INTEGRATED ANNUAL REPORT 2017

Access & Growth

Accelerating National, Social and Economic Development

UMEME

Powering Uganda

Welcome to the Umeme Integrated Annual Report 2017

At Umeme we supply electricity and related services our customers need in a safe, reliable and sustainable way across Uganda.

We are listed on the Uganda Stock Exchange and the Nairobi Stock Exchange.

Our performance in 2017 demonstrates the value of a business built on core strengths and a commitment to providing long-term value for our shareholders and meeting the needs of our customers.

This Report, addressed to Umeme's shareholders, details Umeme's performance in 2017.

Our Corporate Profile

PRINCIPAL PLACE OF BUSINESS AND REGISTERED ADDRESS

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

COMPANY SECRETARY

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

AUDITORS

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

SHARE REGISTRARS

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

MAIN BANKERS

STANDARD CHARTERED BANK UGANDA LIMITED
Plot 5 Speke Road
P. O. Box 7111, Kampala, Uganda

STANBIC BANK UGANDA LIMITED
Corporate Branch,
Crested Towers
P. O. Box 7131, Kampala, Uganda

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

BARCLAYS BANK OF UGANDA LIMITED
Plot 4 Hannington Road
P. O. Box 7101, Kampala, Uganda

DFCU BANK LIMITED
Impala House
Plot 13 Kimathi Avenue
P. O. Box 70, Kampala, Uganda

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

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

1. Background Information


Who We Are

Umeme Limited is Uganda's main electricity distribution company, listed on the Uganda Securities Exchange and 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 model, where Uganda Electricity Transmission Company Limited (UETCL), the System Operator, is responsible for the purchase of electricity from all Independent Power Producers; the import and export of electricity. UETCL is Umeme's sole supplier.

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

Administrative Structure

The Company delivers its business mandate through a decentralised structure supported by the corporate headquarters. The business is divided into 4 regions, composed of 25 districts. In carrying out its operations, each district, each district is led by a manager responsible for delivery of services to customers. For network assets management, the network asset management function is divided into 2 major areas which are further subdivided into 13 engineering areas.

Key Shareholder Information

Umeme Limited is a public company listed on the Uganda Securities Exchange (USE) and on the Nairobi Securities Exchange (NSE). The National Social Security Fund (NSSF) that owns 23% of the shares in issue.

The top 10 shareholders are listed on page 118 of this report.

Our Vision, Mission and Values

Our Vision

Availability of electricity is one of the key drivers of the socio-economic development of any country. The energy sector has been identified as one of the critical drivers of Uganda's pursuit for transformation from low to middle income status.

Approximately 16% of households in Uganda are connected to the electricity grid while 21% of households use electricity as a source of energy. Umeme being the major distributor in Uganda is strategically positioned to play a key role in ensuring that the Government objective of attaining middle income status by 2020 through increasing access to 30% and creating jobs through fostering industrialization is realised.

Our vision is to drive positive development of communities through sustainable, safe and efficient distribution of electricity and 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. Efficiency of distribution operations is key to the sustainable growth of the electricity industry, while ensuring affordability of electricity across the different customer categories.

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

Umeme exists to contribute to national development goals and objectives, and continuously aim to understand and satisfy the expectations of our stakeholders including the Government of Uganda, development partners, investors, lenders and customers among others.

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 exceptional **Customer Service** experience

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.

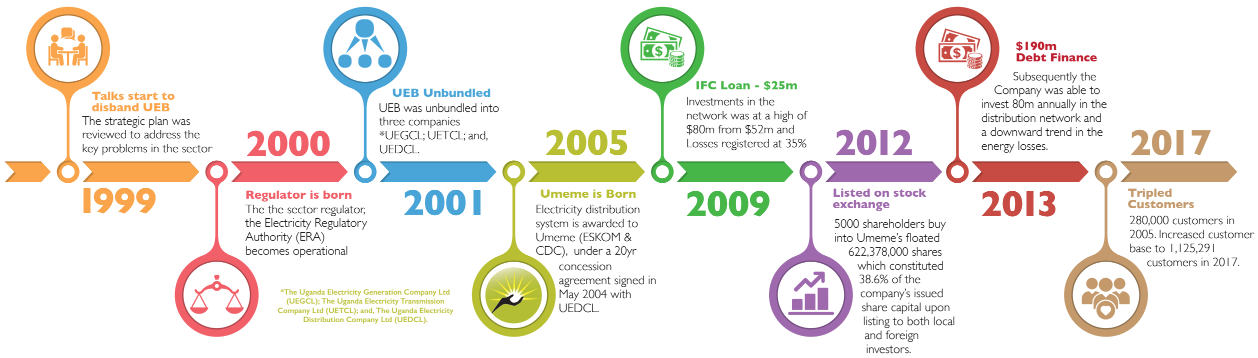
2. Our Business

Umeme Limited is licenced to distribute and supply electricity to customers within its authorised footprint in Uganda.

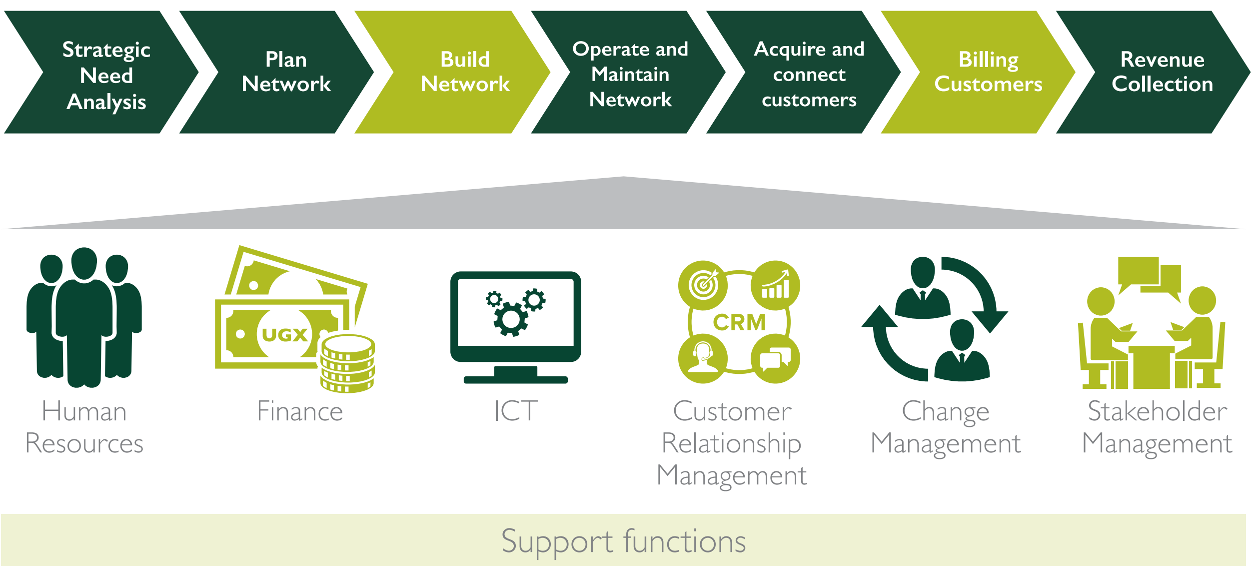
It constructs, operates, and maintains the distribution network. The distribution network comprises of distribution electrical lines at medium and low voltage, substations, distribution transformers, and other network infrastructure.

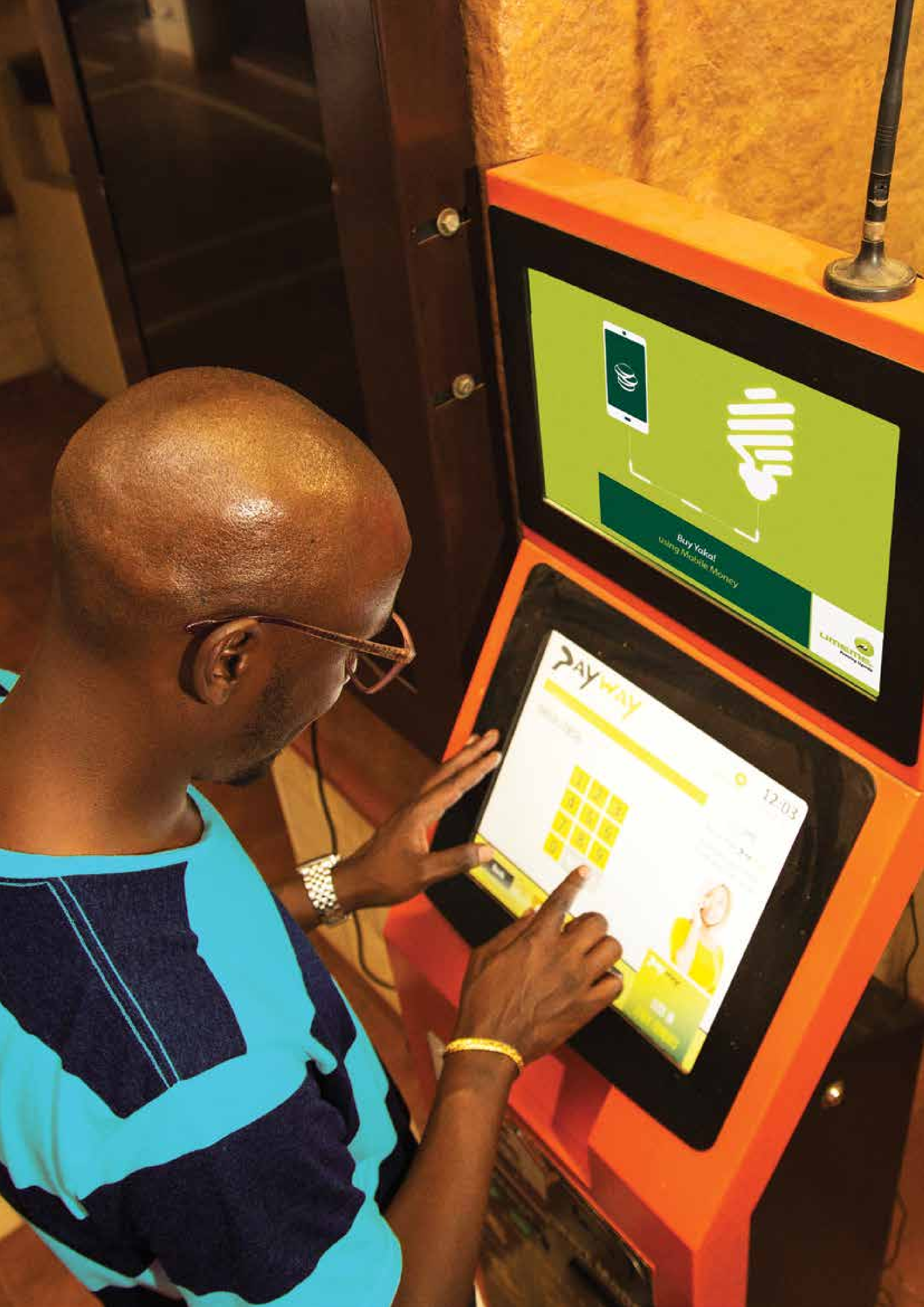
The Company also supplies electricity to customers including provision of additional products and services like meter reading, bill delivery, outage management and complaint resolution.

Our Journey



Our Value Chain

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using Mobile Money
PayWay

Stakeholder Engagement

Umeme defines a stakeholder as any individual or entity that has interest in the Company and can affect or is affected by the Company's performance.

Our stakeholder management process is an ongoing two-way communication to build long-lasting and stable relationships that are fundamental to the success of the business.

The organization's stakeholders are partners whose interests are considered in its decision making. The key objective of our stakeholder engagement is to earn Umeme a license and the social capital to operate in the communities in which we have a foot print.

We map and continue to update our stakeholder issues log as they emerge and or are resolved. Through our decentralised structure, frontline issues affecting customers and local communities are attended to, with support from the corporate office.

We also enlist the support of stakeholders to assist in resolving company and sector issues. For instance the Government of Uganda, through the security agencies, judicial system and local leaders, has been supportive in the drive to reduce energy losses and vandalism of the network infrastructure.

Umeme continues to engage and foster relationship improvements with the Government, regulators, the communities, investors, media and the security agencies.

The Company will continue with its outreach and mobilization programme in the regions. Under this programme, Umeme staff went out to the communities to sensitize different them on the new connection process, safety, and the dangers of power theft among others.

The Company has registered reduction in vandalism of its transformers and other network infrastructure; reduction in social unrest and riots and reduction in fatalities in the communities which arise from power thefts.

This approach is already being replicated across the business.

Sensitisation

In 2017, the Company implemented a customer outreach program to sensitise the communities about the dangers of power theft and illegal connections, which had led to loss of several lives in the Eastern region. The pilot campaign targeted the Elgon sub region, which comprises Mbale, Tororo, Bulambuli, Sironko,Manafwa, Bududa, Kapchwora, Kumi, Pallisa and Budaka districts.

Activities of the operations included sensitising the masses about the dangers of power thefts and illegal connections, the new connection procedure, disconnecting illegal users and arresting power thieves.

The successful outreach and community mobilisation approach in the Elgon sub region, has led to improvement in;

a) Supply Reliability

There was a marked improvement in supply reliability as a result of all the interventions above. Reliable supply enabled, continuous water supply by National Water and Sewerage Corporation, lighting for education, operation of health facilities, increased working hours and general industrial productivity.

From this programme, Umeme is gaining community ownership and advocacy, political buy-in and support, increased legal connections, reduced fatalities, improved awareness of the dangers of illegal connections and increased economic activity due to reliable power supply.

b) Mindset Change

Having opened channels of communication with communities and different levels of leaders, people began taking safety seriously. Communities invited our outreach teams to talk about safety and dangers of illegal connections, or called for action against those that were putting the lives of their household at risk.

c) New Connections

There has been a monumental increase in the number of new connections from 3,541 (2016) to 8,431 (2017), representing 138% growth. The customer data base now stands at 36,431. This resulted in sales of 0.4 giga watts units which is higher than the historical district average.

Prior to the directed engagement, the region was the worst performer, contributing 10% of the total losses during 2016. The region alone registered up to 60% energy losses in 2016, but this has now dropped to 45% in 2017.

The 60% of the losses are categorized into 45% commercial losses (power theft) and 15% technical losses.

Our Key stakeholders

3. The Board of Directors

Mr. Patrick Bitature
Non Executive Director

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.

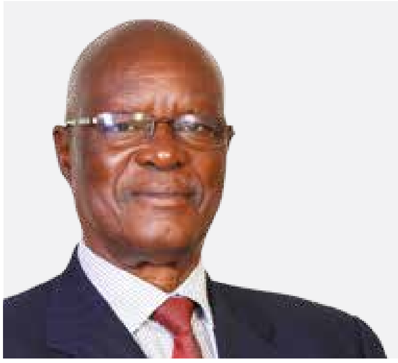
Patrick's leadership of the Board spans from his experience as the founder, Chairman and CEO of Simba Group of Companies, a conglomerate spanning telecoms, real estate, power generation, agro-business, mining, hospitality tourism and media interests. He is keen on development of the energy sector in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

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



Hon. Gerald Ssendaula
Non Executive Director

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 Bank Uganda Limited Management team.

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

Mr. Stuart David Michael Grylls
Non Executive Director

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 was appointed to the Board in 2007 and ceased to be a director on 20 June 2017.

Mr. Charles Chapman
Non Executive Director

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 FY2013 to 21.3% in FY2014.

Charles has been on the Board since 2009.

Board of Directors cont'd

Florence Namatta Mawejje
Non Executive Director

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.

Mr. Pieter Adriaan Faling
Non Executive Director

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
Non Executive Director

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 was appointed to the Umeme Board in August, 2015 and ceased to be a director on 12 December 2017.

Mr. Adrian Mucalov
Non Executive Director

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 was appointed to the Umeme Board in 2013 and ceased to be a director on 30 March 2017.

Mr. Selestino Babungi
Executive Director

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

Selestino is the Managing Director and member of the Board since March 2015. He is also a member of the Environmental Safety and Governance Committee, Customer Service and Loss Reduction Committee and Strategic Review Committee. As the Managing Director, Selestino is responsible for the day to day management of the Company, which includes execution of the corporate strategy to deliver results for the different stakeholders.

Prior to his appointment as Managing Director, he served as Umeme's Chief Financial Officer (CFO) since January 2011, having held operational management roles in the Company, from 2006. During the period as the CFO, Umeme was listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange and the Company mobilized USD 190 million of syndicated financing facilities from the lender group to finance the period's capital investment plans.

Prior to Umeme, worked at Ernst & Young Uganda for six years, in different roles in providing audit and advisory services to clients from the private and public sectors.

Mrs. Florence Nakimbugwe Nsubuga
Executive Director

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.

Board of Directors cont'd

Mr. Samuel Zimbe
Executive Director

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.

Sam ceased to be a member of the Umeme Board of Directors on 1st May, 2018.

Anthony Marsh
Non Executive Director

Bsc (Hons) Banking and Finance, Loughborough University of Technology, UK.

Anthony was nominated to be a member of the board on 20th June 2017. He is a member of the following committees: Audit, Strategic Review, Environment, Social and Governance and Customer Service and Loss Reduction.

Anthony has 35 years' experience investing both debt and equity in infrastructure, particularly the electricity sector. These included; setting up the UK's Green Investment Bank at the request of the UK government and being Chair of the Investment Committee, and CEO of a fund manager providing debt and guarantees into African and SE Asian infrastructure on behalf of the UK, Swiss, Swedish and Dutch governments. Currently, in addition to his role at Umeme, Anthony is a member of investment committees for the Emerging Africa Infrastructure Fund, GuarantCo, Aviva Infrastructure and an infrastructure fund in the Baltic States, and chair of a Charity, Energy 4 Impact, providing support to make productive use of energy in Africa.

Andrew Buglass
Non Executive Director

MA in Modern Languages, University of Oxford; Diploma of the Chartered Institute of Bankers; and Approved Person, Financial Conduct Authority.

Andrew was nominated to be a member of the board on 20th June 2017. He chairs the Remuneration Committee and is a member of the Strategic Review and Audit Committees.

He has 30 years of experience of banking and finance, and has focused exclusively on the energy sector since 1992.

Andrew founded and runs Buglass Energy Advisory, a UK based consultancy supporting energy sector investors and developers with strategic and commercial advice.

Prior to that, he led the energy finance team at Royal Bank of Scotland in London. Earlier roles included heading the Utility Finance practice at ING Bank in Amsterdam, and leadership roles within international energy developers PowerGen plc and Unocal Corporation.

He has been a regular expert contributor to UK Government and industry groups on policy and investment issues, Co-Chair of the Low Carbon Finance Group, and Chair of the Utility 2050 project led by Imperial College London. He also serves as a non-executive director for two UK companies in the solar and offshore wind sectors.

Mr. Pius Bigirimana
Nominee for non Executive Director

Master of Development Administration and Management Degree from the University of Manchester. He holds another Masters Degree in Business Administration from the East and Southern African Management Institute (ESAMI). He is also an Alumni of Harvard University, JF Kennedy, School of Government.

He was nominated to be a member of the Board of Directors on the 15th day of April, 2018.

In addition to his Board membership at Umeme, Pius is also currently serving as a Board Member of the International Labour Organization and the National Social Security Fund, Uganda.

Pius has served in several capacities in the Government of Uganda notably in the Ministry of Gender, Labour and Social Development, Office of the Prime Minister, Ministry of Health and the Ministry of Public Service and is also quite widely travelled bringing a wealth of experience to the Board.

Mr. Stephen Emasu
Nominee for non Executive Director

Chartered Accountant and Chartered Global Management Accountant (FCCA; CIPFA, ACMA, CGMA and CPA)

He was nominated to be a member of the Board of Directors on the 15th day of April, 2018.

Stephen holds a post graduate degree from the London School of Economics and Political Science (LSE) and another from the University of Stirling. He also holds a number of professional accountancy and finance qualifications. Stephen was one of the founder members of the Ugandan CPA, and was a Board member of the Public Accountants Examination Board of the ICPAU for about 9 years.

He is currently Chair of the ACCA Global Forum of the Public Sector, a position he has held since 2014.

Stephen has many years of audit experience having worked with PricewaterhouseCoopers for several years as a Senior Audit Manager. For the past 16 years, Stephen has worked with or provided technical advice to various ministries responsible for finance in about 10 African countries, including the Ugandan and Rwandan Ministries of Finance under either the World Bank or the Fiscal Affairs Department of the IMF.

Stephen has been on the IMF roster of PFM Experts since 2012, and has participated in more than 15 IMF missions in different African countries.

Mr. Riccardo Ridolfi
Nominee for non Executive Director

Master of Laws (University College London), Bachelor of Laws (Australian National University), Bachelor of Economics (Australian National University).

Riccardo is a qualified lawyer, admitted to practice in England and Wales, Italy and Australia. He was nominated to be a member of the Board of Directors on the 15th day of April, 2018.

His experience derives mainly from advising corporates, sovereigns and multinational organizations in matters relating to finance, energy and foreign investment. He also matured significant experience negotiating concessions and tariffs for off-grid investments in the region.

Riccardo is the founder of Equatorial Power, an access to energy company active in East Africa. He was previously a partner and Director for Absolute Energy Africa Ltd, a renewable energy and mini grid developer. Before that, Riccardo was an associate in the Banking and Finance department of Pavia e Ansaldo (an Italian international law firm), advising on structured and project finance, investment funds and foreign investment protection.

He has served as a pro bono Investment Advisor to the Government of Uganda, through its Embassy in Rome and has consulted for the Africa Caribbean Pacific Secretariat in Brussels on investment related matters. Over the last few years, Riccardo has championed accelerated access to productive energy in sub-Saharan Africa, both as an investor and an advocate

4. Senior Management Team
Summary Profiles

Mr. Selestino Babungi
Managing Director
(See profile on page 11)

Mr. Samuel Zimbe
Deputy Managing Director
(See profile on page 12)

Mrs. Florence Nakimbugwe Nsubuga
Chief Operations Officer
(See profile on page 11)

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.

Marie Nassiwa Martin
Chief Finance Officer

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

Patrick Ngolobe
Head of Human Resources

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

Senior Management Team profiles cont'd

Roger Charles Bentley
Chief Information Officer

Roger Bentley holds a Batchelor of Science Degree in Software Engineering from the University of South Africa and various certificates in Leadership and Strategic Management. His 25 years' in IT spans the Utilities, Financial Services and Mining industries and he is fortunate to have had the opportunity to gain experience globally while working in Canada, Saudi Arabia and South Africa. After 8 years with the Land and Agricultural Development Bank of South Africa in the role of General Manager responsible for IT, he has joined the IT team at Umeme.

Over the past 12 years, Roger has been deeply involved in SAP related projects and support. These include the rollout of various projects focussed on using SAP functionality to replace disparate, legacy systems. A notable highlight was when the Land Bank won the SAP AG Silver Award for Quality, for the implementation of SAP Collateral Management in 2012. In 2017, the IT Division of the Land Bank were certified as a SAP Centre of Expertise by SAP AG.

Roger's view of IT is that appropriate technology should be applied to support the organisation's various strategic initiatives. "Technology is seen as a fundamental enabler to an organization and it is the role of IT to put in place the appropriate tools to support and enable the frontline and back office processes."

Patrice Namisano
Head of Supply Chain

Patrice joined Umeme during the year as part of our overall strategy to revamp the entire Supply Chain Management system to ensure efficient and timely availability of materials for business operations, drive value for money in our procurements and increased transparency in supply chain processes.

His leadership experience in Supply Chain spans over 20 years, across 43 countries in Telecommunications and FMGC industries. He has been the Supply Chain Director – Operations Airtel Africa.

Previously he served as Supply Chain Director Airtel Uganda, Regional Account Manager (Africa & Middle East) BAT, Area Logistics Manager (Sub-Saharan Africa) BAT and other management roles at BAT.

Patrice has the following academic accomplishments: Chartered Institute of Logistics and Transport (CILT), Chartered Institute of Purchasing and Supplies (CIPS), MSc. Logistics & Transportation, PGD – Purchasing & Supplies and a BA (Hons) Economics and Political Science.

Agnes Nalwanga
Head of Customer Service

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.

Sandorlyle Walusimbi
Head of Communications

Sandor holds a BA (Hons) in Economics from University of London. 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 joining UMEME, he worked at Airtel Uganda as Head of Public Relations.

Justine Nakagiri Ssemwanga
Acting Head of Internal Audit

Justine has over 10 years' working experience, with 8 years as an Internal Audit Practitioner. Having previously worked with Uganda Telecom Ltd and AH Consulting Ltd, she has worked in various roles as an Internal Audit Manager, Internal Audit Supervisor, Financial and audit systems consultant.

Justine holds a Post Graduate Diploma in Information Technology from Amity University India, in collaboration with Makerere University and a Bachelor of Business Administration - Accounting (First Class) from Makerere University. She is a Certified Internal Auditor (CIA), pursuing the Association of Chartered Certified Accountants (ACCA) certification. She serves as a member on the Training Committee of the Institute of Internal Auditors (IIA Uganda). She also served on the Membership Committee of the IIA Uganda and as Secretary of the Supervisory Committee of the Umeme Staff SACCO.

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 loss 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 model for implementation, defined the processes aligned with the PLCM and organisational structures to support the strategic direction. He also set in motion the standardisation of documentation, control measures and quality assurance throughout the PLCM.

5. Business Highlights
Key Performance Highlights

Financial Statistics

	2017 Ushs million	2016 Restated Ushs million	2017 USD '000	2016 Restated USD '000
For the year				
Revenue	1,476,430	1,358,206	408,275	396,130
Gross profit	515,935	476,420	142,606	138,490
Operating profit	112,379	240,703	30,832	69,733
Profit before tax	44,600	198,122	12,101	57,234
Profit for the year	35,494	138,834	9,570	40,295
Capital investments	236,427	317,797	65,385	92,832
At year-end				
Total assets	2,349,433	2,226,057	645,025	615,697
Shareholder's equity	617,669	624,279	169,578	172,667
Outstanding interest bearing debt	659,616	702,437	181,094	194,285
Cash flow data – for the year				
Net cash flows from operating activities	304,732	170,669	84,231	51,104
Net cash flows used in investing activities	(236,427)	(317,797)	(65,385)	(92,832)
Net cash flows (used in)/ from financing activities	(65,590)	125,938	(18,050)	35,941
Per share	**Ushs**	**Ushs**	**USD**	**USD**
Basic and diluted Earnings per Share	22	81	0.01	0.02
Proposed Dividend per Share	7.6	18.8	-	-

Non-Financial Statistics

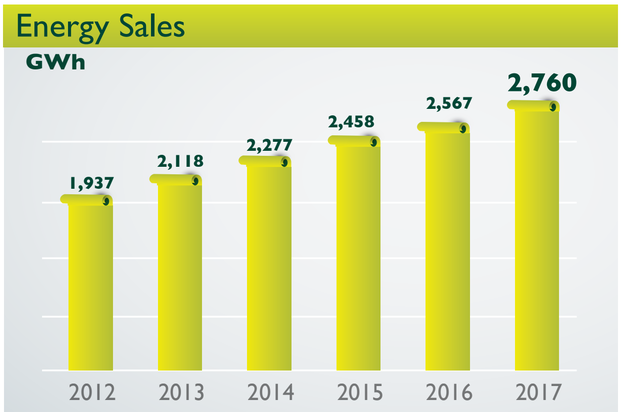
Operating and other statistics	FY 2017	FY 2016
Electricity sales during the year (GWh)	2,760	2,567
Electricity purchases during the year (GWh)	3,334	3,172
Energy losses (percentage)	17.2%	19.0%
Revenue collections rate (percentage)	100.2%	98.4%

Distribution Network statistics	FY 2017	FY 2016
Total length of distribution lines (Km)	13,933	13,145
Total length of low voltage lines (Km)	19,431	18,646
Total distribution transformers at the end of the year	11,859	11,580
Bulk Supply off take points (UETCL Substations 132KV/66KV/33KV/11KV)	15	15
Distribution Substations (33KV/11KV)	58	58
Number of pending service applications	233	483
New connections during the year	174,477	157,270
Total number of consumers	1,125,291	950,814

Other statistics		
Total number of Company employees	1,472	1,384
Exchange rate: US Dollar to Uganda Shilling (at year end)	3,642	3,616
Exchange rate: US Dollar to Uganda Shilling (annual average)	3,616	3,423

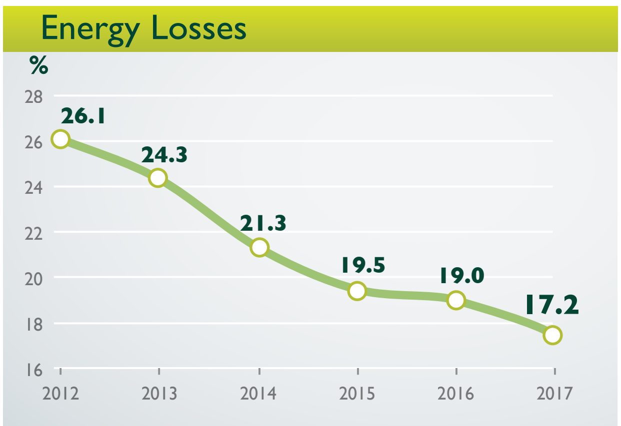
18.3%

- 174,477 new connections in 2017 of which 16,607 were funded under GOU free connections programme funded by GOU, KFW and other development partners.
- 75.5% of customers on prepaid metering contribution 21% of total revenue.



