Integrated Annual Report 2016

INVESTING

In the Distribution Network for National Development

UMEME

Powering Uganda

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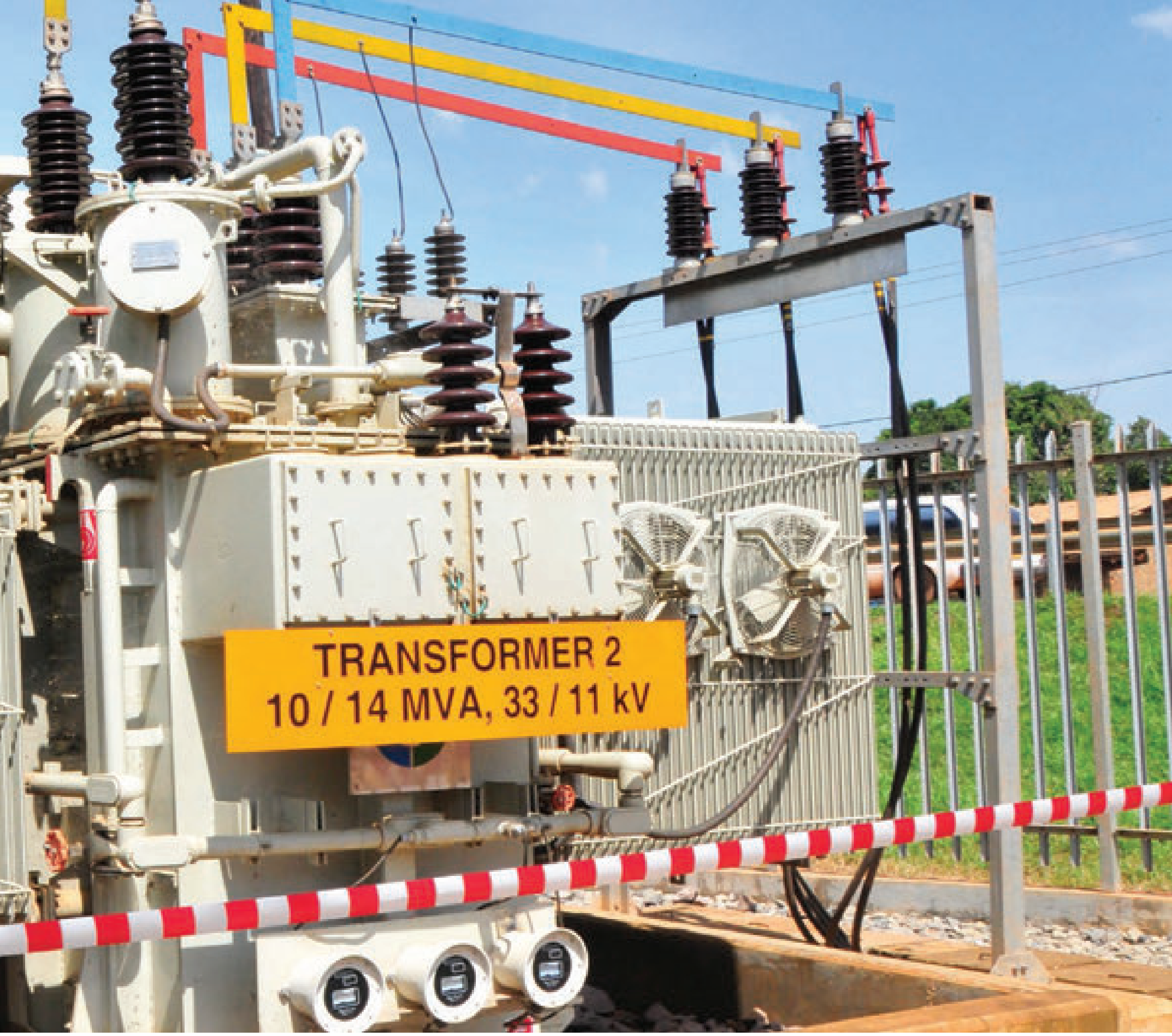


GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDERS INFORMATION

Our Corporate Profile

Principal place of business and registered address
Umeme Limited
Rwenzori House
Plot 1 Lumumba Avenue
P. O. Box 23841
Kampala, Uganda

Company Secretary
Shonubi, Musoke & Company Advocates
SM Chambers
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.
4th 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 Uganda 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 (IFC)
2121 Pennsylvania Avenue, N.W
Washington D.C. 20433
United States of America

About this Report

Umeme's integrated report sets our strategy, financial and operational, governance, social and environmental performance as well as the challenges and opportunities ahead, from the perspective of short-, medium- and long-term value creation. The report covers the 2016 financial year (from January 1, 2016 to December 31, 2016) as well as providing an outlook of the changing operating environment.

Methodology

This report borrows from the reference framework published by the International Integrated Reporting Council (IIRC) and is part of the company's voluntary approach to achieving long-term progress. An internal working group comprising representatives from several functional departments, has been active in structuring information throughout this process. In line with our corporate value of honest responsibility, this report reflects our commitment to sustainable development, given the Ugandan socio-economic and environmental context, and determination to apply, where appropriate, global best practices in our operations. It also reflects our evolution in reporting processes and confidence in our ability to set and measure progress towards targets.

Determining materiality

Material matters are those that are both of high concern to stakeholders and which could have a significant impact on our ability to create value. Materiality is determined by careful analysis of our risks, strategic goals and ongoing consultation with stakeholders. In developing the content for this report we analyse the core issues and concerns of our key stakeholders and demonstrate how we address these issues and concerns through the execution of our strategy.

Who We Are

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 electricity distribution concession effective 1st March 2005, from the Government of Uganda. After the electricity sector reforms in 1999, Uganda adopted a single buyer electricity sector model, where Uganda Electricity Transmission Company Limited (UETCL) is the System Operator, responsible for the purchase of electricity from all Independent Power Producers, import and export of electricity and being Umeme's sole supplier.

As an electricity distributor, Umeme is licensed to distribute and supply electricity to customers. This mandate involves; operation, maintenance and upgrade of electricity distribution infrastructure, electricity retail and provision of related services. The sector is regulated by the Electricity Regulatory Authority, whose mandate includes setting operating standards and appropriate end user tariffs.

Administrative structure

The company delivers its business mandate through a decentralised structure supported by the corporate office. For the retail operations, the business is divided into 4 regions, composed of 25 districts. For the network assets management, networks infrastructure is zoned into 2 major areas, further subdivided into 13 engineering areas. Each of the managers is responsible and accountable to drive the business deliverables in their respective areas.

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).

In 2016, Umeme Holdings Limited which owned 14.3% of the issued ordinary shares of Umeme Limited, divested its remaining shareholding to institutional and retail investors. The National Social Security Fund that owns 23% of the Umeme Limited, is the current largest shareholder.

The Umeme Holdings Limited divesture of its shareholding in Umeme Limited, through the capital markets, since the Initial Public Offering in 2012, demonstrates continued growth and capacity of the region's capital markets, to act as a platform for capital mobilisations and transfers. Growth of East Africa's capital markets is fundamental in encouraging domestic savings and foreign direct investments to spur economic growth.

The top 10 shareholders are listed on page 106 of this report.

Our Vision, Mission and Values

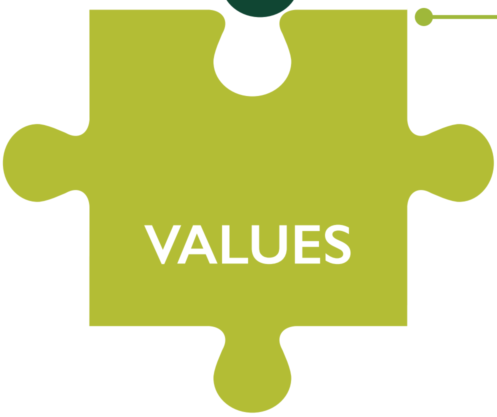
OUR VISION

Uganda's socio-economic transformation is hinged on the availability and supply of reliable and affordable electricity. We recognise that about 16% of households in Uganda are connected to the electricity grid and 21% of households use electricity as a source of energy. Electricity transforms lives through industrialization, information communication technology (ICT), health, housing, agriculture, education and powering commercial activities.

With ongoing investment in the generation capacity through the construction of Karuma, Isimba and other mini hydro stations, which will add over 800MW to the grid, Umeme is at the centre of ensuring effective distribution of this electricity to the end users, while ensuring attainment of the Government target of electricity household access to 40% by 2025.

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".

At the core of our business mandate is to supply safe and reliable electricity to our customers, through an efficient network and with passionate people. We aim to attract develop and retain a passionate and motivated work force. We shall continue to contribute to effective tariff reduction, a key concern for stakeholders, through efficient distribution of electricity, achieved through; energy losses reduction, collection of sector revenues and optimal operation costs management.

Umeme is accountable to its shareholders and other providers of capital, who require sustainable financial returns.

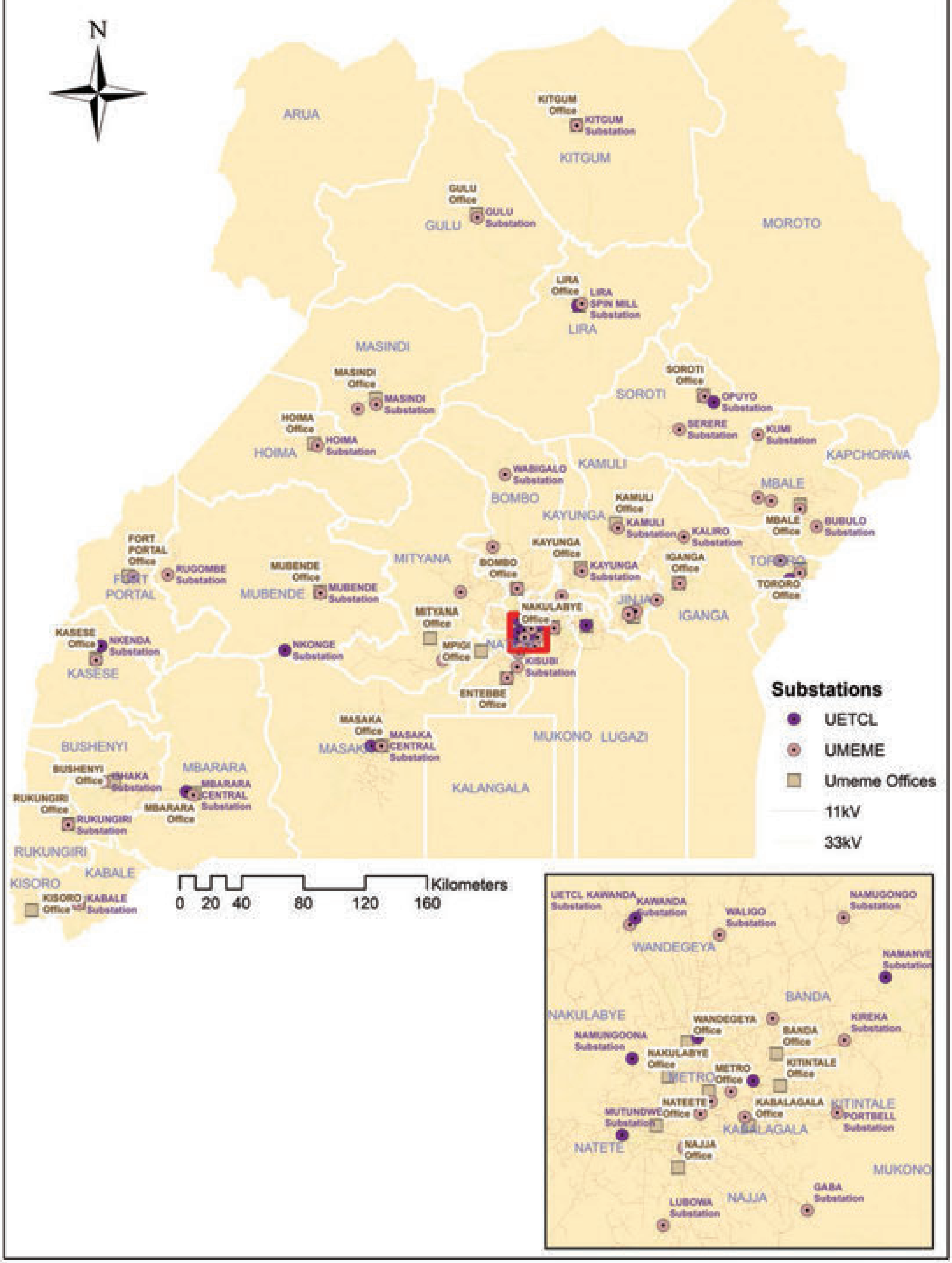
We firmly believe that Umeme exists to contribute to national development goals and objectives, and continuously aims to understand and satisfy the expectations of its stakeholders including the Government of Uganda, development partners, providers of capital etc.

OUR VALUES

Our values define our culture and the way we do business.

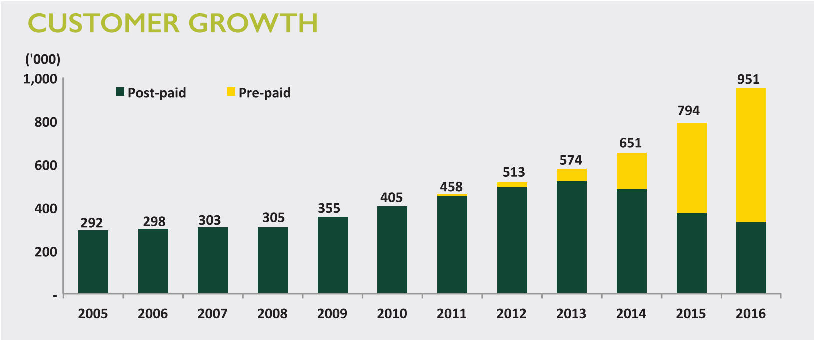
- We place the **Safety** of our employees and the public at the centre of our actions;
- We provide an experience of exceptional **Customer Service;**
- We act with **Integrity**, fairness and transparency in all our dealings;
- We deliver our services as one **Team**;
- We deliver our services and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

Umeme Distribution Network



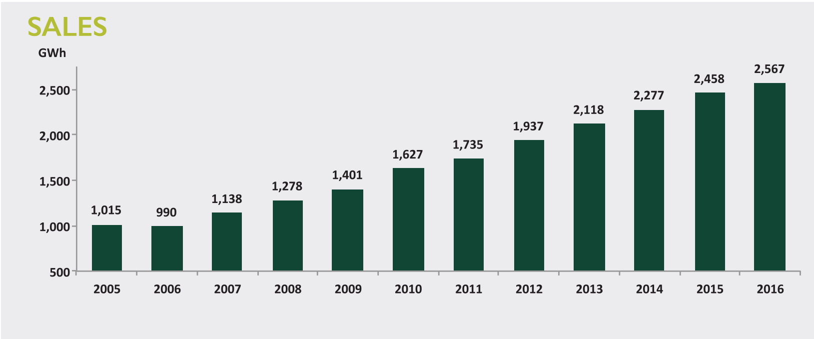
Our Operating Context

Key performance highlights



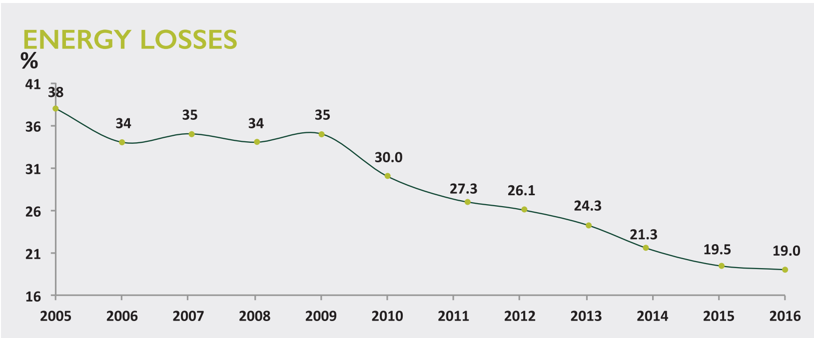
19.8%

- 157,270 new connections were made, reflecting a 19.8% growth in customer numbers.
- 65% of our total customer base is now on prepaid metering, contributing 16% of revenues.



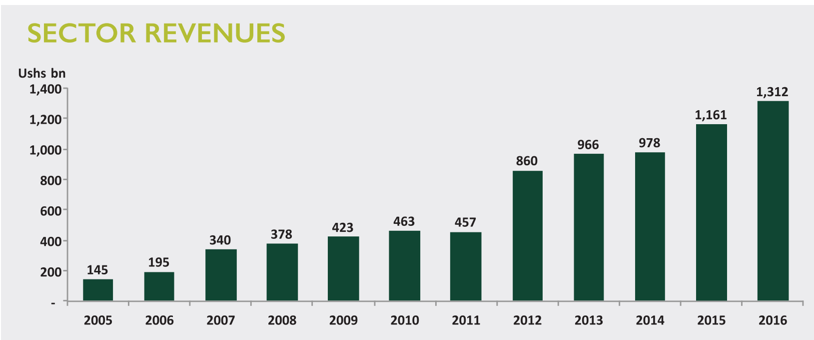
4.4%

Driven by growth in purchases in GWh by 4% and reduction of energy losses from 19.5% to 19.0%



at 19.0%

Energy losses for the year reduced by 0.5% to 19.0%. The losses reduction strategy is focused on reduction of commercial losses estimated to constitute about 7% of total losses. This involves public awareness, meter audits, billing efficiency and proactive use of data analytics to identify and focus the loss reduction activities.



13.0%

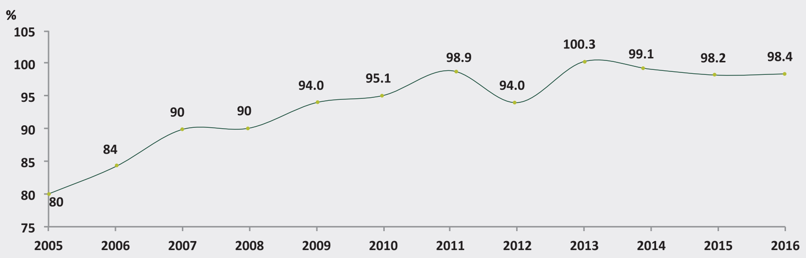
Driven by:

- increase in underlying electricity sales volume by 4.4% due to power availability, supply reliability and reduction in energy losses.
- increase in energy tariff by 7.4% compared to 2015

Our Operating Context *(continued)*

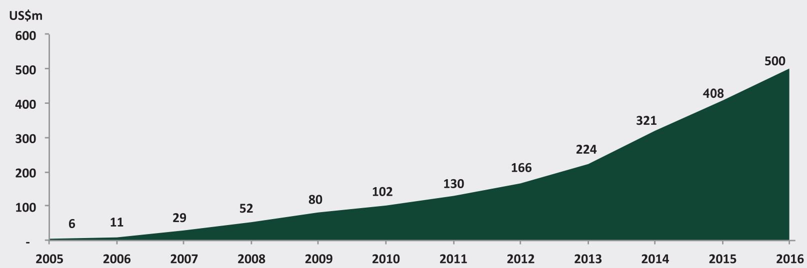
Key performance highlights *(continued)*

REVENUE COLLECTIONS



at **98.4%**

Achieved during the year was 98.4%. The collections rate was achieved through use of pre-paid metering and focus on industrial customers.

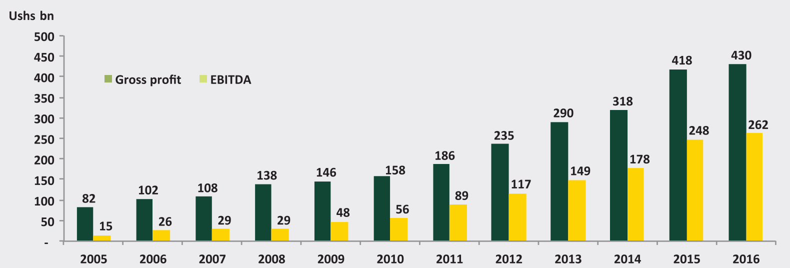


22%

Investment in the Distribution System: US$ 500 m

- In 2016, USD 93 million was invested on capital projects, increasing the total cumulative investment to USD 500 million. The projects implemented included:
- Moniko Substation (USD 6.8 million)
- Tororo Industrial Park (USD 1.4 million)
- Medium Voltage Distribution (Kibuli feeder)
- Construction of interconnection feeders
- Rollout of pre-paid metering and automated meter reading systems
- Expansion of distribution zones and new customer connections to the grid

GROSS PROFIT AND EBITDA



Gross Profit 3.0%
EBITDA 6.0%

The drivers of the increased profitability.

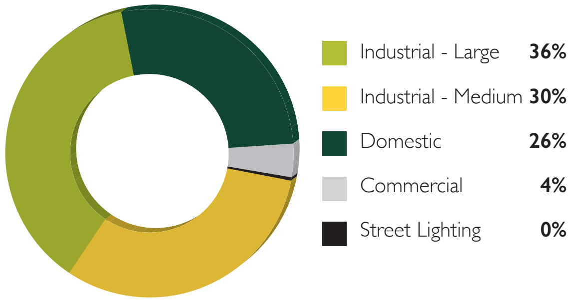
- Additional capital investments in the distribution network
- Growth in sales units and price
- Improved performance against regulatory performance.

Our Operating Context

Key performance highlights *(continued)*

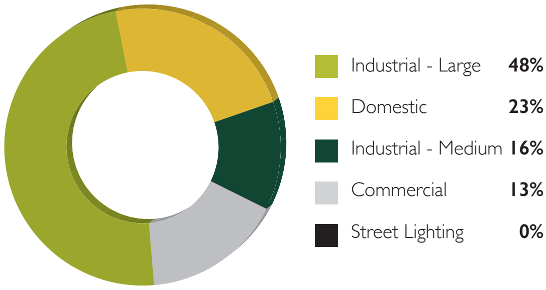
REVENUE

Revenue (Ushs billion)	2016	2015	Growth
Domestic	341.140	306.931	11%
Commercial	47.350	164.450	-71%
Street Lighting	4.711	0.836	464%
Industrial -Medium	395.956	234.758	69%
Industrial - Large	473.216	420.471	13%
Sub-Total	1,262.373	1,127.446	12%
Other revenue/ Lease recovery	49.8	33.6	
Total	**1,312.2**	**1,161.0**	**13%**



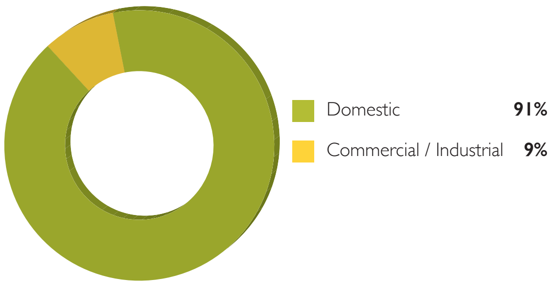
SALES OF ELECTRICITY (GWh)

Electricity Sales	2016	2015	Growth
Domestic	585.4	570.7	2.6%
Commercial	323.0	309.8	4.3%
Street Lighting	1.6	1.6	0.4%
Industrial -Medium	419.6	406.1	3.3%
Industrial - Large	1237.4	1169.7	5.9%
Total	**2,567.0**	**2,457.9**	**0.0**



NUMBER OF CUSTOMERS

Customer Number breakdown	2016	2015	Growth
Domestic	867,671	723,491	19.9%
Commercial	79,746	66,806	19.4%
Street Lighting	306	305	0.3%
Industrial -Medium	2,564	2,431	5.5%
Industrial - Large	527	511	3.1%
Total	**950,814**	**793,544**	**19.8%**



Our Operating Context *(continued)*

Financial and Operational Highlights

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

Financial statistics	**2016 Ushs million**	**2015 Ushs million**
For the year		
Revenue	1,312,168	1,161,008
Gross profit	430,382	418,041
Operating profit	194,665	190,641
Profit before tax	152,084	160,982
Profit for the year	99,747	105,857
Capital investments	317,797	280,528
At year-end		
Total assets	2,191,859	1,774,869
Shareholder's equity	592,052	503,775
Outstanding interest bearing debt	702,437	478,397
Cash flow data – for the year		
Net cash flows from operating activities	170,670	176,576
Net cash flows used in investing activities	(317,797)	(280,528)
Net cash flows from financing activities	125,938	102,761
Per share	**Ushs**	**Ushs**
Basic and diluted Earnings per Share	61	65
Proposed Dividend per Share	18.8	35.2
Operating and other statistics	**FY 2016**	**FY 2015**
Electricity sales during the year (GWh)	2,567	2,458
Electricity purchases during the year (GWh)	3,172	3,051
Energy losses (percentage)	19.0%	19.5%
Revenue collections rate (percentage)	98.4%	98.2%
Total length of distribution lines (Km)	13,145	12,168
Total length of low voltage lines (Km)	18,646	16,824
Total distribution transformers at the end of the year	11,580	10,285
Bulk Supply off take points (UETCL Substations 132KV/66KV/33KV/11KV)	15	15
Distribution Substations (33KV/11KV)	58	57
Number of pending service applications	483	522
New connections during the year	157,270	148,593
Total number of consumers	950,814	793,544
Total number of company employees	1,384	1,363
Exchange rate: US Dollar to Uganda Shilling (at year end)	3,616	3,377
Exchange rate: US Dollar to Uganda Shilling (annual average)	3,423	3,242

The detailed results for the year and reserves as at year-end are presented on pages 71 to 75.

Our Leadership Team

Mr. Samuel Zimbe
Deputy Managing Director and Executive Director

Hon. Gerald Ssendaula
Non- Executive Director

Mr. Christopher Nicholson
Non- Executive Director

Mrs. Florence Nakimbugwe Nsubuga
Chief Operations Officer and Executive Director

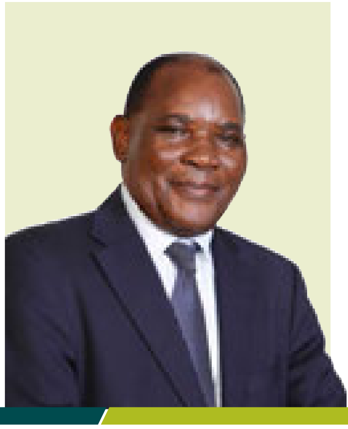
Mr. Patrick Bitature
Non- Executive Chairman

NOT IN PICTURE:
Mr. Adrian Mucalov
Non- Executive Director


Mr. Stuart David Michael Grylls
Non-Executive Director
Mr. Charles Chapman
Non-Executive Director
Mr. Pieter Adriaan Faling
Non-Executive Director
Mr. Noah Mwesigwa
Company Secretary Representative
Mr. Selestino Babungi
Managing Director and Executive Director
Florence Namatta Mawejje
Non- Executive Director
Full Profiles of the Board of Directors is available on Pages 136-138

Our Management Team

Mr. Selestino Babungi
Managing Director
(See profile on pg. 138)



Mr. Samuel Zimbe
Deputy Managing Director
(See profile on pg. 138)

Mrs. Florence Nakimbugwe Nsubuga
Chief Operations Officer
(See profile on pg. 138)

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.

