Annual Report 2015

TECHNOLOGY
DRIVING SERVICE DELIVERY

UMEME
Powering Uganda

Powering Uganda

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1. CORPORATE PROFILE

Corporate Information

PRINCIPAL PLACE OF BUSINESS AND REGISTERED ADDRESS

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

COMPANY SECRETARY

SHONUBI, MUSOKE & CO ADVOCATES
SM Chambers
Plot 14 Hannington Road
P. O. Box 3213, Kampala, Uganda

AUDITORS

KPMG
Certified Public Accountants
3rd Floor, Rwenzori courts
Plot 2 & 4A Nakasero Road
P. O. Box 3509, Kampala, Uganda

SHARE REGISTRARS

CUSTODY AND REGISTRAR SERVICES UGANDA LTD.
12th Floor DTB Centre
Kampala Road
Kampala, Uganda

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

International Finance Corporation
WORLD BANK GROUP
2121 Pennsylvania Avenue, N.W
Washington D.C. 20433
United States of America

STANDARD CHARTERED BANK
6th Floor, 1 Basinghall Avenue
London
EC2V 5DD
United Kingdom

GENERAL INFORMATION

Background of Umeme Limited

Umeme Limited is Uganda's main electricity distribution company, listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange.

The Company operates a 20 year concession effective 1st March 2005, from the Government of Uganda, to operate, maintain, upgrade and expand the electricity distribution system in Uganda. In Uganda, there is a single buyer model, with Uganda Electricity Transmission Company Limited (UETCL) as the System Operator, responsible for the purchase of electricity from all Independent Power Producers, import and export of electricity and Umeme as a major energy distributor. UETCL is also responsible for import and export of electricity.

The management of the distribution system in Uganda requires Umeme to maintain and operate the distribution network; to collect revenues from customers based on the prevailing tariff set by the Electricity Regulatory Authority (ERA) in accordance with the licenses and the privatisation agreements; to ensure efficiency of the distribution system, 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 summarized as follows:

a) Electricity distribution that involves the operation, maintenance, upgrading and expansion of the distribution network within Uganda, and

b) Electricity supply and after sales service, which includes:
   - Connection of new customers to the distribution network;
   - Meter reading, billing and revenue collection;
   - 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 four regions under the supervision of Regional Managers: Kampala West, Kampala East, North East 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 a decentralized structure.

KEY SHAREHOLDER INFORMATION

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

The top 10 shareholders are listed on page 91 of this report.

OUR VISION, MISSION & VALUES

Our Vision

Uganda's socio-economic transformation is hinged on the availability and supply of reliable and affordable electricity. We recognise that approximately 15% of households in Uganda are connected to the electricity grid, with the Government ambition of driving the access rate to 40% over the next 10 years.

Electricity transforms lives through industrialization, information communication technology (ICT), health, housing, agriculture, education and powering commercial activities. Our vision is to drive positive development of communities through sustainable, safe and efficient distribution of electricity.

Our vision is summarised as follows:

"Powering communities, business and industry for a prosperous Uganda".

Our Mission

"To supply our customers with safe, reliable electricity through an efficient distribution network and with passionate people, while delivering sustainable shareholder value".

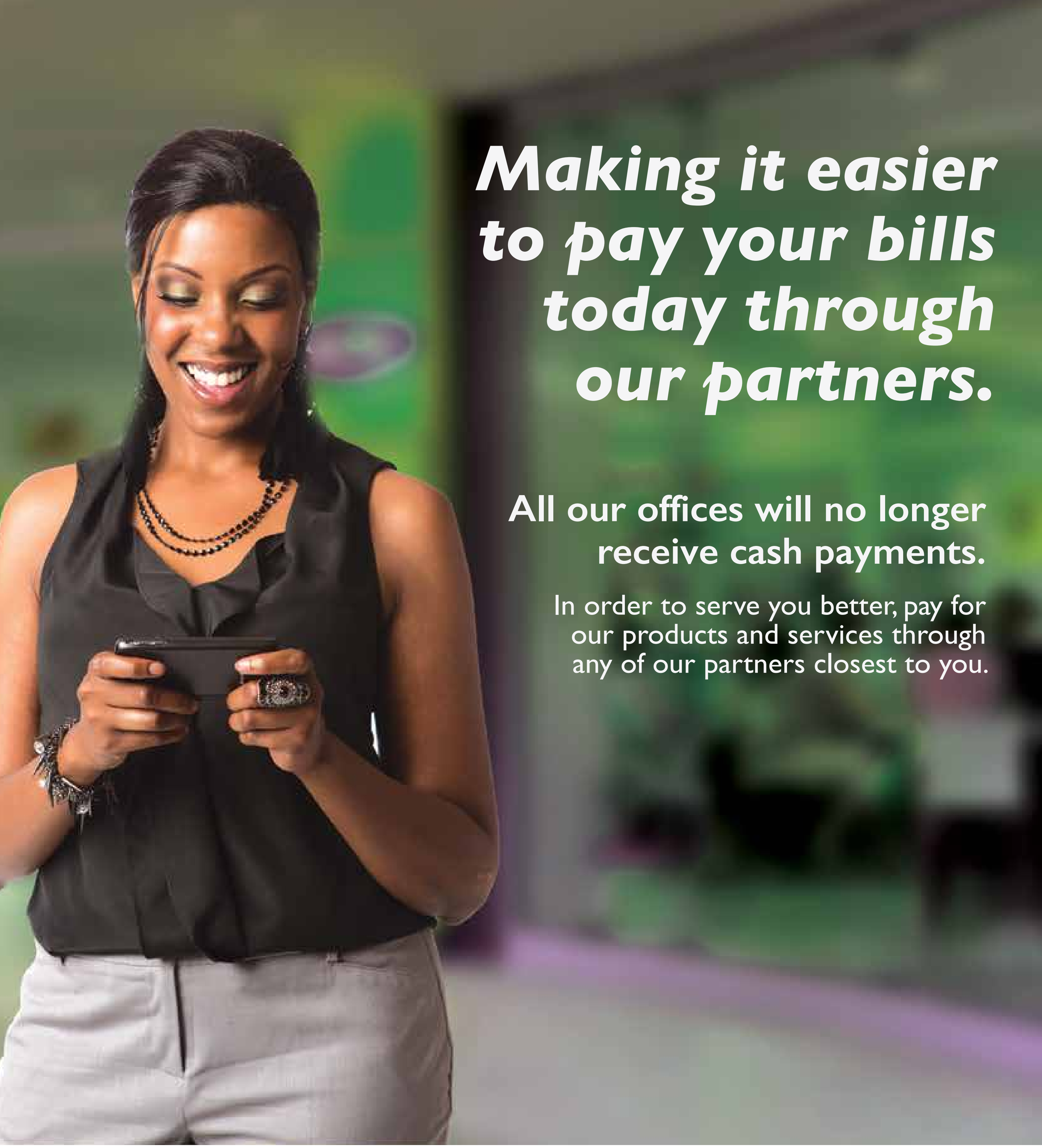
The mission expresses itself in 4 pillars:

- First and foremost, Umeme exists to supply electricity to its customers 24 hours a day. This power should be delivered safely and efficiently;
- Secondly, to achieve the first pillar, Umeme needs a skilled, dedicated, passionate and highly motivated work force;
- Thirdly, Umeme is accountable to its shareholders and other providers of capital, who require sustainable financial returns;
- Lastly, Umeme does not exist for its own purposes, but exists to contribute to the national development goals and objectives. We aim to understand and satisfy the expectations of our stakeholders including the Government of Uganda, development partners, providers of capital etc.

Our Values

Our values define our culture and the way we do business. The values can be summarised as:

- *We place the **Safety** of our employees and the public at the centre of our actions;*
- *We provide an experience of exceptional **Customer Service;***
- *We act with **Integrity,** fairness and transparency in all our dealings;*
- *We deliver our services as one **Team;***
- *We deliver quality services and value through **Innovation** and the zeal to succeed, continuously raising the bar on our performance.*



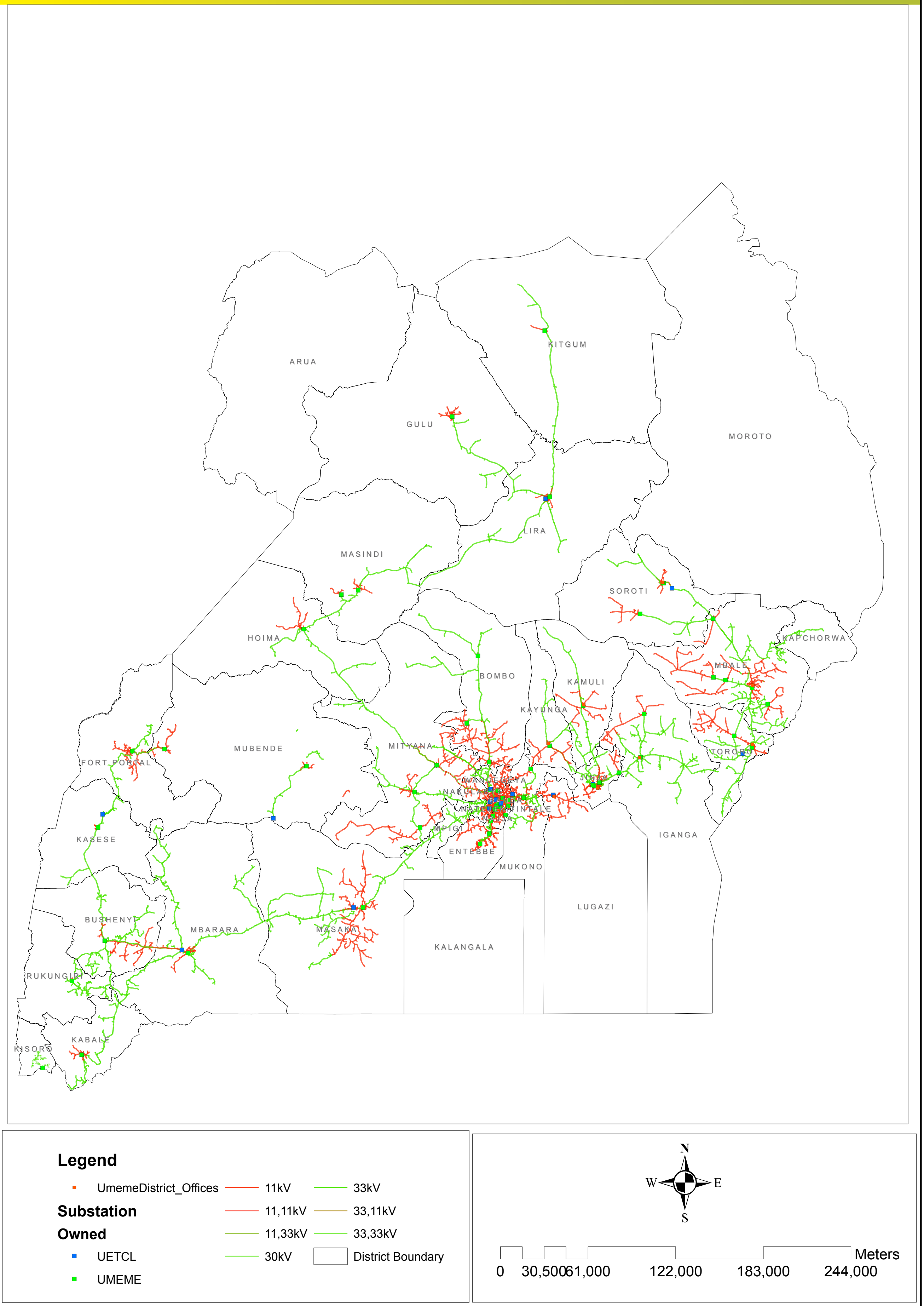
OPTIONS AVAILABLE

24/7

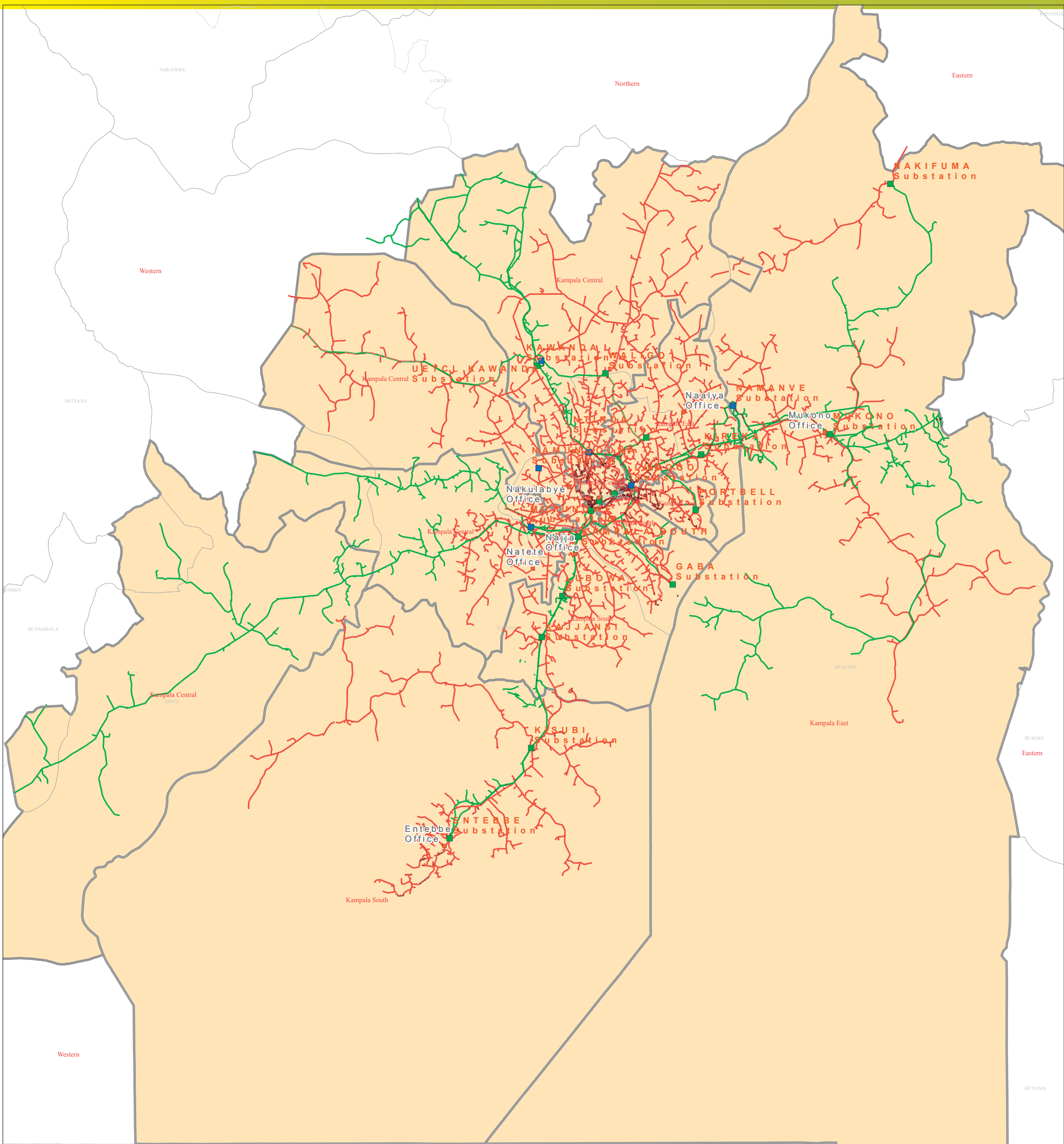
airtel money · africell · m-sente · BANK OF AFRICA UGANDA · BARCLAYS · Centenary Bank · dfcu BANK · PostBank · ORIENT BANK LIMITED · EQUITY · EzeeMoney · citi · CRANEBANK · Stanbic Bank A member of Standard Bank Group · Standard Chartered · Housing Finance Bank · Bank of Baroda (U) Ltd · DTB · PayWay · Finance Trust Bank