7.5%

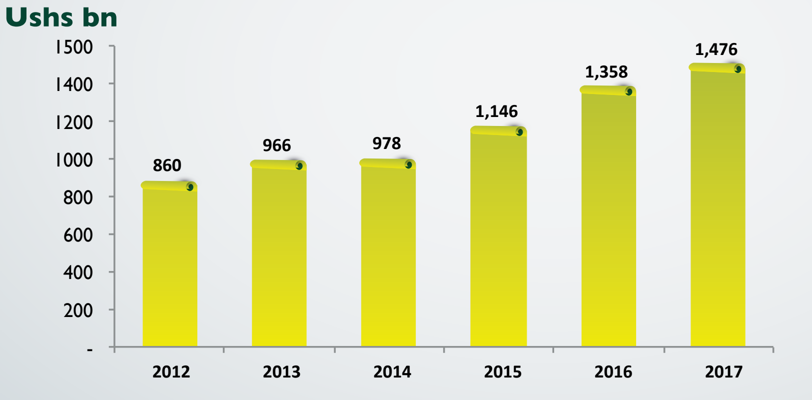
Driven by growth in purchases Gwh by 5.1% and reduction of energy losses from 19.0% to 17.2%.



at 17.2%

Losses reduced by 1.8% compared to 2016. The losses strategy focused on commercial losses estimated at 7.2%. Loss reduction initiatives during the year included; meter installation audits; use of technology like smart meters for large consumers; billing efficiency; public awareness and use of data analytics to identify and focus the loss reduction initiatives.

Sector Revenues

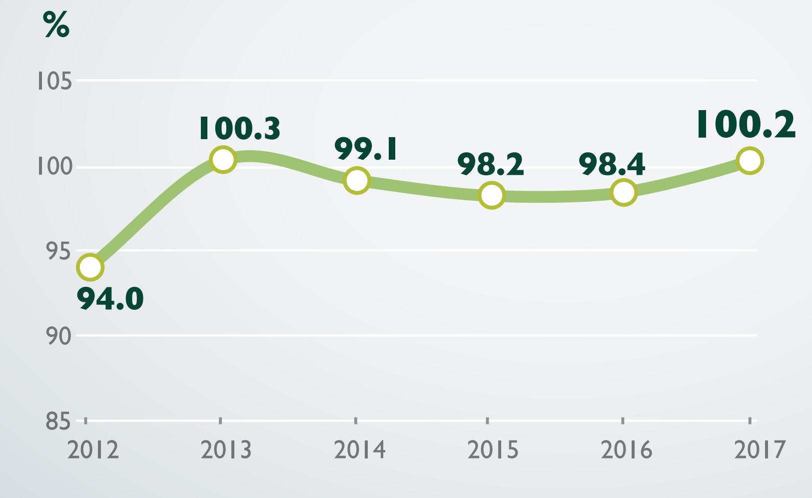


8.7%

Driven by;

- 7.5% increase in electricity sales volume as a result of power availability, supply reliability and reduction in energy losses

Revenue Collections

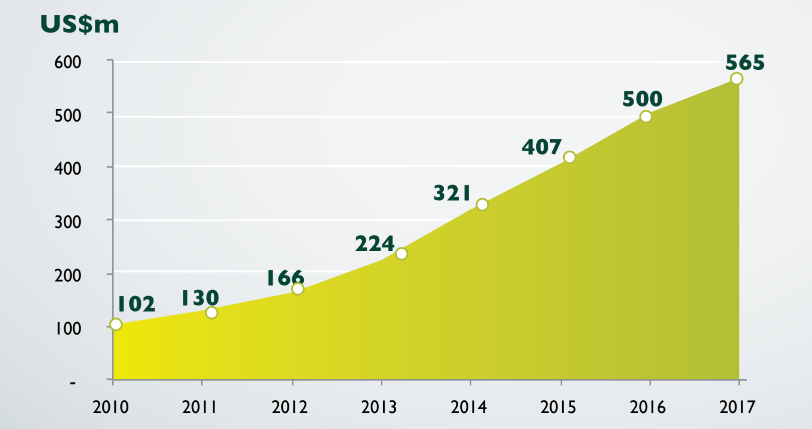


at 100.2%

Driven by

- Improved efficiency in the revenue cycle process
- Increased penetration of prepaid metering
- Improved debt collection initiatives

Capital Investments

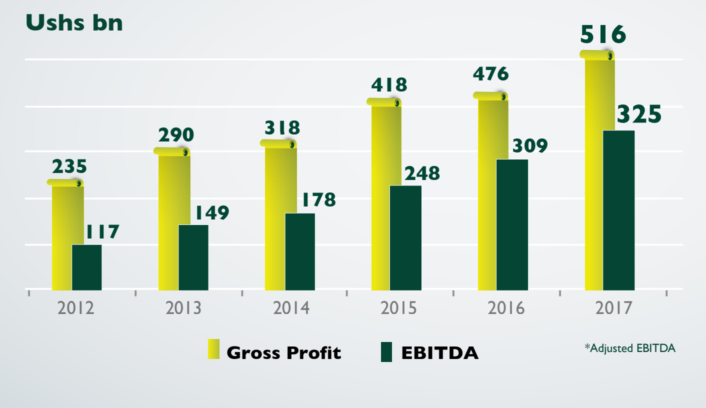


13%

USD 65 million invested in key projects including

1. Upgrade of Lira spinning mill substation – USD 1.4 million
2. Ishaka substation redesign – USD 1.5 million
3. System improvement at Kakiri services areas – 0.9 million
4. BMTS dedicated feeder Mbarara – 0.7 million
5. Jinja Industrial Iganga 33kv power quality improvement – 0.5m
6. Installation of GOU TOU system – USD 4.2 million
7. Hoima 33Kv UETCL line integration USD 0.8 million
8. New Connections - USD 34 million

Gross Profit and EBITDA



Gross profit 8.3% EBITDA 5.2%

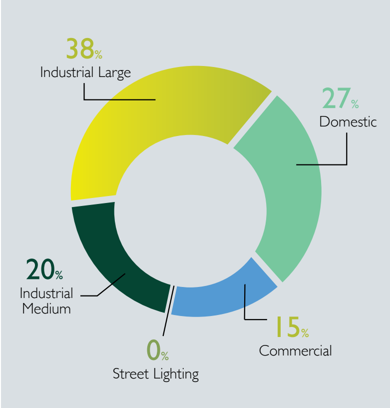
Driven by;

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

Revenue Split (Ushs billion)

Customer Category	2017	2016	Growth (y/y)	% Share
Domestic	383.6	341.1	12.5%	27.2%
Commercial	51.0	47.4	7.6%	15.0%
Street Lighting	1.6	4.7	66%	0.1%
Industrial - Medium	446.8	396.0	12.8%	20.0%
Industrial - Large	537.1	473.2	13.5%	37.6%
	1,420.0	**1,262.4**	**12.5%**	**100.0%**

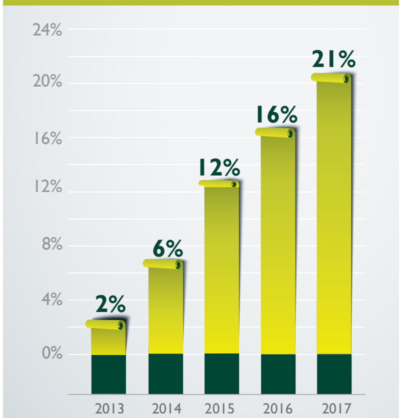
Revenue Distribution



Electricity Sales (GWh)

Customer Category	2017	2016	Growth (y/y)	FY2016 Growth
Domestic	625.6	585.4	6.9%	2.6%
Commercial	341.3	323.0	5.7%	4.3%
Street Lighting	1.6	1.6	-0.7%	3.0%
Industrial - Medium	432.3	419.6	3.0%	3.3%
Industrial - Large	1,359.2	1,237.4	9.8%	5.9%
	2,760.1	**2,567.0**	**7.5%**	**4.4%**

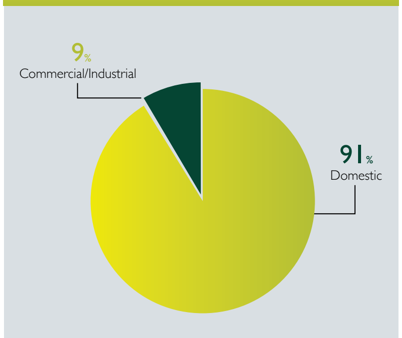
Prepaid % of total revenue



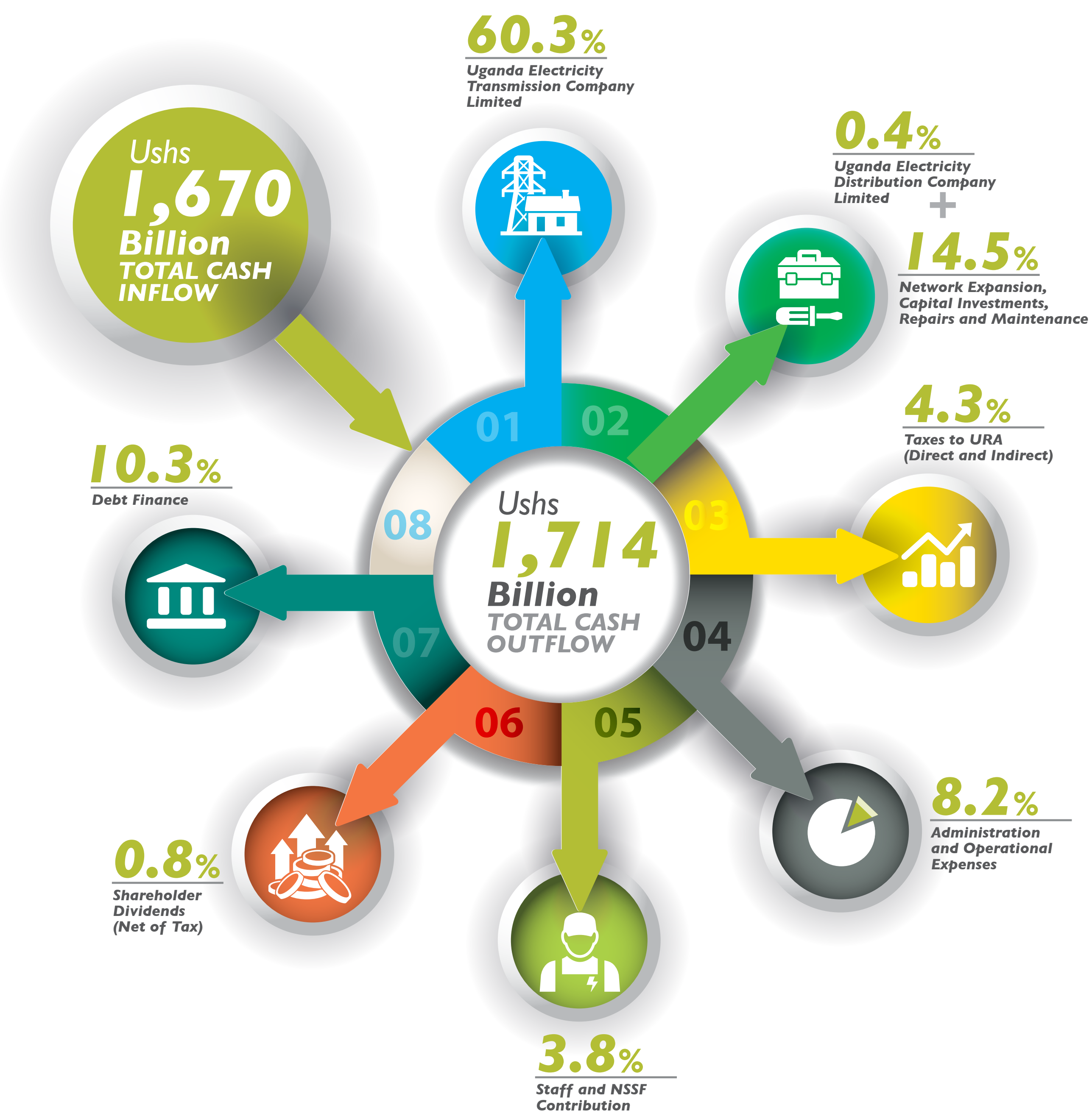
Customer Numbers

Customer number breakdown	2017	2016	Growth
Domestic	1,026,205	867,671	18%
Commercial/Industrial	95,483	79,746	20%
Street Lighting	322	306	5%
Industrial - Medium	2,735	2,564	7%
Industrial - Large	546	527	4%
	1,125,291	**950,814**	**18%**

Customers per Tariff Category



Our Cash Utilisation Summary 2017



Total Cash Inflows	**1,670**
Electricity power purchases from UETCL	1,007
Uganda Electricity Distribution Company Limited	7
Network Expansion, Capital Investments, Repairs and Maintenance	243
Tax payments	72
Staff and NSSF Contribution	63
Debt Finance	172
Shareholder Dividends paid	13
Adminstration and Operational Expenses	138
Total Cash Out	**1,714**

6. Chairman's Report

Dear Shareholder,

On behalf of your Board I am pleased to present our 2017 report highlighting the performance and state of the business and our medium term outlook.

Uganda's electricity sector continues to grow, with peak demand increasing by 7.2% to 597.4 MW in 2017. Electricity sales increased by 7.5% to 2,760 GWh in 2017 compared to 2,567 GWh of 2016. Our customer base increased by 18.3% to 1,125,291 customers, having connected 174,477 new customers to the grid.

Consistent with projected growth in the economy of 5.5% in 2017/18 compared to 3.9% of 2016/17, we note the increase in electricity consumption by industrial customers, having increased by 8.1% in 2017, compared to a growth of 5.2% in 2016. This growth resonates with the general macro indicators of the recovery and projected strong economic growth. The government policy on local content has provided additional market for our commercial and industrial customers.

We continue to improve the distribution efficiencies, with positive impact on consumer tariffs. While tariffs remain competitive regionally, Umeme is open and continues to support Government of Uganda's ambition of achieving further tariff reductions, through delivering further efficiencies especially energy loss reduction and increase in sales units by connecting new customers and improving the distribution system uptime. The energy losses reduced to 17.2% in 2017 from 19.0% of 2016. We collected 100.2% of the revenues billed to customers during the year, compared to 98.4% of 2016. Since the beginning of the concession, the distribution efficiency (combination of energy losses reduction and revenues collections) has increased from 50% as of 2005 to 83% in 2017, thus improving the sector cash flows that eliminated the need for government subsidies.

Despite the regulatory challenges faced during the period, I am glad to note the financial performance for the year, with our Earnings Before Interest Tax Depreciation and Amortization (EBITDA) (adjusted for the regulated asset write-down) increasing by 5.3% from Ushs 309 billion in 2016 to Ushs 325 billion in 2017. The Profit after tax reduced to Ushs 35.5 billion compared to Ushs 138.8 billion of 2016, on account of the regulatory asset write-down and allowance of pending capital investments.

This year, the Board recommends a final dividend of Ushs 7.6 per share compared to UShs 18.8 of 2016.

During the year, the Company generated Ushs 304.7 billion from operations compared to Ushs 170.7 billion in 2016. The cash generated was used to fund capital investments, dividends and financing obligations. In total our capital investments implemented in the year were Ushs 236.4 billion (USD 65.4 million). The cumulative investments since the commencement of

Earnings Before Interest Tax Depreciation and Amortization (EBITDA) (adjusted for the regulated asset write-down) increased by 5.3% from Ushs 309 billion in 2016 to Ushs 325.4 billion in 2017.

the Concession to 2017 stand at Ushs 2,059 billion (USD 565 million). The investments have more than doubled the capacity of the network.

The investments in the distribution infrastructure have greatly improved and impacted network as summarised below:

Performance Area	2005	2017
Network line length (km)	16,000	33,000
Distribution Transformers	6,000	12,000
Distribution transformer capacity (MVA)	550	1,900
Customers on the Grid ('000)	290	1,120
Distribution energy losses	38.0%	17.2%
Electricity Sales (GWh)	1,015	2,760
Capital Investments (US$'m)	5	565

Challenges during the period

As reported at the mid year, the Electricity Regulatory Authority implemented Amendment 5 to Umeme's Electricty Supply Licence, leading to an impairment charge of Ushs 115.2 billion in the Income Statement. This is a one off charge and is non-recurring in nature. The Company retains its commercial rights for the claim against the Government of the amounts due.

Secondly, as reported at mid year, Umeme held a Power Supply Price reconciliation claim of Ushs 87.4 billion (USD 24 million) against Uganda Electricity Transmission Company Limited. The outstanding claim remains Ushs 47.3 billion (USD 13 million), after allowance of some of the amounts in the 2018 tariffs.

The Escrow Account is currently depleted and remains unfunded. The company continued to raise the matter with Uganda Electricity Distribution Company Limited and the Government of Uganda.

Lastly, there has been heightened media coverage around the Umeme Concession, resulting from our communication with Government of Uganda on the urgent need to engage and consider the extension in light of investment needs. We are assured it is not the intention of Government to reconsider its contractual obligations and we remain committed to our obligation to operate, maintain and grow the electricity distribution network, as outlined in the contracts.

The Company is continuing to engage government to ensure these matters are amicably resolved.

Governance Changes

I am also pleased to welcome the following Directors that have been nominated to join the Board of directors subject to approval by the shareholders at the next Annual General Meeting:

Mr. Andrew Buglass
Mr. Anthony Marsh
Mr. Pius Bigirimana
Mr. Stephen Emasu
Mr. Riccardo Ridolfi

I am confident the new Directors will bring different skills and technical expertise in their areas of speciality.

During the year, the board accepted the resignations of Mr. Adrian Mucalov, Mr David Grylls and Mr. Christopher Nicholson. I want to thank them for their dedication and service to Umeme.

Sector Developments

The electricity sector faces 3 strategic issues following its evolution from the last decade that focused on efficiences and stabilisation.

The first priority is that atleast an additional 783MW of generation capacity is due to be commissioned by 2020, will drive the sector and Country into accelerated growth mode. Readying the distribution infrastructure for the new capacity while creating demand through industrialization is therefore critical.

Our medium term investment plans are aligned and focused on growth projects in zones with high economic and electricity demand. We commend government for rolling out the Customer Rebates Policy that aims to support and ease the capital burden of industrial customers requiring connection to the grid.

The second priority is intensifying the distribution network and connecting more households to increase the electricity penetration rates from the current 23% to 40% by 2025. The company shall continue to accelerate the new connections, while complimenting the Rural Electrification Agency and Development Partners to implement the customer connections policy.

And thirdly, the issue of electricity pricing is important in reducing the cost of doing business to promote Uganda as the regional industrial hub. Whereas Umeme is committed to support the reduction in pricing through driving efficiencies, the projected reduction in generation costs will further improve electricity tariff competitiveness for Uganda. In addition to stable electricity supply, Uganda offers numerous production inputs, skilled labour and access to the regional markets.

In light of the above and investment needs, the Company engaged Stanbic Bank as their investment advisors on raising long term capital. The capital raising discussions are progressing alongside the Concession tenure review. Shareholder shall be advised of the results from this work stream in due course.

In conclusion, on behalf of the Board, I extend our sincere appreciation and thank you, to the staff, the government and stakeholders for your continued support to Umeme. Without your support, Umeme would not have transformed the electricity distribution systems in Uganda and bring to fruit the sector reforms effected in 2000. I call on the support of all shareholders and stakeholders, as we move the company into its next development phase, aligned to the Government agenda for the electricity sector.

Patrick Bitature
Chairman

7. Managing Director's Report

It is my distinct pleasure to once again present our 2017 Annual Report to the stakeholders. I present a review of Umeme's performance for year ended 31 December 2017 and outline the priorities for the upcoming period.

Safety

Our commitment to safety in our workplace, for our people and the public, across the network remains our number one priority. During the year, unfortunately we recorded one fatality related to network failure. Fatal accidents related to network interference and power theft reduced by 11% to 16 in 2017 compared to 18 of 2016.

To reinforce our focus of internal and external safety, we continued training our staff and contractors on safe system operations, intensified school and community awareness engagements and general public awareness campaigns on multiple media channels including radio, television, print and online digital channels. We also ensure that our staff are equipped with the necessary safety tools and protective gear to protect them against harmful conditions arising out of their day to day operations.

On the networks side, we measure and ensure all reported emergency conditions are responded to in time, lines are cleared of vegetation while addressing dangerous network spots through investments and maintenance programmes.

Operational Performance

We are pleased with the results of the implementation of our energy losses reduction strategy. In 2017, losses reduced to 17.2% compared to 19.0% of 2016. The study on composition of energy losses was concluded, with technical losses estimated at 10% and commercial losses accounting for 7.2%. The results from the study are guiding our current and future plans, split by district, feeders and operating zones.

Revenue collections improved during the year, with a rate of 100.2% achieved compared to 98.4% attained in 2016. The coverage of pre-payment metering across the domestic household customers stands

In 2017, we invested Ushs 236.4 billion (USD 65 million) in the distribution infrastructure that included substations, expansion of the grid, pre-payment metering conversion and new customer connections.

at 76%, contributing 21% of turnover. We continue to note positive payment trends from all customer categories including Government of Uganda, ministries, departments and agencies (MDAs).

On the customer service front, we continue to make investments in service delivery and customer service. In 2017, we invested Ushs 236.4 billion (USD 65 million) in the distribution infrastructure that included substations, expansion of distribution grid, pre-payment metering conversion and new customer connections. As a result, 174,477 new customers were connected leading to a total customer base of 1.12 million. 76% of these customers are on pre-paid metering. The distribution system continues to improve in efficiency and reliability.

Feedback from an independent customer service survey ranked the level of satisfaction at 65%. The top 3 key customer concerns were; electricity prices, response times to service requests and information on our services. The customer experience is being enhanced through use of technology, ease of transacting with the company, provision of information and adequacy of our communications.

Financial Performance

2017 was a challenging year from a regulatory front. Implementation of Amendment 5 to the supply license resulted in an impairment charge of Ushs 115.3 billion (USD 31.9 million) in the Income Statement, negatively impacting the financial performance for the year. The process of approval and inclusion of capital investments in the tariffs remains a challenge. It is my sincere hope that in the course of 2018 we shall find common and workable solutions to these challenges.

Our Earnings before tax, depreciation, interest and amortisation (EBITDA) (adjusted for regulatory write down) increased to Ushs 325.4 billion compared to Ushs 309 billion in 2016. Profit before tax reduced to Ushs 44.6 billion from Ushs 198.1 billion in 2016 and we achieved a Profit after tax of Ushs 35.5 billion compared to Ushs 138.8 billion of 2016.

Our staff

Our committed and engaged workforce has been at the centre of delivering the performance for the year. We have continued to invest in skills development for our staff, while ensuring a conducive and safe workplace to deliver service to our customers and other stakeholders.

Medium term outlook

Our seven year regulatory targets and investment programme of USD 440 million, comes to the end in 2018. We have commenced engagements with the Electricity Regulatory Authority, to review the performance over the last 6 years, and engage on the regulatory targets related to energy losses, revenue collections and operating costs for the period 2019 to 2025.

The sector is projected to more than double its generation capacity to about 1,500MW by 2020, after the commissioning of Isimba and Karuma Hydro Power Plants. There is urgent need to invest in capacity evacuation projects in the distribution grid.

In addition to the new capacity, increasing grid connections is an important business and government priority. The National Development Plan projects an electricity access rate of 40% by 2025, compared to the current estimate of 23%.

We projected the investment needs to achieve the electricity uptake, access and delivery of the projected regulatory targets for the next 6 years. Our focus in 2018, shall be on capital mobilization to finance the investments.

In conclusion, I wish to thank the Board of Directors, management, staff, and all stakeholders for their support during the year. We are committed to strengthening the electricity distribution sub sector in Uganda and ensuring the sustainability of the entire value chain.

Selestino Babungi
Managing Director

8. Financial Review

Umeme is committed to creating and sustaining long-term shareholder value. Our first financial objective is to deliver shareholder value through annual dividend increases whilst ensuring that the dividend is covered by the diluted EPS at a level that is sustainable over time.

A dividend of Ushs 7.6 per share for 2017 demonstrates that despite an increasingly competitive and changing operating and regulatory environment Umeme is focused on responsibly delivering what it says it will for shareholders and this year was no exception.

Our committment to future dividend increases despite challenges in the operating and regulatory environment

We are fully committed to meeting our long-standing financial objective of annual dividend increases. The business is geared toward this. Our strategic framework, options for investment for growth, relentless focus on efficiency position us well to deliver our financial objective in 2017 and beyond.

Outlook for capital and investment expenditure

Disciplined investment in the distribution network assets is core to our strategy and since 2005 we have invested almost Ushs 2,059 billion (USD 565.5 million). We are now into a programme to invest in access, loss reduction and supply reliability projects. All investments are intended to complement our asset base and provide balance to the Company. Going forward our investments will only proceed if they create long-term value with returns greater than the cost of capital, meaningfully contribute to earnings and provide balance to our customers and the energy sector.

Maintaining Financial discipline

Financial discipline, securing a diversity of funding sources and maintaining a strong balance sheet are fundamental to how we run our business. We are committed to maintaining robust ratios for both retained cash flow and funds from operation to debt. This, alongside a strong balance sheet, gives Umeme the capacity to invest to create long-term value. Financial discipline, therefore, will always be part of our plans.

Our focus on financial sustainability

We are involved in accounting for sustainability. It is aiming to make sure that financial and accounting systems better reflect wider environmental and social factors and help support better business decision-making. As a long-term business in a key sector, this is highly relevant for Umeme.

This financial review covers Umeme's financial performance and outlook, capital investments, balance sheet and tax payments

2017 results were impacted by the following issues arising out of the regulatory environment;

i. In the first half of the year, we recorded an impairment provision of previously accrued regulatory receivables as a result of Amendment no.5 to our license; a total of Ushs 115.3 billion (USD 31.9 million). This is a one-off exceptional adjustment as disclosed in notes 3(a) and 8 of the financial statements.

ii. Amendment no.5 also provided for the Company to retain the previously clawed back growth factor revenues, which will be used for future investment in the distribution network on which Umeme will earn a management fee of 4%. As a result of this provision, Ushs 24 billion has been ring fenced (deferred) as growth revenues in 2017 to be utlizied on future investments approved by ERA.

iii. As disclosed in note 3(c) of the financial statements, there was an under recovery of revenues from the lifeline retail tariff category for the periods 2016 and 2017; Ushs 46 billion (USD 12.7m) and Ushs 57.7 billion (USD 15.9m) respectively. The life line tariff is a subsidized electricity price applicable to the first 15 units of electricity charged at Uhs150. In setting the retail tariffs for the periods, the Electricity regulatory authority (ERA) underestimated the units consumed below the lifeline resulting in an under recovery by the Company of the amounts highlighted. The amounts have been accounted for appropriately in the relevant periods, leading to a restatement of the 2016 comparative figures as disclosed in note 34 of the financial statements.

Despite the regulatory challenges, the underlying business performance remained strong.

Revenue

Revenues grew by 8.7% year-on-year in the financial year 2017. The increase in revenue is driven by the underlying increase in electricity sales volumes (GWh) of 7.5% compared to the 4.5% in 2016. The increase in units sold is attributed to three main factors:

i. Improved power availability and supply reliability;
ii. Connection of new customers; 174,477 customers representing an 18.3% increase from 2016, bringing the total customer base to 1.13 million, industrial consumers increased their consumption by 8.1%
iii. Reduction in energy losses to 17.2% from 19.0% of 2016.