Almero Grey
Acting General Manager Capital and Contracts Division

Almero is an experienced engineer in the utility management environment with a passion to improve the operational processes and affecting efficient solutions. His experiences include project and programme management, the establishment of a project management unit, water and energy losses management, material management, engineering solutions in distribution, Utility business analysis and general utility management issues. In Umeme he participated in the establishment of the Capital & Contracts Division where he defined the strategic project life cycle model for implementation, defined the processes aligned with the PLCM and organizational structures to support the strategic direction. He also set in motion the standardization of documentation, control measures and quality assurance throughout the PLCM.

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 Marie is a Fellow of the Association of Certified Chartered Accountants (UK) and a Certified Public Accountant (Uganda).

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.

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, incharge of professional Development.

Sandorlyle Walusimbi
Head of Communications & Marketing

Sandor holds a BA (Hons) in Economics from University of London, England. He has extensive experience in marketing and corporate communications having worked with DIAGEO's East African Breweries (Uganda) where he rose to different positions as a Brand Manager, Innovations Manager & Marketing Manager.

He was later relocated to EABL Kenya as marketing manager and further promoted to Corporate Relations Director, Uganda Breweries thereafter.

Prior to joining UMEME, he worked at Airtel Uganda as Head of Public Relations.

Agnes Nalwanga
Head of Customer Services

She has a working experience of 20 years within the Ugandan Electricity sector, and 12 of these years have been with Umeme Limited. She has worked in various Managerial roles as; Area Manager, Retail Services Manager and Regional Manager.

She holds a Bachelors Degree in Commerce (Marketing), a Masters Degree in Economic Policy and Management from Makerere University Kampala; and a Master Degree in Business Administration from Assam Don Bosco University India.

Chairman's Message

I take the pleasure, once again, communicate to you our performance for the year 2016, as we lay the foundation for a new era in electricity distribution in Uganda.

Looking back over the last 11 years, I note with satisfaction and optimism on the contribution of Umeme Limited to transformation of the electricity sector in Uganda. During this period, the sector reforms initiated in the late 1990's took firm hold and allowed the sector to operate as envisaged. It is no surprise that the sector is somewhat financially sustainable with minimal subsidies from the government, effective generation capacity has increased from 150MW to over 650MW, grid connections more than quadrupled, distribution efficiencies improved from 50% to 80%, Umeme has invested over USD 500m of private capital and considerable value has been created for customers and shareholders. Uganda's electricity sector model is being replicated across other countries. I look to the future with optimism and what needs to be done that is much bigger than what was delivered in the past. I am proud to note that Umeme has the capabilities and platform to deliver the future.

Bridging the electricity access agenda

Uganda is among the countries with the least electricity penetration rates, with 21% of households using electricity, with 16% on the national grid. The main limiting factor to increasing electricity penetration is the size and capacity of the existing grid, with a sizeable capital investments required. Our investment plans for the next period cover both the expansion of the distribution infrastructure and improving efficiencies. The alignment of our investment plans to upcoming generation, post commissioning of Isimba and Karuma HPPs, is key to the continued financial sustainability of the electricity sector. Accelerating customer connections will lead to social and economic transformation of Uganda.

Driving Operational excellence

Over the last 10 years, Umeme has improved the distribution efficiencies from 50% to 80%, through the reduction of energy losses from 38% to 19.0% in 2016 and improving revenue collections from 80% to 98.4%. Efficiencies ensure financial sustainability of the sector operators and positive contribution to effective tariff reductions.

Our strategy is to continue driving efficiencies though the use of technology, investments in the network and development of the human capability of the organization. Our long term ambition is to reduce energy losses to single digits.

Commitment to compliance

We operate in a highly regulated environment. As the Board, we place compliance with laws, regulations and guidelines at the heart of business operations. I am proud to note, that management has in place a functional mechanism of continuously assessing and ensuring the Company is complying with its obligations under the different laws, regulations and contracts. The ESG committee of the Board is kept abreast on any changes or developments in the compliance regime.

Key Regulatory Issues

The Electricity Regulatory Authority (ERA) is in the process of modifying Umeme's Electricity Supply License No. 048 to incorporate the terms agreed upon in the Consent Judgment that the Company entered into with the Authority, on 18 May 2016, with respect to License Amendments No. 2 & 4 of 2012. We shall inform shareholders on the outcome of the amendments, once completed.

The Escrow Account remains unfunded. We continue to engage with the Ministry of Finance, Planning and Economic Development and ERA on a process for replenishing the Escrow account.

I would also like to note the key issue of delayed approvals of capital investments by the Regulator, as highlighted under Note 15 of the financial statements. I re-assure shareholders on the commitment of ERA to expedite the review process and give its decision in due course. The Regulator understands and is mindful of the impact these delays on the Company's financial capability and ability to invest more in the distribution network.

Excellence in Governance

Umeme prides itself in upholding best practices in corporate governance. As the Board Chairman, I am satisfied at the level of governance practices the Board holds itself against. During the period, Directors undertook different trainings related to governance and the roles of Directors. We conducted an evaluation of the Board and Board Committees. The Board has committed itself to addressing areas identified with an opportunity for improvement.

I take this opportunity to note the departure of Mr. Adrian Mucalov as Director of Umeme, having joined the Board in March 2013. We are grateful to Adrian for his invaluable contribution to the Board and wish him well in his roles at Actis.

Changes in Shareholding Structure

In the same spirit, we acknowledge the contribution of Actis, through Umeme Holdings Limited (UHL), to the growth of Umeme over the last decade. During the period, UHL divested its remaining 14% holding in Umeme Limited, leading to the National Social Security Fund becoming the largest shareholder owning 23% of the Company. The Directors and staff of the company now own 2% of the company. The introduced management incentive plan, is intended to align shareholder and management interests. We welcome our new shareholders on the Umeme register and look forward to your continued engagement with us.

Chairman's Message *(continued)*

Financial Performance

As outlined in the financial review report, the company reported a net profit of Ushs 100 billion compared to Ushs 106 billion of 2015, driven by EBITDA performance and increased financing costs. Based on this performance, the Board has recommend a final dividend of Ushs 7.8 per share leading to a total dividend for the year of Ushs 18.8 per share. Once approved at the Annual General Meeting, the final dividend shall be paid on 5 July 2017.

Sustainable development

We create value to the various stakeholders through the execution of our business strategy and day to day business operations. Umeme is committed to the long term business sustainability, positively impacting our customers, shareholders and society as a whole. Similarly, we shall continue to provide our employees with reasonable compensation and opportunities to excel, as our people are at the centre of the value creation.

The continued support of our stakeholders, especially customers, shareholders, financiers and the government is critical, for the next growth phase of Umeme. We need to continuously invest in the expansion of the distribution networks to reach as many customers as possible, ensure quality and reliable supply to industries and power business for Uganda's economic transformation.

Looking forward, we shall continue placing emphasis on increasing our operational efficiency and leveraging on our financial strength to exploit growth opportunities in the market to ensure a sustainable return for shareholders while balancing the needs of our stakeholders.

Conclusion

On behalf of the Board, I convey our sincere gratitude to our staff, customers, government and stakeholders, for their continued support to the business. Umeme is committed to continuously addressing the needs of its stakeholders, while creating value to customers and shareholders.

Mr. Patrick Bitature
Chairman

Managing Director's Statement

Once again we present the results for the year ended 31 December 2016. It was a challenging year for the company, our customers and stakeholders.

In the first half of the year, the government concluded the elections season in May 2016. The economy only grew by 4.8% below the initial target of 5.5%, with the manufacturing sector registering no growth. Inflation closed at 5.7%, while the Uganda Shilling depreciated by 6.9% against the US Dollar. Demand for electricity was sluggish, only growing at 4.4%, compared to 8% recorded in 2015. We recognize the impact of global economic and political trends on the country macro-economics, especially the regional economic effects from the war in South Sudan.

Safety

We continue to focus on the safety of our staff and public, with a target of zero accidents resulting from our business operations. Unfortunately, we recorded one fatality, as a result of operations. This was the first incident since the last incident recorded in April 2014.

It is worth noting that fatalities resulting from public interference with the distribution network through either, illegal network operations, power theft or construction of structures within the electricity distribution corridors reduced to 18 from the 28 recorded in 2015. We shall continue conducting public awareness campaigns around the dangers of electricity.

Our Staff

Our staff are at the centre of value creation for our customers, shareholders and stakeholders. I am pleased that the company continues to attract and develop staff to deliver the business objectives. We conducted a number of trainings and capacity building activities to strengthen staff functional and management development capabilities.

During the period, a Long Term Incentive Plan was introduced for managers, aimed at aligning management and shareholder interests. The scheme is hinged on achieving minimum financial targets, to qualify for a payout. A contributory retirement benefit scheme was introduced for all staff, with contributions of 5% by the company and 5% employee. The scheme is managed outside the Umeme balance sheet. The scheme is aimed at encouraging staff social security savings, as a retention strategy.

We continue to focus on performance management, with annual staff bonus pay outs linked to individual and organization performance. The company continued to improve the working environment and provision of necessary tools for staff to execute their responsibilities.

Overall, the staff engagement score improved from 80% to 82%

Mr. Selestino Babungi
Managing Director

Customer Service

Our promise to customers is to be an efficient supplier of safe, reliable electricity and friendly customer experience. Our service strategy in 2016, focused on process simplification, automation and investments to improve network performance.

During the year, we concluded the integration of our payment platforms with all the major financial institutions, mobile money operators and points of sale service points. This enabled the closeout of cash offices within our retail outlets. This initiative not only improved our operating efficiencies, but improved the customer experience in our retail outlets and freed some resources tied to cash management work stream.

We revamped our contact centre through deployment of a new Call Manager and provision of many online customer digital channels, including the Umeme App. We have noted about 25% reduction in voice calls and growth in other digital communication platforms. Umeme shall continue to be open and accessible 24/7, at the service of its customers.

Managing Director's Statement *(continued)*

We shall continuously review our customer service processes to ensure they are less cumbersome and deliver a faster service experience.

During the year, our customer base grew by 19%, having connected 157,000 customers. The total customer base closed at 950,000, of which 65% are on pre-paid metering. We aim to convert the remaining 300,000 households from postpaid to pre-paid metering over the next 2 years.

Our industrial customers require continuous quality electricity supply, for industrial production. The reliability improvement projects, under implementation, are projected to continuously improve the quality and reliability of supply. In 2016, some of the key projects implemented to reduce outages include the Moniko substation in Lugazi, distribution automation, integration lines, Luwero-Kapeeka lines and distribution infrastructure protection schemes. The technical engineering service zones are under review to ensure technical resources are placed near the customers to minimize travel times and prolonged outages. The development of the Asset Master Plan, was concluded and the company has commenced implementation of ISO 55000 on assets management.

Capital investments

From the start of the concession in 2005, Umeme has cumulatively invested over US$500m in the distribution network. These investments were focused on restoration and expansion of the grid, reduction in energy losses, improvements in efficiencies, roll-out of pre-paid metering, connections of new customers to the grid, improved service, reliability of supply and improving public safety. The impact of the investments is evident in the performance of the distribution sector and general electricity sector in Uganda.

In 2016, a total of US$ 93m was invested in the networks, some of the key projects that were executed include the construction of a 40 MVa Moniko substation in Lugazi and Mbalala, completion of Namugongo integration lines, GetFit mini hydro project integration lines, upgrade of Lugogo to Kibuli lines, refurbishment of lines in Kabale, Mukono and Palisa, roll out of pre-paid metering, upgrading Namanve Industrial Park, conversion of Government of Uganda accounts to prepaid metering and the upgrade of power transformers across the country.

We shall continue to focus on growth and efficiency related projects in readiness for the upcoming generation capacity.

Operational Performance

- Energy losses: during the period were 19.0% compared to 19.5% we posted during 2015. We recorded energy losses of 19.3% in the first half of 2016, while 18.5% was achieve in the fourth quarter of the year. We reviewed and refocused our loss reduction strategy on commercial losses, in some of the high losses districts and completion of some technical losses projects with the highest impact.
- Customers on Pre-paid Metering increased to 65.0% of the total customer base compared to 52.2% in 2015. Turnover from pre-paid customers in 2016 was 16% and projected to continue raising as more consumers are converted to the system. During the year, we commenced the roll-out of pre-paid metering for government of Uganda installations. Once completed, the project aims at improving fiscal discipline of government agencies in the utilisation and management of electricity bills.
- Revenue Collections rate for the year stood at 98.4% compared to 98.2% posted in 2015. The collection rate was driven by turnover from pre-paid sales, focus on industrial customers and payments from government agencies. We continue to improve the revenue management cycle, through innovations like automated meter reading, eBills, mobile bills and Umeme Mobile App. In addition, the general improved service encourages customers to settle their bills without the hustle of disconnections and reconnections.

Financial Performance

- Revenue grew by 13.0% to Ushs 1.3 trillion compared to 2015, driven by volume growth at 4.4% and general price increase. Gross profits increased by 3% to Ushs 430.4 billion compared with the same period last year, explained by a higher increase in cost of sales. The gross profits were affected by delayed approvals by the regulator of investments to the assets base.

  EBITDA grow by 6% to Ushs 262 billion, affected mainly by the delayed recovery of investments related income.

  Net profits for the year reduced to Ushs 100 billion from Ushs 106 billion recorded in 2015, on account of EBITDA performance and increased financing costs.

Future outlook

The current stage of the electricity sector in Uganda, requires significant investments, in tandem with projected growth in generation. Our next investment cycle of 2017 – 2021 prioritizes network growth related capital investments on the back of the expected increase in power supply and the country's industrialization drive. The additional capital requires a new financing structure and strategy, which are a priority for 2017.

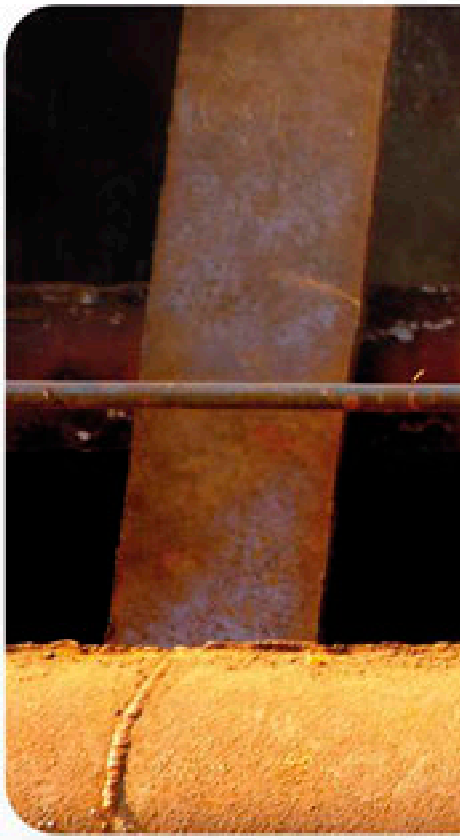
Recovery of regulatory income and approval of outstanding investments remains our top priority, for management. This is coupled with delivery of the 2017 regulatory targets on energy losses, collections and operating efficiency, while executing our network investment plan.

With the improvements in the performance of the economy, we project an increase in electricity demand over the period.

Conclusion

I take this opportunity to thank staff, management and the Board of Directors for their support and continued focus on service and driving value creation to our shareholders and stakeholders. We are grateful to our customers, the government and other stakeholders, for their continued business support and making Umeme grow from strength to strength. Our commitment is to serve and continue to deliver the agenda of our stakeholders, while growing Umeme as the model electricity distribution company in Africa.

Powering **Agro-Business**



Powering **Health**

Powering **Industry**

Our Business

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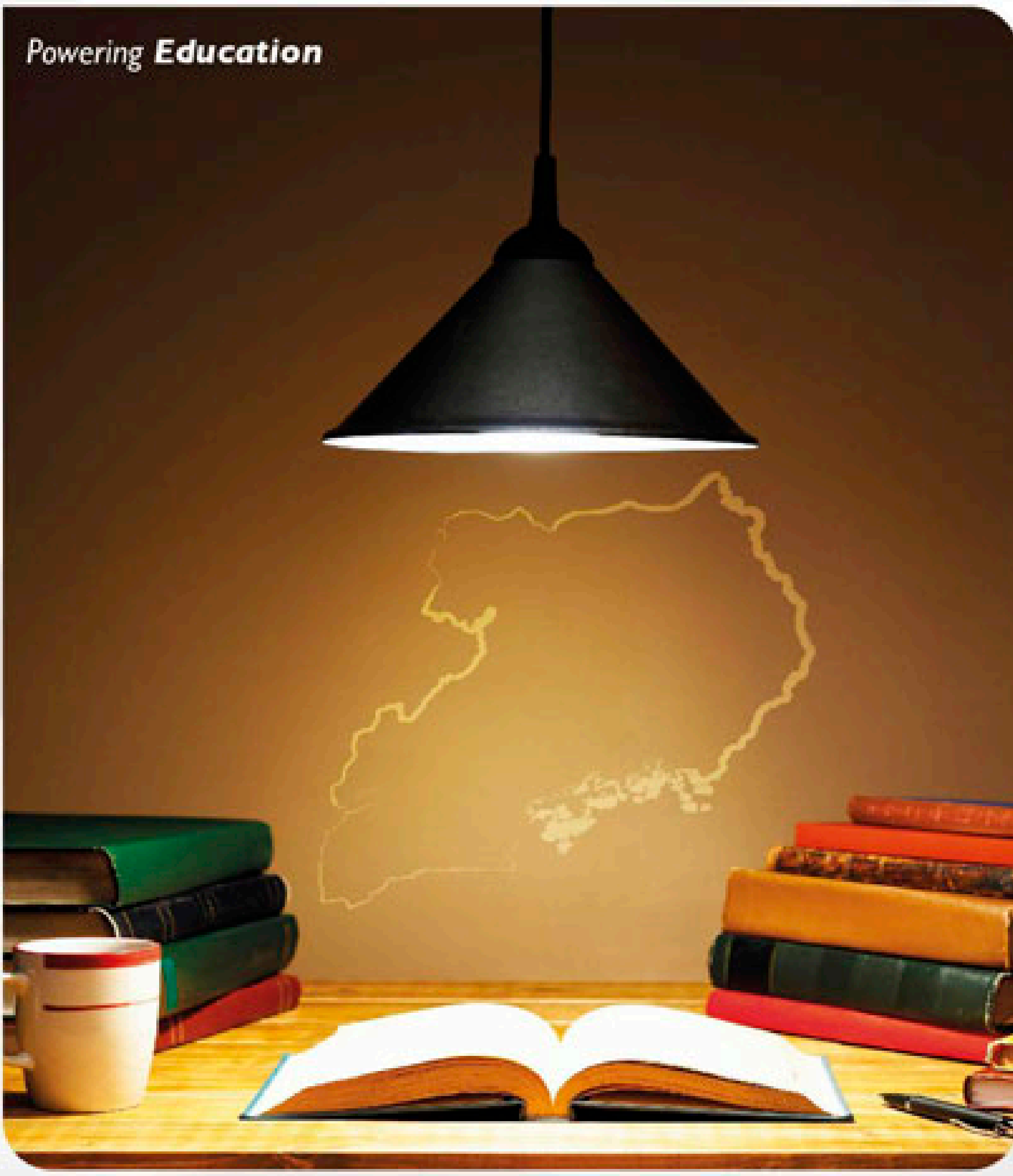


www.umeme.co.ug

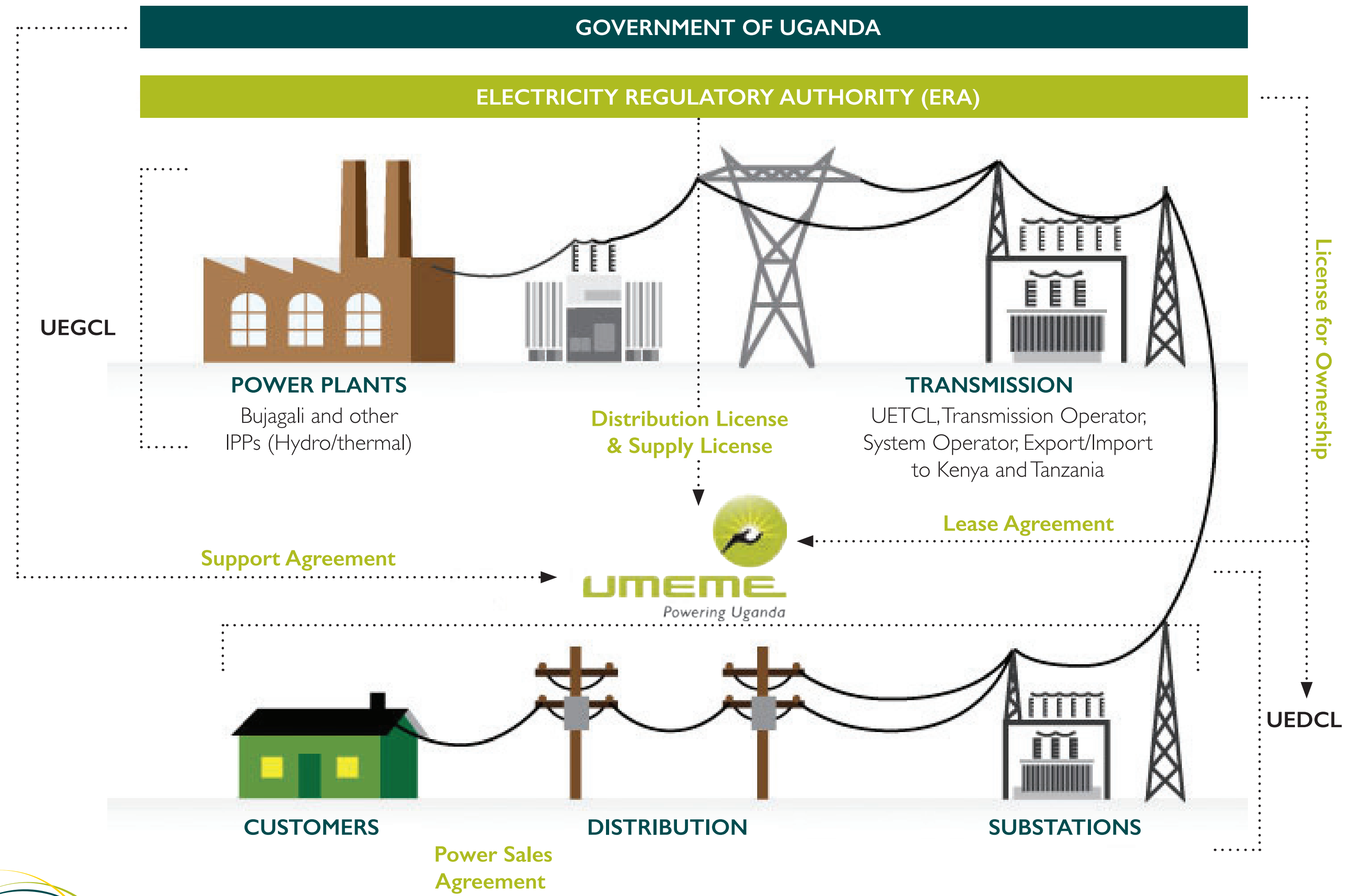
Our Value Chain

Power distribution

Construction, operation, and maintenance of electrical lines, substations, distribution transformers, and other network infrastructure, to transport electrical power from generation and transmission stations to the consumer.

Retail sale of energy

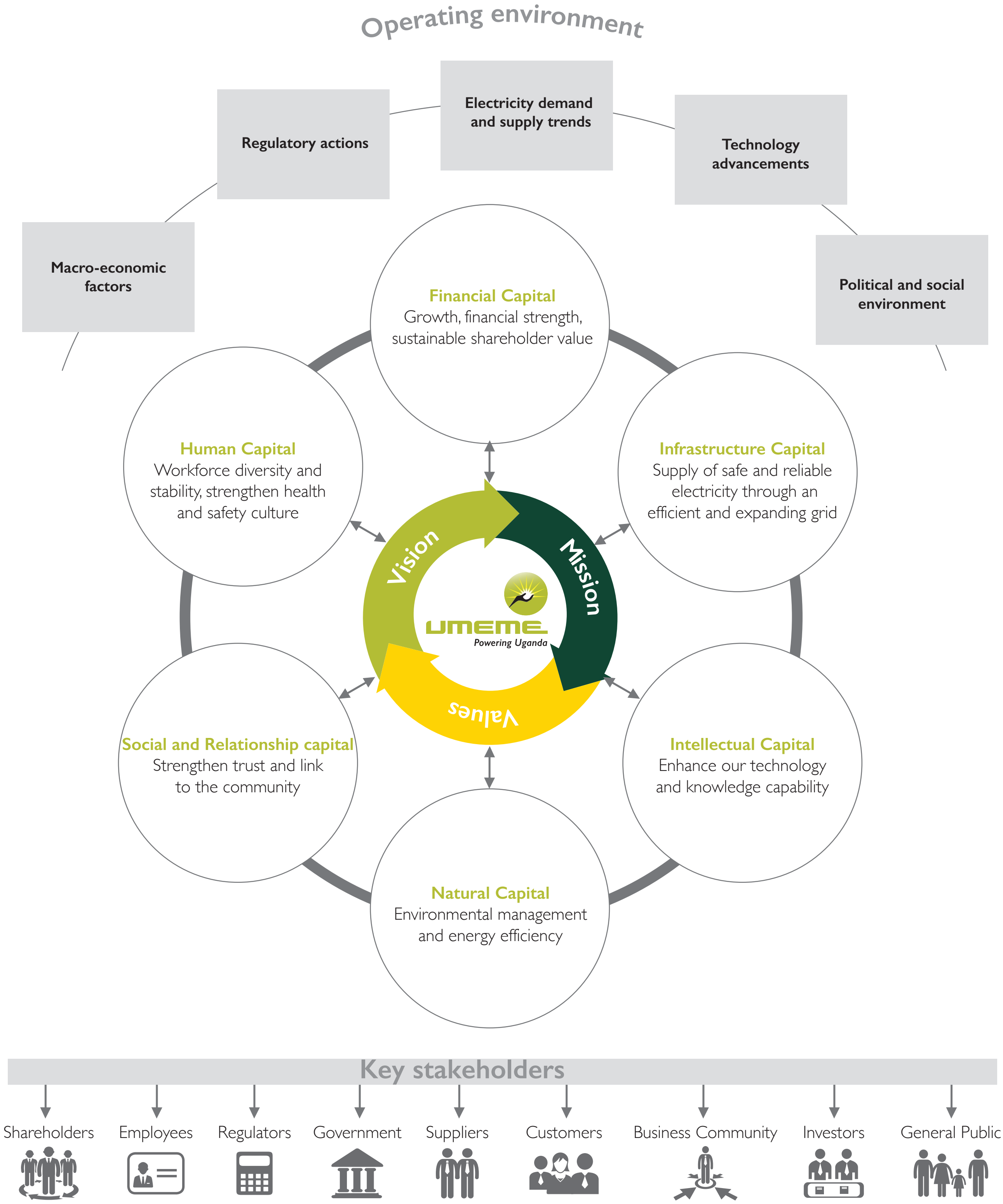
Electricity Supply to customers including provision of additional products and services.



Capital and Business Relationship

Umeme creates value for customers, stakeholders and shareholders through implementation of its business strategy and deployment of key capital resources in day to day activities. The ultimate objective is to ensure sustainable value growth in tandem with increase in capital resources.

