Electricity Distribution for a Better Uganda

UMEME

Powering Uganda

ANNUAL **REPORT** 2020

Mukono North UETCL Substation commissioned in 2020

Contents

LIST OF ACRONYMS AND ABBREVIATIONS

AGM	Annual General Meeting
BST	Bulk Supply Tariff
Capex	Capital Expenditure
CGU	Cash Generating Unit
DOMC	Distribution, Operating and Maintenance Costs
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EIR	Effective Interest Rate
ECL	Expected Credit Losses
ECP	Electricity Connections Policy
ERA	Electricity Regulatory Authority
ESG	Environmental, Social and Governance
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or loss
GDP	Gross Domestic Product
GoU	Government of Uganda
HVE	Total Energy Purchased
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
ISA	International Standards on Auditing
IPP	Independent Power Producer
IVA	Independent Verification Agency
KV	Kilo-Volts
IT	Information Technology
LED	Light-Emitting Diode
LV	Low Voltage
MV	Medium Voltage
NSSF	National Social Security Fund
MEMD	Ministry of Energy and Mineral Development
OBA	Output Based Aid
OCI	Other Comprehensive Income
Opex	Operating Expenditure
PSP	Power Supply Price
P&L	Profit and Loss
PV	Present Value
RQ	Reconciling Amount
SHE	Safety, Health and Environment
SMT	Senior Management Team
SPPI	Solely Payment of Principal and Interest
TOU	Time of Use
UEDCL	Uganda Electricity Distribution Company Limited
UETCL	Uganda Electricity Transmission Company Limited
URA	Uganda Revenue Authority
Ushs	Uganda Shillings
USD	United States Dollars
VAT	Value Added Tax
WHT	Withholding Tax
WIP	Work In Progress

1 THE INTEGRATED ANNUAL REPORT

1.1 About the Report

We are pleased to report to our shareholders and stakeholders on the performance of Umeme Limited "Umeme" for the year ended 31 December 2020. In this report, we report on our financial performance and operational results in relation to the economic, social, environmental, and corporate governance framework. The report covers value creation, electricity supply industry, risks/opportunities, their impact, and outcomes to the varying stakeholders, pointing to matters we consider material to the business operations.

1.2 Scope and Boundary

The report covers both financial and non-financial information and provides information that give an integrated view of the Company's business operations.
The Financial Information is prepared in accordance International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and the requirements of the Companies Act, 2012 of Uganda. The report is also guided by principles and requirements of the Uganda Securities Exchange and the Nairobi Securities Exchange.

The non-financial information is summarised from the Company's internal and external data sources.

The report is for the year ended 31 December 2020.

1.3 Audit and Assurance

The report was reviewed by the The Board Audit Committee and approved by the Board of Directors.

The financial report was audited by the Independent External Auditors, who also reviewed the entire annual report. The Company's internal audit function also provides internal assurance to the Board, through the Board Audit Committee in relation the compliance, risk management and internal controls of the Company.

1.4 Financial and Non-Financial Information

The report includes both financial and non-financial information. The financial information mainly relates to audited financial statements which appear on page 69 to page 154 of this report.

The non-financial information is covered under all other sections of the report

1.5 Feedback

We appreciate your feedback on our annual reports for further improvement of future reporting. Send the reporting improvement feedback to info@umeme.co.ug.

2 WHAT WE STAND FOR

Our Purpose

Umeme is mandated to build, operate and maintain Uganda's electricity distribution infrastructure in delivery of electricity supply services to its customers. The company operations are aligned to the Government agenda of ensuring achievement of universal access to modern energy while ensuring a sustainable and efficient electricity supply industry.

Our ambitions are ingrained in our pursuit of being:

- **Uganda's main and preferred electricity distributor, delivering value to our customers, the Government, and stakeholders**
- **Employer of choice, attracting, developing, and retaining top talent**
- **an attractive investment for shareholders and other capital providers through provision of short- and long-term value.**

With the increasing generation capacity and build-up of the transmission back bone, we consider continued investment in scaling up the distribution capacity and reach as fundamental in provision of stable and quality supply to our existing and future customers, in tandem with the National Development Goals.

Our Vision

Powering communities, business and industry for a prosperous Uganda

We aim to be at the centre of Uganda's social economic transformation through the distribution and supply of safe and reliable electricity.

Our Mission

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

Our Values

Our Core Values embody our beliefs and guide our behaviour in the conduct of business operations to achieve our aspirations:

We place the **Safety** of our employees and the public at the centre of our actions

We provide an experience of exceptional **Customer Service**

We act with **Integrity,** fairness and transparency in all our dealings

We deliver our services as **One Team**

We deliver our services and value through **Innovation** and the zeal to succeed continuously raising the bar on our performance.

3 OUR BUSINESS

3.1 Who We Are

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

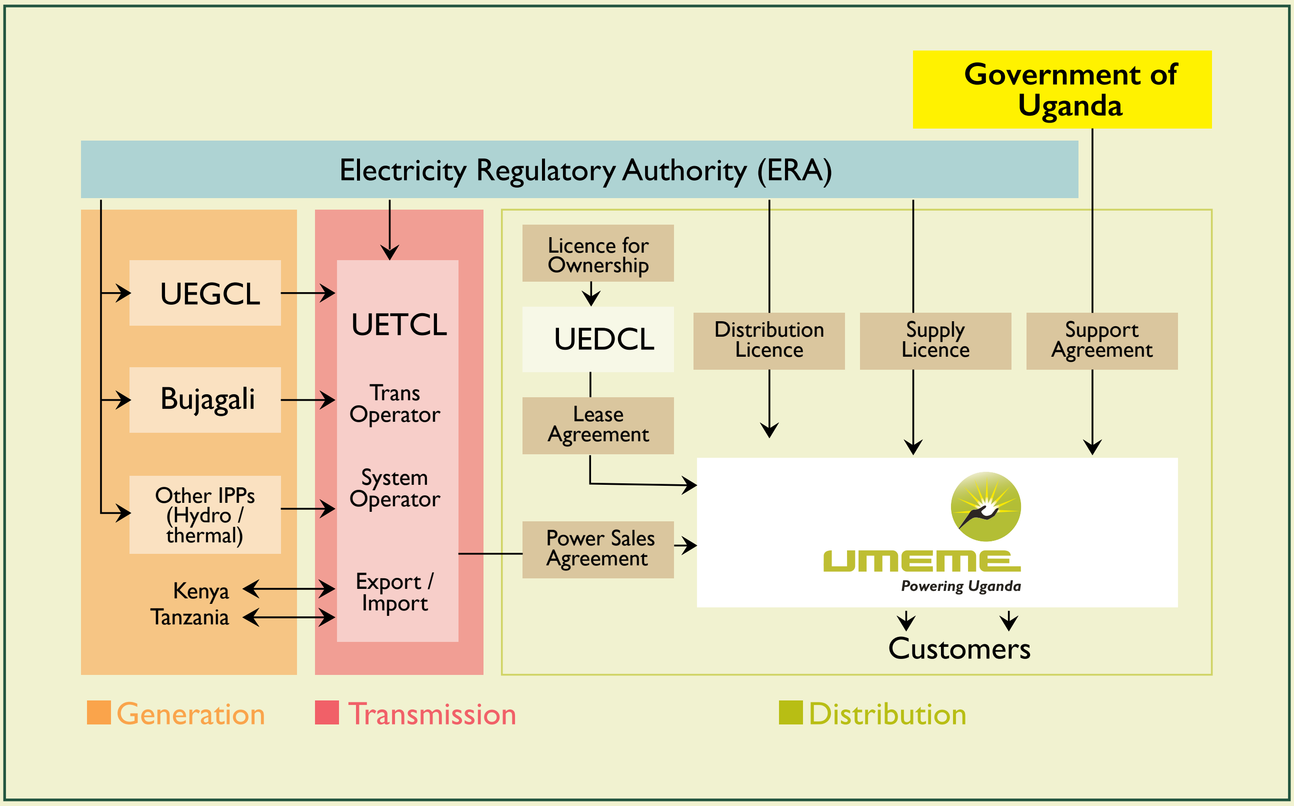
The National Social Security Fund that has 23% shareholding in Umeme Limited, is currently the largest shareholder. (see list of top ten shareholders on page 114).

The Company operates a 20-year electricity distribution concession from the Government of Uganda that took effect on 1st March 2005. After the electricity sector reforms in 1999, Uganda adopted a single buyer electricity sector model, where Uganda Electricity Transmission Company Limited (UETCL) is the System Operator, responsible for the purchase of electricity from all Independent Power Producers, import and export of electricity and being Umeme's sole bulk supplier.

As an electricity distributor, Umeme is licensed to distribute and supply electricity to customers operating between 33kV and 240 volts.

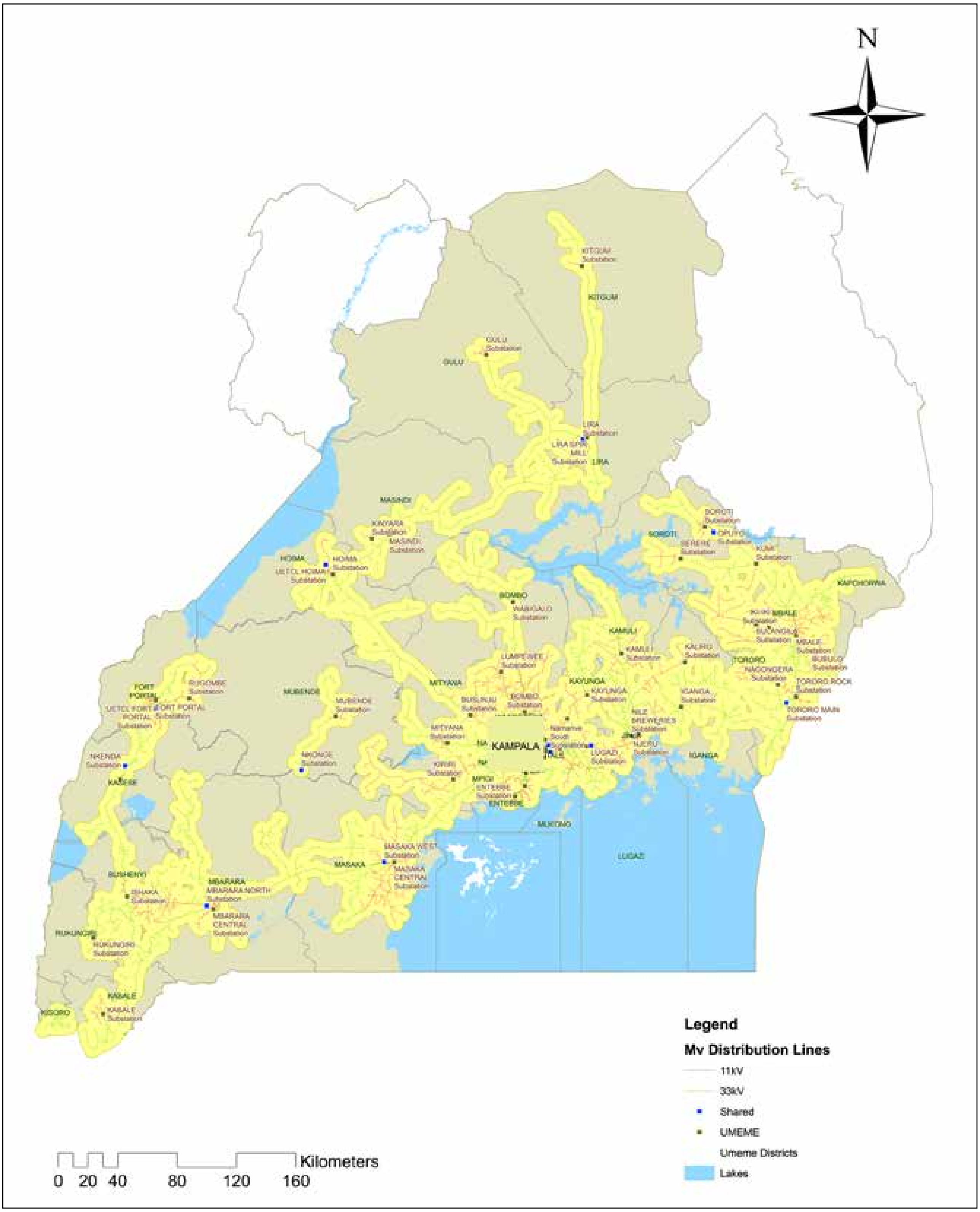
This mandate involves, operation, maintenance and upgrade of electricity distribution infrastructure, electricity retail and provision of related services to customers. We distribute 97% of electricity in Uganda, serving 1.5 million customers that include domestic households, commercial small and medium enterprises, and industrial customers.

The sector is regulated by the Electricity Regulatory Authority (ERA), whose mandate include setting operating standards, sector monitoring and setting appropriate end user tariffs.



3.2 Our Electricity Distribution Footprint

(11kV and 33kV, Distribution Lines)



The distribution infrastructure is composed of 161 terminal points with Uganda Electricity Transmission Company at their 20 substations; Umeme's 69 distribution substations; 15,564 km of Medium Voltage network, 14,014 distribution transformers and 21,788 kms of low voltage network, including 1.5 million metering points.

The network distribution operations are split between Kampala and Up Country, further split int0 13 technical engineering areas.

3.3 Our Service Centres

We operate from 27 service centres split into 4 Operations Regions (Western, North Eastern, Kampala East and Kampala West), further split into 40 operations centres.

Gulu Substation the capacity of which has been recently doubled to 10MW

Mukono North UETCL Substation commissioned in 2020

3.4 Corporate Information

Principal Place of Business and Registered Address

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

Company Secretary

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

Auditors

ERNST AND YOUNG
Certified Public Accountants
Plot 18 Clement Hill Road
Shimoni Office Village
P. O. Box 7215, 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

dfcu Bank Limited
Impala House
Plot 13 Kimathi Avenue
P. O. Box 70, Kampala, Uganda

Main Lawyers

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

SEBALU & LULE ADVOCATES
SM Chambers
14 Mackinnon Road, Nakasero
P. O. Box 2255, Kampala, Uganda

3.5 Key Performance Statistics for the Year 2020

Key Performance Statistics for the Year 2020

Financial statistics	2020 Ushs million	2019 Ushs million	2020 USD '000	2019 USD '000
Financial results - for the year				
Revenue	1,660,841	1,776,597	446,027	478,947
Gross profit	478,989	594,100	128,635	160,166
EBITDA	245,686	376,347	65,980	101,463
Operating profit	92,998	245,571	24,600	65,517
Profit before tax	62,961	204,357	16,534	54,406
Profit for the year	43,081	139,152	11,195	36,828
Capital investments – for the year				
Investment in the distribution network	278,744	104,817	74,858	28,257
Financial position - At year-end				
Total assets	2,665,040	2,541,774	730,062	692,541
Equity	803,206	833,520	220,032	227,103
Outstanding interest - bearing term borrowings	517,104	556,934	141,656	151,744
Cash flow data – for the year				
Net cash flows from operating activities	277,141	194,149	74,688	52,004
Net cash flows used in investing activities	(278,744)	(104,683)	(74,858)	(28,221)
Net cash flows used in financing activities	(106,493)	(20,529)	(28,849)	(5,169)
Per share	**Ushs**	**Ushs**		
Basic and diluted earnings per share	27	86	0.007	0.023
Proposed dividend per share – final dividend	12.20	41.34	0.0033	0.0113

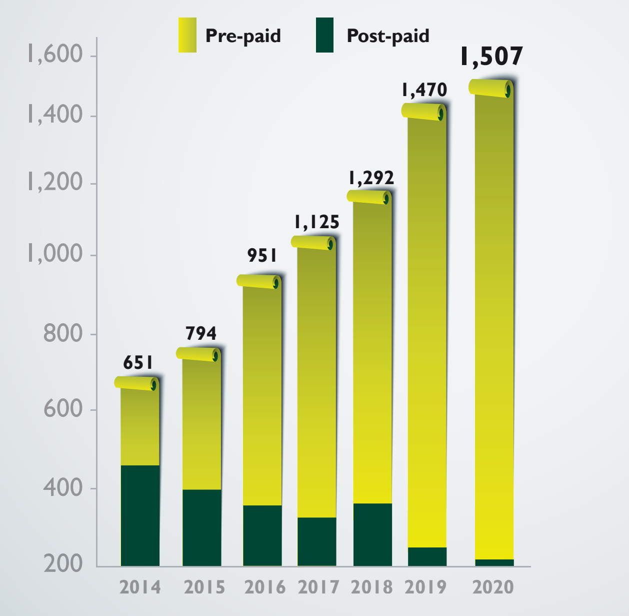
Operating and other statistics	2020	2019
Electricity sales during the year (GWh)	3,201	3,183
Electricity purchases during the year (GWh)	3,879	3,806
Energy losses (percentage)	17.5%	16.4%
Revenue collections rate (percentage)	100.3%	99.7%
Total length of distribution lines (Km)	15,564	14,923
Total length of low voltage lines (Km)	21,788	20,933
Total distribution transformers at year-end	14,014	13,142
Bulk supply off take points (UETCL substations 132KV/66KV/33KV/11KV)	20	19
Distribution substations (33KV/11KV)	60	58
New connections during the year	59,623	178,152
Total number of consumers	1,506,920	1,469,963
Total number of Company employees	1,619	1,635
Exchange rate: US Dollar (USD) to Uganda Shilling (Ushs) - at year-end	3,650	3,670
Exchange rate: USD to Ushs (annual average)	3,724	3,709

The detailed results for the year and financial position as at year-end are presented in the statement of profit or loss and statement of financial position, respectively in the financial statements.