www.umeme.co.ug

Umeme Network Grid

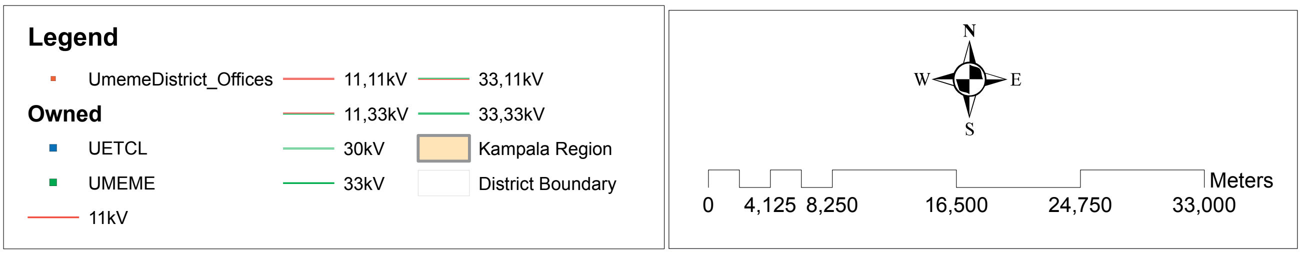


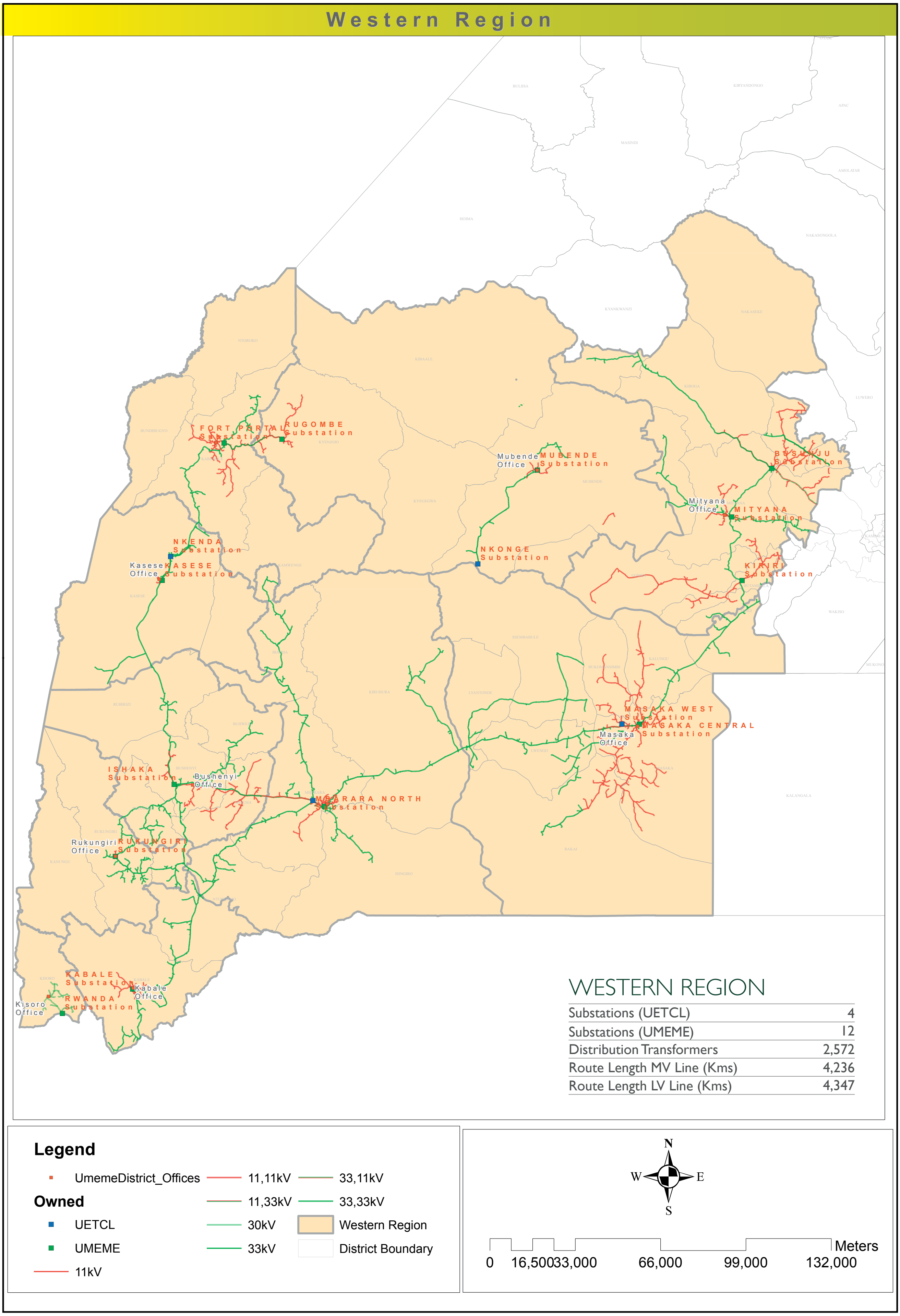
Kampala Region



KAMPALA REGION

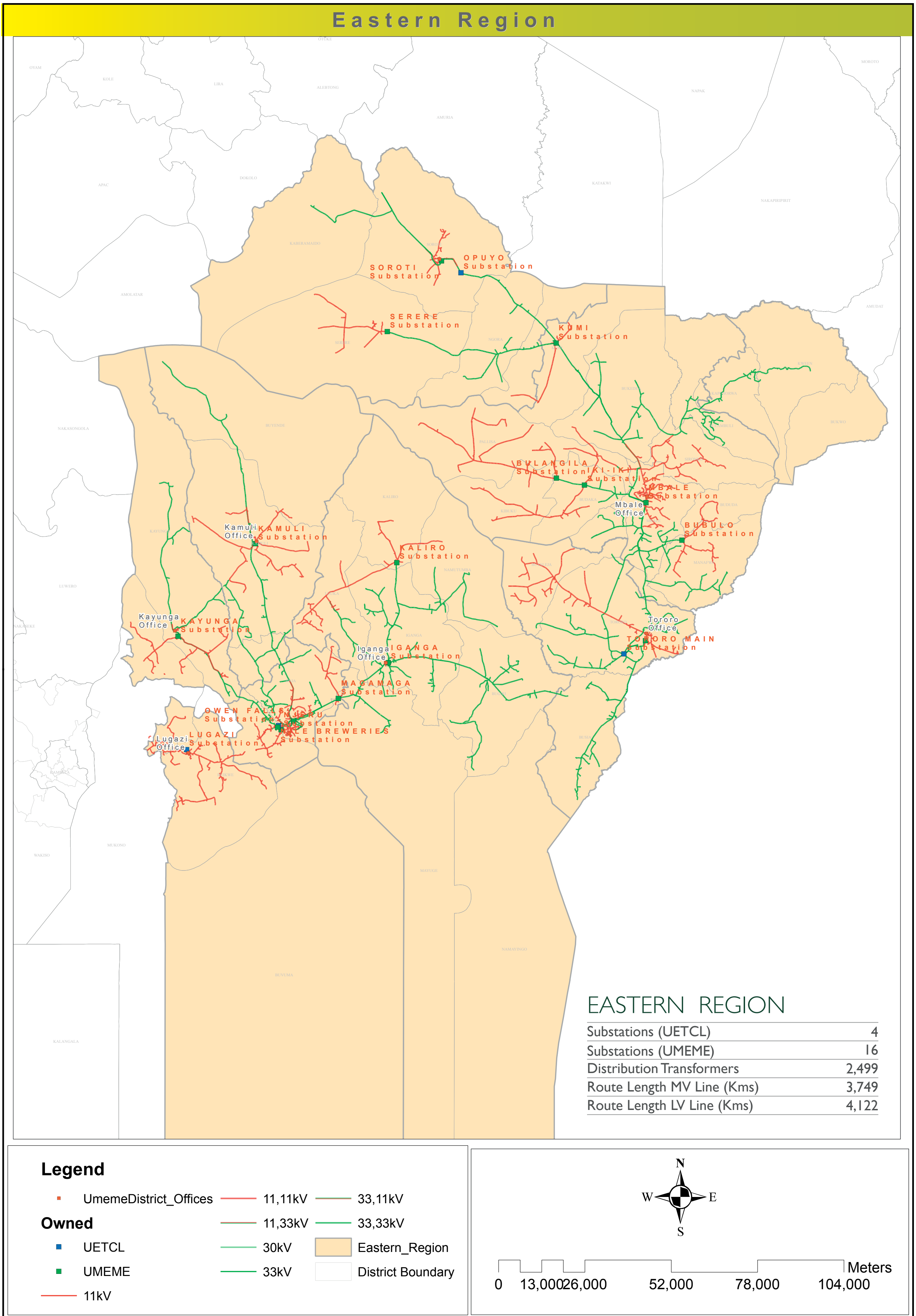
Substations (UETCL)	6
Substations (UMEME)	20
Distribution Transformers	4,079
Route Length MV Line (Kms)	2,195
Route Length LV Line (Kms)	6,272



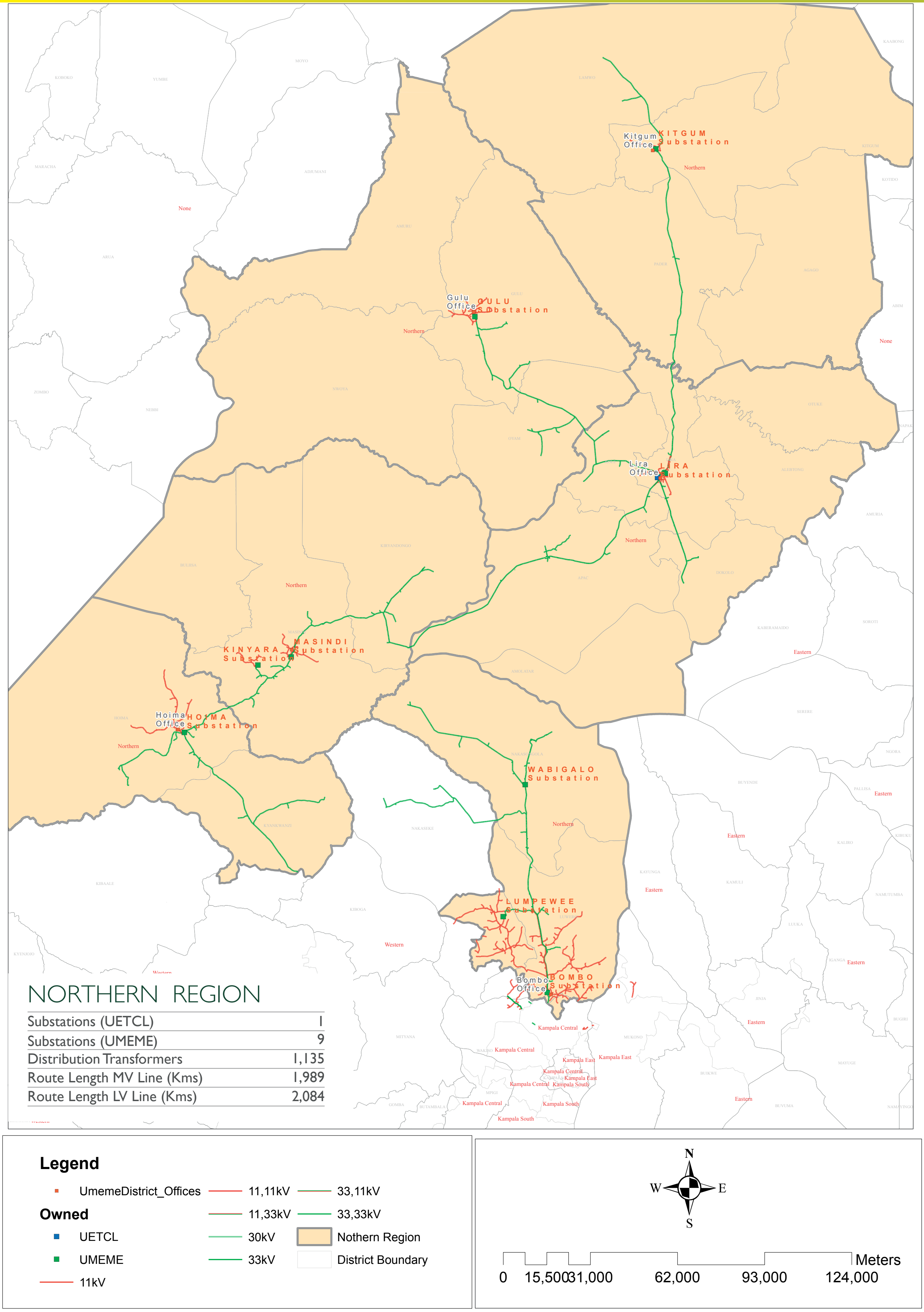


WESTERN REGION

Substations (UETCL)	4
Substations (UMEME)	12
Distribution Transformers	2,572
Route Length MV Line (Kms)	4,236
Route Length LV Line (Kms)	4,347


Eastern Region
SOROTI Substation
OPUYO Substation
SERERE Substation
KUMI Substation
BULANGILA Substation
IKI-IKI Substation
MBALE Substation
Mbale Office
BUBULO Substation
KAMULI Substation
Kamuli Office
KALIRO Substation
Kayunga Office
KAYUNGA Substation
Iganga Office
IGANGA Substation
Tororo Office
TORORO MAIN Substation
MAGAMAGA Substation
OWEN FALLS Substation
NJERU Substation
NILE BREWERIES Substation
Lugazi Office
LUGAZI Substation
EASTERN REGION
Substations (UETCL) 4
Substations (UMEME) 16
Distribution Transformers 2,499
Route Length MV Line (Kms) 3,749
Route Length LV Line (Kms) 4,122
Legend
UmemeDistrict_Offices
Owned
UETCL
UMEME
11kV
11,11kV
11,33kV
30kV
33kV
33,11kV
33,33kV
Eastern_Region
District Boundary
N
W
E
S
Meters
0
13,000
26,000
52,000
78,000
104,000

Northern Region

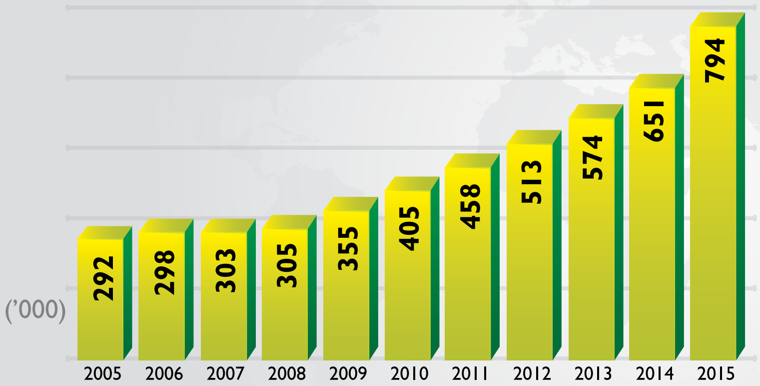


NORTHERN REGION

Substations (UETCL)	1
Substations (UMEME)	9
Distribution Transformers	1,135
Route Length MV Line (Kms)	1,989
Route Length LV Line (Kms)	2,084

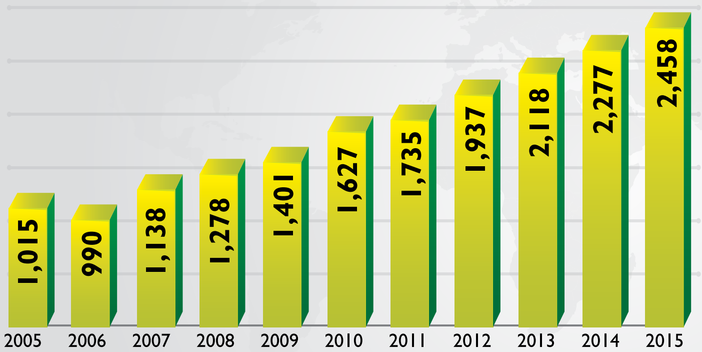
2. FINANCIAL AND OPERATIONAL CHARTS

CUSTOMER GROWTH: 22%



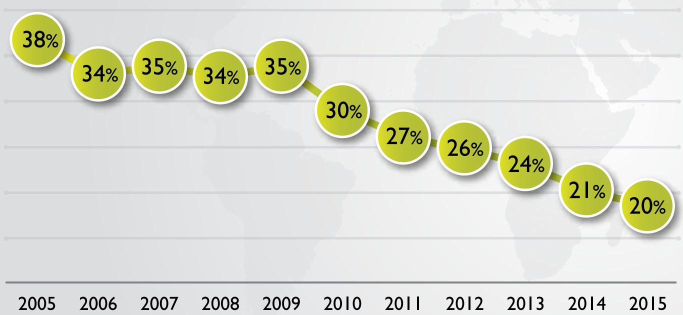
- Our customer base increased by 22% to 793,544 from 650,573
- 142,971 new connections were made, reflecting a 22% growth in customer numbers in 2015
- 394,000 domestic household customers were on prepayment metering by 31 December 2015
- The Company continues to implement the World Bank funded Out Based Aid project to accelerate connections in rural areas.

SALES: +8%



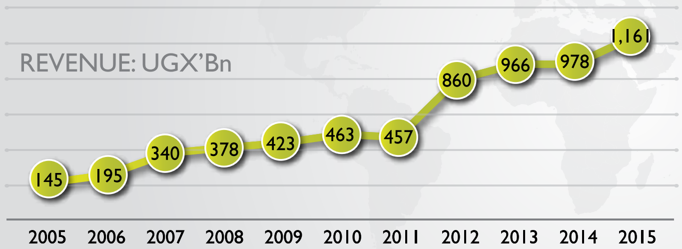
Electricity units sold (Gwh) increased by 8% in 2015, driven by power availability and reduction of energy losses to 19.5% from 21.3%.

ENERGY LOSS REDUCTION AT 19.5%



- Energy losses reduced from 21.3% in 2014 to 19.5% in 2015. The initiatives implemented in the period, guided by the loss reduction strategy include:
  - Investment in the network to address technical and commercial losses;
  - Rollout of an enhanced Automated Meter Reading (AMR) system for industrial consumers;
  - Rollout Prepayment meters for domestics consumers, with 55% of domestic customers converted by 31 December 2015;
  - Improvement in the management of the revenue cycle engagements and public sensitisation.

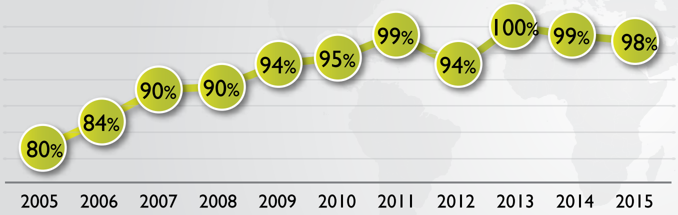
GROWTH IN SECTOR REVENUES – 16%



Total revenues grew by 16% in 2015 on account of:

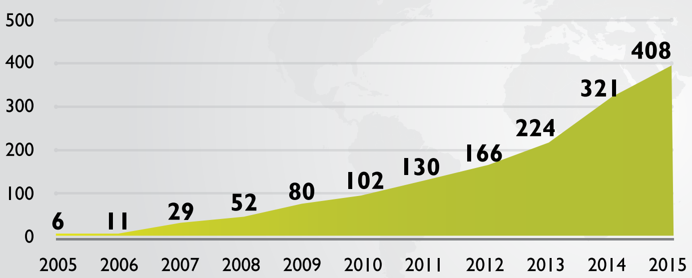
- Increase in the underlying electricity sales revenue by 8%
- Increase in the energy tariff by 17% in quarter 4 of 2015.
- Increase in sales units due to power availability and reduction in energy losses
- 74% of sales revenues are to government, commercial and industrial consumers, while 26% is to domestic consumers

REVENUE COLLECTIONS 98%



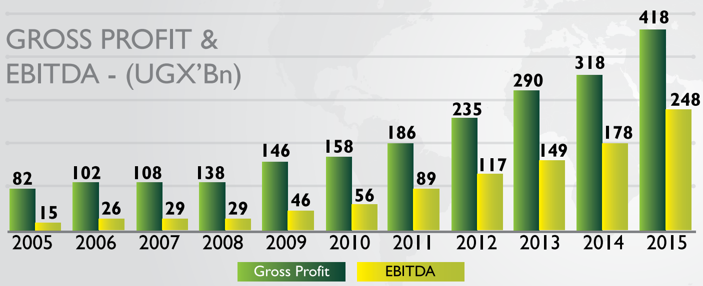
The collection rate achieved during the year is 98%. The dip in collection rate compared to 2014 reflects the tough macro economics experienced in 2015 making it more difficult for our customers to settle their bills in full.
However, the Company continues to perform well against the set regulatory targets as a result of the many initiatives implemented including prepayment rollout.

INVESTMENT IN THE DISTRIBUTION SYSTEM – US$ 408



- In 2015, USD 87m was invested in capital projects, increasing the total cumulative investment to USD 408m and the undepreciated asset base to USD 225m. The projects implemented included:
- Technical losses projects
- Restoration and rehabilitation of major feeder lines
- Rollout of pre-paid metering
- Rollout of enhanced Automated Metering System
- Creation of new distribution zones
- Growth in customer numbers
- Customer service improvements

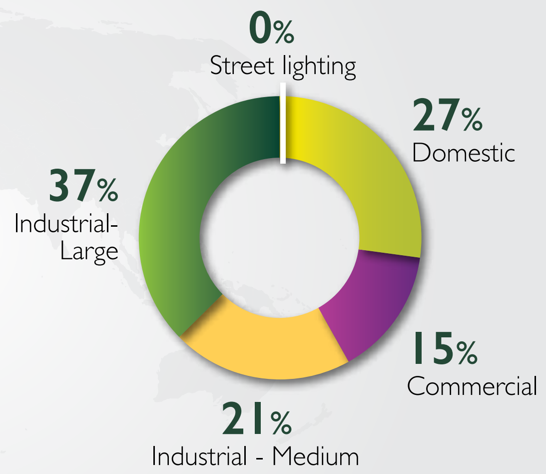
PROFITABILITY: EBITDA - +15.3%



- In 2015, gross profit grew to Ushs 418 billion from Ushs 318 billion
- EBITDA grew to Ushs 248 billion (USD 76.4m) from Ushs 178 billion (USD 67.9m), an increase of 39% compared to 2014
- The drivers of the increased profitability were:
  - Additional capital investments in the distribution network
  - Growth in sales units and price
  - Strong performance against regulatory targets

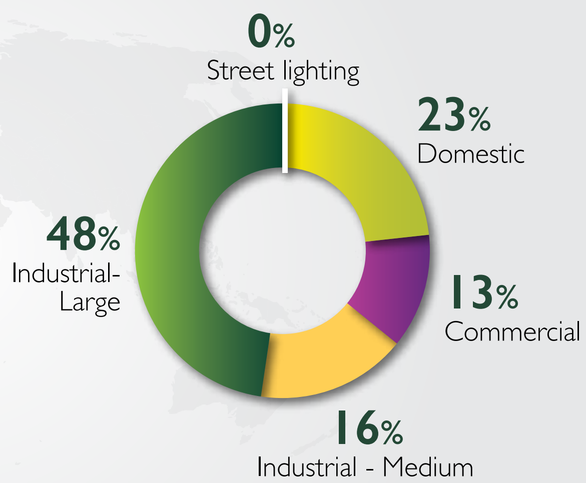
REVENUE

Revenue (Ushs'Bn)			
Revenue	2015	2014	Growth
Domestic	306.9	272.8	12%
Commercial	164.4	136.6	20%
Street Lighting	0.8	0.9	-9%
Industrial - Medium	234.8	208.3	13%
Industrial - Large	420.5	353.8	19%
Sub - Total	1,127.4	972.2	16%
Other revenue / Lease recovery	33.6	5.4	
Total	**1,161.0**	**977.7**	**19%**



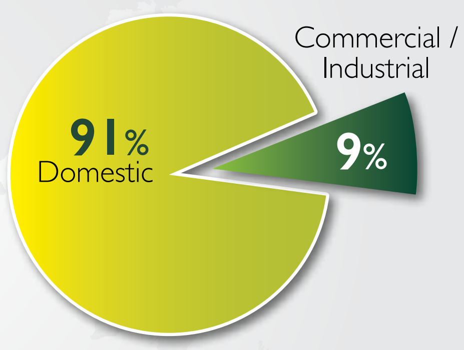
SALES OF ELECTRICITY (GWh)

Electricity			
Electricity Sales	2015	2014	Growth
Domestic	570.7	540.9	6%
Commercial	309.8	283.7	9%
Street Lighting	1.6	1.9	-17%
Industrial - Medium	406.1	390.0	4%
Industrial - Large	1,169.7	1,060.3	10%
	2,457.9	**2,276.7**	**8%**



NUMBER OF CUSTOMERS

Total Customers			
Customer Number breakdown	2015	2014	Growth
Domestic	723,491	590,677	22%
Commercial / Industrial	66,806	56,891	17%
Street Lighting	305	307	-1%
Industrial - Medium	2,431	2,234	9%
Industrial - Large	511	464	10%
	793,544	**650,573**	**22%**



3. FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following statistics summarise key financial and operational information of the Company:

Financial statistics	2015 Ushs million	2014 Ushs million
For the year		
Revenue	1,161,008	977,644
Gross profit	418,041	318,468
Operating profit	214,045	124,110
Profit before tax	160,982	101,674
Profit for the year	105,857	70,493
Capital investments	280,528	268,837
At year-end		
Total Assets	1,774,869	1,211,939
Shareholder's equity	503,775	313,712
Outstanding interest bearing debt	478,397	265,525
Cash flow data		
Net cash flows from operating activities	176,576	143,205
Net cash flows used in investing activities	(280,528)	(268,837)
Net cash flows from financing activities	102,761	110,324
Per share	**Ushs**	**Ushs**
Basic and diluted Earnings Per Share	65	43
Proposed Dividend per Share	35.2	28.9

Operating and other statistics	FY 2015	FY 2014
Electricity sales during the year (GWh)	2,458	2,277
Electricity purchases during the year (GWh)	3,051	2,893
Energy losses (percentage)	19.5%	21.3%
Revenue collections rate (percentage)	98.2%	99.1%
Total length of distribution lines (Km)	12,168	11,572
Total length of low voltage lines (Km)	16,824	16,370
Total distribution transformers at the end of the year	10,285	9,081
Bulk Supply off take points (UETCL Substations 132kV / 66kV / 33kV / 11kV)	15	15
Distribution Substations (33kV / 11kV)	57	56
Number of pending service applications	522	1,884
Number of new consumers connected (net of disconnections)	142,971	76,108
Total number of consumers	793,544	650,573
Total number of company employees	1,363	1,389
Exchange rate: US Dollar to Uganda Shilling (at year end)	3,377	2,778
Exchange rate: US Dollar to Uganda Shilling (annual average)	3,242	2,620

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

Functional Currency

Effective 1 Jan 2015, the Board of Directors approved the change in the Company's functional currency from Uganda Shillings (Ushs) to US Dollars (USD), in accordance with International Financial Reporting Standards No. 21. Based on changes in the Company's strategy and business focus, it was concluded that the USD is the currency that most faithfully represents the underlying transactions, events and conditions relevant to the Company. The Company has also elected to continue using Uganda Shillings as the presentation currency as disclosed on pages 65 and 75 to the financial statements.