The chart below shows each of the capitals we utilize in our day to day operations and how they interrelate with key aspects of our business. The process of shared value creation for both Umeme and its stakeholders, facilitates the achievement of the company's goal of being an efficient supplier of safe and reliable electricity to customers.



Management of Capital

Umeme holds valuable assets for the development of its business model. The strategy defined by the company transforms these assets to create value for all its stakeholders.

	Financial Capital	Infrastructure Capital	Intellectual Capital
What is it?	Financial resources the company already has or obtains through financing.	Tangible assets or equipment used by the company to carry out its business activities.	Intangible assets based on technical, technological and specialist knowledge and on processes
Management Approach	Create sustainable value for shareholders through network investments, efficiency and grid connections	Invest in the expansion and restoration of distribution infrastructure to ensure safe, reliable electricity supply and growth in grid connections	Continuous innovation and deployment of technology to operate the business and the distribution networks
Significant Aspects	• Balanced growth. • Sound financial capital structure. • Operational efficiency. • Sources of financing • Risk management	• Electricity distribution assets. • Customer grid connections.	• Efficiency of business operations • Disruptive technology and business models. • Corporate reputation.

Human Capital	Natural Capital	Social and Relationship Capital
Employee knowledge, skills, experience and motivation.	Natural resources affected by the company's activities.	Ability to share, relate, and collaborate with our Stakeholders, promoting community development and well-being.
Guarantee the availability of a committed and qualified workforce.	Ensure the sustainable use of natural resources and contribute to combating climate change. Use alternative technologies to preserve the environment	Promote relations of trust with Stakeholders, improving the quality of life of people in areas where we operate. Build community ownership of the infrastructure in their areas.
• Human capital management • Safety of staff and the public • Talent management. • Diversity, equal opportunity, and reconciliation	• Environmental management. • energy efficiency. • Waste management. • Social protection	• Stakeholder relations. • Community support • electricity access programme • Proactive communication • Regulation

Stakeholder Engagement

We believe that effective stakeholder engagement is paramount to our success and essential for maintaining the social license to operate. Our stakeholders are identified as the groups and individuals who can influence or are impacted by our operations either directly or indirectly. We shall continue to engage openly and authentically with our stakeholders to build cooperative and mutually supportive relationships. Some of the stakeholder engagement activities include:

- Identify our stakeholders and communicate in a relevant, inclusive, timely and responsive manner.
- Build enduring community relationships that demonstrate mutual respect, proactive engagement, honesty and transparency.
- Educate our staff, contractors, business partners and services providers in regard to cultural differences of our staff and customers we serve.
- Assess our social performance through direct consultation with our neighbours and social partners.
- Strive to outperform our obligations under legislative and regulatory guidelines and any agreements entered into with the community, including encouragement of business and contracting opportunities.
- Strive to provide mutually beneficial opportunities within the communities that we operate.
- Conduct our business with integrity and fairness.
- Acknowledge stakeholder engagement as a key responsibility for all employees and ensure its integration into daily operations.
- Manage external risks by understanding the impacts our operations can have on our stakeholders and promote effective working relationships.

Our key stakeholders include:

Regulators	ERA, USE, CMA (Uganda and Kenya), NSE	**Government**	Parliament, Ministry of Energy and Mineral Development, Ministry of Finance, Planning and Economic Development, Ministry of Trade and Industry
Employees	Permanent employees, Contractors, trainees, interns	**Customers**	Industries, businesses, individual house hold consumers, Government ministries, departments and agencies
Business and industry	Uganda Manufacturers Association, Private Sector Foundation, Uganda Investment Authority, Uganda Chamber of Commerce, other Industry and trade association and industry experts	**Suppliers**	UETCL, UEDCL contractors, equipment and services suppliers
Financial markets	Bankers, lenders, investment analysts, potential investors	**Civil society**	Non-Governmental Organizations (NGOs) and Community Based Organizations (CBOs), Consumer Forum, Consumer Associations
General public	Media, civil society. Local communities, local authorities, security agencies	**Shareholders**	Shareholders

Our Material Issues

Investment in Expansion of Distribution Infrastructure

Over the last 11 years, Umeme has invested over USD 500 million in the electricity distribution infrastructure leading to: doubling of the physical infrastructure, improved efficiencies, tripling customer connections, supply reliability and improved customer service. The Electricity Supply Industry is somewhat now financially stable, with minimal government subsidies. Increased grid expansion and access to electricity contributes to Uganda's economic development and improves social services like education, health and household incomes.

We recognise that, the upcoming period requires further significant investments in grid expansion. The government ambition of increasing electricity penetration from current 21% (of which 16% is on the grid) to 40% of households by 2025, coupled with the projected increase in effective generation capacity from current 650MW to over 1,600MW by 2020, underlines the urgency for investments in the distribution networks. We estimate an investment of USD 1.5 billion over a 10 year period to achieve the government objective. Mobilisation and deployment of this capital shall be an important work stream for the company over the coming period.

Continuous investment in the grid ensures its efficiency, reliability, safety and ability to evacuate and distribute increased generation capacity.

Efficiency in our operations

Efficiency of the electricity supply industry players is fundamental for its financial sustainability and impact of end user tariffs. A financially sustainable electricity sector is less reliant on government subsidies, and fuels continuous investments of private capital. As an electricity distributor, Umeme drives attainment of efficiencies through; reduction of energy losses, reduction in bad debts through uncollected bills and optimal management of operating costs

A. Energy losses

Energy losses are in two forms; technical and commercial losses. Technical losses manifest themselves through changes in energy forms through the distribution network and are minimized through investments in network optimization. On the other hand, commercial losses are related to power thefts, through illegal tapping of the networks, tampering with metering installations and or billing inefficiencies.

Energy losses are costly to the sector and the country as they negatively impact electricity pricing, profitability and financial sustainability of the sector operators. Over the last 11 years, Umeme has reduced distribution energy losses from 38% to 19.0% as of 2016. The company targets to achieve losses of 14.7% in 2018. The next targets regulatory cycle will cover the period 2019 to 2025.

We welcome the ongoing amendment of the Electricity Act, to institute very punitive penalties for power theft related offences. We equally applaud the Government for the setup of a Specialised Utilities Court that deals with power theft and vandalism of electrical equipment cases, among others. These actions will act as deterrents or ensure speedy action against offenders.

We believe that through sustained engagement and sensitization of the public on the adverse economic and social impacts of power theft be it through illegal connections, tampering or vandalism; we will be able to drive down energy losses for the mutual benefit of the consumer and the company.

Our other loss reduction interventions include:

People

- Strengthen leadership and accountability for losses
- Penalty and reward mechanism to motivate loss reduction
- Capacity building and increased visibility to address theft among domestic customers

Deploy Technology

- Automated metering infrastructure for industries and commercial customers, who account for 70% of total sales, to aid real time detection when the customer meter is accessed
- Prepayment metering for domestic customers
- Meter anomaly detection and correction

Processes and Control

- Field action to be guided by data analytics
- Improve efficiency of the revenue cycle
- Revenue assurance through annual system audits

Measurement

- Improved measurement at the medium and low voltage networks to determine the split between technical and non-technical losses
- Prioritise technical losses investments based on anticipated benefits
- Energy balancing at distribution transformer level

Infrastructure

- Uprate and optimize distribution infrastructure
- Medium voltage distribution
- Creation and expansion of distribution transformer zones

Advocacy

- Anti-power theft campaigns such as Wuuyo

B. Operating costs

Operating costs are incurred in the delivery of day to day services to customers. Umeme's operating costs are regulated and capped for a regulatory period. Any variances from the fixed costs impacts the profitability and returns of the company. We aim to deliver our services at optimal costs through implementation of best practices network operation and management, assets management, processes and technology, control systems, digitalisation and automation of our operations. In 2016, we automated a number of our service points, automated some of the networks, introduced the Umeme App and closed our cash offices. With 65% of our customers on pre-paid metering, these customers are provided with multiple channels to purchase their electricity.

Our Material Issues *(continued)*

C. Collections

We collect revenue on behalf of the entire electricity sector. Efficient upstream operations of the Transmission Company and generation companies are dependent on sufficiency of cash flows collected from electricity consumers. Umeme has consistently achieved collection rates above 98%, driven by roll-out of pre-paid metering, focus on the top industrial customers, improved service, provision of multiple convenient payment channels and protection against government agency arrears.

Service delivery

As a business, we exist because there is a customer that we serve and the only way we can remain in their service is that we ensure we continuously meet their expectations and better yet surpass these expectations. We serve a variety of customers and we are keen on understanding their specific energy needs so that we align ourselves to meeting them. Our customers want uninterrupted supply of power of good quality that is safe and affordable with an excellent customer service at each of the touch points.

Reliability and quality of supply is critical to our industrial customers, as downtimes are costly in their operations. We shall continue to invest in the distribution infrastructure to improve on the quality and reliability of supply. We are strengthening backbone infrastructure in industrial parks and installed automation equipment to minimize power restoration times, in case of unplanned outages. We continuously inform our customers in case of planned or unplanned outages.

On the service front, Umeme continues to invest in the training and development of its staff on customer service best practices. We are reviewing the mapping of our technical staff across the networks, improve response times and bring services near to the customers.

Affordable pricing is also another area of concern for our customers. Tariffs are a function of the entire sector's cost base and therefore reduced prices can only be achieved through optimal cost structures across the electricity chain, improved efficiencies and growth in electricity usage. The Government is keen on driving down the cost of electricity and has rolled out several programs targeted at reducing the cost of energy in the country. The construction of the Isimba and Karuma power plants are expected to generate electricity at lower costs.

Serving our customers at Kampala Metro service centre

Technology

In the current global business environment, technology is now the biggest disruptor as it changes how business carry out their activities in achieving their objectives. With increased innovation, we are seeing the emergence of new and clean energy supply such as solar which are relatively cheaper and easier to access for the consumer. These technologies compliment the faster electrification agenda, though off grid and rooftop solar solutions.

We shall continue to research and identify opportunities for use of technology in our operations. We face an ever present risk of technological and cybersecurity attacks that could have substantial effects on the security and integrity of systems and databases. We are strengthening our systems and processes to protect the business against cybersecurity risks.

Alignment of human capital needs

In an ever changing operating environment, there is need for Umeme to ensure that its human capital is evolving to match with the business needs. This means that we must continuously build a future ready workforce aligned to the operating environment. We continue to invest in our employees through trainings, exposure to best practices and building cross-functional capabilities. We recognise the pace at which the electricity sector is expected to grow, and as such, we need to pace up the development of the talent pipeline to match with the future needs.

Environmental and social footprint

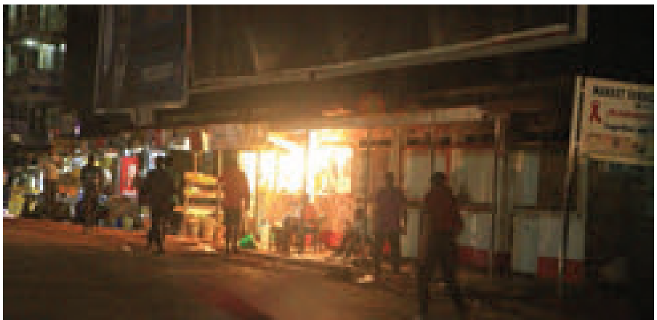
Umeme is mindful of preserving the environment in which it operates. We recognise that some of the inputs and outputs into/from the business operations impact the environment. It is also important to note that off grid households use alternative sources of energy including kerosene and firewood, with detrimental effects to the environment.

We take extra care to ensure appropriate disposal of used transformer oils, poles and network equipment. We deal with suppliers that demonstrate sustainable environmental practices.

The company is considering alternative technologies for wooden poles, including use of concrete poles or PVC technologies that extend the life of wooden poles.

We ensure social protection of communities in which we operate. Environmental impact assessments are conducted for all major capital projects, consistent with requirements of the law and regulations.

Overall, increase in electricity penetration contributes to social and economic wellbeing of communities being served.



Empowering business in Kamwokya - a Kampala Suburb

Making it easier to pay your electricity bills.

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UBA United Bank for Africa

BANK OF AFRICA Groupe BMCE BANK

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UMEME Powering Uganda

OPTIONS AVAILABLE

24/7

For customer service inquiries call **0800 285 285 / 0800 385 385** (Toll Free), **0312 185185** or email **callcentre@umeme.co.ug** website: **www.umeme.co.ug**

or follow us on Umeme limited @UmemeLtd +256 772 285285

UMEME Powering Uganda

Our Performance

Financial Capital

13% INCREASE IN REVENUES

2016: UShs 1,312 billion
2015: UShs 1,161 billion

Increase in revenue is mainly driven by underlying increase in electricity sales volume by 4.4% due to power availability, supply reliability and reduction in energy losses, increase in energy tariff by 7.4% compared to 2015 and increase in customer base from 793,544 to 950,814.

3% GROWTH IN GROSS PROFIT

2016: UShs 430 billion
2015: UShs 418 billion

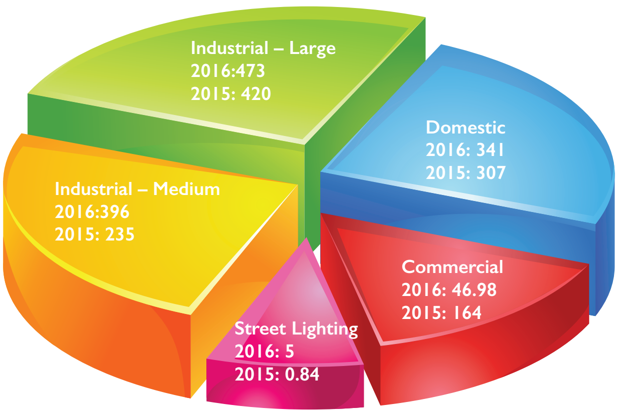
Increase in gross profit is mainly as a result of increase in capital investments and reduction in energy losses

4% DECLINE IN OPERATING COSTS

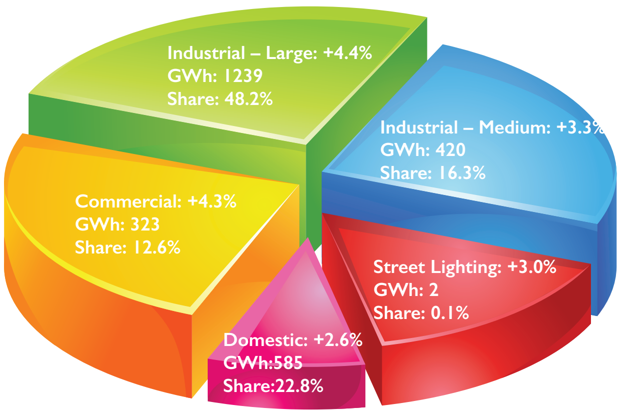
2016: UShs 181 billion
2015: UShs 189 billion

Improvements in efficiencies resulting from use of technology with 65% of customers using pre-paid metering, closure of cash offices in the first half of 2016, capital investments in the distribution network, reduction on network maintenance costs. The total operating costs were within the allowed tariff allowance.

Revenue Split (Ushs billion)



Sales Growth (GWh)



6 %

INCREASE IN EBITDA

2016: UShs 262 billion
2015: UShs 248 billion

Growth in EBITDA is attributed to increase in capital investments base, increase in electricity sales units, performance of the company against it's regulatory targets and a decline in operation costs during the year.

4 %

DECLINE PROFIT AFTER TAX

2016: UShs 100 billion
2015: UShs 106 billion

Attributed to increase in financing costs arising out of increased borrowings to fund capital investments.
The basic Earnings Per Share was Ushs 61 compared to Ushs 65 of 2015.

Tax Charge

2016: UShs 52 billion
2015: UShs 55 billion

Effective average tax rate of 34.4% compared to 34.2% in 2015

Financing Costs

2016: UShs 43 billion
2015: UShs 29 billion

Financing costs related to term facilities with the lender group (IFC, Standard Chartered Bank and Stanbic bank). The increase was driven by an increase in the total debt due to the drawdown on Ushs 245 billion (USD 70m) during the year, and increase in LIBOR by 57 basis points.

Balance Sheet Analysis

Total assets as at 31 December 2016 were Ushs 2,192 billion compared to Ushs1,775 billion at 31st December 2015.

Shareholder Equity increased to Ushs 592 billion in 2016 from Ushs 504 billion in 2015. The increase is attributed to profits after tax for the period of Ushs 100 billion net of dividends paid during the period.

Outstanding interest bearing debt increased to Ushs 714 billion in 2016 from Ushs 491 billion in 2015. An additional USD 70m was drawn during the year and USD 17m repaid. The funds were utilized to fund the capital investments for the period.

Capital investments implemented in the year totalled USD 93 million (2015: USD 87 million), with cumulative investments since the commencement of the concession being USD 500 million and the undepreciated asset base of USD 383 million.

Cash flows analysis

Net cash flow from operating activities reduced to Ushs 171 billion from Ushs 177 billion in 2015, mainly due to the increase in interest paid during the year.

Net cash outflow from investing activities increased to Ushs 318 billion compared to Ushs 280.5 billion incurred in 2015.

Net cash flow from financing activities increased to Ushs 126 billion; from Ushs 103 billion in 2015, due to the drawdown of Ushs 245 billion (USD 70 million) from the term facilities, offset by the loan repayment of Ushs 62 billion (USD 17 million) and an increase in cash dividends paid.

The closing cash position reflects our revolving credit facility of USD 20 million with Standard Chartered Bank and Stanbic Bank Uganda, of which USD 13.7 million had been drawn at the end of the year.

Returns to Debt and Equity Investors

Our equity and debt investors received Ushs 91.2 billion compared to Ushs 71.4 billion in 2015 of total value created.

We paid dividends of Ushs 57.4 billion (2015: Ushs 49.2 billion) to shareholders and interest of Ushs 33.8 billion (2015: Ushs 22.2 billion) to debt providers.

Human Capital

Our priority is to foster a culture that attracts, retains, and develops talented people. With a total direct workforce of 1,384 we want our people to flourish, be creative, and unfold their full potential. Therefore, it is essential to create an organization that is simple, to develop and retain managers and leaders that care, and to offer continuous learning opportunities in a work environment that is safe, drives innovation, embraces diversity and celebrates inclusion. We continue to leverage on our brand as an employer of choice through deliberate initiatives that we drive. We carried out career fair in the year, with attendance of about 1,200 (2015 – 800) graduate and experienced prospects.

No.	Engagement	Total
1	Current Permanent	1,363
2	Short Term Contract	15
3	Expatriates	6

No.	Employee Category	Total
1	Management	145
2	Non-Management	1,239

We also take cognizance of the need to maintain our legislative and regulatory compliance in regards to labour laws and related regulations.

Recruitment and selection

Having the right people to drive our diversified set of operations is critical in achieving the Umeme's objectives. We attract the best talent that believes in our vision and values and at the same time be the employer who meets the expectations of our employees. In light of this we are committed to fair and progressive employment practices where long-term employment opportunities are provided to employees to grow and develop their potential.

We recruit both experienced and new graduates to the different roles available in the organization. Through the Graduate Trainee programme, the technical staff are taken through a 3 year technical training and mentorship curriculum to ensure technical readiness after the 3 years. This route aims to address the ongoing rapid expansion of the electricity supply industry in Uganda, there is a shortage of critical experienced technical/ engineering staff

Personal and leadership training for staff

Training

Training and development is part and parcel of our staff development plan to ensure growth and effective utilization of staff skills. Our training and development largely focuses on two thematic areas namely functional and technical skills, and leadership skills. The training is delivered through class room, practical and or E-learning channels. For the year 2016, we focused our training on:

- Total Technicians Training to build an all-round technician
- Customer Service Training
- Line Manager Capacity development
- Electricity Distribution Training (Protection, faults, pole climbing, line construction, ORHVS etc)
- Data Analytics and reporting
- Substation construction, Design and Maintenance

We continue to utilise the Umeme Academy as a technical training centre. We work with external partners from the region specifically Kenya and Zambia to draw down on intensive and specialized training and coaching while benchmarking ourselves with industry best standards. KPLC team facilitated a 2 month training in our training school in Jinja. Training focused on electricity distribution management and new technologies. Other members of our technical staff were taken to Zambia, Kafue gorge regional technical school to train engineers on new metering technology and proper management of electricity distribution management

We trained about 150 staff in customer service, to drive greater sensitization on customer discernment, expectations and help them match customer needs in service delivery. Being responsive to customer needs, complaints resolution, need for proactive customer communication.

We intend to develop and equip more internal Trainers for a range of courses, to minimize reliance on external facilitators, leading to reduction of training costs.

Employee development

In 2016, 57 employees were internally appointed into new positions. This is in line with our internal career development program based on competence and delivery of company goals. As a retention scheme internal staff are given opportunity to assume higher responsibility and advance their careers through the numerous career opportunities across the organization.

We have developed a number of pools that categorise and classify our employees for development. Employees are assessed based on potential and performance, and placed within a given pool. We deploy various initiatives relevant to the pool that enable our staff manage themselves, manage others and ultimately manage the business. In addition to this we develop their technical competence enabling them outperform current roles, grow their careers by assuming higher responsibility. This is done by enrolling them for technical or functional trainings to build job related capabilities.

Human Capital *(continued)*

Secondment is a development tool availed to employees who demonstrate both the potential and readiness to assume different responsibilities within the organisation. We also run a graduate training program that matches high flying ambitious graduates with the challenge of learning their trade at the work place in a rotational program that exposes them to the company. We believe this strategy will bridge the existing gap of critical skills in the electricity sector.

Communication

Open and transparent communications with staff is critical for the success of our business operations. We have put in place various channels through which our employees can communicate to management their positive and negative concerns in the business. Employees are further encouraged to communicate innovative ideas which can be explored for the benefit of the business. Management also makes it a key part of their role to continuously communicate with employees so as to relay the company's strategy, key business plans and projects, major changes in the company and future actions. On top of other staff engagements, management holds at least 2 roadshows across the business to engage staff on the business priorities. This builds trust between management and employees as it offers a platform for active involvement and participation.

Channels

- U-Connect staff magazine
- Umeme Intranet
- ASKHR online email platform for human resources related queries
- Management roadshows and townhall meetings
- Umeme emailer
- Staff section or departmental meetings
- Closed User Group telephone system, where staff are not charged for intra-company communications on registered mobile phones.

Middle management training

Performance management

The company reward strategy is anchored on performance, with staff bonus structures in addition to the annual remunerations. Periodic reviews (bi-annual) together with monthly one on one conversations between supervisors and staff are undertaken to ensure alignment of individual staff effort to attainment of business goals. The appraisal system consists of a technical component which assesses actual work done on the job as well as living of the core values.

The business also implemented a number of programs to promote, measure and reward performance including periodic performance management training and coaching interventions for line managers and their staff, review of the business performance results and measures.

Reward and recognition

We compensate our employees fairly and commensurate to their role and performance. We ensure that the level of compensation allows them to live dignified lives as we are aware of the economic impact and downstream benefits to the society. We also recognize and reward outstanding performance among our employees with an aim of promoting a culture of performance, innovation and customer centricity.

As an incentive to continuously improve performance, each staff is eligible for performance bonus of up to thirty (30 %) of their gross Annual pay, driven by individual, departmental and corporate performance. In additional we hold periodic and annual awards to best performing employees and business units on the key business parameters.

Employee Turnover Rate

The employee turnover rate measures the total number of employee separations to the average monthly employment for the preceding 12-month period. The employee turnover rate for 2016 was 4.9%, consistent with 2015. The reasons for the separations are summarised as below:

Exit Category	2013	2014	2015	2016
Resignations	43	28	27	26
Dismissals	27	22	13	19
Retirement	4	13	11	4
Termination	40	26	8	14
Expiry of Contract	-	2	9	3
Deaths	8	6	0	2
Total	122	97	68	68
Turnover Rate	8.7%	6.9%	4.9%	4.9%

Human Capital *(continued)*

Inclusivity

A diverse and inclusive culture fuels our innovation, helps us connect with customers, and makes us a better and more attractive workplace. We promote diversity at work with 24% of the staff being female, with a normal age distribution curve.

No.	Gender	Total
1	Males	1054
2	Females	330

No.	Age profile (yrs)	Total
1	20 – 30	321
2	31 – 40	652
3	41 – 50	337
4	50 – 70	65

Employee social security and wellbeing

The company is complaint with its social security obligations, contributing to the National Social Security Fund, with 5% staff contribution and 10% company contribution. During the year a voluntary staff Retirements Benefits Fund was setup with staff and company contribution of up to 5% each.

Umeme provides medical insurance to its employees and up to 4 of the immediate family members. Staff have found the new scheme more comprehensive, with enhanced medical cover, through an extended network of medical service providers.

We also train our employees on important life skills that help them build a better lifestyle beyond their work life. These trainings include retirement planning, life coaching and mentoring, and personal financial management and financial literacy

Staff training for a football match

Umeme technician on duty

Safety

It is a priority to enhance the safety of individuals at the company's facilities and within its sphere of influence, fostering a progressive reduction in incident rates and improving health and safety conditions.

Safety committee meetings are always held every month in all districts and offices to discuss safety performance, highlight hazards and also close out actions arising out of audits. Issues that cannot be handled by the various sections are then escalated to the Safety department for handling and follow up. An email address, safety@umeme.co.ug, is in place where all safety issues and suggestions are sent by staff to the safety department for resolution and incorporation.

OHS training for Staff

- Umeme Staff trained in OHS
- Umeme staff authorized to operate the network
- Umeme district staff safety appreciation course
- Contractors staff trained on safety
- Contractor staff authorized to operate the network
- Risk assessment training
- Defensive driving- Light Commercial vehicles
- First Aid training
- Firefighting training

Infrastructure Capital

The core of Umeme's business operations is the prudent operation, management and upgrade of the distribution infrastructure to ensure evacuation of electricity from transmission stations to end users through an efficient, safe and reliable distribution network.

This objective is achieved through the implementation of an Asset Management Plan that ensures:

- Investing in business activities that enhance the security of power supply
- Achieving network service quality standards acceptable to the community and deliverable from future maintainable earnings of the network business
- Developing and utilising staff skills and the company's intellectual property, while providing a safe environment for staff, contractors and the public
- Operating in accordance with the principles of environmentally sustainable management
- Acting responsibly and co-operatively in the community and adopting a responsible approach to social and cultural issues

Electricity distribution assets

The process of expanding or investing in restoration of the distribution grid in terms of design, construction, management and maintenance, is driven by several factors

- Need to satisfy the increasing demand amongst consumers
- Increase electricity access which is in line with the national development plan-
- Regulatory compliance on supply reliability , safety and Quality of supply
- Asset renewal and replacement of aged asset that have reached optimal life service time and therefore are not economical to maintain or are at risk of failure
- Improving distribution efficiency.
- Adaptation of new enabling technologies

Some of the current challenges in the operation, maintenance and expansion of the electricity distribution grid include; access to way leaves corridors to operate or build new infrastructure, public interference with the infrastructure, adequacy of manpower and resource to operate the network, age of the equipment, optimal design and construction standards and cost of new investments in relation to impact on end user tariffs.

A Summary of distribution assets as of 31 December 2016 have been highlighted on page 11.