3.5 Operational Performance Highlights

Customer

Customer Numbers



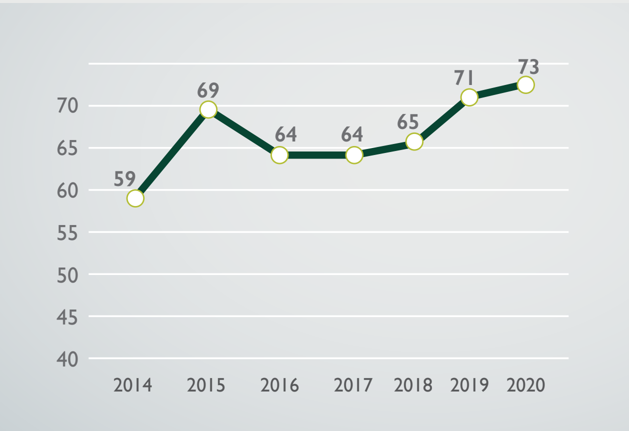
59,623

Customers added to the Grid

We connected 59,623 customers to the grid during the period under review. The key challenge for the lower than projected connections was the limited GoU funding for the free connections programme under ECP leading to a backlog build-up of 210,000 applications as of 31 December 2020. This was compounded by the COVID 19 restrictions and effects.

Cumulatively, 97% of customers are on pre-paid metering, contributing 30% of the revenues.

Customer Satisfaction Index



72.5%

Customer Satisfaction Index Achieved

We achieved a customer satisfaction index of 72.5% compared to 71% of 2019. The Net Promoter Score was 10. From the recent independent survey, customers consider the following as important attributes to improve service satisfaction:

- Quality and reliability of supply
- Responsive service
- New connections
- Electricity tariffs

Our service strategy is focused on addressing these concerns

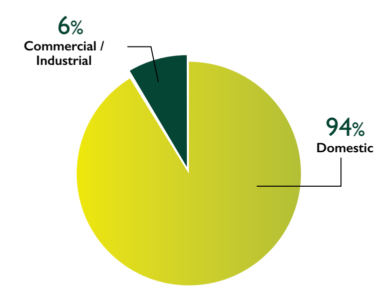
Customer Profiles

Customer Numbers

Customer Category	2020	2019	Growth
Domestic	1,416,819	1,348,084	5%
Commercial*	86,428	118,340	-27%
Street Lighting	201	237	-15%
Industrial - Medium	2,845	2,714	5%
Industrial - Large	578	551	5%
Industrial - Extra Large	49	37	32%
	1,506,920	**1,469,963**	

** Reduction is due to customer category reclassification to domestic*

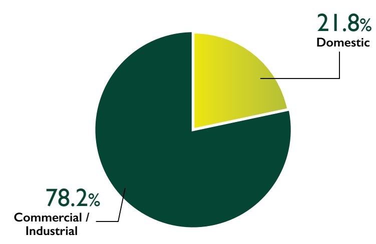
Customers per Tariff Category



Electricity Sales (GWh)

Customer Category	2020	2019	Growth (y/y)
Domestic	698	666	5%
Commercial	336	365	-8%
Street Lighting	1.6	1.3	23%
Industrial - Medium	455	500	-9%
Industrial - Large	813	890	-9%
Industrial - Extra Large	898	761	18%
	3,201	**3,183**	**1%**

Electricity Sales (GWh) per Tariff Category

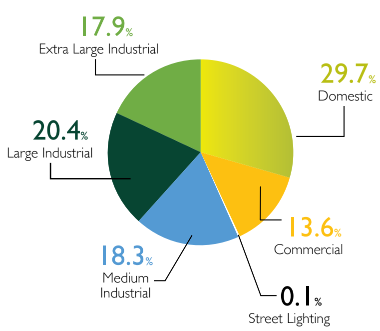


Electricity Sales (Ushs billion)

Customer Category	2020	2019	Growth	% Share
Domestic	477	461	3%	29.7%
Commercial	219	248	-12%	13.6%
Street Lighting	1.0	1.0	0%	0.1%
Industrial - Medium	294	339	-13%	18.3%
Industrial - Large	327	359	-9%	20.4%
Industrial - Extra Large	288	247	17%	17.9%
	1,606	**1,655**	**-3%**	

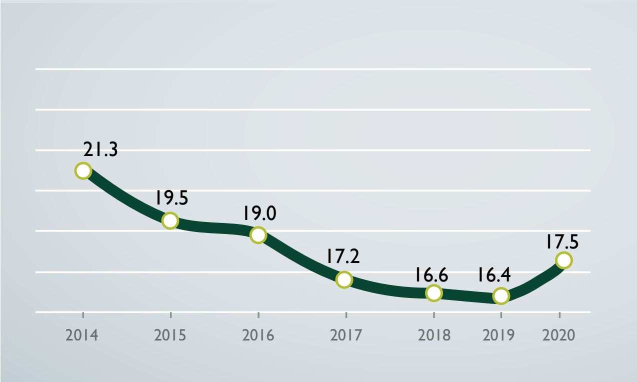
Note the impact of Covid-19 on revenues

Sales Distribution



Operational Results

Energy Losses (%)



at **17.5%**

Our Losses strategy for the year was aimed at reducing towards the regulatory target of 14% and indeed we achieved a 3 months average of 15% in Q1 2020.

The losses trajectory was thereafter negatively impacted due to limited loss reduction field activities due to pandemic restrictions and the suspension of the ECP that resulted into illegal connections thereby leading to lost revenues and cashflows of Ushs 56 billion (USD 15m)

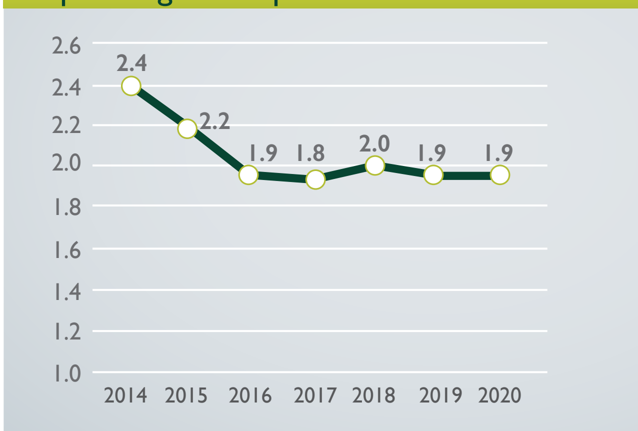
Revenue Collections (%)

at **100.3%**

Collections improved on account of rollout of pre-paid metering, Government payments and the general improved electricity bills payment culture.

Covid-19 Pandemic restrictions that had an negative impact on the economy in general on the other had resulted into electricity arrears of Ushs 30 billion. We are are proactively pursuing collection of these arrears in 2021.

Operating Costs per KWh Sold



at **1.9USD Cents**

The opex per KWh sold on average remained at US Cents 1.9. Though there was an increase in operating costs of Ushs 3.7 billion to 226 billion in 2020 compared to 2019, the business remains to optimising its cost structure for operational efficiency gains.

Network Infrastructure

Distribution Substations

60 Distribution substations

9 Distribution Switching Stations

Network Length - 37,352 KM

+4%

MV - 15,564

LV - 21,788

UETCL Transmission Nodes

20 UETCL substations

161 Points

Distribution Transformers

14,014

Transformers

+ 6%

One of our auxillary transformers

3.7 Financial Performance Highlights

Revenues **Ushs 1.7 trillion**	Gross Profit **Ushs 479 billion**
Operating Costs **Ushs 226 billion**	EBITDA **Ushs 246 billion**
Profit after Tax **Ushs 43 billion**	Dividends for the Year **Ushs 19.8 billion**
Earnings Per Share **Ushs 27**	Dividend per Share **Ushs 12.2**
Operating Cashflow **Ushs 277 billion**	Capital Investments **Ushs 279 billion**
Outstanding Debt **Ushs 517 billion**	Shareholder Equity **Ushs 803 billion**
Term Debt & Interest Paid **Ushs 147 billion** *Repayments – Ushs 110 billion; Interest Paid – 37 billion*	Dividends Paid **Ushs 67 billion**
Taxes Remitted to URA **Ushs 95 billion** *Composed of direct and indirect tax remittances*	BST Payment to UETCL **Ushs 1.2 trillion**
Payments to Other Government Agencies **Ushs 32 billion**	

Making it easier to pay your electricity bills

OPTIONS AVAILABLE **24/7**

- Finance Trust Bank — Putting Women First
- Centenary Bank
- Equity Bank • Your Listening, Caring Partner
- MTN Mobile Money
- EzeeMoney — Just like that
- 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
- absa
- Housing Finance Bank
- citi
- E-pay
- dfcu BANK
- DTB — Diamond Trust Bank
- PostBank
- Orient Bank Limited
- KCB Bank
- GTBank

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UMEME

Powering Uganda

4 MANAGEMENT REVIEW & ANALYSIS

Overall, in 2020, the effects of the pandemic and lags in regulatory income recoveries impacted the overall operational and financial performance. We focused on ensuring continuity of supply and the safety and well-being of the staff. We hereby present an analysis of the financial results for the year ended 31 December 2020:

Net Revenues decreased to Ushs **1,661** **billion**

Gross Profit reduced to Ushs **479** **billion**

Operating costs increased to Ushs **226** **billion**

EBITDA for the year reduced to Ushs **246** **billion**

Revenue

Revenue which includes revenue from the ECP, decreased by 7% to Ushs 1,661 billion in 2020 compared to Ushs 1,777 billion in 2019. Notwithstanding the 3% decrease in electricity sales to Ushs 1,606 billion, revenues from the provision of ECP services reduced by 72% to Ushs 54 billion from Ushs 190 billion of 2019, due to suspension of the ECP Program. The total electricity sales volume remained in line with 2019 levels, with regression in the commercial and medium industrial tariff categories, offset by the increase in demand by the large industrial users.

Cost of Sales

Cost of sales which includes cost of implementing the ECP, reduced by 0.1% to Ushs 1,182 billion from Ushs 1,183 billion in 2019. The main drivers were an increase in electricity purchase costs by 13% to Ushs 1,116 billion from Ushs 984 billion in 2019 driven by 2% volume growth, and an over 9% increase in the Bulk Supply Tariff.

The ECP costs relating to completed connections recognized during the year reduced to Ushs 56.7 billion compared to Ushs 189.6 billion of 2019 mainly due to the suspension of the program during the year.

Gross Profit

The resultant gross profit reduced by 19.4% to Ushs 479 billion compared to Ushs 594.1 billion in 2019.

Operating Costs

Operating costs increased by 6% to Ushs 226 billion in 2020 from Ushs 214 billion in 2019. Operating costs were mainly driven by increase in repairs and maintenance costs and implementing COVID-19 Standard Operating Procedures.

The Company is undertaking cost optimisation initiatives to take advantage of the strategic ICT investments undertaken and new ways of doing business.

Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA)

The EBITDA for the year reduced to Ushs 246 billion compared to Ushs 376 billion of 2019 driven by performance on gross margin and operating costs as noted above.

Financing Costs

Finance costs reduced by 17% primarily due to reduction of interest expense incurred on facilities A and B, following the repayment of principal of Ushs 110 billion (USD 29.7m) and reduction in the variable 6-month LIBOR rates.

Income taxes

Based on the financial performance of the Company, the income tax charge for the year reduced to Ushs 19.9 billion, reflecting an effective average tax rate of 31.6% compared to Ushs. 65.2 billion of 2019.

Profit after Tax

Profit after Tax reduced by 69%, to Ushs 43.1 billion from Ushs. 139.2 billion of 2019.

We achieved an EPS of Ushs 26.5 compared to Ushs 85.7 of 2019.

Balance Sheet Analysis

Total assets as of 31 December 2020 were Ushs 2,665 billion compared to Ushs 2,542 billion in 2019, an increase of 5%. The increase was underpinned by the capital assets additions and higher inventory levels.

Shareholder Equity reduced by 4%, from Ushs 834 billion in 2019 to Ushs 803 billion in 2020. The decline is due to dividends paid of Ushs 67.1 billion while profit for the year was Ushs 43.1 billion.

Outstanding interest-bearing debt reduced to Ushs 517 billion in 2020 from Ushs 557 billion in 2019. The Company utilized the final drawdown and accessed Ushs 71 billion as part of a term facility of USD 70 million that was concluded in 2019. The Company repaid Ushs 110 billion (2019: Ushs 232 billion) in settlement of the short and long term facilities.

Our Debt-to-Equity ratio is 0.6 which is well within our loan covenant ratio of 2.5. We were compliant with all borrowing covenants during the financial year.

Analysis of Cash flows

During the year under review, the Company generated Ushs 277 billion (2019: Ushs 194 billion) from operating activities. The cash generated was used to fund some of the capital investments, dividends, and financing obligations.

Profit after Tax reduced to Ushs
43.1
billion

Total Assets increased by **4%** to Ushs
2,665
billion

Generated Ushs
277
billion
cash flows from operations

Capital Investments in the year totalled Ushs
279
billion

Paid Ushs
67.1
billion
as 2019 final dividends

5 CHAIRMAN'S REPORT

It gives me pleasure to report to our shareholders and stakeholders on the results and the prospects of Umeme Limited. I extend my sincere appreciation to the shareholders, the Board, management and staff for the continued support and drive to provide electricity distribution services to our customers.

We started year 2020 with optimism and hope for a brighter 2020. The year has been challenging, disrupted by the Covid-19 pandemic that has negatively impacted our business, our customers, the Country and the world at large. Electricity demand dropped; safety risks to our staff increased; supply chains were disrupted; the way of doing business drastically changed and the general economic outlook remains uncertain.

During the period, we prioritised the safety and well being of our staff, continued provision of electricity services and protection of the business to minimise the emerging effects on the Company's wellbeing.

Operational Performance

Our 2020 performance is behind the curve arising out of Covid-19 effects, reduced electricity demand, regulatory lag and increased energy losses. We leveraged our investments in technology and safety cautiousness of our staff to continue with business operations.

Our revenues dropped by 7% to UShs 1661 billion compared to Ushs 1,777 billion of 2019. We noted a reduction in electricity demand in high margin commercial and industrial customers of 9%. The cost of sales increased on account of an increase in the bulk supply tariff of 9%. The cost of operations increased by 6% to UShs 226 billion due to Covid-19 related costs and network maintenance costs.

As a result, profits after tax decreased to Ushs. 43.1 billion from Ushs 139.2 billion of 2019.

The operating cashflow for the year was Ushs 277 billion, that was utilised to finance investments of Ushs 277 billion in the distribution grid, repay term debts of Ushs 110 billion and 2019 final dividends of Ushs 67.1 billion.

Dividends

Based on our performance, consistent with our dividend policy, the Board recommends a final dividend of Ushs 12.2 per share payable on or about 19 July 2021, subject to the approval by the shareholders at the Annual General Meeting.