For purposes of the financial performance highlights below, the 2015 financial results are compared with the conformed unaudited financial results for the year ended 31 December 2014 which have been derived to show the effect had the USD been the functional currency for that year.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 Ushs million Audited	2014 Ushs million Audited	2014 Ushs million Conformed (Unaudited)
Revenue	1,161,008	977,664	977,664
Cost of sales	(742,967)	(659,196)	(659,196)
GROSS PROFIT	**418,041**	**318,468**	**318,468**
Other operating income	9,064	11,117	11,117
Finance income	23,404	17,563	17,563
	450,509	347,148	347,148
Repair and maintenance expenses	(18,581)	(22,054)	(22,054)
Administration expenses	(155,113)	(129,227)	(129,227)
Foreign exchange losses	(8,424)	(28,907)	(3,668)
Other expenses	(6,758)	(1,479)	(1,479)
OPERATING PROFIT BEFORE AMORTISATION	**261,633**	**165,481**	**190,720**
Amortisation of intangible assets	(47,588)	(41,371)	(41,103)
OPERATING PROFIT	**214,045**	**124,110**	**149,617**
Finance costs	(53,063)	(22,436)	(22,436)
PROFIT BEFORE TAX	**160,982**	**101,674**	**127,181**
Income tax expense	(55,125)	(31,181)	(31,181)
PROFIT FOR THE YEAR	**105,857**	**70,493**	**96,000**

INCOME STATEMENT (Continued)

	2015 Ushs	2014 Ushs	2014 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	65	43	59

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 Ushs million	2014 Ushs million	2014 Ushs million
Profit for the year	**105,857**	**70,493**	**96,000**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax			
Exchange differences on translation from functional currency	133,410	-	22,013
Total comprehensive income for the year, net of tax	**239,267**	**70,493**	**118,013**

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	2015 Ushs million Audited	2014 Ushs million Audited	2014 Ushs million Conformed (Unaudited)
ASSETS			
Non-current assets			
Intangible assets	1,044,595	618,976	665,474
Concession Financial asset: Non-current portion	313,960	107,489	107,489
	1,358,555	726,465	772,963
Current Assets			
Concession financial asset: Current portion	-	131,650	131,650
Inventories	43,398	37,250	37,250
Amount recoverable from customer capital contributions	6,634	3,488	3,488
Trade and other receivables	337,768	283,712	283,712
Bank balances	28,514	29,374	29,374
	416,314	485,474	485,474
TOTAL ASSETS	**1,774,869**	**1,211,939**	**1,258,437**
EQUITY AND LIABILITIES			
Equity			
Issued capital	27,748	27,748	27,748
Share premium	70,292	70,292	70,292
Translation reserve		-	22,013
Retained earnings	405,735	215,672	241,179
	503,775	313,712	361,232
Non-current Liabilities			
Borrowings: Non-current portion	477,160	265,484	264,462
Concession obligation: Non-current portion	313,960	107,489	107,489
Deferred income tax liability	69,448	50,356	50,356
Provision: Non-current portion	-	5,431	5,431
	860,568	428,760	427,738
Current Liabilities			
Borrowings: Current portion	1,237	41	41
Concession obligation: Current portion	-	131,650	131,650
Customer security deposits	998	3,576	3,576
Deferred income	12,437	16,701	16,701
Provisions: Current portion	14,490	-	-
Trade and other payables	344,832	286,134	286,134
Current income tax payable	5,250	2,992	2,992
Bank overdraft	31,282	28,373	28,373
	410,526	469,467	469,467
TOTAL EQUITY AND LIABILITIES	**1,774,869**	**1,211,939**	**1,258,437**

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued capital Ushs million	Share premium Ushs million	Retained earnings Ushs million	Total Equity Ushs million
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**
Translation differences				
Dividend paid	-	-	(42,546)	42,546)
At 31 December 2014	**27,748**	**70,292**	**215,672**	**313,712**
At 1 January 2015	**27,748**	**70,292**	**215,672**	**313,712**
Profit for the year	-	-	105,857	105,857
Other comprehensive income, net of tax	-	-	133,410	133,410
Total comprehensive income, net of tax	**-**	**-**	**239,267**	**239,267**
Dividend paid	-	-	(49,204)	(49,204)
At 31 December 2015	**27,748**	**70,292**	**405,735**	**503,775**

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 Ushs million Audited	2014 Ushs million Audited	2014 Ushs million Conformed (Unaudited)
Net cash flows from operating activities	**176,576**	**143,205**	**120,918**
Investing activities			
Purchase of intangible assets	(280,528)	(268,837)	(261,887)
Proceeds from sale of assets	-	-	52
Net cash flows used in investing activities	**(280,528)**	**(268,837)**	**(261,835)**
Financing activities			
Net proceeds from borrowings	151,965	152,870	166,680
Dividends paid	(49,204)	(42,546)	(42,546)
Net cash flows from financing activities	**102,761**	**110,324**	**124,134**
Net decrease in cash and cash equivalents	(1,191)	(15,308)	(16,783)
Cash and cash equivalents at 1 January	(2,575)	14,208	14,208
Foreign exchange (Loss)/ gain	-	(1,475)	-
Cash and cash equivalents at 31 December	**(3,766)**	**(2,575)**	**(2,575)**

The detailed results for the year and reserves as at year-end are presented on pages 58 to 62.

4. ANALYSIS OF THE FINANCIAL RESULTS

4.1 Revenue

Revenues increased to Ushs 1,161 billion in 2015 compared to Ushs 978 billion 2014. Electricity sales revenue increased by 16% to Ushs 1,127 billion in 2015 compared to Ushs 972 billion in 2014, driven by increase in tariff price as a result of foreign exchange adjustments, sales units and increase of customer base from 650,573 in 2014 to 793,544 in 2015.

The increase in units sold is attributed to power availability during the year and reduction of distribution energy losses from 21.3% in 2014 to 19.5% in 2015.

4.2 Gross Profit

The Company's gross profit increased by 31.4% to Ushs 418 billion in 2015 from Ushs 318 billion in 2014. The main drivers for this increase were; increase in capital investments, reduction in energy losses, higher allowed operating costs and inflation and foreign exchange adjustments of the energy's sector'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 39.3% in 2015 to Ushs 248 billion compared to Ushs 178 billion in 2014. The growth in US Dollar terms was 13%, from USD 67.9 m in 2014 to USD 76.4m in 2015. This growth is attributed to; the increase in capital investments base, increase in electricity sales units and general performance of the Company against its regulatory targets.

Operating costs increased by 18% from Ushs 153 billion in 2014 to Ushs 181 billion in 2015 due to the tough macro-economic environment experienced in 2015; average inflation of 7% and depreciation of the Ugandan Shilling against the US Dollar by 21%. Operating costs in USD terms decreased by 4% from USD 58m in 2014 to USD 57m in 2015. The decrease in USD terms is attributed to the fact that over 60% of the Company's operating costs are in USD and demonstrates management's commitment to improve business efficiency.

4.4 Profit Before Tax

Profit before tax increased from Ushs 127 billion for the year ended 31 December 2014 (2014 audited: Ushs 102 billion) to Ushs 161 billion in 2015, mainly due to revenue growth of 16%.

4.5 Income taxes

The corporation tax for the period was Ushs 55 billion, reflecting an effective average tax rate of 34.2% compared to Ushs 31 billion of 2014 with an effective rate of 31%.

4.6 Profit after Tax

Profit for the year ended 31 December 2015 was Ushs 106 billion compared to Ushs 96 billion for the year ended 2014. (2014 audited: Ushs 70.5 billion). The increase in profits is attributed to the growth in revenue and EBITDA.

Profits after tax adjusted for foreign exchange losses/gains increased by 14% to Ushs 114 billion in 2015 from 100 billion in 2014.

4.7 Balance Sheet Analysis

Total assets as of 31 December 2015 were Ushs 1,774 billion compared to Ushs 1,258 billion in 2014 (2014 audited: Ushs 1,212 billion).

Shareholder Equity increased from Ushs 361 billion in 2014 (2014 audited: 314 billion) to Ushs 504 billion in 2015. The increase is attributed to profits after tax for the year of Ushs 106 billion net of dividends paid during the year and the net increase of Ushs 133 billion in translation reserve arising from translation income derived from the change from functional to presentation currency which has been recognised in other comprehensive income.

Outstanding interest bearing debt increased to Ushs 477 billion in 2015 from Ushs 265 billion in 2014. An additional USD 45m 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 25m.

Capital investments implemented in the year totalled USD 87m, with cumulative investments since the commencement of the concession being USD 408m and the undepreciated asset base of USD 316m (inclusive allowance for impairment charge of USD 7m related to year ended 31 December 2010).

Of the USD 87m investments, projects worth USD 70m were completed , while USD 17m of projects were works in progress to be completed in 2016.

4.8 Cash flows analysis

During the year under review, the company generated Ushs 177 billion from operations compared to Ushs 121 billion in 2014 (2014 audited: 143 billion). The cash generated was used to fund capital investments, dividends and financing obligations.

The company also drew Ushs 152 billion (USD 45m) from its term loans to finance the capital investment plans for the year.

The net cash available reduced by Ushs 1.2 billion in 2015; the Company closed in a net overdraft position of Ushs 3.8 billion.

The company has working capital facilities of USD 20m with Standard Chartered Bank and Stanbic Bank Uganda Limited.

Mityana service crew manually erects a pole as part of their routine Maintenance

Nakulabye service crew replaces an old pole using the JCB vehicle which can replace up to 20 poles a day.

5. THE BOARD OF DIRECTORS

PATRICK BITATURE
Board Chairman
(Non-Executive Director)

Mr. Patrick Bitature has been the Chairman of the Board since September 2007. He is an independent and non-executive Director. Patrick 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. He is a member of the Presidential Investors' Round Table (PIRT) and is the Honorary Consul, Australian Consulate in Uganda.

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

SELESTINO BABUNGI
(Managing Director)

Mr. Babungi was appointed an Executive Director in March 2015 and Managing Director of the Company with effect from 01 April 2015. Selestino served as Umeme's Chief Financial Officer (CFO) since January 2011. Prior to his appointment as CFO, he 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.

He 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).

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, Charles worked for Ireland's leading utility, Electricity Supply Board, as the head of Customer Supply. He 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. David has been on the Board since November 2007. He is a non-executive Director. Before joining Actis LLP, David 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, he was the Managing Director of Midlands Power International, and prior thereto worked at Covanta, Mission Energy and BP.

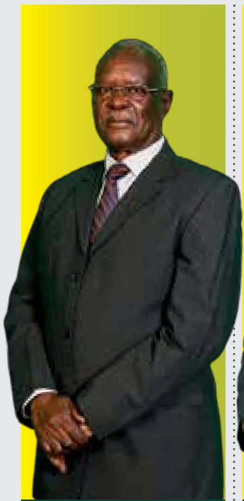
Mr. Grylls is a chartered engineer and holds a Master of Business Administration from Kingston University and a Bachelor of Science (Honours) from Bath University.

FLORENCE N. NSUBUGA
(Executive Director)

Mrs. Nsubuga was appointed to the Board in March 2015 as an Executive Director.

Florence holds a Bachelors of Commerce and a Master in arts in Economic Policy and Planning.

Florence 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.



GERALD SSENDAULA
(Non-Executive Director)

Honourable Ssendaula joined the Board in November 2013 and is an independent and non-executive Director. He 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.

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

ADRIAN MUCALOV
(Non-Executive Director)

Mr. Mucalov joined Actis in 2009 and has worked actively to support Actis' Investment in Umeme since that time. Adrian has been on the Umeme Board since 2013. Adrian is a non-executive Director. His 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.

He 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.

PIETER ADRIAAN FALING
(Non-Executive Director)

Mr. Faling joined the Board in February 2015 as an independent and non-executive Director. Pieter has worked extensively in the electricity sector since 1972. As Executive Director of Transmission, Pieter 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, He has also acted in advisory and management capacity to multiple energy projects in South Africa, Kosovo, Nigeria and Mozambique.

SAMUEL 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, Samuel managed the Uganda Electricity Distribution Company Limited (UEDCL) for two years following the unbundling of the electricity sector.

CHRISTOPHER NICHOLSON
(Non-Executive Director)

Mr. Nicholson was appointed a Director (Non- Executive and Independent) of Umeme in August, 2015.

Mr Nicholson is a Chartered Accountant and CPA with over 34 years of experience.

He previously served as Global Managing Partner Deloitte Energy & Resources for 10 years, and has audited large power companies with operations in over 20 countries. He has considerable experience serving as a board member and Audit Committee Chairperson on several boards.

FLORENCE NAMATTA MAWEJJE
(Non-Executive Director)

Mrs. Mawejje was appointed to the Board in April 2016 as a Non-Executive director.

She holds a Master of Science Degree in Human Resource Development (Manchester University, UK) and an Executive MBA - Strategic Management, (ESAMI / Maastricht, The Netherlands).

She is currently the General Manager, Human Resources at Centenary Rural Development Bank.

She has previously served as the General Manager, Human Resources at MTN Uganda (1998-2009 HR Manager, CARE international Uganda, Human Resource Management Director, East and Southern Africa (ESA) business Cluster at Unilever, Kenya.

She is a Board member of several institutions including the National Social Security Fund and Uganda Clays Ltd and has previously served as the President of the Human Resource Managers Association of Uganda.

6. THE MANAGEMENT TEAM

SELESTINO BABUNGI
Managing Director
(Refer to page 24)

SAMUEL ZIMBE
Deputy Managing Director / Executive Director
(Refer to page 25)

FLORENCE N. NSUBUGA
Chief Operations Officer / Executive Director
(Refer to page 24)

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.

GEORGE VAN DER MERWE:
General Manager Capital and Contracts Division

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

MARIE NASSIWA MARTIN
Chief Finance Officer

Marie is a qualified accountant with over 10 years of experience, working with British Aerospace Systems Ltd (BAE), Shell Finance Operations and Morgan Stanley in the UK. Before her current appointment as CFO, she was the Finance Manager (Accounting) at Umeme. Marie holds a BA (Hons) Accounting & Finance (1st Class Honors) – The University of Greenwich, London and is a Member of the ACCA.

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.

JOSEPHA TIBENDERANA NDAMIRA

Head of Internal Audit

Josepha is an experienced internal audit practitioner with over 13 years' experience in external and internal audit. Prior to joining Umeme Limited, she worked with Ernst & Young (Uganda), Barclays 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). She is a member of the Institute of Corporate Governance of Uganda (ICGU) and serves as board secretary of the Institute of Internal Auditors (Uganda).

PATRICK NGOLOBE

Head of Human Resources

Patrick previously worked with Uganda Revenue Authority, MTN, and Uganda Breweries Limited (a subsidiary of Diageo). Patrick holds a Post graduate diploma in Human Resources management and a Bachelor's degree in Economics. He is also a member of the Human Resources Managers' Association of Uganda, in-charge of professional Development.

7. CHAIRMAN'S REPORT

ON BEHALF OF EVERYONE AT UMEME

It gives great pleasure to present to you our 2015 Annual Report which gives an account of our performance and our commitment to provide a safe, reliable and affordable supply of electricity to the over 750,000 homes and businesses that rely on us everyday.

PATRICK BITATURE
CHAIRMAN OF THE BOARD

We began the year on a sad note when we lost our board member Engineer Ivan Kyayonka. Ivan was new to the board but had already made a remarkable impact on us and on the business. We move forward with the strong belief that he is resting in eternal peace.

In 2015, Umeme continued to provide value to our stakeholders. We advanced key elements of our business strategy, while once again achieving strong financial results and stellar performance in critical areas like safety, new connections, customer satisfaction and supply reliability.

In 2015, Umeme's income grew by 19% to Ushs 1.16 trillion compared to 2014, underpinned by 8% growth in sales units. EBITDA increased by 39% to Ushs 248 billion from Ushs 178 in 2014. This growth was driven by capital investments, reduction in energy losses and growth in connections.

The cash generated from operations was Ushs 177 billion compared to Ushs 143 billion of 2014. The cash was utilised to fund our capital investments of Ushs 281 billion and shareholder distributions in the period.

While I am pleased to report that during the year, no fatal accident related to network failure was recorded, I must raise concern over the challenges we continue to face namely; network interference, construction of structures in the electricity lines way-leaves, illegal network connections and poor domestic wirings. These conditions led to 28 fatal accidents in 2015.

We urgently need government and legislative support, through police enforcements and punitive penalties to curb these illicit activities that grossly affects not only the quality and reliability of supply but can also pose a safety risk to human life.

Key to our success in 2015 has been our focus on customer service delivery. Our customer base grew by 22% to 794,000. Our sales units grew by 8% and most importantly our Customer Satisfaction Index grew 16.78% in the past year but has grown by 56.95% since 2011 when we started measuring this. We are proud on this transformation that confirms our commitment to being a world-class electricity distribution company.

Without a doubt the commencement of construction works for Isimba (183MW) and Karuma (600MW) hydropower projects affirms our government's

> Due to the strong operational and financial performance during the year 2015, the board this year recommended a final dividend of Ushs 24.4 per share, bringing the full year dividend to Ushs 35.2 per share an increase of 22 % from 2014 Ushs 28.9 per share.

Progress at Karuma and Isimba Hydro Electricity dams under construction

1,600
MEGAWATTS TO BE GENERATED BY 2020

USHS 248 BILLION
EBITDA

USHS 281 BILLION
CAPITAL INVESTMENTS - 2015

USHS 1.16 TRILLION
REVENUE - 2015

commitment to the energy sector and increasing access to electricity across our country. On completion of the projects, among others, over the next 5-6 years, the country's effective generation capacity shall be in excess of 1,600MW. To this end, we plan to make significant investments to grow and ready the distribution infrastructure for the new generation capacity.

In 2013 the Electricity Regulatory Authority (ERA) implemented Amendments 2 & 4 to the Supply Licence. As a consequence, for the period ended 2015, accrued revenue in accordance with IAS 18 was Ushs 9.3 billion (USD 2.9m). The Company shall utilise the contractual remedies available to it under the concession agreements, as discussed in Note 3 to the financial statements on page 78, in compensating the Company for any unrecovered costs incurred as a result of the amendments.

We are proud to have been recognised for a number awards in 2015.

Amongst which were;

East African Power Industry Convention - Nairobi

- Excellence in power transmission or distribution 2014 / 2015.

Digital Impact Awards

- Best E-Service,

The Financial Reporting Awards (FIRE) / CPA Uganda

- Silver Award, for the Annual report of the year 2014

Due to the strong operational and financial performance during the year 2015, the board this year recommended a final dividend of Ushs 24.4 per share, bringing the full year dividend to Ushs 35.2 per share an increase of 22 % from 2014 Ushs 28.9 per share.