Infrastructure Capital *(continued)*

In 2016 we rolled out several projects in regards to the development and maintenance of the network assets:

a. Expansion

In line with the Government policy on industrial development, some of the already gazetted industrial zones and parks are at advance stage of establishment and in line with our mandate, we commissioned a 40 MVA 33/11 KV Substation in Lugazi, completed the second supply line to Bombo and refurbished the 70 KM line to Wabigalo

b. Upgrade

The establishment of Luzira industrial zone and the expansion of Kampala industrial area has resulted in rapid load growth in the area of Luzira, Kitintale and Bugolobi/Nakawa areas. To amply cater for this load growth we upgraded cables at Lugogo, split the number of feeders and uprated underground cables and switchgears for Mulwana and Jinja road feeders. We also uprated Port Bell from 10 MVA to 14 MVA. The next phase of this project shall be to uprate it to 28 MVA to relieve the already stressed Kireka and Lugogo.

Other upgrades in the same year included work done on cables at Kawanda substation and uprating the Bombo Wabigaro line with aim of supporting the growing load in Nakaseke and Bombo area.

c. Network improvements

We invested over USD 3 million in the installation of distribution transformers in our network. Distribution transformers were injected as part of our capital expenditure plan with an overall aim of improving on the quality of supply. We also invested in improvements in the state of the Low Voltage network mainly by replacing rotting poles and renewal of aged conductors.

d. Roll out Technological Solutions

We continued to explore the use of modern technology to improve on supply reliability. The second phase of distribution automation project was completed bringing the total investment to date to USD 3.7 million.

e. Quality and safety

We have introduced redundancy network infrastructure in most urban and industrial centres and gradually replacing aged critical network assets. We have also invested in the prevention of potential intrusion into our facilities through the implementation of SCADA systems. Bio metric access system to all our substations was completed in 2016 which further ensures safety of our facilities and assets.

f. Emergency works and any other

Other major projects completed in the year included the integration of the new small Hydro power plants especially in Rwenzori region.

We shall also be focusing on preparing the distribution grid to take up the expected increase in generation capacity in Uganda from the expected completion of the two dams, Karuma HPP (600MW) and Isimba HPP (183MW). We shall do this by building more substations and extending the network to areas with high potential of demand growth such as the industrial parks. We will also upgrade the existing backbone infrastructure to take into account the fact that our customers are now in position to demand better service in terms of quality and reliability of supply. These actions will also help the company manage technical losses and better execute on our mandate in regards to reducing losses.

Mps on the Natural Resources Committee inspecting the Namugongo substation

Intellectual Capital

Our business is supported by our ability to leverage on technology to delivery on our promise to over 950,000 customers that are serviced on the network. In the year we delivered on key projects which included

a) Roll out of disaster recovery systems with point in time recovery for our payments system platform as well as Ultima, our Prepayment system. This is in line with our business continuity plans as the point in time recovery mechanism improves and enhances existing recovery capabilities in the event of key system failure.

b) Automation of all payment channels to electronic platforms that include banks, mobile money, Point of sale and Kiosks. This has facilitated the closure of cash collections at offices with electronic payments now done countrywide. With automation there has been immediate results such as prevention of theft and fraud, reduction in security risks and costs associated with cash collection, reduction in operating costs and improvement on the revenue cycle. More importantly, customers are now offered convenience of paying for their electricity anywhere, anytime.

c) New Prepayment TOU (Time of use) system implemented for the Government of Uganda which allows for upfront cash collection and reduction in operating costs associated with meter reading and billing for all Government accounts. This is one of the first implementations in Africa for Government accounts and the next phase will include large commercial customers, with potential to further improve on the revenue cycle and cash flows.

d) New UMEME mobile app which currently has over 10,000 users. The app has a wide range of capabilities that ranges from simple bill payment, balance checks, outage notifications, reporting faults and live chat directly to contact centre. Through this we are able to offer better service delivery, engage and communicate with customers with an overall improvement in customer satisfaction. The app emerged winner of digital award for functionality and customer service within Uganda and Africa ICIA, ICT Innovation Awards

e) Upgrade and scaling up of SCADA system infrastructure to improve on monitoring of the electricity distribution network and addresses safety concerns

f) Rolled out Call Manager that introduced efficiencies and additional lines for the contact centre with enhancements done on the IVR (Integrated Voice Response). With a more reliable system we have made improvement on our service delivery charter through better customer interaction, reduced call durations, and faster resolution on enquiries.

g) Automation of paper based stock requisitioning within our supply chain which created efficiencies through reduction of time utilised to expedite stock by improving on the clarity of inventory balances using newly configured sub locations.

h) Upgrade of the Pre-payment infrastructure to facilitate the system's capacity to serve over a million customers with the planned increased roll out of prepaid meters in the retail consumer base

i) Upgrade of the Touch Pay system to support cashless payments country wide

System reliability and stability is critical to our entire operation as outages, most often than not, translate into power outages for the customer. There is therefore a direct link between system reliability and stability to customer satisfaction.

Technology is radically changing the utilities operations across the board. Umeme shall continue to invest in ICT to improve customer service and drive operational efficiencies.

GOU smart prepayment meters

Occupational Health and Safety (OHS)

The safety of staff and the public is our number one priority and a core value in all our operations. We are committed to the continuous improvement in the safety performance of Umeme, through the reduction of fatalities and injuries arising out of our business operations. We will:

- Comply with the safety laws, regulations and codes applicable to our business
- Provide a safe and conducive working environment
- Provide the necessary training, information and resources to ensure safe work practices
- Continuously, inform the public on the dangers of electricity, provide a communication platform to report identified risks or dangerous networks and respond in the fastest way to address reported safety risks

The safety management system is supported by health and safety procedures, wellbeing management systems and a clear governance framework to manage wellbeing, personal safety and process safety.

We have in place an environment and social responsibility statement, which states the company obligation to safety and environment for both staff and public. This is in line with the IFC performance standards and Ugandan legislation i.e. Occupational Safety and Health Act 2016, Environment Act 1995 among others.

Intellectual Capital *(continued)*

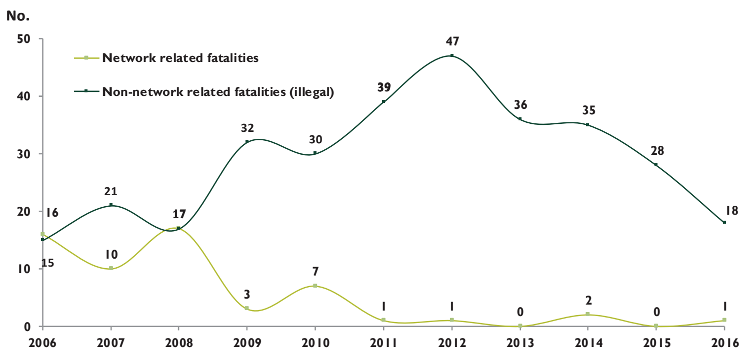
Priorities	Activities
Public Safety	• Enhance schools and community awareness through development and distribution of appropriate safety posters, flyers and flipcharts to operations department • Radio, television and newspaper safety communications • Strengthening safety clubs through partnerships with stakeholders i.e. Kids go green, New vision • Provide GIS based information to operations to enable the risk based approach to school and community visits • Annual safety stakeholder forums for- licensed wiremen, billboard and advertising companies, architects, division authorities KCCA and 4 Divisions) Telecoms.
Staff Safety	• Ensure adherence to ORHVS by undertaking compliance audits through ORHVS Auditors • Improve safety culture through safety inductions, safety training , display of safety policy and signage's • Publish monthly safety bulletins using the on liner platform
People	• Provide support to the safety and environment advisers. • Identify departmental training needs and implement. • Obtain environment and safety competencies for safety department staff • Strengthen the role of Safety Champions through half yearly engagements • Improve super engagement score by 5% through regular monthly team meetings, team building sessions and career conversation
Processes	• Monitor safety and environment strategies for the organisation • Provide accurate data analysis to the business in order to facilitate business decisions • Provide accurate and timely reporting to the ESG subcommittee and stakeholders as per agreed process

We continued to make deliberate efforts in addressing incidences in business areas where safety risk is high.

Key Statistics - Fatalities

Activity	2015 Actual	2016 Actual
Public Fatal accidents-(Attributable)	1	0
Public Fatal accidents (Non -Attributable)	18	28
Fatal Accidents-Umeme	0	0
Fatal Accidents- Direct Labour Contractors	0	0
Fatal Accidents - Contractors	1	1
Lost Time Accidents – Umeme	5	1
Lost Time Accidents – Direct Labour Contractors	1	1
Lost Time Accident – Contractors	2	1
Fatal RTA – Non Attributable	2	1

Fatalities Trends



Non-network fatalities incl. power theft, domestic electrics, network interference, way-leaves encroachment and unauthorized operations

Safety sensitization in schools

Intellectual Capital *(continued)*

The Umeme Brand

Our brand equity has come a long way since inception as The Umeme Brand

We continue to improve the image of the Company since inception. Since the listing of Umeme on the Uganda and Nairobi Stock Exchanges, commissioning of Bujagali HPP in 2012 that has ensured continued supply reliability, coupled with use technological solutions like pre-paid metering, the Umeme brand continues to improve.

We have opened up many service and communication channels, to ease the process of serving our customers. In addition, the continued investments in the distribution infrastructure has led to improvements in the quality and reliability of electricity supply.

In 2015, we conducted a brand base line survey that helped define our baseline brand index, aligned to the customer service strategy. This strategy focused improving our processes, customer experience, product knowledge dissemination and use of self-service technological solutions. We plan on undertaking a follow up survey in 2017 to effectively measure the results of our brand building activities so far.

With a current Net Promoter Score (NPS) of three we rolled out several initiatives to re-align the brand and create more brand advocates. From the various interactions with stakeholders, it is evident that Umeme is a brand of value and to a large extent, lives in the mind of the customer.

Marketing Campaigns

The primary target for our campaigns in 2016 were consumers, both domestic and large power users with an objective of

- Creating awareness of our prepayment system dubbed 'Yaka' amongst the users
- Driving awareness of the cashless payments and encourage adoption of the new technology and new ways of service including the diverse selection of payment channels.
- Enhancing our relationships with the consumers and increase collections for the business
- Creating awareness on the dangers of electricity if not well managed especially during the rainy season

We rolled out several campaigns in the year which included

- ***Cashless Campaign*** – this was rolled out to increase the uptake of the cashless payments channels in partnership with third party collection partners amongst our staff and customer base. Our primary target for this campaign was our workforce as they are the key brand ambassadors and play a pivotal role in communicating to and educating customers about usage of third party vendors during interactions at our district offices. As a result of this, we have seen a significant increase in collections from our retail customer category that have unlimited access to vending channels

Launch of campaign against power theft and vandalism 'Wuuyo'

- ***Collections campaign*** – we focused on bolstering collections amongst our single phase domestic and commercial customers in December when industrial customers usually cutback on usage due to the holiday season
- ***Anti-Power theft and vandalism campaign*** – the 'Wuuyo'campaign targeted both staff and our customers, to drive behavioral change in the mindset of customers and staff in light of power theft and vandalism while empowering them contribute to loss reduction through the various activities. This campaign has been very successful with 729 legalized connections as a result of the amnesty we offer upon proper connection. We also had a large improvement in public awareness with 631 power theft related complaints logged through the call center and the whistle blower line during the year. Our Facebook reach and engagement also grew from 47,000 people in July 2016 to 2.8M people in October 2016. In Mubende, members of the community reported and arrested vandals who had stolen 3km of conductors
- ***Safety campaign***- we achieved zero power related fatalities in September and October compared to 6 power theft related fatalities between January and August 2016

In 2016 we carried out a companywide revamp on our offices and work spaces to improve our brand image by bolstering the look and feel aspect of our spaces to bring out a more professional operating environment. This will continue into the next year with several other initiatives to build a strong brand personality.

We will continue to leverage on our strong brand name to endear ourselves to the customer and the general public as a reliable energy partner that is capable of meeting the energy needs of the customers it serves in order to promote socio-economic development of the Ugandan people.

Intellectual Capital *(continued)*

Umeme contact centre

Customer experience

Being the best and most trusted electricity distributor goes beyond safely and securely supplying electricity to our customers' homes and businesses. It is also about how we help customers use and save energy, and how we support vulnerable customers from electricity related accidents and incidences. We also need customers to trust we will help them make the most of the opportunities that arise from having a stable and reliable power supply.

Customers have highlighted 5 key issues for our attention: improve the reliability of supply, improve the service experience at the touch points, simplification of the tariffs/bills, response times and simplify the service processes. Management is implementing a work plan to address these issues.

We have a fully-fledged contact centre where customers now have at their disposal a variety of channels through which they can contact us.

- Toll free Lines (0800285285 and 0800385385)
- Email (callcentre@umeme.co.ug)
- Facebook (Umeme Limited)
- Twitter (@UmemeLtd)
- WhatsApp line (0772285285)
- Mobile App (On Android, iOS, and Windows Stores)
- SMS (8185, 8186)
- Website (www.umeme.co.ug)

We plan to further enhance the communication channels through;

- Webchat where we will leverage on the company's website to be more interactive
- Strengthen our SMS channel with USSD capabilities to capture, track and close incidents.
- Upgrades on our website to enable online application for new connections.
- Create District WhatsApp groups based on segments so as to enhance customer segmentation and targeting

As we make great strides in improving service delivery, consumer awareness and customer satisfaction, we shall be focusing our attention on delivering the following objectives in the next year

- Rolling out a CRM strategy that will allow us to manage customer interactions from end to end
- Customer segmentation which will enable us to identify the unique position of each customer.
- Increase customer awareness about our product (electricity) and our service (power).
- Improve on the New Connections process by opening up online applications to improve convenience and response times.
- Improve customer complaints resolution times.

Natural Capital

Umeme is committed to preserving the physical environment in which it operates. We recognise that some of the energy sources on the national grid may not be clean, we note that some of the inputs like wooden poles require depletion of natural forest reserves or even the disposals from the networks like transformer oil or cables may have negative effects on the environment. The company has an Environment M, anagement System that ensures compliance with relevant environment laws and regulations.

All significant capital investment projects are subject to environmental impact assessments, as required by law.

Umeme ensures that all disposals of oils, poles and conductor, are consistent with laid down procedures to prevent spillage and environmental contamination.

The biggest impact we are committed to achieving is in greening the environment. Umeme uses poles as one of its raw materials (currently about 28,000 poles a year). In 2017, we intend to plant 56,000 trees under the '2 trees per pole project' and this is going to be done while taking into consideration communities that benefit out of this project for example through employment, food source, better living environment and income source. However we intend to start with our very own staff by giving them two trees to plant in their homes or on their land as a way of building a culture of environment conservation.

We continued to reduce the number of transformers with PCB material which poses an environmental risk. We have in place asset disposal procedures for old and damaged poles and scrap materials to ensure environmental protection. We are keen on the proper handling and disposal of transformer oil to ensure that we do not contaminate the environment and especially water sources.

Umeme Managing Director, Mr. Selestino Babunji during a tree planting activity at Salaama school of the blind in Mukono

Social and Relationship Capital

We aim to continuously strengthen trust, improve the connection to people, institutions and communities in our environment and maintaining responsible relations with groups that affect or are affected by our activities. Building a relationship based on mutual trust with our stakeholders begins with taking their interests into account and analyzing their compatibility with those of the company, in order to be able to adopt a consistent and transparent approach to addressing their needs.

Local communities

Umeme maintains a policy of strong involvement in the communities in which it operates, making a contribution to society that is based on the main features of its own business activities:

- Electricity is an essential for society transformation
- Investments in distribution infrastructure
- Promotion of local supplier networks
- creating direct employment opportunities or indirect opportunities for our contractors

Umeme plays an important role in Uganda's economic development and social transformation. Social actions to benefit local communities that took place in 2016 include:

- In partnership with Nature Uganda, we rolled out our flagship CSR program dubbed U-Green which is centred around inspiring community action on environmental conservation and demonstrate how it can be integrated into their livelihoods. This program also links directly to implementing the Government goal on afforestation and reforestation of Uganda's landscapes and adaptation to climate change. We as Umeme take cognizance of the vital role forestation plays in ensuring power supply in a country that is heavily reliant on hydropower.
- With support from the Government of Uganda, we distributed 400,000 energy efficient and long lasting LED bulbs to household in Kampala and Wakiso, to encourage energy efficiency through utilization of energy friendly technologies

In the development of distribution and supply infrastructure, there may be specific projects that impact individuals or communities around which the projects are implemented. We conduct environmental impact assessments ahead of projects implementations, to ensure any social or environmental issues identified are addressed.

We undertake rural electrification programmes jointly with Government entities, with the goal of extending the electricity to the entire population of the country, to facilitate economic and social development, minimizing inequalities among the various regions and between rural and urban areas. These programmes represent a fundamental component for development of the most disadvantaged sectors of Uganda's population.

We are also very keen on how we engage with communities residing in the informal settlements that affect Umeme's operations and business as a whole through illegal connections, vandalism and power theft. These are the areas where we incur high losses and pose a huge safety threat to the communities and as the potential to negatively impact on the company's good standing with society.

Umeme ladies sharing moments with refugees at Nsambya refugee camp

We shall heavily leverage on corporate social investment and continuous engagement to form strong and lasting partnerships that speak to the interests of the society and generate goodwill. This shall lead to opportunities within these settlements that allow us to rectify the power issues, drive down the cost of connection and promote efficient energy use within these settlements. Through this, we will be able to achieve a win-win situation and lasting relationships within these communities.

Government and Regulators

There is also continuous and constructive dialogue with regulators and Government bodies where information, knowledge, and positions are exchanged. Umeme is thus acquainted with the concerns and proposals of regulatory entities and provides them with our own positions in the legitimate defence of our interests and those of our shareholders and customers. We actively participate in "public hearings" held by regulatory entities in order to ascertain the opinions of the players involved in the processes prior to the revision of regulations or the determination of domestic energy policies.

Umeme Deputy Managing Director with the ERA team and the Parliamentary Natural Resources Committee touring Hoima substation

Social and Relationship Capital *(continued)*

We also participate in the official processes of enactment of the laws and regulations and the monitoring of the application thereof. As a general rule, Umeme works for the approval of and respect for the principles of good regulation: proportionality, effectiveness and efficiency, responsibility and independence, consistency, and credibility, and, finally, transparency and clarity.

Compliance with all legal and regulatory requirements is key to sustainable operations and also mitigates the negative impact of non-compliance on our existence and performance.

Suppliers

In applying the company's policies, the procurement team, within its area of responsibility, encourages equality of opportunity, applying standards of objectivity and impartiality in supplier relations, promoting publicity of and participation in selection processes, within management efficiency criteria. The procurement process is periodically audited both internally and by external entities, and where risks or strengthening of internal control is identified, management ensures that the issues are addressed.

New suppliers are evaluated based on set standards and policies and their significant risks regarding their business operations are managed through quality procedures and contractual agreements. We aim to improve the supply chain function through process improvements, unit structuring and automation.

Investors and Shareholders

We continue to engage with our shareholders and the investor community through various channels such as the annual general meeting, investor roadshows, management investor calls and meetings as well as emails and letters. There is in place an investor relations function that engages with current and potential investors to disseminate information in a timely manner. We also receive feedback from the investment community and for appropriate management response. During the year Actis divested its remaining shareholding in Umeme and NSSF emerged as the largest shareholder with 23% ownership. The sale had no effect on the operations and management of the company. As at 31st December 2016, we had in our register a total of 4,424 shareholders. As a listed company we are compliant with all regulations affecting publicly listed companies as propagated by our regulators, the CMA (both in Uganda and Kenya), USE and NSE.

Prevention of Corruption, theft and vandalism

Our commitment to fight corruption and to establish mechanisms to ensure the existence of a culture for preventing irregularities is reflected in our Code of Ethics. Within the framework of the compliance system, various programmes are implemented to encourage the organisation to act in accordance with ethical standards and in accordance with applicable laws and regulations. We continuously engage with employees and contractors through trainings and communication to foster a culture of corporate ethics and transparency, disseminating the principle of "zero tolerance" with respect to fraud and promoting mechanisms and actions to prevent corruption and fraud.

Vandalized Transformer at Nkonzi Village in Nsawo

Stakeholder engagement on power theft and vandalism

We also have run extensive media campaigns, named Wuuyo, to educate the general public on the negative impacts and dangers associated with electricity theft and equipment vandalism on the community and economy as a whole. The general public is encouraged to report theft and vandalism and play their role in ensuring reliability and stability of supply and help in bringing down tariffs that directly affect their livelihood. These campaigns have borne fruits as we have seen energy losses come down continuously to the current rate of 19%.

Disaster and emergency management

Umeme recognizes the criticality of its operations on the economy. We have a disaster management plan, to ensure business continuity in case of disasters, to minimize the overall impact on the business. For the IT system, we have in place backup systems and offsite data centres to ensure minimum service disruption incase system downtimes.

Industry Unions

We respect the right of our employees to join a union under Uganda Electricity and Allied Workers Union in accordance with applicable labor unions and employment laws. As at year end 2016, 501 staff were members of the labour union. The recognized labour union is party to decision on wages of its members through collective bargaining process. There are regular meetings held between management representatives and representatives of the labour union.

Social and Relationship Capital *(continued)*

Category	Sponsorship	Rationale	Outcome
Staff Networking and Knowledge Acquisition		• To support Umeme teams network with others in the same field to learn and share best practices	• Umeme recognised and awarded at the Public relations Awards for its support of the Public Relations profession • • Umeme awarded at the Digital Impact and FIRE awards
Sector support	• Annual Energy Management Symposium hosted by the Ministry of Energy and Mineral Development	• Support one of our key stakeholders in the energy sector	• Have all sector players work together towards better service delivery
Professions support	• Accountancy Services Week • Makerere University Journalism and Communications Gala • Toastmasters Public Speaking Contest. • 125th Anniversary Governance Conference	• Talent Identification • Positioning Umeme as employer of choice	• Acquire best talent in the market
Stakeholder Relations	• Her Majesty Queen Elizabeth II 90th birthday celebrations • Late Mulwana Memorial event • 2016 Uganda Martyrs' celebration • CEO Forum • Uganda Manufacturers' Association Business Networking • Uganda Swimming Federation • 2016 Urban leaders Forum • Housing Finance Conference and Exhibition • 1st Annual Youth Forum on Climate Change • 10th Parliament and Private sector dialogue for UPPA	• Building relations with Influencers like the business communities, CEOs, politicians • Raising Awareness on Climate change and need to take action for a green environment •	• Creating better understanding of the brand Umeme • Give Umeme a human side that shows it is a caring brand
Employee Networking	• 2016 FUFA Corporate Tournament	• Staff networking with other organisations through sport	• Better staff engagement and teamwork
Donations	• Uganda Women Cancer Support Organisation • Holy Trinity Fundraising for Priest's residence • Home of Queen of Katwe Fundraising • Consecration of the new Bishop of West Buganda Diocese • Barclays Bank Fundraising Dinner for Children with	• Strategic donations	• Maintaining Strategic Relations with Umeme

Social and Relationship Capital *(continued)*

Classification	Project	Focus area	Outcome	Numbers
Environment	Salaama School for the Blind Umeme partnership with Nature Uganda	Tree planting to restore cover (1000 trees planted)	• Create awareness of the environment for Umeme staff through the U-Green initiative • Create windbreakers to protect the school against winds that destroy it • Educate the young on environment conservation • Assure the blind that they are cared for and part of the community	Participants -50 Employees – 86 Partner - 50
Safety	Kireka School for the Deaf	Fixing a Lightning Arrestor on the school block	• Lightning affects schools and this was to ensure that these children are safe during the rainy season	Beneficiaries – 100 Employees -30
Welfare and Skills	Womens' Day visit to Refugee camp	Support the community with food and clothing while imparting some skills on financial literacy	• While this is a refugee camp there are some occupants who try to make ends meet. A day spent with them educating them how to save and invest was worthwhile. • Food items and clothing were handed to the administrators to support the most needy and elderly	Beneficiaries – 200 Employees -100
	Partnership with CDF-UPDF and Nambi Children's Initiative	Contribution to improve the lives of the national army women and children's welfare	• Better livelihood of soldiers' families • Umeme better relations with the National Army	Beneficiaries – UPDF officers' wives and children Bombo Barracks
Health	Annual Surgical camp with Surgeons' Association	Free surgical procedures for the less advantaged in Mubende	• Surgeons camped in Mubende to take services closer to the communities that would ordinarily not afford the hospital fees	Beneficiaries – 100 Employees - 5


UMEME
Powering Uganda
EXTERNAL AUDITOR
SAMUEL
FLORENCE

Governance

Enterprise Risk Management

Umeme Limited manages business risks using a formal enterprise risk management framework that is hinged on the ISO 31000 framework. Our risk oversight and management practices are integrated with our strategy development and execution. This enables us to improve the probability of our capacity to effectively identify and manage the emerging opportunities and threats that our business model and strategic initiatives are exposed to in a bid to provide safe and reliable energy in Uganda.

Leadership and Accountability

Umeme complies with enterprise wide risk management policies and decisions.

Each business function is responsible for maintaining an effective system of risk management and internal control, operating appropriate governance over this system and reporting on risk and internal control system effectiveness.

Responsibilities for operating and monitoring risk management and internal control activities are clearly documented and communicated across the company. Education and training to ensure an appropriate awareness of roles, responsibilities and accountabilities is available for employees.

Leaders demonstrate visible commitment to continuous improvement by embedding risk management and internal control standards into all business activities and reviewing the effectiveness and robustness of deployment through performance management processes.

The Audit Committee and Senior Management Team regularly evaluate the effectiveness of processes for identifying and managing risks to the achievement of Umeme objectives, and challenge and approve the Umeme company risk appetite.

The Board of Directors (through the Audit Committee) is accountable for reviewing the effectiveness of Umeme's internal control.

Strategies, Objectives and Targets

Umeme's corporate strategies, objectives and targets are aligned to functional annual plans, are clearly communicated and deployed. Leaders ensure that employees understand the objectives of the key processes that they operate. The Umeme Board regularly reviews annual plans and approves Umeme's risk management initiatives.

Risk Identification and Assessment

Opportunities and threats to the achievement of Umeme strategies, objectives and targets are identified, assessed and recorded at an appropriate level, with sufficient detail, by suitably qualified and experienced people to enable risk oversight. The company considers the potential for fraud in identifying and assessing risks to the achievement of objectives.

Management ensures that employees understand the risks they are responsible for mitigating. Risk identification and assessment is undertaken as part of day to day activities. Company-wide risk reporting takes place quarterly.

Develop and Implement Controls

The company's structure and controls are appropriate and proportionate and are designed to ensure the delivery of objectives, strategies and targets.Structures and controls are continuously reviewed to ensure that emerging risks are adequately controlled and that any actions required are prioritized according to the potential impact/ likelihood and are tracked to completion.

Monitor, Assess and Improve Controls

Management ensures that controls are appropriately monitored, tested, reviewed and reported on at an appropriate frequency and level. Any observations are used to drive continuous improvement.

Adding Value

Our internal control and risk management framework therefore allows us to:

- Identify, evaluate, control and report significant risks;
- Implement a comprehensive, consistent, company-wide approach to risk management;
- Maintain a register detailing risks to our business and support functions and appropriate controls and remedial action plans; and
- Promote management of risk as a fundamental business process.