Gross profit

Gross profit increased by 8.3% compared to 2016, from Ushs 476.4 billion to Ushs 516.9 billion in 2017, on account of improved distribution margins as a result of increased capital investments allowed for recovery in the tariff and improved performance against regulatory targets. However, delayed approval of some capital investments by ERA continues to impact our gross margins.

Operating Costs

Our operating costs excluding the one off regulatory receivable write-off, increased by 12.7% in 2017, on account of inflationary adjustments at 5% and increased business activities.

More resources were allocated to the loss reduction initiatives and repairs and maintenance of the distribution network, to ensure reliable supply.

Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA)

EBITDA excluding the one off regulatory receivable write-off increased by 5.3% in 2017 compared to 2016, on account of increase in gross profit and resultant operating costs.

Profit after Tax

Profit for the year declined to Ushs 35.5 billion from Ushs 138.8 billion (restated) on account of regulatory adjustments, delayed capital investments and increased financing costs, on account of outstanding long term credit facilities with the lender group of International Finance Corporation (IFC), Standard chartered Bank and Stanbic Bank Uganda.

The basic earnings per share reduced to Ushs 22 from Ushs 81 in 2016. Accordingly, the Board proposed a dividend per share of Ushs 7.6 in 2017 (Ushs 18.8 in 2016).

Statement of financial position Analysis

Total assets increased by 5.5% to Ushs 2,349 billion as at 31 December 2017 compared to UShs 2,226 billion as at 31st December 2016.

Shareholder Equity reduced by 1.8% to Ushs 618 billion in 2017 from Ushs 624 billion in 2016 due to reduction in profit for the year compared to 2016 and a translation loss of Ushs 29.4 billion resulting from functional currency restatements.

Outstanding interest bearing debt reduced to UShs 668 billion (USD 183 million) as at 31 December 2017 from Ushs 715 billion (USD 198 million) in 2016. The reduction is due to repayment of Ushs 124 billion (USD 34.5m) on the long term facilities between IFC, Standard Chartered and Stanbic bank and access to a short term bridge financing facility of Ushs 72 billion (USD 20m) with Standard Chartered Bank.

Our Debt to Equity ratio is 1.1 which is well within our loan covenant ratio of 2.5. The Company's debt to asset ratio remains sufficient at 28% compared to an industry average of 40%.
Capital investments implemented in the year totaled Ushs 236 billion (USD 65.4 million) compared to Ushs 318 billion in 2016 (USD 92.8 million); bringing the cumulative investments since the commencement of the concession to Ushs 2,059 billion (USD 565 million) and the un-recovered asset base of Ushs 1,603 (USD 433.5 million).

The Company's interest cover was 4.81 above the 2.5 covenant requirement.

Return to Debt and Equity Investors

Our equity and debt investors received Ushs 182 billion (2016: Ushs 153 billion) of the total value created.

We paid dividends of Ushs 12.7 billion (2016: Ushs 57 billion) to shareholders and principal and interest repayments of Ushs 169 billion (2016: Ushs 96 billion) to debt providers.

Working Capital analysis

The Company's current liabilities exceeded the current assets by Ushs 284 billion (2016: Ushs 70 billion). This net current liability position is mainly due to Ushs 196 billion (USD 54m) relating to principal loan repayments due in the next 12 months.

The Company had working capital facilities held with Stanbic Bank Uganda Limited and Standard Chartered Bank amounting to USD 40m. The working capital facilities are required to supplement cash generated from operations in meeting the Company's day to day working capital needs.

Cash flows analysis

Net cash flow from operating activities increased by 79% to Ushs 305 billion from Ushs 171 billion in 2016. The cash generated increased on account of improved business efficiencies in the Company's cash operating cycle.

Net cash outflow from investing activities reduced to Ushs 236 billion from Ushs 318 billion in 2016. Net cash flow from financing activities reduced to Ushs 66 billion compared to Ushs 126 billion in 2016. This was mainly due to principal loan repayment of Ushs 125 billion on the long term facilities.

The closing negative cash balance of Ushs 22 billion is on account of utilisation of bank working capital facilities at the end of the year.

Tax

Umeme is one of the Uganda's biggest taxpayers. In the survey published in February 2016, Umeme was ranked 10th out of the 100 Group of Companies in terms of taxes paid. In the year to 31 December 2017, Umeme paid Ushs 72 billion of taxes on profits, VAT, import duty, withholding tax and, employment taxes in the Uganda, compared with 78 billion in the previous year. Total taxes paid in 2017 were lower than the previous year, primarily due to reduced tax profits as a result of writeoff of Ushs 115 billion regulatory income receivable.

Umeme considers being a responsible taxpayer a core element of being a responsible member of society. Umeme seeks to pay the right amount of tax on its profits, in the right place, at the right time. While Umeme has an obligation to its customers and shareholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use "tax havens" to reduce its tax liabilities.

Financial overview – conclusion and priorities

In line with our corporate objective we aim to create and deliver sustainable growth in shareholder value. Umeme believes that its strategic framework, opportunities for growth and effective financial management mean it can continue to deliver this in 2018 and beyond. The financial priorities for 2017 and beyond included;

i. Driving profitable growth of the business
ii. Generating sufficient cash flows to finance investments and financing needs of the business
iii. Improving productivity of resources by providing and maintaining adequate working capital to meet business liquidity needs
iv. Mobilizing long term finance to fund the capital investments in the distribution infrastructure for network efficiency, growth and increased grid connections.
v. Providing a fair return to shareholders
vi. Maintaining a strong balance sheet, with robust ratios for retained cash flows and funds from operations.
vii. Providing a sound internal control for the business systems and processes.

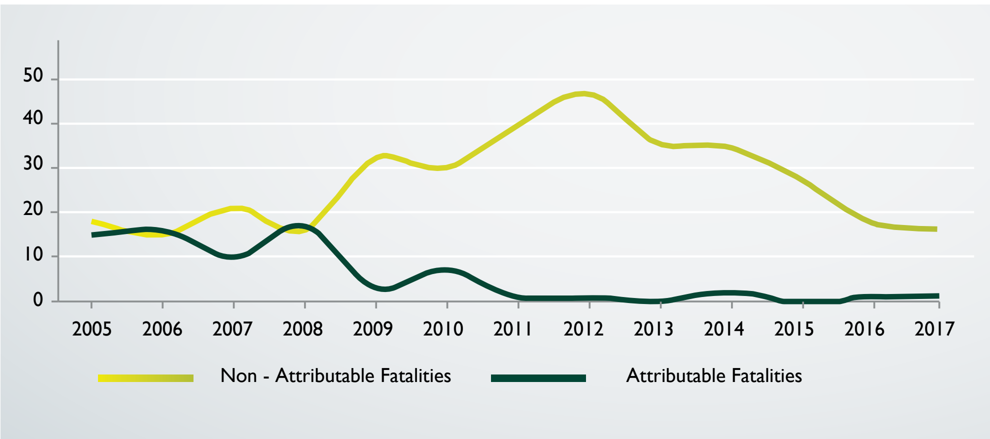
9. Operational Performance Review

Safety and Environment

Safety, Health and Environment

Umeme continues to implement programmes that ensure the safety of staff, contractors and members of the public while cognizant of the fact that its activities do not adversely affect the environment in which it operates. In 2017, Umeme regrettably lost 1 member of the public, a child was electrocuted in Nakaseke when a line fell down under storm conditions and a Contractor staff due to network failure and ORHVS noncompliance respectively. There was a reduction in fatalities attributed to power theft, poor internal wiring, wayleaves violation and network interference from 18 in 2016 to 16 in 2017.

Non - Attributable Fatalities and Attributable Fatalities 2005 - 2017



Staff and Contractor Safety

In 2017, the Safety First campaign was launched as a behavioural safety drive in order to improve the safety culture with in the Company. The theme focused on the 12 steps of safety and included visual and audio messages from the Managing Director and other members of the Senior Management Team reminding staff and Contractors of the need to prioritise safety in all key operations of the Company. It is important to note that rapid expansion of the network and customer connections increases the level of risk among staff and contractors.

Training in Operating Regulations for High Voltage Systems (ORHVS) continued throughout 2017 with over 145 Umeme staff, 244 contractors trained and authorized at various levels of systems operations.

Public Safety

We continued with the public safety awareness programmes on several radio stations across the country with over 3,267 radio mentions, 40 television advertisements, over 3,000 school and community visits to high risk locations. In enhancing safety awareness among primary school safety clubs, electrical safety quizzes were successfully conducted in all safety clubs with a televised safety quiz being held in Mbarara in Uganda.

In the Mbale sub region, an area with high tendency for power theft, a combination of illegal network recovery operations and stakeholder engagements led to a significant decrease in the number of fatalities due to illegal connections from an average 8 annually to 2.

The Company shall continue to implement these safety initiatives to ensure total behavioural change in the community.

Environment

We follow the International Finance Corporation IFC's Environmental and Social Performance Standards. We are glad to note that Umeme continues to comply with these standard, and no significant issues were identified during the year.

The Company continued with its Polychlorinated biphenyls (PCB) in transformer oils testing and elimination programme. Over 1,000 distribution transformers were tested for the presence of PCBs in 2017, with 90% of distribution transformers found to be PCB free. Testing of all transformers will be completed in 2018 and disposal of PCB contaminated transformers will be completed in line with the Stockholm convention target of 2025.

A seven Kilometer concrete pole line was constructed and commissioned in Tororo to supply the newly commissioned Tororo Cement Industries' extended cement plant. This project has provided an avenue to demonstrate the adoptability of concrete poles as a replacement to wooden poles. The sector is facing a challenge of reduction in availability of mature long lasting poles, coupled with environmental degradation.

Customer Service

Customer Experience

Providing excellent service is fundamental in Umeme's business operations. Our customers expect a good experience at each of the touch points, faster response to their service requests, continuous supply of electricity and information around electricity and our products. The business understands the functional importance of electricity in Uganda's economic development, commercial services and household usage.

In 2017, we continued to implement our service improvement initiatives, specifically to improve our digital/online presence, and self-service channels. Using our award winning Umeme Mobile App, our customers are now able to easily access account statements, Yaka! Tokens, information on power outages and even schedule personal alerts for power outages affecting their areas.

WhatsApp continues to grow as an engagement tool of choice for our customers. Manufacturers, Millers, Tea Processors, Welders, Shopping Arcades are some of the different customer groups with unique power needs. We have specifically set up different WhatsApp groups in our local service centres to ensure we reach and meet these unique needs. Through these groups we are able to reach customers and resolve issues faster. We also reap valuable feedback from these groups.

In response to our customers' feedback about delayed resolution of technical complaints, 65 new field engineers were recruited in 2017 to ensure faster resolution of technical faults and to further reduce the time taken to resolve technical faults. In addition, we undertook customer service training for 600 customer facing staff and deployed 35 Customer Service Champions across our business all aimed at improving the quality of interactions with our customers.

We continue to utilise social media as a service channel to get noticed as a bench mark for other organizations. In 2017 we hosted several public/private organizations like Uganda National Roads Authority (UNRA), Ministry of Finance, Kampala Capital City Authority, DSTV Multichoice among others. Through the online conversations we were able to identify the widely misunderstood aspects of our business such as "load shedding" and "Safety over need for light". We hosted a number of social media influencers at our Contact Center where we explained these aspects. Through these engagements we were able to improve our stakeholders' understanding of our business and in so doing foster constructive and accurate discussions on our Facebook and Twitter platforms.

We have received recognition for our good online services. These include Best Brand on Social Media, (Digital Impact Awards Africa, 2017) and Socially Devoted Brand Award, (Social Bakers, 2017)

We conducted 120 radio talk shows during the year in which we had the opportunity to educate our customers about our product and services such as the ease of getting a power connection, billing, prepaid metering and safety.

The Customer Satisfaction Index (CSI) and Net Promoter Score (NPS) are our main measures of customer satisfaction. Our initiatives over the past year have yielded an improvement in CSI to 65% in 2017 from 64% in 2016 and NPS of -5% in 2017 from -25% in 2016 in a survey carried out by Research World International. On the whole, although our customers commended us for the improvements, their 3 main concerns were; price of electricity, information on outages and speed of response to network issues.

Recognized for our good online services.

- Best Brand on Social Media, (Digital Impact Awards Africa, 2017)
- Socially Devoted Brand Award, (Social Bakers, 2017)

Management has taken note of the feedback from customer satisfaction surveys and integrated it into customer service improvement initiatives which among others include:

1. Proactive engagement with our customers and other key stakeholders through various feedback sessions such as site visits to large customers, workshops with various community leaders and a large power user's forum.

2. We will continue to raise awareness about our product and services through various platforms such as our social media pages, radio talk shows and publication of customer education literature with emphasis on illustrated videos.

3. Simplifying the new connection process for manufacturers and processors in order to eliminate any unnecessary delays in the process and provide the necessary technical guidance to this customer segment who are key to our growth agenda.

4. Improve complaints resolution times.

5. Online application for new connections on our Website and Mobile app to further increase convenience to our customers.

6. We will continue to develop our teams' capability to deliver exceptional service through more focused customer service training.

We operate a 24/7 customer contact centre operation that coordinates with the technical field teams

Toll free Lines (0800285285 and 0800385385)

callcentre@umeme.co.ug

Umeme Limited

@UmemeLtd

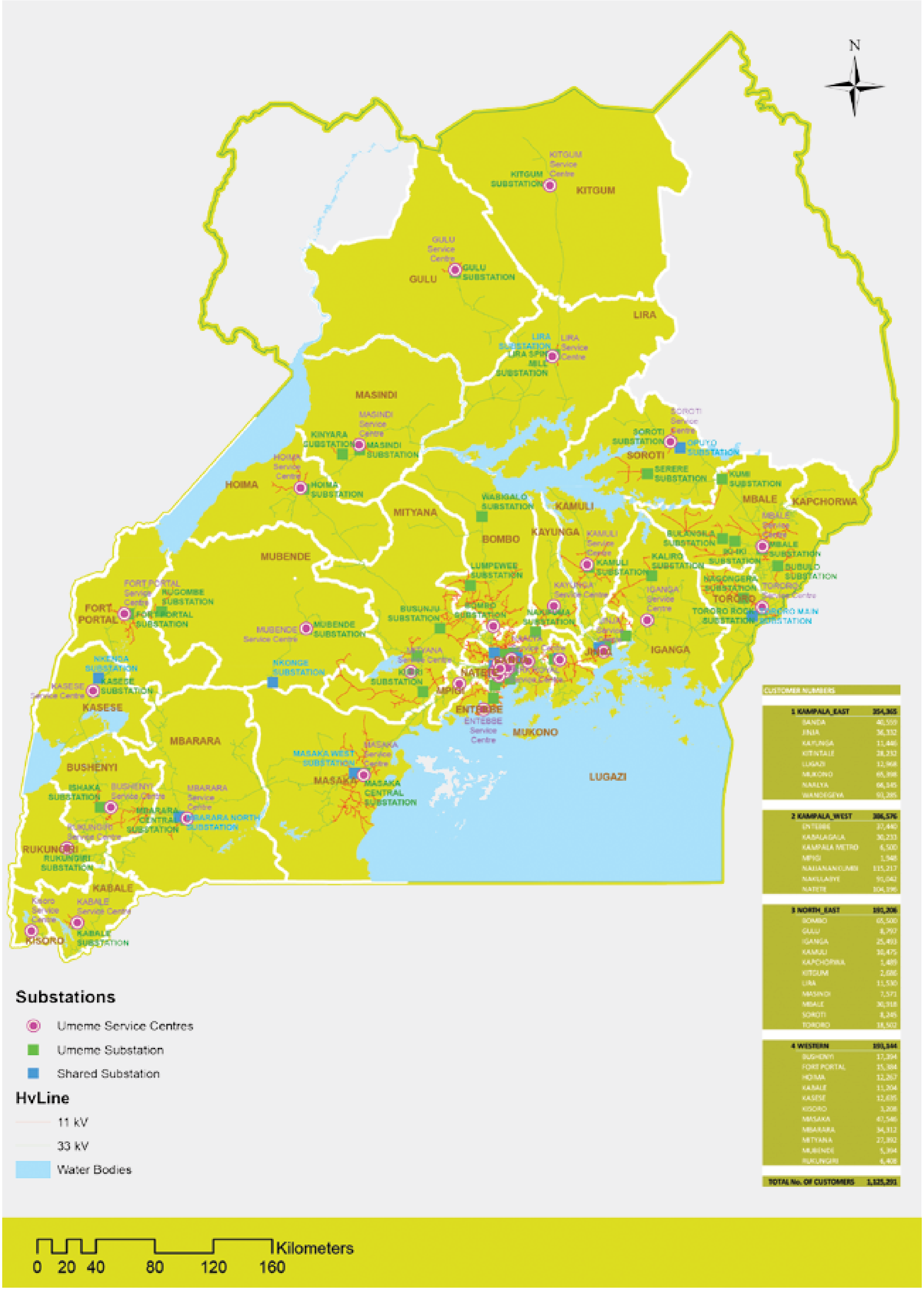
0772 285 285

send sms to 8185 or 8186

0772 285 285

www.umeme.co.ug

Our Network footprint (Service Centres and customers)



CUSTOMER NUMBERS	
1 KAMPALA_EAST	354,365
BANDA	40,559
JINJA	36,332
KAYUNGA	11,446
KITINTALE	28,232
LUGAZI	12,968
MUKONO	65,898
NAALYA	66,345
WANDEGEYA	93,285
2 KAMPALA_WEST	386,576
ENTEBBE	37,440
KABALAGALA	30,233
KAMPALA METRO	6,500
MPIGI	1,948
NALIANANKUMBI	115,217
NAKULABYE	91,042
NATETE	104,196
3 NORTH_EAST	191,206
BOMBO	65,500
GULU	8,797
IGANGA	25,493
KAMULI	38,475
KAPCHORWA	1,489
KITGUM	2,686
LIRA	11,530
MASINDI	7,571
MBALE	30,918
SOROTI	8,245
TORORO	18,502
4 WESTERN	193,144
BUSHENYI	17,394
FORT PORTAL	15,384
HOIMA	12,267
KABALE	11,204
KASESE	12,635
KISORO	3,208
MASAKA	47,546
MBARARA	34,312
MITYANA	27,392
MUBENDE	5,394
RUKUNGIRI	6,408
TOTAL No. OF CUSTOMERS	1,125,291

People are at the centre of our corporate purpose. We attract and recruit the best there is in our market with the potential, skills and experience necessary to propel us to business growth.

Human Capital Development

Human capital

Human Resources (HR) plays an instrumental role in securing the future success of Umeme by creating an environment where employees can thrive and are enabled to deliver sustainable organizational performance. Umeme is an equal opportunity employer with a team of about 1,472 talented staff supplying electricity and delightfully giving care to over 1.1 Million customers spread across our 45 Service Centres in the country.

Recruitment

We attract and recruit the best there is in our market with the potential, skills and experience necessary to execute our mandate and grow the business sustainably. We run a transparent recruitment process focused on roles that drive the business objectives through the organisation structure.

We continue to replenish our talent pipeline with both experienced and fresh graduates through the graduate training programme. We recruited 20 Graduate trainees to the programme in 2017 across the business.

Our structured programme encourages graduates to build on their passions and individual skills. The programme entails structured rotations, challenging assignments, learning and development; experience working on major projects and mentorship by management in their areas of expertise.

Learning and Development

We continue to foster learning as a way of life, encourage creativity, and actively promote and invest in the skill and knowledge development of every employee. One of the key aspects is enabling employees to develop the skills necessary to take up new roles within the organization. We support internal career mobility by identifying redeployment opportunities whilst offering training and development programmes.

Our Learning & Development interventions were executed through but not limited to; on the job training, instructor led training, simulations, role play, behavior modelling among others. For the year 2017, we executed various programmes and the key ones for the period include:

- Personal growth & leadership for over 1000 staff.
- Leadership and management development for over 100 managers.
- Total technicians training program for all newly recruited technicians.
- Customer service training for all front line staff both technical and non-technical.
- Prince2 for managers handling critical projects.
- Basic & advanced metering revenue protection training for metering team
- Data analytics and reporting for over 40 staff
- Operating regulations for high voltage systems for both internal staff and contractors
- Online materials management
- Excel tools and formulas
- OICS, ULTIMA, LCS, MMS, E - power & prepayment training
- Risk assessment training
- Line construction and refresher course on pole climbing
- Transformer installation and maintenance
- Performance management training

A number of staff were also trained on new work systems: Human Resource Management Information System (HR Connect), Team Mate for the internal Audit team among others.

Operational Performance review cont'd

Staff engagement

In December 2017, we carried out a survey to ascertain the level of staff engagement to the business. An "engaged employee" is one that is fully involved, and is always excited about his or her work and thus will act in a way that promotes the company business. The participation rate was 82% of the total staff compliment and the overall engagement score 81 %. Super-engagement is the measure of the extent to which employees are fully committed to our goals, believe in our values and want to give their best effort to our business. The super engagement score was 18 % against a global average of 21%

The leadership index score grew from 73% in 2016 to 76 % of the staff that completed the survey indicating quality and strong leadership in the business. This has largely been due to investment committed into leadership development by the business over the last two (2) years focusing on the middle level management. A total of 75 middle level managers were enrolled to the Franklin Covey Leadership Series over the last two (2) years to develop their leadership skills.

Performance management Index grew considerably in 2017, growing to a favorable rating of 81% from 65 % in 2016. The growth in the performance management index is attributed largely to the creation of clarity in deliverables and accountabilities across the business by management. The business in 2017 clearly identified and focused on the delivery of its Wildly Important Goals (WIG's). These were identified as key areas of focus among all other performance indicators whose achievement would catalyze the achievement of all other business Performance indicators.

Communication in the business improved considerably with a favorable rating of 70 % in 2017 up from 59 % in 2016. This was a net growth of +11 % points across the business.

Management implemented a number of touchdown sessions including the Annual Operating Plan Cascade, WIG and feedback sessions, Staff quarterly business performance reviews sessions for all staff and middle management.

The difference in this seemingly normal process was in the approach where the middle management was given a chance to present and discuss business performance and take feedback from staff other than the Senior Management Team. This was a form of empowerment to middle management and to equip them with the necessary to manage the business now and in the future.

From the staff survey a number of issues were raised for management attention including; review of the remuneration in alignment with market conditions, resources allocation in line with critical areas and more emphasis on staff career development. An action plan to address the issues has been developed and is under implementation.

Reward and Benefits Management

The business continues to reward its staff appropriately consistent with the Company business model, performance by both the Company and individual staff. The business continues to award outstanding staff outside the normal remuneration program and philosophy, anchored on a performance driven reward system. Salaries are adjusted to align with general inflation, while focusing on retention of critical talent.

Staff Performance Management

The business maintains an effective and robust Balanced Scorecard Card performance management system geared to tracking staff performance, correcting performance deviation and supporting talent growth across the business. The performance management system is enabling cascade of performance to the frontline staff. Staff have an opportunity to earn up to 35% of their annual pay, through the annual performance.

Technology Driving Efficiencies

HR Processes Automation

The department in 2017 embarked on the implementation of a key strategic enabler, the Human Resource Management Information System (HRMIS). The HRMIS full suite, when fully operational will automate the HR processes and help the HR function operate more strategically through operationalizing Human Resource self-service to staff while availing the HR Human Capital to strategic aspects of the business management. The system will equally reduce the turnaround time on processing of staff requests, reduce on paper use as well as enable stronger visibility on management of processes like staff Performance management.

Three Phase Smart Prepayment System

A Three Phase Smart Prepayment System that allows for upfront cash collection and reduction in operating costs associated with meter reading and billing, was implemented for all Government of Uganda accounts. It has been implemented to approximately 323 meters and has enabled the Company to improve collection of Government arrears.

A modular Head End System (HES) / AMI system which is the heart of the technology. The HES is integrated with a smart vending system. The HES supports both STS (Standard Transfer Specification) and CTS (Currency Transfer Specification) vending.

The HES communicates to the Smart Meters via the GPRS/GSM platform. The system is being integrated with third party vendors like banks, mobile money platforms and other payment platforms to provide alternative payment options to the customer. Smart three phase meters with capability of switching between the prepaid and postpaid modes.

Geographical Information System

The Geographical information system has been updated up to 400,000 customer locations. The system enables the company trace customer location and has been a great enabler in improving the company's maintenance programme and outage management. The GIS system has been interfaced with the incident management system and fleet management system to allow for quick allocation of incidences based on where the nearest technician is to the incident.

Reduction of Energy Losses

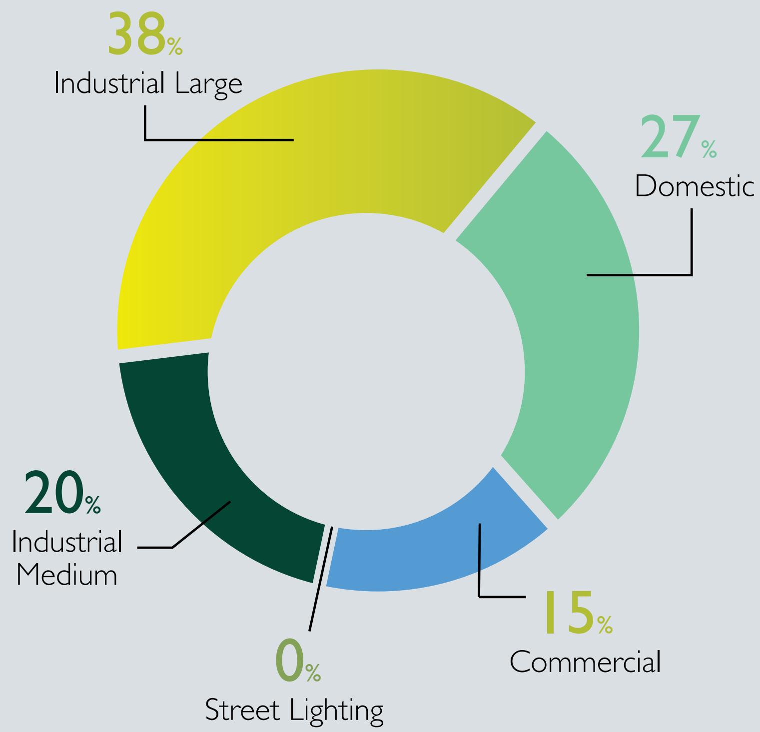
Energy losses are in two forms; technical and commercial loses. Technical losses manifest through changes in energy forms through the distribution network and are minimized through investments in network optimization. On the other hand, commercial losses are related to power thefts, through illegal tapping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

Distribution losses reduced to 17.2% during the year compared to 19.0% achieved in 2016. Whereas the energy losses recorded in the first half of 2017 were 17.5%, losses in the second half averaged 16.9%. The improved efficiency is attributed to heightened efforts to reduce commercial losses throughout our network through continuous metering installation audits, use of technology like smart metering for large consumers and community mobilization.

From the recently concluded network studies on the split of the energy losses, technical and non-technical losses currently account for 10% and 7.2% respectively of the total loss factor. The results of the study are guiding the Company's loss reduction strategy.

Distribution losses reduced to 17.2% during the year compared to 19.0% achieved in 2016.

Revenue Distribution



Revenue Collections

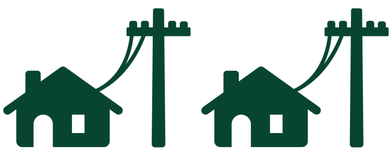
Revenue collection for the year remained strong, with an outturn of 100.2% registered compared to 98.4% during 2016. The key drivers for the performance are improvements in the revenue cycle, increasing penetration of pre-payment metering and debt collection initiatives. The Company has focused on improving customer service and providing multiple payment channels to customers including leveraging existing banking and mobile money infrastructure.