I would like to welcome Chris Nicholson and Florence Namatta Mawejje to the board as a Non-Executive Directors and Christopher as the Chairman of the Audit committee. Christopher and Ms. Mawejje join us with a wealth of experience in both private enterprise and the energy sector.

Finally, I must congratulate our Managing Director Selestino on a great first year in office, this success validates our commitment to nurturing the best indigenous local talent to lead our company to greater heights.

Patrick Bitature

8 MANAGING DIRECTOR'S REPORT

DEAR SHAREHOLDERS

I AM HONOURED TO PRESENT TO YOU OUR 2015 ANNUAL REPORT

Outlining our operating and financial performance.

SELESTINO BABUNGI
MANAGING DIRECTOR - UMEME LIMTED

The results achieved in the year reflect our consistent execution of our strategy focused on safety, customer service and investments in distribution efficiencies, network infrastructure and growth.

OPERATIONAL PERFORMANCE

Safety

Safety of staff, public and equipment is core to our operations. The company registered an improvement in its safety performance, with zero network related fatalities and a 20% reduction in network interference related fatalities to 28 from 35 in 2014. Illegal networks, construction in electricity line wayleaves and power theft remains a challenge. We continue to conduct community engagement meetings, communications and media campaigns, to educate the public on electricity dangers and how to mitigate against fatal accidents. The public is encouraged to report any dangerous network conditions to our contact centre through the toll free lines.

Energy Losses

During the year, we registered improvements in the operations of the Company. Energy losses reduced to 19.5% from 21.3% achieved in 2014. We continued to invest in the distribution networks to reduce technical losses, improve the revenue cycle process, use technology and audit of metering points. The legal framework remains challenging, as those involved in electricity theft and network infrastructure vandalism get away with light penalties, as prescribed in the law. We have appealed to Government to institute punitive penalties for cases of power theft or vandalism of infrastructure. We believe the ongoing amendment of the Electricity Act shall address this gap.

Pre-Paid Metering and Revenue Collections

In Quarter 4, 2015, the end user tariffs were increased by an average of 17% on the back depreciation of the Uganda Shilling against the US Dollar. We understand the impact of the tariff increase to our customers, in bid to finance the sustainability of the electricity sector.

As at 31 December 2015, 55% of domestic power users were under the pre-paid metering system. We continue to rollout Automated Meter Reading system for the large and medium industrial customers, for remote monitoring of meter installations and improve the revenue cycle. In addition, the uptake of the eBill system enables timely dispatch of customer bills by email.

Adoption of alternative payment channels continues to be impressive, with only 15% of transactions traffic in Umeme cash offices by December 2015. We are

> ...changing the new connections process, improving the logistical supplies and committing to an average turnaround time of 5 days. I am pleased to report that this improvement was recognised in the *World Bank Doing Business Report* for 2015.

22%
GROWTH IN CUSTOMER BASE

98%
REVENUE COLLECTION

412,384
ON *YAKA!* PREPAID ELECTRICITY

793,544
TOTAL CUSTOMERS 2015

implementing the strategy to close out Umeme cash offices by end of June 2016. We extend our appreciation to the Ministry of Finance, Planning and Economic Development and other Government Agencies for the timely settlement of their bills. Umeme did not effect any offsets to recover arrears against Government entities. We are currently implementing a project to install pre-paid meters at government installations, as a deterrent measure to curb growth in electricity arrears.

These initiatives resulted in a revenue collection rate of 98% in 2015.

Customer Connections

Our customer base grew by 22% to 793,544 customers, translating into 142,971 new connections. This was achieved by changing the new connections process, improving the logistical supplies and committing to an average turnaround time of 5 days. I am pleased to report that this improvement was recognised in the World Bank Doing Business Report for 2015.

We recognise the deterrence of initial capital costs in affordability of access to the grid, as demonstrated by the Output Based Aid (OBA) project. The OBA project, with financing from government, World Bank and KFW financed 70,000 of the total new connections. We shall continue to engage the government and the development partners to further rollout projects related to growth and grid access.

Customer Service

The customer satisfaction index for the year was 69% up from 54% of 2014. The service improvement was achieved through focus on process simplification, faster response times, use of technology, improving the customer touch points experience and continuous customer communications. The investments in the distribution networks have improved the reliability and quality of supply to customers.

Investments and Growing Demand

During the year, we invested Ushs 281 billion in the networks. The capital projects included a new 40 MVA substation at Namugongo, upgrade of power transformers and switch gear at 6 substations, restoration in a number of feeders, conversion of 80,000 customers to pre-paid metering and new connections.

Electricity sales increased by 8%, to 2,458 GWh from 2,277 GWh of 2014. This growth was underpinned by reduction in energy losses, new customer connections, supply reliability and expansion of consumption among existing customers.

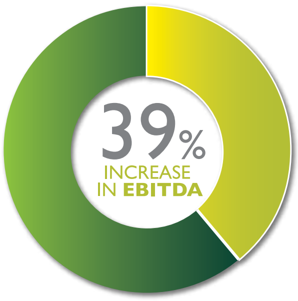
The 2016 investment plan is projected at Ushs.270 billion and includes construction of substations at Muniko in Lugazi, and at the Tororo Industrial Park, further rollout of pre-paid meters, refurbishment of distribution feeders, energy losses and customer grid access projects.

New substation at Namugongo commissioned in 2015

L.E.D bulbs distribution

24/7 Call centre at Lugogo Offices

24hr service teams proudly delivering on customer expectations



177 BILLION
GENERATED FROM OPERATIONS

Financing

The availability period of the existing syndicated term facility of US$ 170m with Standard Chartered Bank, Stanbic Bank and International Finance Corporation (IFC) expires in May 2016, with the last draw down expected by then. The Company shall commence a fund raising process to finance the upcoming investment plan, focused on the projected new generation expected on stream over the next 5 years.

Further details of the financing plan shall be provided in due course.

FINANCIAL PERFORMANCE

I am pleased to report a 39% increase in EBITDA in 2015 to Ushs 248 billion from Ushs 178 billion in 2014. Profit after tax increased to Ushs 106 billion from the Ushs 70.5 billion reported in 2014. Investments in the distribution network and performance against the regulatory targets drive our financial performance.

During the year, the company generated Ushs 177 billion from operations compared to Ushs 143 billion in 2014. The cash generated was used to fund some of the capital investments, dividends and financing obligations. The Company also drew Ushs 152 billion (USD 45m) from the long term loans to finance the capital investment plan for the year.

OUR PEOPLE

I am grateful to our employees' commitment to service and delivery of the company strategy. The el-nino rains experienced in Quarter 4 of 2015 were challenging but our staff and contractors worked tirelessly to secure the lines and ensure timely supply restoration.

We continued to equip and train our staff to uplift their operational, supervisory and management skills. The main trainings were in safety, operating regulations, customer service, management development and performance management.

CONCLUSION

The country is entering a phase of doubling its generation capacity and grid access rates over the next 5 years. These developments inform our investment and financing plans for the period. We shall be engaging the Government to discuss and align our plans.

I take this opportunity to thank our customers, staff, government and our stakeholders for the support during the year.

Selestino Babungi

Lighten up with Yaka!

Experience ***Yaka!***, Umeme's prepaid, electricity solution that gives you control, convenience and lets you manage your electricity costs better.

For ***Yaka!*** queries, please call:

0800 285285 (Toll Free)

To find out your ***Yaka!*** meter number, press **#100#** on your ***Yaka!*** meter.

In case of any other customer enquiries, please call **0312 185185** or **0752 185185**
or email: **prepayment@umeme.co.ug** OR **callcentre@umeme.co.ug**

or follow us on Umemelimited @UmemeLtd 0772 285285

www.umeme.co.ug

Umeme team on receipt of the award of excellence in power transmission or distribution 2014/2015 at the East African Power Awards in Nairobi in September 2015

The Minister of trade, industries and cooperatives Hon. Amelia Kyambadde hands over the best E-Service Award to Umeme team on 13th August 2015

The Umeme team after winning the Silver Award for the annual report of the year at the CPA, Uganda Financial Reporting Awards on the 19 November 2015

"The President of African Utility Week (AUW) hands over the award"

Executive Director **Mrs. Florence N. Nsubuga** won the much coveted ***Outstanding Woman in Power / Water in Africa Award.*** at the 15th African Utility Week (AUW) in Cape Town, South Africa on 15th May 2015

The annual African Utility Week (AUW) and Clean Power Africa is the largest global meeting place, conference and trade exhibition for African power and water utility professionals and offers a unique Networking opportunity for engineers, stakeholders and solution providers alike. The AUW runs 10 awards annually. This year Industry Awards Gala Dinner welcomed 700 of Africa's most distinguished power and water industry professionals to celebrate the triumphs and successes of Africa's power and water sector during 2014/15.

9. SUSTAINABILITY REPORT

WE ARE A RESPONSIBLE COMPANY

The Board, Management and staff of Umeme Limited are committed to building a sustainable organisation, society and nation for the betterment of the community it serves. This is in line with the wider goals of global sustainable development. Umeme's goals go beyond the financial results to include operational results, for example, energy efficiency, reduction of energy losses, care for the environment and building an organisation that shall endure the test of time. An organisation whose operations are aligned to the country's development agenda.

Umeme continues to focus on effective corporate governance underpinned by strong processes, systems and the right values and culture. By creating a great place to work for our people, Umeme serves its customers and stakeholders responsibly while also mitigating the environmental impact of its operations which in turn, makes a greater contribution to the communities in which it operate and ultimately grow shareholder value.

The following are inputs used in our identification process of material issues and thus the focal areas critical to achieving our Strategic objectives.

- Engagement with internal and external stakeholders;
- Senior management team discussions;
- Board meeting discussion;
- Business strategy;
- Risk management;
- Regulatory frame work;
- Government's priorities; and
- The Global trends.

SAFETY HEALTH AND ENVIRONMENT

Umeme's fundamental contribution to society is provision of electricity that is reliable, affordable and sustainable. Protecting our employees, contractors and all visitors from accidents and injury, coupled with the care to the environment is fundamental to our existence.

We are committed to developing and maintaining a positive health, safety and environment culture in which statutory requirements are viewed as a minimum standard and leading performance as our goal.

In the year 2015, none of our employees nor direct labour contractors suffered fatal accidents (2014: Nil). SHE initiatives implemented during the year include;

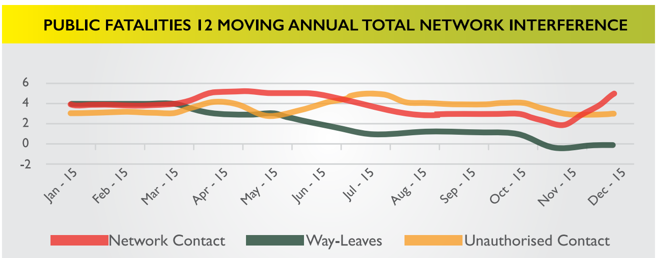
- Environmental Impact Assessment (EIA) of all significant capital investment projects implemented during the year. The Company is in constant consultation with the National Environmental Management Authority (NEMA) on environmental related matters;
- Proper asset disposal procedures for poles, oil and scrap materials;
- Proactive resolution for dangerous network conditions;
- Reduction in transformers with PCB materials;
- Prevention of oil spills from contaminating water sources;
- Continuous training of staff on safe network operations.

PUBLIC SAFETY

During the year 2015, no public fatality was suffered due to failure of the distribution network. There has also been a 20% decline in the public fatalities due to network interference and domestic electrical wirings due management's deliberate implementation of safety strategies of mitigating risks associated with third party activity.

A summary of public fatal accidents

Fatalities	2015	2014
Public Fatal accidents (Network Condition)	0	2
Public Fatal accidents (Network Interference and Domestic Electrics)	28	35



We continued to sensitise the public on the dangers of electricity, encouraging them to report any dangerous conditions for appropriate action. Engagement with communities included 8,409 (2014 : 7,588) school talks and 7,884 (2014 : 7674) 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 provided by Umeme Limited district personnel. Ongoing support and monitoring of these projects is provided to ensure the messaging is sustained and consistent.

As part of our strategy to combat illegal fatalities with the support of Uganda Police, an additional 757 (2014 : 225) community visits were undertaken for joint investigations following a fatality, serious incident and where patrols had identified significant illegal network activities. 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.

Due to the heavy el-nino rains in quarter 4 of 2015, an awareness media campaign was also conducted, to ensure that the public takes extra precaution around electrical networks and also expect service delays due to increased outages.

Improving contractor safety performance

To further safety performance among the Company's contractors, the following activities were undertaken during the year:

- Safety audits and rating system on all contractors were carried out to assess compliance with safety standards;
- A requirement that all contractor firms employ their own safety officers was made to manage safety systems at work place;
- Planned job observation forms were utilised to monitor safety performance during execution of works;
- Kick-off meetings were held before the start of any works to reiterate the underlying safety risks and mitigation strategies;
- Office and field audits were also carried out to identify areas of improvements.

OCCUPATIONAL HEALTH AND SAFETY

The health and safety of our employees at work is important. In addition to insurance, the Company has policies and practices that ensure that employees do their work in a safe and hygienic environment and their health is taken care of.

As part of our responsibility to ensure the Safety of our staff while at work, a total of 600 staff were trained in Defensive driving, Fire-fighting and delivery of First Aid. These trainings were delivered alongside other technical courses to up-skill different staff at different levels in the Organization.

Safety performance is one of the inputs during performance appraisals and annual rewards/bonus awards. Each work location has a safety champion, whose duty is to keep all staff at the workstation tuned in to the emerging safety issues. We believe this is a vital ingredient in the sustainability of the business.

OUR CUSTOMERS

One of our core values is to provide an experience with an exceptional customer service from passionate team that acts with integrity and fairness in all our dealings. With about 800,000 customers in the country, we believe that exceptional customer service to them is vital in the sustainable achievement of the Company's objectives.

Minister of Energy and Mineral Development Ms. Irene Muloni, Managing Director - Umeme, Mr. Selestino Babungi and Electricity Regulatory Authority (ERA) CEO Mr. Benon Mutambi flagging off the distribution of free LED bulbs on 30 June 2015

Umeme Senior Management pays a courtesy visit to Steel Rolling Mills Limited on 14th April 2015

Mr. Joseph Atuhura, Umeme's Program Manager meeting Stakeholders (Explaining *YAKA*) at Imperial Royal Hotel on 23 May 2015

Customer satisfaction:

We measure customer experience through formally assessed and analysed customer feedback which is used as a basis for improvement. In 2015 an independent customer satisfaction survey was conducted by IPSOS. We measure customer experience through formally assessed and analysed customer feedback which is used as a basis for improvement. In 2015, an independent customer satisfaction survey was conducted by IPSOS. The results of our customer service index and integrity index indicated an improvement of 68.9% from 54% and 70.8% from 58% respectively in 2014. This is attributed to management's acting on valuable customer feedback received in the 2014 customer satisfaction and integrity survey. The following key actions were implemented by management to improve customer service:

- Improving supply availability and reliability;
- Improving response times for all customer service requests and enquiries;
- Improving the experience at the customer service touch points;
- Simplification of processes;
- Deployment of technology to provide service;
- Investment in the distribution network;
- Rollout of pre-paid metering to 55% of customers and
- Customer education and communications.

The work-streams for 2016 shall be the following:

- Developing an Umeme ISO 55000 Business Model;
- Document the Asset Business Management System;
- Implement the Asset Business Management System;
- Management Audits;
- ISO 55000 Maturity Assessment.

OUR PEOPLE

Umeme employed 1,363 people at the year end, compared to the 1,389 in 2014. We remain dedicated to attract, develop & retain talented staff to deliver the right results. The Company deliberately focuses on developing internal capacity alongside attracting, developing and retaining critical skills from the market.

Talent Development

Our development philosophy focuses on building the right competencies and profile of experience among our people to enable them manage Self, manage Others and ultimately manage our Business. 2015 was a year for Leadership and Management Development. Through a custom program *"Conversations for Growth"* [C4G], we set out on an annual journey to share the right mindset, tool-sets and skill-sets that our Managers require to deliver high performance results and inspire trust. This journey began with the basics of self-awareness as the foundation of understanding others to be able to manage them and ensure that our best people were given the right support as they continue to drive our business agenda.

The year also saw the implementation of a number of development initiatives with a total Staff reach of 1,310 and average hours of 12.83. Our ambition continues to focus on impact and not number of hours.

In addition, the Company financed and facilitated the following trainings for its personnel including Powerline Quality Control, Effective Asset Management, Economic and Financial Evaluation, Electricity Legal Framework, ORHVS – Operating Regulations for High Voltage Systems, Losses Training, Sun System, JCB Pole Erector, Cable Jointing & Termination.

Umeme Managers attending a leadership development programme on the 29th and 30th May 2015

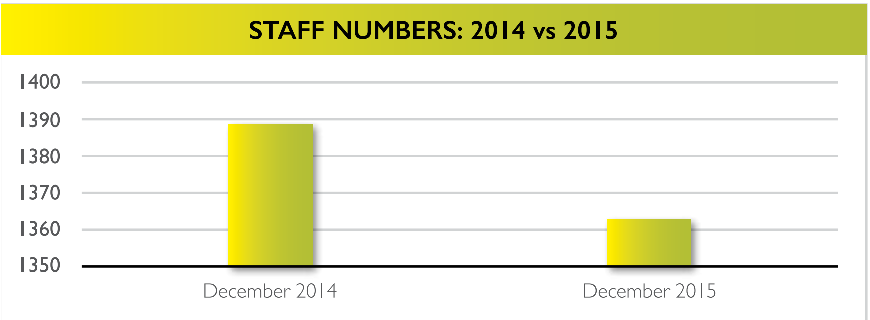
The Network Asset Management team being recognized for their innovative POLE MECHANISATION Project on 11th December 2015.

Mr. Francis Egbuson facilitating at the Leadership Development Programme on the 29th and 30th May 2015

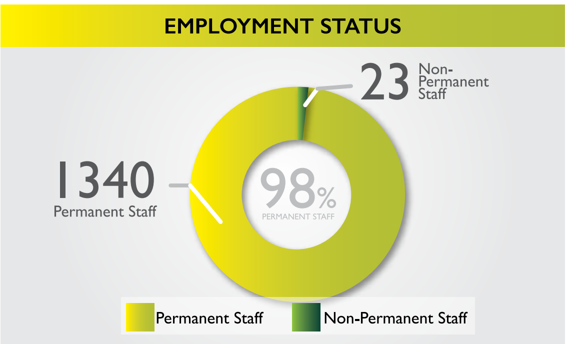
DIVERSITY

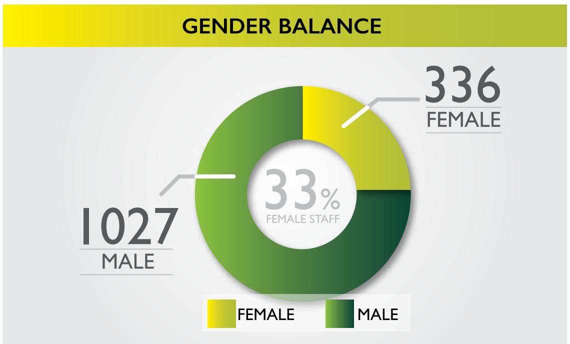
We are an equal opportunity employer and work towards gender diversity of our staff. Of the 1,363 staff complement, 336 are female and 1027 are male, 1356 are Ugandans and 7 are expatriates. The average age of our staff is 36 years.

December 2015 Staffing vs December 2014.



The gender split both across the Company and the senior management team is illustrated in the pie charts.





2015 registered 66% internal appointments of the total recruitments.All internal recruitments were promotions.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 the opportunity to assume higher responsibility and advance their careers through the numerous career opportunities across the organization.

As an organization we are building an internal pool of talent to aid succession planning and organizational continuity. This is reflected in the fact that over 60% gaps are internally resourced at different levels and this is evidenced by the recent placement of high level positions like our Managing Director, Chief Finance Officer and Head of Safety positions that were all filled internally.

LABOUR AND MANAGEMENT RELATIONS

We respect the right of our employees to join a union in accordance with applicable labour unions and employment laws. As at year end 2015, 501 staff were members of the labour union. Notably, the recognized labour union is party to decision on wages of its members through collective bargaining process which includes regular meetings between management representatives and representatives of the Labour Union.

RECOGNITION

Celebrating our wins through recognition during the year, Umeme reinforces a culture of performance that sets the pace for an environment where individual and team effort is awarded. The categories of awards that were considered were as follows;

- *Safety Awards;*
- *Customer Service Awards;*
- *Distribution Efficiency Awards (Losses Reduction);*
- *Manager of the Year Award*
- *Integrity Award;*
- *Innovation Award;*
- *Teamwork Award.*

SUPPLIERS AND CONTRACTORS

The Company held its Annual Supplier Conference in quarter one of 2015. The conference provided a platform for our suppliers and the Umeme team to discuss service delivery opportunities, challenges and impacts on their business.