Effective internal controls help us to reduce risks, improve competitiveness and comply with regulatory requirements. Internal control covers all systems used to provide our directors and senior managers with reasonable assurance concerning:

- Compliance with laws and regulations;
- Compliance with management decisions and guidelines; and
- The effectiveness and efficiency of our activities and processes.

The risks to the delivery of our mission are categorized as follows:

- Strategic risks
- Reputational risks;
- Operational risks;
- Financial risks; and
- Compliance risks

We believe that by controlling and managing our risks effectively, we can adequately respond to the available opportunities by developing our business model and strategic initiatives to provide safe and reliable energy in Uganda.

Corporate Governance Statement

Introduction

Knowing that a Company with strong governance oversight abilities is more likely to be profitable, the Board of Directors ("Board") of Umeme Limited ("The Company" or "Umeme") are strongly committed to playing their role to ensure that the Company has a strong governance framework. In directing and managing the affairs of the Company, the Board has created systems towards enhancing business prosperity, corporate accountability and integrity with the goal of ensuring amongst others long term shareholder value whilst preserving stakeholder interests. To this end the Board is very mindful of adhering to and observing its obligations not only under its regulatory environment under the Electricity Act, Capital Markets Act, the Uganda Securities Exchange Listing Rules but also to local, regional and international governance best practice standards as outlined in the various Codes and guidelines of Corporate Governance.

In exercising its mandate, the Board adopts robust Corporate Governance practices and strong oversight processes to ensure that the Company puts in place and maintains world class standards notably on health and safety, environmental, social and governance considerations driven by the vision and mission of the Company.

Vision, mission and values

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

The Company at its first ever Annual General Meeting, adopted and incorporated into its Articles of association the environmental, social and governance policies which adopt anti-bribery and anti-corruption guidelines. To maintain compliance with these guidelines and in order to uphold the integrity of the Company, any 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, and or through the Whistle blower phone line open to the public. All reports regarding any integrity and corruption related cases are discussed and investigated thoroughly in confidence. The whistle blower line is managed by an independent firm, Transparency international. Our confidential whistle blower line is +256 312 360 777.

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.

Compliance with laws, regulations and guidelines

The Company is a public listed company that is licensed and regulated by the Electricity Regulatory Authority. As a listed company, the Company is bound by the continuing listing obligations of the Uganda Securities Exchange, the Corporate Governance Guidelines of the Capital Markets Authority (CMA) and being also cross listed on the Nairobi Stock Exchange, is bound by the Capital Markets Authority Act of Kenya and the Kenyan Code of Corporate Governance Practices for Issuers of Securities to the Public. The above laws and regulations are designed to ensure that public listed companies adhere to sound corporate practices and good governance.

The Company is bound by the provisions of the Electricity Act, 1999 and the regulations and codes made under it together with its licenses issued pursuant to those laws.

In the period since the last Annual General Meeting, the Company has been substantially in Compliance with its license terms, contracts, laws and regulations.

The Board exercises oversight of compliance and has ensured that there is routine engagement between the management and the Regulator (s) at the Electricity Regulatory Authority, the Capital Markets Authority and the Uganda Securities Exchange. The Board has also routinely engaged with relevant stakeholders in the electricity sector.

Internally the Board lays emphasis to the management of the need to have in place a dynamic framework for the identification and management of compliance risk within the Company. The Board is pleased to inform the shareholders that day to day compliance and risk management has been 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 Board Committees of Audit and the Environmental, Social and Governance (ESG) through quarterly management reports and meetings.

The key mandate of the Board ESG Committee is to continually monitor legislative and regulatory developments and their impact on the Company, reporting back to the Board during their quarterly meetings.

Corporate Governance Statemen *(continued)*

Our Governance Structure

Board of Directors

Structure and role

Sitting at the top of the governance structure lies the Board of Directors.

The Board retains full and effective control over the Company and carries out the mandate of the Company as set out in the Memorandum and Articles of Association together with maintaining good corporate governance practice. The following are some of the roles of the Board:

(a) Ensuring internal and regulatory compliance;

(b) Ensuring that adequate risk management processes exist and are complied with;

(c) Approval of key policies including investment and strategy as well as risk management.

(d) Monitoring the Company's performance against strategic plans and objectives on an on-going basis, as well as through mandatory quarterly meetings;

(e) Ensuring good corporate governance and monitoring and influencing the ethical standards of the Company;

(f) Monitoring the Board composition, director selection, Board processes and performance as well as succession planning;

(g) Approving key executive management appointments and ensuring executive succession planning;

(h) Reviewing the performance of the Managing Director and Senior management;

(i) Reviewing and approving executive directors' and senior management remuneration;

(j) Validating and approving corporate strategy;

(k) Reviewing the assumptions and rationale underlying the annual plans and approving such plans;

(l) Authorising and monitoring major investment and strategic commitments in accordance with their delegated authority.

(m) Reviewing the effectiveness of the systems for monitoring and ensuring compliance with laws and regulations.

(n) Determining the terms of reference of all Board Committees and reviewing of reports and minutes of the Committees.

(o) Reviewing capital adequacy to ensure that there is adequate headroom for expansion within the current strategic cycle.

(p) Establishing an audit committee in accordance with the Company's Articles of Association, good corporate governance and best practice.

(q) Ensuring that the Audit committee duly performs its duties and responsibilities.

The Chairman of the Board is an independent non-executive director. The independence of the Chair is routinely monitored as part of its compliance with governance best practices. The Chairman is responsible for ensuring the integrity and effectiveness of the Board's governance process. The Chairperson routinely liaises with the Managing Director (MD) on strategic issues and oversees the Board and the Annual General Meeting.

The members of the Board are mindful of their fiduciary duty to the Company and of their overall duty in providing oversight and leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board also has several sub committees in keeping with the guidelines and best practices to ensure continuing interaction and engagement with management.

Composition and appointments

The Board is composed of eleven members with three (3) executive directors and eight (8) independent non- executive directors. The members bring to the board a diversity of skills, knowledge and a wealth of experience with each member bringing to the Board commendable skills and credentials.

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.

The Board Nominations Committee continuously strives to continuously review the Board composition to ensure that it is well balanced in the diversity needed to effectively perform its oversight capacity and in consideration of its balance in the ratios of executive, Non-Executive, independent, resident and non-resident Directors.

The Composition of the Board including the directors' profiles and competencies can be seen on pages 134-136.

In accordance with the Company's articles of association one third of the directors shall retire at the annual general meeting of the Company. The retiring directors shall be those who have served longest since the date of their election. A retiring director shall be eligible for re-appointment. There is no limit on the number of times a non-executive director may stand for re-election.

The Board also has powers from time to time to appoint any person, who meets the eligibility criteria and has gone through the vetting process by the Nomination Committee, to be a director of the Company. Such person shall hold office until the next annual general meeting of the Company at which he/ she shall be eligible for re-election. Such directors shall however not be considered in those retiring by rotation.

Executive Directors of the Company are, by their employment contracts and under the articles of association, not subject to rotation.

The following director appointment or resignations have occurred since the last annual report:

Appointment:

1. None

Corporate Governance Statement *(continued)*

Resignations:

1. Mr Adrian Mucalov who served as a director of the Company since March, 2013 resigned and ceased to be a director with effect from the 29th day of March, 2017.

Notification to the public and the shareholders was made in the newspapers of wide circulation.

Board Terms of Reference and Charter

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

The Board Charter defines the governance parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board, its committees and Directors, as well as certain roles and responsibilities incumbent upon directors as individuals.

Amongst the general duties identified in the Board charter are; providing oversight and leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed, participation in setting long and short term strategy and ensuring that there are adequate policies, systems and structures to successfully implement the Company's strategies, ensuring succession planning, delegating authority, ensuring the integrity of financial reporting, reference to the shareholders of matters that exceed the Board's mandate and limitations and acting in good faith and in the interests of the Company amongst others.

Managing Director

It is the Board's responsibility to ensure that effective management is in place to implement Company strategy. In line with governance best practices, the role of the head of management is distinct and separate from that of the head of the Board. With the Managing Director at its helm the Company has been able to attain several achievements notably a reduction in losses and considerable Capex investments. The Managing Director leads the Management team in implementing the Company's strategy as set out by the Board and ensuring that the business and affairs of the Company are effectively managed. The Managing Director reports to the Board on a quarterly basis and more frequently where necessary. The Managing direcor, with the fellow executive directors also ensure that there is routine management engagement with the members of the Board at the sub committees' level.

Board Induction and Training

Upon appointment to the Board, Directors receive a comprehensive induction tailored to their individual needs and to complement the dynamics of the Board. New directors are introduced to members of the senior management team and undertake comprehensive orientation sessions that include site visits and meetings with key senior staff to enable them build a detailed understanding of Umeme's business and strategy as well as areas of the key risks within the industry sector.

At all material times the Directors are kept abreast of any new 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. The directors have been kept informed of the changes made to the the Capital Markets Authority Act, and the proposed changes to the Electricity Act (now the Electricity Act amendment Bill) presently under consideration by the relevant stakeholders including the Company.

Board Evaluation

The necessity and relevance of board evaluation cannot be overstated. The Board appreciates the need to continuously assess its performance effectiveness and understand where it needs to improve or make changes. The Board undertook its performance evaluations for the Board and its sub committees in October, 2016. The evaluations were conducted by way of an elaborate online survey which was quick, convenient and easy to apply. The results were collated and reports prepared, shared and discussed as a key agenda item both at the Board and its sub committees.

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 Remuneration Committee in an executive session and the results are considered by the Board.

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.

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.

Corporate Governance Statement *(continued)*

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 2016 was as follows:

Director	17.03.16	7.04.16	30.06.16	1.09.16	24.10.16	17.11.16	24.11.16
Patrick Bitature	√	√	√	√	A	√	√
Pieter Adriaan Faling	√	√	√	√	√	√	√
Charles Chapman	√	√	√	A	√	√	√
Stuart David Michael Grylls	A	A	√	√	√	√	√
Adrian Mucalov	√	√	A	√	√	√	√
Christopher Nicholson	√	√	√	√	√	A	√
Samuel Zimbe	√	A	√	√	√	√	√
Florence Nsubuga	√	√	√	√	√	√	√
Gerald Ssendaula	√	√	√	√	√	A	A
Selestino Babungi	√	√	√	√	√	√	√
Florence Namatta Mawejje	N/A	N/A	√	√	A	√	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)
- Adrian Mucalov
- Stuart David Michael Grylls
- Gerald Ssendaula

Corporate Governance Statement *(continued)*

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 2016. The committee in addition to its ordinary mandate reviewed in each quarterly meeting the risks affecting or likely to affect the business.

The attendance of Audit Committee meetings in 2016 was as follows:

Director	16.03.2016	29.06.2016	31.08.2016	23.11.2016
Stuart David Michael Grylls	A	√	√	A
Adrian Mucalov	√	√	√	√
Christopher Nicholson	√	√	√	√
Gerald Ssendaula	√	√	√	A

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

Environmental, Social and Governance (ESG) Committee

Composition:

- Pieter Adriaan Falling (Chaiperson)
- Charles Chapman
- Florence Nsubuga
- Selestino Babungi
- Florence Namatta Mawejje

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;
- Reviewing and developing ethical standards and principles;
- Monitor the implementation of the Company's whistle blowing policy;
- Consider environmental, social and safety issues and governance related matters.

The Committee meets no fewer than two times a year. The Committee met four times in 2016.

Corporate Governance Statement *(continued)*

The attendance of ESG committee meetings in 2016 was as follows:

Director	15.03.2016	28.06.2016	30.08.2016	22.11.2016
Pieter Adriaan Faling	√	√	√	√
Charles Chapman	√	A	A	A
Florence Namatta Mawejje	N/A	N/A	N/A	A
Florence Nsubuga	√	√	√	√
Selestino Babungi	√	√	√	√

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

Customer Service and Loss Reduction Committee (CSLR)

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

Five meetings were held in 2016.

The attendance of Customer Service and Loss Reduction Committee meetings in 2016 was as follows:

Director	16.03.2016	29.06.2016	18.07.2016	30.08.2016	22.11.2016
Gerald Ssendaula	√	√	√	√	√
Pieter Adriaan Faling	√	√	√	√	√
Sam Zimbe	√	√	√	√	√
Florence Nsubuga	√	√	√	√	√
Selestino Babungi	√	√	√	√	√

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

Corporate Governance Statement *(continued)*

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

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 under Note 32 (8 meetings were held in 2016).

The attendance of Remuneration Committee meetings in 2016 was as follows:

Director	16-Mar-16	01-Apr-16	22-Apr-16	07-Jun-16	29-Jun-16	27-Jul-16	31-Aug-16	23-Nov-16
Stuart David Michael Grylls	√	√	√	√	√	√	√	√
Charles Chapman	√	√	A	√	√	√	A	n/a
Adrian Mucalov	√	√	√	√	A	A	√	√
Chris Nicholson	N/A	N/A	N/A	N/A	N/A	N/A	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.

Corporate Governance Statement *(continued)*

The Committee is also tasked with reviewing succession plans for the SMT . In line with its mandate to hold at least one meeting a year, the Committee held three meetings in 2016.

The attendance of the Nomination Committee in the year 2016 was as follows:

Director	09.3.2016	15.03.2016	31.08.2016
Adrian Mucalov	√	√	√
Stuart David Michael Grylls	N/A	N/A	√
Patrick Bitature	√	√	A
Gerald Ssendaula	√	√	√

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

Strategic Review Committee

The Strategic Review Committee advises and assist the Board in matters of long-term planning for the 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 term planning for the 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 five meetings in 2016.

The attendance of the Strategic Review Committee in the year 2016 was as follows:

Director	15.03.2016	23.05.2016	29.06.2016	31.08.2016	23.11.2016
Charles Chapman	√	√	√	A	√
Stuart David Michael Grylls	N/A	√	√	√	√
Patrick Bitature	√	√	√	A	√
Samuel Zimbe	√	√	√	√	√
Selestino Babungi	√	√	√	√	√

√ = Attendance; N/A = Not yet appointed, 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 in an intense and engaging AOP session 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.

Corporate Governance Statement *(continued)*

Company Secretary

The Companies Act provides for the appointment of a Company Secretary whose duties are to ensure that the Board remains cognisant of its duties and responsibilities under the law and to the shareholders, to conduct the induction of new directors, coordinate Board trainings and meetings and to maintain Board and Company records. All directors have access to the services of the Company Secretary. The Company Secretary is also tasked with ensuring the smooth flow of information from the Board and its Sub Committees to , the Senior Management Team and to staff. Their role includes ensuring that the relevant departments and officers are supported in making information available to the Board and to provide clarifications where necessary. The Company Secretary function is currently outsourced to Shonubi, Musoke & Co Advocates who continue to play their pivotal role in ensuring the Company's corporate governance and best practices compliance.

Succession Planning

The Board understands the importance of effective succession planning. In view of this, they have ensured that they have in place a robust process for potential future Directors as well as identification, recruitment and retention of talent at the senior management level.

Shareholder relations

The Board ensures that regular and pertinent communication on the Company's affairs is provided to all its shareholders. In addition to the AGM which all shareholders are encouraged to attend and which all directors attend, the Board provides other opportunities for shareholders to engage with the Management and the Directors of the Company. Institutional investors meet with Management to discuss performance and corporate governance matters at least twice a year following the publication of periodic reports and exercise their votes during AGMs. At the AGM, the Chairman explains each proposed resolution and grants reasonable time for discussions and questions on the proposal before a vote is taken.

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

The Company engaged C&R Registrars, Share Registrar to handle day to day shareholder register issues. Dividends, when declared, are paid on time. The Company declared a final dividend of Ushs 7.8 per share which was proposed by the Board on the 29th March, 2017 will be presented to the AGM for approval by eligible shareholders.

Stakeholder engagement

During 2016, the Board maintained its focus on ensuring that the Company maintained 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 actively enquires into and encourages the Management team to highlight any key matters with the relevant stakeholders to keep everyone abreast of the developments in the Company and the electricity sector.

The Communications team and the Investor Relations Team have actively engaged with the public and key stakeholders.

During the year, several stakeholder engagements took place and some of the key events are included on pages 44-47 of this 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. The Compliance Officer is responsible for monitoring strict adherence to the closed periods. Notification is given to the directors by the Company Secretary upon confirmation from the Compliance Officer of the commencement and end of closed periods.

The shareholding interests of the Members of the Board are indicated at page 64.

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.

It is a standing agenda item in the Board and sub Committee Meetings to have members declare any interests in matters before the Board or its sub committees for discussion. Any declarations of conflicts of interest are noted by the Company Secretary on the prescribed form and filed.

Related Party Transactions

Other than disclosures given in Note 32 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

With the adoption of integrated reporting, an analysis of the Company's sustainability performance is done in relation to issues that are relevant and material to the Company and to its stakeholders. These have been discussed throughout the report as management details how the company has utilized the different forms of capital at its disposal in relation to the various stakeholders it interacts with.

Financial Statements

Directors Report

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, which show the state of affairs of Umeme Limited ("Umeme" or "the Company").

1. GENERAL INFORMATION

Company background

Umeme Limited is incorporated as a limited liability Company under the Companies Act of Uganda. Umeme took over the distribution system for the distribution and supply of electricity in Uganda from Uganda Electricity Distribution Company Limited (UEDCL) under the Concession for a period of 20 years, commencing 1 March 2005. Under the Concession, Umeme is also required to repair, upgrade, and expand the Distribution System within Uganda and such contiguous areas as Umeme and the Electricity Regulatory Authority (ERA) may agree.

Through the concession, Umeme operates as the primary electricity distribution Company in Uganda, responsible for distributing electricity to Ugandan residents, commercial and government entities. UEDCL owns the distribution network that has been leased to Umeme under the Privatisation Agreements. Umeme purchases electricity from Uganda Electricity Transmission Company Limited (UETCL), which owns and operates the high voltage transmission network of up to 132KV. UETCL purchases electricity from several sources including: Eskom (U) Limited, operators of the Nalubaale and Kiira hydroelectric power generation stations;Bujagali Energy Limited that operates the Bujagali hydroelectric power plant;Jacobsen Elektro AS, Electro-Maxx, Tronder Power Ltd, and other Independent Power Producers (IPPs).

The management of the distribution system in Uganda requires Umeme to maintain and operate the distribution network; to collect revenues from customers based on the prevailing tariff set by ERA in accordance with the licences and the privatisation agreements; to make investments in upgrading, expansion and maintenance of the assets forming the distribution network; and to return control of the distribution assets, including new investments, to UEDCL at the end of the concession.

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

a) Electricity distribution that involves the operation, maintenance, upgrading and expansion of the distribution network within Uganda. The distribution network consists of approximately 31,790 kilometres of medium and low voltage lines covering all major hubs in the country; and

b) Electricity supply and after sales service, which includes:

- Connection of new customers to the distribution network
- Meter reading, billing and revenue collections
- Customer complaints resolution
- Restoration of power after interruptions
- General customer care including provision of information on services
- Customer sensitization on energy efficiency, energy losses and safety
- Marketing of available power to customers

Shared purpose and values

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

Umeme's values are:

- 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.

Administrative structure

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

2. KEY SHAREHOLDER INFORMATION

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

The top shareholders as at 31 December 2016 are listed on page 106 of this report.

3. 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 that 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 of doing 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 interest rates, fuel prices and foreign exchange rates.
- Power supply availability to meet the growing electricity demand.

4. DIVIDENDS PAID TO SHAREHOLDERS

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 7.8 per ordinary share (Ushs 12.77 billion) be paid for the year ended 31 December 2016 (2015: Ushs 24.4), subject to deduction of withholding tax where applicable, to the shareholders registered in the books of the Company at close of business on 20 June 2017. The total dividend for the year will be Ushs 30.6 billion (2015: Ushs 57.14 billion). If approved, the outstanding dividend will be paid on or about 5 July 2017. An interim dividend for the year of Ushs 17.87 billion was paid in December 2016 (2015: Ushs 17.54 billion).

5. 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.

6. DIRECTORS

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

	Name		Role	Nationality
a)	Patrick Bitature	-	Chairman	Ugandan
b)	Selestino Babungi	-	Managing Director	Ugandan
c)	Charles Chapman	-	Non-executive Director	Irish
d)	Stuart David Michael Grylls	-	Non-executive Director	English
e)	Gerald Ssendaula	-	Non-executive Director	Ugandan
f)	Christopher Nicholson	-	Non-executive Director	American
g)	Adrian Mucalov	-	Non-executive Director - Resigned March 2017	English
h)	Florence Namatta Mawejje	-	Non-executive Director - Appointed April 2016	Ugandan
i)	Piet Faling	-	Non-executive Director	South African
j)	Samuel Zimbe	-	Executive Director	Ugandan
k)	Florence N. Nsubuga	-	Executive Director	Ugandan

Directors Report *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2016

7. 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
	2016		2015	
Samuel Zimbe	6,232,484	0.38%	3,160,000	0.19%
Selestino Babungi	5,844,684	0.36%	2,700,000	0.17%
Patrick Bitature	2,011,100	0.12%	228,300	0.01%
Florence N Nsubuga	1,260,000	0.08%	2,260,000	0.14%
Gerald Ssendaula	586,800	0.04%	827,200	0.05%
Christopher Nicholson	201,600	0.01%	-	-
Charles Chapman	-	-	7,290,000	0.45%
Stuart David Michael Grylls (as UHL nominee)	-	-	100,000	0.01%

8. INSURANCE

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

9. EVENTS AFTER THE REPORTING DATE

There are no material events that have occurred between the reporting date and the date of this report that would require adjustment of or disclosure in these financial statements.

10. AUDITORS

The auditors, KPMG, being eligible for re-appointment have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act of Uganda.

Approval of the financial statements

These financial statements were approved at a meeting of the directors held on 31 March 2017.

By order of the Board,

Signed: .... Date: 31 March 2017

Shonubi, Musoke & Co. Advocates

Secretary, Board of Directors

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2016

The Company's directors are responsible for the preparation and fair presentation of the financial statements of Umeme Limited, comprising the statement of financial position at 31 December 2016 and the statement of profit and loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the Companies Act of Uganda, and for such internal controls 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.

Under the Company's Act, the directors' responsibilities include; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. They are also responsible for safeguarding the assets of the Company.

The directors are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs as at the end of the financial year and the operating results of the Company for that year. It also requires the directors to ensure the Company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Company.

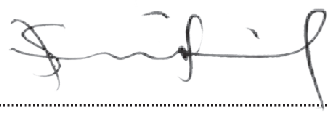
The directors accept responsibility for the financial statements set out on pages 71 to 133 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Companies Act 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 and cash flows for the year ended 31 December 2016. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have assessed the Company's ability to continue as a going concern and have no reason to believe the business will not be a going concern for the next twelve months from the date of this statement.

Approval of the financial statements

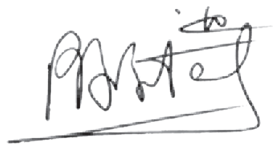
The financial statements, which appear on pages 71 to 133, were approved by the board of directors on 31 March 2017 and signed on its behalf by:



....

Director

Date: 31 March 2017



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Director

KPMG
Certified Public Accountants
3rdFloor Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P O Box 3509
Kampala, Uganda
Reg No. AF0026

Telephone +256 414 340315/6
Fax +256 414 340318
Email: info@kpmg.co.ug
Website www.kpmg.com/eastafrica

Report of the Independent Auditors to the members of Umeme Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Umeme Limited (the "Company"),set out on pages 71 to 133 which comprise the statement of financial position as at 31 December 2016, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Umeme Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act of Uganda.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Uganda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements taken as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Revenue recognition:	
See Note 3 of the financial statements	
The Company recognised revenue of Ushs 1,312 billion which is derived from a number of price controls imposed by the Electricity Regulatory Authority (ERA) embedded within the tariff methodology. Revenue recognised is dependent on a complex tariff methodology and units consumed. The respective tariffs, used to bill each class of customers, are approved by ERA on a quarterly basis. Management has to apply the correct ERA approved tariffs to the actual units consumed by customers to determine the revenue to be recognised. Due to the complexity of the tariff methodology and the significance of the revenue balance in the financial statements, revenue recognition has been identified as a key audit matter in the current year audit.	• We tested the design and operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over management's application of the tariffs approved by ERA and the determination of units consumed by customers. • We tested the revenue recognised by comparing the value of units sold based on the approved tariffs to the revenue recorded. We inspected regulatory approved tariffs to test that the amounts charged were consistent with those tariffs. • We inspected a sample of customer rates to verify that they were properly updated on a quarterly basis in the billing systems, and that the rate types assigned to customers were consistent with the customer classification and (where appropriate) the volume of usage.

The key audit matter	How the matter was addressed in our audit
Growth factor and tax IN revenue adjustments (Amendment 2 and 4):	
See Note 3 and Note 18 of the financial statements	
Electricity Regulatory Authority (ERA) implemented Amendment 2 and 4 of the supply license relating to the reconciliation of the total energy purchased from UETCL, the transmission company, and the income tax provision on the return on investment components of the tariff. These amendments have resulted in amounts of Ushs 22.532 billion being clawed back in respect of the growth factor revenue and Ushs 12.356 billion in respect of the tax IN through the bulk supply tariff payable to Umeme Limited in the current year. The total amounts clawed back to date that have been recorded as receivables in the company's financial statements amount to Ushs 65.861 billion for growth factor revenue and Ushs 38.644 billion for Tax IN. The recognition of the revenue and related receivable in respect of these amendments may not be fully supported which may require the impairment of the receivable. The directors apply judgement in assessing whether the receivable is recoverable based on the remedies of recovery available to the Company included in the concession agreements and the conclusions reached in the consent judgement between ERA and the Company on 18th May 2016. Due to the magnitude of receivables and the significant judgements applied by management, this has been identified as a key audit matter in the current year audit.	• We reviewed the nature and composition of the receivable in respect of the growth factor revenue and the tax IN, included in trade and other receivables, to evaluate whether the receivable is potentially impaired. • We also reviewed all correspondence with the ERA and other stakeholders in the sector on this matter, the consent judgement and the provisions of the concession agreements to confirm the basis on which the receivable was determined is consistent with the provisions in those agreements and also to confirm that the receivable is recoverable • We reviewed the breakdown of the clawed back revenue to ensure it was determined in a manner consistent with the tariff methodology.