Customers grid connections and growing Electricity Demand

Umeme being the major distributor of electricity in the country plays a major role in ensuring that the population's access to electricity is increased in line with the Government agenda. 174,477 new customers were added to the grid during the year, leading to an increase in the customer base to 1.1 million customers. The company continued to participate in various programs in partnership with the Rural Electrification Agency to execute Government projects that are financed by various development partners that are aimed at increasing access. Umeme was the implementing agency in the following programs:

- The Output Based Aid (OBA) Densification Project; the World Bank funded project, supports provision of free grid connections for the poor households in peri-urban and rural areas. Umeme connected over 102,000 households by 30th June 2017 under OBA, since the commencement of the programme in 2015.
- KFW Densification program; this program is a counterpart funded project by Umeme and KfW through the German government, Euro 7m each for 3 years. The project is targeting customers within a radius of 2km from the existing Umeme network. Eligible households include places of worship, markets and trading centers whose average cost per connection will not be more than $1,200. The process of identifying eligible customers commenced in 2017.
- The Peri urban program; an on-going World Bank funded project through the Ministry of Energy and Mineral development. It is focusing on customers within a 5km radius along the Kawanda-Masaka 132kv Transmission line. 4,623 households were constructed in 2017.

The recently launched the Connections Policy by the Government, outlines the government plans for accelerated grid connections through a combination free connections using third party funds, customer funds or Umeme's own capital output.



174,477
customers were connected in 2017

Electricity Demand and Supply and Network Performance

Electricity demand and supply

The industry continues to grow. Ongoing investments in generation through the construction of Karuma, Isimba and other mini hydro stations, will add over 783 MW to the grid. Umeme is at the centre of ensuring effective distribution of this electricity to the end users.

The industry registered a maximum demand of 597.4 MW compared to 557.4 MW in 2016, reflecting a growth of 7.2%. Electricity sales for Umeme grew by 7.5% in 2017, compared to 4.4% in 2016. We registered 8.0% growth in sales to industrial customers compared to 5.2% in 2016, underpinned by the improved performance of Uganda's economy and improved external market conditions in the neighbouring countries.

Demand by household domestic customers grew by 6.9% compared to 2.6% in 2016, on account of improved supply reliability, reduction in energy losses and additional customer connections.

In anticipation of the above load growth, Isimba 183MW (by Q4 2018) and Karuma 600MW, (by Q4 2019), Umeme developed a network asset investment plan to address the distribution network capacity, improve supply reliability, replace ageing assets and implememnt newer technologies to improve grid efficiency. The plan forecasts an investment of $1.2b by 2025.

Umeme also participated in the Inter-Institutional Committee on Power Sector Planning, which included ERA, UETCL, REA and the Ministry Of Energy. The objective of this committee was to develop an intergrated sector network development plan from Transmission to Distribution that is aligned to the growth in demand and the increase in new generation capacity.

The key focus should be on stimulating demand through ramping up distribution infrastructure in the high demand & growth economic zones of Lugazi, Iganga, Bombo, Entebbe, Mukono, Kampala, Tororo and the major municipalities in Uganda, encouraging growth in value addition commercial enterprises especially in Agriculture and in conjunction with the Rural Electrification Agency, rollout and extend lines to the economically upcoming rural zones. The company will leverage funding from the major donor agencies to complement its capital programme.

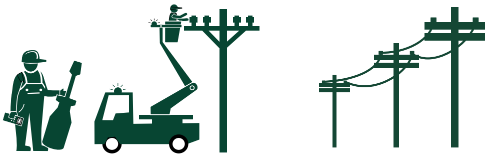
Another key development is the development of industrial parks. Major developments started in 2017 in Kapeeka, Tororo (where three major cement plants are coming up) and the continued development of Kampala Business Industrial Park to meet the growing industrial demand in Mukono. In addition, other industries are setting up in the Bombo-Wabigalo corridor and the other upcoming SMEs. All these are expected to have an impact on the economy. Necessary distribution infrastructure is being put in place to support this industrial growth and to improve supply reliability.

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

Networks performance

One of Umeme's primary role is to maintain, reinforce and extend the distribution network. Umeme invested USD 65.4m in the maintenance and expansion of the distribution network that led to improvement in the network performance compared to the previous year.

- Average customer outage frequency improved from 80 in 2016 to 75 in 2017
- Average customer outage hours improved from 150 hours in 2016 to 114 hours in 2017
- Average fault restoration time improved from 24 hours in 2016 to 16 hours in 2017
- Energy not supplied improved from 150 GWhrs in 2016 to 132 GWhrs in 2017



USD 65.4M

Invested in the maintenance and expansion of the distribution network in 2017

Capital Investments in Grid Expansion and Improvement

Below are some of the company's key projects that have or will significantly improve the quality and supply of electricity in the areas invested in;

Umeme powers businesses, industries in Kasese

The Company invested a new 33kv/11 KV,2*15/20 MVA substation at Nyakesi in Tororo to meet the anticipated demand growth from the newly constructed Hima cement factory ,National cement company Limited and other potential establishments in the industrial park. The investment will put an end to incessant outages, which often meant no business or costly business whenever companies have had to rely on emergency generators.

Hima Cement, the biggest power consumer in Kasese, stands to get better and more reliable power supply following the investment of USD 3.8m including a US 2.7m (about Shs. 10bn) into the power evacuation infrastructure.

It is not only big businesses like Hima that stand to benefit. SMEs and micro small businessowners for example, shop keepers, saloon owners also stand to benefit from the investment. One of the beneficiary in owning a shop in Hima said, "Infrastructure that would guarantee constant power supply, would be the best news".

Nkufu Lingola of Rwenzori Youth Skills Development Association, which deals with welding, metal fabrications and fitting and machining of doors, windows, glasses among others at Maliba Trading Centre in Maliba Sub-county had the following to say "We are an electric-power business," Nkufu said, "When there is no electricity, we close and go for other things and yet lately, business is booming due to the increased construction of permanent houses in the area. The only missing link has been stable power"

Umeme is also upgrading the distribution infrastructure in the Kasese. Umeme is building three switching yards. The switching yard at Kibito shall receive power from Nyabhuka and Nsongya mini hydros and channel it to the bus bar at Rugendabara. Then the switching yard at Rugendabara will receive power from Kibito switching station as well as Rwimi, Nyakaka and Nyamba mini hydros and evacuate it to Nkenda substation bus bar, Hima switching yard and to customers on the existing 33kV Nkenda-Fort Portal line.

And the switching yard at Hima will receive power from Rugendabara as well as the existing feeder (Hima) from Nkenda substation and supply Hima Cement factory through Hima 1 feeder.

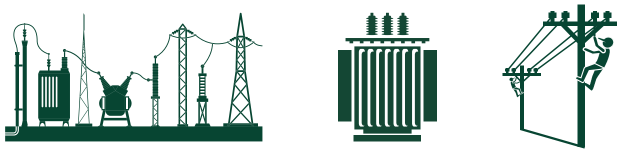
All these works are intended to enable evacuation, integration and distribution of the power from the different generators.

Umeme upgrades Lira substation

USD 1.37m (Approx.Sh5Bn) investment by Umeme into the Lira main substation will stabilize power supply in the greater north. The Lira substation is the main distribution point for power in greater north, that is, Lira, Kitgum, Apach, Masindi and surrounding areas.

The new works on the project have involved the replacement of six switch gears and installation of three new switch gears to provide for distribution of more power expected from Karuma and Ayago power dams.

Umeme also refurbished all the lines; Lira-Gulu; Lira-Spinning Mills; Lira Lake Kwania; Lira-Apach-Masindi. Lira-Kitgum



USD 65.4M

In Capital Investments in Grid Expansion and Improvement in 2017

is also expected to be done.

The works which lasted the whole year were meant to overhaul the equipment at the substation, which had deteriorated and were causing faults and power outages.

Jacob Ogwang, a businessman who operates an internet café along Obote Avenue said he has to use a generator to run his business whenever power goes off. That is problematic as it increases his costs of doing business. He has another problem—some of his other electrical appliances cannot run on the generator.

"When there is less power, it means I will not be using all my computers, so I make less money," said Ogwang

The investment in the Lira substation is intended to among others, cater for expectations of such power consumers, according to the project manager.

Mukwano Industries, the whole of Gulu, the whole of Kitgum, the whole of Lira town, will now be served in a much better way, the project manager added.

Kakiri power to boost emerging industries

With all the industries emerging within Kakiri in Wakiso district, the area is increasingly an emerging industrial hub and as such, the existing power source and an existing Kawanda power line, which has existed for the last 30 years, could no longer cater for the growth of electricity demand.

Designed for a load of 3-4MWs, the line was being loaded with over 6 MWs, which was causing faults, technical losses and unstable supply.

The 5MVA at Kawanda substation was dedicated to feeding Kawanda Kakiri 11 kV feeder and the loading was 108%.

The Busunju - Kiziba, and Kawanda - Kakiri feeders have been unacceptably long feeders at 190km and 119km respectively and still growing both in terms of load and length.

This was resulting into monthly 36% and 42% average losses on Kiziba and Kawanda respectively, with 26.4% technical losses on Kakiri feeder according to a loss study.

To address these problems, Umeme invested USD 900,000 (Approx. SH3.4Bn) to upgrade the line itself and the source of its power to enable stable supply of quality power for the emerging industries.

Umeme has re-conductored Kawanda - Kakiri feeder to AAAC150, ACSR100 and upgraded the existing 5MVA and 10MWA transformers to 10/14MVA and 15/20 MVA respectively.
In addition, other lines like Namulonge and Kawempe lines will also benefit from the above upgrades.

Availability of stable power will motivate more people to do business and promote growth. The line serves between 15,000-20,000 customers with some of the biggest customers including the Kakiri Army Barracks and Zhongkhai factory, which consumes over 20% of the load.

The works on improving the Kakiri service area also included; installation of 11 kv bay, Bus coupler, and a 33kv Bay and the associated civil works. The entire substation has been refurbished. A new plant house has been built to accommodate new switch gear to work hand in hand with the new transformers.

Operational Performance review cont'd

USD 1.47M

Investments in Ishaka Substation

Umeme's Ishaka substation revamped

Ishaka municipality is a rising economic power house in the western Uganda district of Bushenyi. However, incessant power outages have been undermining economic activity which led Umeme to invest USD 1.47m (Approx. Shs5.4Bn) in the Ishaka substation to address these challenges.

The new works to improve the substation included; re-designing the substation to allow for future expansion; constructing a plant/control house at the substation to house the switchgear, metering equipment, DC system and SCADA; installing indoor switchgear for both 33kV and 11 Kv; installing AC and DC auxiliary systems and laying underground cables to decongest the substation. The new system is also intelligent; it allows us to isolate the faulty part and investigate where the problem is without disrupting other lines.

Ambrose Nuwagaba, the news editor and also an acting station manager said electricity load shedding in the town greatly affects their operations as a young radio station.

"As you may be aware," Nuwagaba said, "the prices of fuel have risen which makes the situation worse for us." Without giving figures, Nuwagaba revealed that power black-outs double the station's cost of operation. Other businesses have suffered the same fate.

Other sectors like education were also getting affected. The western branch of Kampala International University (KIU) a major institution with thousands of students was severally having to rely on generators.

Yet this western campus is the echelon of its science courses including medicine and surgery.

It houses the University's teaching hospital (KIU Teaching Hospital) which carries out operations and thus a constant power supply brings major relief to the management and students of this institution.

Ishaka is also a town that has sprouted from the growth of tea in its periphery. It is only timely that the tea estates also benefit from this boost of power.

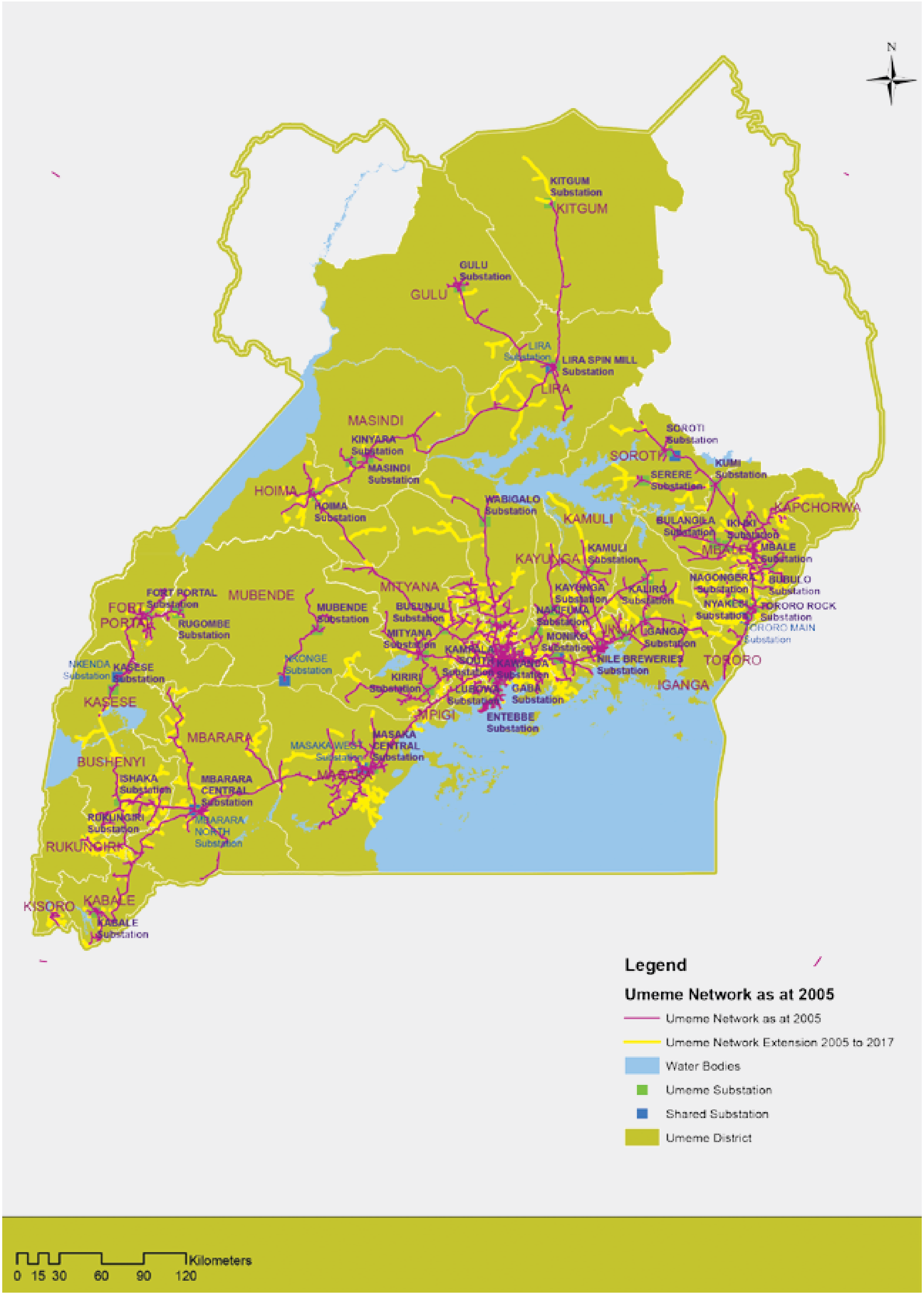
There are at least five tea companies; Igara, West Ankole, Swaziland, Global and Kyamuhunga Tea companies.

All these deal with processing of tea, a business where electricity is neither a luxury nor an option but a necessity for them to keep in business.

According to Julius Bbossa, an administrator at Kyamuhunga Tea Company, they are only looking forward to steady power supply.

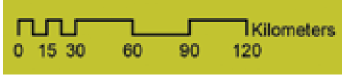
While the works are in Ishaka, other consumers like Kanungu Tea Growers, located far off in Kanungu district also stand to benefit because the lines to the area are connected to the Ishaka substation.

Our Network Expansion (2005 -2017)



Our Network footprint (Substations, Lines, Transformers)

ITEMS/REGIONS	KAMPALA EAST	KAMPALA WEST	NORTH EAST	WESTERN	TOTAL
1) SUBSTATIONS	14	11	20	13	58
2) TRANSFORMERS	3110	2633	2950	3166	11,859
3) HV LINE (Kms)	2431	1372	5060	5160	13,933
4) LV LINE (Kms)	4875	3621	5180	5755	19,431



SAY NO TO BRIBERY

No staff/contractor is allowed to recieve money on behalf of Umeme

A sustainable business is one whose success is enduring. At Umeme we believe that long term success comes only by participating fully in the communities within which we operate.

Corporate Social Investments

Social and Relationship Capital

In pursuit of its key focus areas, Umeme collaborated with Non-Governmental Organizations (NGOs), local government and other institutions to address the most pressing issues that affect communities. Some of the notable partners in 2017 include;

- The Hinds Feet project
- Uganda Timber Growers Association
- Mbale local government
- Kasangati Town Council
- The Association of Surgeons of Uganda
- Uganda Youth and Women's Effort Fighting HIV/AIDS

Our corporate social investments for the year included:

Environmental conservation

The Launch of the U-Green Tree planting initiative in 2016 saw Umeme opt to participate in greening the environment considering that one of Umeme's materials is poles. We partnered with Uganda Timber Growers Association (UTGA), an independent private sector association for commercial timber growers in Uganda to drive further tree planting with our staff. Through the **"Think Green! Plant a Tree!"** Campaign one thousand four hundred and eight fruit tree seedlings were distributed to staff for planting at their respective homes.

We shall continue to explore partnerships related to tree planting and awareness around environmental protection, for our further participation.

Health Camps in Bugisu Region

Umeme in partnership with The Hinds Feet Project, a local NGO focused on making health information accessible to all through a vibrant volunteer program, organized two Health camps in Mbale and Sironko Districts. This initiative offered broad based health services that included dental care, antenatal care, eye care, general medical care, cancer awareness, laboratory services, HIV testing and counselling, family planning nutrition, children care and minor surgeries. Over 2,500 people got free medical attention at the camps.

Annual Surgical Camp – Busoga region

In partnership with the Association of Surgeons of Uganda (ASOU), the Annual Surgical Camp in Busoga Sub region was held in August 2017. The camp attracted participation from Jinja Regional Referral Hospital and other surrounding hospitals and Health Centre IVs in the Region. The Association attended to over 5000 community members and performed at least 100 surgical operations of varying complexity, free of charge.

Sanitation Drive in Kibuli

Sanitation is one of the social issues that the urban poor are faced with and without addressing this, the community is vulnerable to diseases. Under the health and safety umbrella, Umeme collaborated with the local leadership in Kibuli (Mabikke zone) slum to renovate one of the public lavatories that serves over eighty families.

Hope Ward Initiative

Umeme partnered with the International Hospital Kampala and the International Medical Foundation to collect funds to support lifesaving surgeries for new borns with defects under the Hope Ward initiative. The Hope Ward Initiative handles complex treatment and surgery for the disadvantaged who cannot afford.

1,408

fruit tree seedlings were distributed during the 2017 March-May rainy season giving each staff and their family members an opportunity to actively participate in protecting their local environment.

Sickle Cell drive – Kabaka's run

Umeme in partnership with Airtel Uganda and other companies took part in the Annual Buganda Kabaka's run in a fundraising drive for sickle cell treatment. Sickle Cell, a blood disorder disease, is not understood clearly and the run was meant to create this awareness including reassuring the affected community that a sickler can live a full life. Uganda shillings one hundred and ten million was collected towards the cause.

Employee Community Participation

In our journey towards sustainability, it is only proper to engage our staff in community initiatives and the global issues that impact society. During our Health camp initiatives in Mbale, employees participated voluntarily to give a smile to the less privileged. The power of teamwork and collaborative working has given the Umeme Brand a new face in Mbale. A caring Brand!

In commemoration of the World Aids Day, employees reached out to underprivileged HIV/AIDS single mothers supported by the Uganda Youth and Women Effort Fighting Aids (UYWEFA), a Community Based Organization in Kazo-Wakiso District.

Through an Internal fundraising Drive, staff made financial donations for the purchase of food items that included Maize Flour, Rice, Cooking oil, Beans and Soya which were handed over to the beneficiaries during the festive season.

For the disadvantaged communities of Budadiri and Bugisu in Mbale, our employees contributed clothes, shoes, beddings and these items were distributed to the beneficiaries during the Health camps that were held in May and August respectively.

To support our employees' passion to make a difference in the communities we serve while shaping their overall employee experience, the CSR champions approach was adopted.

Through the Districts CSR Champions, staff now have an opportunity to identify issues that are affecting their local communities or that present risks to the brand and propose CSR Projects to address them.

The Bombo District Office team through their CSR Champion identified the need to paint a zebra crossing and sensitization of Boda boda Riders to promote Road safety in Kasangati, one of the busiest trading centers in their local community.

The Internal Audit Team responded to this cause and championed the Zebra Painting Exercise, distribution of Reflectors Jackets to Boda boda Riders and sensitizing the community on Electricity safety.

This activity created visibility for the brand especially the new office that had just been opened in Gayaza serving Kasangati and the neighboring communities. Umeme is dedicated to driving the staff volunteering agenda forward. Championing a culture of giving increases employee involvement and fosters staff enthusiasm to create meaningful change in the communities that our local offices serve. Involvement in community initiatives makes staff take pride in their brand which translates to better engagement and networking including appreciation of each one's contribution to the success of the brand.

Education

Umeme participated in the NSSF Hash 7 Hills Run in a partnership between NSSF and KCCA to support the renovation of public schools under KCCA.

Electricity Sector

Umeme continues to participate in a number of sector initiatives including the energy week, future energy Uganda and sector development programmes.

Regulatory Developments

Regulatory updates

During the year of 2017 (12th May 2017), Electricity Regulatory Authority (ERA) amended the Umeme Supply license number 48, related to growth revenues. The details of this amendment are disclosed under note 3(a) of the financial statements.

As disclosed in the 2017 interim financial results, the Company has reconciled the cumulative amounts of actual power supply costs incurred for the period January 2010 to December 2017 against related billing revenues during the same period. The outstanding claim net of amounts allowed in the 2018 tariff computations stands at Ushs 47.3 billion (USD 13 million).

As disclosed under note 16, we continue to record lags in approvals of investments for tariff purposes. Up to USD 94m of cumulative investments to 2016 are yet to be approved. The Company continues to engage the regulator to ensure the amounts are approved and included in the tariffs.

Tariffs

The Electricity Regulatory Authority publishes quarterly tariffs based on the Tariff Methodology. The applicable tariffs for the different quarters can accessed on www.umeme.co.ug and on the ERA website.

Tariff regime

The existing tariff parameters will come to an end in 2018 and the Company has commenced negotiations with ERA for the new performance targets for period 2019 - 2025. The engagements with ERA are projected to conclude by November 2018, ahead of the 2019 tariff year.

Concession tenure

The existing concession is due to expire in 7 years' time and has an option for extension. Given the current financing needs for investments in the distribution infrastructure, a long term contract is paramount. We shall continue our engagements with Government to explore options to achieve this objective, while addressing key sector strategic issues.

10. Corporate Governance Report

Corporate Governance

Umeme Limited is a public company with dual listings on the Uganda Securities Exchange and the Nairobi Securities Exchange. Through the listing rules and capital markets requirements, the company is obliged to comply with the relevant laws and corporate governance codes. The Company operates in a highly regulated environment and is fully committed to complying with the provisions of the Companies Act - Uganda, the Capital Markets Corporate Governance Guidelines, the Uganda Securities Exchange Listing Rules, the Code of Corporate Governance Practices for Issuers of Securities to the Public - Kenya and all attendant applicable regulations. The Company is continuously seeking to monitor, adopt and apply best practices to ensure the cardinal areas of accountability, transparency and fairness.

Board of Directors

Structure

Sitting at the top of the governance structure is the Board of Directors (the "Board"). The Board shoulders the primary responsibility of offering strategic guidance and continuity of the Company's business while ensuring shareholder value and responsibility to the Company's key stakeholders.

The Chairman of the Board is an independent and non-executive director. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman of the Board is separate and distinct from the Managing Director.

The directors continue to be mindful and appreciate their fiduciary duty to act in the best interests of the Company and accordingly discharge their duties independently. The directors, particularly through the various Board sub-committees, routinely engage and guide Management in the execution of its duties.

Composition

The Board comprises a majority of non-executive and independent directors with a balance between resident and non-resident directors. The current composition represents an enviable mix of skill, knowledge and experience which are integral to the successful operation of the organisation. The directors' profiles and competencies can be seen on pages 8-13.

Board Terms of Reference

The Company has in place a Board Charter which 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 the directors as individuals. The Board Charter is complementary to the existing laws and regulations governing the Company.

The Board have access to the services and advice of the Company Secretary whose duty it is to ensure that the Board observes ethical, open, honest and transparent behaviour in accordance with good corporate governance and best practice. All Company information is available to the directors upon request.

The Board is tasked with amongst others;

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

The above is in no way exhaustive and the Board strives to ensure that it remains flexible to adapt to changing trends and developments in corporate governance.

Managing Director

In keeping with its mandate the Board appointed a Managing Director who continues to handle the day to day management of the Company. This is premised on the Boards delegation of authority for the performance and implementation of the strategic plan of the Company The Managing Director and the other two Executive Directors report to the Board on a quarterly basis and more frequently where necessary depending on the urgency of the case.

Board Induction and Training

Members of the Board once appointed undergo a comprehensive induction process which involves amongst others site visits and meetings with senior management to enable them to build up a detailed understanding of Umeme's business and strategy, and the key risks and issues which it faces. The also receive copies of the Terms of Reference for the Board Sub Committees and a copy of the Board Charter.

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

The Board underwent a training session in November, 2017 on amongst others their obligations under the USE Listing Rules and developments in corporate governance.

Board Evaluation

The Board acknowledges the need to continually assess and improve its effectiveness and process. In accordance with its Board Charter the Board reviewed its last evaluation and is continuously working to implement the proposals arising from the evaluation. The Board will be conducting another Board evaluation later in the year in light of the revised Committee compositions.

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 and then forwarded to the Board,.

Board and Management engagement

The Senior Management Team (SMT) and the Board interact regularly both at Board and Committee meetings and whenever called upon. 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 and when called upon from time to time, the Board receives information and reports from Management and where such information is deemed insufficient or inconclusive, Management is requested to provide additional information and or clarifications.

Appointment, resignation, removal of directors

The appointment, resignation, retirement and removal of directors is governed by the Companies Act, 2012 and the Company's Articles of Association with the active involvement of the Nomination Committee.

The 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 of the Company.

The Directors are appointed by shareholders at annual general meetings (AGM) but interim appointments by the Board to fill vacancies or otherwise are allowed in between AGMs. These appointments are then subject to rotation at the next AGM following such director appointment. Before considering and selecting directors, the Board through the Nomination Committee, considers the requirements of the Board and the Company in terms of skills, experience, knowledge, relevance, strategic goals and selects those individuals whose skills, experience, relevance, knowledge complement those already on the Board and further atune the Company to attainment of its strategic goals.

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

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

Appointments:

1. **Andrew Buglass** - Non- executive director with effect from the 20th June, 2017
2. **Anthony Marsh**- Non- executive director with effect from the 20th of June, 2017
3. **Stephen Emasu -** Non- executive director with effect from the 15th April, 2018
4. **Riccardo Ridolfi -** Non- executive director with effect from the 15th April, 2018
5. **Pius Bigirimana -** Non- executive director with effect from the 15th April, 2018

The above nominations were considered and recommended by the Nomination Committee to the Board of Directors who considered the same and approved them.

Resignations:

1. **Stuart David Michael Gryllis** with effect from the 20th June, 2017
2. **Christopher Nicholson** with effect from the 12th December, 2017

Declaration of Interests

The Company Secretary is required to ensure that no conflicts of interests in contracts in which a director has interests arise. All directors are required to disclose their interests in any company, matter, contract or engagement. No interest in any contracts directly or indirectly with the Company were recorded in the last year.

Board Committees

To ensure efficiency within the governance structure and in line with the provisions of the applicable listing regulations there are established Board Sub-Committees with clear terms of reference and reporting requirements. The Committees meet independent of the Board and prior to the substantive Board Meeting. The Committees are substantially composed of and chaired by Non- Executive members. These Committees have been supported by the Company Secretary in the performance of their functions.

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

At the end of each year, the Board with the assistance of the Company Secretary sets out and agrees on its board calendar for the next year. These meetings are scheduled and held at least once every quarter. Ad hoc meetings and or meetings by conference call are held when the circumstances or the urgency of the matter dictates. Directors are provided with detailed papers and reports well in advance of the meetings. Additional information is also provided by Management as and when requested for. Resolutions of the Board are ordinarily made by way of written resolutions however the Board and its committees can make decisions by way of circular resolutions or round robin approvals. Where such resolutions are made it is customary to hold a Board call to receive a briefing and discuss the matter requiring the circular resolution. For more effective utilisation of board meeting time, the Board is briefed by Management prior to each Board meeting. The minutes of the meetings are signed and kept in the Minute Register. The record of attendance is well documented and kept in the Attendance Book.