The Conference enabled Umeme to inform their audience of its business objectives for the year, its future initiatives especially planned technologies to be adopted and business growth opportunities to enable suppliers plan how they can have a competitive edge in the market.

REGULATORS AND OTHER SECTOR PLAYERS

A sound and stable electricity sector is critical for vibrant economy and a progressive society. In this regard, we aim to respond positively to the evolving regulatory and statutory landscape. We also seek to constructively engage our regulators and Government to improve our regulatory and public disclosures as a stepping stone to improve transparency while also remaining consistent with society's and Governments' expectations.

Although Umeme is regulated by various bodies, its primary regulator is ERA. During the year, management held several interactions with Government of Uganda at the highest level, Ministry of Energy and Mineral Development, Parliament and ERA alongside other electricity sector players in distribution, transmission and generation, on sector issues including tariffs, investments, customer service and licenses

The Company has implemented structures to ensure sustainable strong operational performance to achieve its regulatory targets of reducing losses, increasing collections and efficient management of costs. During the year 2015, the Company was able to achieve strong results in the above mentioned targets as presented in our analysis of the financial results on pages 22.

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.

INTERNATIONAL COMMUNITY

Umeme partners with other international bodies to deliver services to the people of Uganda. During the year, Umeme implemented the Output Based Aid (OBA) project that is funded by the World Bank, KFw and the Government of Uganda to provide free connections to customers. As at 31 December, the Company had connected 78,706 customers on this project.

The Company also continues to engage development partners such as World Bank and the German Financial Cooperation (KFW) regarding ERT 3, Peri-Urban and Get-Fit projects that are aimed at increasing access to the grid.

In addition, Umeme hosted the Zambian Parliamentary Committee on Economic Affairs, Energy and Labour during their fact finding tour to Uganda to understand the impact of energy sector reforms.

The Zambian Parliamentary committee on Economic Affairs, energy and Labour tours Waliggo substation on its benchmarking trip

The Uganda Parliamentary Natural Resources Committee being shown how SCADA infrastructure enhances the monitoring of the performance of the Network

CORPORATE SOCIAL RESPONSIBILITY (CSR)

We support CSR activities that align the Company's agenda to the community it serves.

The following are some of the CSR activities undertaken by the Company during the year 2015;

- **Umeme Women's Day celebration**

  The celebration was a health camp where the ladies of Umeme in partnership with Case Medical Centre flanked by the Assistant Superintendent of Police in charge of Domestic Affairs spent the day with the communities in one of the Kampala slums, Katanga. The day involved cleaning, medical screening for the community in the area and giving back to one of the schools in the area. This was a very noble activity that attracted media attention positively and the smiles on the children's faces were an eye opener for the ladies in Umeme to continue to give back to the community.

- **Donation to Rahab Uganda**.

  Umeme contributed 10m shillings towards Rahab Uganda's fundraising initiative to build a home for sexually exploited girls under their care. Rahab Uganda is a Non-Governmental Organization founded in 2005 by RHEMA Ministries (A non-traditional Christ-centered Ministry devoted to change the lives of people around the world) to restore the self-image of girls affected by sexual exploitation and human trafficking, by empowering them to proactively engage in transformation. In supporting Rahab Uganda, Umeme demonstrated its commitment to strengthening its business impact on the community together with creating an avenue for promoting positive Public Relations for the Company.

- **Participation in the Housing Finance Conference and Exhibition**

  The Housing Finance Conference and Exhibition was organised by the Housing Finance Bank and it brought together key players along the housing value chain both in the public and private sectors. Sponsoring and participating in this event availed a great opportunity for Umeme to showcase its products especially YAKA (Prepaid meter), services and interact with customers and other key stakeholders not only from the Housing Industry but also Government and the private sector as well.

- **Sponsorship of the Child's I Foundation Fundraising Dinner.**

  The main objective of this sponsorship was to give back to vulnerable children under the care of Malaika Children's Home which is run by The Child's I Foundation. At the event a significant amount of money was raised to reach out to more children in need and also to support and train other Child Care Institutions around Uganda looking to promote family care.


Umeme ladies in partnership with Case Hospital at a health camp in Katanga, Kimwanyi field - Wandegeya giving back to the community


10. CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The Board of Directors ("Board") of Umeme Limited understands and appreciates that sound governance practices are critical to the sustainability of the Company. The Company espouses best in good governance standards to further its operations and dealings with regulators, customers, Government, suppliers, financing agencies, partners, shareholders, stakeholders and the general public.

The Company's best practices are benchmarked against recognised local standards as well as international best practice standards.

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 driven by the ethos of the founding shareholders.

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.

I. During the year, the Company was recognised for the following achievements;
II. Best Utility: Distribution/Transmission: by East Africa Power Industry Convention, Nairobi;
III. Best ESG Power Producer – CFI Magazine UK;
IV. Best 2014 Annual Report – Uganda Category: Financial Reporting Awards | CPA Kenya;
V. 2014 Annual Report of the year – Silver Award: Financial Reporting Award| CPA Uganda;
VI. Best Listed Entity 2014 – Financial Reporting Award| CPA Uganda;
VII. Recognition by the World Bank of Umeme's performance in improved connection process, thus improving Uganda's position by 5 places in the Global Ease of Doing Business Survey.

VISION, MISSION AND VALUES

There is a direct correlation between country electrification rates and levels of development. Umeme plays a significant role in the economic transformation of Uganda. Electricity powers homes; improves health care, education, rural economics, ICT, industrialisation and agriculture through value addition.

OUR VISION is to power communities, business and industries for a prosperous Uganda.

OUR MISSION is to supply our customers with safe, reliable electricity through an efficient distribution network and with passionate people, while delivering sustainable shareholder value.

The Company's governance framework is underpinned by the **COMPANY'S VALUES** which are:

- We place the Safety of our employees and the public at the centre of our actions;
- We provide an experience of exceptional Customer Service;
- We act with Integrity, fairness and transparency in all our dealings;
- We deliver our services as one Team;
- We deliver quality services and value through Innovation and the zeal to succeed, continuously raising the bar on our performance.

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 cases in confidence. The whistle blower line is managed by an independent firm, Transparency international. Our confidential whistle blower line is +256 312 360777. The Company's commitment to ethical conduct is further strengthened by the existence of the Integrity unit which handles all such reports including carrying out investigations, preparing conclusion reports, integrity workshops and initiatives. As part of the customer service survey conducted by IPSOS, consumers were request to provide feedback on the Company's perceived integrity. From the survey results, integrity index from 60% to 70.8%.

Compliance with laws, regulations and guidelines

The Company is a public listed company that is licensed and regulated by the Electricity Regulatory Authority. Compliance with licence terms, contracts, laws and regulations is fundamental in Umeme's continued operations.

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 and risk management is undertaken by Management. The Head of Compliance oversees the implementation of the Company's compliance 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 and meetings.

During 2015, 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 the Board sub-committees engage and guide Management in the execution of its 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 together with 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 24 - 25.

Board Terms of Reference

The objectives of the Board Charter and the Terms of Reference of the Board sub-committees are to ensure that all Board members acting as directors of the Company are aware of their duties and responsibilities as Board members keeping in mind the various legislation and regulations affecting their conduct 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 practices 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.

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, 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, a board training session was conducted in January 2016 by trainers from the Institute of Chartered Secretaries and Administrators (UK).

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 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 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 director appointments or resignations have occurred since the last annual report:

Appointment:

1. Christopher Nicholson – Non-executive director – 11th August 2015.
2. Florence Namatta - Mawejje – Non-executive director – 28th April 2016.

The above appointments were considered and recommended by the Nomination Committee and shall be subject to re-election at the 2015 AGM.

Resignations:

There were no resignations during the period.

As noted at the last AGM, the Directors were sad at the passing of director, Ivan Kyayonka, on 8 May 2015. The Directors appreciate his contribution to the Company over the period.

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 Board Sub-Committees with clear terms of reference and reporting requirements.

During the year, the Board constituted a Strategy Review Committee to ensure that the strategic direction of the Company is given more focus as the Company approaches the second half of the Concession period.

The following are the 6 committees established by the Board:

1. Audit Committee;
2. Environmental, Social and Governance Committee;
3. Customer Service and Loss Reduction Committee;
4. Remuneration Committee;
5. Nomination Committee and
6. Strategic Review 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 also provided by Management when requested for. Where urgency demands, the Board and its committees can make decisions by way of circular resolutions or round robin approvals. For more effective utilisation of board meeting time, the Board is briefed by Management prior to each Board meeting.

The attendance of Board meetings in 2015 was as follows:

Director	23.03.2015	25.06.2015	19.08.2015	19.11.2015
Patrick Bitature	√	√	√	√
Selestino Babungi	√	√	√	√
Samuel Zimbe	√	√	√	√
Florence Nsubuga	√	√	√	√
Gerald Ssendaula	√	√	√	√
Pieter Adriaan Faling	√	A	√	√
Charles Chapman	√	√	√	√
Stuart David Michael Grylls	√	√ *AD	A	√
Adrian Mucalov	√	√	A	√
Christopher Nicholson	N/A	N/A	√	√

√ = Attendance; A = Apology; N/A= not yet appointed, √*AD = Attendance by Alternate

BOARD COMMITTEES

AUDIT COMMITTEE

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

Composition:

- Christopher Nicholson (Chairperson) appointed on 11 August 2015
- Adrian Mucalov
- Stuart David Michael Grylls
- Gerald Ssendaula

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 four times in 2015. As well as meeting to meet its obligations described above, the committee met offsite with senior management, the Head of Internal Audit and the External Auditor in November 2015 to inventory and discuss risks affecting the business, controls, accounting and fraud. The results of the 2015 external audit were discussed in March 2016.

The attendance of Audit Committee meetings in 2015 was as follows:

Director	23.03.2015	24.06.2015	18.08.2015	18.11.2015
Stuart David Michael Grylls	√	√*AD	A	A
Adrian Mucalov	√	√	√	√
Christopher Nicholson	N/A	N/A	√	√
Gerald Ssendaula	N/A	√	√	√

√ = Attendance; A = Apology; N/A= not yet appointed, √*AD= Attendance by Alternate

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) COMMITTEE

Composition:

- *Pieter Adriaan Falling (Chairperson) appointed on 30th October 2015.*
- *Stuart David Michael Grylls*
- *Charles Chapman*
- *Florence Nsubuga*
- *Selestino Babungi*

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;
- reviewing significant incident investigation reports including fatality reports.

The Committee meets no fewer than two times a year. The Committee met four times in 2015.

The attendance of ESG committee meetings in 2015 was as follows:

Director	23.03.2015	23.06.2015	17.08.2015	18.11.2015
Pieter Adriaan Faling	N/A	√	√	√
Charles Chapman	√	√	√	√
Stuart David Michael Grylls	√	√*AD	A	√
Florence Nsubuga	N/A	√	√	√
Selestino Babungi	N/A	√	√	√

√ = Attendance; A = Apology, N/A= not yet appointed, √*AD= Attendance by Alternate.

CUSTOMER SERVICE AND LOSS REDUCTION COMMITTEE (CSLRs)

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.

Composition:

- *Gerald Ssendaula (Chairperson)*
- *Pieter Adriaan Faling*
- *Florence Nsubuga*
- *Samuel Zimbe*
- *Selestino Babungi*

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.

Four meetings were held in 2015.

The attendance of Customer Service and Loss Reduction Committee meetings in 2015 was as follows:

Director	23.03.2015	24.06.2015	17.08.2015	18.11.2015
Gerald Ssendaula	√	√	√	√
Pieter Adriaan Faling	N/A	√	√	√
Samuel Zimbe	N/A	√	√	√
Florence Nsubuga	N/A	√	√	√
Selestino Babungi	N/A	√	√	√

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

REMUNERATION COMMITTEE

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

Composition:

- *Stuart David Michael Grylls (Chairperson)*
- *Charles Chapman*
- *Adrian Mucalov*
- *Selestino Babungi*

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 pages 50 to 51.

Five meetings were held in 2015.

The attendance of Remuneration Committee meetings in 2015 was as follows:

Director	11.03.2015	23.03.2015	25.06.2015	19.08.2015	19.11.2015
Stuart David Michael Grylls	√	√	√*AD	√	√
Charles Chapman	√	√	√	√	√
Adrian Mucalov	√	√	√	√	√
Selestino Babungi	N/A	√	√	√	√

√ = Attendance; A = Apology; N/A = not yet appointed, √*AD= Attendance by Alternate.

NOMINATION COMMITTEE

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

Composition:

- *Adrian Mucalov (Chairperson)*
- *Patrick Bitature*
- *Stuart David Michael Grylls*
- *Gerald Ssendaula*

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.

The Committee is also tasked with reviewing succession plans for the SMT 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 four meetings in 2015.

The attendance of the Nomination Committee in the year 2015 was as follows:

Director	29.03.2015	24.06.2015	03.08.2015	22.08.2015
Adrian Mucalov	√	√	√	√
Stuart David Michael Grylls	√	√*AD	A	√
Patrick Bitature	√	√	√	√
Gerald Ssendaula	N/A	√	√	√

√ = Attendance; A = Apology; √*AD= Attendance by Alternate

STRATEGIC REVIEW COMMITTEE

The Strategic Review Committee advises and assist the Board in matters of long-term planning for company.

Composition:

- *Charles Chapman (Chairperson)*
- *Patrick Bitature*
- *Stuart David Michael Grylls*
- *Samuel Zimbe*
- *Selestino Babungi*

The Committee's responsibilities include:

- Serve as the Planning Implementation Committee;
- Coordinate the collection and sharing of information, suggestions and proposals concerning long planning for Company;
- Study and report on specific issues and monitor specific projects as requested by the Board.

In line with its mandate to hold at least one meeting a year, the Committee held three meetings in 2015. The attendance of the Strategic Review Committee in the year 2015 was as follows:

Director	23.06.2015	17.08.2015	18.11.2015
Charles Chapman	√	√	√
Stuart David Michael Grylls	√*AD	A	A
Patrick Bitature	√	√	√
Sam Zimbe	√	√	√
Selestino Babungi	√	√	√

√ = Attendance; A = Apology; √*AD= Attendance by Alternate

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 on changes if any. 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 appoints 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 2015. 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. During the year Mr. Grace Semakula was appointed as the Investor Relations Manager.

The Company engaged CnR Registrars, Share Registrar to handle day to day shareholder register issues. Dividends, when declared, are paid on time. The interim dividend of Ushs 10.8 per share approved by the Board on 19th August 2015 was paid to eligible shareholders from **21st December 2015.**

STAKEHOLDER ENGAGEMENT

The Board is focused on ensuring that the Company maintains appropriate engagement with its key stakeholders who include the Government of Uganda, Electricity Regulatory Authority, suppliers, financial institutions, customers and the general public. The goodwill of stakeholders is important to the Company's long-term future. The Board pursues these engagement directly and through the Management team, through the communications function. At Board and committee meetings, the Directors discuss the state of stakeholder engagements 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 39 to 40 of this Annual Report.

DEALING IN SECURITIES OF THE COMPANY

The Company has a Prohibition of Insider Trading Policy whose purpose is to ensure that dealings in the Company's shares by directors, major shareholders, contractors, senior management, employees in critical roles with access to sensitive information 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.

Cases of conflicts of interest are duly taken note of by the Company Secretary.

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 35 to 40 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.

Corporate Culture mentorship training on 14th August 2015 with Mr. John Muhaise Bikalemesa. *"Commissioning of Integrity focal Persons"*

11. REMUNERATION REPORT

OVERVIEW

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

Remuneration policy takes into account all factors which are deemed necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.
The Committee also considers the ongoing appropriateness and relevance of the remuneration policy.

REMUNERATION PHILOSOPHY AND POLICY

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

BENCHMARKING

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

REMUNERATION STRUCTURE

Fixed pay

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

Variable pay

Annual incentives in the form of bonuses are provided to qualifying employees to ensure appropriate reward for performance.
Individual employee bonus awards are based on agreed and reviewed performance and overall contribution to the Company's results for the relevant year.

Benefits

In order to provide a Total Rewards package, the Company provides senior managers with the benefit of a motor vehicle or allowance.
The Company also offers medical services benefit through an approved Health Management Organisation (HMO) 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;

- 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 95 to 96, which implementation took place as part of the initial public offering (IPO) of the Company. This scheme expired on 31 December 2015 and the Board is considering introduction of another scheme for the period 2016 to 2018.

As at 31 December 2015, employees and executive directors of the Company owned, in aggregate 26,140 shares, 1.6% of the issued shares of the Company (2014: 68,474,330).

DIRECTORS' REMUNERATION

Remuneration of Managing Director

The remuneration package and long-term incentives for the Managing Director are determined by the renumeration comittee. 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 2015, non-executive directors received a retainer for their service on the Board and Board committees. Fees were paid monthly in arrears.

In determining the remuneration of non-executive directors, the Board considers the extent and nature of its oversight responsibilities, the time demanded of it in attending to Company matters, the level of risk assumed by it in performing its 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 989,432 in 2015. (2014 : USD 865,198).

UMEME DISTRICT OFFICES

KAMPALA WEST

REGIONAL OFFICE
1st Floor Park Royale Building
Plot 26, Buganda Road
0312 360 624

NATETE DISTRICT
Plot 2449 Block 8 Natete
0776180086
0312 360 725
nateete@umeme.co.ug

NAKULABYE DISTRICT
Plot 419 Kibuga, Mengo
0776 180125
0312 360 730
nakulabye@umeme.co.ug

KAMPALA METRO DISTRICT
Plot 5 Pilkington Road
0776 180 169
0312 360 658
metro@umeme.co.ug

KABALAGALA DISTRICT
Plot 1207 Gaba Road, Nsambya
0776 180 164
0312 360 633
kabalagala@umeme.co.ug

NAJJANANKUMBI DISTRICT
2nd Floor, Freedom City Mall,
Namasuba, Entebbe Road
0776 180 047
0312 360 732
najja@umeme.co.ug

ENTEBBE DISTRICT
Plot 26 FRV 369 Folio 22
0776 180 143
0312 360 755
entebbe@umeme.co.ug

KAMPALA EAST

REGIONAL OFFICE
Plot 1-2 Enterprise Close
0312 360 379

BANDA DISTRICT
Plot 1-2 Enterprise Close
0776 180 020
0312 360 722
banda@umeme.co.ug

WANDEGEYA DISTRICT
Plot 1064 & 956, Bombo Road
0776 180 175
0312 360 643
wandegeya@umeme.co.ug

KITINTALE DISTRICT
Plot 243 Luzira-Kitintale
0776 180 158
0312 360 707
kitintale@umeme.co.ug

MUKONO DISTRICT
Plot 98-102 Kampala Road
0776 180 150
0312 360 797
mukono@umeme.co.ug

JINJA DISTRICT
Plot 26 Kampala Rd
Plot 14/16 Oboja Road FRV 201 F2
0776 180 144
0312 360 311
jinja@umeme.co.ug

WESTERN

REGIONAL OFFICE
Plot 19 High Street, Mbarara
0312 360 470

MBARARA DISTRICT
Plot 19 High Street
0776 180 152
0312 360 463
mbarara@umeme.co.ug

FORT PORTAL DISTRICT
Plot 31 Magambo Street
0776 180 099
0312 360 471
fortportal@umeme.co.ug

BUSHENYI DISTRICT
Plot 76 Rwabutongo Cell
0776 180 105/ 0200-902580
bushenyi@umeme.co.ug

MASAKA DISTRICT
Plot 30 Kampala Road
0776 180 117
0312 360 450
masaka@umeme.co.ug

KABALE DISTRICT
Plot 127 Kabale Rd
LRV 544 Folio 8
0776 180 012
0486 423 673
kabale@umeme.co.ug

MITYANA DISTRICT
Plot 39 Mityana Road
0776 180 163
0312 360 698
mityana@umeme.co.ug

KASESE DISTRICT
Plot 39 Block 425 Margarita Road
0312-360437/ 0776-180062
kasese@umeme.co.ug

NORTH EAST

REGIONAL OFFICE
Plot 1 Maruzi Road, Lira
0312 360 235

BOMBO DISTRICT
Plot 12 Kalangala Road, Bombo
0776 180 157
0312 360 672
bombo@umeme.co.ug

LIRA DISTRICT
Plot 1 Maruzi Road
0776 180051
0312 360 234
lira@umeme.co.ug

MBALE DISTRICT
Plot 42 Cathedral Avenue
0776 180 174
0312 360 355
mbale@umeme.co.ug

GULU DISTRICT
Plot 28 Gulu Street
0776 180168
0312 360 778
gulu@umeme.co.ug

IGANGA DISTRICT
109 Old Market Street
0776 180 120
0312 360 325
iganga@umeme.co.ug

TORORO DISTRICT
1A & 1B Bazaar Street
0776 180018
0454 445 162/160
tororo@umeme.co.ug

HOIMA DISTRICT
Plot 10 Main Street
0776 180149
0312 360 210
hoima@umeme.co.ug

Directors' Report & Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2015

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2015 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 2015 are presented on page 58.