Report of the Independent Auditors to the members of Umeme Limited *(continued)*

The key audit matter	How the matter was addressed in our audit
Accounting for intangible assets:	
See Note 14 of the financial statements	
A key focus for the Company is investment in the network as this is the major driver of growth in the business. The total capital expenditure, capitalised as an intangible asset, during the year ended 31 December 2016 amounted to Ushs 317.8 billion. *Depending upon its nature, expenditure may be capitalised as Intangible Assets in accordance with IFRIC 12 Service Concession Arrangements (IFRIC 12) or expensed in the year the cost is incurred. In making this assessment the directors apply judgement in determining whether the expenditure will generate future economic benefits and whether the expenditure is recoverable through Umeme's right to charge customers for additions and upgrades on the network through the tariff methodology.* *Given the expansive nature of the network, there is a high level of judgement and complexity in firstly determining whether the intangible asset should be recognised and then assessing the intangible asset for impairment. This has been identified as a key audit matter in the audit of the current year.*	*Our audit procedures, which focused on assessing Umeme's right to charge customers for services offered and the value of the underlying network assets recognised as an intangible asset, included;* • Assessing whether the Company's accounting policies in relation to the capitalisation of expenditure complied with IFRIC 12 by reviewing the effectiveness of the controls in place over the decision to capitalise expenditure as well as the documentation supporting the amounts capitalised. • We focused on capital expenditure that had the most significant value, with particular focus on additions to the distribution network. As part of our testing, we challenged management's classification by inspecting contracts and underlying invoices to ensure the classification between capital or operating expenditure was appropriate. • *Our procedures also included identification of projects where the proportion of costs capitalised were different to those we would expect based on the nature of the work performed and review of completion certificates for all completed projects.* • *Our procedures with regard to the assessment of the impairment of the intangible assets, included:* • *Reviewing the verification reports prepared by management to assess the state of the network in terms of physical condition and functionality and whether there were any instances of lost revenue as a result of a dilapidated network to assess whether any impairment was required to be recognised.* • *Reviewing the daily and quarterly technical reports prepared by management to verify parts of the network that were not reliable in terms of supply. We inquired with management how those parts of the network had been assessed for impairment and evaluated that decision based on prior experience.* • *We also reviewed investments that had not yet been approved by ERA to assess if those investments showed indicators of impairment.*

Other information

The directors are responsible for the other information. The other information comprises the Annual Report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Companies Act of Uganda, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

KPMG

Report of the Independent Auditors to the members of Umeme Limited *(continued)*

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

i. As required by the Companies Act of Uganda we report to you, based on our audit, that:

ii. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

iii. In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

The statements of financial position and comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditors' report is **CPA Benson Ndung'u-P0116.**

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

Date: 31 March 2017

Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Ushs million	2015 Ushs million
Revenue	3	1,312,168	1,161,008
Cost of sales	4	(881,786)	(742,967)
GROSS PROFIT		**430,382**	**418,041**
Other operating income	5	7,087	9,064
Repair and maintenance expenses	6	(22,691)	(18,581)
Administration expenses	7	(151,772)	(155,113)
Foreign exchange losses	8(a)	(4,786)	(8,424)
Other expenses	8(b)	(1,933)	(6,758)
OPERATING PROFIT BEFORE AMORTISATION		**256,287**	**238,229**
Amortisation of intangible assets	8(c)	(61,622)	(47,588)
OPERATING PROFIT		**194,665**	**190,641**
Finance income	9(a)	26,720	23,404
Finance costs	9(b)	(69,301)	(53,063)
PROFIT BEFORE TAX	10	**152,084**	**160,982**
Income tax expense	11(a)	(52,337)	(55,125)
PROFIT FOR THE YEAR		**99,747**	**105,857**

		2016 Ushs	2015 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	12	61	65

The notes set out on pages 76 to 126 form an integral part of these financial statements

Statement of Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 Ushs million	2015 Ushs million
Profit for the year	**99,747**	**105,857**
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	45,995	133,410
Total comprehensive income for the year, net of tax	**145,742**	**239,267**

The notes set out on pages 76 to 126 form an integral part of these financial statements

Statement of Financial position

AS AT 31 DECEMBER 2016

	Note	2016 Ushs million	2015 Ushs million
ASSETS			
Non-current assets			
Intangible assets	13	1,317,309	1,044,595
Concession arrangement : financial asset	14	363,025	313,960
Other financial asset	15	70,018	-
		1,750,352	1,358,555
Current assets			
Inventories	16	55,521	43,398
Amount recoverable from customer capital contributions	17	6,982	6,634
Tax recoverable	11(b)	11,841	-
Trade and other receivables	18	342,959	337,768
Bank balances	19	24,204	28,514
		441,507	416,314
TOTAL ASSETS		**2,191,859**	**1,774,869**
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		314,607	272,325
Reserves		179,405	133,410
		592,052	503,775
Non-current liabilities			
Borrowings: Non-current portion	23	578,416	477,160
Concession obligation : Non-current portion	24	363,025	313,960
Deferred income tax liability	11(c)	111,285	69,448
Long term incentive plan: Non-current portion	25	2,867	-
		1,055,593	860,568
Current liabilities			
Borrowings: Current portion	23	124,021	1,237
Customer security deposits	26	130	998
Deferred income	27	7,005	12,437
Long term incentive plan: Current portion	25	-	14,490
Trade and other payables	28	364,029	344,832
Current income tax payable	11(b)	-	5,250
Short term borrowing	29	49,029	31,282
		544,214	410,526
TOTAL EQUITY AND LIABILITIES		**2,191,859**	**1,774,869**

The financial statements on pages 71 to 133 were approved by the Board of Directors on 31 March 2017and were signed on its behalf by:

Director **Director**

The notes set out on pages 76 to 126 form an integral part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Issued capital Ushs million	Share premium Ushs million	Translation reserve Ushs million	Retained earnings Ushs million	Total Equity Ushs million
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
Dividend paid	-	-	-	(49,204)	(49,204)
At 31 December 2015	**27,748**	**70,292**	**133,410**	**272,325**	**503,775**
At 1 January 2016	**27,748**	**70,292**	**133,410**	**272,325**	**503,775**
Profit for the year	-	-	-	99,747	99,747
Other comprehensive income, net of tax	-	-	45,995	-	45,995
Dividend paid	-	-	-	(57,465)	(57,465)
At 31 December 2016	**27,748**	**70,292**	**179,405**	**314,607**	**592,052**

The notes set out on pages 76 to 126 form an integral part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

		2016 Ushs million	2015 Ushs million
Profit before tax		152,084	160,982
Adjustment for:			
Interest received from banks		(446)	(886)
Finance income on concession financial asset	9(a)	(25,469)	(22,518)
Amortisation of intangible assets	13	61,622	47,588
Loss on disposal of intangible assets		1,933	6,758
Interest expense on Facilities A and B	23	33,593	23,436
Amortisation of deferred transaction costs		4,690	6,177
Finance cost on concession obligation	9(b)	25,469	22,518
Finance income on other financial asset	9(a)	(805)	-
Unrealised foreign exchange losses gains on translation		(2,667)	(8,386)
Cash flows before working capital movements		**250,004**	**235,669**
Change in:			
Inventories		(12,123)	(6,148)
Amount recoverable from customer capital contributions		(348)	(3,146)
Trade and other receivables		(5,191)	(54,056)
Deferred income		(5,432)	(4,264)
Long term incentive plan		(11,623)	7,579
Trade and other payables		19,197	58,698
Cash generated from operating activities		**234,484**	**234,332**
Interest received from banks	9(a)	446	886
Current income tax paid	11(b)	(26,529)	(33,775)
Interest paid on Loan A and B	23	(33,870)	(22,248)
Commitment fees on Loan A and B	23	(3,861)	(2,619)
Net cash flows from operating activities		**170,670**	**176,576**
Investing activities			
Purchase of intangible assets	13	(317,797)	(280,528)
Net cash flows used in investing activities		**(317,797)**	**(280,528)**
Financing activities			
Repayment of principal on borrowings	23	(62,387)	-
Net proceeds from borrowings	23	245,790	151,965
Dividends paid		(57,465)	(49,204)
Net cash flows from financing activities		**125,938**	**102,761**
Net decrease in cash and cash equivalents		**(21,189)**	**(1,191)**
Cash and cash equivalents at 1 January		(3,766)	(2,575)
Cash and cash equivalents at 31December	30	**(24,955)**	**(3,766)**

The notes set out on pages 76 to 126 form an integral part of these financial statements

Notes to the 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 capital expenditure as well as an allowed return on working capital. The return is annual, based on the level of capital investment in nominal United States Dollar ("USD") and working capital in nominal Ugandan Shillings ("Ushs") as approved by ERA.

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 incentivized to meet or exceed its sales volume and tariff targets as it receives the reward of earning additional revenues of growth in sales volume, following the payment of its power supply and operating costs in accordance with the tariff methodology, in circumstances where the tariff performance targets are met or exceeded, but conversely enjoys limited protection of downside risks in circumstances where targets are not met due to underperformance. The costs related to the four set tariff parameters of distribution losses, uncollected debt, DOMC and working capital days lag are reflected in the retail tariff and thereby provide the Company baseline revenues that should just cover expenses relating to these parameters. To the extent actual operating performance is better/worse than envisaged in the tariff parameters, the Company's revenues in respect of these operating parameters will / will not cover the related expenses leading to a positive / negative impact in the overall profitability of the Company.

The table below provides the set tariff parameters for the 4 years to 2018 as agreed between Umeme Limited and ERA.

	Actual		Targets			
Tariff parameter	**2016**	**2015**	**2015**	**2016**	**2017**	**2018**
Distribution losses (%)	19.0%	19.5	18.3	16.9	15.7	14.7
DOMC (USD million)**	50.8	53.0	46.2	47.7	49.3	51.1
Uncollected debt (%)	1.6	2.0	2.3	2.1	1.8	1.5

**DOMC Targets are as set in 2012 but annual allowance is adjusted for international and local inflation.

1.2 Going concern

The directors have assessed 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 2016 were authorised for issue in accordance with a resolution of the directors on 31March 2017.

Notes to the Financial Statements *(continued)*

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 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 of Uganda.

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

The financial statements are prepared on a historical cost basis except for certain assets and liabilities and any contingent consideration that have been measured at fair value. The financial statements are presented in Uganda Shillings rounded to the nearest million (Ushs million) except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period.

b) Service concession arrangement

The Company signed a LAA 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 note 35. The Company assessed that the concession is within the scope of IFRIC 12 *Service Concession Arrangement* (IFRIC 12) because:

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

The Company received possession of the concession assets but not ownership and thus assumed the exclusive right to use, maintain and retire the distribution network assets and related systems and retransfer the assets back to UEDCL after 20 years, unless the contract is terminated before that date. Umeme also has the rights and obligation to make the necessary modifications to the Distribution Network as deemed desirable to be in proper conduct and in accordance with the requirements of the laws of Uganda. The Company also has an obligation to receive capital contributions from customers and construct and install the infrastructure paid for. ERA may also include within the tariff a component for recovery of funds from customers for financing assets that are not directly used in the Distribution Network but are necessary for the operation of the Distribution Network (non-network assets).

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 15.In order for Umeme to recover its investments in the Distribution Network and earn a return, such investments need to be verified and approved by ERA. The Company earns no profit on the construction services provided for the customer funded instalments and is only allowed to recover the actual cost incurred.

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

Infrastructure within the scope of IFRIC 12 is not recognized 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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Service concession arrangement *(continued)*

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 recognises an intangible asset to the extent that it receives a right (e.g. a license) 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 14.

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

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

Functional currency

The Company's functional currency is United States Dollars (USD), which is the currency of the primary economic environment in which the Company operates.

Foreign currency transactions

Transactions in foreign currencies are translated into United States Dollars using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into United States Dollars at the exchange rates ruling at that date.

Foreign currency differences arising on translation are recognized in the profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the United States Dollars at the exchange rate at the date when the fair value was determined.

Non-Monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Presentation currency

The Company's financial statements are presented in Uganda shillings after translating the Company's functional 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 recognized in other comprehensive income.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Revenue and Other income

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, regardless of when payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes.

The specific recognition criteria described below must also be met before revenue is recognised.

Electricity sales

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

Rate-regulated activities

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 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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

No amortisation is charged for the intangible asset arising from property, plant and equipment in the course of construction (capital work-in-progress).Upon completion of the project, the accumulated cost is amortised using the amortisation rate of the underlying property, plant and equipment category set out above.

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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Impairment of intangible assets *(continued)*

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 the 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.

Bank balances, trade receivables, buyout amount 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.

The Buy-Out Amount financial asset represents present value of the capital investments by the Company, which will not have been recovered through the tariff methodology at the time of transferring the distribution network back to the Government of Uganda at end of the Concession.

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 amortized cost using the effective interest rate method. Amortization is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in the statement of profit or loss.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) De-recognition of financial assets and financial liabilities *(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

j) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

k) Impairment of financial assets

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.

l) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts or short term borrowings as they are considered an integral part of the Company's cash management.

m) 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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

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.

Staff retirement benefit scheme

The Company contributes to a staff retirement scheme that is registered with Uganda Retirement Benefits Regulatory Authority as Umeme Limited Staff Retirement Benefit Scheme (License No. RBS.0069). This is a defined contribution scheme registered under the Uganda Retirement Benefits Regulatory Authority Act, 2011. The Company's obligations under the scheme are limited to specific contributions currently 5% of the employees' gross salary as approved by the board of directors. The Company's contributions are charged to the income statement in the period to which they relate.

Other employee benefits

Long term incentive plan

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

o) Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or 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.

p) Tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, in accordance with the provisions of the Ugandan Income Tax Act (Cap 340). The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the statement of profit or loss.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Tax *(continued)*

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

Deferred income tax

Deferred income tax is provided for in full at the reporting date, using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in other comprehensive income is recognised in the statement of other comprehensive income and not in the statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity in the same taxation authority.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of goods and services is not recoverable from Uganda Revenue Authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense for the item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

q) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Borrowing costs

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

s) Share capital and equity

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

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

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

t) Cash dividend

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

u) Leases

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

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

v) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments measured at fair value, or where fair values of financial instruments measured at amortised cost are disclosed, are summarised in Note 36.

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, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

v) Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

w) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when either:

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

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

x) Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

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

Judgments

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

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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 used judgment in determining the Company's contractual entitlement and other mechanism to recover the above revenues and have 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 36 (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 bere-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)*

y) Changes in accounting policies and disclosures

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

The Company has adopted the following new standards and amendments during the period/year ended 31 December 2016, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2016. The nature and effects of the changes are explained below:

New standard or amendments
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)
• Equity Method in Separate Financial Statements (Amendments to IAS 27)
• IFRS 14 Regulatory Deferral Accounts
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
• Disclosure Initiative (Amendments to IAS 1)
• Annual improvements cycle (2012-2014) – various standards

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 re-measured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

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.

The amendment has no effect on the Company as the company does not agricultural assets.

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.

The amendment has no effect on the company as the company does not use revenue-based methods of depreciation.

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.

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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

The amendments are not relevant to the company as 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.

The amendments are not relevant to the company as the company is not an Investment 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 adoption of these changes did not have a significant impact on the financial statements of the Company.

Annual improvements cycle (2012-2014) – various standards

Standard	Amendments
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal. Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)	Servicing contracts. Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Applicability of the amendments to IFRS 7 to condensed interim financial statements. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 Employee Benefits	Discount rate: regional market issue. Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).
IAS 34 Interim Financial Reporting	Disclosure of information 'elsewhere in the interim financial report'. Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The adoption of these changes did not have a significant impact on the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below;

New standard or amendments	Effective for annual periods beginning on or after
Disclosure Initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
IFRS 16 Leases	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	To be determined

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

The carrying amount of an asset does not limit the estimation of probable future taxable profits.

Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016. (continued)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) (continued)

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, 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.

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

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15 and does not expected a significant impact resulting from this change.

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 period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

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

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The following clarifications and amendments are contained in the pronouncement:

- *Accounting for cash-settled share-based payment transactions that include a performance condition*

  Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

- *Classification of share-based payment transactions with net settlement features*

  IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016. (continued)

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (continued)

- *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

  Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

  - On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
  - Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application if allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 ***'Insurance Contracts' (Amendments to IFRS 4)*** provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016 (continued).

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.

Notes to the Financial Statements *(continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2016. (continued)

IFRS 16: Leases (continued)

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 adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

3. REVENUE

	Note	2016 Ushs million	2015 Ushs million
Domestic		341,140	306,931
Commercial		46,370	41,302
Street lighting		4,711	836
Commercial - time of use		980	123,148
Medium industrial		143,211	4,688
Medium industrial -time of use		252,745	230,070
Large industrial - time of use		473,216	420,471
Total amount billed to customers		**1,262,373**	**1,127,446**
Regulatory Revenue adjustment (Amendment 2 & 4)	3(a)	34,888	27,926
Recovery of income for funding non-network assets	3(b)	(11,119)	(9,306)
		1,286,142	**1,146,066**
Construction revenue-construction of assets	3(c)	26,026	14,942
		1,312,168	**1,161,008**

3(a) Electricity Regulatory Authority (ERA) implemented Amendments Number 2 and 4 of the Supply License relating to reconciliation of the total energy purchased from UETCL and the income tax provision on the return on investment components of the tariff and this resulted in clawing back through the bulk supply tariff payable by the Company for electricity purchases of Ushs 34.888 billion (USD10.220million). The Company has a right to recover the amounts clawed back by ERA under the Privatization Agreements and as such, the Company has accrued Ushs 34.888 billion as revenue for the year ended 31December 2016 in accordance with IAS 18 Revenue.

On 18 May2016, the Company entered into a Consent Judgment with the Electricity Regulatory Authority (ERA). The judgment provides proposals for modification of Umeme's Electricity Supply License No 048 to incorporate the terms agreed therein and introduce a new Amendment (Amendment Number 5) that will supersede Umeme's Supply License Amendments No 2 & 4 of 2012. This will have the effect of recovering the clawed back amount hence resolving the matters in dispute between the parties.

3(b) In accordance with Amendment Number 4 of the Company's Electricity Supply License, ERA approved Ushs 11,119 million in the year ended 31 December 2016 (2015 : Ushs 9,306 million) 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. This amount is offset from the reported revenue in line with the funding mechanism.

3(c) 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 recognized 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 installations funded by the Company are offset from the related construction revenue as this reflects the substance and legal form of the transactions.

Notes to the Financial Statements *(continued)*

4. COST OF SALES

	2016 Ushs million	2015 Ushs million
Electricity purchase from UETCL	851,917	724,642
Generation levy	3,843	3,383
Construction costs-construction of assets – Note 3(c)	26,026	14,942
	881,786	**742,967**

5. OTHER OPERATING AND FINANCE INCOME

	2016 Ushs million	2015 Ushs million
Regulated income		
Reconnection fees	230	998
Meter/transformer test fees	1	3
Inspection fees	6,089	3,246
	6,320	4,247
Non-regulated income		
Sale of scrap and other disposals	89	130
OBA income	254	4,163
Fines and other income	424	524
	767	4,817
Total other operating income	**7,087**	**9,064**

6. REPAIR AND MAINTENANCE EXPENSES

	2016 Ushs million	2015 Ushs million
Distribution (over-head & underground)	2,247	5,668
Transformers, meters & other electrical test instruments	6,119	1,843
Other repairs and maintenance	14,325	11,070
	22,691	**18,581**

7. ADMINISTRATION EXPENSES

	2016 Ushs million	2015 Ushs million
Staff costs (7a)	74,694	79,318
Transport costs	9,021	8,669
Other administration costs	41,124	42,517
Impairment provision for inventories	1,755	127
Consultancy fees	2,891	4,029
Telephone expenses	4,625	4,387
Debt collection expenses	1,633	4,025
Insurance charges	3,366	3,753
Impairment provision for bad and doubtful debts	12,663	8,288
	151,772	**155,113**

Notes to the Financial Statements *(continued)*

7. ADMINISTRATION EXPENSES (CONTINUED)	2016 Ushs million	2015 Ushs million
7(a) Staff costs		
Salaries and wages	39,959	37,947
National Social Security Fund (NSSF) contributions	5,026	4,379
Long term incentive plan expenses	2,176	8,328
Staff allowances and other staff related costs	27,533	28,664
	74,694	**79,318**

8. OTHER OPERATING EXPENSES		
a) Net foreign exchange losses	**4,786**	**8,424**
b) Other expenses		
Loss on disposal of assets	1,933	6,758
	1,933	**6,758**
c) Amortisation		
Amortisation of intangible assets	61,622	47,588
Total other operating expenses	**68,341**	**62,770**

9. a) FINANCE INCOME		
Interest on bank deposits	446	886
Financing income on concession financial asset (note 14)	25,469	22,518
Financing income interest receivable on buyout amount	805	-
	26,720	**23,404**

9. b) FINANCE COSTS		
Accrued interest on customer security deposits	1,193	1,563
Finance charge on concession obligation (note 24)	25,469	22,518
Amortised borrowing costs	4,278	4,122
Interest expense on Facility A	11,629	6,928
Interest expense on Facility B	17,150	9,897
Swap interest on Facility A	89	444
Swap interest on Facility B	123	629
Other financing costs	9,370	6,962
	69,301	**53,063**

Notes to the Financial Statements *(continued)*

10. PROFIT BEFORE TAX	2016 Ushs million	2015 Ushs million
Profit before tax is stated after charging/(crediting):		
Amortisation of intangible assets	61,622	47,588
Auditors' remuneration	762	647
NSSF-Employer's contributions	5,026	4,379
Directors' expenses and allowances	3,480	3,858
Performance bonus	7,456	7,582
Share grant and deferred bonus schemes expenses	2,176	8,328
Loss on disposal of assets	1,933	6,758
Donations	116	167
Management fees	476	1,762
Unrealised foreign exchange losses	2,279	8,424
Staff medical and welfare expenses	1,008	2,925
And after crediting		
Interest on bank deposits	(446)	(886)

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.

	2016 Ushs million	2015 Ushs million
a) Income tax expense		
Current income tax charge for the year	10,500	36,033
Deferred income tax charge for the year	41,837	19,092
	52,337	**55,125**

The average effective tax rate is 34.4% (2015: 34.2%).The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2016 Ushs million	2015 Ushs million
Accounting profit before income tax	152,084	160,982
At statutory income tax rate of 30% (2015: 30%)	45,625	48,295
Tax effect of:		
Expenses and income not allowable for tax purposes	882	6,830
Prior year over provision -Current tax	(1,999)	-
Prior year under provision -Deferred tax	7,829	-
Income tax expense reported in the income statement	**52,337**	**55,125**
b) Current income tax (recoverable)/payable		
Current income tax payable brought forward	5,250	2,992
Current income tax charge for the year	10,500	36,033
Payment on current income tax	(26,529)	(33,775)
Foreign exchange gain	(1,062)	-
	(11,841)	**5,250**

Notes to the Financial Statements *(continued)*

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:

2016	**2016 Ushs million**	**Movement Ushs million**	**2015 Ushs million**
Deferred tax liabilities/(assets)			
Accelerated tax depreciation	135,614	39,082	96,532
Provision for bad debts	(20,377)	410	(20,787)
IPO costs	-	120	(120)
Other provisions	(3,229)	585	(3,814)
Unrealised foreign exchange losses	(723)	1,640	(2,363)
Net deferred income tax liability	**111,285**	**41,837**	**69,448**

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 gains	(2,363)	(5,303)	(7,666)
Net deferred income tax liability	**69,448**	**(19,092)**	**50,356**

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.

	2016 Ushs million	**2015 Ushs million**
Profit attributable to shareholders	**99,747**	**105,857**
Basic number of ordinary shares at 1 January (million)	1,624	1,624
Basic and diluted weighted average number of ordinary shares (millions)	1,624	1,624
Basic and diluted earnings per share (Ushs)	**61**	**65**

Notes to the Financial Statements *(continued)*

13. INTANGIBLE ASSETS

	GOU support & assurances rights Ushs million	Other Concession rights Ushs million	Total Ushs million
Cost			
At 1 January 2015	**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**
Additions	-	317,797	317,797
Disposals and write offs	-	(2,657)	(2,657)
Transfer to financial asset	-	(65,780)	(65,780)
Translation differences	233	106,279	106,512
At 31 December 2016	**3,523**	**1,662,266**	**1,665,789**
Amortisation			
At 1 January 2015	**(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)**
Charge for the year	(123)	(61,499)	(61,622)
Disposals and write offs	-	822	822
Translation differences	(133)	(22,225)	(22,358)
At 31 December 2016	**(1,970)**	**(346,510)**	**(348,480)**
Net carrying amount			
At 31 December 2016	**1,553**	**1,315,756**	**1,317,309**
At 31 December 2015	**1,576**	**1,043,019**	**1,044,595**

GOU support and assurance rights

The Distribution Support Agreement of the Lease and Assignment Agreement between Government of Uganda (GOU) and the Company required Umeme to pay a transaction fee of USD 1.4 million to the GOU Privatization Unit as consideration for the rights and assurances granted by GOU to Umeme. 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 capitalized and are being amortized 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 recognized 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.

13. INTANGIBLE ASSETS (continued)

Capitalised borrowing costs

Funding used to construct qualifying assets is financed out of borrowings. The capitalisation rate applied is the weighted average of the borrowings costs applicable to qualifying capital expenditure. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.49% (2015:8.37%) and the amount of borrowing costs capitalised during the year ended 31 December 2016 was Ushs 9,000 million (2015:Ushs 10,000 million)

14. CONCESSION FINANCIAL ASSET

	2016 Ushs million	2015 Ushs million
At 1 January	313,960	239,139
Financing income for the year	25,469	22,324
Foreign exchange gain	23,596	52,497
At 31 December	**363,025**	**313,960**
Maturity analysis of the financial asset:		
Outstanding financial asset	363,025	313,960
Less: Amount recoverable within one year	-	-
Non-current portion of financial asset	**363,025**	**313,960**
The financial asset is recoverable as analysed below:		
Within one year	-	-
Between one and two years	7,047	179,736
Between two and three years	7,361	8,234
Between three and four years	4,642	8,659
Between four and five years	146,758	6,262
After five years	197,217	111,069
	363,025	**313,960**

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 since the year ended 31 December 2012 to date 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 due 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 receivable within one year has been presented since the debt service component was not included in the approved 2017 base tariffs.

Notes to the Financial Statements *(continued)*

15. OTHER FINANCIAL ASSET: BUY OUT AMOUNT

	2016 Ushs million	2015 Ushs million
At 1 January	-	-
Transfer from intangible asset	65,780	-
Interest receivable - 5%	805	-
Foreign exchange gain	3,433	-
	70,018	**-**

The financial asset represents the fair value capital investments by the Company which will not have been recovered through the tariff methodology at the time of transferring the distribution network back to Uganda Electricity Distribution Limited at the end of the Concession (buy out amount). It is computed as the gross accumulated capital investments less cumulative expected capital recovery charges at the time of transfer discounted at 20% over the remaining period of this concession. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate.

As at 31December 2016, the estimated weighted average depreciation rate was 9.5 %(2015: 9.5%) and it is hence estimated that capital investments amounting to USD19.2 million (Ushs 65,780 million) as of that date will not have been recovered through the tariff methodology at the end of the concession. The buy-out amount shall be paid in cash with a 5% return and hence any amounts due are accounted for as a financial asset.

The buy-out amount is contractually denominated in USD. The USD balances have been translated to Uganda shillings at the reporting date spot exchange rate of Ushs 3,615.5.