> The pandemic has challenged us to rethink our business models to protect and enhance delivery of value to our stakeholders. In the coming year, we are re-organising the business, taking advantage of investments in technology, and directing resources to high value driving levers.

Regulatory Environment

The regulatory environment is still challenging, with balancing acts of the desire to reduce end user tariffs, while driving up sector investments and constrained demand. We note the ongoing dialogue with the Electricity Regulatory Authority to address the current constraints negatively impacting the business operations:

- Addressing the regulatory lag on operational costs for 2019 excluded from the 2020 end user tariffs. We have registered our dispute with the Electricity Disputes Tribunal for resolution.
- The ongoing verification of completed investments for their subsequent recovery.
- The need for joint sector efforts to resolve the lack of funding for new connections. The current 210,000 applications backlog is frustrating to our customers and negatively contributing to the increase in power losses. In addition there are other areas related to resourcing supply reliability and delivery of the regulatory targets.

I am glad to inform you that the tax dispute with Uganda Revenue Authority on treatment of capital asset additions for tax purposes was determined by the Tax Appeals Tribunal in our favour. While the Uganda Revenue Authority did not appeal the decision, the Uganda Electricity Distribution Company, the other party impacted by the decision, appealed in the High Court. We look forward to a favourable outcome in the Court process.

Growing Electricity Supply Industry

The Government of Uganda has prioritised investments in the electricity sector especially in generation and transmission to drive industrialisation and increase grid connections. In 2021, Karuma HPP – 600 MW and Acwha HPP – 49 MW are due to be commissioned, increasing the Country's installed capacity to over 2,000 MW. There is urgency in continued investments in the distribution grid to evacuate the power to the last mile consumer connections and high load centre connections. A longer electricity distribution Concession Contract beyond 2025 is critical for capital raising and deployment.

Shareholders, as from the last communication to you at the Annual General Meeting, we continued negotiations with Government on the urgency of concluding the concession extension process to unlock long term financing for investments in the electricity distribution system. We await Government to restart the process, with the political elections cycle now concluded.

Business Reorganisation

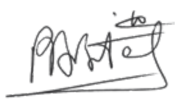
The pandemic has challenged us to rethink our business models to protect and enhance delivery of value to our stakeholders. In the coming year, we are re-organising the business, taking advantage of investments in technology, and directing resources to high value driving levers. We are prioritising; investments in the networks, regulatory income recovery, optimising our costs structure, reduction of power losses, distribution efficiency, improving supply reliability and diversifying to tap into new revenue streams. This will in turn improve the operational performance and deliver improved financial returns to our shareholders.

Changes in the Board

Mr. Pieter Adriaan Faling has resigned from the Board effective 19 March 2021. Mr. Pieter Adriaan Faling joined the Board in February 2015 and continuously served for the last 6 years. On behalf of the Company, I thank Mr. Faling for his dedicated service on the Board and wish him well in his new endeavours.

Conclusion

I wish to thank fellow Directors of the Board, our staff, shareholders, customers, business partners, the Government, and other stakeholders for the continued support to Umeme Limited. We re affirm our commitment to continuous improvements in delivery of our mandate as the leading electricity distribution service provider in Uganda. Our plans are closely knitted with those of Government, while delivering sustainable value to our customers and shareholders.



Patrick Bitature
Chairman, Board of Directors
Umeme Limited

6 MANAGING DIRECTOR'S REPORT

Dear shareholders, I take the pleasure of presenting to you this report for the year ended 31 December 2020. With the pandemic, the year was very challenging, but we did what we could under the circumstances to ensure continuity of business operations.

Our response plan was geared to ensuring the safety of our staff, continuity of services and minimising the short-term effects on the Company while positioning ourselves for a strong rebound. The investments we made in technology and the distribution network positions the Company at a strong footing for business continuity and improved service delivery.

Safety

Covid-19 expanded our safety sphere. We rolled out out our business continuity plan, including implementation of the Standard Operating Procedures as directed by the Government. Electricity supply being an essential service, we appreciate the support provided by the various Government agencies to ensure continuity of our operations even during the stringent lock down period between March and October 2020.

On the electricity front, with sadness we note the 7 public fatalities that occurred during the year arising out of interference with the electricity distribution infrastructure.

We continued, albeit at a slow pace, with staff technical trainings, provision of Personal Protective Equipment (PPE) and continuous communications for staff to remain vigilant on safety while executing their work.

Distribution Efficiency

Electricity demand remains at the same 2019 levels with very marginal growth of 18 GWh to 3,201 GWh. The highest growth category was the large industrial customers, while the commercial and medium industrials receded by 9%.

We registered an increase in power losses to 17.5% compared to 16.4% of 2019. This was on account of limited field activities due to restrictions on movement and the increased pending ECP connections due to limited Government funding.

Despite the challenges in the economy, we collected 100.3% of the billed revenues. The collection of Ushs 97 billion (USD 26m) from the Government related to implementation of the free connections programme remains outstanding. The Government has re-assured us that the arrears shall be provided for in the next financial year commencing on 1 July 2021.

Our Customers

We conducted a customer satisfaction survey through PARS, the independent consultants. We achieved a satisfaction index of 72.5% compared to 70% of 2019. The Net Promoter Score was positive 10. While we note the improved performance, we are cognisant of the customer feedback, on the need to further improve supply reliability and responsiveness of service, especially for new connections.

We stabilised the vending system as we undertake the procurement of a

> We concluded the implementation of our investment plan for the year of Ushs 279 billion. We have submitted the investments for regulatory approval and inclusion in the assets base.

comprehensive integrated customer information management system.

Network Investments

We concluded the implementation of our investment plan for the year of Ushs 279 billion (USD 75million). We have submitted the investments for regulatory approval and inclusion in the assets base. The investments were focused on the high growth nodes in Mbale, Buikwe Industrial Park, Jinja and Kampala. It involved scale up of substations at Gulu, Bombo, Kakiri, Ntinda, Nakawa and Mbale.

We also integrated the distribution network to the UETCL new substations at Mukono North, Mbale, Iganga, Namanve and Luzira.

We converted 168,000 customers from post-paid to pre-paid metering, thus improving efficiencies and collection rates. Pre-payment metering constitutes 97% of our customer base.

Investment in Technology

We continued to rollout out our ICT strategy, aimed at integrating and streamlining business operations, with SAP Hana as the integrating hub. During the year we rolled out 4 more SAP modules which now include, financials, materials management, plant maintenance, project system, EHS and human capital-payroll.

We also moved our mailing system to Microsoft products, which came in handy for collaboration and remote working.

We commenced the implementation of GNIS for networks information, to be integrated with SCADA and OMS.

Process Improvements

We commenced the process of documenting and aligning our processes to technology for the smooth business operation. We aim to achieve the Integrated Management Systems certification by ISO in the later quarters of 2021.

Our People

Our staff form the fabric of the organisation in the delivery of service. Covid-19 restricted our operations and changed the way of work, advocating for remote working solutions, with support of emerging technology.

We scaled back on trainings, except for those delivered through online channels. During the year we completed the Management Development Programme jointly provided by Umeme and MAT Abacus Business School.

We continue to refine the performance management framework to link performance across all function to deliver the corporate objectives. The framework and other Human Resources processes are now fully automated.

Turnaround Strategy

We recognised the slump in performance in 2020, with EBITDA reduction by 35% to Ushs 246 billion (USD 66 million) and PAT by 69% to Ushs 41.1 billion (USD 11.2 million). The main drivers of this were: regulatory lag, reduced demand among high margin commercial customers, increase in power losses and general cost increase.

Our turnaround strategy aims to address these levers for a better 2021 and beyond.

Conclusion

We are cognizant of the global Covid-19 pandemic and the disruptions that it has created to our operations, finances, and supply chains. The Company will continue to monitor, act as necessary and maintain service to customers, safeguard our staff and assets. We shall continue to follow Government's advice and directives as appropriate.

I take this opportunity to thank our customers and all stakeholders for the continued support to the business, as we work to achieve our vision of being at the centre of socio-economic transformation of Uganda through scaling up electrification. Our overall priorities remain aligned with stakeholder expectations of; safety, increasing electricity access, improving supply reliability, reduction of energy losses, creating demand for new generation capacity and efficiencies that positively impact the tariffs.

Selestino Babungi
Managing Director

Transformers at a new substation in Mbale Industrial Park

A new prepaid meter which we are currently rolling out

A team from Electricity Regulatory Authority inspects our Mbale Industrial Park substation

Umeme's Waligo substation that supplies Gayaza and surrounding areas

7 CORPORATE GOVERNANCE

7.1 Board of Directors

Mr. Patrick Bitature *(Chairman - Non Executive)*

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

Patrick has been on the Board since 2007.

He 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 telecom, real estate, power generation, agro-business, mining, hospitality tourism, hotels, and media interests. He is also a founding member of the Presidential Investors' Round Table (PIRT) and is the Honorary Consul, Australian Consulate in Uganda.

Hon. Gerald Ssendaula *(Non Executive)*

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

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

He is 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 over the years as Chairman of the Boards of Private Sector Foundation Uganda and Uganda Revenue Authority. He is the Chairman of the Board of Liberty Life Assurance and National Union of Coffee Agribusiness and Farm Enterprises (NUCAFE). He practices coffee farming.

He continues to be a Senior Presidential Advisor on finance affairs.

Mr. Pieter Adriaan Faling *(Non Executive and Independent Director)*

Graduate of the Advanced Executive Programme University of South Africa; Graduate of the Programme for executive development, Institute of Management Development, Lausanne; BSc in Mechanical Engineering, University of Pretoria

Piet has been on the board since 2015.

He chairs the Environment, Social and Governance Committee and is a member of the Strategic Review committee and Nominations Committees.

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 18 years, Pieter has also acted in advisory and management capacity to multiple energy projects in South Africa, Kosovo, Nigeria and Mozambique.

Pieter was appointed to the Umeme Board in February, 2015 and ceased to be a director on 19 March 2021.

Florence Namatta Mawejje *(Non Executive and Independent Director)*

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

Florence has been on the board since 2016.

She is a member of the Remunerations Committee, Environmental, Social and Governance and Strategic Review Committees.

Florence is a Human Resource professional with over 25 years of corporate executive experience, over 15 years of managing investment fund schemes as well as 5 years serving as a Non-Executive Director (NED) on several Boards. Her wealth of experience spans across multinational organizations in the Banking, Telecommunications, Fast Moving Consumer Goods (FMCGs), Energy, Manufacturing and Non - Government Organizations (NGOs) sectors in Uganda, Kenya, Tanzania, Mozambique, Zimbabwe, Malawi, and Zambia.

She is an executive coach and mentor to young people, especially young women.

She currently works with Centenary Bank as the General Manager Human Resource, while serving as a Board of Trustee in NSSF, Uganda Clays Ltd and Umeme Ltd, that are listed on USE and NSE. As an entrepreneur and investor in the education sector, she is a shareholder and NED at Silver Spoon Limited, where she once served as a Board Chairperson (2013 – 2015).

She is a graduate of Makerere University, Kampala an Alumni of the Female Future Leadership Program (FUE/ Confederation of Norwegian Business and Industry (NHO); the CEO Apprenticeship Program (CAP 2016) with IFE / Strathmore Business School (SBS); the Women Directors' Leadership Summit (2018) - SBS and member of the League for East African Directors (2019).

Anthony Marsh *(Non Executive and Independent Director)*

Bsc, Banking and Finance

Anthony has been on the board since 2017.

He chairs the Strategic Review Committee and is a member of the Audit committee and Customer Service and Loss Reduction Committee.

Anthony has over 35 years experience investing debt and equity in infrastructure, including power generation, transmission and distribution throughout Africa, Asia and Europe. He is currently on several infrastructure investment committees in Europe and Africa, and non executive Director of a charity seeking to expand the productive use of energy in the poorest parts of Africa. Previously the UK Government asked Anthony to set up the UK Green Investment Bank, of which he was Chair of the Investment Committee.

Andrew Buglass *(Non Executive and Independent Director)*

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

Andrew was elected a Non Executive Director on the 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, and served for 3 years as Co-Chair of the Low Carbon Finance Group. He is Chair of the Utility 2050 project led by Imperial College London.

Andrew is passionate about the long-term impacts of power generation and is an active advocate for innovative, low carbon technologies and to putting sustainability at the heart of the energy transition.

He is also appointed as a non-executive director for several companies in the electricity sector.

Mr. Stephen Emasu *(Non Executive and Independent Director)*

Chartered Accountant and Chartered Global Management Accountant (FCCA; CIPFA, ACMA, CGMA and CPA), Post graduate degree, London School of Economics and Political Science (LSE) and another from the University of Stirling.

Stephen has been on the board since 2018.

He is currently the chairman of the Board Audit Committee.

Stephen has worked in various areas in accounting, financial management, audit for over 35 years since graduating from Makerere University. He has over 10 years of audit experience having worked with PricewaterhouseCoopers as a Senior Audit Manager as well as a Technical Manager in the firm. This includes technical assistance to Supreme Audit Institutions.

For the past 18 years, Stephen has worked with and or provided technical assistance to various ministries responsible for finance in 11 African countries, and other countries outside Africa either through the IMF, the World Bank, UNDP, DIFID, and the EU. Some of the African countries include: Uganda, Ethiopia, Kenya, Tanzania, Rwanda, Malawi, Liberia, Sierra Leone, Swaziland and Afghanistan. He has been in the IMF roster of Experts in Public Financial Management (PFM) since 2012, and has participated in 23 IMF missions in many African countries in East Africa, Southern Africa, and West Africa on PFM matters.

He served for four years as the Chair of the ACCA Global Forum of the Public Sector since 2014 to the end of 2018. He also served for 9 years as a Board member of the Public Accounts Examination Board of the Institute of Certified Public Accountants of Uganda. He played a key role in the development of the ICPAU in the earlier years of the Institute.

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.

Mr. Riccardo Ridolfi *(Non Executive and Independent Director)*

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

Riccardo has been on the board since 2018.

He is a member of the Strategic Review Committee, Environment, Social and Governance Committee and Customer Service and Loss Reduction Committee.

Riccardo is an energy access pioneer committed to ending energy poverty.

He is the founder and CEO of Equatorial Power, a renewable energy company, focusing on access to productive energy through an integrated approach, beyond electrons to agro-processing and e-mobility.

Riccardo is also the co-founder of EnerGrow, a productive asset financing company designed to unlock the socio-economic benefit of access to power.

Through separate initiatives, he is also developing larger scale renewable energy projects for industrial growth. Previously, Riccardo led the minigrid division of a renewable energy company he co-founded.

He is a lawyer by training, qualified to practice in 3 jurisdictions, with experience in structured finance, PPPs and foreign investment.

Mr. Johan de Bruijn, CFA *(Non Executive and Independent Director)*

BEcon Economics Honours, CFA® charterholder.

Johan has been on the board since 2020.
He is a member of the Remuneration committee and Environment, Social and Governance committee.

Johan is the co-founder of 337 Frontier Capital. Prior to founding 337 Frontier Capital, Johan worked for The Rock Creek Group and helped established the Kimberlite Frontier Africa Strategy. Johan was also the Portfolio Manager for the Africa Emerging Markets Fund at Ashmore Equities Investment Management (US) LLC.

Previously he held Fund Manager and Analyst positions with Sanlam Investment Management in South Africa, where he focused on companies headquartered in South Africa. From 2004 to 2008, he was instrumental in building up Sanlam's pan-Africa investment platform. Johan also worked as an Analyst for Coronation Fund Managers in South Africa, focusing on small-cap, mining and non-mining resource companies

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 and operations of the Company, which includes execution of the corporate strategy to deliver results for the different stakeholders. Since 2006, Selestino previously served in different management roles including being the Chief Finance Officer from 2011 till his appointment as Managing Director. During that period, the company was listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange, raised capital to fund the USD 440m capital investment for the period to 2018 and was involved in strategic regulatory negotiations including the 2012 to 2018 tariff parameter setting. Prior to Umeme, he 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 was appointed to the Board in 2015. She is a member of the Environment Social & Governance Committee of the Board and the Customer Service and Loss Reduction committee.

She was appointed to the role of Chief Operations Officer in 2012 and currently oversees the retail and commercial performance of Umeme.

Florence is passionate about gender equality and proactively empowers women to take up leadership positions through mentoring. She is a team leader with Girls for Girls, an initiative aimed at mentoring girls through inspiring and equipping them with skills to build courage to lead in their communities. She serves as an advisor to various other socially impactful initiatives.