A general review of the the business is given by the Chairman and Managing Director on pages 28 to 32.

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.

DIVIDENDS PAID TO SHAREHOLDERS

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 24.40 per ordinary share be paid for the year ended 31 December 2015 (2014: Ushs19.5), 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 2016. The total dividend for the year will be Ushs 57.14 billion (2014: Ushs 46.96 billion). If approved, the outstanding dividend will be paid on or about 30 June 2016. An interim dividend for the year of Ushs 17.54 billion was paid in December 2015 (2014: Ushs15.27 billion).

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.

DIRECTORS

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

a)	Patrick Bitature	-	Chairman
b)	Selestino Babungi	-	Managing Director - Appointed 13 March 2015
c)	Charles Chapman	-	Managing Director until 31 March 2015 - Non Executive Director
d)	Stuart David Michael Grylls	-	Non Executive Director
e)	Gerald Ssendaula	-	Non Executive Director
f)	Christopher Nicholson	-	Non Executive Director - Appointed 11 August 2015
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)	Florence N. Nsubuga	-	Executive Director - Appointed 13 March 2015
k)	Ivan Kyayonka (Deceased)	-	Non Executive Director - 23 February 2015 to 8 May 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
	2015		2014	
Patrick Bitature	**228,300**	**0.01%**	20,228,300	1.25%
Charles Chapman	**7,290,000**	**0.45%**	10,290,000	0.63%
Samuel Zimbe	**3,160,000**	**0.19%**	3,660,000	0.23%
Stuart David Michael Grylls (as UHL nominee)	**100,000**	**0.01%**	100,000	0.01%
Gerald Ssendaula	**827,200**	**0.05%**	825,000	0.05%
Florence N. Nsubuga	**2,260,000**	**0.14%**	2,260,000	0.14%
Selestino Babungi	**2,700,000**	**0.17%**	2,700,000	0.17%

INSURANCE

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

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, KPMG, who were appointed during the year have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012 of Uganda.

APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved at a meeting of the directors held on 17th March, 2016.

By order of the Board,

Signed: .... Date: 18th March, 2016

Shonubi, Musoke & Co Advocates

Secretary, Board of Directors

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 2012 and Electricity Act, 1999 (Cap 145) of Uganda require the directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the Company as at the end of the financial year and of its operating results for that year. The Companies Act, 2012 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 set out on pages 58 to 114 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and 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 17th March 2016 and signed on its behalf by:

……………………………………………

Director

……………………………………………

Director

Date:18th March, 2016

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF UMEME LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Umeme Limited, which comprise the statement of financial position as at 31 December 2015, 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 58 to 114.

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 the Companies Act, 2012 of Uganda, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of Umeme Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 Statements of financial position and profit or loss and other comprehensive income are in agreement with the books of account.

KPMG
Certified Public Accountants
P.O Box 3509, Kampala - Uganda

Date; 18 March 2016

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Ushs million	2014 Ushs million
Revenue	3	1,161,008	977,664
Cost of sales	4	(742,967)	(659,196)
GROSS PROFIT		**418,041**	**318,468**
Other operating income	5 (a)	9,064	11,117
Finance income	5 (b)	23,404	17,563
		450,509	347,148
Repair and maintenance expenses	6	(18,581)	(22,054)
Administration expenses	7	(155,113)	(129,227)
Foreign exchange losses	8 (a)	(8,424)	(28,907)
Other expenses	8 (b)	(6,758)	(1,479)
OPERATING PROFIT BEFORE AMORTISATION		**261,633**	**165,481**
Amortisation of intangible assets	8 (c)	(47,588)	(41,371)
OPERATING PROFIT		**214,045**	**124,110**
Finance costs	9	(53,063)	(22,436)
PROFIT BEFORE TAX	**10**	**160,982**	**101,674**
Income tax expense	11 (a)	(55,125)	(31,181)
PROFIT FOR THE YEAR		**105,857**	**70,493**

		2015 Ushs	2014 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	**12**	65	43

The notes set out on pages 63 to 114 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 Ushs million	2014 Ushs million
Profit for the year	**105,857**	**70,493**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		
Exchange differences on translation from functional currency	133,410	-
Total comprehensive income for the year, net of tax	**239,267**	**70,493**

The notes set out on pages 63 to 114 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 Ushs million	2014 Ushs million
ASSETS			
Non-current assets			
Intangible assets	14	1,044,595	618,976
Concession Financial asset: Non-current portion	15	313,960	107,489
		1,358,555	726,465
Current assets			
Concession Financial asset: Current portion	15	-	131,650
Inventories	16	43,398	37,250
Amount recoverable from customer capital contributions	17	6,634	3,488
Trade and other receivables	18	337,768	283,712
Bank balances	19	28,514	29,374
		416,314	485,474
TOTAL ASSETS		**1,774,869**	**1,211,939**
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		405,735	215,672
		503,775	313,712
Non-current liabilities			
Borrowings: Non-current portion	23	477,160	265,484
Concession obligation: Non-current portion	24	313,960	107,489
Deferred income tax liability	11(c)	69,448	50,356
Provision: Non-current portion	25	-	5,431
		860,568	428,760
Current liabilities			
Borrowings: Current portion	23	1,237	41
Concession obligation: Current portion	24	-	131,650
Customer security deposits	26	998	3,576
Deferred income	27	12,437	16,701
Provisions: Current portion	25	14,490	-
Trade and other payables	28	344,832	286,134
Current income tax payable	11(b)	5,250	2,992
Bank overdraft	30	31,282	28,373
		410,526	469,467
TOTAL EQUITY AND LIABILITIES		**1,774,869**	**1,211,939**

The financial statements on pages 58 to 114 were approved by the Board of Directors on 17th March, 2016 and were signed on its behalf by:

Director **Director**

The notes set out on pages 63 to 114 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued capital Ushs million	Share premium Ushs million	Retained earnings Ushs million	Total Equity Ushs million
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**
At 1 January 2015	27,748	70,292	215,672	313,712
Profit for the year	-	-	105,857	105,857
Other comprehensive income, net of tax	-	-	133,410	133,410
Total comprehensive income, net of tax	-	-	**239,267**	**239,267**
Dividend paid	-	-	(49,204)	(49,204)
At 31 December 2015	**27,748**	**70,292**	**405,735**	**503,775**

The notes set out on pages 63 to 114 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Ushs million	2014 Ushs million
Net cash flows from operating activities	31(a)	**176,576**	**143,205**
Investing activities			
Purchase of intangible assets	14	(280,528)	(268,837)
Net cash flows used in investing activities		**(280,528)**	**(268,837)**
Financing activities			
Net proceeds from borrowings	23	151,965	152,870
Dividends paid		(49,204)	(42,546)
Net cash flows from financing activities		**102,761**	**110,324**
Net decrease in cash and cash equivalents		(1,191)	(15,308)
Cash and cash equivalents at 1 January		(2,575)	14,208
Foreign exchange (Loss) / gain		-	(1,475)
Cash and cash equivalents at 31 December	31(b)	**(3,766)**	**(2,575)**

The notes set out on pages 63 to 114 form an integral part of these financial statements.

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 under performance. The costs related to the four set tariff parameters of distribution losses, uncollected debt, DOMC and working capital days lag are reflected in the retail tariff and thereby provide the Company baseline revenues that should just cover expenses relating to these parameters. To the extent actual operating performance is better/worse than envisaged in the tariff parameters, the Company's revenues in respect of these operating parameters will / will not cover the related expenses leading to a positive / negative impact in the overall profitability of the Company.

The table below provides the set tariff parameters for the 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	Actual 2015	2015	2016	2017	2018
Distribution losses (%)	19.5	18.3	16.9	15.7	14.7
DOMC (US$' million)	53.0	46.2	47.7	49.3	51.1
Uncollected debt (%)	2.0	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 2015 were authorised for issue in accordance with a resolution of the directors on 17th March, 2016.

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.

Effective 1 January 2015, the company reassessed its functional currency and determined that the United States Dollar (USD) is the appropriate functional currency as disclosed in policy No 2(c).

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and the Companies Act, 2012 of Uganda.

For purposes of reporting under the Companies Act, 2012 of Uganda, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income

b) Service concession arrangement

The Company signed a LAA and with UEDCL and other agreements to support a 20 year service concession ("concession") from 1 March 2005. The agreements set out terms, conditions and obligations of the parties to the different contracts as indicated in note36. 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 re-transfer 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 Association(IDA) funded project for the reinforcement and rehabilitation of the electricity distribution system. IDA funds were fully utilised during the year ended 31 December 2013.

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 13. 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 installments and is only allowed to recover the actual cost incurred.

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

Infrastructure within the scope of IFRIC 12 is not recognised as property, plant and equipment of the Company because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the Company. The Company has access to operate the infrastructure to provide the public service on behalf of Government in accordance with the terms specified in the concession contracts.

The nature of the consideration received by the Company for the services performed and obligations assumed determines its subsequent accounting treatment. The consideration received or receivable by the Company for the services it performs under the concession arrangement may be rights to a financial asset or an intangible asset. The Company recognises a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of government for the construction services; the government has little, if any, discretion to avoid

payment, because the concession agreements are enforceable by law. The Company has an unconditional right to receive cash if the government contractually guarantees to pay the Company specified or determinable amounts or the shortfall, if any, between amounts received from users of the public service and specified or determinable 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 24.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 2(h). 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 2(f) 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 operate 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 2(d), and accounts for revenue relating to operations services in accordance with IAS 18 as described in Note 2(d).

c) Translation of foreign currencies and presentation currency

The books of account for the years to 31 December 2015 were maintained in Uganda Shillings. The Company has reassessed its functional currency in accordance with International Accounting Standard 21 and determined that the United States Dollar (USD) is the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions that are relevant to the company. The translation has been applied for purposes of the 2015 financial statements to translate the balances in the books of account from Ushs to the USD as the functional currency and then from the USD to Ushs as the presentation currency.

Functional Currency

Items included in the financial statements are measured in USD, which is the company's functional currency effective 1 January 2015.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognised in profit or loss as part of the fair value gain or loss.

Presentation currency

The financial statements prepared using the company's functional currency are translated into the presentation currency as follows;

- assets and liabilities for each statement of financial position presented (i.e. including comparatives) are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income.

d) 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

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

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 are used as the Base Tariffs 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 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.

e) 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.

f) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
e) Deferred construction income, construction revenue and construction costs (continued)

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.

An item of the intangible assets is de-recognised 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.

g) 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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Bank balances, trade receivables and concession financial asset

The Company recognised a financial asset, the concession financial asset, in respect of the consideration for the payment of rentals to UEDCL as the Company will always receive the rental payments made regardless of the performance of the Distribution Network assets taken over from UEDCL. The Company does not assume any demand risk in relation to the rental payments and classified the concession arrangement financial asset as loans and receivables. Bank balances and trade receivables are classified as loans and receivables, as they are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'financial investments available-for-sale' or financial assets designated at fair value through profit or loss'. After initial measurement, bank balances, trade receivables and the concession arrangement financial asset are subsequently measured at amortised cost using the effective interest rate method, less allowances for impairment. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate.

The amortisation is included in the 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

i) 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.

j) 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.

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.

k) 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.

l) 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.

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 three year 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.

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) 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.

r) 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.

s) 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.

t) 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
t) Leases (continued)

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.

u) 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 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.

v) 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.

w) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
w) Significant accounting judgements, estimates and assumptions (continued)

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 of the terms and conditions and remedies under the Concession Agreements, that the Company has a right to recover the amount clawed back by ERA through commercial and legal remedies provided for under the Concession 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
w) Significant accounting judgements, estimates and assumptions (continued)

Change in functional currency

Umeme has changed its functional currency from Ugandan Shillings to United States Dollars (USD) based on the fact that over 75% of the Company's sales are indexed to USD.

Umeme's functional currency was determined to be Uganda Shillings (Ushs) since inception of the Company. However, the following changes in the Company's strategy and business focus resulted in increased influence of USD on the financial statements. The Company has applied the following assumptions or judgments in determining that the Company's functional currency has changed from Ushs to USD:

1) The increase in capital investments and the growth in the network resulting therefrom mean increased influence of USD on the price of services. Umeme's revenue is derived from billing customers using tariffs that are determined in accordance with the Tariff Methodology as defined in the Lease and Assignment Agreement (LAA). The tariffs include the following components that are denominated in USD whose quantum increases with the increase in investments in distribution network:

    I. Recovery of investments in the distribution network. The amount recoverable is accumulated and amortised through the tariff in USD. While the tariffs are denominated in Ushs, Umeme is entitled to recover the USD amount at the prevailing quarterly foreign exchange rates through quarterly tariff adjustments (effective 2014) and the previous set recovery limit of 2.5% per quarter was removed effective Quarter 4 of 2015.

    II. Recovery of operating and maintenance expenditure (DOMC), 65% of which is denominated in USD.

    III. Recovery of the Return on Investment being 20% on investments in the distribution network which are denominated in USD as explained in a) above.

2) Increased capital investments means increased importation of materials required for the investments in the distribution network. As such, USD mainly influences the cost of materials and services since the cost of 65% of the materials and other costs are denominated and settled in USD.

3) Increased reliance on USD borrowings to finance investments in the distribution network since funds for financing activities are mostly generated in The Company has a syndicated borrowing agreement with IFC, Standard Chartered Bank and Stanbic Bank under which USD 190m will be drawn down and mostly spent on investments in the distribution network. USD 145m has been drawn down and invested in the Distribution network by 31 December 2015. The Company plans to raise more financing through borrowings over the next couple of years to finance its continued investments in the distribution system.

4) The automatic quarterly Tariff adjustment was introduced in 2014. The provision for mitigation against movements in the foreign exchange against USD was originally provided for in the Umeme contract, though in practice during the earlier years of the concession this was subsidised by the Government of Uganda. From 2012, the Government removed all subsidies from the power sector altogether. From 2014, movements in foreign exchange, fuel prices are absorbed on a quarterly basis.

The following changes in the Umeme business also supported the change in functional currency:

The amount of investments that will not have been recovered through the Tariff Methodology by the end of the LAA will be paid to Umeme in cash (financial instrument) through the 'Buy-out' amount that is denominated in USD. At the current rate of recovery of investments through the Tariff Methodology of 9.5% and considering that the concession period is 20 years, the Company will start recognising a financial instrument in respect to the buy-out amount in 2016.

Analysis of the impact of the increase in investments and reliance on USD denominated borrowings indicates that the influence of USD on the Company has been gradual but became significant in 2015. The gradual change in the circumstances is evident in the 2015 financial year following the draw down and investing of the significant portion of the USD borrowings.

The investments in the distribution network directly impact the Retail Tariff, and hence price of services, in the year following that in which the investment is made i.e., investments made in 2015 are included in the computation of the Tariff effective 2016 and thereafter.

Based on the above, it was concluded that United States Dollars is the currency that most faithfully represents the underlying transactions, events and conditions relevant to the company effective 1 January 2015.

x) Changes in accounting policies and disclosures

(i) New standards, amendments and interpretations effective during the year

Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- Independent of the number of years of service.

When contributions are eligible for practical experience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The amendments apply retrospectively for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the

Company, since it does not have defined benefit plans with contributions from employees or third parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
x) Changes in accounting policies and disclosures (continued)

New standard or amendments	Effective for annual periods beginning on or after
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised The amendments will be effective from annual periods commencing on or after 1 January 2016.

The company is assessing the potential impact on its financial statements resulting from the application of amendments to IFRS 10 & IAS 28

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The company is assessing the potential impact on its financial statements resulting from the application of amendments to IFRS 11

Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

No impact is expected from amendments to IAS 41-The Company does not have any bearer plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Changes in accounting policies and disclosures (continued)

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The company is assessing the potential impact on its financial statements resulting from the application of amendments to IAS 16 and IAS 38.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The company is assessing the potential impact on its financial statements resulting from the application of amendments to IAS 27.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

No impact is expected from this amendment - The Company is not a first-time adopter of IFRS

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

None- The Company is not an investing entity

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The company is assessing the potential impact on its financial statements resulting from the application of the amendment.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, and IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Changes in accounting policies and disclosures (continued)

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The company is assessing the potential impact on its financial statements resulting from the application of IFRS 15

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The company is assessing the potential impact on its financial statements resulting from the application of IFRS 9

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard(IFRS 15 Revenue from Contracts with Customers is also applied).

The company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

3. REVENUE

	Note	2015 Ushs million	2014 Ushs million
Domestic		306,931	272,843
Commercial		41,302	35,101
Street lighting		836	915
Commercial - time of use		123,148	101,519
Medium industrial		4,688	4,216
Medium industrial -time of use		230,070	203,821
Large industrial - time of use		420,471	353,809
Total amount billed to customers		**1,127,446**	**972,224**
Revenue reconciliation adjustment	3(a)	-	5,984
Revenue adjustment (Amendment 2 & 4)	3(b)	27,926	3,865
Recovery of income for funding non-network assets	3(c)	(9,306)	(9,819)
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)	-	-
		1,146,066	**961,476**
Construction revenue-construction of assets	3(f)	14,942	16,188
		1,161,008	**977,664**

3(a) The Company has rights to recover its distribution costs through the retail tariff approved by Electricity Regulatory Authority in accordance with the Lease and Assignment Agreement. As of 31 December 2014, the Company had not recovered Ushs 5,984 million (USD 2.353m), relating to the cost of net proceeds of impaired assets removed from the distribution network and not yet recovered through the retail tariff.

3(b) In contradiction to the rights granted to the Company under the Privatization 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 27.926 billion (2014: Ushs 3.865 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 27.926 billion (2014: Ushs 3.865 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 9.306 billion in the period ended December 2015 (December 2014 : Ushs 9.819 billion) to be collected from customers through the retail tariffs for purchase of non-network assets. Non-network assets are those which do not directly improve or expand the Distribution Network but are necessary for operation of the Distribution Network. The Company has no control over the assets funded by these amounts. As such, this amount has been offset from the reported revenue.

3(d) As part of the demand side energy efficiency initiative, ERA approved Ushs 10.778 billion in the year ended 31 December 2014 to be collected from customers through the retail tariffs to finance the purchase and distribution of LED bulbs to customers. The Company recognized a corresponding liability under deferred income for the amounts collected but not yet utilized. During the year ended 31 December 2015, there was no similar arrangement.

3. REVENUE (CONTINUED)

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 (2014: Nil) since this parameter was not included in the tariff for the year.

3(f) The Company provides construction services for asset 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 utilized. The costs incurred on the Company financed installations are offset from the related construction revenue as this reflects the substance and legal form of the transactions.

