing over the Distribution 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.

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 20 May 2013.

36. CONCESSION ARRANGEMENT (CONTINUED)

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 2 August 2013.

37. 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. USD 50m of the Company's term borrowing facilities (A and B) are fixed by interest swaps as disclosed in note 29. USD 50m of the Company's term borrowings (A and B) 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 Ushs 221 million (2013: Ushs 161.8 million) and Ushs 155 million (2013: Ushs 113 million) 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.

The Company's profit before income tax and equity would decrease/increase by Ushs 16.7 billion (2013: Ushs 4.84 billion) and Ushs 11.7 billion (2013: Ushs 3.1 billion) respectively 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.

37. RISK MANAGEMENT (CONTINUED)

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2014 and 31 December 2013. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2014	US$	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession financial asset	239,139	-	-	-	-	239,139
Trade and other receivables	5,276	-	-	-	212,595	217,871
Bank balances	56	-	-	-	29,318	29,374
Total financial assets	**244,471**	**-**	**-**	**-**	**241,913**	**486,384**
Financial liabilities						
Borrowings	265,525	-	-	-	-	265,524
Concession obligation	239,139	-	-	-	-	239,139
Trade and other payables	45,002	326	191	255	198,474	244,248
Bank overdraft	29,344	-	-	-	-	29,344
Total financial liabilities	**579,010**	**326**	**191**	**255**	**198,474**	**778,255**
Overall open position	**(334,539)**	**(326)**	**(191)**	**(255)**	**(43,439)**	**(291,871)**

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)**

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.

37. 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 18 less amounts receivable from GOU institutions and customer security deposits as follows:

	2014 Ushs million	2013 Ushs million
Carrying amount of trade receivables (Note 18)	164,208	159,310
Less: Amounts receivable from GOU bodies	(23,466)	(22,900)
Customer security deposits (Note 26)	(3,576)	(6,716)
Maximum exposure	**137,166**	**129,694**

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. 49.6% of the Company's debt will mature in less than one year after 31 December 2014 (2013: 56%) 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.

37. 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 2014	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Total
Financial assets					
Concession financial asset	127,222	3,766	11,297	208,479	350,764
Trade and other receivables	142,773	54,775	-	47,632	245,180
Bank balances	29,374	-	-	-	29,374
Total financial assets	**299,369**	**58,541**	**11,297**	**256,111**	**625,318**
Financial liabilities					
Concession obligation	127,222	3,766	11,297	208,479	350,764
Borrowings: Facility A and B	-	-	20,182	277,800	297,982
Trade and other payables	248,802	37,332	-	-	286,134
Bank overdraft	29,344	-	-	-	29,344
Total financial liabilities	**405,368**	**41,098**	**31,479**	**486,279**	**964,224**
Overall open position	**(105,999)**	**17,443**	**(20,182)**	**(230,168)**	**(339,906)**
At 31 December 2013					
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					
IFC loan	82,484	10,326	25,234	134,448	252,492
Concession obligation	-	234	-	131,806	132,040
Trade and other payables	204,507	-	-	-	204,507
Bank overdraft	13,017	-	-	-	13,017
	300,008	**10,560**	**25,234**	**266,254**	**602,056**
Overall open position	**19,188**	**(234)**	**-**	**(131,806)**	**(112,852)**

37. RISK MANAGEMENT (CONTINUED)

Fair value

The fair value of the financial assets and liabilities approximates to their respective carrying amounts as explained below:

- Short-term financial instruments: The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term financial instruments: The interest rates charged on or used to value these instruments are based on the prevailing market interest rates. The fair value of the instruments is determined by using the DCF method using discount rates that reflect the observable market interest rates. The own non-performance risk as at the reporting date was assessed to be insignificant.

The following table provides the fair value measurement hierarchy of the Company's financial instruments measured at fair value:

	FAIR VALUE MEASUREMENT USING				
	Date of valuation	Total Ushs million	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap-derivative	31-Dec-14	-	-	-	-
	31-Dec-13	-	-	-	-
Borrowings	31-Dec-14	277,841	-	277,841	-
	31-Dec-13	101,114	-	101,114	-
Concession financial asset/ liability	31-Dec-14	239,139	-	239,139	
	31-Dec-13	201,021	-	201,021	-

There were no transfers into and out of the fair value hierarchies.

The Company has no nonfinancial assets and liabilities that are measured at fair value.

Description of valuation techniques used and key inputs to valuation of held to maturity investments:

	Valuation technique	Significant observable inputs	Range (weighted average)	
			2014	2013
Interest rate swap – derivative	Market approach – discounted cash flows	Market interest rates for similar instruments	0.951% -0.957%	-
Borrowings		Market interest rates for similar instruments	5.30% -5.34%	5.34%
Concession financial asset/ liability		Market interest rates for similar instruments	0.64%	0.64%

37. RISK MANAGEMENT (CONTINUED)

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.
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 aims to maintain a gearing ratio of between 50% and 70%. The Company's gearing ratio as at 31 December 2014 was 64% (2013: 53%) as shown in the table below:

	Note	2014 Ushs million	2013 Ushs million
Borrowings	23	265,525	91,032
Trade and other payables	28	286,282	241,952
Less: Cash and cash equivalents	31	2,575	(14,208)
Net debt		**554,382**	**318,776**
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		215,672	187,551
Total capital		**313,577**	**285,591**
Net debt and capital		868,094	604,367
Gearing ratio		**64%**	**53%**

In order to achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to institute sanctions stipulated in the borrowing agreement. There have been no breaches in the financial covenants of the interest-bearing borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

38. EVENTS AFTER THE REPORTING DATE

There are no reportable events after the reporting period.