The attendance of Board meetings in 2017 was as follows:

Director	29.03.17	29.06.17	31.08.17	30.11.17	12.12.2017
Patrick Bitature	√	√	√	√	√
Pieter Adriaan Faling	√	√	√	√	√
Charles Chapman	√	√	√	√	√
Stuart David Michael Grylls	√	X	X	X	X
Adrian Mucalov	AD	X	X	X	X
Christopher Nicholson	√	√	√	A	√
Samuel Zimbe	√	√	√	√	√
Florence Nsubuga	√	√	√	√	√
Gerald Ssendaula	√	√	√	√	√
Selestino Babungi	√	√	√	√	√
Florence Namatta Mawejje	√	√	√	A	√
Andrew Buglass	N/A	√	√	√	√
Anthony Marsh	N/A	√	A	A	√

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

Board Committees

Audit Committee

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

Composition:

- Christopher Nicholson (Chairperson) appointed on 11 August 2015 and resigned on the 12th December, 2017
- Andrew Buglass (appointed as Chairperson on the 12th December 2017)
- Anthony Marsh
- Gerald Ssendaula
- Adrian Mucalov (resigned on the 29th March 2017)
- Stuart David Michael Grylls (resigned on the 20th June 2017)

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 seven times in 2017. As well as holding the meetings above, the committee met offsite with senior management, the Head of Internal Audit and the External Auditor in November 2017 to inventory and discuss risks affecting the business, controls, accounting and fraud. The results of the 2017 external audit were discussed in March 2018.

The attendance of Audit Committee meetings in 2017 was as follows:

Director	16.03.2017	28.06.2017	01.08.2017	10.08.2017	29.08.2017	25.09.2017	29.11.2017
Stuart David M. Grylls	√	X	X	X	X	X	X
Adrian Mucalov	A	X	X	X	X	X	X
Christopher Nicholson	√	√	√	√	√	√	√
Gerald Ssendaula	√	AD	A	A	√	A	A
Andrew Buglass	N/A	N/A	√	√	√	√	√
Anthony Marsh	N/A	N/A	√	√	A	√	A

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

Environmental, Social and Governance (ESG) Committee

Composition:

- Pieter Adriaan Falling (Chairperson) appointed on 30th October 2015.
- 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.

The Committee met four times in 2017.

The attendance of ESG committee meetings in 2017 was as follows:

Director	27.03.2017	27.06.2017	30.08.2017	29.11.2017
Pieter Adriaan Faling	√	√	√	√
Charles Chapman	A	√	√	√
Florence Namatta Mawejje	√	√	√	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
- Anthony Marsh (appointed to the CSLR on the 31st August 2017)

The Committee's responsibilities include:

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

Four meetings were held in 2017.

The attendance of Customer Service and Loss Reduction Committee meetings in 2017 was as follows:

Director	16.03.2017	28.06.2017	29.08.2017	29.11.2017
Gerald Ssendaula	√	AD	√	√
Pieter Adriaan Faling	√	√	√	√
Sam Zimbe	√	√	√	√
Florence Nsubuga	√	√	√	√
Selestino Babungi	√	√	√	√
Anthony Marsh	N/A	N/A	A	A

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

Remuneration Committee

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

Composition:

- Christopher Nicholson (Chaiperson) resigned on 12th December 2017
- Andrew Buglass (Chaiperson) appointed on 29th March 2017
- Stuart David Michael Grylls resigned on 28th March 2017
- Florence Namatta Mawejje
- 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 on page 128

Four meetings were held in 2017.

The attendance of Remuneration Committee meetings in 2017 was as follows:

Director	28.03.2017	30.08.2017	19.11.2017	13.12.2017
Stuart David Michael Grylls	√	N/A	N/A	N/A
Adrian Mucalov	A	N/A	N/A	N/A
Christopher Nicholson	√	√	√	N/A
Andrew Buglass	N/A	√	√	√
Florence Namatta Mawejje	N/A	√	A	√

√ = Attendance; A = absent with apology; N/A = not yet appointed.

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:

- Patrick Bitature (Chairperson)
- Stuart David Michael Grylls (resigned on the 20th June 2017)
- Gerald Ssendaula
- Pieter Adriaan Faling (appointed to the Nomination Committee on the 31st August 2017)

The Committee's responsibilities include:

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

The Committee is also tasked with reviewing succession plans for the SMT and was actively involved in the selection and appointment of the new executive directors. In line with its mandate to hold at least one meeting a year, the Committee held four meetings in 2017.

The attendance of the Nomination Committee in the year 2017 was as follows:

Director	15.03.2017	29.06.2017	29.08.2017	27.11.2017
Stuart David Michael Grylls	√	X	X	X
Patrick Bitature	√	√	A	A
Gerald Ssendaula		√	√	√
Pieter Adriaan Faling	N/A	N/A	√	√

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

Strategic Review Committee

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

Composition:

- Charles Chapman (Chairperson)
- Patrick Bitature
- Stuart David Michael Grylls (resigned on the 20th June 2017)
- Samuel Zimbe
- Selestino Babungi
- Anthony Marsh (appointed to the SRC on the 31st August 2017)
- Andrew Buglass (appointed to the SRC on the 31st August 2017)
- Christopher Nicholson (appointed to the SRC on the 31st August 2017)
- Florence Namatta Mawejje (appointed to the SRC on the 31st August 2017)

The Committee's responsibilities include:

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

In line with its mandate to hold at least one meeting a year, the Committee held seven meetings in 2017.

The attendance of the Strategic Review Committee in the year 2017 was as follows:

Director	15.03.2017	28.03.2017	28.06.2017	30.08.2017	10.10.2017	28.11.2017	1.12.2017
Charles Chapman	√	√	√	√	√	√	√
Stuart David Michael Grylls	√	√	X	X	X	X	X
Patrick Bitature	A	A	√	A	A	√	√
Samuel Zimbe	√	√	√	√	A	√	√
Selestino Babungi	√	√	√	√	√	√	√
Anthony Marsh	N/A	N/A	N/A	A	√	A	A
Andrew Buglass	N/A	N/A	N/A	√	√	√	√
Christopher Nicholson	N/A	N/A	N/A	√	√	√	A
Florence Namatta Mawejje	N/A	N/A	N/A	√	√	A	A

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

Company Secretary

In accordance with the Articles of Association and the Board Charter the Company has a Company Secretary whose duties are to ensure that the Board remains cognisant of its fiduciary duties, responsibilities to conduct the induction of new directors, coordinate Board trainings and maintain Board and Company records. All directors have access to the services of the Company Secretary. The Company Secretary function is currently outsourced to Shonubi, Musoke & Co Advocates who are empowered to play their pivotal role in the Company's corporate governance framework.

Succession Planning

The Board's commitment to succession planning given the current tenure of the directors continued in 2017 with directors being tasked to propose names of suitable future directors or identify shareholders and stakeholders from whom suitable future directors may be considered. This process is still ongoing. The Board remains confident that its succession planning and talent management strategy will ensure continuity of the Company's business in the long term.

Shareholder relations

It is a cardinal principle of good corporate governance to ensure transparency and fairness. The Board is mindful of this and ensured that adequate information regarding its operations was disclosed to its shareholders and the general public at the same time. The Company continues to make information available on its website and upon request. All shareholders are encouraged to attend the AGM.

The Company notably through its Investor Relations Manager routinely holds meetings or calls with its Institutional investors to discuss performance and governance matters at the very least following the publication of periodic reports. These investors also 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 Company engaged CnR Registrars, Share Registrar to handle day to day shareholder register issues. Dividends, when declared, are paid on time. A dividend of Ush 7.6 per share approved by the Board on 22nd March 2017 and will be paid to eligible shareholders on or about 6th July 2018.

Stakeholder engagement

The Board continues to be mindful of its mandate to ensure that it maintains constant and engaging relations 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.

During the year, several stakeholder engagements took place and some of the key events are highlighted on pages 6-7 of this Annual Report.

Dealing in securities of the Company

The Company has a Prohibition of Insider Trading Policy whose purpose is to ensure that dealings in the Company's shares by directors, major shareholders, contractors, senior management, employees in critical roles with access to sensitive information and their related parties, are conducted in an ethical manner that does not prejudice other current and prospective investors of the Company. The policy is strictly applied. Under the policy, certain employees and directors are prohibited from trading in the Company's shares during closed periods. None of the directors has breached this policy.

Related Party Transactions

Other than disclosures given in Note 36 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.

11. Risk Management

Enterprise risk management

Risk relates to the effect of uncertainty to the achievement of our corporate objectives.

Umeme Limited recognizes that risk is an inherent factor in all our strategic and business initiatives and that effective risk management is a fundamental enabler that informs business decisions for the achievement of our objectives. As such, our risk oversight and management practices, guided by the ISO 31000 framework, are integrated with our strategy development and execution.

Our risk management approach

The Board of Directors has the overall oversight responsibility for the Company's risks. The Board Audit Committee, under delegation from the Board of Directors, periodically reviews and approves the company's risk management initiatives and risk profiles. The Senior Management Team is responsible for the effective management of day to day opportunities and threats within their processes. The Senior Management Team demonstrates this commitment by embedding risk management principles in strategic and business plans as well as enabling an appropriate risk-aware culture among staff.

Key risk considerations

The risks to the delivery of our objectives are categorised as follows:

- Strategic risks: Untapped opportunities and uncertainties embedded in our strategic intent and how well they are executed;
- Financial risks: The probability that the company may be unable to provide adequate stakeholder returns;
- Compliance risks: Exposures to penalties and/or material loss the company faces when it fails to act in accordance with industry laws and regulations;
- Operational risks: Exposures arising out of breakdowns in internal procedures, people and systems; and
- Reputational risks: Exposures resulting from damages to our corporate image.

Our risk management process

Risks are identified and managed both at the strategic and operational levels.

Strategically, risk factors are considered during the formulation of annual targets and strategy. Continuous reviews are undertaken to ensure controls are effective and emerging opportunities and threats to the strategy are proactively identified and managed.

Similarly, all departments periodically perform operational risk assessments throughout the year in response to the ever-changing environment in which we operate.

Once identified, the risks are evaluated and prioritized based on the likelihood of occurrence and impact to the business objectives if they occur. Risk controls are then evaluated and mitigation plans are put in place to manage residual risk exposures, with focus put on the most significant risks.

Enterprise-wide significant risks are consolidated and tracked through a corporate level risk register which is updated and reviewed by the Senior Management Team and the Board Audit Committee on a quarterly basis.

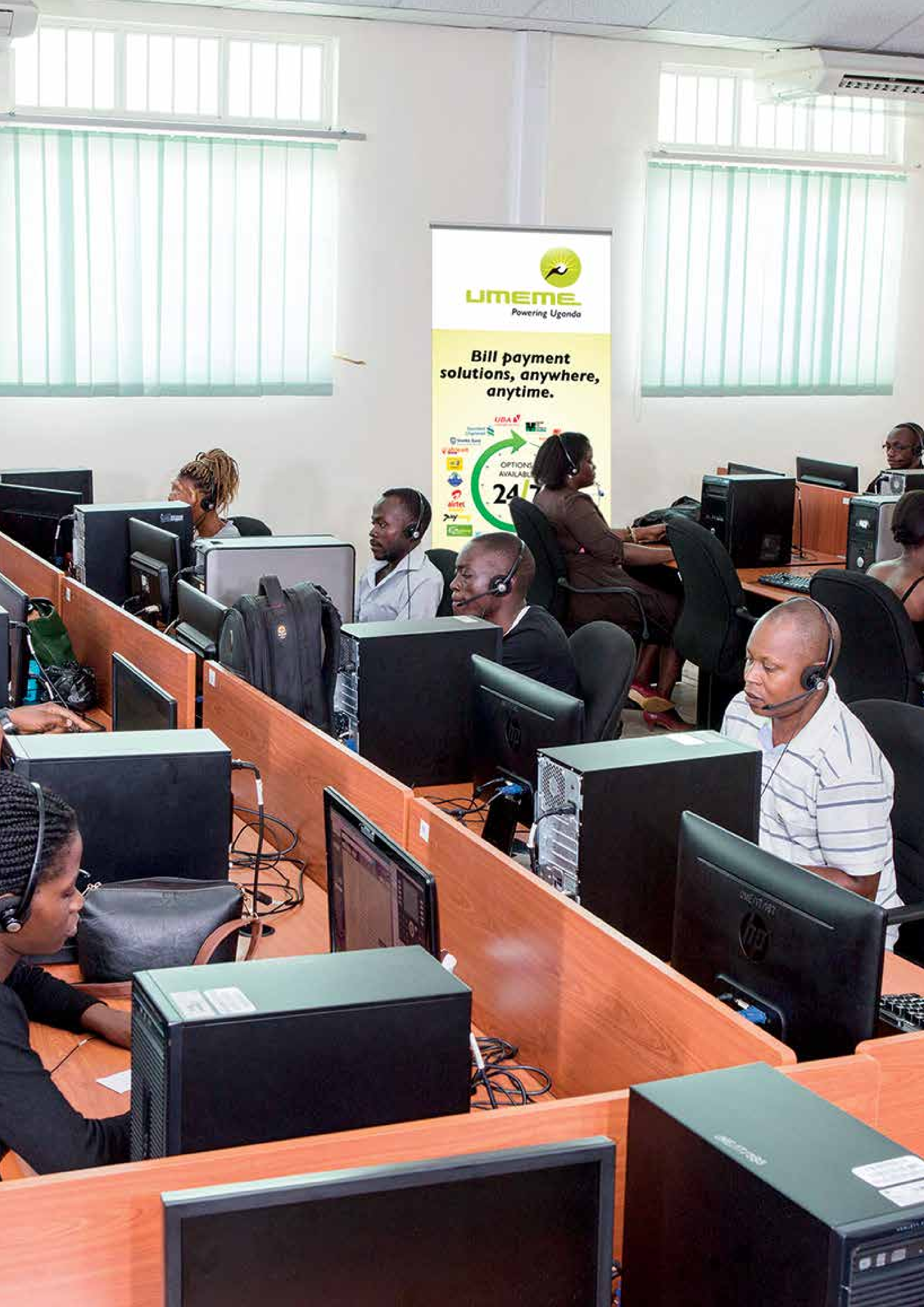
We intend to leverage on the revised global Risk Management framework, "COSO ERM - Integrating with Strategy and Performance, 2017" to strengthen our risk management process across the business.

OPTIONS AVAILABLE **24/7**

FINANCE trust BANK — Putting Women First
Cente Bank
EQUITY Bank — Your Listening, Caring Partner
MTN Mobile Money
EzeeMoney
PayWay
airtel money
m-sente — simple.fast.secure
africell money
Stanbic Bank — A member of Standard Bank Group
Standard Chartered
UBA — United Bank for Africa
BANK OF AFRICA — Groupe BMCE BANK
Bank of Baroda (U) Ltd
BARCLAYS
Housing Finance Bank
citi
E-pay
dfcu BANK
DTB — DIAMOND TRUST BANK
PostBank
orient BANK LIMITED
KCB

Making it easier to pay your electricity bills

Pay when and how you want, using
any of our registered partners


UMEME
Powering Uganda
Bill payment
solutions, anywhere,
anytime.

Financial Statements

Directors Report

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, 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, 2012 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 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, industrial 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 smaller Independent Power Producers (IPPs).

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

Umeme's core business activities can be 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 33,364 kilometres of low voltage, 11kV and 33kV network 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 and Customer Service Engineering Managers: Kampala East, Kampala West, 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 Security Exchange (USE) and cross- listed on the Nairobi Stock Exchange (NSE).

The top shareholders are listed on page 118 of this report.

3. FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

4. 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:

- The regulatory environment.
- 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, customer service standards and safety. 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.

5. DIVIDENDS PAID TO SHAREHOLDERS

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 7.6 per ordinary share be paid for the year ended 31 December 2017 (2016: Ushs 7.8), 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 2018. The total dividend for the year will be Ushs 12,300 million (2016: Ushs 30.6 billion). If approved, the outstanding dividend will be paid on or about 5 July2018. The Company did not pay an interim dividend for the year ended 31 December 2017(2016: Ushs 17.87billion).

6. 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.

7. 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 - Resigned 20 June 2017	British
e)	Andrew Buglass	-	Non-executive Director - Appointed 20 June 2017	British
f)	Anthony Marsh	-	Non-executive Director - Appointed 20 June 2017	British
g)	Hon. Gerald Ssendaula	-	Non-executive Director	Ugandan
h)	Christopher Nicholson	-	Non-executive Director – Resigned 12 December 2017	American
i)	Adrian Mucalov	-	Non-executive Director - Resigned 29 March 2017	British
j)	Florence Namatta Mawejje	-	Non-executive Director	Ugandan
k)	Piet Faling	-	Non-executive Director	South African
l)	Samuel Zimbe	-	Executive Director	Ugandan
m)	Florence N. Nsubuga	-	Executive Director	Ugandan

8. 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
	2017		2016	
Samuel Zimbe	3,512,501	0.22%	6,232,484	0.38%
Selestino Babungi	4,644,684	0.29%	5,844,684	0.36%
Patrick Bitature	2,011,100	0.12%	2,011,100	0.12%
Florence N Nsubuga	1,260,000	0.08%	1,260,000	0.08%
Hon. Gerald Ssendaula	586,800	0.04%	586,800	0.04%
Christopher Nicholson	201,600	0.01%	201,600	0.01%

9. INSURANCE

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

10. EVENTS AFTER THE REPORTING DATE

Subsequent to 31 December 2017, ERA approved for the Company to collect lifeline surcharge revenue that was revenue earned in the years 2016 (Ushs 46,038 million) and 2017 (Ushs 57,672 million) as a result of an under provision in the tariff model in relation to the computation of surcharge on the lifeline tariff for the respective financial years (see note 3(c)).

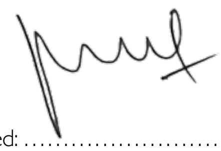
11. AUDITORS

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, 2012 of Uganda.

Approval of the financial statements

These financial statements were approved at a meeting of the directors held on 26th March 2018.

By order of the Board,



Signed: ....

26th March 2018

Shonubi, Musoke & Co Advocates

Secretary, Board of Directors

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 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, 2012 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 Companies Act, 2012 of Uganda, 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.

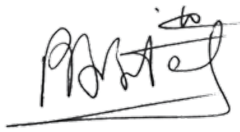
The directors accept responsibility for the financial statements set out on pages 78 to 146, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Companies Act, 2012 of Uganda.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results and cash flows for the year ended 31 December 2017. 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 78 to 146, were approved by the board of directors on 26th March 2018 and signed on its behalf by:



....	....
Director	Director

Date: 26th March 2018

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"), which comprise the statement of financial position as at 31 December 2017, 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 set out on pages 78 to 146.

In our opinion, the financial statements give a true and fair view of the financial position of Umeme Limited as at 31 December 2017, and of 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 judgment, 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 Notes 2(d) and 3 of the financial statements	
The Company recognized revenue of Ushs 1,476 billion which is derived from a number of price controls imposed by the Electricity Regulatory Authority (ERA) embedded within the tariff methodology. Revenue recognized is dependent on a complex tariff methodology and units consumed. A specialized model is used by the regulator to determine the final tariff. The tariff combines both internal and external inputs from Umeme and other players in the energy sector. The price also takes into consideration changes in macro-economic factors such as inflation, foreign exchange and Fuel adjustments. Because of the numerous inputs into the price, its determination is complex.	Our audit procedures included, among others; • Testing 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. • Testing the revenue recognized 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 also 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.

Report Of The Independent Auditors To The Members Of Umeme Limited. (continued)

The Key Audit Matter	How the matter was addressed in our audit
The respective tariffs, used to bill each class of customers, are approved by ERA on a quarterly basis and management has to apply the correct ERA approved tariffs to the actual units consumed by customers to determine the revenue to be recognized. Due to the complexity of the tariff methodology above, 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.	

The Key Audit Matter	How the matter was addressed in our audit
Growth factor and Tax IN revenue adjustments & related receivables (Amendment 2 and 4):	
See Notes 2(d), 3 and Note 20 of the financial statements	
Electricity Regulatory Authority (ERA) implemented Modification No.5 to the supply licence on 4 May 2017. The modification was issued to provide guidance on the treatment of growth factor revenues going forward. The reconciliation of growth factor revenues and Tax IN revenues started when ERA implemented amendments No.2 and No.4 to the supply licence in 2012. These amendments resulted in amounts being clawed back in respect of the growth factor revenue and tax IN revenue through the bulk supply tariff payable to Umeme Limited in the current year. The total amounts clawed back by 31 December 2016 were recorded as receivables in the company's financial statements and these amounted to Ushs 65.861 billion for growth factor revenue and Ushs 38.644 billion for Tax IN. The recovery of the receivables in respect of these amendments was not provided for in Amendment No.5, which triggered an impairment of the receivable in question. The directors applied significant judgement in respect of 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. Because of the judgements made, this has been identified as a matter of most significance in the current year audit.	Our audit procedures included, among others; • We assessed 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 the adequacy of the impairment. • We also inspected correspondence with the ERA and other stakeholders in the sector on this matter, which then formed the basis of the accounting treatments adopted in the financial statements in respect of these receivables. • We evaluated the issued modification No.5 to determine whether the receivables on account of amendment No.2 and No.4 were recoverable or impaired.

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 Notes 2(f) and 15 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 capitalized as an intangible asset, during the year ended 31 December 2017 amounted to Ushs 236bn. In making the assessment on whether to capitalize or expense the expenditure related to the network, the directors apply significant 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. Management also applied judgement to determine the value of Intangible assets that would not be recovered through the tariff for purposes of recognizing the buyout amount. The buyout amount is a financial asset that the company is entitled to receive at the end of the concession for any unrecovered and undepreciated assets or investments added onto the distribution network throughout the concession period. Given the significant amounts involved in network costs, the high level of judgement and complexity involved in determining whether the intangible asset should be recognized, the value to be recovered through the buyout and the amount of impairment if any, we considered this to be 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 recognized as an intangible asset, included, among others; • Assessing whether the Company's accounting policies in relation to the capitalization of expenditure complied with IFRIC 12 by evaluating the effectiveness of the controls in place over the decision to capitalize expenditure as well as the documentation supporting the amounts capitalized. • 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 and operating expenditure was appropriate. • Our procedures also included identification of projects where the proportion of costs capitalized were different to those we would expect based on the nature of the work performed and inspection of completion certificates for all completed projects. • Our procedures with regard to the assessment of the impairment of the intangible assets and the value of the buyout amount, included, among others: • We evaluated management's calculations and assumptions made in arriving at the recoverable amounts for the intangible asset as at year-end. We evaluated information used by management in arriving at conclusions regarding the recoverability of the Intangible Asset in relation to investments added onto the network by the company but not approved by the Electricity Regulatory Authority for recovery through the tariff. We inspected various agreements like the Lease and Assignment Agreement and the Government Support Agreement that define the cost of investments which when incurred by Umeme would be recoverable through either capital recovery in the tariff or through payment of a buyout amount at 105% of cost invested by Umeme payable by government at the end of the concession. • We performed a comparison of the carrying amount of the Intangible Asset as at year-end to the recoverable amount of the Intangible Asset as at the same date.

Report Of The Independent Auditors To The Members Of Umeme Limited. *(continued)*

The Key Audit Matter	How the matter was addressed in our audit
Information Technology systems and controls:	
The company has a complex IT environment with a number of independent stand-alone systems most of which are relied on to provide information for financial reporting and routine decision-making. Since the systems are stand alone, there is a lot of reliance on manual reconciliation of information for purposes of financial reporting. Many of the company's internal controls over financial reporting are dependent upon automated application controls, completeness, and integrity of reports generated by the IT-systems. Given the high dependency on technology, we considered this to be a key audit matter for our audit.	We evaluated the IT environment and relevant applications and platforms for the purpose of the financial statements audit. Our procedures included testing of applications and platforms supporting the Company's business operations as well as those driving the financial reporting. We performed tests on the company's general IT controls and application controls. The general IT controls focused on the following; • Access to programs and data; • Program changes; and • Computer operations. We evaluated application controls in the following systems; • Post-Paid Subsystem; • Prepaid Subsystem; • SUN system; • OICS; • ULTIMA; and • Touch-Pay system Using Data and Analytics procedures, we tested adequacy of the design and operating effectiveness of controls over recording of revenue.

The Key Audit Matter	How the matter was addressed in our audit
Taxation:	
See Notes 2(p), 13 and 39(b) of the financial statements	
The company has significant investments in the distribution network (concession assets) which are accounted for under IFRIC 12; Service Concession arrangements as Intangible assets. The Income Tax Act provisions on capital allowances with respect to Concession assets is not explicit, as a result, management applies significant judgements when interpreting the Income Tax Act with regards to determining capital allowances claimable on these assets. We have assessed the determination of capital allowances on Concession assets as a key audit matter because of the significant judgement applied by management in determining claimable allowances and the possible differences in approach/ interpretation between Umeme and Uganda Revenue Authority(URA) in the judgements applied for purposes of determining capital allowances on the Concession assets	Our audit procedures included, among others; • We evaluated the treatment of capital allowances in line with the provisions of the income Tax Act and the IFRIC 12, which governs the use of the concessionary assets to assess the appropriateness of the approach adopted by management with regard to the claiming of capital allowances on the concessionary assets. • We also performed inquiries with management and inspected the correspondences with URA on this matter and the provisions of the Income Tax Act. • We obtained and evaluated management representations on the capital allowances including inspecting correspondence with their tax lawyers that provided a detailed analysis of the issues.

Report Of The Independent Auditors To The Members Of Umeme Limited. *(continued)*

Other Information

The directors are responsible for the other information set out on pages 68 to 71. The other information comprises the information included in the Company Information, Report of the Directors and the Statement of Directors' Responsibilities, (but does not include the financial statements and our auditors' report thereon), which we obtained prior to the date of the auditors' report and the annual report, which is expected to be made available to us after that date.

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. The directors are responsible for overseeing the Company's financial reporting process.

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.

Report Of The Independent Auditors To The Members Of Umeme Limited. *(continued)*

- 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 fair presentation.

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

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

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

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

iii. The statements of financial position, profit or loss 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: 26th March 2018

Statement of Profit or Loss
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Ushs million	2016 Restated Ushs million
Revenue	3	1,476,430	1,358,206
Cost of sales	4	(960,495)	(881,786)
GROSS PROFIT		**515,935**	**476,420**
Other operating income	5	8,772	7,087
		524,707	**483,507**
Repair and maintenance expenses	6	(37,680)	(22,691)
Administration expenses	7	(161,600)	(151,772)
Effects of Amendment 5	8	(115,237)	-
Foreign exchange gains/(losses)	9(a)	2,401	(4,786)
Other expenses	9(b)	(17,544)	(1,933)
PROFIT BEFORE INTEREST, TAX AND AMORTISATION		**195,047**	**302,325**
Amortisation of intangible assets	9(c)	(82,668)	(61,622)
OPERATING PROFIT		**112,379**	**240,703**
Finance income	10	29,849	26,720
Finance costs	11	(97,628)	(69,301)
PROFIT BEFORE TAX	12	44,600	198,122
Taxation	13(a)	(9,106)	(59,288)
PROFIT FOR THE YEAR		**35,494**	**138,834**

		2017 Ushs	2016 Ushs
BASIC AND DILUTED EARNINGS PER SHARE	14	22	85

The notes set out on pages 83 to 146 form an integral part of these financial statements.

Statement of Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 Ushs million	2016 Restated Ushs million
Profit for the year	**35,494**	**138,834**
Other comprehensive income		
Items not to be reclassified to profit or loss		
Exchange differences on translation from functional currency, net of tax	(29,434)	40,571
Total comprehensive income	**6,060**	**179,405**

The notes set out on pages 83 to 146 form an integral part of these financial statements.