4. COST OF SALES

	2015 Ushs million	2014 Ushs million
Electricity purchase from UETCL	724,642	640,197
Generation levy	3,383	2,811
Construction costs-construction of assets	14,942	16,188
	742,967	**659,196**

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

	2015 Ushs million	2014 Ushs million
a) Other operating income		
Regulated income		
Reconnection fees	998	1,919
Meter/transformer test fees	3	3
Inspection fees	3,246	3,936
	4,247	**5,858**

	2015 Ushs million	2014 Ushs million
Non-regulated income		
Sale of scrap and other disposals	130	161
OBA income	4,163	71
Recovery of bad and doubtful debts	-	86
Recovery of VAT on bad debts	-	3,861
Fines and other income	524	1,080
	4,817	**5,259**
	9,064	**11,117**
b) Finance income		
Interest on bank deposits	886	843
Financing income on concession financial asset	22,518	16,720
	23,404	**17,563**
Total other operating and finance income	**32,468**	**28,680**

6. REPAIR AND MAINTENANCE EXPENSES

Distribution (over-head & underground)	5,668	8,528
Transformers, meters & other electrical test instruments	1,843	2,297
Other repairs and maintenance	11,070	11,229
	18,581	**22,054**

7. ADMINISTRATION EXPENSES

Staff costs (7a)	79,318	68,678
Transport costs	8,669	10,373
Other administration costs	42,644	36,074
Consultancy fees	4,029	2,902
Telephone expenses	4,387	4,209
Debt collection expenses	4,025	4,559
Insurance charges	3,753	2,432
Impairment provision for bad and doubtful debts	8,288	-
	155,113	**129,227**

7. ADMINISTRATIVE EXPENSES (CONTINUED)

	2015 Ushs million	2014 Ushs million
7(a) Staff costs		
Salaries and wages	37,947	35,276
National Social Security Fund (NSSF) contributions	4,379	4,199
Share grant and deferred bonus schemes expenses	8,328	2,106
Staff allowances and other staff related costs	28,664	27,097
	79,318	**68,678**

8. OTHER OPERATING EXPENSES

	2015 Ushs million	2014 Ushs million
a) Net foreign exchange (losses)	8,424	28,907

	2015 Ushs million	2014 Ushs million
b) Other expenses		
Penalties – tax	-	225
Loss on disposal of assets	6,758	1,254
	6,758	1,479
c) Amortisation		
Amortisation of intangible assets	47,588	41,371
Total other operating expenses	**62,770**	**71,757**

9. FINANCE COSTS

Accrued interest on customer security deposits	1,563	1,399
Finance charge on concession obligation	22,518	16,720
Interest on borrowings	-	64
Amortised borrowing costs	4,122	531
Interest expense on Facility A	6,928	418
Interest expense on Facility B	9,897	568
Swap interest on facility A	444	160
Swap interest on facility B	629	241
Other financing costs	6,962	2,335
	53,063	**22,436**

10. PROFIT BEFORE TAX

	2015 Ushs million	2014 Ushs million
Profit before tax is stated after charging / (crediting):		
Amortisation of intangible assets	47,588	41,371
Auditors' remuneration	647	599
NSSF-Employer's contributions	4,379	4,199
Directors' expenses and allowances	3,858	3,063
Performance bonus	7,582	7,000
Share grant and deferred bonus schemes expenses	8,328	2,106
Loss on disposal of assets	6,758	1,254
Donations	167	228
Management fees	1,762	7,841
Unrealised foreign exchange losses	8,424	23,598
Staff medical and welfare expenses	2,925	3,046
And after crediting		
Interest on bank deposits	(885)	(843)

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.

	2015 Ushs million	2014 Ushs million
a) Income tax expense		
Current income tax charge for the year	36,033	18,730
Deferred income tax charge for the year	19,092	12,451
	55,125	**31,181**

The average effective tax rate is 34.2% (2014: 31%). The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2015 Ushs million	2014 Ushs million
Accounting profit before income tax	160,982	101,674
At statutory income tax rate of 30% (2014: 30%)	48,295	30,502
Tax effect of:		
Expenses and income not allowable for the for tax purposes	6,830	679
Income tax expense reported in the income statement	**55,125**	**31,181**
b) Current income tax payable/(recoverable)		
Current income tax payable brought forward	2,992	301
Current income tax charge for the year	36,033	18,730
Payment on current income tax	(33,775)	(16,039)
	5,250	**2,992**

11. TAX (CONTINUED)

c) Deferred income tax liability

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

2015	2015 Ushs million	Movement Ushs million	2014 Ushs million
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	96,532	16,193	80,339
Provision for bad debts	(20,787)	(1,104)	(19,683)
IPO costs	(120)	594	(714)
Other provisions	(3,814)	(1,894)	(1,920)
Unrealised foreign exchange losses on borrowings	(2,363)	5,303	(7,666)
Net deferred income tax liability	**69,448**	**19,092**	**50,356**

2014	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	(7,666)	8,040	374
Net deferred income tax liability	**50,356**	**(12,451)**	**37,905**

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.

	2015	2014
Profit attributable to shareholders (Ushs million)	**105,857**	**70,493**
Basic number of ordinary shares at 1 January (million)	1,624	1,624
Basic and diluted weighted average number of ordinary shares (million)	1,624	1,624
Basic and diluted earnings per share (Ushs)	**65**	**43**

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:

	2015		2014	
	Ushs million	US$ million	Ushs million	US$ million
Total investments	1,375,461	407.3	891,109	320.8
Investments yet to be approved by ERA	(515,767)	(152.7)	(359,451)	(129.4)
Total investments approved by ERA	859,694	254.6	531,658	191.4
Total investments approved by ERA	859,694	254.6	531,658	191.4
Total investments not yet approved by ERA	515,767	152.7	359,451	129.4
Less: Cumulative capital recovery charges	(309,333)	(91.6)	(198,071)	(71.3)
Unrecovered investments	1,066,128	315.7	693,038	249.5

Investments pending ERA approval are represented by:

	2015		2014	
	Ushs million	US$ million	Ushs million	US$ million
Completed projects under ERA verification	459,705	136.1	337,731	121.6
Work- in-progress	56,062	16.6	21,720	7.8
Total	515,767	152.7	359,451	129.4

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

The investments yet to be approved by ERA are represented by capital investments for the year of US$ 86.5 million (2014: US$ 96.8 million), capital work-in-progress of US$ 16.6 million (2014: US$ 7.8 million) and the balance of US$ 49.6 million (2014: US$ 24.8 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$ 7.0 million) related to the year ended 31 December 2010.

As of 31 December 2015, the estimated weighted average depreciation rate was 9.5 % (2014 : 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 2015. 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.

The company is entitled to 5% return on investment on undepreciated cost of modifications. The average recovery rate for investments is approximately 9.8%. As at 31 December 2015, the company had 9 years to the end of the concession period as per the privatisation agreements and the resulting return on investments was Ushs.1.5 billion (USD 0.44 million). This amount has not been recognised in the financial statements.

13. BUY-OUT AMOUNT (CONTINUED)

	2005-2011 Ushs million	2012 Ushs million	2013 Ushs million	2014 Ushs million	2015 Ushs million	Total Ushs million
In Uganda Shillings						
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	264,484	278,879	981,150
Land and Buildings	6,394	1,052	992	2,909	777	12,124
Furniture & Fittings, Tools & office equipment	9,427	3,143	340	780	776	14,466
Computers, Communication & MIS	24,459	8,393	1,334	664	92	34,942
Motor vehicles	18,877	875	1,217	-	4	20,973
Total Investments	**269,392**	**98,074**	**146,824**	**268,837**	**280,528**	**1,063,655**
Represented by:						
Capitalised	257,051	101,430	135,511	267,414	248,425	1,009,831
Capital work in progress	12,341	(3,356)	11,313	1,423	32,103	53,824
	269,392	**98,074**	**146,824**	**268,837**	**280,528**	**1,063,655**
In US Dollars						
Foreign exchange rate - Ushs: US$	2,079	2,691	2,552	2,778	3,242	2,611
Total Investment: US$ million equivalent	**$130**	**$36**	**$58**	**$97**	**$87**	**$407**

14. INTANGIBLE ASSETS

	GOU support & assurances rights Ushs million	Other Concession rights Ushs million	Total Ushs million
Cost			
At 1 January 2014	**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**
Additions	-	280,528	280,528
Disposals and write offs	-	(7,418)	(7,418)
Translation differences	833	253,632	254,465
At 31 December 2015	**3,290**	**1,306,627**	**1,309,917**
Amortisation			
At 1 January 2014	**(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)**
Charge for the year	(123)	(47,465)	(47,588)
Disposals and write offs	-	660	660
Translation differences	(403)	(54,625)	(55,028)
At 31 December 2015	**(1,714)**	**(263,608)**	**(265,322)**
Net carrying amount			
At 31 December 2015	**1,576**	**1,043,019**	**1,044,595**
At 31 December 2014	**1,269**	**617,707**	**618,976**

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 8.37% (2014:6.33%)and the amount of borrowing costs capitalised during the year ended 31 December 2015was Ushs 10 billion (2014:11.3 billion)

15. CONCESSION FINANCIAL ASSET

	2015 Ushs million	2014 Ushs million
At 1 January	239,139	201,021
Financing income for the year	22,324	16,720
Foreign exchange gain	52,497	21,398
At 31 December	**313,960**	**239,139**
Maturity analysis of the financial asset:		
Outstanding financial asset	313,960	239,139
Less: Amount recoverable within one year	-	(131,650)
Non-current portion of financial asset	**313,960**	**107,489**
The financial asset is recoverable as analysed below:		
Within one year	-	131,650
Between one and two years	179,736	7,008
Between two and three years	8,234	7,568
Between three and four years	8,659	8,174
Between four and five years	6,262	8,635
After five years	111,069	76,104
	313,960	**239,139**

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.

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.

No amount payable within one year has been presented since the debt service component was not included in the approved 2016 base tariffs

16. INVENTORIES

	2015 Ushs million	2014 Ushs million
Overhead materials & accessories	19,692	19,731
Underground cables, materials & accessories	5,008	5,223
Substation transformers & accessories	1,441	439
Meters, metering equipment& accessories	11,381	7,200
Tools and other equipment	2,718	2,663
Stationery	821	923
Expense on goods in transit	2,464	1,088
	43,525	37,267
Provision for impairment	(127)	(17)
	43,398	**37,250**

17. AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS

At 1 January	3,488	774
Additions to customer funded installations	4,038	6,843
Completed customer funded installations	(892)	(4,129)
At 31 December	**6,634**	**3,488**

18. TRADE AND OTHER RECEIVABLES

Trade receivables	251,290	256,956
Add: Advance payments by energy customers transferred to payables	6,605	1,437
Trade receivables	257,895	258,393
Less: Allowance for impairment	(72,205)	(94,185)
Net trade receivables	**185,690**	**164,208**
Prepayments	28,736	35,272
Letters of credit	548	3,724
Other receivables	81,218	49,941
OBA receivable	31,661	949
Income tax deposit (Note 34)	-	10,000
VAT claimable	9,915	19,618
	152,078	**119,504**
Trade and other receivables	**337,768**	**283,712**

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

Other receivables include Ushs 69,617 million (2014: Ushs 41,691 million) relating to revenue reconciliation adjustments recoverable as described in Note 3(b).
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 6,605 million (2014: Ushs 1,437 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:

	2015 Ushs million	2014 Ushs million
At 1 January	94,185	120,753
Recovery of bad debts previously provided for	-	(86)
Utilization of provision of VAT on trade receivables	-	(5,089)
Allowance for impairment for the year	8,288	-
Less: Bad debts written off (see below)	(30,268)	(21,393)
At 31 December	**72,205**	**94,185**

Bad debts written off are made up as follows:		
UEDCL trade receivables	283	517
Umeme trade receivables	29,985	20,876
	30,268	**21,393**

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 <30 days	Past due but not impaired 30-60 days	Past due but not impaired >60 days	Impaired
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
2015	251,290	95,485	16,675	66,925	72,205
2014	256,956	76,337	22,526	63,908	94,185

19. BANK BALANCES

	2015 Ushs million	2014 Ushs million
Bank balances	28,514	29,374

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	2015	2014
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 per share	17.08	17.08

c) Value of issued shares	2015 Ushs million	2014 Ushs million
Nominal value of shares at 31 December	**27,748**	**27,748**

d) Spread of issued shares at 31 December 2015

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500 shares	210	42,960	0.003%
500 - 5,000 shares	2,613	4,950,883	0.305%
5,001 – 10,000 shares	792	6,628,274	0.408%
10,001 – 100,000 shares	1,132	32,763,140	2.018%
100,001 - 1,000,000 shares	396	103,766,449	6.390%
Above 1,000,000 shares	123	1,475,726,299	90.877%
	5,266	**1,623,878,005**	**100%**

20. ISSUED CAPITAL (CONTINUED)

e) Shareholding

	31 December 2015		31 December 2014	
Name	**Number of shares**	**Percentage shareholding**	**Number of shares**	**Percentage shareholding**
Umeme Holdings Limited (Including shares held by its nominees)	232,214,521	14.30%	232,214,521	14.30%
National Social Security Fund	231,722,771	14.27%	231,722,771	14.27%
Investec Funds	175,128,921	10.78%	297,413,000	18.31%
Kimberlite Frontier Africa Naster Fund	83,492,479	5.14%	20,898,268	1.29%
SCB Mauritius Re All Gray Africa Equity (Rand) Fund	72,801,432	4.48%	31,700,000	1.95%
The Africa Emerging Markets Limited	70,250,672	4.33%	41,000,000	2.52%
International Finance Corporation	45,220,900	2.78%	45,220,900	2.78%
Duet Funds	38,873,955	2.39%	26,971,012	1.66%
Utilico Emerging Markets Limited	30,281,788	1.86%	40,281,788	2.48%
SBSA ITF BCI Africa	26,592,078	1.64%	9,445,632	0.58%
Others	617,298,488	38.01%	647,010,113	39.84%
	1,623,878,005	**100%**	**1,623,878,005**	**100%**

21. SHARE PREMIUM

	2015 Ushs million	2014 Ushs million
At 31 December	**70,292**	**70,292**

22. DISTRIBUTIONS TO SHAREHOLDERS MADE AND PROPOSED

	2015		2014	
	Dividend per share Ushs	Total Ushs million	Dividend per share Ushs	Total Ushs million
Dividend paid				
Interim dividend paid	10.8	17,538	9.4	15,265
Final dividend paid			-	-
	10.8	17,538	9.4	15,265
Dividend proposed				
Proposed dividend	24.4	39,603	19.5	31,666

23. BORROWINGS

	Note	2015 Ushs million	2014 Ushs million
Amounts due to lenders	(a)	490,904	277,841
Less: Deferred transactions costs	(b)	(12,507)	(12,316)
		478,397	265,525
Less: Current portion - amount due within one year		(1,237)	(41)
Non - current portion		**477,160**	**265,484**

(a) AMOUNTS DUE TO LENDERS

	2015 Ushs million			2014 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	114,405	163,436	277,841	41,611	59,503	101,114
Amount received during the year	62,572	89,393	151,965	63,866	89,004	152,870
Interest charge for the year	9,651	13,785	23,436	4,496	6,417	10,913
Foreign exchange losses/(gains)	24,668	35,241	59,910	8,983	15,067	24,050
Interest payment	(9,160)	(13,088)	(22,248)	(4,551)	(6,555)	(11,106)
	202,136	**288,768**	**490,904**	**114,405**	**163,436**	**277,841**
The amounts due are made up as follows:						
Principal	201,626	288,041	489,667	114,388	163,412	277,800
Interest payable	510	727	1,237	17	24	41
	202,136	**288,768**	**490,904**	**114,405**	**163,436**	**277,841**

23. BORROWINGS (CONTINUED)

(b) DEFERRED TRANSACTION COSTS

	2015 Ushs million			2014 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	4,889	7,427	12,316	4,088	5,994	10,082
Upfront and guarantee fees	-	-	-	92	56	148
Management, security and agency fees	1,078	1,541	2,619	1600	2,272	3,872
Amortisation for the year	(2,406)	(3,771)	(6,177)	(891)	(895)	(1,786)
Foreign exchange gains / losses	1,503	2,246	3,749	-	-	-
At 31 December	**5,064**	**7,443**	**12,507**	**4,889**	**7,427**	**12,316**

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 2015, the Company had drawn down Ushs 201,626 million (US$ 59.706 million) (2014: Ushs 114,388 million (US$ 41.177 million) on Facility A and Ushs 288,042 million (US$ 85.295 million) (2014: Ushs163,142 million (US$ 58.823 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 installments 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 installments 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 there under, and related rights.

24. CONCESSION OBLIGATION

	2015 Ushs million	2014 Ushs million
At 1 January	239,139	201,021
Financing expense for the year	22,324	16,720
Foreign exchange gain/(loss)	52,497	21,398
At 31 December	**313,960**	**239,139**
Maturity analysis of the concession obligation:		
Outstanding obligation	313,960	239,139
Less: Due within one year	-	(131,650)
Non-current portion of the obligation	**313,960**	**107,489**

The concession obligation is due as analysed below:

	2015 Ushs million	2014 Ushs million
Within one year	-	131,650
Between one and two years	179,736	7,008
Between two and three years	8,234	7,568
Between three and four years	8,659	8,174
Between four and five years	6,262	8,635
After five years	111,069	76,104
	313,960	**239,139**

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.

No amount payable within one year has been presented since the debt service component was not included in the approved 2016 base tariffs.

25. PROVISIONS

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

	2015 Ushs million	2014 Ushs million
At 1 January	5,431	3,018
Provision for the period	7,579	2,106
Foreign exchange loss	1,480	307
At 31 December	**14,490**	**5,431**

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.

25. PROVISIONS (CONTINUED)

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 below:

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2015	5,860,000	586	18,843,500	30
Forfeited shares - exited the scheme	(1,020,000)	(102)	(320,900)	(2)
At 31 December 2015	**4,840,000**	**484**	**18,522,600**	**28**

	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**

26. CUSTOMER SECURITY DEPOSITS

	2015 Ushs million	2014 Ushs million
At 1 January	3,576	6,716
Amount received during the year	789	5,276
Amount refunded during the year	(3,367)	(8,416)
At 31 December	**998**	**3,576**

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:

	2015 Ushs million	2014 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

26. CUSTOMER SECURITY DEPOSITS (CONTINUED)

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	2015 Ushs million	2014 Ushs million
Deferred revenue on prepaid sales	(a)	1,641	951
Deferred construction income	(b)	5,731	4,970
Deferred capital fund - Non network assets	(c)	3,348	2
Deferred capital fund - LED bulbs	(d)	1,717	10,778
		12,437	**16,701**

(a) Deferred revenue on pre-paid sales

As at 31 December 2015, it was estimated thats 11% of the pre-paid electricity tokens purchased in December 2015 by customers had not been consumed (2014: 13%).

	2015 Ushs million	2014 Ushs million
(a) Deferred construction income		
At 1 January	4,970	4,876
Amount received	15,527	16,282
Amount utilised	(14,766)	(16,188)
Unutilised customer contributions at 31 December	**5,731**	**4,970**

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.

(b) Deferred capital fund – Non network assets	2015 Ushs million	2014 Ushs million
At 1 January	2	3,059
Amount billed	9,306	9,819
Amount utilised on purchasing non-network assets	(5,960)	(12,876)
At 31 December	**3,348**	**2**

27. DEFERRED INCOME (CONTINUED)

	2015 Ushs million	2014 Ushs million
The amount utilised was spent as follows:		
Furniture & Fittings, Tools & Office Equipment	2,466	2,028
Computers, Communication Equipment & Management Information System	2,342	8,201
Motor vehicles	1,152	2,647
	5,960	**12,876**

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.

(a) Deferred capital fund - LED bulbs

As at 31 December 2015, funds worth Ushs 1,717 million (2014: 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

	2015 Ushs million	2014 Ushs million
Trade payables	263,345	243,689
Accrued expenses and other payables	77,428	37,557
Withholding tax payable	1,432	3,451
Advance payments by energy customers	2,627	1,437
	344,832	**286,134**

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

Accrued expenses and other payables include Ushs 6,500 million (2014: Ushs 7,000 million) relating to performance bonus for the year as indicated below:

	2015 Ushs million	2014 Ushs million
At 1 January	7,000	7,200
Accrual for the year	7,582	7,000
Bonus paid during the year	(8,082)	(7,200)
At 31 December	**6,500**	**7,000**

29. INTEREST RATE SWAP

By the year ended 31 December 2015, the Company had entered into Interest Rate Swaps (IRS) with ABSA Bank Limited to mitigate the volatility of the interest rate of Facility A of USD 30.88 million and Facility B of USD 44.11million 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:

	2015 Ushs million	2014 Ushs million
At 1 January	-	-
Change in fair value - charge to profit	1,073	401
Settlement during the year	(1,073)	(401)
At 31 December	-	**-**

30. BANK OVERDRAFT

	Note	2015 Ushs million	2014 Ushs million
Overdraft		32,061	29,344
Less: Deferred transactions costs	(a)	(779)	(971)
		31,282	**28,373**

	2015	2014
(a) Deferred transaction costs		
At 1 January	971	946
Transaction costs	-	160
Management, security and agency fees	-	11
Amortisation for the year	(192)	(146)
At 31 December	**779**	**971**

As at 31 December 2015, the Company had drawn down Ushs32,344 million, of which Ushs 4.4 billion was in USD i.e. USD$ 1.3m (2014: Ushs 29,344 million) 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 27.3% (2014: 8.0336%). 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**	**2015 Ushs million**	**2014 Ushs million**
Profit before tax		160,982	101,674
Adjustment for:			
Interest income from bank deposits	5(b)	(886)	(843)
Finance income on concession financial asset	5(b)	(22,518)	(16,720)
Amortisation of intangible assets	14	47,588	41,371
(Recovery of)/impairment provision for bad and doubtful debts	7	-	(86)
Interest expense on Facilities A and B	23	23,436	10,913
Interest on Customer security deposit		-	1,399
Provision for deferred bonus scheme	25	7,579	2,106
Finance cost on concession obligation	9	22,518	16,720
Loss on sale of assets	10	6,758	1,254
Unrealised foreign exchange (gains)/Losses		(4,828)	23,598
		240,629	181,386
Increase in inventories		(6,148)	(7,657)
Increase in amount recoverable from customer capital contributions		(3,146)	(2,714)
Increase in trade and other receivables		(54,056)	(42,813)
Increase in tax deposit paid		-	(10,000)
Increase in deferred income		(4,264)	8,467
Increase in trade and other payables		58,698	42,838
Cash generated from operating activities		231,713	169,507
Interest received from banks	5(b)	886	843
Current income tax paid	11(b)	(33,775)	(16,039)
Interest paid on loan A and B	23	(22,248)	(11,106)
Net cash flows from operating activities		**176,576**	**143,205**

b) **Cash and cash equivalents**			
Bank balances (Note 19)		28,514	29,374
Bank overdraft (Note 30)		(31,282)	(28,373)
Bank balances not available for use (Note 26)		(998)	(3,576)
		(3,766)	**(2,575)**

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 2015, 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 ofUshs4.6 billion had been deposited under the letters of credit facilities as at 31 December2015 (31 December 2014 : Ushs 3.7 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 2015, the Company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs11.9 billion (2014 : 15.3 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% (2014: 14.30%) 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).