The carrying amount of the unrecovered capital investments as of year-end were as follows:

	2016		2015	
	Ushs million	USD million	Ushs million	USD million
Umeme Gross investments (incl WIP)	1,808,487	500.1	1,375,461	407.3
Less: Cumulative capital recovery charges*	(424,157)	(117.3)	(309,333)	(91.6)
Unrecovered investments	1,384,330	382.8	1,066,128	315.7
Total investments in the ERA Tariff base **	1,195,450	330.6	859,694	254.6
Total investments not yet verified by ERA	613,038	169.6	515,767	152.7

Investments pending ERA verification are represented by:

	2016		2015	
	Ushs million	USD million	Ushs million	USD million
Completed projects under ERA verification	496,004	137.2	459,705	136.1
Works- in-progress	117,034	32.4	56,062	16.6
Investments not yet verified by ERA	613,038	169.6	515,767	152.7

* The cumulative capital recoveries and investments approved by ERA are inclusive of allowance for impairment charge of USD 7.0 million relating to the year ended 31 December 2010. The gross investments are adjusted by this amount

** Investments in ERA tariff base change as more investments are verified and approved by ERA.

Notes to the Financial Statements *(continued)*

15. OTHER FINANCIAL ASSET: BUY OUT AMOUNT *(continued)*

The investments yet to be verified by ERA are represented by completed capital investments for the year of USD 79.8 million of which USD 72.5 million has been allowed in the 2017 tariff pending verification; cumulative capital works-in-progress of USD 32.4 million (2015: USD 24.4 million) and investments related to prior periods of USD 50.4 million (less impairment charge of USD 7 million) (2015: USD 49.6 million). Amounts relating to prior periods not yet in the tariff are being subjected to further verification as jointly agreed with ERA. Whilst all investment amounts are expected to be recovered, there is an uncertainty as to the quantum of these investments that will be recovered as capital investments for the purposes of earning a return on investments or provided for as additional operational expenditure in future tariff determinations.

The table below shows a summary of Umeme's capital investments over the period 2005 to 2016.

	2005-2011 Ushs Million	2012 Ushs million	2013 Ushs million	2014 Ushs million	2015 Ushs million	2016 Ushs million	Total Ushs million
In Uganda Shillings							
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	264,483	278,879	314,558	1,295,707
Land and Buildings	6,394	1,052	992	2,909	777	1,309	13,433
Furniture & Fittings, Tools & Office equipment	9,427	3,143	340	780	776	1,730	16,196
Computers, Communication & MIS	24,459	8,393	1,334	664	92	117	35,059
Motor vehicles	18,877	875	1,217	-	4	83	21,056
Total investments	**269,392**	**98,074**	**146,824**	**268,836**	**280,528**	**317,797**	**1,381,451**
Represented by:							
Capitalised	257,051	101,430	135,511	267,415	248,426	273,114	1,282,947
Capital work in progress	12,341	(3,356)	11,313	1,421	32,102	44,683	98,504
	269,392	98,074	146,824	268,836	280,528	317,797	1,381,451
In US Dollars							
Av. Foreign exchange rate– Ushs:USD	2,079	2,691	2,522	2,778	3,242	3,423	-
Total investment: USD million equivalent	**130**	**36**	**58**	**97**	**87**	**93**	**501**

Notes to the Financial Statements *(continued)*

16. INVENTORIES	2016 Ushs million	2015 Ushs million
Overhead materials & accessories	25,732	19,692
Underground cables, materials & accessories	4,208	5,008
Substation transformers & accessories	2,791	1,441
Meters, metering equipment& accessories	13,880	11,381
Tools and other equipment	3,258	2,718
Stationery	842	821
Expense on goods in transit	6,692	2,464
	57,403	**43,525**
Provision for impairment	(1,882)	(127)
	55,521	**43,398**
Provision for impairment		
At 1 January	127	-
Movement during the period	1,755	127
At 31 December	**1,882**	**127**

	2016 Ushs million	2015 Ushs million
17. AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS		
At 1 January	6,634	3,488
Additions to customer funded installations	4,036	4,038
Completed customer funded installations	(4,152)	(892)
Translation difference	464	-
At 31 December	**6,982**	**6,634**

	2016 Ushs million	2015 Ushs million
18. TRADE AND OTHER RECEIVABLES		
Trade receivables	242,239	257,895
Less: Allowance for impairment	(66,551)	(72,205)
Net trade receivables	**175,688**	**185,690**
Prepayments	19,596	28,736
Letters of credit	6,869	548
HVE and Tax IN revenue receivable	104,504	69,617
Other receivables	17,367	11,601
OBA receivable	9,697	31,661
VAT claimable	9,238	9,915
	167,271	**152,078**
Trade and other receivables	**342,959**	**337,768**

Notes to the Financial Statements *(continued)*

18. TRADE AND OTHER RECEIVABLES *(continued)*

HVE and Tax IN receivables of Ushs104,504 million (2015: Ushs 69,617 million) relating to revenue reconciliation adjustments recoverable as described in Note 3(b).

Other receivables comprise of amounts due from Umeme Holdings Limited, contractual revenue from impaired assets, staff advances and accountable advances.

Trade receivables are non-interest bearing and are generally on 14-30 days' terms. The carrying amount of trade and other receivables approximate the fair values.

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

	2016 Ushs million	2015 Ushs million
At 1 January	72,205	94,185
Allowance for impairment for the year	12,663	8,288
Less: Bad debts written off (see below)	(18,317)	(30,268)
Translation difference	-	-
At 31 December	**66,551**	**72,205**
Bad debts written off are made up as follows:		
UEDCL trade receivables	-	283
Umeme trade receivables	18,317	29,985
	18,317	**30,268**

Bad debts are written off after the Company's debt collectors have performed the debt collection procedures and processes as agreed upon with URA and certifying that the chances of recovering the debts are remote. As at 31 December, the ageing analysis of trade receivables was as follows:

Year	Total	Neither past due nor impaired	Past due but not impaired		Impaired
		<30 days	30-60 days	>60 days	
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
2016	242,239	93,102	18,014	64,572	66,551
2015	251,290	95,485	16,675	66,925	72,205

19. BANK BALANCES

	2016 Ushs million	2015 Ushs million
Bank balances	**24,204**	**28,514**

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.

Notes to the Financial Statements *(continued)*

20. ISSUED CAPITAL

a) Number of shares	2016	2015
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	2016 Ushs million	2015 Ushs million
Nominal value of shares at 31 December	27,748	27,748

d) Spread of issued shares at 31 December 2016

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500	327	60,536	0.00%
500 - 5,000	2,763	5,213,701	0.32%
5,001 – 10,000	687	5,560,062	0.34%
10,001 – 100,000	1,153	34,849,425	2.15%
100,001 - 1,000,000	444	118,400,033	7.29%
Above 1,000,000	136	1,459,794,248	89.90%
	5,510	**1,623,878,005**	**100%**

e) Shareholding

		31 December 2016		31 December 2015	
	Name	Number of shares	Percentage shareholding	Number of shares	Percentage shareholding
1	National Social Security Fund	376,315,085	23.2%	231,722,771	14.27%
2	Kimberlite Frontier Africa Master Fund	107,197,587	6.6%	83,492,479	5.17%
3	Allan Gray	89,301,435	5.5%	72,801,432	4.48%
4	Investec Asset management Africa	78,616,769	4.8%	175,128,921	10.78%
5	Utilico Emerging Markets Limited	69,911,788	4.3%	30,281,788	1.86%
6	The Africa Emerging Markets Fund	55,250,672	3.4%	70,250,672	4.33%
7	International Finance Corporation	45,220,900	2.8%	45,220,900	2.78%
8	Duet Fund	44,796,024	2.8%	38,873,955	2.39%
9	Coronation Global Opportunities Fund	42,125,470	2.6%	8,748,994	0.54%
10	Kattagat Trust	31,751,442	2.0%	21,751,442	1.34%
11	Umeme Holdings Limited	-	-	232,214,521	14.29%
12	Others	683,390,833	42.0%	613,390,130	37.77%
		1,623,878,005	**100%**	**1,623,878,005**	**100%**

21. SHARE PREMIUM

	2016 Ushs million	2015 Ushs million
At 31 December	**70,292**	**70,292**

22. DISTRIBUTIONS TO SHAREHOLDERS MADE AND PROPOSED

	2016		2015	
	Dividend per share Ushs	Total Ushs million	Dividend per share Ushs	Total Ushs million
Dividend paid				
Interim dividend paid	11.0	17,862	10.8	17,538
Final dividend paid				
	11.0	17,862	10.8	17,538
Dividend proposed				
Proposed dividend	7.8	12,745	24.4	39,623

23. BORROWINGS

	Note	2016 Ushs million	2015 Ushs million
Amounts due to lenders	(a)	714,950	490,904
Less: Deferred transactions costs	(b)	(12,513)	(12,507)
		702,437	478,397
Less: Current portion - amount due within one year		(124,021)	(1,237)
Non - current portion		**578,416**	**477,160**

Notes to the Financial Statements *(continued)*

23. BORROWINGS *(continued)*

(a) AMOUNTS DUE TO LENDERS

	2016 Ushs million			2015 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	202,136	288,768	490,904	114,405	163,436	277,841
Amount drawn during the year	106,505	139,285	245,790	62,572	89,393	151,965
Interest charge for the year	13,724	19,869	33,593	9,651	13,785	23,436
Principal repayment	(21,707)	(40,680)	(62,387)	-	-	-
Interest payment	(13,832)	(20,038)	(33,870)	(9,160)	(13,088)	(22,248)
Foreign exchange losses	16,862	24,058	40,920	24,668	35,242	59,910
	303,688	**411,262**	**714,950**	**202,136**	**288,768**	**490,904**
The amounts due are made up as follows:						
Principal payable in more than one year	258,498	332,431	590,929	201,626	288,041	489,667
Principal payable in one year	45,190	78,831	124,021	-	-	-
Interest payable	-	-	-	510	727	1,237
	303,688	**411,262**	**714,950**	**202,136**	**288,768**	**490,904**

(b) DEFERRED TRANSACTION COSTS

	2016 Ushs million			2015 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	5,064	7,443	12,507	4,889	7,427	12,316
Upfront and guarantee fees	1,677	1,979	3,656	-	-	-
Management, security and agency fees	123	82	205	1,078	1,541	2,619
Amortisation for the year	(1,989)	(2,701)	(4,690)	(2,406)	(3,771)	(6,177)
Foreign exchange gains / losses	344	491	835	1,503	2,246	3,749
At 31 December	**5,219**	**7,294**	**12,513**	**5,064**	**7,443**	**12,507**

Facilities A and B and the revolving credit facility

The Company signed a term and revolving credit facilities agreement worth USD 190 million with International Finance Corporation (IFC), Standard Chartered Bank and Stanbic Bank Uganda Limited as the mandated lead arrangers. USD 70million was designated as term Facility A to be lent by IFC and USD 100million as term Facility B to be lent by Stanbic Bank Uganda Limited and Standard Chartered Bank. USD 15 million and USD 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.

During the year as part of the USD 170m facility, the Company drew down Ushs 83,699million (USD 25 million) on the term facility comprising of Ushs 34,464 million (USD 10.294 million) relating to Facility A and Ushs 49,235 million (USD14.71million) relating to Facility B.

Notes to the Financial Statements *(continued)*

23. BORROWINGS *(continued)*

The company also acquired and drew down an additional commitment of USD 45 million from the existing lenders on the same terms as the existing facility, comprising Ushs 72,040 million (USD 20 million) relating to facility A and Ushs 90,050 million relating to facility B (USD 25 million).

As at 31 December 2016, the Company had an outstanding balance of Ushs 303,688million (USD 83million) (2015: Ushs 201,626 million (USD59million) on Facility A and Ushs 411,262 million (USD 114 million) (2015: Ushs 288,768 million (USD 85million)) on Facility B. Facilities A and B both attract interest at LIBOR (applicable screen rate) + a margin of 5%. Facilities A and B attract commitment fees of 1.5% of the undrawn amounts per quarter. As at 31 December 2016, the Company had fully drawn down on the existing loan facility. The Company is currently reviewing its next financing structure in line with its capital investment plan.

The Company made the first loan repayment on both facilities on 31.12.2016. Facility A is repayable every six months in 15 semi-annual instalments of 6.7% of the total facility draw down at the end of the availability period and 6.62% on the termination date (November 2023). Facility B is repayable every six months in 9 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 and all Related Rights; and all contracts of insurance in respect of the Mandatory Insurances in which the Company has an interest and all moneys from time to time payable thereunder, and related rights.

24. CONCESSION OBLIGATION

	2016 Ushs million	2015 Ushs million
At 1 January	313,960	239,139
Financing expense for the year	25,469	22,324
Foreign exchange loss	23,596	52,497
At 31 December	**363,025**	**313,960**
Maturity analysis of the concession obligation:		
Outstanding obligation	363,025	313,960
Less: Due within one year	-	-
Non-current portion of the obligation	**363,025**	**313,960**

The concession obligation is due as analysed below:

	2016 Ushs million	2015 Ushs million
Within one year	-	-
Between one and two years	7,047	179,736
Between two and three years	7,361	8,234
Between three and four years	4,642	8,659
Between four and five years	146,758	6,262
After five years	197,217	111,069
	363,025	**313,960**

Notes to the Financial Statements *(continued)*

24. CONCESSION OBLIGATION *(continued)*

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 (USD119 million) using a discounting rate of 8.911%. Interest is accrued annually to arrive at the present value of the concession obligation as at year end with the corresponding amount recognised as a receivables as disclosed in note 14.

No amount payable within one year has been presented since the debt service component was not included in the approved 2017 base tariffs.

25. LONG TERM INCENTIVE PLAN

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

	2016 Ushs million	2015 Ushs million
At 1 January	14,490	5,431
Provision for the period	2,176	7,579
Payment	(14,208)	-
Foreign exchange loss	409	1,480
At 31 December	**2,867**	**14,490**

Umeme wishes to better incentivize 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 new schemes during the year as described below. The schemes have been designed to promote employee retention and continued performance.

All Staff Award Scheme: The participating employees are eligible for a cash award (net of applicable taxes), not exceeding the equivalent of USD 1,000 at the end of the Vesting Period of 31 December 2018, provided the Company achieves minimum financial performance targets in terms of loss reduction over the three years ending 31 December 2018. There is no shareholding requirement for participation in this Scheme.

An expense for the year 2016 of Ushs 1,733million (USD 0.48 million) has been recognized in relation to this scheme.

Long Term Incentive Plan: 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 cash award that they will 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 the scheme, a 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 applicable taxes which may be payable), provided that the employee has fulfilled the service, qualifying shareholding and performance conditions that will have been specified.

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 2018. The cash award is not dependent on the share price during the Vesting Period and at the Vesting Date. An expense for the year 2016 of Ushs 1,134million (USD 0.3 million) has been recognized in relation to the long-term incentive plan.

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 6.769% (2015: 6.18%).

25. LONG TERM INCENTIVE PLAN *(continued)*

The prior year Schemes relates to two separate and independent schemes that expired as at 31 December 2015.These included;

Share Grant Scheme: This involved Umeme making a grant of up to 10,000 shares in the Company to each of the eligible employees for an eligible cash award not exceeding the equivalent of USD 1,000 at the end of the Vesting period at 31 December 2015 provided they continued to own the grant over the Vesting period.The scheme vested and settled at 31 December 2015.

Deferred Bonus Scheme: Similar to the Long Term Incentive Scheme as described above to qualify to receive the cash award under the scheme, an individual participating employee must be the registered owner throughout the Vesting Period of the specified number of qualifying shares.

The cash award that an employee received was also dependent on the Company achieving minimum financial performance targets in terms of EBITDA over the three years ending 31 December 2015 compared to the year ended 31 December 2015.

The scheme vested and settled at 31 December 2015.

The number of qualifying shares and staff were as indicated below;

	Deferred Bonus Scheme	
	Number of Shares	Number of Staff
At 1 January 2016	-	-
Qualifying shares	15,232,862	70
Forfeited shares - exited the scheme	-	-
At 31 December 2016	**15,232,862**	**70**

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2015	4,840,000	484	18,522,600	28
Vested and settled during the year	(4,840,000)	(484)	(18,522,600)	(28)
At 31 December 2016	**-**	**-**	**-**	**-**

26. CUSTOMER SECURITY DEPOSITS

	2016 Ushs million	2015 Ushs million
At 1 January	998	3,576
Amount received during the year	831	789
Amount refunded during the year	(1,699)	(3,367)
At 31 December	**130**	**998**

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:

Notes to the Financial Statements *(continued)*

26. CUSTOMER SECURITY DEPOSITS *(continued)*

	2016 Ushs million	2015 Ushs million
Domestic customers	0.1	0.1
Commercial customers-ordinary	0.2	0.2
Commercial customers-commercial time of use	0.5	0.5
Industrial customers-ordinary	1	1
Industrial customers-heavy	2	2

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

27. DEFERRED INCOME

	Note	2016 Ushs million	2015 Ushs million
Deferred revenue on prepaid sales	(a)	1,920	1,641
Deferred construction income	(b)	257	5,731
Deferred capital fund – Non network assets	(c)	3,239	3,348
Deferred capital fund – LED bulbs	(d)	796	1,717
Deferred capital fund – Peri Uban projects	(e)	793	-
		7,005	12,437

(a) Deferred revenue on pre-paid sales

As at 31 December 2016, it was estimated that 9% of the pre-paid electricity tokens purchased in December 2016 by customers had not been consumed (2015: 11%).

	2016 Ushs million	2015 Ushs million
(b) Deferred construction income		
At 1 January	5,731	4,970
Amount received	20,074	15,703
Amount utilized	(26,026)	(14,942)
Foreign exchange loss	478	-
Unutilised customer contributions at 31 December	**257**	**5,731**

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 utilized.

27. DEFERRED INCOME *(continued)*

(c) Deferred capital fund – Non network assets	2016 Ushs million	2015 Ushs million
At 1 January	3,348	2
Amount billed	11,119	9,306
Amount utilised on purchasing non-network assets	(11,723)	(5,960)
Foreign exchange loss	495	-
At 31 December	**3,239**	**3,348**

	2016 Ushs million	2015 Ushs million
The amount utilised was spent as follows:		
Furniture & Fittings, Tools & Office Equipment	1,195	2,466
Computers, Communication Equipment& Management Information System	2,249	2,342
Motor vehicles	8,279	1,152
	11,723	**5,960**

As indicated in note 3(c), the balance as at 31 December 2016 relates to the amount billed to customers for funding non-network assets but not yet utilised.

(d) Deferred capital fund – LED bulbs

As at 31 December 2016, funds worth Ushs 797 million(2015: Ushs 1,717 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.

(e) Peri Urban Projects fund

This relates to funds received from Development Fund Institutions (DFIs) for providing electricity access to customers that are within the electricity grid but do not have access. As at 31 December 2016, funds worth Ushs 793 million (2015: nil) received had been committed but not yet utilised.

28. TRADE AND OTHER PAYABLES

	2016 Ushs million	2015 Ushs million
Trade payables	326,570	263,345
Accrued expenses and other payables	32,539	77,428
Withholding tax payable	2,386	1,432
Advance payments by energy customers	2,534	2,627
	364,029	**344,832**

Trade and other payables are non-interest bearing and normally settled on 30-60 days' terms. Trade payables includes Ushs 165,685 million (2015: Ushs 160,029 million) due to UETCL. The balance of Ushs 160,885 million (2015: 103,316 million) is due to contractors and other service providers.

Notes to the Financial Statements *(continued)*

28. TRADE AND OTHER PAYABLES *(continued)*

Accrued expenses and other payables include Ushs 6,281 million (2015: Ushs 6,500 million) relating to performance bonus for the year as indicated on the below:

	2016 Ushs million	2015 Ushs million
At 1 January	6,500	7,000
Accrual for the year	7,456	7,582
Bonus paid during the year	(7,675)	(8,082)
At 31 December	**6,281**	**6,500**

29. SHORT TERM BORROWINGS

	Note	2016 Ushs million	2015 Ushs million
Overdraft		49,673	32,061
Less: Deferred transactions costs	(a)	(644)	(779)
		49,029	**31,282**

	2016	2015
(a) Deferred transaction costs		
At 1 January	779	971
Transaction costs	-	-
Management, security and agency fees	-	-
Amortisation for the year	(181)	(192)
Foreign exchange gain	46	-
At 31 December	**644**	**779**

As at 31 December 2016, the Company had drawn down Ushs 49,673 million (2015:Ushs 32,061 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). As 31 December 2016, the outstanding amount withdrawn was in Ushs. The applicable interest rate as at year-end was 27.3% (2015: 27.3%). Other terms and conditions are as disclosed in Note 23.

30. CASH AND CASH EQUIVALENTS

	2016 Ushs million	2015 Ushs million
Bank balances (note 19)	24,204	28,514
Short term borrowings (note 29)	(49,029)	(31,282)
Bank balances not available for use (note 26)	(130)	(998)
	(24,955)	**(3,766)**

ERA issued guidelines that require the Company to ring-fence and invest the cash held in respect to customer security deposits from any other funds of the Company. The guidelines were effective from 1 January 2011. Bank balances representing the carrying amount of the customer security are not available for use in the Company's operations.

Notes to the Financial Statements *(continued)*

31. LETTERS OF CREDIT

As of 31 December 2016, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited. The letters of credit facilitate the purchase and importation of equipment for the Distribution Network and related electricity distribution accessories. A total of Ushs 6,869 million (2015: Ushs 548 million) had been deposited under the letters of credit facilities as at 31 December 2016 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 2016, the Company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs11,100 million (2015: Ushs11,900 million) with no cash cover. These are covered by the goods under importation and insurance.

32. RELATED PARTIES

The Company's related parties include Umeme Holdings Limited, Umeme Management Services Limited and Actis Infrastructure 2 LP. Umeme Holdings Limited that owned and controlled 14.3% of the Company's issued shares sold its entire holding by 31 December 2016.

Umeme Management Services Limited that is owned and controlled by Umeme holdings Limited offers management services to the Company. Actis Infrastructure 2 LP owns Umeme Holdings Limited (through its ownership of Actis Infrastructure Umeme Limited). The following transactions were carried out with related parties:

	2016 Ushs million	2015 Ushs million
i) Management and secondment services		
Umeme Management Services Limited	476	1,170
Globeleq Expatriate Services Limited	-	177
	476	**1,347**
ii) Other transactions		
Globeleq Advisors Limited-recharges	-	415
Actis	526	-
	526	**415**
iii) Compensation of key management personnel		
Directors emoluments and expenses	4,049	6,509
Contributions to NSSF	704	430
Share based payments	4,764	2,997

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

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

	2016 Ushs million	2015 Ushs million
i) Amounts due to related parties		
Globeleq Advisors Limited	-	1,407
Actis - recharges	488	-
Umeme Management Services Limited	83	-
	571	**1,407**
ii) Amounts due from related parties		
Actis Infrastructure 2 LP	-	40
Umeme Holdings Limited	1,558	652
	1,558	**692**

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

Notes to the Financial Statements *(continued)*

33. 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 probable that suits whose estimated cost is Ushs 606million (2015: Ushs 154 million) will be ruled against the Company. Accordingly, these liabilities have been provided for 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.i

The Company has an insurance policy against litigation with maximum cover of Ushs 1billion (2015: 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) 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.

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

The Company 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 19,500million including principal and penal tax. In this consent however, neither party gave up their right to challenge the future treatment of concession assets.

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.

34. COMMITMENTS

(i) World Bank funded project (IDA)

In 2005, Umeme Limited, through UEDCL, received materials worth USD 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 2016. 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 2016 (31 December 2015: Nil).

(ii) Minimum investment requirements

No minimum investment targets have been set for the Company for the current and future periods but the Company is required under the Lease and Assignment Agreement to make the necessary modifications to the distribution system as deemed desirable to be in proper conduct and in accordance with the requirements of the laws of Uganda. Given the nature of the distribution system, the expected future cost of making such modifications cannot be reliably quantified. The investments made in the Distribution Network by the Company as at the reporting date are as disclosed in Note 13.

Notes to the Financial Statements *(continued)*

34. COMMITMENTS *(continued)*

(iii) Concession commitments

Future minimum rental payments under the concession agreements together with the present value of the minimum rental payments are estimated as follows:

	Minimum rental payments Ushs million	Present value of payments Ushs million
At 31 December 2016:		
After one year	-	56,621
After one year but not more than five years	19,126	16,464
After five years	343,899	3,400
	363,025	**76,485**
Less: Amounts representing finance charges	(286,540)	-
Present value of minimum rental payments	**76,485**	**76,485**
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**

35. CONCESSION ARRANGEMENT

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

Lease and Assignment Agreement (LAA)

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

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

Umeme is required to make monthly rental payments into an "Escrow Account" for the assets under concession, Assigned Interest and Other Rights equivalent to: - debt service for loans of UEDCL; actual depreciation and interest expenses related to the portion of the assets under concession assets acquired on or after 1 January 2002; a maximum return on equity of 10% on the asset carrying amount effective January 2009; and administration fees. Umeme will always receive the rental payments made to UEDCL regardless of the performance of the Distribution Network assets that were taken over from UEDCL and therefore the Company does not assume any demand risk. Umeme has, in terms of the rental payments, an unconditional right to receive cash as indicated in Note 15. The right to receive cash is accounted for by the Company as a financial asset.

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

Notes to the Financial Statements *(continued)*

35. CONCESSION ARRANGEMENT (continued)

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

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

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

Power Sales Agreement (PSA)

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

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

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

Support Agreement

The support agreement between Umeme and GOU and the third amendment thereto of 28 November 2006 stipulate conditions to be fulfilled before the transfer date, during the concession period and the date for handing over the Distribution Network at the end of concession term; and the obligations of the contract parties and the mechanisms for handling disputes arising during the concession. GOU undertook to use its good office, upon reasonable request from the Company, to support the Company's performance of its obligations of managing the Distribution Network provided that this will not relieve the Company from fulfilling its obligations as defined in the agreement.

License for Supply and Distribution of Electricity

Umeme was granted this license by ERA to perform the necessary activities for supply of electricity within a defined geographic area in accordance with specific license conditions and pursuant to the Electricity Act, 1999. Umeme is required to adopt Prudent Utility Practices but taking into account the state of the Distribution Network and ERA providing the necessary regulatory mechanism and tariff methodology for the Company to meet its obligations pursuant to the various concession agreements.

Escrow Agreement

This agreement was signed on 18 February 2005 between UEDCL and Umeme to establish an "Escrow Account" with Citibank N.A., London, the appointed "Escrow Agent". The account was opened and initially funded by UEDCL and thereafter by Umeme's monthly deposit of rental payments due to UEDCL under the LAA. Although the escrow amount is exclusively owned by UEDCL, in combination with a "Letter of Credit" facility funded by World Bank and issued by the Escrow Agent, the escrow amount will accumulate up to a predetermined amount ("the Required Amount") that would be used to compensate Umeme in the event of certain contingencies defined in the LAA and will also serve as security for government obligations under the Support Agreement.

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

Uganda Distribution Concession Project Agreement

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

35. CONCESSION ARRANGEMENT (continued)

Reimbursement and Credit Agreement

This agreement which was signed on 18 February 2005 between UEDCL and Citibank Uganda Limited (the bank) requires the bank to issue, maintain and renew a Letter of Credit for the benefit of the Company for an initial period of 3 years, renewable up to a maximum of 7 years. 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.

36. 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 interest rate risk exposure relates to the effect that a reasonably possible movement in interest rates would have on profit or loss. USD 95 miliion of the Company's term borrowing facilities (A and B) are fixed by interest swaps. The swaps expired at mid-night on 31 December 2016.

The Company is currently assessing the viability of entering into another hedge arrangement.