7.2 Management Team

Mr. Selestino Babungi
Managing Director

(See profile on page 28)

Mrs. Florence Nakimbugwe Nsubuga
Chief Operations Officer

(See profile on page 28)

Simbiso Chimbima
Chief Technical Officer

Simbiso joined Umeme in 2007.

Simbiso is an electrical engineer with 31 years experience in the electricity supply industry.

Before joining Umeme, Simbiso worked for the Zimbabwe Electricity Supply Authority where he was general manager responsible for power distribution and retail.

Simbiso holds a Bsc Honours in Electrical Engineering, an MBA and a Diploma in Asset Management. He is a professional engineer registered with the Engineers Registration Board of Uganda and the Zimbabwe Engineering Council. He is a member of the Zimbabwe Institution of Engineers, Member of the Institution of Electrical and Electronic Engineers and an associate member of the Institute of Asset Management..

Ross Masterman - *Chief Finance Officer*

Fellow of the Chartered Institute of Management Accountants (CIMA), FCMA, GCMA

Ross joined Umeme in October 2019

He is a CFO with global experience in emerging markets and a supporter of small business start-ups.

Ross has a wealth of experience leading finance functions and working in several African countries (Kenya, DRC, Nigeria, Tanzania and Uganda), the Middle East and Asia. Some of the companies served include Zain/Airtel, Mobitel, Saudi Telecom and Vodafone Uganda.

Blessing Nshaho - *Chief Corporate and Regulatory Officer*

Fellow of the Association of Chartered Certified Accountants UK, a member of the Institute of Asset Management UK (IAM) and holds a Bachelor of Science in Statistics and Psychology (MUK).

Blessing have been with Umeme since 2018.

Blessing's career spans over 19 years, having served in different positions at Ernst & Young (EY), in addition to numerous assignments as the CEO of Asset Business Solutions. At EY, he served as the Executive Director responsible for Advisory Services and Business Development in Uganda. In addition, he was the Associate Director Global Markets Technology Enablement, EY Global, in London for 3 years. Blessing previously served Umeme as a consultant in a number of transformation projects.

Isaac Serwadda - *Head of Capital Projects*

Bsc. Electrical Engineering, MUK (2003), Certified Asset Manager (Institute of Asset Management, UK) 2018, Certified PRINCE2 Project Management Practitioner (APMG, UK) 2008

Isaac has been with Umeme since August 2016

He is a registered Engineer with the Engineers' Registration Board (ERB), a Board member of the CEO Apprenticeship Program Alumni Association of Uganda (CAA-PA) and is a member of several associations including Uganda Institute of Professional Engineers (UIPE).

He is involved in the Rotary Club of Kampala North

Nelson Bagenda - *Chief Information Officer*

BA(Hons) Makerere University, MSc Computing, Birmingham University, OCA/P (Oracle University)

Nelson joined Umeme in July 2010.

He worked for British Telcom (BT Wholesale) and Virgin Media before joining Umeme.

In Umeme he has worked in IT service delivery, and has led several IT transformational projects.

He is a results-driven, Transformational IT profession with a proven record of success in global operations who has successfully worked across multiple industries including Utility services, Software engineering, Telecommunications and Broadband.

Fred Mwita - *Head Human Resources*

PhD Human Resources

Fred joined as the Head of Human Resources in September 2018.

He is a Certified DDI and PMI (Development Dimensions Inc. and Project Management Inc).

He has worked in various industries such as FMCG, Mining, Healthcare, Banking, ICT, and Telecommunications with over 20 years of hands on experience in large multinationals.

Patrice Namisano - *Head of Supply Chain*

MSc Logistics and Transportation, BA (Hons) Pol Science and Economics, PGD Purchasing and Supplies, MCIP, CILT

Patrice joined Umeme in 2017 and spearheaded the transformation of the Supply Chain function.

He has over 20 years working experience in Manufacturing, Distribution and Telecon. Previously Supply Chain Director Operations, Airtel Africa. Area Logistics Manager Sub Saharan Africa British American Tobacco. His interests are in transforming Supply Chains into integration, automation and Digitization.

Agnes Nalwanga Sekyanzi - *Head Customer Experience*

Bachelor of Commerce, Master of Economic Policy Management, Master of Business Administration

Agnes has been in Umeme since March 2005 and has served in several management roles in the Company.

She is passionate about customer happiness.

Ruth Doreen Mutebe - *Head Internal Audit*

Certified Public Accountant (CPA), Bachelor's Degree in Business Administration (Accounting), Graduate of Advanced Leadership training organized by Women's World Banking (New York), The Wharton School of Executive Education (USA), and Creative Metier (England).

Ruth Doreen has 18 years' vast experience in senior leadership in power utility, commercial and microfinance banking, internal auditing, external auditing, financial management, training, general business administration and board governance. She currently serves as the Treasurer at the African Federation of Institutes of Internal Auditors, and Board Secretary at the Institute of Internal Auditors Uganda.

She is a scholar of Information Technology/Security and Internal Audit, a trainer certified by the Institute of Internal Auditors – Florida, USA, and is also ISO 31000 (Risk Management) & ISO 22301 (Business Continuity Management) Certified.

She is a re-known speaker on aspects of internal auditing, corporate governance, risk management, quality assurance, financial management among others at Workshops and conferences in Africa and beyond. Ruth Doreen loves people and considers Audit as a Strategic Alliance/ Partnership towards achievement of Corporate Strategy.

Peter Kaujju - *Head of Communications*

Bachelor's degree in Mass Communication, Makerere University, MBA from ESAMI Business School.

Peter joined Umeme in 2020.

Before joining Umeme, Peter was the Head of Public and Corporate Affairs at Kampala Capital City Authority (KCCA) for 9 years and was part of the team that initiated and positioned the outstanding KCCA brand from the old KCC. He previously worked at the Uganda Revenue Authority and the New Vision.

He is a member of the Public Relations Association of Uganda and an Alumnus of Ecole National College (ENA) Paris, France with a qualification in Communication and Diplomacy. He holds a Certificate in Public Relations Strategies from the British Council and several certificates in Media Management from Reuters Foundation.

7.3 Corporate Governance Statement

The Company's Board of Directors (the "Board") recognizes the need for high standards of corporate governance and are committed to playing a critical role to the success of the Company and the enhancement of shareholders' value. The Board understands and appreciates that sound governance practices are fundamental in driving the Company's sustainability agenda and endeavours to ensure the Company meets the standards of Environmental, Social and Governance performance.

We demonstrate and inculcate the spirit of following good governance standards in dealing with our stakeholders that include; regulators, the Government, customers, suppliers, staff among others.

The Company has a Corporate Governance Framework which includes a skilled, diverse and independent Directors that form the Board and Committees including the Audit Committee, the Customer Service and Loss Reduction Committee, the Nominations Committee, the Strategic Review Committee, the Remuneration Committee, and the Environmental, Social and Governance Committee. The framework ensures accountability and effective decision making within the company.

Umeme is listed on the Uganda Securities Exchange, cross listed on the Nairobi Securities Exchange and regulated by the Electricity Regulatory Authority (ERA). The Company's governance structure and practices comply with the Companies Act (2012), the terms of its license and concession, respective Country listing rules plus Uganda and Kenya Capital Markets Authority requirements. In an endeavour to apply high standards as expected by Shareholders, the Company is continuously monitoring, adopting and applying best practices of corporate governance.

Board of Directors

Structure

The Board of Directors (the "Board"), sits at the top of the governance structure, tasked with oversight of all the Company's affairs, risk management and corporate governance. The Company has a unitary board structure.

The Board's composition is determined in accordance with the following governance principles, the board charter and best corporate governance practices:

- The roles of Chairman and Managing Director are separate and distinct.
- The Chairman of the Board is an independent non-executive director.
- The board comprises of no less than six (6) Directors and maintains a majority of independent directors.
- The board comprises of an appropriate range and mix of skills, knowledge, experience and diversity.
- The Audit Committee is chaired by an independent non- executive Director.

The directors comprehend their responsibility to act in the best interests of the Company and appropriately execute their duties independently. The directors engage and guide Management in the execution of its duties

Composition

The Board comprises of 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, experience and diversity which are integral to the successful operation of the organisation.

The directors' profiles and competencies can be seen on pages 24-28

Strategy

The Board is responsible for the Company's strategic direction and reviews the Company's plans and discusses and updates them in collaboration with management. The strategic direction taken by the board accounts for any risks and opportunities in the industry, the business operating environment and aligned with the Company's vision, values and performance goals.

On an annual basis, the Board approves the annual operating plan containing financial and non-financial operational targets. The Board provides oversight in the implementation of the plans thorough monthly and quarterly operational reports.

Board Terms of Reference

The Company has a Board Charter that defines the governance parameters within which the Board exists and operates. It states specific responsibilities to be discharged by the Board and its committees, 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's tasks include, but are not limited to;

- reporting to the shareholders;
- ensuring regulatory compliance;
- ensuring adequate risk management processes exist and are complied with;
- approval of key policies including investment, risk and strategy;
- 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 Dividends;
- and such other matters as are incidental to the above and relevant to fostering business growth and success..

Managing Director

It is the Board's responsibility to ensure that effective management is in place to implement Company strategy. The Board appoints the Managing Director to provide leadership in the day to day business operations. The Managing Director leads the Management team in implementing the Company's strategy and Board decisions and ensuring that the business and affairs of the Company are effectively managed.

The Managing Director reports to the Board on a quarterly basis and more frequently where necessary depending on the urgency of matters at hand.

Board Induction and Training

Members of the Board once appointed undergo a comprehensive induction process and other trainings which include site visits across the Country and meetings with senior management and sector stakeholders to enable them understand the business, its operating environment, strategy, key risks and challenges.

The Directors are kept abreast of all applicable legislations and regulations, 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 is also kept informed of the general public sentiments and concerns through local news updates, customer surveys and monthly operational reports.

The Company Secretary and the Managing Director coordinate the induction process and training of the Directors. During the year ended 31 December 2020, the board attended a Virtual Corporate Governance Master Class training on Corporate Governance and Compliance delivered by Scribe Services Ltd based in Nairobi, Kenya.

Board Evaluation

The Board is committed to continually assessing and improving its effectiveness. In accordance with the Board Charter, the Board conducts an annual self-review and includes the recommendations from the evaluation in their work plan. An evaluation of the board, its committees and the Company secretary was last conducted during the year 2019, however, due to the disruptions caused by COVID-19, we did not carry out one in 2020. The next evaluation cycle is scheduled for 2021.

The performance of the Managing Director is evaluated annually against targets set by the Board at the beginning of each year. This evaluation is conducted by the Board Chairman with support from the Non-Executive Directors.

Board and Management Engagement

The Senior Management Team and the Board interact regularly both at Board and Committee meetings and whenever called upon. Directors are at liberty to engage with Senior Managers directly on matters of interest or concern while maintaining a clear distinction between governance and operational matters.

Access to information

The Directors receive sufficient relevant information on financial, business and corporate issues to enable them take informed decisions at the Board meetings. In addition, monthly financial and operational reports are shared to keep the Directors abreast of the business operations.

The board is also where necessary, relies on independent expert advice to make informed decisions at the expense of the Company

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. The Board Nominations Committee sets and reviews the criteria for the appointment of directors.

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. Before considering and selecting directors, the Board through the Nomination Committee, evaluates the requirements of the Board and the Company in terms of skills, experience, knowledge, strategic goals, and selects individuals who complement those already on the Board and further progress the Company towards 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 to 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.

A summary of the directors' skills and experience are set out in the Directors biodata.

With exception of Mr. Pieter A. Faling, no other Director resignations have been recorded since the Annual General meeting held in August 2020.

Independence

The Board is aware that though various principles and factors are considered in determining the independence of its directors, criteria for independence is also determined by having regard to applicable circumstances.

The Board has considered the contractual relationships and positions of all its non-executive directors for the reporting period and is of the opinion that majority of the board was independent of management and free of any interests that could affect their judgment during the reporting period

Declaration of Interests

All directors are required to disclose their interests in any company matter, contract or engagement and if such a conflict exists, the relevant director is excused from consideration of the matter.

The Company Secretary is required to ensure that directors' contracts have no conflicts of interest. All existing conflicts during the year have been considered by the Board which has satisfied itself that the independence of the directors has not been compromised.

Delegation of Authority

The Board maintains a clear delegation of authority framework to ensure that the operations of the Company run smoothly but within an acceptable control framework.

To ensure efficiency within the governance structure, the Board has delegated some of its functions to Committees with clear terms of reference and reporting requirements. Each Committee's terms of reference set out its responsibilities, scope of authority, composition and procedures to be followed.

Board Remuneration policy

The Directors are remunerated at rates as approved by the shareholders at the Annual General Meetings. The rates are benchmarked to ensure adequacy to attract and retain the right Directors discharge their responsibilities.

Board Committees

a) Audit Committee

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

The Committee's responsibilities include:

- 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.

Composition: Stephen Emasu (Chairman), Andrew Buglass, Anthony Marsh and Hon. Gerald Ssendaula,

Four (4) meetings were held in 2020. The attendance of Audit Committee meetings in 2020 was as follows:

Director	17.03.2020	23.06.2020	10.08.2020	24.11.2020
Stephen Emasu	√	√	√	√
Gerald Ssendaula	√	√	A	√
Andrew Buglass	√	√	√	√
Anthony Marsh	√	√	√	√

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

b) Environmental, Social and Governance (ESG) Committee

The ESG Committee advises the Board in relation to environment, social and governance matters arising out of the activities of the Company as they affect employees, contractors, stakeholders 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.
- Assessing the effectiveness of the processes the Company uses to manage safety, health and environment risks

Composition: Pieter Adriaan Faling (Chairperson), Florence Namatta Mawejje, Johan De Bruijn, Riccardo Ridolfi, Florence Nsubuga and Selestino Babungi

Four (4) meetings were held in 2020. The attendance of the Environmental, Social and Governance (ESG) Committee was as follows:

Director	18.03.2020	24.06.2020	12.08.2020	25.11.2020
Pieter Adriaan Faling	√	√	√	√
Riccardo Ridolfi	√	√	√	√
Florence Namatta Mawejje	√	√	√	√
Florence Nsubuga	√	√	√	√
Selestino Babungi	√	√	√	√
Johan De Bruijn	N/A	N/A	√	√

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

c) Customer Service and Loss Reduction Committee (CSLR)

The Committee is responsible for overseeing and advising on service delivery and energy losses reduction strategy.

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.

Composition: Gerald Ssendaula (Chairperson), Pieter Adriaan Faling, Anthony Marsh, Riccardo Ridolfi, Florence Nsubuga and Selestino Babungi

Four (4) meetings were held in 2020. The attendance of the Customer Service and Loss Reduction Committee (CSLR) Meetings was as follows:

Director	17.03.2020	23.06.2020	11.08.2020	24.11.2020
Gerald Ssendaula	√	√	√	√
Pieter Adriaan Faling	√	√	√	√
Riccardo Ridolfi	√	√	√	√
Florence Nsubuga	√	√	√	√
Selestino Babungi	√	√	√	√
Anthony Marsh	√	√	√	√

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

d) 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 directors, senior managers and staff to create value for customers, shareholders and stakeholders. This is done while considering the performance of the individual, company, and the general pay environment.

It should be noted that the remuneration structure of the non-executive director fees is not related to the performance of the Company but rather to the skill, experience and time committed to discharge their duty..

The Committee's 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, Executive Directors and other members of the Senior Management;
- 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 130.