The following transactions were carried out with related parties:

	2015 Ushs million	**2014 Ushs million**
i) Management and secondment services		
Umeme Management Services Limited	1,170	1,062
Globeleq Expatriate Services Limited	177	1,236
	1,347	**2,298**
ii) Other transactions		
Globeleq Advisors Limited-recharges	415	72
Globeleq Advisors Limited-Transactional service fees	-	79
	415	**151**
iii) Compensation of key management personnel		
Short-term employee benefits	6,509	6,077
Contributions to NSSF	430	608
Share based payments	2,997	2,172

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:

	2015 Ushs million	2014 Ushs million
i) Amounts due to related parties		
Globeleq Expatriate Services Ltd	-	91
Globeleq Advisors Limited	1,407	-
Actis - recharges	-	39
Umeme Management Services Limited	-	110
	1,407	**240**

	2015 Ushs million	2014 Ushs million
ii) Amounts due from related parties		
Actis Infrastructure 2 LP	40	-
Umeme Holdings Limited	652	-
	692	**-**

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 Ushs154million (2014: Ushs 117 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 1billion (2014: Ushs 1 billion).

b) Uganda Revenue Authority (URA) issued an assessment to the Company on 7th March 2014 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 also objected 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.

Notwithstanding the disagreement in principle with the change in tax treatment, the Company also objected 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 appealed 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 on 29th June 2015, URA and Umeme reached a mutual consent in which the assessed amount was agreed at Ushs 19.5 billion including principal and penal tax. In this consent however, neither party gave up their right to challenge the future treatment of concession assets.

In the prior year, the company deposited Ushs 10 billion with URA in accordance with the Income Tax Act, pending disposal of the objection. This deposit was offset against the agreed liability. The outstanding balance of Ushs 9.5 billion was settled in the current year.

The Company continues to depreciate the assets as per IFRS requirements and claim capital allowances for tax purposes. URA has not queried the subsequent Tax returns and based on this the Company believes that the tax treatment of the assets is in line with the requirements of the Income Tax Act.

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 2015. The Company was required to make additional rental payments associated with this funding subject to the additional rentals inclusion in the tariffs by ERA. These additional lease rentals were not included in the tariffs for the year ended 31 December 2015 (Nil: 31 December 2014).

(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 2015:		
After one year	172,111	53,305
After one year but not more than five years	30,779	18,273
After five years	111,070	4,899
	313,960	**76,477**
Less: Amounts representing finance charges	(237,483)	-
Present value of minimum rental payments	**76,477**	**76,477**
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**

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.

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

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

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

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

Power Sales Agreement (PSA)

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

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

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

36 CONCESSION ARRANGEMENT (CONTINUED)

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 installments.

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.

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 75m of the Company's term borrowing facilities (A and B) are fixed by interest swaps as disclosed in note 29. USD 75 million 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 444million (2014: Ushs 221 million) and Ushs 240 million (2014: Ushs 155 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 29 billion (2014: Ushs 16.7 billion) and Ushs 20.3 billion (2014: Ushs 11.7 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.

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2015 and 31 December 2014. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2015	US$	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession financial asset	313,960	-	-	-	-	313,960
Trade and other receivables	4,462	-	-	-	261,596	266,058
Bank balances	115	-	-	-	28,399	28,514
Total financial assets	**318,537**	**-**	**-**	**-**	**289,995**	**608,532**
Financial liabilities						
Borrowings	490,902	-	-	-	-	490,902
Concession obligation	313,960	-	-	-	-	313,960
Trade and other payables	60,966	196	3,144	555	199,252	264,113
Bank overdraft	32,062	-	-	-	-	32,062
Total financial liabilities	**897,890**	**196**	**3,144**	**555**	**199,252**	**1,101,037**
Overall open position	**(579,353)**	**(196)**	**(3,144)**	**(555)**	**90,743**	**(492,505)**

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	-	-	-	-	265,525
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**	**778,256**
Overall open position	**(334,539)**	**(326)**	**(191)**	**(255)**	**43,439**	**(291,872)**

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.

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:

	2015 Ushs million	2014 Ushs million
Gross amount of trade receivables (Note 18)	251,290	256,956
Less: Amounts receivable from GOU bodies	(32,876)	(23,466)
Customer security deposits (Note 26)	(998)	(3,576)
Maximum exposure	**217,416**	**229,914**

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. 44.9% of the Company's debt will mature in less than one year after 31 December 2015 (2014 : 49.6%) 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.

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 2015	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Total
Financial assets					
Concession financial asset	167,639	4,577	13,732	240,447	426,395
Trade and other receivables	149,362	46,970	-	77,416	273,748
Bank balances	28,514	-	-	-	28,514
Total financial assets	**345,515**	**51,547**	**13,732**	**317,863**	**728,657**
Financial liabilities					
Concession obligation	167,639	4,577	13,732	240,447	426,395
Borrowings: Facility A and B	-	-	35,770	489,665	525,435
Trade and other payables	266,242	75,185	-	-	341,427
Bank overdraft	32,062	-	-	-	32,062
Total financial liabilities	**465,943**	**79,762**	**49,502**	**730,112**	**1,325,319**
Overall open position	**(120,428)**	**(28,215)**	**(35,770)**	**(412,249)**	**(596,662)**
At 31 December 2014					
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)**	**(338,906)**

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-15	-	-	-	-
	31-Dec-14	-	-	-	-
Borrowings	31-Dec-15	313,960	-	313,960	-
	31-Dec-14	277,841	-	277,841	-
Concession financial asset/liability	31-Dec-15	313,960	-	313,960	-
	31-Dec-14	239,139	-	239,139	-

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

The Company has no non financial 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)	
			2015	2014
Interest rate swap – derivative	Market approach – discounted cash flows	Market interest rates for similar instruments	0.834% - 0.835%	0.951% - 0.957%
Borrowings		Market interest rates for similar instruments	12.44% - 12.56%	5.30% - 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 2015 was 62% (2014 : 64%) as shown in the table below:

	Note	2015 Ushs million	2014 Ushs million
Borrowings	23	478,397	265,525
Trade and other payables	28	344,833	286,282
Less: Cash and cash equivalents	31(b)	3,766	2,575
Net debt		**826,996**	**554,382**
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		405,735	215,672
Total capital		**503,775**	**313,712**
Net debt and capital		**1,330,771**	**868,094**
Gearing ratio		**62%**	**64%**

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.

Ratio	Covenant
Interest Cover	≥ 2.5 : 1
Adjusted leverage	≤ 3.0 : 1
Relevant Financial Indebtedness to Equity	≤ 2.5 : 1
Debt Service Cover	≥ 1.15:1
Buy-Out Amount to Relevant Facility Amount	≥ 1.1 : 1

- Interest cover: Ratio of EBITDA over the total interest less amortization of deferred finance costs
- Adjusted leverage: Ratio of net debt over EBITDA
- Relevant financial indebtedness to equity: Ratio of total debt over total equity
- Debt service cover: Ratio of the cash flows available for debt service over the debt service costs
- Buy out amount to relevant facility amount: It is a ratio of the Buy-out amount over total facilities amount.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

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 categorised 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 2015, effective as of 15 January 2015 to 15 January 2016, 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	150.0 - 531.5	3,360
Commercial	Low voltage supply to three phase low voltage, small scale industries like maize mills	Peak, shoulder and off peak	336.5 - 602.5	3,360
Medium industrial	Low voltage supply to medium scale industries, taking power at low voltage (415V), with maximum demand of up to 500kVA	Peak, shoulder and off peak	314.5 - 570.1	22,400
Large industrial	High voltage supply to large scale industrial users, taking power at high voltage (11,000 or 33,000V), with maximum demand exceeding 500kVA but up to 10,000kVA	Peak, shoulder and off peak Additional maximum demand charge	233 - 383.5	70,000
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	502.5	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	2015 Ushs million	2014 Ushs million
Operating profit before amortisation		261,633	165,481
Financing income on concession financial asset	5(b)	(22,518)	(16,720)
Foreign exchange losses	8(a)	8,424	28,907
Total EBITDA		**247,539**	**177,668**

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 2014	**413,804**	**8,447**	**12,664**	**38,999**	**19,775**	**20,298**	**513,987**
Additions	-	-	-	-	-	268,837	268,837
Transfer from CWIP	263,106	2,903	747	658	-	(267,414)	-
Disposals	(2,939)	-	-	-	-	-	(2,939)
At 31 December 2014	**673,971**	**11,350**	**13,411**	**39,657**	**19,775**	**21,721**	**779,885**
Additions						280,528	280,528
Transfer from CWIP	246,776	777	776	92	4	(248,425)	-
Disposals	(7,418)	-	-	-	-	-	(7,418)
Translation difference	219,137	3,141	3,779	10,722	5,345	11,508	253,632
At 31 December 2015	**1,132,466**	**15,268**	**17,966**	**50,471**	**25,124**	**65,332**	**1,306,627**
Depreciation							
At 1 January 2014	**62,246**	**1,502**	**10,167**	**32,179**	**16,521**	**-**	**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	**95,227**	**1,888**	**11,537**	**35,455**	**18,071**	**-**	**162,178**
Charge for the year	41,664	550	1,408	3,117	726	-	47,465
Disposals	(660)						(660)
Translation difference	47,949	633	1,620	3,587	836	-	54,625
At 31 December 2015	**184,180**	**3,071**	**14,565**	**42,159**	**19,633**	**-**	**263,608**
Net carrying amount							
At 31 December 2014	**578,744**	**9,462**	**1,874**	**4,202**	**1,704**	**21,721**	**617,707**
At 31 December 2015	**948,286**	**12,197**	**3,401**	**8,312**	**5,491**	**65,332**	**1,043,019**

SUMMARY OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 IN US DOLLARS

BASIS OF TRANSLATION

The Company's books of accounts are maintained in Uganda Shillings. However the Company has determined its functional currency as US Dollars effective 1 January 2015. To meet the needs of certain users of the financial statements, the statement of comprehensive income, statement of financial position and statement of changes in equity have been presented US Dollars as indicated in the accompanying memoranda.

The translation is done in accordance with the Company's accounting policy as disclosed in note 2 (c). The rates applicable for 2015 and 2014 were as follows:

	2015	2014	2013
Average rate	3,242	2,619	2,587
Year-end rate	3,377	2,778	2,522

Source: Bank of Uganda

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 USD '000	2014 USD '000
Revenue	358,161	373,272
Cost of sales	(229,199)	(251,681)
GROSS PROFIT	**128,962**	**121,591**
Other operating income	2,796	4,244
Finance income	7,220	6,706
	138,978	132,541
Repair and maintenance expenses	(5,732)	(8,420)
Administration expenses	(47,851)	(49,339)
Foreign exchange gain/(losses)	(2,599)	(1,400)
Other expenses	(2,085)	(565)
OPERATING PROFIT BEFORE AMORTISATION	**80,771**	**72,817**
Amortisation of intangible assets	(14,681)	(15,795)
OPERATING PROFIT	**66,030**	**57,022**
Finance costs	(16,369)	(8,566)
PROFIT BEFORE TAX	**49,661**	**48,456**
Income tax expense	(15,202)	(11,905)
PROFIT FOR THE YEAR	**34,459**	**36,551**

	2015 USD	2014 USD
BASIC AND DILUTED EARNINGS PER SHARE	**0.021**	**0.023**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

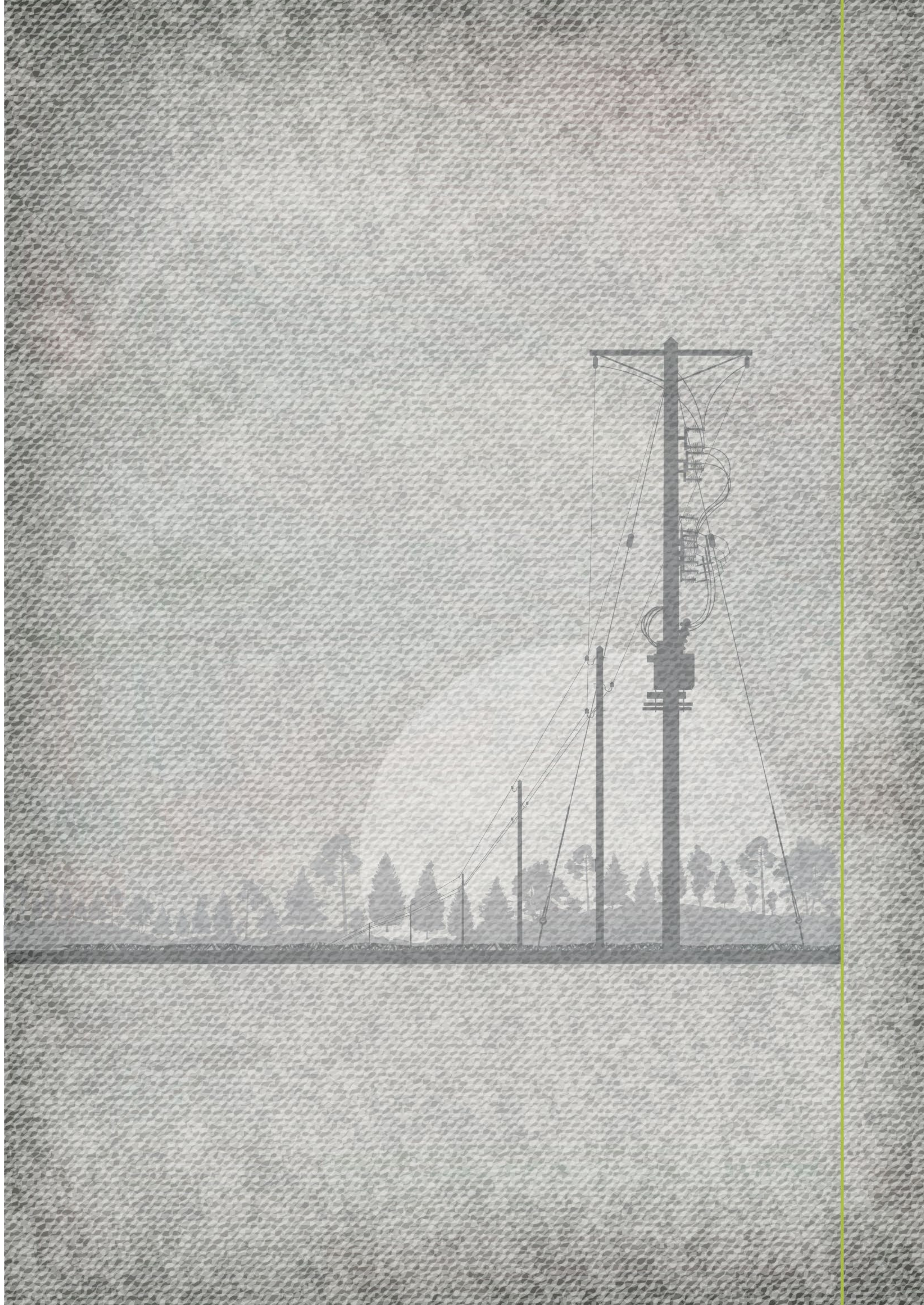
	2015 USD '000	2014 USD '000
Profit for the year	**34,459**	**36,551**
Other comprehensive income		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	**34,459**	**36,551**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	2015 USD '000	2014 USD '000
ASSETS		
Non-current assets		
Intangible assets	309,327	239,551
Concession Financial asset: Non-current portion	92,970	38,692
	402,297	278,243
Current assets		
Concession financial asset: Current portion	-	47,390
Inventories	12,851	13,409
Amount recoverable from customer capital contributions	1,965	1,256
Trade and other receivables	100,019	102,128
Bank balances	8,444	10,574
	123,289	174,757
TOTAL ASSETS	**525,576**	**453,000**
EQUITY AND LIABILITIES		
Equity		
Issued capital	8,217	9,988
Share premium	20,815	25,303
Retained earnings	120,146	94,741
	149,178	130,032
Non-current liabilities		
Borrowings: Non-current portion	141,297	95,199
Concession obligation: Non-current portion	92,970	38,693
Deferred income tax liability	20,565	18,127
Provisions	-	1,955
	254,832	153,974
Current liabilities		
Borrowings: Current portion	366	15
Concession obligation: Current portion		47,390
Customer security deposits	296	1,287
Deferred income	3,683	6,012
Provisions	4,291	-
Trade and other payables	102,112	103,000
Current income tax payable	1,555	1,077
Bank overdraft	9,263	10,213
	121,566	168,994
TOTAL EQUITY AND LIABILITIES	**525,576**	**453,000**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued Capital US$ '000	Share Premium US$ '000	Retained Earnings US$ '000	Total US$ '000
At 1 January 2014	**9,988**	**25,303**	**74,434**	**109,725**
				-
Profit for the year	-	-	36,551	36,551
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	36,551	36,551
				-
Dividend paid	-	-	(16,244)	(16,244)
				-
At 31 December 2014	**9,988**	**25,303**	**94,741**	**130,032**
				-
At 1 January 2015	9,988	25,303	94,741	130,032
				-
Profit for the year	-	-	34,459	34,459
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income, net of tax	-	-	34,459	34,459
Translation differences	(1,771)	(4,488)	6,125	(134)
Dividend paid	-	-	(15,179)	(15,179)
At 31 December 2015	**8,217**	**20,815**	**120,146**	**149,178**



16. CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear shareholder,

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

The meeting will be held at Kampala Serena Hotel International Conference Centre on 24th May, 2016 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 31st December 2015. 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 125 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

Notice to Members

UMEME Powering Uganda

Notice is hereby given that the annual general meeting (AGM) of Umeme Limited will be held at the Kampala Serena Hotel, International Conference Centre on 24th May, 2016 at 9:30 am to conduct the following business:

Ordinary Resolutions

1. To receive the annual financial statements for the year ended 31 December 2015 and the directors and auditors reports thereon;
2. To declare a final dividend for 2015;
3. To approve the appointment of external auditors for the year 2016;
4. To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association
5. To conduct any other business that may be conducted at the AGM.

On behalf of the board,

Shonubi, Musoke & Co Advocates
Company Secretary
2nd May 2016

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 2015 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 20th May 2016.

2. Dividend payment

The dividend, if declared at the AGM, will be paid on or about 30 June 2016, to shareholders whose names appear on the register at close of business on 15 June 2016.

The book closure date for purposes of dividend payments will be 15 June 2016. 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 pages 24 to 25 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 55 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 inquiries 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 55 of the Annual Report.

4 Major shareholders
Details of major shareholders of the Company are set out on page 91 of the Annual Report.

5 Share capital of the Company
Details of the share capital of the Company are set out on pages 90 of the Annual Report.

6 Material change
There has been no material change in the financial or trading position of the Company since the date of publication of the Company's annual results on 21st March, 2016.

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 20th May, 2016.

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

UMEME
Powering 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, International Conference Centre on the 24th May 2016, and at any adjournment thereof.

Signed this ______________________ day of ______________________ 2016

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 than17h00 20th May 2016 with either the share registrars or the registered office:

REGISTERED ADDRESS	COMPANY SECRETARY	SHARE REGISTRARS
Umeme Limited Rwenzori House, Plot 1 Lumumba Avenue P. O. Box 23841, Kampala, Uganda Tel: 0312360600 Email: Info@umeme.co.ug **www.umeme.co.ug**	**Shonubi, Musoke & Co. Advocates** SM Chambers Plot 14 Hannington Road P.O. Box 3213, Kampala, Uganda **www.shonubimusoke.co.ug**	**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

INVESTOR RELATIONS MANAGER
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CORPORATE PERFORMANCE MANAGER
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COMPANY SECRETARY
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For customer service inquiries call **0800 185185, 0800 285285** (Toll free), **0312 185185**
or email **callcentre@umeme.co.ug** website: **www.umeme.co.ug**

or follow us on Umemelimited @UmemeLtd 0772 285285