As at the reporting date, USD198million 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 327 million (2015: Ushs 240 million) and Ushs 427 million (2015: Ushs 444 million) respectively.

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 functional 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 banks on a competitive basis.

The Company's profit before income tax and equity would decrease/increase by Ushs 28 billion (2015: Ushs 29 billion) and Ushs 20 billion (2015: Ushs 20.3 billion) respectively were the Ushs: USD 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. In addition, the company's functional currency is USD.

Notes to the Financial Statements *(continued)*

36. RISK MANAGEMENT *(continued)*

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2016 and 31 December 2015. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2016	USD	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession financial asset	-	-	-	-	363,025	363,025
Trade and other receivables	1,559	-	-	-	321,804	323,363
Bank balances	119	-	-	-	24,085	24,204
Total financial assets	**1,678**	**-**	**-**	**-**	**708,914**	**710,592**
Financial liabilities						
Borrowings	702,437	-	-	-	-	702,437
Concession obligation	-	-	-	-	363,025	363,025
Trade and other payables	101,346	310	160	3	262,210	364,029
Bank overdraft	-	-	-	-	49,673	49,673
Total financial liabilities	**803,783**	**310**	**160**	**3**	**674,908**	**1,479,164**
Overall open position	**(802,105)**	**(310)**	**(160)**	**(3)**	**34,006**	**(768,572)**

At 31 December 2015	USD	GBP	EURO	ZAR	Ushs	TOTAL
Financial assets						
Concession financial asset	313,960	-	-	-		313,960
Trade and other receivables	652	-	-	-	301,775	302,427
Bank balances	115	-	-	-	28,399	28,514
Total financial assets	**314,727**	**-**	**-**	**-**	**330,174**	**644,901**
Financial liabilities						
Borrowings	490,904	-	-	-	-	490,904
Concession obligation	313,960	-	-	-	-	313,960
Trade and other payables	141,685	196	3,144	555	199,252	344,832
Bank overdraft	-	-	-	-	32,061	32,061
Total financial liabilities	**946,549**	**196**	**3,144**	**555**	**231,313**	**1,181,757**
Overall open position	**(631,822)**	**(196)**	**(3,144)**	**(555)**	**98,861**	**(536,856)**

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, 68% 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.

Notes to the Financial Statements *(continued)*

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:

	2016 Ushs million	2015 Ushs million
Gross amount of trade receivables (Note 18)	242,239	251,290
Less: Amounts receivable from GOU bodies	(19,462)	(32,876)
Customer security deposits (Note 26)	(130)	(998)
Maximum exposure	**222,647**	**217,416**

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.

Year		Neither past due nor impaired	Past due but not impaired		Impaired
	Total Ushs million	<30 days Ushs million	30-60 days Ushs million	>60 days Ushs million	Ushs million
2016	242,239	93,102	18,014	64,572	66,551
2015	251,290	95,485	16,675	66,925	72,205

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% of the Company's debt will mature in less than one year after 31 December 2016(2015: 46%) 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.

Notes to the Financial Statements *(continued)*

36. RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

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

At 31 December 2016	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Total
Financial assets					
Concession financial asset	193,550	6,534	14,702	148,239	363,025
Trade and other receivables	93,102	24,883	196,140	75,789	389,914
Bank balances	24,204	-	-	-	24,204
Total financial assets	**310,856**	**31,417**	**210,842**	**224,028**	**777,143**
Financial liabilities					
Concession obligation	193,550	6,534	14,702	148,239	363,025
Borrowings: Facility A and B	-	-	124,021	590,929	714,950
Trade and other payables	137,723	171,743	44,631	9,932	364,029
Bank overdraft	49,673	-	-	-	49,673
Total financial liabilities	**380,946**	**178,277**	**183,354**	**749,100**	**1,491,677**
Overall open position	**(70,090)**	**(146,860)**	**27,488**	**(525,072)**	**(714,534)**

At 31 December 2015					
Financial assets					
Concession financial asset	167,639	4,577	13,732	128,012	313,960
Trade and other receivables	95,485	17,223	179,804	82,120	374,632
Bank balances	28,514	-	-	-	28,514
Total financial assets	**291,638**	**21,800**	**193,536**	**210,132**	**717,106**
Financial liabilities					
Concession obligation	167,639	4,577	13,732	128,012	313,960
Borrowings: Facility A and B	-	-	1,237	489,667	490,904
Trade and other payables	137,723	172,091	44,631	10,994	365,439
Bank overdraft	32,061	-	-	-	32,061
Total financial liabilities	**337,423**	**176,668**	**59,600**	**628,673**	**1,202,364**
Overall open position	**(45,785)**	**(154,868)**	**133,936**	**(418,541)**	**(485,258)**

Notes to the Financial Statements *(continued)*

36. RISK MANAGEMENT *(continued)*

Fair value

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

Short-term financial instruments: The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term financial instruments: The interest rates charged on or used to value these instruments are based on the prevailing market interest rates. The fair value of the instruments is determined by using the DCF method using discount rates that reflect the observable market interest rates. The own non-performance risk as at the reporting date was assessed to be insignificant.

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

		Fair value measurement using			
	Date of valuation	Total Ushs million	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap-derivative	31-Dec-16	-	-	-	-
	31-Dec-15	-	-	-	-
Borrowings	31-Dec-16	714,950	-	714,950	-
	31-Dec-15	490,904	-	490,904	-
Concession financial asset/liability	31-Dec-16	363,025	-	363,025	-
	31-Dec-15	313,960	-	313,960	-

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

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

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

	Valuation technique	Significant observable inputs	Range (weighted average)	
			2016	2015
Interest rate swap – derivative	Market approach – discounted cash flows	Market interest rates for similar instruments	0.834% -0.835%	0.834% -0.835%
Borrowings		Market interest rates for similar instruments	12.44% -12.56%	12.44% -12.56%
Concession financial asset/liability		Market interest rates for similar instruments	0.64%	0.64%

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.

Notes to the Financial Statements *(continued)*

36. RISK MANAGEMENT *(continued)*

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 2016 was 63%(2015:62 %) as shown in the table below:

	Note	2016 Ushs million	2015 Ushs million
Borrowings	23	702,437	478,397
Trade and other payables	28	364,028	344,833
Less: Cash and cash equivalents	30	24,955	3,766
Net debt		**1,091,420**	**826,996**
Issued capital	20	27,748	27,748
Share premium	21	70,292	70,292
Retained earnings		494,012	405,735
Total capital		**592,052**	**503,775**
Net debt and capital		1,683,472	1,330,771
Gearing ratio		**65%**	**62%**

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	Actual 2016	Actual 2015
Interest Cover	≥ 2.5 : 1	6.33	6.95
Adjusted leverage	≤ 3.0 : 1	2.73	1.90
Relevant Financial Indebtedness to Equity	≤ 2.5 : 1	1.31	1.01
Debt Service Cover	≥ 1.15 : 1	1.41	4.17
Buy-Out Amount to Relevant Facility Amount	≥ 1.1 : 1	2.16	2.10

- Interest cover: It is a ratio of EBITDA over the total interest less amortization of deferred finance costs
- Adjusted leverage: This is a ratio of net debt over EBITDA
- Relevant financial indebtedness to equity: It is a ratio of total debt over total equity
- Debt service cover: It is a 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 2016 and 2015.

37. EVENTS AFTER THE REPORTING DATE

There are no reportable events after the reporting period.

38. INCORPORATION AND LICENSING

The Company is incorporated in Uganda under the Companies Act, 2012, and licensed under License 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).

Notes to the Financial Statements *(continued)*

39. SEGMENT INFORMATION

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 2016, effective as of 15 January 2016 to15 January 2017, are shown in the table below:

Customer segment	Description	Based on usage		Fixed monthly charge
		Usage	**Ushs/kWh**	**Ushs**
Domestic	Low voltage supply to residential houses, small shops and kiosks	</> 15kWh	150.0 –651	3360
Commercial	Low voltage supply to three phase low voltage, small scale industries like maize mills	Peak, Shoulder and Off Peak	363.3 - 764.2	3360
Medium industrial	Low voltage supply to medium scale industries, taking power at low voltage (415 V), with maximum demand of up to 500kVA	Peak, Shoulder and Off Peak	322.1 – 704.4	22,400
Large industrial	High voltage supply to large scale industrial users, taking power at high voltage (11,000 or 33,000 V), with maximum demand exceeding 500kVA but up to 1500 kVA	Peak, Shoulder and Off Peak Additional maximum demand charge Additional maximum demand charge	233.1- 488.0	70,000
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	628.4	-

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.

Notes to the Financial Statements *(continued)*

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

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

	Note	2016 Ushs million	2015 Ushs million	2016 USD 000	2015 USD 000
Operating profit before amortization		256,733	238,229	75,187	73,491
Foreign exchange losses	8(a)	4,786	8,424	1,398	2,599
Total EBITDA		**261,519**	**246,653**	**76,585**	**76,090**

Supplementary Information

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	Land & Buildings	Furniture & Fittings, Tools & Office Equipment	Computers, Communications Equipment & MIS	Motor Vehicles	CWIP	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
Cost							
At 1 January 2015	**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**
Additions	-	-	-	-	-	317,797	317,797
Transfer from CWIP	269,875	1,309	1,730	117	83	(273,114)	-
Disposals	(2,657)	-	-	-	-	-	(2,657)
Transfer to financial asset	(65,780)	-	-	-	-	-	(65,780)
Translation difference	94,139	878	933	2,216	1,094	7,019	106,279
At 31 December 2016	**1,428,043**	**17,455**	**20,629**	**52,804**	**26,301**	**117,034**	**1,662,266**
Depreciation							
At 1 January 2015	**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**
Charge for the year	58,871	600	810	734	484	-	61,499
Disposals	(822)	-	-	-	-	-	(822)
Translation difference	10,333	(8)	1,685	6,257	3,958	-	22,225
At 31 December 2016	**252,562**	**3,663**	**17,060**	**49,150**	**24,075**	**-**	**346,510**
Net carrying amount							
At 31 December 2016	**1,175,481**	**13,792**	**3,569**	**3,654**	**2,226**	**117,034**	**1,315,756**
At 31 December 2015	**948,286**	**12,197**	**3,401**	**8,312**	**5,491**	**65,332**	**1,043,019**

Supplementary Information *(continued)*

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 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 in 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 2016, 2015 and 2014 were as follows:

	2016	2015	2014
Average rate	3,423	3,242	2,619
Year-end rate	3,616	3,377	2,778

Source: Bank of Uganda

Supplementary Information *(continued)*

STATEMENT OF PROFIT OR LOSS

	2016 USD '000	2015 USD '000
Revenue	383,396	358,161
Cost of sales	(257,640)	(229,199)
GROSS PROFIT	**125,756**	**128,962**
Other operating income	2,067	2,796
	127,823	131,758
Repair and maintenance expenses	(6,568)	(5,732)
Administration expenses	(44,263)	(47,851)
Foreign exchange losses	(1,398)	(2,599)
Other expenses	(537)	(2,085)
OPERATING PROFIT BEFORE AMORTISATION	**75,057**	**73,491**
Amortisation of intangible assets	(18,058)	(14,681)
OPERATING PROFIT	**56,999**	**58,810**
Finance income	7,791	7,220
Finance costs	(20,290)	(16,369)
PROFIT BEFORE TAX	**44,500**	**49,661**
Income tax expense	(13,119)	(15,202)
PROFIT FOR THE YEAR	**31,381**	**34,459**
	2016 USD	**2015 USD**
BASIC AND DILUTED EARNINGS PER SHARE	**0.02**	**0.021**

Supplementary Information *(continued)*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 USD '000	2015 USD '000
Profit for the year	**31,381**	**34,459**
Other comprehensive income		
Foreign exchange translation differences	-	-
Total comprehensive income for the year, net of tax	**31,381**	**34,459**

Supplementary Information *(continued)*

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	2016 USD '000	2015 USD '000
ASSETS		
Non-current assets		
Intangible assets	364,350	309,327
Other Financial Asset	19,366	-
Concession financial asset	100,408	92,970
	484,124	**402,297**
Current assets		
Inventories	15,356	12,851
Amount recoverable from customer capital contributions	1,931	1,965
Tax recoverable	3,275	-
Trade and other receivables	94,858	100,019
Bank balances	6,695	8,444
	122,115	123,279
TOTAL ASSETS	**606,239**	**525,576**
EQUITY AND LIABILITIES		
Equity		
Issued capital	8,217	8,217
Share premium	20,815	20,815
Retained earnings	134,721	120,146
	163,753	**149,178**
Non-current liabilities		
Borrowings: Non-current portion	159,982	141,297
Concession obligation	100,408	92,970
Deferred income tax liability	30,780	20,565
Long term incentive plan; Non-current portion	793	-
	291,963	**254,832**
Current liabilities		
Borrowings: Current portion	34,303	366
Customer security deposits	36	296
Deferred income	1,937	3,683
Long term incentive plan; current portion	-	4,291
Trade and other payables	100,686	102,112
Current income tax payable	-	1,555
Bank overdraft	13,561	9,263
	150,523	121,566
TOTAL EQUITY AND LIABILITIES	**606,239**	**525,576**

Supplementary Information *(continued)*

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Issued capital USD '000	Share premium USD '000	Retained earnings USD '000	Total USD '000
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				
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**
At 1 January 2016	8,217	20,815	120,146	149,178
Profit for the year	-	-	31,381	31,381
Other comprehensive income, net of tax				
Dividend paid	-	-	(16,806)	(16,806)
At 31 December 2016	**8,217**	**20,815**	**134,721**	**163,753**

Supplementary Information *(continued)*

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 USD '000	2015 USD '000
Profit before tax	44,500	49,661
Adjustment for:		
Interest received from banks	(130)	(273)
Finance income on concession financial asset	(7,438)	(6,888)
Amortisation of intangible assets	18,058	14,681
Loss on disposal of intangible assets	536	2,085
Interest expense on Facilities A and B	9,813	6,940
Amortisation of deferred transaction costs	1,370	1,905
Finance cost on concession obligation	7,438	6,888
Finance income on valuation of other financial asset	(223)	-
Unrealised foreign exchange losses	72	(1,538)
	73,996	73,461
Changes in:		
Inventories	(2,505)	558
Amount recoverable from customer capital contributions	34	(709)
Trade and other receivables	5,161	2,109
Deferred income	(1,745)	(2,329)
Long term incentive plan	(3,498)	2,282
Trade and other payables	(1,427)	(888)
Cash generated from operating activities	**70,016**	**74,484**
Interest received from banks	130	273
Current income tax paid	(7,734)	(10,830)
Interest paid on loan A and B	(10,180)	(6,588)
Commitment fees on loan A and B	(1,128)	(808)
Net cash flows from operating activities	**51,104**	**56,531**
Investing activities		
Purchase of intangible assets	(92,832)	(86,541)
Net cash flows used in investing activities	**(92,832)**	**(86,541)**
Financing activities		
Repayment of borrowings	(17,253)	-
Net proceeds from borrowings	70,000	45,000
Dividends paid	(16,806)	(15,179)
Net cash flows from financing activities	**35,941**	**29,821**
Net decrease in cash and cash equivalents	(5,787)	(189)
Cash and cash equivalents at 1 January	(1,115)	(926)
Cash and cash equivalents at 31 December	**(6,902)**	**(1,115)**

Shareholders Information

Board of Directors Profiles

NON-EXECUTIVE DIRECTORS

Mr. Patrick Bitature

Member of the institute of Chartered Secretaries and Administrators, UK and Fellow of the Institute of Chartered Secretaries, FCIS

Patrick is the Board Chairman of Umeme Limited and the Chairperson of the Nominations Committee. He is also a member of the Strategic Review Committee.

Patrick has high business acumen and a good understanding of the Company's Strategy to deliver energy as a product.

Patrick's leadership of the Board spans from his experience as the founder, Chairman and CEO of Simba Group of Companies, a conglomerate spanning telecoms, real estate, power generation, agro-business, mining, hospitality tourism and media interests.

He also relates well with people from all walks of life giving customers access to top management and the board of directors which promotes good customer service management.

In terms of corporate governance, Patrick has also played a big role in the structural framework of the Company, in particular internal structures aimed at delivering the strategy and objectives of the Company underpinned by the environmental, social and governance considerations driven by the ethos of the founding shareholders.

He is also a member of the Presidential Investors' Round Table (PIRT) and is the Honorary Consul, Australian Consulate in Uganda.

Patrick has been on the Board since November 2007.

Mr. Stuart David Michael Grylls

Chartered Engineer and holds a Master of Business Administration from Kingston University and Bachelor of Science (Honours) from Bath University

David is a member of the Board of Directors and a member of the Audit Committee, Remuneration Committee, Strategic Review Committee and Nominations Committee.

David is a versatile and results-oriented professional with extensive business and engineering acumen gained during a highly successful career.

David was the Actis LLP's Investment Partner for Umeme. 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.

David possesses a proven track record of negotiating and securing multi-million dollar agreements/financing with major financiers, companies and governments including negotiating the Umeme's Concession with Government of Uganda.

He has also played a key role in the strategic planning of the Company and has supported talent management and equal opportunity of Umeme staff.

David has been on the Board since 2007.

Mr. Charles Chapman

Bachelor of Science (Management) honours graduate of Trinity College, Dublin

Charles is a member of the Board of Directors and the Chairperson of the Strategic Review Committee. He is also a member of the Environment, Safety and Governance Committee.

Charles 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.

Under Mr. Chapman's leadership, Umeme was successfully converted from a private limited company into a public company in 2012.

Charles is also keen on environment and safety which form an integral part of safe distribution of power to customers. During his tenure as Managing energy losses reduced from 24.3% in FY 2013 to 21.3% in FY 2014.

Charles has been on the Board since 2009.

Mr. Adrian Mucalov

CFA Charter holder and holds a Master of Business Administration from Harvard Business School; Master of Public Administration (International Development) from Harvard Kennedy School; Bachelor of Commerce (Honours) from Queen's University in Canada

Adrian is a member of the Board of Directors. He is also a member of the Audit Committee and Remuneration Committee.

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

Adrian has also negotiated multi-million dollar agreements/ financing with major financiers/ lenders whose financing has grown the Company to date.

Adrian has been on the Umeme Board since 2013.

Board of Directors Profiles *(continued)*

Hon. Gerald Ssendaula

Holds a Bachelors of Commerce degree from the Nairobi University, Kenya

Hon. Ssendaula is a member of the Board of Directors and the Chairperson of the Customer Service and Loss Reduction Committee. He is also a member of the Audit Committee and Nominations Committee.

Hon. Ssendaula is experienced in establishing private and public relationships and this is exhibited in his leadership as Chairman of Private Sector Foundation Uganda and Chairman Board of Directors Uganda Revenue Authority.

He is also a Special Advisor to the President of Uganda on finance.

Hon. Ssendaula is a retired Member of Parliament and Cabinet Minister, who held the portfolios of Energy and Finance and was previously a banker on the Barclays Management team.

Hon. Ssendaula has been on the Umeme Board since November 2013.

Mr. Pieter Adriaan Faling

Graduate of the advanced executive programme University of South Africa; Graduate of the Programme for executive development, Institute of Management Development, Lausanne; Bachelor of Science in Mechanical Engineering, University of Pretoria

Pieter is a member of the Board of Directors and the Chairperson of Environmental, Safety and Governance Committee. He is also a member of the Customer Service and Loss Reduction Committee.

Pieter has worked extensively in the electricity sector since 1972. As Executive Director of Transmission, he 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, Pieter has also acted in advisory and management capacity to multiple energy projects in South Africa, Kosovo, Nigeria and Mozambique.

Pieter is keen on delivery of reliable and safe electricity; customer service management, implementation of the business strategy and loss reduction innovations; assessing and monitoring compliance with legislation and the regulatory requirements together with assessing standards for minimizing risks.

Mr. Christopher Nicholson

FCA (Institute of Chartered Accountants in England and Wales) and CPA (Virginia Society of CPA's)

Chris is a member of the Board of Directors and the Chairperson of the Audit Committee. He is also a member of the Remuneration Committee.

He has over 34 years of experience in accounting and previously, he served as Global Managing Partner, Deloitte Energy & Resources for 10 years, and has audited large power companies with operations in over 20 countries.

Chris has considerable experience serving as a board member and Audit Committee Chairperson on several boards.

Chris has been on the Umeme Board since August, 2015.

Florence Namatta Mawejje

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

Florence is a member of the Board of Directors since April 2016. She is also a member of the Environment, Safety and Governance Committee.

Her wealth of experience stems from advising on Corporate Governance Managerial Administrative and People Management.

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

Board of Directors Profiles *(continued)*

EXECUTIVE DIRECTORS

Mr. Selestino Babungi

Fellow of the Association of Certified Chartered Accountants (UK) (FCCA); Certified Public Accountant - Uganda (CPA) and Graduate of Statistics from Makerere University.

Selestino is an executive director and member of the Board. He is also a member of the Environmental Safety and Governance Committee, Customer Service and Loss Reduction Committee and Strategic Review Committee.

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.

Before joining Umeme in 2006, Slestino worked with Ernst & Young Uganda for six years, providing audit and advisory services to clients in the private and public sector.

As Managing director, Selestino continues to drive Umeme's strategy to provide electricity that is reliable, affordable and sustainable.

Selestino has been on the Umeme Board since March, 2015.

Mr. Samuel Zimbe

Masters degree in Finance and Investment; Fellow of the Association of Certified Chartered Accountants (UK) (FCCA and Bachelors of Science Economics, London School of Economic, UK

Sam is an executive director and member of the Board. He is also a member of the Customer Service and Loss Reduction Committee and Strategic Review Committee.

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

Sam has also been instrumental in investor relations and negotiations for the Company's financing to-date.

Sam has been on the Umeme Board since November, 2014.

Mrs. Florence Nakimbugwe Nsubuga

Master in arts in Economic Policy and Planning and Bachelors of Commerce

Florence is an executive director and member of the Board. She is also a member of the Customer Service and Loss Reduction Committee and Environmental, Safety and Governance Committee.

Florence has served as Umeme's Chief Operations Officer and a key member of the senior management team since 2012.

She has several years of extensive operational experience as a Regional, Area and District Manager with Umeme and Uganda Electricity Distribution Company Limited.

Florence is committed to energy loss reduction countrywide and she supervises 4 Regional Managers and 25 District Managers.

Part of her responsibilities is to oversee the delivery Umeme's strategic business objectives through a decentralized structure.

Florence has been on the Umeme Board since March 2015.

Chairman's letter to shareholders

Dear shareholder,

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

The meeting will be held at Sheraton Kampala Hotel, Rwenzori Ball room on Thursday 11th May, 2017 at 9:30 am.

This is your opportunity to meet and question the Board and Management regarding your Company's performance for the year ended 31 December 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 142 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

19th April 2017

Notice of the Annual General Meeting (AGM)

Notice is hereby given that the Annual General Meeting (AGM) of Umeme Limited will be held at the Sheraton Kampala Hotel, Rwenzori Ballroom on Thursday 11th May, 2017 at 9:30 am to conduct the following business:

Ordinary Resolutions

1. To receive the annual financial statements for the year ended 31 December 2016 and the directors and auditors reports thereon;
2. To receive and adopt the recommendation of the Directors on the declaration of a final dividend for 2016;
3. To approve the appointment of external auditors for the year 2017;
4. To elect directors in place of those retiring.

   In accordance with the provisions of the Article 93, 94, 95 and 96 of the Company's Amended Articles of Association, the following Directors are due for retirement by rotation and being eligible, offer themselves for re-election:

   i. Patrick Bitature

   ii. Pieter Adriaan Faling

   iii. Chris Nicholson
5. To conduct any other business that may be conducted at the AGM.

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 2016 Annual Report and is available on the Company's website www.umeme.co.ug.

Duly completed proxy forms must be returned to the Company Secretary at the addresses set out below to be received by not later than 17h00 on 8th May 2017.

2. Dividend payment

The dividend, if approved at the AGM, will be paid on or about 5th July 2017, to shareholders whose names appear on the share register at close of business on 20th June 2017. Shareholders are advised to contact their brokers to update their bank account details. Shareholders desiring to receive dividend payments through mobile money are encouraged to visit the Company's Share Registrar, Custody & Registrars Services Uganda Ltd. on 4th Floor, Rm 403, Diamond Trust Building, Kampala Road to update their records.

On behalf of the board

Shonubi, Musoke and Co Advocates
Company Secretary
19th April 2017

Company Secretary
Shonubi, Musoke and Co. Advocates
SM Chambers
Plot 14 Hannington Road
P.O. Box 3213,
Kampala, Uganda
www.shonubimusoke.co.ug

Share Registrars
Custody and Registrars Services Uganda Ltd.
4th 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 136 to 138 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 63 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in the Annual Report and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listing Rules.

3 **Interests of directors**

The interest of the Directors in the share capital of the Company are set out on page 64 of the Annual Report.

4 **Major shareholders**

Details of major shareholders of the Company are set out on page 106 of the Annual Report.

5 **Share capital of the Company**

Details of the share capital of the Company are set out on pages 106 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 3rd April, 2017.

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 8th May, 2017.

Registered office

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

Share registrars

Custody and Registrar Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Kampala, Uganda

Proxy Form

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

I/We ____(Name in block letters)

of ____ (Address in block letters)

being a member of Umeme Limited hereby appoint ____

of ______________________________or failing him/her ______________________________

of ____

as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Sheraton Kampala Hotel on the 11th May 2017, and at any adjournment thereof.

Signed this ____________________day of ________________2017

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. To be effective, completed proxy forms must be lodged by not later than 17h00 8th May 2017 with the Company Secretary or at the registered office of the Company:

Registered address

Umeme Limited
Rwenzori House, Plot 1 Lumumba Avenue
P. O. Box 23841, Kampala, Uganda
Tel: +256 312 360 600
Email: info@umeme.co.ug
www.umeme.co.ug

Company Secretary

Shonubi, Musoke and Co Advocates
SM Chambers
Plot 14 Hannington Road
P.O. Box 3213, Kampala, Uganda
www.shonubimusoke.co.ug

Share registrars

Custody and Registrar Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Tel: +256 414 237 504
Email: umeme@candrgroup.co.ug

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.

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 8th May 2017 with either the share registrars or the registered office:

Registered address

Umeme Limited
Rwenzori House, Plot 1 Lumumba Avenue
P. O. Box 23841, Kampala, Uganda
Tel: +256 312 360 600
Email: info@umeme.co.ug
www.umeme.co.ug

Company Secretary

Shonubi, Musoke and Co Advocates
SM Chambers
Plot 14 Hannington Road
P.O. Box 3213, Kampala, Uganda
www.shonubimusoke.co.ug

Share registrars

Custody and Registrar Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Tel: +256 414 237 504
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.

Enjoy convenience with the new Umeme App

Download it now!

Contact details

Investor Relations Manager
grace.semakula@umeme.co.ug
Tel: +256 312 360600

Corporate Performance Manager
catherine.kasaija@umeme.co.ug
Tel: +256 312 360600

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

www.umeme.co.ug

Umeme Limited

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

For customer service inquiries call **0800 285285, 0800 385385** (Toll free), **0312 185185**
or email **callcentre@umeme.co.ug**

or follow us on Umemelimited @UmemeLtd 0772 285285