Composition: Andrew Buglass (Chairperson), Florence Namatta Mawejje, Johan De Bruijn

Four (4) meetings were held in 2019. The attendance of the Remuneration Committee in the year 2020 was as follows:

Director	17.03.2020	23.06.2020	12.08.2020	25.11.2020
Andrew Buglass	√	√	√	√
Florence Namatta Mawejje	√	√	√	√
Johan De Bruijn	N/A	N/A	√	√

e) Nomination Committee

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

The Committee's responsibilities include:

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

Composition: Patrick Bitature (Chairperson), Gerald Ssendaula and Pieter Adriaan Faling

In line with its mandate to hold at least one meeting a year, the Committee held three meetings in 2020. The attendance of the Nomination Committee in the year 2019 was as follows:

Director	18.03.2020	24.06.2020	24.11.2020
Patrick Bitature	√	√	√
Gerald Ssendaula	A	√	A
Pieter Adriaan Faling	√	√	√

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

f) Strategic Review Committee

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

The Committee's responsibilities include:

- Serve as the Planning Implementation Committee;
- Coordinate the collection and sharing of information, suggestions and proposals concerning long term planning for the Company;
- Study and report on specific issues and monitor specific projects as requested by the Board.
- Engage in strategic planning on the Company's Concession with the Government of Uganda.
- Establish and provide oversight of policies and frameworks that enhance the company's operational and financial performance
- Review the Company's 5 year and annual investment plans and underlying funding options
- To provide oversight of any unregulated business activities

Composition: Anthony Marsh (Chairperson), Patrick Bitature, Riccardo Ridolfi, Andrew Buglass, Florence Namatta Mawejje, Johan De Bruijn and Selestino Babungi

Four (4) meetings were held in 2020. The attendance of the Strategic Review Committee (SRC) was as follows:

Director	18.03.2020	24.06.2020	11.08.2020	25.11.2020
Anthony Marsh	√	√	√	√
Patrick Bitature	√	√	√	√
Selestino Babungi	√	√	√	√
Andrew Buglass	√	√	√	√
Riccardo Ridolfi	√	√	√	√
Florence Namatta Mawejje	√	√	√	√
Johan De Bruijn	N/A	N/A	√	√

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

Board meetings

The Board in advance sets its annual meetings timetable. The Board and Committee meetings are scheduled at least quarterly. Ad hoc meetings are held, as and when required by the circumstances.

Directors are provided with detailed board papers and reports well in advance of meetings. Board resolutions are ordinarily made through written resolutions, however, the Board 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. 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.

Board Composition: Patrick Bitature (Chairperson), Selestino Babungi, Anthony Marsh, Andrew Buglass, Florence Namatta Mawejje, Riccardo Ridolfi, Gerald Ssendaula, Stephen Emasu, Pieter Adriaan Faling, Johan De Bruijn and Florence Nsubuga

Four (4) meetings were held in 2020 and one Ad-Hoc Meeting as the need required. The attendance of Board meetings in 2020 was as follows:

Director	19.03.20	13.06.20	13.08.20	26.11.20	28.11.2019
Patrick Bitature	√	√	√	√	√
Pieter Adriaan Faling	√	√	√	√	√
Florence Nsubuga	√	√	√	√	√
Gerald Ssendaula	√	√	√	A	A
Selestino Babungi	√	√	√	√	√
Florence Namatta Mawejje	√	√	√	√	√
Andrew Buglass	√	√	√	√	√
Anthony Marsh	√	√	√	√	√
Riccardo Ridolfi	√	√	√	√	√
Stephen Emasu	√	√	√	√	√
Johan De Bruijn	N/A	N/A	√	√	

√ = Attendance; A = Apology; N/A= not yet appointed, √*AD = Attendance by Alternate *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, regulatory requirements, 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 is accountable directly to the Board for all matters regarding the proper functioning of the Board. The Company Secretary function is currently outsourced to Shonubi, Musoke & Co. Advocates.

Key deliberations by the Board

During the year, 2020, the board activities and discussions were focused on the following key matters.

a. Approval of 2019 Annual Report and Financial Statements and Press Release
b. Approval of 2019 Final Dividend Recommendations
c. Approval of Auditors fees
d. Approval of 2020 Annual Operating Plan and Budget
e. Approval of the 2020 Capital Investments Plan
f. Review of the draft 2021 Draft Annual Operating Plan and Budget
g. Approval the Interim Financial Statements
h. Approval the External Audit fees
i. Review of the Company's performance against the budget and regulatory targets
j. Review of the prospects of the Company specifically negotiations with the Government of Uganda on the concession extension
k. Review of future alternative business opportunities that the company can explore in the current environment
l. Review and approval of Director and employee compensations
m. Review and Monitoring of Significant Risks to the Company through Enterprise Risk Assessment review

n. Received, reviewed and approved Board Committee reports

Succession Planning

The Board continuously reviews and assesses the succession planning for Directors consistent with its needs through the Nominations Committee. The Shareholders approve the Non Executive Directors as proposed.

Shareholder Relations

In accordance with our Corporate Governance Framework, and to create shareholder value, promote transparency, equitable treatment of all shareholders and improve relationships, the board ensures that appropriate information is disclosed to shareholders and the public at the same time. Shareholders are also encouraged to attend the Annual General Meetings. At Annual General Meetings, the Chairman explains all proposed resolutions and gives ample time for discussion before a vote is taken.

The Company Auditors also attend the Annual General Meetings and are available to answer any queries by the shareholders regarding the audit and performance of the Company.

The Company has in place an Investor Relations Function that coordinates all shareholder/investor engagements. We are open to shareholder engagements through attendance of Investor Conferences, results conference calls and one-on-one engagements.

The Company engaged C&R Registrars, Share Registrar to handle day to day shareholder register issues. Dividends, when declared, are paid on time.

Stakeholder Engagement

The Company's long-term future is dependent on the mutual relationship with and goodwill of its stakeholders who include the Government of Uganda, Electricity Regulatory Authority, financial institutions, customers, suppliers and the public. The Company constantly engages the said stakeholders throughout the year to understand and address their needs.

During the year, several stakeholder engagements took place and some of the key events are highlighted in the Sustainability Report included on pages 44 of the Annual Report.

Dealing in Securities of the Company

The Company maintains 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 and employees who have 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, employees and directors are prohibited from trading in the Company's shares during closed periods. To the best of the company's knowledge, there has been no breach of this policy during the reporting period.

Related Party Transactions

Other than disclosures given in Notes 38 to the "Financial Statements", there were no transactions or proposed transactions that were material to either the Company or any related party. There were no other transactions with any related party that were unusual in their nature or conditions.

Sustainability

The company continues to pursue and adopt sustainable practices in its operations. It aims to create shared value as a member of community and mediate and manage risks that arise from its operations. The sustainability report on page 44 provides an analysis of the Company's sustainability performance for the year 2020.

Procurement policies

The Company maintains its procurement policies that promote a fair and transparent procurement process, with emphasis on value for money with our suppliers.

The Management Procurement Committee chaired by the Chief Financial Officer oversee the procurement cycle and ensure that there is appropriate risk assurance for procurement activities and engagements with stakeholders.

Ethics, code of conduct and organisational integrity

The code of business conduct describes what is expected of all our employees and third-party providers. The code is designed to guide Company employees to effectively make the right decisions while carrying out their daily activities according to the Company's prescribed ethical principles.

These principles maintain the highest standards of responsible practice for the Company and the business environment it operates. Unethical incidents are reported to the independent integrity department that is in-charge of overseeing all integrity related issues. Covered incidents in the code include insider trading, power theft, bribery, human resources related issues and conflict of interest. Conflict of interest principles include:

- Disclosure of any actual or potential conflict of interest to the line Manager in writing.
- keeping records of any disclosures made and the agreed actions.
- Acting with independence, demonstrating integrity and professionalism on behalf of Umeme.
- Acting in the best interest of Umeme.

The Company conducted trainings for employees mainly managers and new technicians and contractors & partners on compliance with the Code of business conduct during the year.

Staff members and business partners are also regularly sensitised on the need to report any suspected unethical business practices
The Company also has a whistleblowing policy that provides for a whistleblowing hotline managed by an independent, accredited, and external institution (Transparency International Uganda). Through the hotline, anonymous reports on unethical/fraudulent behaviour can be made without fear of retaliation from the suspected individuals. The hotline is available to both staff and customers. The integrity manager discusses these issues with the Managing Director and a report is shared with the ESG committee of the board. Staff members and business partners are also regularly sensitised on the need to report any suspected unethical business practices.

7.4 Principal Risks and Uncertainties

The Board maintains the responsibility of overseeing the effective management of risks and making overall decisions on which risks to take as a business. Through its risk management framework, risks continue to be identified, monitored and managed. The company's risk matrix is reviewed and assessed by the Audit Committee of the Board which then reports to the full Board.

The company's management implements risk management policies on a day to day basis and prepares and shares updates to the Board on a quarterly basis for discussion at the Audit committee and then Board meeting.

Risk Appetite Statement

The company only accepts the risks involved in achieving its strategic objectives and in line with its core strategy. Umeme operates in a sector that is inherently subject to a high degree of political, regulatory and legislative risk. Umeme strives to always inform its shareholders of any risk as required in its press releases. The key elements of Umeme's strategic framework – including the range and nature of the energy sector and Company's financial objectives – are fully reflective of its risk appetite. In areas where Umeme is exposed to risks for which is has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

In determining its appetite for specific risks, the Board is guided by three key principles:

- Risks should be consistent with Umeme's core purpose, financial objectives, strategy and values. In particular, safety is Umeme's first value and it has no appetite for risks brought on by unsafe actions;
- Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with Umeme's purpose, strategy and values; and'
- Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

Maintaining the right risk culture

Maintaining a sustainable risk culture that is embodied by all staff is critical to our ability to exponentially seize opportunities and manage our key risks. As such, the Company takes deliberate efforts to continuously reinforce a positive risk culture, by;

- Continuous capacity building and risk awareness programs to influence staff behaviour and attitude towards risk management;

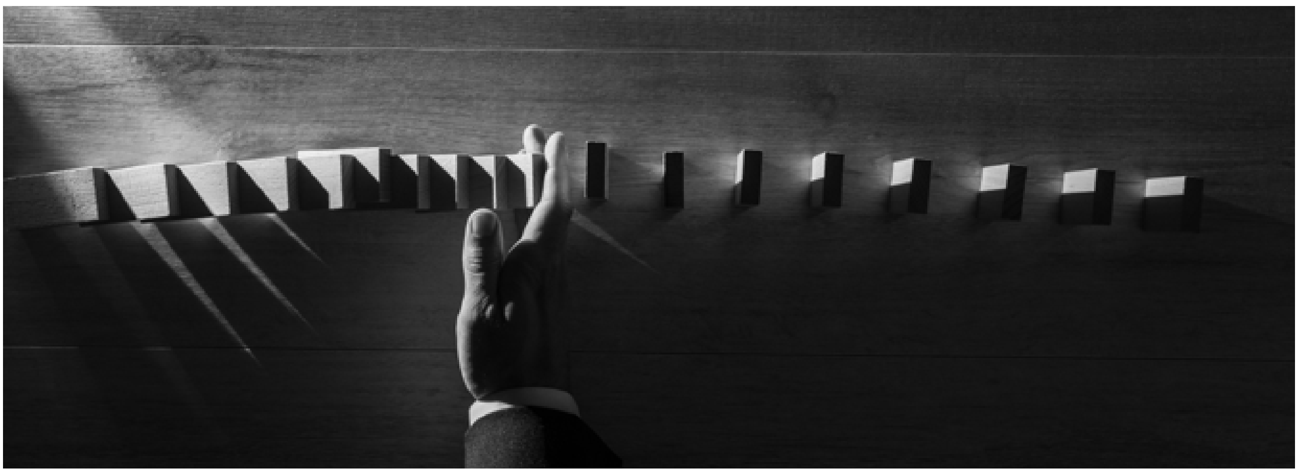
- Incorporation of risk management into the business policies and procedures as well as the reporting framework at the different management levels;
- Decision making based on prior comprehensive risk assessments results; and
- Orientation of new staff on risk management practices.

The risk culture enables the Company to maintain a risk portfolio that is balanced.

Governance And Management Of Risk
The Board Audit Committee performs its duty to ensure adequate risk management processes exist and are complied with. This is done in accordance with its terms of reference. On a quarterly basis, the Board reviews and discusses the risk register. Management ensures appropriate actions are taken to manage the risks to minimise their impact on the business.

Internal Audit provides the last line of accountability by performing risk-based audits. Internal Audit provides independent and objective assurance to the Board and senior management on the effectiveness of the risk management process and the internal controls environment.

Effectively, all staff play a fundamental and interrelated role in the management of enterprise risks.



Our Principal Risks

Principle Risks	Implication	Mitigation
1. Covid-19 Effects	· Health and well being of staff and contractors · Negative impact on electricity demand and ability of our customers to settle their bills · Increased non-technical losses through power theft · Increased operational costs · Constrained Government fiscal resources to settle their obligations · Service delivery disruption	· Implementation of Standard Operating Procedures across the business operation · Prudent resources allocation · Investment in technology to deliver service · Closure engagement with customers to ensure bill payments
2. Regulatory and Legal Risks	· Reputational Risks from not meeting regulatory targets · Financial and Operational risks from changing regulatory requirements · Need for concession extension	· Continuous proactive engagement with the Regulator on requirements · Engagement/ negotiations with Government
3. Operational Risks	· Increasing power theft leading to higher power losses · Increased public accidents from contact with the network	· Community operations and campaigns to address power theft i.e. Project Komboa · Use of all media platforms to sensitise the public on the proper and safe use of electricity
4. Healthy, Safety and the Environment	· Possibility of high COVID-19 infection rate of employees · Electrocution and loss of lives of staff and the public from contact with the electricity network	· The company set up a COVID-19 response plan and actively practices the Standard Operating Procedures (SOPs) · Continuous training for technical teams working on the network in ORHVS
5. Network and IT Infrastructure Failure	· Disruptions in service delivery · High costs of recovery of failed infrastructure · Unreliability of power supply	· Prioritizing investment in technology and systems thorough the Board and Regulator · Continuous maintenance of the electricity network to avoid degradation
6. Financial Risks	· Possible liquidity risk due to the slow down of the economy during COVID-19 lockdowns and suspension of ECP · Probable inability of the company to meet its financial obligations due to slowdown of the economy	· Continued engagements with Government on recovery of revenue shortfalls from ECP and COVID -19 and provision of sustainable funding for ECP · Engagement with customers on payment of bills and management of payment plans
7. Cyber Security	· Reputational damage due to unsecure data management arising from introduction of new technologies and increased remote applications	· Investment in IT systems security and continued innovation of platforms to identify areas of weakness · Phishing awareness campaigns
8. Human Capital Risks	· Increased staff turnover due to uncertainty caused during COVID-19	· Continued engagements with staff through virtual platforms to address any concerns and share updates · Training staff and critical talent management

8 SUSTAINABILITY REPORT

The Board, Management and Staff recognise that our Company's commitment to sustainability can be seen not only in our financial results but other operational matrices in relation to our stakeholders and the environment.

We encourage open engagement with our stakeholders to understand their needs and how the business can co-exist with them. The Company embraces multiple channels including, radio and television talk shows, online webinars, social media and through our 24/7 contact center.

The governance framework in place ensures that the business sustainability and going concern assessments are evaluated time and again.