Statement of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Ushs million	2016 Restated Ushs million	2016 As stated Ushs million
ASSETS				
Non-current assets				
Intangible assets	15	1,023,798	1,317,309	1,317,309
Other financial asset	16	499,770	70,018	70,018
Concession arrangement: financial asset	17	394,985	363,025	363,025
		1,918,553	**1,750,352**	**1,750,352**
Current assets				
Inventories	18	58,490	55,521	55,521
Amount recoverable from customer capital contributions	19	12,461	6,982	6,982
Tax recoverable	13(b)	8,123	-	11,841
Trade and other receivables	20	329,762	388,994	342,959
Bank balances	21	22,044	24,204	24,204
		430,880	**475,701**	**441,507**
TOTAL ASSETS		**2,349,433**	**2,226,053**	**2,191,859**
EQUITY AND LIABILITIES				
Equity				
Issued capital	22	27,748	27,748	27,748
Share premium	23	70,292	70,292	70,292
Retained earnings		357,335	334,086	314,607
Proposed Dividends	24	12,323	12,745	-
Translation Reserve		149,971	179,405	179,405
		617,669	**624,276**	**592,052**
Non-current liabilities				
Borrowings	25	460,960	578,416	578,416
Concession obligation	26	394,985	363,025	363,025
Deferred income tax liability	13(c)	160,859	111,285	111,285
Long term incentive plan	27	-	2,867	2,867
		1,016,804	**1,055,593**	**1,055,593**
Current liabilities				
Borrowings	25	198,656	124,021	124,021
Customer security deposits	28	615	130	130
Deferred income	29	37,768	7,005	7,005
Provisions	30	32,986	29,743	29,743
Trade and other payables	31	401,266	334,286	334,286
Current income tax payable	13(b)	-	1,970	-
Short term borrowing	32	43,669	49,029	49,029
		714,960	**546,184**	**544,214**
TOTAL EQUITY AND LIABILITIES		**2,349,433**	**2,226,053**	**2,191,859**

The financial statements on pages 78 to 146 were approved by the Board of Directors on 26th March 2018 and were signed on its behalf by:

Director

Director

The notes set out on pages 83 to 146 form an integral part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued Capital Ushs million	Share Premium Ushs million	Translation Reserve Ushs million	Retained Earnings Ushs million	Proposed Dividends Ushs million	Total Equity Ushs million
At 1 January 2016	27,748	70,292	138,834	232,702	39,623	509,199
Profit for the year	-	-	-	99,747	-	99,747
Lifeline revenue adjustment – Note 34	-	-	-	32,224	-	32,224
Profit for the year – as restated	**-**	**-**	**-**	**131,971**		**131,971**
Other comprehensive income, net of tax	-	-	40,571	-	-	40,571
Final Dividend for 2015	-	-	-	39,623	(39,623)	-
Dividend paid	-	-	-	(57,465)	-	(57,465)
Proposed Dividend for 2016	-	-	-	(12,745)	12,745	-
At 31 December 2016 – as restated	**27,748**	**70,292**	**179,405**	**334,086**	**12,745**	**624,276**
At 1 January 2017	**27,748**	**70,292**	**179,405**	**334,086**	**12,745**	**624,276**
Profit for the year	-	-	-	35,494	-	35,494
Other comprehensive income, net of tax	-	-	(29,434)	-	-	(29,434)
Final Dividend for 2016	-	-	-	12,745	(12,745)	-
Dividend paid	-	-	-	(12,667)	-	(12,667)
Proposed Dividend for 2017	-	-	-	(12,323)	12,323	-
At 31 December 2017	**27,748**	**70,292**	**149,971**	**357,335**	**12,323**	**617,669**

The notes set out on pages 83 to 146 form an integral part of these financial statements.

The translation reserve comprises all translation differences arising from the translation of the financial statements from the Company's functional currency to the presentation currency.

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

		2017 Ushs million	2016 Restated Ushs million
Profit before tax		44,600	198,122
Adjustment for:			
Interest received from banks	10	(481)	(446)
Finance income on concession financial asset	17	(29,047)	(25,469)
Amortisation of intangible assets	9	82,668	61,622
Impairment/oss on disposal of intangible assets		17,544	1,933
Interest expense on borrowings	25	45,137	33,593
Amortisation of deferred transaction costs		7,109	4,690
Finance cost on concession obligation	26	29,047	25,469
Fair value loss on valuation of other financial asset	16	7,985	-
Finance income other financial asset	16	(321)	(805)
Unrealised foreign exchange losses/(gains) on translation		2,328	(2,667)
Cash flows before working capital movements		**206,569**	**296,042**
Change in:			
Inventories		(2,969)	(12,123)
Amount recoverable from customer capital contributions		(5,479)	(348)
Trade and other receivables		59,236	(51,228)
Deferred income		30,763	(5,432)
Long term incentive plan		(2,867)	(11,623)
Provisions		3,243	2,603
Trade and other payables		66,980	16,593
Cash generated from operating activities		**355,476**	**234,484**
Interest received from banks	10	481	446
Current income tax paid	13(b)	(3,735)	(26,529)
Interest paid on Loan borrowings	25	(45,027)	(33,870)
Commitment fees on borrowings	25	(2,463)	(3,861)
Net cash flows from operating activities		**304,732**	**170,670**
Investing activities			
Purchase of intangible assets	15	(236,427)	(317,797)
Net cash flows used in investing activities		**(236,427)**	**(317,797)**
Financing activities			
Repayment of principal on borrowings	25	(124,843)	(62,387)
Net proceeds from borrowings	25	71,920	245,790
Dividends paid		(12,667)	(57,465)
Net cash flows from financing activities		**(65,590)**	**125,938**
Net increase/(decrease) in cash and cash equivalents		**2,715**	**(21,189)**
Cash and cash equivalents at 1 January		(24,955)	(3,766)
Cash and cash equivalents at 31 December	33	**(22,240)**	**(24,955)**

The notes set out on pages 83 to 146 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 other terms 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, Umeme's 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 rewards and bears all the risks 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 exceed its tariff targets as it receives the reward of earning additional revenues following the payment of its power supply and operating costs in accordance with the tariff methodology, but conversely there is 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	**2017**	**2016**	**2015**	**2016**	**2017**	**2018**
Distribution losses (%)	17.2%	19.0%	18.3	16.9	15.7	14.7
DOMC (USD million)**	55	50.8	46.2	47.7	49.3	51.1
Uncollected debt (%)	(0.2)	1.6	2.3	2.1	1.8	1.5

*** 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 2017 were authorised for issue in accordance with a resolution of the directors on 26th March 2018.

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 preparation 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 2012, of Uganda.

For purposes of reporting under the Companies Act 2012, 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 39. 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 16.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 investments and is only allowed to recover the actual cost incurred.

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

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

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 licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The nature of the consideration given by the government to the Company is determined by reference to the contract terms and relevant contract law.

The Company is required to make monthly rental payments to UEDCL for the concession assets taken over from UEDCL and the IDA financed modifications as indicated in Note 26. 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 liability is to the extent that the Company receives cash in the tariff for 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 17.

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 15.

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 USD 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 recognised 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;

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

c) Translation of foreign currencies and presentation currency *(Continued)*

- Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised in other comprehensive income.

d) Revenue and Other 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 app roved 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.

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

e) Deferred construction income, construction revenue and construction costs

Customers are required to fully or part-fund the cost of new installations to their facilities. This amount is paid in advance to the Company as a non-refundable capital contribution. The non-refundable capital contribution is treated as deferred income until utilised for the construction of the installation paid for.

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

Construction revenue is recognised as revenue in the statement of profit or loss in the accounting periods in which the work is performed. Construction costs are recognised as expenses in the statement of profit or loss in the accounting periods in which the work to which they relate is performed. Construction revenue and construction costs are recognised by reference to the stage of completion of the project.

f) Intangible assets

Property, plant and equipment included in the concession arrangement from UEDCL are not recognised in the Company's financial statements in accordance with IFRIC 12. Under the concession agreements, the Company received the right to access, operate and use the concession assets, charge customers for the supply of electricity, and other rights in the form of government support and assurances for a period of 20 years in exchange for the transaction fee, monthly rental payments and obligations to restore, reinforce and modify the Distribution Network.

The Company recognised an intangible asset for the initial transaction fee i.e. the amount paid for GoU support and assurance rights. The Distribution Network restoration, reinforcement and modification costs that are funded by the Company and meet the recognition criteria of property, plant and equipment are added to the intangible asset and in cases where they are not recoverable through the tariff they are classified under 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 therefore 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 ie Recovery of the investment through capital as allowed by ERA in the tariff as part of Umeme's revenue requirement. 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.

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

g) Impairment of intangible assets

The Company assesses at each reporting date whether there is an objective indication that an asset is impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. The recoverable amount of an asset is the higher of an asset's or cash generating units (CGU) fair value less costs to sell and its value in use. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or group of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:

- the asset's fair value less costs to sell is higher than its carrying amount; or
- the asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Value in use is determined using budgets.

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Impairment losses recognised in prior years are reversed through the statement of profit or loss if, and only if, there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognised. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of amortisation or depreciation) had no impairment loss been recognised in prior years.

h) Financial Instruments - Initial recognition and subsequent measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities are classified and subsequently measured at amortised cost using 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. During the year ended 31 December 2016, Company's financial instruments included interest rate swap derivatives, which were designated as hedging instruments for the term of the borrowings. The swap expired on 31 December 2016.

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

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

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.

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. Electricity Regulatory Authority 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 Other Comprehensive Income (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

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

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

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 Other Comprehensive Income 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 in 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.

As at 31 December 2017, the Company did not have a hedging instrument in place.

i) De-recognition of financial assets and financial liabilities

Financial assets

A financial asset is de-recognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Financial liabilities

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

j) Offsetting of financial instruments

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

k) Impairment of financial assets

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

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

k) Impairment of financial assets *(Continued)*

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 Statement of Profit and Loss. 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 Statement of Profit and Loss.

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.

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 Statement of Profit and Loss 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 (Licence 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 Statement of Profit and Loss in the period to which they relate.

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

n) Employee benefits *(Continued)*

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.

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 where 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

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

p) Tax *(Continued)*

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.

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 Statement of Profit and Loss. Costs that relate to both share issuance and listing are allocated between

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

s) Share capital and equity *(Continued)*

these functions based on the proportion of new shares issued to the total number of (new and existing) shares listed.

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

t) Cash dividend

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

u) Leases

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

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

v) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments measured at fair value, or where fair values of financial instruments measured at amortised cost are disclosed, are summarised in Note 40.

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.

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.

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

v) Fair value measurement *(Continued)*

- **Level 3** - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing 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 judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, 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 39 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:

Impairment loss on Growth Factor Revenue receivables, Tax IN Appeal Costs receivables – Effects of Amendment 5.

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

x) Significant accounting judgments, estimates and assumptions *(Continued)*

Amendment Number 5 did not provide for recovery of the previously clawed (reconciled out of the tariff) regulatory receivables. Due to the uncertainty arising from the issuance of Amendment Number 5, a write-off for these receivables has been recognised in the financial statements.

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.

Computation of Power Sales Price

Annex A of the Supply of Electricity License provides for Power Sales Price (PSP) reconciliations because of shortfalls in billing component intended to cater for the cost of power purchased from UETCL. This shortfall mainly occurs due to variation between inputs used in setting bulk supply tariffs and actual out turns. The resulting adjustments (variations) are prospectively offset from the bulk supply tariffs payable to UETCL or are allowed in the Company's revenue requirement.

Computation of growth factor revenues

Amendment 5 to the Company's license recognises that the Company generates excess sales volume over and above the targeted sales volume used in setting the tariff. Management exercises judgement while computing the excess revenue earned by applying the actual distribution price approved by ERA and the actual outturn of energy losses to the excess sales volume.

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 Statement of Profit and Loss. Further details on taxes are disclosed in Note 13.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The recoverable amount of the intangible asset is comprised of the Rate Asset Base in the Tariff and Investments yet to be verified by ERA for inclusion in the tariff. Management applies judgement when assessing the inclusion of investments yet to be verified in the tariff to form part of the Rate Asset Base in the Tariff.

The portion of intangible that is not recovered through the tariff is recovered through the buyout amount and this is classified as a financial asset and tested for impairment.

Impairment losses on trade 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 20 and 39 (Credit risk).

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

x) Significant accounting judgments, estimates and assumptions *(Continued)*

Share grant scheme payments

Estimating the value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the grant, changes in the inputs to the valuation and making assumptions about them. The liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating the value for share-based payment transactions are disclosed in Note 27.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

y) Changes in accounting policies and disclosures

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

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments do not have an effect on the financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

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Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendment does not apply to the Company, as the Company does not have any interests in a subsidiary, joint venture or associate.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial

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

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

statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition, Measurement, and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Company does not expect to implement changes in classification of its financial instruments.

a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Buyout amount as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Borrowings result into contractual cash outflows and are expected to give rise to cash flows representing solely repayments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has determined that, due to the unsecured nature of its receivables, the loss allowance will increase by approximately Ushs 6,000 million with corresponding related decrease in the deferred tax liability of Ushs 1,800 million.

c) Hedge accounting

The Company does not have any existing hedge relationships. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Company's financial statements in the future.

d) Impact of transition to IFRS 9, net of tax.

	Adjustments	Ushs million
Assets		
Trade and other receivables	b)	(6,000)
Liabilities		
Deferred tax liabilities	b)	1,800
Retained earnings	a)	(4,200)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising

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

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

from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. During 2016, the Company performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

The Company is in the business of supply and distribution of electricity to customers through a right to use, maintain and retire the distribution network assets and related systems and retransfer the assets back to UEDCL after 20 years, unless the contract is terminated before that date.

a) Sale of electricity units

For contracts with customers in which the sale of electricity is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Company's revenue and profit or loss.

The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the units or consumption of electricity by the customer.

b) Revenue Shortfalls

The Company has rights to earn a return on investments through the retail tariff approved by ERA in accordance with the Privatisation Agreements. The Company is entitled to recover any revenues that are not factored into the tariffs by ERA in accordance with the tariff methodology. The recovery of such revenue shortfalls can be done through adjustment of future tariffs, offsets from concession rentals payable to UEDCL, withdrawals from the Escrow Account or offsets from BST in particular in relation to revenue shortfalls as a result of Power Supply Price reconciliations

In preparing to adopt IFRS 15, the Company is considering the following:

(i) *Variable consideration*

Variable consideration for Umeme is stated but through changing prices over the contract term through quarterly price increases/ decreases by ERA and pricing by time of day ie peak, shoulder and offpeak.

The pricing by day reflects that value of electricity that the customer gets.

In line with the IFRS 15 practical expedient, the company has assessed that the price adjustments are not variable considerations but reflects the value of providing future electricity units.

The end user tariffs approved by ERA at the beginning of each year are used as Base tariffs subject to quarterly adjustments for changes in macro-economic factors of fuel, foreign exchange rates and inflation rates ("together the adjustment factors"). Estimates for macro-economic factors are used in Base tariffs and variations between the estimated and actual factors are adjusted 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 factors.

(ii) *Significant financing component*

Payment terms for electricity supplied to customers is less than one year. Therefore the Company has determined that that the transaction price does not include a significant financing component.

(iii) *Allocate transaction price to the performance obligations in the contract*

Umeme's transaction prices are allocated to the performance obligation of supply of the electricity at the stand-alone price determined by ERA.

In line with IFRS 15 practical expedient, the invoice price is used as this is reflective of the market value and performance of the

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

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

obligation. The value that the market expects is determined by the regulator based on the company's performance obligation.

(iv) *Nonrefundable Up-front fees.*

Contract for supply of power includes non-refundable upfront fees that are paid at or near contract inception. These include, Inspection fees and connection fees.

IFRS 15 requires an entity to assess whether the nonrefundable up-front fees relate to the transfer of a promised good or service.

For the case of Umeme, the inspection fees arise as a result of an activity that the Company must undertake to connect the customer to supply. However, a customer may be connected and choose not to consume power. Therefore the activity of inspection does not necessarily result in the transfer of promised goods or services to the customer unless the customer consumes. It is an administrative task required by the electricity grid code. The upfront fee would therefore be an advance payment for performance obligations to be satisfied in future and would be recognised when supply of services are provided. The upfront fee does not give rise to a material right for future goods or services.

The inspection fees are therefore treated as an advance payment for contracted service, to be recognised as revenue over the contract period. However since it is impractical to determine the contract period of customers (The contract is not period bound) the fees would be recognised immediately as revenue when received as the case has been.

(v) *Other adjustments*

- Prepaid Domestic and GOU customers make non-refundable prepaid electricity revenue. Unexercised rights i.e. unused units are referred to as breakage. Under IFRS 15 the company will recognise contract liability for any unused portion. There is no evidence to suggest that electricity units purchased in advance will not be used at all.
- Capital contribution received from the customers by Umeme are within the scope of IFRIC 12 and therefore scoped out of IFRS 15.
- The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

(vi) *Presentation and disclosure requirements*

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly, increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Company has assessed that the impact of some of these disclosures requirements will be significant.

As required by IFRS 15, the Company will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2017 the Company continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

In addition, the Company will also disclose information;

a) When performance obligations are typically satisfied

b) Significant payment terms

c) Nature of the services promised to be transferred

d) Significant judgments and changes in judgments that affect the amount and timing of revenue, including

- Timing of satisfaction of performance obligations
- Transaction price and amount allocated to performance obligations

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

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

- Performance obligations satisfied over time
- Methods used to recognise revenue (output method and how it is applied)
- Why the method used faithfully depicts transfer of goods or services
- Information about the inputs, methods, and assumptions used to determine the transaction price, assess whether variable consideration is constrained, allocate transaction price, and determine the standalone-selling price.

a) Practical expedients, including those for transition, used in an entity's revenue accounting policies.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendment will not have an impact on the Company when they become effective.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017 (continued)

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The

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

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

standard's transition provisions permit certain reliefs.

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

(ii) ***New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017 (continued)***

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The standard will not be applicable to the Company.

Annual Improvements 2014-2016 Cycle (issued in December 2016).

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.

(ii) ***New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2017 (continued)***

Annual Improvements 2014-2016 Cycle (issued in December 2016).

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

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

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

These amendments are not applicable to the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

IRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

a. The beginning of the reporting period in which the entity first applies the interpretation

b. The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

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

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

- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date.

Comparatives

Comparatives have been restated to take into account the effect of Lifeline revenue adjustment as described in Notes 3 (c) and note 34

3. REVENUE

	Note	2017 Ushs million	2016 Restated Ushs million
Domestic		383,584	341,140
Commercial		49,884	46,370
Street lighting		1,584	4,711
Commercial - time of use		1,068	980
Medium industrial		446,750	395,956
Large industrial - time of use		291,283	473,216
Extra-large industrial - time of use		245,859	-
Total amount billed to customers		**1,420,012**	**1,262,373**
Regulatory Revenue adjustment (Amendment 2 & 4)	3(a)	-	34,888
Recovery of growth factor revenues	3(a)	(23,733)	-
Recovery of income for funding non-network assets	3(b)	(6,436)	- (11,119)
Surcharge revenue adjustments (Lifeline revenue)	3(c)	57,672	46,038
		1,447,515	**1,332,180**
Construction revenue-construction of assets	3(d)	28,915	26,026
		1,476,430	**1,358,206**

3(a) As previously reported in prior period financial statements, 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 ERA clawing back these amounts through the Bulk Supply Tariff payable by the Company for electricity purchases.

Growth factor revenues

As reported in the prior period financial statements, the Company assessed that it was entitled to recover the amounts clawed back by ERA, following the implementation of Amendments Number 2 and 4, in respect to the Growth factor revenues, and that the Company had commercial mechanisms and remedies to recover the growth factor (Hvey) revenues accrued. On this basis, the Growth factor revenues were accrued in the periods when earned.

In relation to Amendment 2 and 4 on Hvey reconciliations, the Company entered into a Consent Judgment with the Electricity Regulatory Authority (ERA) on 18 May 2016. The judgement provided proposals for modification of Umeme's Electricity Supply Licence No 048 to incorporate the terms agreed. ERA issued a formal Notice of Modification of Licence for Supply of Electricity No: 048 (Modification Number Five) which became effective on 12 May 2017. The amendment requires that the Growth factor (Hvey) revenues for year-on-year total energy purchases be deployed towards investments into the Distribution Network as approved by ERA and to be used to leverage grant or other counterpart financing that will be applied to investments in the Distribution Network. Therefore, there will be no more claw backs. The Company is not entitled to a Return on Investment on the specific projects implemented using the reconciliation amounts in line with similar terms for projects funded using concessionary financing, but will earn a one-off management fee. An amount of Ushs 23,733 million has been estimated as excess revenues earned by the Company through growth. Inline with Amendment 5, the amount has been ring fenced.

Amendment Number 5 did not provide for recovery of the previously clawed back Growth factor revenues amounting to Ushs 65,860 million (USD 18.2 million) as envisaged in the Consent Judgement. The Company is continuing to engage with ERA and other sector stakeholders to provide a recovery mechanism for these previously clawed back Hvey revenues. Due to the uncertainty arising from the issuance of Amendment Number 5 with respect to issues relating to previously clawed back growth factor receivable, a writeoff has been recognised as at 31 December 2017 as disclosed in note 8.

Tax IN revenues

As reported in prior period financial statements, based on commercial and legal remedies set out in the concession agreements, the Company assessed that it was entitled to recover tax revenue in the period when the Return on Investment (ROI) is allowed in the

3. REVENUE *(Continued)*

tariff as opposed to when tax is paid. The Company assessed that these contractual rights were certain and that the Company had commercial and legal remedies to recover the tax revenues. As a result, the Company accrued for the tax revenues in the periods in which they were earned. As at 31 December 2017, the Company had accrued Ushs 38,643 million (USD 10.7 million) in this respect.

Amendment Number 5 to the Supply Licence did not provide for recovery of the previously clawed back Tax IN revenues amounting to Ushs 38,643 million (USD 10.7 m) and as such created an uncertainty regarding the timing of recovery of previously clawed back Tax IN. Accordingly a write off for the Tax IN has therefore been recognised as at 31 December as disclosed under note 8.

3(b) In accordance with Amendment Number 4 of the Company's Electricity Supply License, ERA approved Ushs6,436 million in the year ended 31 December 2017 (2016 : Ushs 11,119 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) Surcharge revenue adjustments relates to revenue earned in the year 2016 (Ushs 46,038 million) and 2017 (Ushs 57,672 million) as a result of an under provision in the tariff model in relation to the computation of surcharge on the lifeline tariff that resulted into an under recovery of Umeme revenue requirements for the respective financial years. ERA has confirmed that the amounts were earned during the financial years 2016 and 2017 as the Company fulfilled the performance obligation of supply of power and has therefore approved for the subsequent recovery of the amounts through collection effective in the Q2 2018 tariffs.

3(d) The Company provides construction services for asset additions to the Distribution Network in accordance with the concession agreements. The Company only recovers the actual costs incurred in constructing the assets. Thus, construction revenue is equal to the construction costs. The expenses that are incurred on the assets additions funded by direct cash contributions paid by customers are recognised in the Statement of Profit and Loss as construction cost of sales and the amounts paid by the customers for the service installations ('non-refundable capital contributions' or 'NRCC') are recognised 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.

4. COST OF SALES

	2017 Ushs million	2016 Ushs million
Electricity purchase from UETCL	927,315	851,917
Generation levy	4,265	3,843
Construction costs-construction of assets – Note 3(d)	28,915	26,026
	960,495	**881,786**

5. OTHER OPERATING AND FINANCE INCOME

	2017 Ushs million	2016 Ushs million
a) Other operating income		
Regulated income		
Reconnection fees	643	230
Meter/transformer test fees	-	1
Inspection fees	6,522	6,089
	7,165	**6,320**
Non-regulated income		
Sale of scrap and other disposals	-	89
OBA income	886	254
Fines and other income	721	424
	1,607	767
Total other operating income	**8,772**	**7,087**

6. REPAIR AND MAINTENANCE EXPENSES

	2017 Ushs million	2016 Ushs million
Distribution (over-head & underground)	7,261	2,247
Transformers, meters & other electrical test instruments	8,954	6,119
Other repairs and maintenance	21,465	14,325
	37,680	**22,691**

7. ADMINISTRATION EXPENSES

	2017 Ushs million	2016 Ushs million
Staff costs (7a)	79,361	74,694
Transport costs	11,110	9,021
Other administration costs	38,881	41,124
Impairment provision for inventories	-	1,755
Consultancy fees	5,640	2,891
Telephone expenses	4,761	4,625
Debt collection expenses	3,199	1,633
Insurance charges	2,628	3,366
Impairment provision for bad and doubtful debts	16,020	12,663
	161,600	**151,772**

Notes to the Financial Statements *(continued)*

7. ADMINISTRATION EXPENSES *(Continued)*

	2017	2016
	Ushs million	Ushs million
7(a) Staff costs		
Salaries and wages	45,645	39,959
National Social Security Fund (NSSF) contributions	5,286	5,026
Long term incentive plan expenses	(2,878)	2,176
Staff allowances and other staff related costs	31,308	27,533
	79,361	**74,694**

8. EFFECTS OF AMENDMENT 5	2017	2016
	Ushs million	Ushs million
Provision for Growth factor revenues - note 3(a)	65,861	-
Provision for Tax IN receivable – note 3(a)	38,644	-
Provision for appeal costs receivable	10,732	-
	115,237	**-**

Appeal costs relate to costs incurred by ERA and Umeme in connection with the Electricity Distribution Tribunal Appeals 3 and 9 of 2012 that were paid for by the Company as required by terms of the Consent Judgment. Amendment Number 5 did not provide for recovery of the appeal costs amounting to Ushs 10,732 million (USD 3 million) as envisaged in the Consent Judgement. The Company continues to engage with ERA and other sector stakeholders to provide a recovery mechanism for these appeal costs. Due to the uncertainty arising from the timing of recovery of the appeal costs, a writeoff has been recognised as at 31 December 2017.

	2017	2016
	Ushs million	Ushs million
9. OTHER OPERATING EXPENSES		
a) Net foreign exchange (gains)/losses	(2,401)	4,786
b) Other expenses		
Loss on disposal of assets	706	1,933
Impairment of intangible assets	16,838	-
c) Amortisation		
Amortisation of intangible assets	82,668	61,622
Total other operating expenses	**97,811**	**68,341**
10. FINANCE INCOME		
Interest on bank deposits	481	446
Financing income on concession financial asset (note 17)	29,047	25,469
Finance income on other financial asset	321	805
	29,849	**26,720**
11. FINANCE COSTS		
Accrued interest on customer security deposits	878	1,193
Finance charge on concession obligation (note 26)	29,047	25,469
Fair value loss on other financial asset	7,985	-
Amortised borrowing costs	7,095	4,278
Interest expense on Facility A	18,431	11,629
Interest expense on Facility B	24,600	17,150
Swap interest on facility A	-	89
Swap interest on facility B	-	123
Other financing costs	9,592	9,370
	97,628	**69,301**

	2017	2016
	Ushs million	Ushs million
12. PROFIT BEFORE TAX		
Profit before tax is stated after charging/(crediting):		
Amortisation of intangible assets	82,668	61,622
Audit fees	833	762
NSSF-Employer's contributions	5,286	5,026
Directors' expenses and allowances	3,157	3,480
Performance bonus	6,690	7,456
Share grant and deferred bonus schemes expenses	-	2,176
Loss on disposal of assets	706	1,933
Donations	37	116
Management fees	647	476
Unrealised foreign exchange losses	-	2,279
Staff medical and welfare expenses	1,110	1,008
And after crediting		
Interest on bank deposits	(481)	(446)
Share grant and deferred bonus schemes expenses	(2,878)	-
Unrealised foreign exchange gains	(5,050)	-

13. TAXATION

Current income tax is provided for in the financial statements based on the results included therein adjusted in acco dance with the provisions of the Income Tax Act (Cap 340) of Uganda less any tax credits and withholding tax recoverable.

The Company has tax losses of Ushs 9,700 million that are available indefinitely for offsetting against future taxable profits. Deferred tax assets has been recognised in respect of these losses as the company projects to make future taxable profits.

a) Income tax expense

	2017	2016
		Restated
	Ushs million	Ushs million
Amounts recognized in Profit or loss		
Current income tax (credit)/charge for the year	(6,327)	24,314
Deferred income tax charge for the year (15 c)	15,433	34,974
	9,106	**59,288**

	2017	2016
Amounts recognized in Other Comprehensive Income		Restated
	Ushs million	Ushs million
Foreign Currency Translation differences*	34,141	6,863
	34,141	**6,863**

* Whereas the Company's functional currency is in United States Dollars, the tax base of its non-monetary assets and liabilities is determined in Uganda Shillings and as such certain foreign currency translation differences to presentation currency result in temporary differences that give rise to deferred tax, which is accounted for through other comprehensive income.