39. 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).

40. 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 base retail tariff rates for 2014, effective as of 15 January 2013 to 15 January 2014, are shown in the table below:

Customer segment	Description	Based on usage		Fixed monthly charge Ushs
		Usage	Ushs/kWh	
Domestic	Low voltage supply to residential houses, small shops and kiosks	</> 15kWh	159-520.6	3,360
Commercial	Low voltage supply to three phase low voltage, small scale industries like maize mills	Peak, shoulder and off peak	354.0-569.7	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	331-542.3	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 Additional maximum demand charge	232.5-373.7	70,000
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	488.8	N/A

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, oil prices 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.

41. 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	2014 Ushs million	2013 Ushs million
Operating profit before amortisation		165,481	171,040
Financing income on concession financial asset	5(b)	(16,720)	(16,933)
Foreign exchange losses/(gains)	8(a)	28,907	(5,066)
Total EBITDA		**177,668**	**149,041**

CONCESSION ASSETS: UMEME FUNDED ASSETS

The value of the tangible assets that form the basis of the Company's 'Other concession rights' presented in Note 14 is made up as follows:

	Substations, Low Voltage Lines & Services Ushs million	Land & Buildings Ushs million	Furniture & Fittings, Tools & Office Equip Ushs million	Computers, Comm. Equip't & MIS Ushs million	Motor Vehicles Ushs million	CWIP Ushs million	Total Ushs million
At 1 January 2013	**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**
Additions	-	-	-	-	-	268,837	268,837
Transfer from CWIP	263,061	2,909	780	664	-	(267,414)	-
Disposals	(2,939)	-	-	-	-	-	(2,939)
At 31 December 2014	**673,926**	**11,356**	**13,444**	**39,663**	**19,775**	**21,721**	**779,885**
Depreciation							
At 1 January 2013	**36,912**	**1,146**	**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**	**1,502**	**11,664**	**30,673**	**16,590**	**-**	**122,615**
Charge for the year	34,666	386	1,370	3,276	1,550	-	41,248
Disposals	(1,685)	-	-	-	-	-	(1,685)
At 31 December 2014	**95,167**	**1,888**	**13,034**	**33,949**	**18,140**	**-**	**162,178**
Net carrying amount							
At 31 December 2013	**351,618**	**6,945**	**1,000**	**8,326**	**3,185**	**20,298**	**391,372**
At 31 December 2014	**578,759**	**9,468**	**410**	**5,714**	**1,635**	**21,721**	**617,707**

13. CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear shareholder

On behalf of the board of Umeme Limited ("the Company"), I invite you to attend the third 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 Kampala Serena Hotel on 19th May, 2015 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 2014. It is also an opportunity for you to know more about the Company, to interact with the Board and senior Management and to make critical decision on dividends, appointment of directors and external auditors and the remuneration of the non-executive directors.

If you are not able to attend the AGM, I urge you to complete and submit the proxy form included at page 107 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
27th April 2015

Notice of Annual General Meeting (AGM)

Notice is hereby given that the Annual General Meeting (AGM) of Umeme Limited will be held at the Kampala Serena Hotel on 19th May, 2015 at 9:30 a.m to conduct the following business:

Ordinary Resolutions

1. To receive the annual financial statements for the year ended 31st December, 2014 and the directors and auditors reports thereon;
2. To declare a final dividend for 2014;
3. To approve the appointment of external auditors for the year 2015;
4. To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association
5. To approve the proposed remuneration payable to the non-executive Directors for 2015;
6. To conduct any other business that may be conducted at the AGM.

On behalf of the board

Shonubi, Musoke & Co Advocates
Company Secretary
27th April, 2015

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 2014 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 15th May, 2015.

2. Dividend Payment

The dividend, if declared at the AGM, will be paid on or about 30th June, 2015, to shareholders whose names appear on the register at close of business on 15th June, 2015.

The book closure date for purposes of dividend payments will be 15th June, 2015. 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 45 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 46 of the Annual Report.

4 Major shareholders

Details of major shareholders of the Company are set out on page 80 of the Annual Report.

5 Share capital of the Company

Details of the share capital of the Company are set out on pages 79 of the Annual Report.

6 Material change

There has been no material change in the financial or trading position of the Company and its subsidiaries since the date of publication of the Company's annual results on 30th March, 2015.

Umeme Limited shareholders may attend, speak and vote at the AGM or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the AGM on behalf of such shareholder. A proxy form is attached to this notice of the AGM. Duly completed proxy forms must be returned to the Share Registrars of the Company or the registered office of the Company at the addresses set out below, to be received by not later than 17h00 on 15th May, 2015.

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

Share Registrars

Custody and Registrar Services Uganda Ltd.
12th Floor DTB Centre
Kampala Road
Kampala, Uganda

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 Kampala Serena Hotel on the 19 May 2015, and at any adjournment thereof.

Signed this ____________________ day of ____________________ 2015

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 15th May 2015 with either the share registrars or the registered office:

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

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

For customer service inquiries call **0800 185185, 0800 285285** (Toll free), **0312 185185** or **0752 185185**
or email **info@umeme.co.ug** website: **www.umeme.co.ug**

find us on Umeme limited @umemelimited