Umeme's framework is driven by the view that the real-time creation of value for shareholders and community enhances the long-term viability of Umeme. This Framework has been designed to ensure that in achieving its core business objectives, Umeme conducts itself in a way that respects the social contract it has with society and creates long-term value. The framework features a core set of policies and procedures supported by a governance structure designed to ensure Umeme addresses the most material issues to its key stakeholders and wider society

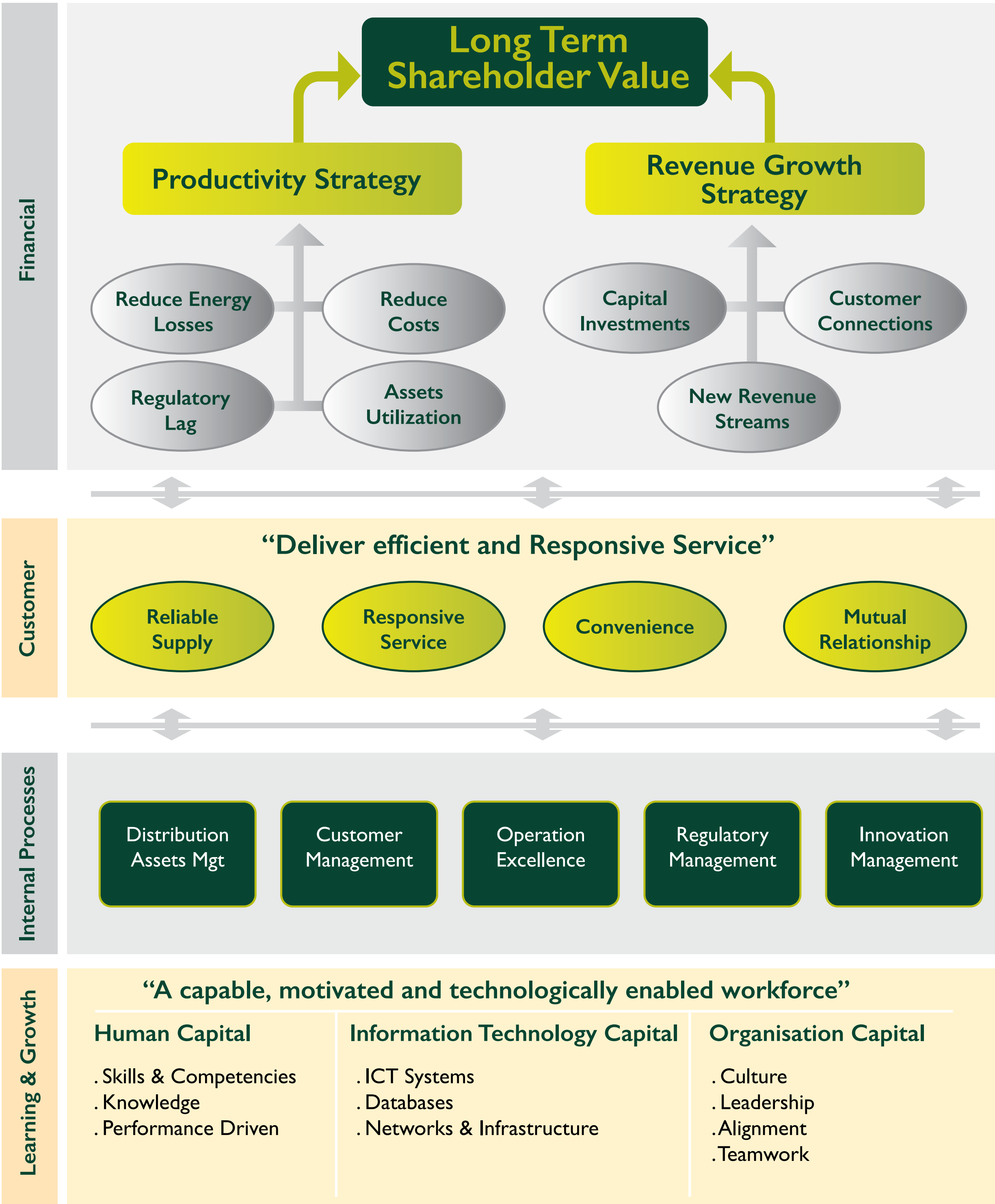
The Managing Director has the overall lead day-today responsibility for sustainability, with the Board having a strategic setting, oversight and monitoring of implementation responsibility.

The global outbreak of Covid-19 pandemic posed new challenges to our total business operations. Our strategy was revised to survive and anchor the company for growth post the pandemic. Our business, staff, customers and the Country at large were negatively impacted.

As detailed in the next section, the sustainability agenda has been split into financial, social and environmental components.

8.1 Financial Sustainability

The financial sustainability of Umeme is anchored on its business model as an investment electricity distribution infrastructure concessionaire, mandated to build, operate, maintain and deliver electricity supply services to our customers in Uganda. As a regulated business, investing in the network, delivering service, and ensuring adequate cost recoveries are fundamental to the financial performance of the organisation. Our business is summarised in the Strategy Map below:



Overall, the financial model is premised on capital investments, service delivery, achievement of regulatory targets and electricity tariffs.

a. Electricity Demand and Supply

The Country's installed capacity increased from 1,153 MW in 2019 to 1,254 MW and is projected to reach 2,000 MW following the commissioning of Karuma (600 MW) and Achwa Hydro Power Plant in 2021.

Uganda's Electricity Value Chain

Generation Source (No.)	Installed Capacity (MW)
Hydro (68%)	854
Mini hydro (16%)	201
Solar (4%)	50
Thermal (4%)	50
Co-Generation (8%)	98
Total	**1,253**

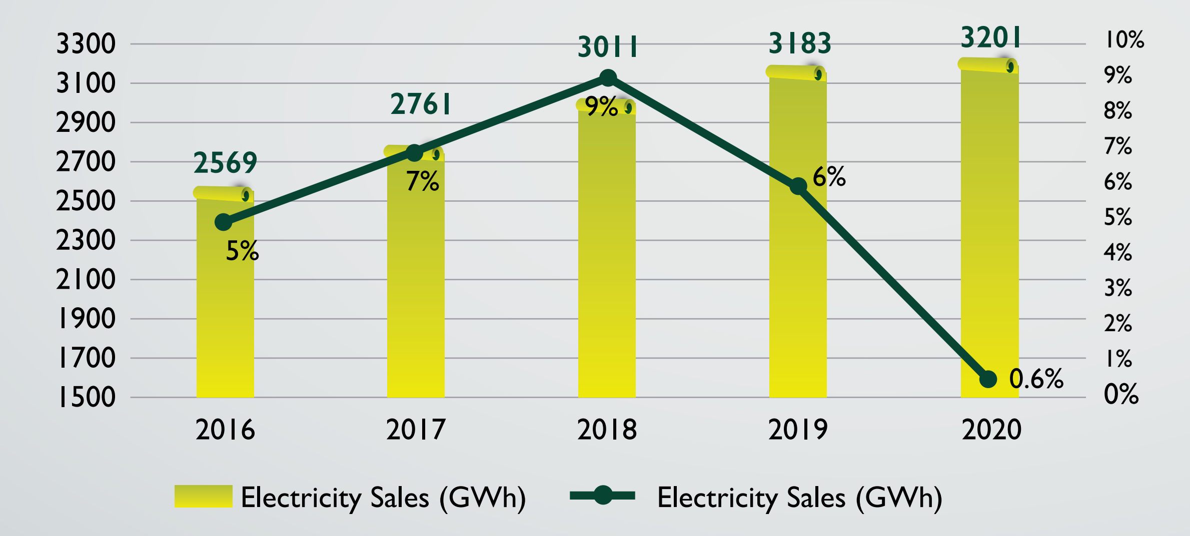
Transmission
UETCL Domestic Supply
Exports
Imports

Distribution
Umeme (94.3 %)
UEDCL (1.6%)
7 Others (4.1 %)

Source: MEMD, UETCL and ERA

It should be noted that due to Covid-19, the maximum demand, as reported by UETCL dropped from a pre-Covid high of 730MW to an average of 608 MW during the period of Covid-19 restrictions. There was marginal growth in sales at 1%, with regression among the commercial and industrial customers.

Trend in Electricity Sales: 2016 - 2020



This changed sales mix profile has had negative impact on the recovery of the 2020 revenue requirements. Increasing demand in tandem with generation capacity drives revenue growth, reduction of end user tariffs and sustainability of the sector.

We connected 59,623 customers to the grid compared to 178,152 of 2019. The lower connections are attributed to limited Government funding of the free connections programme.

The Government approved a window for customers not willing to wait for Government funding to meet their own connection costs. By the end of the year, we had connected 3.000 customers under the programme.

b. Investment in the Distribution Infrastructure

Our investment strategy is premised on our desire to ensure delivery of reliable electricity supply, reduction of technical losses, improving safety of the network and grid expansion to accommodate growth in demand. In the year ended, 2020, we invested Ushs 279 billion (USD 75million) in capital projects including: 7 substations, 5 Integration lines, 77 transformer zone improvements, conversion of 168,000 customers to prepayment metering and several system and network protection projects.

Hoima substation

H.E President Yoweri K.T. Museveni commissions the recently upgraded Mbale substation with a capacity of 112MW

One of the newly installed transformers in Tororo to power communities

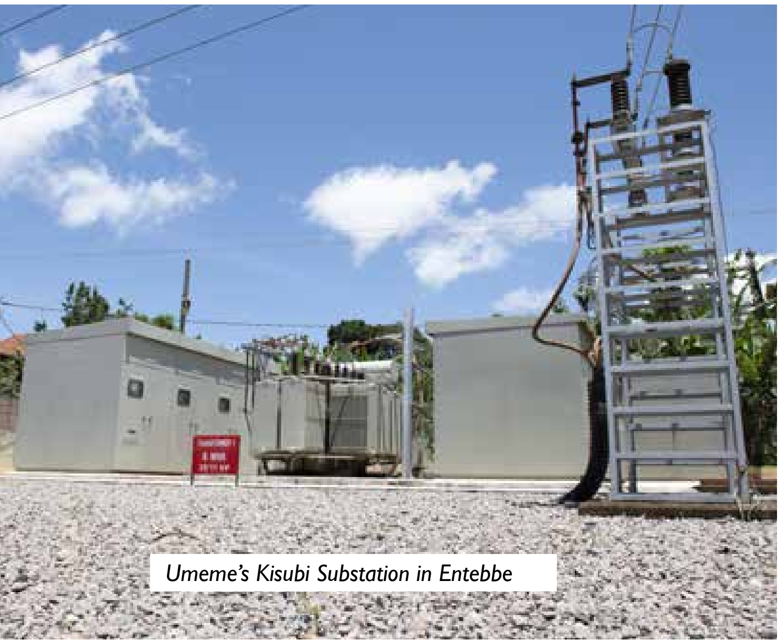
Investment in distribution infrastructure

Investments in capital projects worth Ushs 279 billion (USD 75million) for improved quality and reliability of electricity supply, reduction of technical losses, improved safety of the network and grid expansion to accommodate growth in demand.

Umeme's Hoima substation

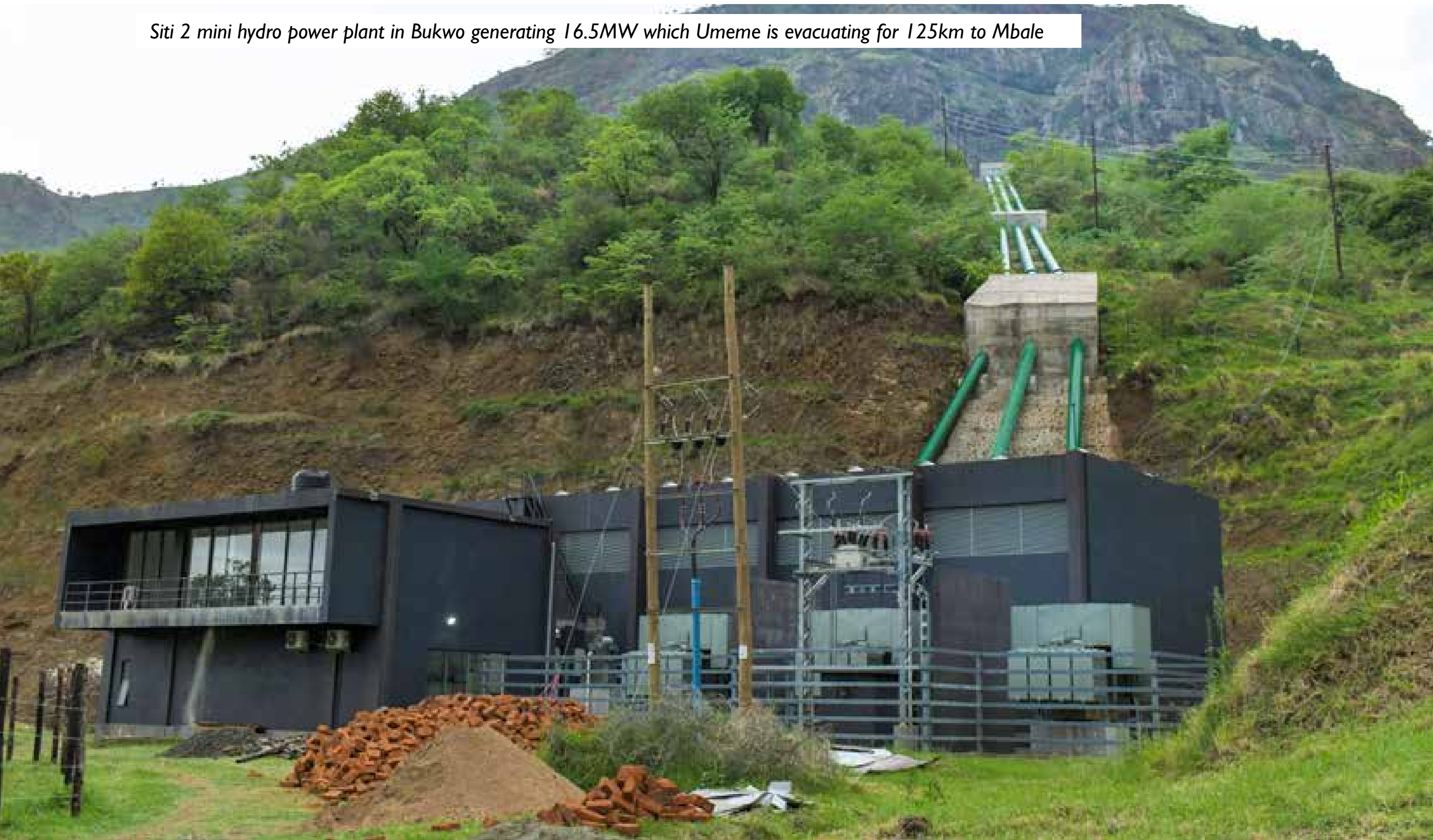
Umeme's Board members visit Lira substation

Umeme's Rugendabara switching station in Kasese



Umeme's Kisubi Substation in Entebbe

An aerial view of Mbale substation during the upgrade works



Siti 2 mini hydro power plant in Bukwo generating 16.5MW which Umeme is evacuating for 125km to Mbale

Project Name	Project area	Project Description and Location
Siti 2 evacuation lines and Substation	Mbale / Bugisu region	Constructed an evacuation line of approximately 130 km from Bukwo district to Mbale to evacuate 16.5MW of power from Siiti 2 hydro power project by Elgon Hydro Siiti 2 (pvt) ltd.The project included an upgrade of the Mbale Substation and installation of of a 9MVAR Capacitor bank to accommodate the new loads.
MMP Industrial Park, Buikwe	Buikwe District	Constructed a double circuit 33KV distribution lines on concrete poles from Njeru to MMP Industrial Park
Tangshan Mbale Industrial Park - Switching station	Mbale District / Bugisu region	Construction of a 33KV Switching station at the park to stablise supply and integrate with the UETCL 50MVA substation at the Mbale Industrial Park
UETCL Mukono 33kV line Integration, Moniko, Tiantang, Mukono 1, NWSC Katosi, Mpata Lines	Mukono District	Construction of a 33kV Line, installation of Air Break Switches, Auto Reclosers and HT meters. Line intended to evacuate power from the new UETCL substation while enhancing security and quality of supply to the Mbalala industrial area including supply to the NWSC Katosi plant
UETCL Namanve 33kV Line Integration	Mukono District	Line for evacuation of power from the new UETCL Namanve South substation while enhancing security and quality of supply for the industrial area industrial customers as well as operational flexibility
Kapeeka Industrial Park Reticulation	Bombo- Kapeeka Industrial area	New Power line construction and supply stabilisation for Kapeeka Industrial park including installation of Air break switches to improve operational efficiency
Kawanda Wabigalo reliability plan	Bombo District	Upgrade the over loaded feeder with conductor from ACSR25sqmm to ACSR100sqmm of R/L 3,003m; from ACSR100sqmm to ACSR150sqmm of R/L 4,855m and from ACSR25sqmm to ACSR50sqmm of R/L 100m
Clock Tower UETCL - Ggaba 33kV Interconnector	Kampala District	Construct 33kV interconnector from Queensway to Ggaba substation of R/L 7km.
Transformer zones improvements	Various parts of the Country	Injection of Transformers in different regions and parts of the Country to improve quality of power supply to residential areas, townships, schools, Health centers, etc to improve economic activity
Mbale Industrial feeder upgrades	Mbale District	Upgrade the Mbale Industrial 11kv feeder including addition of new transformers
Jinja 11kV feeders optimisation (Walukuba, Wairaka, Jinja Town and Mutai)	Jinja District	Upgrade the backbone conductors on Wairaka feeder and Mutai feeder; Create a meshed network with the Mutai feeder and the Jinja Town feeder for reliability including reconfiguration of Walukuba feeder
Prepayment Metering Retrofit, 2019	Various parts of the Country	Conversion of 168,000 customers from Post Paid to prepayment conversion to improve customer service experience and deliver operational efficiencies.
Gulu substation upgrade	Gulu District	Upgrade of Gulu Substation by constructing a new plant house, installing new Switchgears and protection relays to create operational flexibility and upgrading the Power transformers to sustain the growing power demand
Kisubi substation upgrade	Entebbe	Upgrade the Kisubi substation 5 MVA Power transfomer to 10/14 MVA to address load growth in Kisubi area and align with the new UETCL substations under construction
Nakawa Substation and Interconnecting lines	Kampala District	Construct a 15/20 MVA substation with new bays to relieve the existing busbars that are over loaded and also ensure stabilisation of supply to the growing power demand. Substation was also put on Scada to ensure operational efficiency