The average effective tax rate is 20% (2016: 34.4% The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

13. TAXATION *(Continued)*

	2017	2016	2016
		Restated	As stated
	Ushs million	Ushs million	Ushs million
Accounting profit before income tax	44,600	198,122	152,084
	13,380	59,437	45,625
At statutory income tax rate of 30% (2016: 30%)			
Tax effect of:			
Expenses and income not allowable for tax purposes	2,030	1,561	882
Prior year over provision - Current tax	(6,304)	(1,999)	(1,999)
Prior year under provision - Deferred tax	-	289	7,829
Income tax expense reported in the Statement of Profit and Loss	**9,106**	**59,288**	**52,337**

a) Current income tax (recoverable)/payable

	2017	2016	2016
		Restated	As stated
	Ushs million	Ushs million	Ushs million
Current income tax payable brought forward	1,970	5,250	5,250
Current income tax (credit)/charge for the year	(6,327)	24,314	10,500
Payment on current income tax	(3,735)	(26,529)	(26,529)
Foreign exchange gain	(31)	(1,065)	(1,062)
	(8,123)	**1,970**	**(11,841)**

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:

	2017	Movement		2016
	Ushs million	P&L	OCI	Ushs million
Deferred tax liabilities (assets)				
Accelerated tax depreciation	194,741	24,736	34,391	135,614
Provision for bad debts	(21,155)	(624)	(154)	(20,377)
Initial Public Offer costs	-	-	-	-
Other provisions	(4,553)	(1,288)	(36)	(3,229)
Unrealised foreign exchange gains	1,526	1,515	11	-
Unrealised foreign exchange loss	-	723	-	(723)
Tax losses carried forward	(9,700)	(9,629)	(71)	-
Net deferred tax liability	**160,859**	**15,433**	**34,141**	**111,285**

13. TAXATION *(Continued)*

	2016	Movement		2015
	Ushs million	P&L	OCI	Ushs million
Deferred tax liabilities/(assets)				
Accelerated tax depreciation	135,614	29,398	9,684	96,532
Provision for bad debts	(20,377)	2,667	(2,257)	(20,787)
Initial Public Offer costs	-	127	(7)	(120)
Other provisions	(3,229)	971	(386)	(3,814)
Unrealised foreign exchange gains	-	2,495	(2,495)	-
Unrealised foreign exchange loss	(723)	(684)	2,324	(2,363)
	111,285	**34,974**	**6,863**	**69,448**

14. 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.

	2017	2016
		Restated
	Ushs million	Ushs million
Profit attributable to shareholders	**35,494**	**138,834**
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)	**22**	**85**

Notes to the Financial Statements *(continued)*

15. INTANGIBLE ASSETS

	GOU support & assurances rights	Other Concession rights	Total
	Ushs million	Ushs million	Ushs million
Cost			
At 1 January 2016	**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**
Additions	-	236,427	236,427
Disposals and write offs	-	(21,171)	(21,171)
Transfer to financial asset	-	(433,690)	(433,690)
Translation differences	26	10,768	10,794
At 31 December 2017	**3,549**	**1,454,600**	**1,458,149**
Amortisation			
At 1 January 2016	**(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)**
Charge for the year	(123)	(82,545)	(82,668)
Disposals and write offs	-	6,504	6,504
Translation differences	(31)	(9,676)	(9,707)
At 31 December 2017	**(2,124)**	**(432,227)**	**(434,351)**
Net carrying amount			
At 31 December 2017	**1,425**	**1,022,373**	**1,023,798**
At 31 December 2016	**1,553**	**1,315,756**	**1,317,309**

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

Capitalised borrowing costs

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

Notes to the Financial Statements *(continued)*

15. INTANGIBLE ASSETS *(Continued)*

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 7.813% (2016:6.49%) and the amount of borrowing costs capitalised during the year ended 31 December 2017 was Ushs 1,300 million (2016: 9,000 million)

16. OTHER FINANCIAL ASSET: BUY OUT AMOUNT

	2017	2016
	Ushs million	Ushs million
At 1 January	**70,018**	**-**
Transfer from intangible asset	433,690	65,780
Interest income	321	805
Fair value loss	(7,985)	-
Translation difference	3,726	3,433
	499,770	**70,018**

The financial asset represents the fair value of 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 and discounted at an internal rate of return of 20.4% and a weighted average cost of capital (WACC) of 5.14% for investments yet to be approved by ERA 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 31 December 2017, the estimated weighted average depreciation rate was 9.5 % (2016: 9.5%) and it is hence estimated that capital investments amounting to Ushs 433,690 million, USD 120 million, (2016: Ushs 65,780 million, USD 19.2 million 2017) 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 3,642.

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

	2017		2016	
	Ushs million	USD million	Ushs million	USD million
Umeme Gross investments (incl WIP)	2,059,359	565.5	1,808,487	500
Less: Cumulative capital recovery charges*	(456,757)	(132)	(424,157)	(117)
Unrecovered investments	1,602,602	433.5	1,384,330	383
Total investments in the ERA Tariff base **	1,256,628	352.1	1,195,450	331
Total investments not yet verified by ERA	802,731	213.4	613,038	169

Investments pending ERA verification are represented by:

	2017		2016	
	Ushs million	USD million	Ushs million	USD million
Completed projects under ERA verification	686,973	181.6	496,004	137.2
Works- in-progress	115,758	31.8	117,034	32.4
Investments not yet verified by ERA	802,731	213.4	613,038	169

* 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 normally changes as more investments are verified and approved by ERA.

Notes to the Financial Statements *(continued)*

16. OTHER FINANCIAL ASSET: BUY OUT AMOUNT *(Continued)*

Completed investments that are yet to be approved by ERA are summarized below.

	2017	2016	2015	2014	2005-2013	Total
Completed investments yet to be approved (USD million)	65.9	33.9	9.1	38.8	33.9	181.6

USD 60 million relating to capital investments completed in 2017 has been allowed in the 2018 tariff base pending verification by 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 investment 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 2017.

	2005-2011	2012	2013	2014	2015	2016	2017	
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
In Uganda Shillings								
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	264,483	278,879	314,558	229,999	1,525,706
Land and Buildings	6,394	1,052	992	2,909	777	1,309	470	13,903
Furniture & Fittings, Tools & Office equipment	9,427	3,143	340	780	776	1,730	2,408	18,604
Computers, Communication & MIS	24,459	8,393	1,334	664	92	117	3,504	38,563
Motor vehicles	18,877	875	1,217	-	4	83	47	21,103
Total investments	**269,392**	**98,074**	**146,824**	**268,836**	**280,528**	**317,797**	**236,428**	**1,617,879**
Represented by:								
Capitalised	257,051	101,430	135,511	267,415	248,426	273,114	238,559	1,521,506
Capital work in progress	12,341	(3,356)	11,313	1,421	32,102	44,683	(2,131)	96,373
	269,392	**98,074**	**146,824**	**268,836**	**280,528**	**317,797**	**236,428**	**1,617,879**
In US Dollars								
Av. Foreign exchange rate – Ushs: USD	2,079	2,691	2,522	2,778	3,242	3,423	3,616	
Total investment: USD million equivalent	**130**	**36**	**58**	**97**	**87**	**93**	**65**	**565**

17. CONCESSION FINANCIAL ASSET

	2017	2016
	Ushs million	Ushs million
At 1 January	**363,025**	**313,960**
Financing income for the year	29,047	25,469
Foreign exchange gain	2,913	23,596
At 31 December	**394,985**	**363,025**
Maturity analysis of the financial asset:		
Outstanding financial asset	394,985	363,025
Less: Amount recoverable within one year	-	-
Non-current portion of financial asset	**394,985**	**363,025**
The financial asset is recoverable as analysed below:		
Within one year	-	-
Between one and two years	20,226	7,047
Between two and three years	9,700	7,361
Between three and four years	8,276	4,642
Between four and five years	8,938	146,758
After five years	347,845	197,217
	394,985	**363,025**

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)*

18. INVENTORIES	2017	2016
	Ushs million	Ushs million
Overhead materials & accessories	32,555	25,732
Underground cables, materials & accessories	4,517	4,208
Substation transformers & accessories	1,191	2,791
Meters, metering equipment& accessories	10,406	13,880
Tools and other equipment	3,045	3,258
Stationery	1,093	842
Expense on goods in transit	7,565	6,692
	60,372	**57,403**
Provision for impairment	(1,882)	(1,882)
	58,490	**55,521**
Movement in Provision for impairment		
At 1 January	**1,882**	**127**
Movement during the period	-	1,755
At 31 December	**1,882**	**1,882**

19. AMOUNT RECOVERABLE FROM CUSTOMER CAPITAL CONTRIBUTIONS	2017	2016
	Ushs million	Ushs million
At 1 January	**6,982**	**6,634**
Additions to customer funded installations	2,600	4,036
Completed customer funded installations	2,788	(4,152)
Translation difference	91	464
At 31 December	**12,461**	**6,982**

Notes to the Financial Statements *(continued)*

		2017	2016	2016
			Restated	As stated
		Ushs million	Ushs million	Ushs million
20.	**TRADE AND OTHER RECEIVABLES**			
	Trade receivables	256,214	242,239	242,239
	Less: Allowance for impairment	(69,144)	(66,551)	(66,551)
	Net trade receivables	**187,070**	**175,688**	**175,688**
	Prepayments	12,370	19,596	19,596
	Letters of credit	4	6,869	6,869
	Growth factor revenues and Tax IN revenue receivable	-	104,504	104,504
	Surcharge regulatory revenue receivable	103,710	46,035	-
	Other receivables	12,067	17,367	17,367
	OBA receivable	11,481	9,697	9,697
	VAT claimable	3,060	9,238	9,238
		142,692	**213,306**	**167,271**
	Trade and other receivables	**329,762**	**388,994**	**342,959**

Growth factor revenues and Tax IN receivables of Ushs Nil (2016: Ushs 104,504 million) relating to revenue reconciliation adjustments recoverable is described in Note 3(b).

Surcharge regulatory revenue receivable of Ushs 103,709 million (2016: Ushs 46,038 million) is described in note 3 (c).

Other receivables comprise of 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:

	2017	2016
	Ushs million	Ushs million
At 1 January	66,551	72,205
Allowance for impairment for the year	16,020	12,663
Less: Bad debts written off (see below)	(13,427)	(18,317)
At 31 December	**69,144**	**66,551**
Bad debts written off are made up as follows:		
UEDCL trade receivables	-	-
Umeme trade receivables	13,427	18,317
	13,427	**18,317**

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:

Notes to the Financial Statements *(continued)*

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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
2017	256,214	98,004	13,115	71,052	69,144
2016	242,239	93,102	18,014	64,572	66,551

21. BANK BALANCES

	2017	2016
	Ushs million	Ushs million
Bank balances	**22,044**	**24,204**

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 rate.

c) Value of issued shares

	2017	2016
	Ushs million	Ushs million
Nominal value of shares at 31 December	**27,748**	**27,748**

All ordinary shares rank equally with regard to the Company's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

d) Spread of issued shares at 31 December 2017

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500	472	90,920	0.01%
500 - 5,000	2,838	5,311,652	0.33%
5,001 – 10,000	632	5,002,941	0.31%
10,001 – 100,000	1,097	33,521,482	2.06%
100,001 - 1,000,000	435	115,549,428	7.12%
Above 1,000,000	126	1,464,401,582	90.18%
	5,600	**1,623,878,005**	**100.00%**

e) Shareholding

		31 December 2017		31 December 2016	
	Name	Number of shares	Percentage shareholding	Number of shares	Percentage shareholding
1	National Social Security Fund	376,315,085	23.2%	376,315,085	23.2%
2	Allan Gray	156,332,791	9.6%	89,301,435	5.5%
3	Kimberlite Frontier Africa Master Fund	134,186,083	8.3%	107,197,587	6.6%
4	Investec Asset management Africa	71,913,402	4.4%	78,616,769	4.8%
5	Utilico Emerging Markets Limited	69,911,788	4.3%	69,911,788	4.3%
6	The Africa Emerging Markets Fund	64,063,887	3.9%	55,250,672	3.4%
7	International Finance Corporation	45,220,900	2.8%	45,220,900	2.8%
8	Coronation Global Opportunities Fund	42,125,470	2.6%	42,125,470	2.6%
9	Imara S P Reid (Pty) Ltd	40,078,109	2.5%	957,014	0.1%
10	Duet Fund	39,796,024	2.5%	44,796,024	2.8%
11	Others	583,934,466	36%	714,185,261	43.9%
		1,623,878,005	**100%**	**1,623,878,005**	**100%**

Notes to the Financial Statements *(continued)*

23. SHARE PREMIUM

	2017	2016
	Ushs million	Ushs million
At 31 December	**70,292**	**70,292**

24. DISTRIBUTIONS TO SHAREHOLDERS MADE AND PROPOSED

	2017		2016	
	Dividend per share	Total	Dividend per share	Total
	Ushs	Ushs million	Ushs	Ushs million
Dividend paid				
Interim dividend paid	-	-	11.0	17,862
Final dividend paid	7.8	12,745	-	-
	7.8	**12,745**	**11.0**	**17,862**
Dividend proposed				
Proposed dividend	7.6	12,323	7.8	12,745

25. BORROWINGS

	2017	2016
	Ushs million	Ushs million
Amounts due to lenders: Term loan	594,584	714,950
Short term loan	72,972	-
Less: Deferred transactions costs	(7,940)	(12,513)
	659,616	**702,437**
Less: Current portion - amount due within one year		
Term loan	(125,684)	(124,021)
Short term loan	(72,972)	-
Amounts due within one year	**(198,656)**	**(124,021)**
Amounts due in more than one year	460,960	578,416

25. BORROWINGS *(Continued)*

a) Amount due to Lenders

Term Loan	2017			2016		
	Ushs million			Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	303,688	411,262	714,950	202,136	288,768	490,904
Amount received during the period	-	-	-	106,505	139,285	245,790
Interest charge for the period	18,893	25,217	44,110	13,724	19,869	33,593
Foreign exchange losses	1,973	2,518	4,491	16,862	24,058	40,920
Less: Principal repayment	(43,438)	(81,405)	(124,843)	(21,707)	(40,680)	(62,387)
Less: Interest payment	(18,900)	(25,224)	(44,124)	(13,832)	(20,038)	(33,870)
At period end	**262,216**	**332,368**	**594,584**	**303,688**	**411,262**	**714,950**
The amounts due are made up as follows:						
Principal	218,485	250,414	468,899	258,498	332,431	590,929
Principal payable in one year	43,731	81,954	125,685	45,190	78,831	124,021
	262,216	**332,368**	**594,584**	**303,688**	**411,262**	**714,950**

Short term loan – Standard Chartered Bank

	2017	2016
	Ushs million	Ushs million
Movement on the account		
At 1 January	-	-
Amount received during the period	71,920	-
Interest charge for the period	1,027	-
Interest payment	(903)	
Foreign exchange loss	928	-
	72,972	**-**

b) Deferred transaction costs

Term Loan	2017			2016		
	Ushs million			Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	5,219	7,294	12,513	5,064	7,443	12,507
Upfront and guarantee fees	-	-	-	1,677	1,979	3,656
Management, security and agency fees	-	-	-	123	82	205
Amortisation for the period	(2,222)	(2,624)	(4,846)	(1,989)	(2,701)	(4,690)
Foreign exchange losses	154	119	273	344	491	835
At Period end	**3,151**	**4,789**	**7,940**	**5,219**	**7,294**	**12,513**

25. BORROWINGS *(Continued)*

b) Deferred transaction costs (continued)

Short term loan – Standard Chartered Bank	**2017**	**2016**
	Ushs million	**Ushs million**
Movement on the account		
At 1 January	-	-
Arrangement and commitment fees	2,246	-
Amortization for the period	(2,263)	-
Foreign exchange gains / losses	17	
At 31 December	**-**	**-**

The Company has a term and revolving credit facilities agreement dated 12 November 2013 worth USD 235 million with International Finance Corporation (IFC), Standard Chartered Bank and Stanbic Bank Uganda Limited as the mandated lead arrangers. USD 90 million is designated as term Facility A lent by IFC and USD 125 million as term Facility B 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 overdraft issuer, security agent and the facility agent.

During the year 2017, the company accessed a short-term bridge facility of Ushs 71,920 million (USD 20m) from Standard Chartered Bank as per the provisions on permitted financial indebtedness in the Term Loan facilities agreement.

As at 31 December 2017, the Company had an outstanding balance of Ushs 262,216 million (USD 72 million) (2016: Ushs 303,688 million (USD 84 million) on Facility A, Ushs 332,368 million (USD 91 million) (2016: Ushs 411,262 million (USD 114 million)) on Facility B and Ushs 72,972 million (USD 20 million) on the short-term loan.

Facilities A and B both attract interest at LIBOR (applicable screen rate) + a margin of 5%. The short term facility attracts interest at 6 months LIBOR + margin of 3.5% per annum for the first three months from the date of signing the facility agreement and thereafter 4% per annum until the facility is fully repaid. The facilities attract commitment fees of 1.8% per annum on the utilised amount. As at 31 December 2017, the Company had fully drawn down on the existing loan facility A, B and short-term facility. The Company is currently reviewing its next financing structure in line with its capital investment plan

Facility A is repayable every six months in 15 semi-annual instalments of 6.7% of the total facility drawn 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 drawn down at the end of the availability period and 28% on the termination date (November 2020).

The short-term loan is repayable in 9 months as a bullet repayment.

The company made loan repayments of Ushs 43,438 million (USD 12 million) relating to facility A and Ushs 81,405 million (USD 23 million) relating to facility B.

The Long term 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.

Notes to the Financial Statements *(continued)*

26. CONCESSION OBLIGATION

	2017	2016
	Ushs million	Ushs million
At 1 January	363,025	313,960
Financing expense for the year	29,047	25,469
Foreign exchange loss	2,913	23,596
At 31 December	394,985	363,025
Maturity analysis of the concession obligation:		
Outstanding obligation	394,985	363,025
Less: Due within one year	-	-
Non-current portion of the obligation	**394,985**	**363,025**

The concession obligation is due as analysed below:

	2017	2016
	Ushs million	Ushs million
Within one year	-	-
Between one and two years	20,226	7,047
Between two and three years	9,700	7,361
Between three and four years	8,276	4,642
Between four and five years	8,938	146,758
After five years	347,845	197,217
	394,985	**363,025**

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 17.

No amount payable within one year has been presented since the debt service component was not included in the approved 2018 base tariffs.

27. LONG TERM INCENTIVE PLAN

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

	2017	2016
	Ushs million	Ushs million
At 1 January	2,867	14,490
Provision for the year	-	2,176
Payment	-	(14,208)
Reversal of prior year provision	(2,878)	-
Foreign exchange loss	11	409
At 31 December	**-**	**2,867**

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.

27. LONG TERM INCENTIVE PLAN *(Continued)*

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. The scheme had 1,333 participating employees at 31 December 2017.

As a 31 December 2017, the Company had not achieved the minimum financial performance targets and as such no provision has been recorded.

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.

As at 31 December 2017, the Company had not achieved the minimum financial performance targets in terms of EBITDA and as such no provision has been recorded.

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. 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**

27. LONG TERM INCENTIVE PLAN *(Continued)*

	Share Grant Scheme		Deferred Bonus Scheme	
	Number of Shares	Number of Staff	Number of Shares	Number of Staff
At 1 January 2016	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	**-**	**-**	**-**	**-**

28. CUSTOMER SECURITY DEPOSITS

	2017	2016
	Ushs million	Ushs million
At 1 January	130	998
Amount received during the year	740	831
Amount refunded during the year	(255)	(1,699)
At 31 December	**615**	**130**

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:

	2017	2016
	Ushs million	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 provided for the estimated interest payable on the security deposits for the year. Ushs 3,164 million was refunded in relation to interest on customer security deposits.

29. DEFERRED INCOME

	Note	2017	2016
		Ushs million	Ushs million
Deferred revenue on prepaid sales	(a)	6,990	1,920
Deferred construction income	(b)	823	257
Deferred capital fund – Growth Factor Revenues	(c)	23,733	-
Deferred capital fund – Non network assets	(d)	5,027	3,239
Deferred capital fund – LED bulbs	(e)	660	796
Deferred capital fund –Skills Development	(f)	393	-
Deferred capital fund – Peri Uban projects	(g)	142	793
		37,768	**7,005**

Notes to the Financial Statements *(continued)*

29. DEFERRED INCOME *(Continued)*

(a) Deferred revenue on pre-paid sales

Prepaid sales relate to sales to Government of Uganda Time of Use (GOU-TOU) through smart metering systems and sales to domestic customers whose consumption is estimated.

As at 31 December 2017, Ushs 4,890 million (2016: Nil) sales to GOU-TOU has not been consumed while it was estimated that 8% of the pre-paid electricity tokens purchased to domestic customers in December 2017 by customers had not been consumed (2016: 9%).

	2017	2016
	Ushs million	Ushs million
(b) Deferred construction income		
At 1 January	257	5,731
Amount received	29,545	20,074
Amount utilized	(28,915)	(26,026)
Foreign exchange loss	(64)	478
Un-utilized customer contributions at 31 December	**823**	**257**

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 recognised as construction cost of sales when utilized.

(c) Deferred capital fund – Growth Factor Revenues	2017	2016
	Ushs million	Ushs million
At 1 January	-	-
Amount billed	23,733	-
At 31 December	**23,733**	**-**

As indicated in note 3(a), the balance as at 31 December 2017 relates to the amount billed to customers for funding construction of assets approved by ERA but not utilised.

(d) Deferred capital fund – Non network assets	2017	2016
	Ushs million	Ushs million
At 1 January	3,239	3,348
Amount billed	6,044	11,119
Amount utilised on purchasing non-network assets	(3,790)	(11,723)
Foreign exchange loss	(466)	495
At 31 December	**5,027**	**3,239**

	2017	2016
	Ushs million	Ushs million
The amount utilised was spent as follows:		
Furniture & Fittings, Tools & Office Equipment	287	1,195
Computers, Communication Equipment& Management Information System	527	2,249
Motor vehicles	2,976	8,279
	3,790	**11,723**

As indicated in note 3(b), the balance as at 31 December 2017 relates to the amount billed to customers for funding non-network assets but not utilised.

Notes to the Financial Statements *(continued)*

29. DEFERRED INCOME *(Continued)*

(a) Deferred capital fund – LED bulbs

As at 31 December 2017, funds worth Ushs 660 million (2016: Ushs 796 million) collected from customers in the prior years to improve efficiency of the demand side energy through the use of LED bulbs had been committed but not yet utilised.

(b) Skills Development

This relates to funds received for Skills Development Program within the Electricity Sector. The Company utilized Ushs 32 million during the year in relation to skills training and development.

(c) 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 2017, funds worth Ushs 142 million (2016: Ushs 793 million) received had been committed but not yet utilised.

30. PROVISIONS

	2017	2016
	Ushs million	Ushs million
At 1 January	29,743	51,949
Provision for the period	95,909	117,015
Utilizations/payments	(91,812)	(139,221)
Foreign exchange loss	- (854)	-
At 31 December	**32,986**	**29,743**

Provisions include audit fees, unvoiced capital expenditure, interest on customer security deposits and performance bonus. Movement in performance bonus is indicated below:

	2017	2016
	Ushs million	Ushs million
At 1 January	6,281	6,500
Accrual for the year	6,690	7,456
Bonus paid during the year	(5,019)	(7,675)
At 31 December	**7,952**	**6,281**

31. TRADE AND OTHER PAYABLES

	2017	2016
	Ushs million	Ushs million
Trade payables	390,516	326,570
Accrued expenses and other payables	1,885	2,796
Withholding tax payable	2,247	2,386
Advance payments by energy customers	6,618	2,534
	401,266	**334,286**

Trade and other payables are non-interest bearing and normally settled on 30-60 days' terms. Trade payables includes Ushs 254,533 million (2016: Ushs 165,685 million) due to UETCL. The balance of Ushs 135,983 million (2016: Ushs 160,885 million) is due to contractors and other service providers.

Notes to the Financial Statements *(continued)*

32. SHORT TERM BORROWINGS

	Note	2017 Ushs million	2016 Ushs million
Overdraft		44,157	49,673
Less: Deferred transactions costs	(a)	(488)	(644)
		43,669	**49,029**
(a) Deferred transaction costs			
At 1 January		644	779
Amortisation for the year		(160)	(181)
Foreign exchange gain		4	46
At 31 December		**488**	**644**

As at 31 December 2017, the Company had drawn down Ushs 44,157 million, USD 12 million (2016:Ushs 49,673 million, USD 14 million) from Standard Chartered Bank under the revolving credit facility as disclosed in Note 25. 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 2017, the outstanding amount withdrawn was in Ushs and USD. The applicable interest rate as at year-end was Ushs – 21.415% and USD - 9.118%. (2016: Ushs 27.3%). Other terms and conditions are as disclosed in Note 25.

33. CASH AND CASH EQUIVALENTS

	2017 Ushs million	2016 Ushs million
Bank balances (note 21)	22,044	24,204
Short term borrowings (note 31)	(43,669)	(49,029)
Bank balances not available for use (note 28)	(615)	(130)
	(22,240)	**(24,955)**

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.

34. RESTATEMENT OF COMPARATIVES

The 2016 balances have been restated as follows

	Note	As previously stated Ushs million	Adjustment Ushs million	As restated Ushs million
Revenue		1,312,168	46,035	1,358,206
Trade and other receivables	(a)	342,959	46,035	388,994
Tax recoverable/(payable)	(b)	11,841	(13,811)	(1,970)
Retained Earnings	(c)	314,607	32,224	346,831
		1,981,575	**110,483**	**2,092,061**

a) The adjustment of Ushs 46,035 million is to recognise Lifeline revenue earned in 2016 as described in Note 3 (c).

b) The adjustment of Ushs 13,811 million is to recognise corporation tax payable on the Lifeline revenue adjustment at 30% tax rate.

c) Adjustment of Ushs 32,224 million is the net income from (a) and (b) above.

35. LETTERS OF CREDIT

As of 31 December 2017, 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 4 million (2016: Ushs 6,869 million) had been deposited under the letters of credit facilities as at 31 December2017 as disclosed in Note 20. 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 2017, the Company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs 16,010 million (2016: Ushs11,100 million) with no cash cover. These are covered by the goods under importation and insurance.

36. RELATED PARTIES

The Company's relation with Umeme Holdings Limited, Umeme Management Services Limited and Actis Infrastructure 2 LP ceased on 31 December 2016 as a result of the expiry of the management contract between the entities and Umeme Limited.

The transactions with the above entities during the year were therefore carried out on a commercial basis and not under related party arrangements. The related party transactions relate to the comparative period ended 31 December 2016.

	2017	2016
	Ushs million	Ushs million
i) Management and secondment services		
Umeme Management Services Limited	647	476
ii) Other transactions		
Actis	-	526
iii) Compensation of key management personnel		
Directors emoluments and expenses	3,151	4,049
Contribution to NSSF	465	704
Share based payments	-	4,764

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

The following were the related party balances:

	2017	2016
	Ushs million	Ushs million
i) Amounts due to related parties		
Actis – recharges	-	488
Umeme Management Services Limited	-	83
	-	571
ii) Amounts due from related parties		
Umeme Holdings Limited	-	1,558
	-	**1,558**

Notes to the Financial Statements

37. 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, finance lease income.

For the purposes of borrowing covenants computation, EBITDA is adjusted for any extra ordinary gains and losses that are not as a result of normal course of business, any non–cash items and any gains or losses from sale of assets (other than inventory sold in the ordinary course of business). As such, for this period, Impairment of intangible assets and impairment provisions resulting from effects of amendment 5 have been adjusted for in the EBITDA computation in compliance with the requirements of the borrowings agreements. In addition, a re-computation of EBITDA for the period 2013 to 2016 which contained items affected by Amendment 5 confirms that the company was compliant with all the debt covenants.

	2017		2016 Restated		2016 As stated	
	Ushs Million	USD '000	Ushs Million	USD '000	Ushs Million	USD '000
Operating profit before amortisation	195,047	55,494	302,325	87,791	256,733	75,187
Foreign exchange (gains)/losses	(2,401)	(664)	4,786	1,398	4,786	1,398
Effects of Amendment 5 – Impairment note 8	115,237	31,869	-	-	-	-
Impairment of intangible assets	17,544	3,048	1,933	537	1,933	537
Total EBITDA	**325,427**	**89,747**	**309,044**	**89,726**	**263,452**	**77,122**

38. CONTINGENT ASSET

PSP Reconciliation Amount and Payment Limitation Provisions in Power Sales Agreement for unrecovered BST from Retail Tariff

The power supply price (PSP) component of the Retail Tariff contains a quarterly adjustment factor (i.e. the PSP reconciliation amount) necessary to reconcile the cumulative amounts of actual power supply costs incurred by Umeme (i.e. BST paid to UETCL) with related billed revenues collected by Umeme, on account of BST, through the Retail Tariff.

Pursuant to section 5.3 (b) of the Power Supply Agreement, "The Company's obligation to pay UETCL the Bulk Supply Tariff for purchases of bulk supply power shall be limited to the extent that the Authority has approved a contemporaneous and equivalent Bulk Supply Tariff component of the Retail Tariff recoverable by the Company pursuant to the Tariff Methodology".

The Company reconciled the cumulative amounts of actual power supply costs incurred for the period Jan 2010 to December 2017 against related billed revenues during the same period. The outstanding claim net of amounts allowed in the 2018 tariff computations stands at Ushs 48,000 million (USD 13 million). This amount has not been recognized in these financial statements.

39. 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 830 million (2016: Ushs 606million) will be ruled against the Company. Accordingly, these liabilities have been provided for in these financial statements. The Company has also been advised by its Legal Counsel that it is only possible and not probable that cases worth Ushs 2.3 billion will succeed. Accordingly, no provision for any liability relating to these cases has been made in these financial statements. The Company is defending itself against these actions and therefore it is not practical to state the timing of the payment, if any.

   The Company has an insurance policy against litigation with maximum cover of Ushs 1 billion (2016 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 objected to this assessment on the following basis:

39. CONTINGENT LIABILITIES *(Continued)*

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 19,500 million 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.

40. 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 2017. 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 2017 (31 December 2016: Nil).

(i) 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 15.

(ii) Concession commitments

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

Notes to the Financial Statements

40. COMMITMENTS *(Continued)*

	Minimum rental payments Ushs million	Present value of payments Ushs million
At 31 December 2017:		
Within one year	-	322,887
After one year but not more than five years	47,140	72,098
After five years	347,845	3,425
	394,985	**398,410**
Less: Amounts representing finance charges	(322,887)	-
Present value of minimum rental payments	72,098	398,410
At 31 December 2016:		
Within 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

41. 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 17. The right to receive cash is accounted for by the Company as a financial asset.

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

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

41. CONCESSION ARRANGEMENT *(Continued)*

a) 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.

b) 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.

Licence for Supply and Distribution of Electricity

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

Escrow Agreement

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

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

Uganda Distribution Concession Project Agreement

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

41. 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.

42. 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. As at 31 December 2016, 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 without a renewal in 2017.

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

As at the reporting date, USD 183 million of the Company's term borrowings (A and B) and bank overdraft have variable interest rates. The interest rate risk exposure arising from the facilities, assuming an increase/decrease in interest rates by 3% is a decrease/increase in profit before tax and equity of Ushs 565 million (2016: Ushs 327million) and Ushs 710 million (2016: Ushs 427 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 assessed USD as its functional currency.

The Company's profit before income tax and equity would decrease/increase by Ushs 38 billion (2016: Ushs 28 billion) and Ushs 38 billion (2016: Ushs 20 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.

42. RISK MANAGEMENT *(Continued)*

The Company's capital investments are also denominated in US Dollars, and the annual capital recovery is translated to Uganda Shillings on quarterly basis per the ruling exchange rate. As such, the impact of variations in foreign exchange rates on the results and equity of the Company are minimum, as there is a foreign exchange hedge through the tariff mechanism, subject to the USD denominated liabilities being lower than the USD revenue streams and quarterly lag in exchange rate adjustments.

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2017 and 31 December 2016. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2017	USD	GBP	EURO	ZAR	KES	Ushs	TOTAL
Financial assets							
Concession financial asset	394,985	-	-	-	-	-	394,985
Trade and other receivables	-	-	-	-	-	317,392	317,392
Bank balances	5	-	-	-	-	22,039	22,044
Total financial assets	**394,990**	**-**	**-**	**-**	**-**	**339,431**	**734,421**
Financial liabilities							
Borrowings	659,616	-	-	-	-	-	659,616
Concession obligation	394,985	-	-	-	-	-	394,985
Trade and other payables	85,802	257	217	-	122	314,868	401,266
Long term incentive plan	-	-	-	-	-	-	-
Bank overdraft	35,016	-	-	-	-	9,141	44,157
Total financial liabilities	**1,175,419**	**257**	**217**	**-**	**122**	**324,009**	**1,500,024**
Overall open position	**(780,429)**	**(257)**	**(217)**	**-**	**(122)**	**15,422**	**(765,603)**

At 31 December 2016	USD	GBP	EURO	ZAR	KES	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)**

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

42. RISK MANAGEMENT *(Continued)*

Credit risk

Credit risk is the risk of financial loss to the Company generated by the potential default of third parties in fulfilling their contractual obligations. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institution.

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, 75.3% of domestic consumers are connected to pre-paid metering and there is a target uncollected debt provision in the tariff methodology to mitigate against unrecoverable receivables. The concession agreements have additional comprehensive mechanisms to mitigate against performance failures of contract parties.

There are no significant concentrations of credit risk within the Company. The maximum exposure arising from trade receivables is the carrying amount as disclosed in Note 20 less amounts receivable from GOU institutions and customer security deposits as follows:

	2017	2016
	Ushs million	Ushs million
Gross amount of trade receivables (Note 20)	256,214	242,239
Less: Amounts receivable from GOU bodies	(34,502)	(19,462)
Customer security deposits (Note 28)	(615)	(130)
Maximum exposure	**221,097**	**222,647**

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	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
2017	256,214	98,450	17,496	71,124	69,144
2016	242,239	93,102	s 18,014	64,572	66,551

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. 37% of the Company's debt will mature in less than one year after 31 December 2017 (2016:32%) based on the carrying value of the current liabilities reflected in the financial statements.

The primary objective of the Company's liquidity management is to ensure that it maintains compliance with the creditor commitments and obligations. To maintain or adjust the liquidity position, the Company may call for more capital from shareholders, get/draw from financing facilities or adjust the timing of capital expenditure and / or repayments to some creditors, where possible.

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

42. RISK MANAGEMENT *(Continued)*

At 31 December 2017	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Total Carrying Amounts	Total Commitments
	Ushs	Ushs	Ushs	Ushs		
Financial assets						
Concession financial asset	-	-	-	394,985	394,985	394,985
Trade and other receivables	93,102	18,018	191,830	69,611	372,561	372,561
Bank balances	22,044	-	-	-	22,044	22,044
Total financial assets	**115,146**	**18,018**	**191,830**	**464,596**	**789,590**	**789,590**
Financial liabilities						
Concession obligation	-	-	-	394,985	394,985	394,985
Borrowings: Facility A and B	-	-	198,656	468,900	667,556	667,556
Trade and other payables	87,610	143,658	85,789	84,209	401,266	401,266
Long term incentive scheme	-	-	-	-	-	-
Bank overdraft	44,157	-	-	-	44,157	44,157
Total financial liabilities	**131,767**	**143,658**	**284,445**	**948,094**	**1,507,964**	**1,507,964**
Overall open position	**(16,621)**	**(125,640)**	**(92,615)**	**(483,498)**	**(718,374)**	**(718,374)**
At 31 December 2016						
Financial assets						
Concession financial asset	193,550	6,534	14,702	148,239	363,025	363,025
Trade and other receivables	93,102	24,883	196,140	75,789	389,914	389,914
Bank balances	24,204	-	-	-	24,204	24,204
Total financial assets	**310,856**	**31,417**	**210,842**	**224,028**	**777,143**	**777,143**
Financial liabilities						
Concession obligation	193,550	6,534	14,702	148,239	363,025	363,025
Borrowings: Facility A and B	-	-	124,021	590,929	714,950	714,950
Trade and other payables	137,723	171,743	44,631	9,932	364,029	364,029
Long term incentive scheme	-	-	-	2,867	2,867	2,867
Bank overdraft	49,673	-	-	-	49,673	49,673
Total financial liabilities	**380,946**	**178,277**	**183,354**	**751,967**	**1,494,544**	**1,494,544**
Overall open position	**(70,090)**	**(146,860)**	**27,488**	**(527,939)**	**(717,401)**	**(717,401)**

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.

Notes to the Financial Statements *(continued)*

42. RISK MANAGEMENT *(Continued)*

	Date of valuation	Total Ushs million	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Borrowings	31-Dec-17	667,556	-	667,556	-
	31-Dec-16	714,950	-	714,950	-
Concession financial asset/liability	31-Dec-17	394,985	-	394,985	-
	31-Dec-16	363,025	-	363,025	-
Other financial asset	31-Dec-17	499,770	-	-	499,770
	31-Dec-16	70,018	-	-	70,018

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

The Company has no non-financial assets and liabilities that are measured at fair value.

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

	Valuation technique	Significant observable inputs	Range (weighted average) 2017	2016
Interest rate swap – derivative	Market approach – discounted cash flows	Market interest rates for similar instruments	-	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 cove-nants and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may call for more capital investments from shareholders, offer shares to the public or adjust the timing of the repayments on the shareholder's loans.

The Company monitors capital using a gearing ratio, which is computed as net debt divided by total capital plus net debt. The Company includes within net debt: interest bearing borrowings and trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company. The Company aims to maintain a gearing ratio of between 50% and 70%. The Company's gearing ratio as at 31 December 2017was 63% (2016:64%) as shown in the table below:

	Note	2017 Ushs million	2016 Ushs million
Borrowings	25	659,616	702,437
Trade and other payables	30	401,266	364,028
Less: Cash and cash equivalents	32	(22,240)	(24,955)
Net debt		**1,038,642**	**1,041,510**
Issued capital	22	27,748	27,748
Share premium	23	70,292	70,292
Reserves		519,629	494,012
Total capital		**617,669**	**592,052**
Net debt and capital		1,656,311	1,633,562
Gearing ratio		**63%**	**64%**

Notes to the Financial Statements *(continued)*

42. RISK MANAGEMENT *(Continued)*

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 2017	Actual 2016
Interest Cover	≥ 2.5 : 1	4.81	6.33
Adjusted leverage	≤ 3.0 : 1	2.05	2.83
Relevant Financial Indebtedness to Equity	≤ 2.5 : 1	0.98	1.31
Debt Service Cover	≥ 1.15 : 1	1.15	1.41
Buy-Out Amount to Relevant Facility Amount	≥ 1.1 : 1	2.22	2.16

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 2017 and 2016.

43. EVENTS AFTER THE REPORTING DATE

Subsequent to 31 December 2017 ERA approved for the Company to collect lifeline surcharge revenue that was revenue earned in the years 2016 (Ushs 46,038 million) and 2017 (Ushs 57,672 million) as a result of an under provision in the tariff model in relation to the computation of surcharge on the lifeline tariff for the respective financial years (see note 3(c)).

44. INCORPORATION AND LICENSING

The Company is incorporated in Uganda under the Companies Act, 2012, and licensed under Licence No. 047 and 048 to carry on business of electricity distribution by Electricity Regulatory Authority under the provisions of the Electricity Act 1999, (Cap 145).

45. SEGMENT INFORMATION

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

The Company's core business activities are electricity distribution and electricity supply and service after sales. Electricity distribution entails operation, maintenance and upgrading of the electricity distribution network not exceeding 33 Kilovolts (KV) within the authorised territory within Uganda. Electricity supply and service after sales that entails connection of new customers, meter reading, billing customers, revenue collection, addressing customer queries, restoration of power interruptions, general customer care, customer sensitisation on energy efficiency and marketing available power to customers. The revenue from these business activities is categorised into energy sales (billings to customers), construction income and other operating income as presented in Notes 3 and 5.

The Company's customers are categorised into domestic, commercial, medium industrial, large industrial and street lighting. The retail tariff rates are broken into categories based on the type of customer and generally charged based on relative usage levels plus a fixed monthly service charge. The ERA approved base retail tariff rates for 2017, effective as of 15 January 2017 to 15 January 2018, are shown in the table below:

45. SEGMENT INFORMATION *(Continued)*

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.

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 15 is made up as follows:

	Substa-tions, Low Voltage Lines & Services	Land & Buildings	Furniture & Fittings, Tools & Office Equip	Com-puters, Comm. Equip't& MIS	Motor Vehicles	CWIP	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
Cost							
At 1 January 2016	**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**
Additions	-	-	-	-	-	236,427	236,427
Transfer from CWIP	232,130	470	2,408	3,504	47	(238,559)	-
Disposals	(16,284)	(11)	(1,541)	-	(3,335)	-	21,171
Transfer to financial asset	(433,690)	-	-	-	-	-	433,690
Translation difference	9,029	134	159	419	171	856	10,768
At 31 December 2017	**1,219,228**	**18,048**	**21,655**	**56,727**	**23,184**	**115,758**	**1,454,600**
Depreciation							
At 1 January 2016	**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**
Charge for the year	79,658	713	1,006	554	614	-	82,545
Disposals	(6,504)	-	-	-	-	-	(6,504)
Translation difference	9,096	196	(404)	2,765	(1,977)	-	9,676
At 31 December 2017	**334,812**	**4,572**	**17,662**	**52,469**	**22,712**	**-**	**432,227**
Net carrying amount							
At 31 December 2017	**884,416**	**13,476**	**3,993**	**4,258**	**472**	**115,758**	**1,022,373**
At 31 December 2016	**1,175,481**	**13,792**	**3,569**	**3,654**	**2,226**	**117,034**	**1,315,756**

Supplementary Information *(continued)*

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 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 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Average rate	3,616	3,423	3,242
Year-end rate	3,642	3,616	3,377

Source: Bank of Uganda

Supplementary Information *(continued)*

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
		Restated
	USD '000	USD '000
Revenue	408,275	396,130
Cost of sales	(265,669)	(257,640)
GROSS PROFIT	**142,606**	**138,490**
Other operating income	2,427	2,067
	145,033	**140,557**
Repair and maintenance expenses	(10,409)	(6,568)
Administration expenses	(44,877)	(44,263)
Effects of Amendment 5	(31,869)	-
Foreign exchange losses	664	(1,398)
Other expenses	(3,048)	(537)
OPERATING PROFIT BEFORE AMORTISATION	**55,494**	**87,791**
Amortisation of intangible assets	(24,662)	(18,058)
OPERATING PROFIT	**30,832**	**69,733**
Finance income	8,254	7,791
Finance costs	(26,985)	(20,290)
PROFIT BEFORE TAX	**12,101**	**57,234**
Income tax expense	(2,531)	(16,939)
PROFIT FOR THE YEAR	**9,570**	**40,295**

	2017	2016
	USD	USD
BASIC AND DILUTED EARNINGS PER SHARE	**0.01**	**0.025**

Supplementary Information *(continued)*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
		Restated
	USD '000	USD '000
Profit for the year	**9,570**	**40,295**
Other comprehensive income		
Items not to be reclassified to profit or loss		
Exchange differences on translation from functional currency, net of tax.	(9,115)	-
Total comprehensive income for the year	**455**	**40,295**

Supplementary Information *(continued)*

STATEMENT OF FINANCIAL POSITIONAS AT 31 DECEMBER 2017

	2017	2016	2016
		Restated	As stated
	USD '000	USD '000	USD '000
ASSETS			
Non-current assets			
Intangible assets	281,079	364,350	364,350
Other Financial Asset	137,209	19,366	19,366
Concession financial asset	108,441	100,408	100,408
	526,729	**484,124**	**484,124**
Current assets			
Inventories	16,059	15,356	15,356
Amount recoverable from customer capital contributions	3,421	1,931	1,931
Tax recoverable	2,230	-	3,275
Trade and other receivables	90,534	107,591	94,858
Bank balances	6,052	6,695	6,695
	118,296	**131,573**	**122,115**
TOTAL ASSETS	**645,025**	**615,697**	**606,239**
EQUITY AND LIABILITIES			
Equity			
Issued capital	8,217	8,217	8,217
Share premium	20,815	20,815	20,815
Retained earnings	146,277	140,110	134,721
Proposed Dividends	3,384	3,525	-
Reserves	(9,115)	-	-
	169,578	**172,667**	**163,753**
Non-current liabilities			
Borrowings	126,554	159,982	159,982
Concession obligation	108,441	100,408	100,408
Deferred income tax liability	44,163	30,780	30,780
Long term incentive plan	-	793	793
	279,158	**291,963**	**291,963**
Current liabilities			
Borrowings	54,540	34,303	34,303
Customer security deposits	169	36	36
Deferred income	10,369	1,937	1,937
Provisions	9,056	7,923	7,923
Trade and other payables	110,166	92,763	92,763
Current income tax payable	-	544	-
Bank overdraft	11,989	13,561	13,561
	196,289	**151,067**	**150,523**
TOTAL EQUITY AND LIABILITIES	**645,025**	**615,697**	**606,239**

Supplementary Information *(continued)*

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued capital	Share premium	Reserves	Retained earnings	Proposed Dividend	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At 1 January 2016	**8,217**	**20,815**	**-**	**108,413**	**11,733**	**149,178**
Profit for the year as previously reported	-	-	-	31,381	-	31,381
Llifeline revenue adjustment	-	-	-	8,914	-	8,914
Profit for the year - as restated	**-**	**-**	**-**	**40,295**	**-**	**40,295**
Other comprehensive income, net of tax	-	-	-	-	-	-
Final dividend for 2015	-	-	-	11,733	(11,733)	-
Dividend paid	-	-	-	(16,806)	-	(16,806)
Proposed dividend for 2016	-	-	-	(3,525)	3,525	-
At 31 December 2016 as restated	**8,217**	**20,815**	**-**	**140,110**	**3,525**	**172,667**
At 1 January 2017	**8,217**	**20,815**	**-**	**140,110**	**3,525**	**172,667**
Profit for the year	-	-	-	9,570	-	9,570
Other comprehensive income, net of tax	-	-	(9,115)	-	-	(9,115)
Final dividend for 2016	-	-	-	3,525	(3,525)	-
Dividend paid	-	-	-	(3,544)	-	(3,544)
Proposed dividend for 2017	-	-	-	(3,384)	3,384	-
At 31 December 2017	**8,217**	**20,815**	**(9,115)**	**146,277**	**3,384**	**169,578**

Supplementary Information *(continued)*

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	USD '000	Restated USD '000
Profit before tax	12,101	57,234
Adjustment for:		
Interest received from banks	(133)	(130)
Finance income on concession financial asset	(8,033)	(7,438)
Amortisation of intangible assets	24,662	18,058
Impairment/loss on disposal of intangible assets	4,056	536
Interest expense on Facilities A and B	12,481	9,813
Amortisation of deferred transaction costs	1,966	1,370
Finance cost on concession obligation	8,033	7,438
Fair value loss on valuation of other financial asset	2,193	
Finance income on other financial asset	(88)	(223)
Unrealised foreign exchange losses	(8)	72
	57,230	86,730
Changes in:		
Inventories	(703)	(2,505)
Amount recoverable from customer capital contributions	(1,490)	34
Trade and other receivables	17,057	(7,573)
Deferred income	8,432	(1,745)
Long term incentive plan	(793)	(3,498)
Provisions	1,133	987
Trade and other payables	17,403	(2,414)
Cash generated from operating activities	**98,269**	**70,016**
Interest received from banks	133	130
Current income tax paid	(1,039)	(7,734)
Interest paid on loan A and B	(12,447)	(10,180)
Commitment fees on Loan A and B	(685)	(1,128)
Net cash flows from operating activities	**84,231**	**51,104**
Investing activities		
Purchase of intangible assets	(65,385)	(92,832)
Net cash flows used in investing activities	(65,385)	(92,832)
Financing activities		
Repayment of borrowings	(34,506)	(17,253)
Proceeds from borrowings	20,000	70,000
Dividends paid	(3,544)	(16,806)
Net cash flows from financing activities	**(18,050)**	**35,941**
Net increase/(decrease) in cash and cash equivalents	796	(5,787)
Cash and cash equivalents at 1 January	(6,902)	(1,115)
Cash and cash equivalents at 31 December	**(6,106)**	**(6,902)**

Chairman's Letter to Shareholders

Dear shareholder,

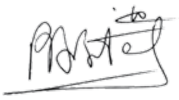
On behalf of the Board of Umeme Limited ("the Company"), I invite you to attend the sixth annual general meeting (AGM) of the Company following its listing on the Uganda Securities Exchange on 30th November 2012.

The meeting will be held at Sheraton Kampala Hotel, Rwenzori Ballroom on Thursday 17th May, 2018 at 9:30 am.

This is your opportunity to meet and question the Board and Management regarding your Company's performance for the year ended 31st December 2017. 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 150 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
20th April 2018

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Umeme Limited will be held at 9:30am on Thursday 17th May, 2018, at Sheraton Kampala Hotel, Rwenzori Ballroom to conduct the following business:

Ordinary Resolutions

1. To receive annual financial statements for year ended 31st December 2017 and directors and auditors reports thereon;
2. To receive and adopt recommendations of the Directors on declaration of a final dividend for 2017;
3. To approve appointment of external auditors for the year 2018;
4. To elect directors in place of those retiring:

In accordance with provisions of Articles 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 (with the exception of Mr Charles Chapman):

i) Gerald Ssendaula
ii) Charles Chapman
iii) Florence Mawejje

In accordance with provisions of Article 99 of the Company's Amended Articles of Association, the following Directors having been appointed after the last AGM hold office only until the next AGM and being eligible, offer themselves for re-election:

i) Andrew Buglass
ii) Anthony Marsh
iii) Stephen Emasu
iv) Riccardo Ridolfi
v) Pius Bigirimana

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 their behalf. A proxy form is included in the 2017 Annual Report and is available on the Company website at 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 14th May 2018.

2. Dividend payment

The dividend, if approved at the AGM, will be paid on or about 6th July 2018, to shareholders whose names appear on the share register at close of business on 20th June 2018. Shareholders are advised to contact their brokers to update their bank account details. Shareholders desiring to receive their 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
25th April, 2018

Company Secretary:
Shonubi, Musoke and Co. Advocates
SM Chambers
Plot 14 Hannington Road
P.O. Box 3213,
Kampala, Uganda
www.shonubimusoke.co.ug

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 8 to 13 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 69 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 70 of the Annual Report.

4 **Major shareholders**
Details of major shareholders of the Company are set out on page 118 of the Annual Report.

5 **Share capital of the Company**
Details of the share capital of the Company are set out on pages 118 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 28th March 2018. 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 14th May, 2018.

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, Rwenzori Ball Room on the17th May 2018, and at any adjournment thereof.

Signed this ______________________day of _____________________2018

Please read the notes on the next page

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.

2. To be effective, completed proxy forms must be lodged by not later than 1700hrs on the 14th May 2018 with either the share registrars or the registered office:

REGISTERED ADDRESS	COMPANY SECRETARY	SHARE REGISTRARS
Umeme Limited Rwenzori House, Plot 1 Lumumba Avenue P. O. Box 23841, Kampala, Uganda Tel: 0312360600 Email: Info@umeme.co.ug **www.umeme.co.ug**	**Shonubi, Musoke & Co. Advocates** SM Chambers Plot 14 Hannington Road P.O. Box 3213, Kampala, Uganda **www.shonubimusoke.co.ug**	**Custody and Registrar Services Uganda Ltd.** 12th Floor DTB Centre Kampala Road Kampala, Uganda. **www.crsltd.co.ke**

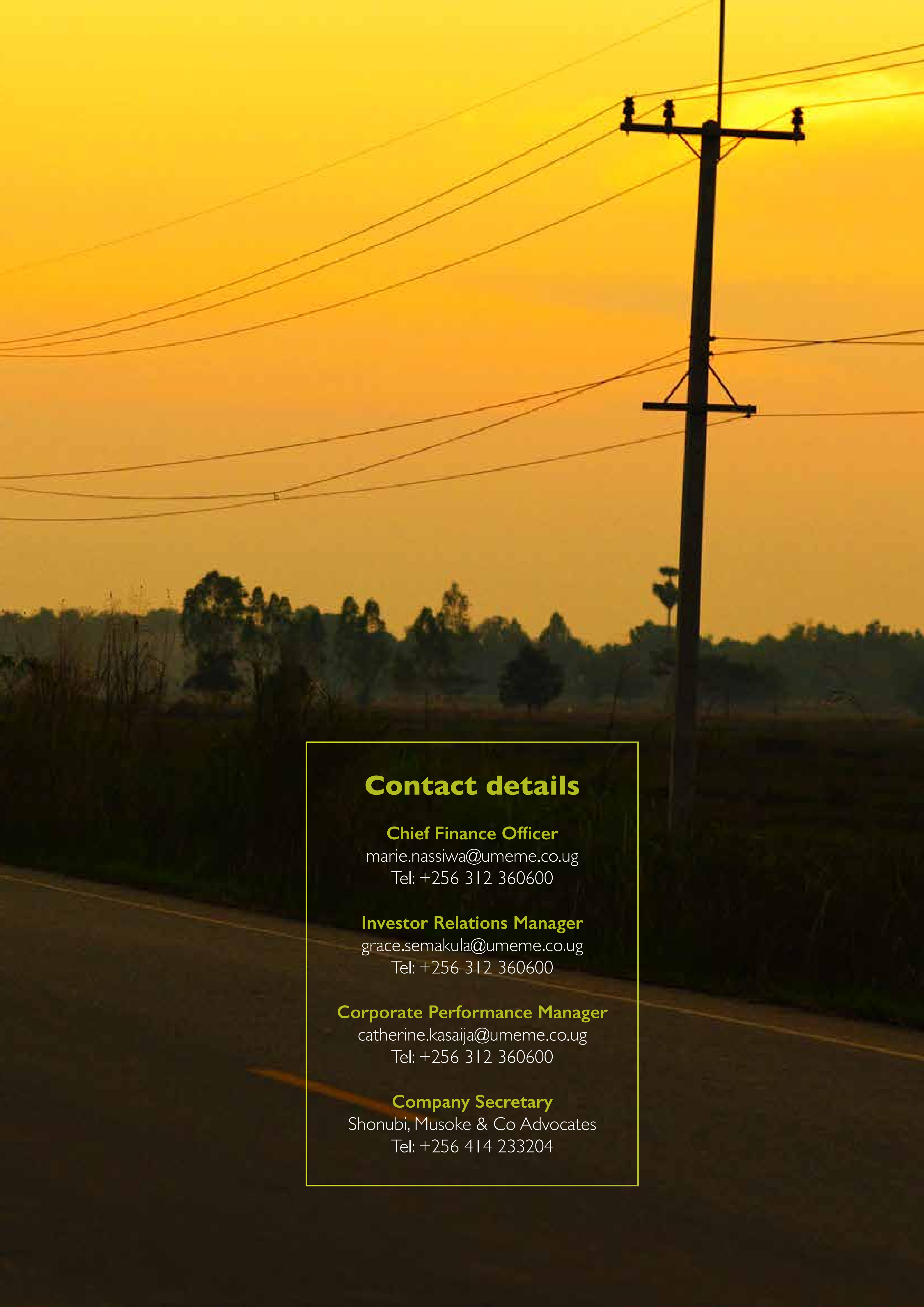
3. The completion and lodging of this form of proxy will not prevent the relevant shareholder from attending the AGM and speaking and voting in person at the AGM instead of the proxy.

4. The Chairman of the AGM may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.

5. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.
6. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company. In the case of a corporation, a resolution of the board or equivalent body shall be required.

7. Where there are joint holders of ordinary shares:
   a. any one holder may sign the proxy form; and
   b. the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders who tender a vote {whether in person or by proxy} appear in the Company's register) will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

Notes



Contact details

Chief Finance Officer
marie.nassiwa@umeme.co.ug
Tel: +256 312 360600

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

Umeme Limited
Rwenzori House, Plot 1 Lumumba Avenue. P. O. Box 23841, Kampala, Uganda.

For customer service inquiries call **0800 285285, 0800385385** (Toll free), **0312 185185**
or email **callcentre@umeme.co.ug** website: **www.umeme.co.ug**

or follow us on Umemelimited @UmemeLtd 0772 285285