Project Name	Project area	Project Description and Location
Bombo substation Asset replacement	Bombo	Construct a substation with two 7.5/10 MVA transformers, new bays to relieve the existing bus bars that are over loaded and also ensure stabilisation of supply to the growing power demand. Substation was also put on Scada to ensure operational efficiency
Ntinda substation 33kV switchgear replacement - Phase I & Ntinda Substation reconfiguration	Kampala District	Construction of plant house, supply and install new 33 KV switchgears and reconfiguration of the substation, SCADA installation to ensure operational effectiveness but also to ensure power supply stabilisation for the areas of Ntinda, Kiwatule, Nalya, Kisaasi, etc
Kakiri substation and Intergrating line	Wakiso District	Construction of a new substation 10/14 MVA substation at Namusera and interconnect with Kawanda Busunju 33 kva line to integrate with existing networks plus construction of a new integrating lines and thus improve supply relibaility in Kakiri and surrounding areas
UETCL Luzira 33 kv Line Integration	Kampala District	Construct a 33KV overhead line to evacuate power from the UETCL Substation and enhance supply reliability due to increased demand from the industries and domestic customers
Lumpewe Transformer upgrade and Busunju - Kiziba feeder integration	Bombo District	Upgrade the Lumpewe substation from 2.5 to 5MVA as it was at 96% loading. Address the growing demand from the Bombo industrial and real estate customers
Kamuli substation Tranformer upgrade	Kamuli District	Upgrade the existing 2.5MVA Kamuli Substation to 5MVA to ensure supply stabilisation to the Bulopa, Namasagali, Kasolwe, Namwendwa, feeders and address the demand from growing sugar industry base
Kawanda - Namulonge 11kv Feeder and Lugogo Kololo MV conductor upgrade	Kampala District	Upgrade the two feeders by upgrading the 25sqmm conductor to address technical lossess and improve supply reliability
Kampala CBD optimisation, Upgrade of Gayaza and Kawempe feeders	Kampala District	Upgrade of the Feeder meshing and creating interconnection with existing networks
Masaka Upper ring	Masaka District	Split of the feeder, Upgrade from 25sqmm to 100sqmm, construction of a new MV line, extend lower ring to bridge eixtsing potions, install Load break switches to stabilise supply
Line Differential Protection for 33kV lines	Kampala and Jinja Districts	Installation of line differential protection on Lugogo –Kireka –Portbell – Gaba –Lugogo 33kV Ring network and Owen Falls – Jinja Industrial – Njeru 33kV Interconnectors.
Protection Relay Refurbishment	Mukono, Fort portal, Kabale, Kamuli and Gulu	Upgrade of the Electrostatic Protection Relays with modern Numerical relays to improve the reliability of the network, ensure safety and reduce "Energy Not Served" (ENS)

c. Distribution Efficiency

Distribution efficiency is achieved through reduction in system losses and collection of billed revenues to minimise debts and arrears. For the year 2020, we achieved distribution efficiency of 83%, driven by achieving collections are 100.3% and system losses of 17.5% against the respective targets of 99.7% and 14.5%.

The restrictions imposed due to the pandemic outbreak constrained our ability to operate and achieve the regulatory targets. Our loss reduction strategy has been refreshed to address the changes in the operating environment.

d. Impact of Regulatory Actions

Efficient and effective management of our regulatory environment is a fundamental critical success factor for business. The regulatory environment remains challenging and posing a higher risk to the financial sustainability of Umeme. There is regulatory lag in recovery of costs by their delayed inclusion in the tariffs. For 2020, the company is contesting through the Electricity Disputes Tribunal the exclusion of USD 12 million of distribution operating costs from the 2020 Umeme revenue requirement.

In addition, the Company is pursuing the recognition and recovery of investments yet to be included in the regulated asset base. Commissioned an independent consultant to review capital investments pending recognition by ERA in the retail tariffs. We believe this expert report will form a basis for recognition of this outstanding capital investments in the retail tariffs.

The other regulatory updates include:

- The suspension of the Electricity Connections Policy due to lack of funding by the Government. Customers, willing to pay the full cost have been allowed to be be connected than waiting for the Government funded free connection.
- The Company won a dispute with URA regarding the tax treatment of asset additions made by Umeme to the distribution network. URA has did not appeal however Uganda Electricity Distribution Company Limited appealed the decision in the High Court. We await the out come of the appeal process.
- URA introduced the Electronic Fiscal Receipting and Invoicing System (EFRIS) that requires all invoices to be fiscalised by URA through issuance of Fiscal Document Number (FDN) prior to issuing an invoice to a customer. The Company has complied with this requirement.

e. New Revenue Streams

To diversify its revenue streams, the Company is exploring new revenue streams including consultancy and advisory services, fibre over network, renewable/off grid solutions and potential international distribution opportunities.

f. Leverage Technology for Operational Efficiency

The Company continues to implement its ICT strategy to deliver the overall corporate strategy. The operating costs of the business are fixed over a 6-year cycle. To be operationally efficient in-service delivery, the company continues to invest in technology and streamline its processes. Several initiatives were rolled out to support the Company in providing exceptional customer service and creating shareholder value in addition to providing enhanced employee experience during the new normal.

We closed phase 2 of the SAP ERP system, with the following modules now in operation:

- Financial management
- Material Management
- Plant Maintenance
- Project System
- Environment Health and Safety (EHS)
- Human Capital - Payroll

The Company is implementing an Integrated Management System for ISO certification. By the end of 2020, we had documented for rollout 12 out of 30 core processes. Most of the processes are already automated. We intend to scale the rollout in 2021 with a view of being certified by mid-2022.

g. Duration of the Current Concession

We recognise that by the nature of long-term investment needs, the tenure on the current Concession has 4 years remaining. This has negatively impacted the Company's ability to raise long term capital. We have continued to engage and negotiate with the Government for an early renewal and extension to enable capital mobilisation and deployment.

h. Sharing of Economic Value Created

We create and share economic value to multiple stakeholders. In summary, Umeme's value created is shared as below:

Customers • Invested Ushs 67 billion to connect 59,623 new Grid Connections • Converted 168,000 customers to prepaid metering • Revenues from Electricity Sales Ushs 1.7 trillion	**UETCL** Power Purchase cost inclusive of VAT Ushs 1.2 trillion	**Government Agencies** • Taxes paid Ushs 95 billion • ERA - Ushs 9 billion • UEDCL – Ushs 11.2 billion • NSSF Contributions – Ushs 12 Billion • NSSF Dividends paid – Ushs 15 billion
Staff and network contractor management costs Ushs 104 billion	**Suppliers** Operating Costs Ushs 109 billion	**Capital Investments** Investments in the network Ushs 278 million
Debt Financiers Drawdown - Ushs 71 billion Repayments – Ushs 110 billion Interest Paid – Ushs 37 billion	**Shareholders** Dividends paid - Ushs 67 billion	**The Economy** We sold 3,201 GWh

Leveraging technology to provide exceptional customer service and create shareholder value

Isimba Dam

83MW Isimba Hydro Power Project (HPP) costing USD 568 million commissioned in March 2019 located 4km downstream of Simba Falls on the River Nile, approximately 50km downstream of the Source of the Nile. The Dam is located about 21km from Kayunga Town as the nearest town and about 65km from Jinja Town.

Isimba Dam Photos courtsey of UEGCL

Karuma Dam Photos courtsey of UEGCL

Karuma Dam

600MW Karuma HPP project costing USD 1.7 billion located on the Nile River in Kiryandongo District in mid-northern Uganda expected to be commissioned in 2021.

8.2 Social Sustainability

Social sustainability brings together the linkage between the internal operations of the organisation to delivery of the agendas of varying stakeholders.

a) Covid-19 Pandemic

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. On 18 March 2020, the Government of Uganda announced lockdown and restrictions as a countermeasure against its spread. By the year-end, some of the restrictions had been eased, with significant impact to the business and our customers. Our strategy during the period continues to focus of the heath and safety of our staff and minimising the impact of the pandemic effects on the business operations.

- Continuity of service through ensuring 24/7 availability of electricity and customer services was critical during the period.
- We have reduced staff coming to office to utmost 50%, per station, with most working remotely from home. For field staff, instructions are delivered though digital channels
- Provided relevant personal protective equipment to our staff. These included masks, gloves, goggles, hazmat suits, sanitizing pump, hand sanitizer, hand washing facilities and extra cleaning of offices. Standard Operating Procedures for field vehicle hand over were developed and implemented for all field staff.
- Restricted visitors to our offices and service centres. Customers and the public encouraged to use digital channels to reach out to us.
- We utilised digital online channels to conduct meetings and engage with staff
- We scaled up communications to staff on compliance with Standard Operating Procedures
- Leveraged the investments in technology to run the business operations and deliver customer services
- Provided support our staff what contracted Covid-19 with appropriate Medical assistance till they fully recovered

b) Safety

While the Company is cognizant that it deals in electricity which is an essential and important commodity, Electricity can also be inherently dangerous and therefore safety of staff, contractors and the communities in our footprint is fundamental to us. The management Safety, Health and Environment (SHE) Committee oversees the day to day safety and environment agenda, while ESG Committee of the Board provides the Board oversight role.

Public Fatalities

The company continues to refine the various safety strategies to enhance the continues development of the overall safety culture of staff and our contractors. The Company leverages on Technical mitigation measures such as education and awareness programs, focused safety messaging and sensitisation visits to the communities and schools, among others.

While the number of fatal accidents reduced from 18 reported in 2019, With regret, we note the number of fatal accidents resulting from both accidental contact and illegal interference with the electricity distribution network, were 7 in 2020. The root causes include hooking on the network, power theft, vandalism of the distribution network infrastructure and poor in-house wiring.

The Company will continue with focused safety initiatives including media safety campaigns, community engagements, and creation of safety clubs. We urge the public to remain vigilant and proactively report any safety-related incidents through any of our communications channels in our continued effort to eliminate this loss of, or injury, to life.

Staff and Contractor Safety

The challenges of 2020 restricted our training and field activity plans. The trainings were restricted to online platforms focused on technical development, System Operations Regulations and risk assessment. We continued to communicate and remind staff to act with care given the increased risks of the pandemic, while delivering service.

Network Safety

Safety incidents can arise out network equipment failure, operation mistakes and or interference by the public. Safety emergencies are prioritised ahead of any priorities to minimise the likelihood of accidents. Our emergency response time to safety incidents improved to 5 minutes from 7 of 2019.

We continuously maintain the distribution network, clear vegetation, replace rotten poles, install network protection equipment and overall invest in refurbishment of dilapidated components of the network.

The network operations are controlled from the National Control Centre through automated and manual operations to avoid operational accidents while staff are working on the network.

We continue to monitor key performance areas which include the measurement of systems and network availability to improve operational efficiencies. Close monitoring and proactive preventative maintenance, along with quick reaction times for corrective maintenance yielded sound results including faster restoration of services.

c) Engagements with Suppliers

We promote suppliers' success through clear policies, procedures, terms and conditions which are premised on purchasing practices of fairness and transparency, competition and value for money. This is important to ensure our suppliers are aligned with our values and have standards as high as ours. The Procurement Committee oversees all procurements in the Company.

d) Corporate Social Investment (CSI)

Umeme has implemented varying levels of engagement with local communities. We are focused on programs that can make a community stronger economically, socially or environmentally, through impact assessments and development programs. Some of the activities implemented during 2020 are detailed in the table below:

CSR Activity	Description
Sponsorship of the 2nd Rotary transformational Leadership Forum and concert	The 2nd Annual Transformational Leadership Forum was organized Rotary Uganda to raise USD 100,000 for the purchase of two Blood testing machines for the Mengo Hospital Rotary Blood Bank. Supporting this initiative yet again demonstrated Umeme's continued support to Rotary Uganda and our commitment to foster health and community wellbeing.
Kabaka's Birthday Run sponsorship	The Run is one of the activities organized as part of the Kabaka of Buganda, Ronald Muwenda Mutebi's birthday that has over the years been celebrated with Corporate Social Responsibility causes attached. The 2020 Run was aimed at raising awareness and promoting the fight against HIV/AIDs. Umeme sponsored and rallied staff to participate in the event.
Uganda Law Society (ULS) Probono Day Sponsorship	The Pro-bono Day is a Corporate Social Responsibility event where ULS members come together at designated venues across the Country to offer free legal services to underprivileged members of the public. The 2020 event was held in partnership with the Democratic Governance Facility and the Ministry of Justice and Constitutional Affairs.

e) Stakeholder Management

At Umeme, Stakeholder Engagement refers to the process of developing strong, proactive, long-term, and consistent relationships with key stakeholders of the company. This is integrated into the company's strategy as we recognize that it is not just a critical part for sustainability, but also important for our businesses' success and the licenses to operate. Our stakeholders include a wide variety of individuals, organizations, Governments and communities. Customers, employees, suppliers, lenders, and investors are also stakeholder groups with whom we want to maintain solid relationships. We work to structure interactive stakeholder engagement activities so we can receive effective feedback.

At the corporate level, key relationships (such as heads of state, investors, Government policy makers, trade associations, Government officials, ambassadors, and international institutions) are managed through dedicated people. The Senior Management Team is directly responsible for overseeing Stakeholder Engagements.

Responding to the Covid-19 Challenges

Our strategy during the period continues to focus of the health and safety of our staff while embracing new and efficient working methods aimed at continued electricity service delivery 24/7 and minimizing effects of the pandemic on business operations


7TH ANNUAL GENERAL MEETING
Investing
For Socio-economic Transformation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Stakeholder group	Engagement	Key Issues	How Issues are addresses
Customers	We are invested in understanding our customers' perspectives and addressing their concerns via: • Customer satisfaction surveys • 24/7 customer call centers • Publications and reports · Energy on the website • customer education programs and safety tips ·	• Reliability of supply • Tariffs • More efficient energy use · • Safety	• Provide information via our websites • Drive efficiency and growth for tariff reductions • Improve service delivery
Investors	• We regularly communicate with our investors via; • Periodic Investor calls • Annual shareholder meeting • Traditional and social media	• Strategy and growth plans • Company management • Return on investment • Capital allocation • Governance • Financial performance and liquidity • Shareholder returns, including dividends • Risk management	• Maintain a healthy balance sheet and sufficient liquidity • Ensure that investors are provided timely information on key issues • Secure long term Concesion
Government	• We communicate with local and state Government officials via; • Meetings with elected officials in communities surrounding the Energy sector • Power plant tours • Joint planning exercises conducted with local/state agencies • Reporting in compliance with national and local requirements	• Reliability • Security, affordability and sustainability of electricity supply · • Energy market structure and regulation · • Job creation • Safety	• Investment in new technologies to keep long-term electricity supply reliable, affordable and sustainable • Engage in discussions with Governments other partnerships
Community	• We invest in, support and ensure dialogue with the communities where we operate via; Periodic community meetings in communities · Career fairs • Volunteer projects and social sustainable programs · Participation in community events · Website · Traditional and social media	• Employment of local talent • Business development in local communities • Job creation • Safety · • Skilled work force development • Social benefits	• Updates on key issues and projects and feedback mechanisms on website
Suppliers	• We promote suppliers' success through clear policies, procedures, terms and conditions • It is important to ensure our suppliers are aligned with our values and have standards as high as ours	• Direct contact between vendors and Umeme supply chain buyers and sourcing specialists • Published policies and guidelines, such as safety requirements, environmental guiding principles and supplier diversity objectives	• Centralized management of key supply chain categories • Develop and communicate safety, environmental, and diversity guidelines to existing and prospective suppliers
Our People	• We engage through a variety of different channels: • Company intranet · Multi-lingual update communications from company executives • U-Connect-newsletters • Yearly performance reviews • Leadership and employee development opportunities · Employee surveys	• Workplace safety • Career opportunities • Diversity and inclusion • Salary and benefits • Company strategy and leadership · Positive corporate image	• Promote two-way communications · Increase feedback mechanisms · Increase involvement in company related activities

8.3 Our People

The Company aims at investing in a diverse team, built on core values while providing an engaging, supportive and fair workplace aimed at generating long term value for the Company and stakeholders. The strategic development of human capital value is therefore critical to Umeme's long-term success.

At the core of our strategy is the aim to deliver a transformational employee experience founded on our core values, high quality leadership, employee collaboration, retaining talent and employee engagement. The strategy focuses on the commitment to develop staff, build capacity and give individuals the necessary support to deliver Umeme's strategic priorities.

a Employees Profile

Year	2016	2017	2018	2019	2020
Employees Full Time	1,369	1,463	1,508	1,380	1,336
Male	1,054	1,142	1,175	1,285	1,273
Female	330	330	339	345	346
Average Age	36	36	37	38	39
Length of Service	7	7	7	7	8
Average Training Hour/Staff	18	11	19	32	10

b. Organizational Design

The organisation is designed to ensure s=delivery of the corporate objectives, while empowering staff to execute their roles. The structure is flexible and allows for career progression. All jobs were graded using the Patterson methodology to promote equity and fairness in remuneration.

c. HR Competency Framework

The Company completed the human resources competency framework that is an essential tool in talent management now and in the future. In addition, it enables staff skills development and supports competency assessments in the performance management system.

The framework has been applied in learning and development interventions in the business, in the operation of the performance management system and talent acquisition.

d. Human Resource Information System

In addition the HRConnect (the human resources management information system), during the year, the SAP Project Phase II with the Payroll module rolled out. This further enhanced the self service capabilities for all human capital related services.

e. Performance Management System

With the automation the HR processes, we rolled out Performance dialogue in the automated environment that was effective and timely completion of the dialogue across the Company in recorded time. Employees were able to proactively set performance goals, evaluate their achievements, and identify learning opportunities, while the managers were able to evaluate and discuss performance therefore supporting continuous learning to yield organizational effectiveness.

f. Talent Acquisition

Due to the pandemic, we conducted very limited targeted staff recruitments. The turnover rate was 3% mainly for retirees and staff out of contract.

g. Employee Learning and Development

Employee development was championed through various Learning and Development (L&D) initiatives both on and off the job for permanent and contracted staff. To nurture future leaders, the Umeme Leadership Academy was launched. Sixty-one (61) high potential and future leaders were taken through a comprehensive Leadership Development Programme. Implementation of the knowledge and skills attained shall promote increased employee productivity, retention, development and engagement

h. Union & Management relationship

We respect the right of our employees to join a union under Uganda Electricity & Allied Workers Union in accordance with applicable labor unions and employment laws. As at the end of 2020, we had 385 staff were members of the labour union. The recognized labour union is party to decision on wages of its members through collective bargaining process. There are regular meetings held between management representatives and representatives of the Labour Union.

i. Communication

Open and transparent communications with staff is critical for the success of our business operations. We have put in place various channels through which our employees can communicate to management their positive and negative concerns in the business. Employees are further encouraged to communicate innovative ideas which can be explored for the benefit of the business.

Management also makes it a key part of their role to continuously communicate with employees so as to relay the company's strategy, key business plans and projects, major changes in the company and future actions. On top of other staff engagements, management holds roadshows across the business to engage staff on the business priorities. This builds trust between management and employees as it offers a platform for active involvement and participation. The communication channels include:

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

j. Our Compensation Philosophy

Employee compensation is a critical to in execution of our strategy, while creating sustainable long-term value to our stakeholders. Umeme's compensation philosophy describes our approach to balancing the under lying 4 objectives it is designed to achieve. The philosophy therefore revolves around:

- Providing a Total Reward structure that consists of both financial and non-financial rewards;
- Aligning reward practices with the business goals and employee value proposition;

- Reward reflective of market factors, statutory requirements, economic factors, business performance, and company's ability to pay;
- Staff recognition and reward according to the value created towards achieving the business goals, while providing opportunities for career growth;
- Internal equity in compensation structure, based on qualifications, and skills

The philosophy recognises that:
- the competitive market that exists in Uganda for skilled staff, which presents challenges towards recruitment and retention in some specialized areas critical to the business
- Umeme operates in a regulated environment, which requires it to deliver set regulatory performance and quality of service targets, while working within constraints of regulated operating expenditure
- the need to deliver sustainable returns to shareholders.

The compensation philosophy, is thus designed to achieve the following objectives:
a) Attract and retain skilled staff for the successful execution of the strategy and delivery of the business objectives
b) Align the compensation plans and decisions with the interests of shareholder and other stakeholders.
c) Promote a high performance and values driven culture across the company
d) Reflect the regulatory and Uganda market operating conditions in the compensation plans

k. Rewards and Recognition

Our reward structure combines both monetary and non-monetary benefits for short, medium and long term linked to the overall performance of the company.

The company provides a monthly basic salary and annual performance-based bonus. The company contributes 10% and employees 5% to the statutory National Social Security Fund.

Among other benefits, we provide medical cover for staff and their immediate family.

l. Retirement Benefit Scheme

Umeme continues to contribute to the contributary Umeme Staff Retirement Benefit Scheme. This is a defined contribution scheme registered under the Uganda Retirement Benefits Regulatory Authority Act, 2011. The Scheme grew by 30% in 2020 standing at Ushs 21.6 billion by year end, with 1,345 subscribing staff.

m. Long Term Incentive Plan (LTIP)

Linking medium term performance to remuneration of the key managerial staff, in 2019, the board approved LTIP 3 plan. The plan is designed to promote employee retention and continued performance. Participation in the LTIP3 was offered to eligible employees in the middle and senior management grades. The cash award to the participant is dependent on the Company achieving minimum financial performance targets in terms of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) over the three years ending 31 December 2021.

8.4 Environmental Sustainability

The Company is keen on environmental management and this involves focusing on the potential impact of our business activities on the environment. The Company adopted the International Finance Corporation's (IFC) Environmental and Social Performance Standards in addition to NEMA and ERA environmental guidelines. The Company is also in the process of adopting embedded industry best practices and principles in its operations through implementation of ISO 14001 – Environmental Management, standard certification.

During the year under review, the Company continued to comply with these standards, and no significant issues were identified during the year.

- We conducted Environmental and Social Impact Assessments (ESIA) for all major capital projects implemented during the year. In additional, we continuously engaged the project affected communities to ensure seamless projects acceptance and execution. Any grievances arising were amicably resolved.

- During the year, Umeme was recognized by the Electricity Regulatory Authority as the most compliant to the National Environmental Guidelines in the Electricity Supply Industry.

- The Company commenced the roll out of line construction using concrete poles especially in swampy areas. This initiative was supported and approved by ERA.

- The Company is also aware that wooden poles continue to be integral in line construction. The Company strives to procure these poles from environmentally responsible suppliers who have established large sustainably managed forest plantations. This ensures that the poles we use are harvested sustainably to mitigate effects on the environment and climate change.

- Umeme limited like many other energy distribution utilities has and continues to suffer the impacts occasioned by climate change. We have conducted a baseline study on how the Company operations impact and are impacted by climate changes. Key issues identified include; Storms, floods, sudden variations in seasons among others have caused lots of losses to the business in terms of costs of replacement of reaped infrastructures, accidents, infrastructure in flood or lightening prune areas, bush burning effects and the energy sources for our business. The business is systematically mainstreaming the recommendations into its operations.

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Enabling efficient service delivery

Through investment in non-networks to **improve response times and speed of service delivery**

Umeme's MD, Selestino Babungi addressing the Komboa teams as they prepare to go for field work

Combating illegal power connections

Illegal connections are unsafe, result into energy losses that lead to increased electricity retail tariffs/prices

Umeme's technical team and police comb a neighbourhood in Kirinya in search of illegal connections

Fred Mwita, Umeme's Head of HR working with the Komboa teams in Kirinya, Kampala

A member of Umeme's technical team disconnecting an illegal cable from the grid.

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, 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 and licensed by the Electricity Regulatory Authority (ERA) under Licence No. 047 and Licence No. 48 to (together, the "licences") carry on the business of electricity distribution and supply under the provisions of the Electricity Act 1999, (Cap 145) of Uganda.

The Company took over the system for the distribution and supply of electricity (the "Distribution System") in Uganda from Uganda Electricity Distribution Company Limited (UEDCL) under a concession arrangement (the "Concession") for a period of 20 years which commenced on 1 March 2005 and expires on 28 February 2025. Under the Concession, Umeme is also required to operate, maintain, upgrade, and expand the Distribution System within Uganda and such contiguous areas as Umeme and ERA may agree.

Through the Concession, Umeme operates as the primary electricity distribution company in Uganda, responsible for distributing 95% of the generated electricity to Ugandan residents, commercial, industrial and government entities. UEDCL owns the distribution network that was assigned 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; Uganda Electricity Generation Company Limited, operators of the Isimba Hydroelectric power plant, Jacobsen thermal power plant, Elektro AS, Electro-Maxx, Tronder Power Limited, 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 tariffs 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 are 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 37,352 (2019: 35,856) kilometres of low voltage, 11kV and 33kV network lines covering all major hubs in Uganda; and

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

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

1. General Information (Continued)

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 categorised, for administrative purposes, into the following four regions under the supervision of Regional Managers and Network Operations Manager: Kampala East, Kampala West, North Eastern, and Western regions. These regions are further subdivided into 27 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 limited liability company listed on the Uganda Security Exchange (USE) and cross-listed on the Nairobi Stock Exchange (NSE).

The top shareholders are indicated in Note 24 to the financial statements.

3. Risk Management Objectives And Policies

The Company's activities expose it to a variety of financial risks including health and safety risks, liquidity risk, interest rate risk, credit risk, foreign exchange risk and regulatory risk. 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:

- Effects of the Covid-19 Global Pandemic.
- The regulatory environment.
- The remaining concession tenor limiting financing options.
- 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 affect 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 maintain, 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.
- Self-generation by customers.
- Increasing competition for specialist talent.

4. Dividends

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 12.2 per ordinary share or Ushs 19,807 million be paid for the year ended 31 December 2020 (2019: Ushs 41.3 per share or Ushs 67,133 million), subject to deduction of withholding tax where applicable, to the shareholders registered in the books of the Company at close of business on 25 June 2021. The total dividend for the year will be Ushs 12.2 million or Ushs 19,807 per share (2019: Ushs 41.34 per share or Ushs 67,133 million). If approved, the outstanding dividend will be paid on or about 19 July 2021. No interim dividend was proposed for the year ended 31 December 2020 (2019: Nil).

5. Management By Third Parties

No business of the Company has been managed by a third party or an entity in which a director of the Company had an interest during the year.

6. Directors

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

	Name	Role	Nationality
a)	Patrick Bitature	Chairman	Ugandan
b)	Selestino Babungi	Managing Director	Ugandan
c)	Hon. Gerald Ssendaula	Non-executive Director	Ugandan
d)	Piet Faling	Non-executive Director	South African
e)	Florence Namatta Mawejje	Non-executive Director	Ugandan
f)	Andrew Buglass	Non-executive Director	British
g)	Anthony Marsh	Non-executive Director	British
h)	Stephen Emasu	Non-executive Director	Ugandan
i)	Riccardo Ridolfi	Non-executive Director	Italian
j)	Johan De Bruijn	Non-executive Director	South African
k)	Florence N. Nsubuga	Executive Director	Ugandan

7. Directors' Interest In The Company's Shares

At the date of this report, some 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
	2020		2019	
Selestino Babungi	3,900,000	0.24%	3,900,000	0.24%
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%

8. Insurance

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

9. Events After The Reporting Period

There are no events after the reporting period which require adjustment to, or disclosure, in the financial statements.

10. Auditor

The auditor, Ernst & Young, was appointed during the year and has expressed 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 19th March 2021.

By order of the Board,

SHONUBI, MUSOKE & Co.
ADVOCATES
P.O. BOX 3213
KAMPALA

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

Statement Of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2020

The Companies Act, 2012 of Uganda requires the directors to prepare financial statements that present fairly, in all material respects, the Company's financial results and position. The financial statements comprise the statement of financial position as at the end of the reporting period, and the statements 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 the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes. The financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2012 of Uganda.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining an effective system of risk management. The directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial results and position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012 of Uganda. The directors are of the opinion that the financial statements present fairly, in all material respects, the state of financial affairs of the Company and of the Company's financial results in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the directors to meet these responsibilities, they set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and employees are required to maintain the highest ethical standards in ensuring that the Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring the known risks across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations provided by management, that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditor is responsible for independently auditing and reporting on the financial statements. The external auditor's report on the financial statements is presented on pages 74 to 78.

The directors have made an assessment of the ability of the Company to continue as a going concern and have no reason to believe that the Company will not be a going concern for the foreseeable future.

Approval of the financial statements

The financial statements of Umeme Limited, as identified in the first paragraph, were approved by the Board of Directors on 19th March 2021 and signed on its behalf by:

Signature	**Signature**
Patrick Bitature	**Selestino Babungi**
Director's name	Director's name

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

The firm is licensed and regulated by ICPAU; NO: AF 0010
Tel: +256414343520/4
Fax: +256 414251736
Email: info.uganda@ug.ey.com

Report of the Independent Auditor to the Shareholders of Umeme Limited

Report On The Audit Of The Financial Statements

Opinion

We have audited the financial statements of Umeme Limited (the "Company") set out on pages 79 to 148, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and the financial performance and the cash flows of the Company for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2012 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 *Auditor's 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 as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

The results of our audit procedures, including the procedures performed to address the matter below, provided the basis for our audit opinion on the accompanying financial statements.

M.M. Ssempijja, M.M.Kimoni, G. Byamugisha, J.Rwajekare
East Africa Offices: Nairobi, Dar es Salaam, Kigali
A member firm of Ernst & Young Global Limited

Building a better working world

Report of the Independent Auditor *(Continued)*

Report On The Audit Of The Financial Statements *(Continued)*

Key audit matters *(Cont'd)*

No.	Key audit matter	How our audit addressed the key audit matter
1.	**Accounting for capital investments in the Distribution Network**	
	The Company took over the system for the distribution and supply of electricity (the "Distribution System") in Uganda from Uganda Electricity Distribution Company Limited (UEDCL) under a concession arrangement (the "Concession") for a period of 20 years. The concession is structured so that if Umeme's operational performance matches the targets used in setting the tariffs, and assuming no growth in sales volume during the retail tariff year, Umeme's annual return from operating the electricity distribution concession will be equal to a contractually allowed annual return of 20% on capital investments. The annual return is based on the unrecovered USD based capital investments as approved by the Electricity Regulatory Authority. The investments made by the Company into the Distribution Network are initially recorded as intangible assets and recovered through the tariff methodology as annual capital recovery charges, 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 of the Distribution Network to UEDCL are to be paid to the Company as a buy out amount. We considered this to be a key audit matter because: • The amounts involved and related disclosures, as presented in Notes 17 and 18, are significant to the Company's financial results and position. • The accounting for the related intangible asset and buy out amount involves assumptions and management judgement such as determining: the investments that are expected to be recovered through the tariff methodology vis-a-vis through the buy out amount; and the discount rates applied in calculating the fair value of the buy out amount on initial recognition and measurement.	Our audit procedures included but were not limited to: • Understanding the Company's processes for recording and accounting for capital investments. • Checking the occurrence of capital investment transactions through review, on a sample basis, of supporting documentation. • Evaluating the management assumptions and judgements applied in determining the capital investments expected to be recovered through the tariff methodology vis-a-vis the buy out amount. • Evaluating the management assumptions and judgements applied in determining the discount rates applied in calculating the fair value of the buy out amount on initial recognition and measurement and checking the arithmetic correctness of the calculations. • Evaluating the rates applied in the amortisation of the intangible asset and checking the arithmetic correctness of the amortisation calculations. • Assessing the adequacy of the Company's disclosures regarding the capital investments.

Report of the Independent Auditor *(Continued)*

Report On The Audit Of The Financial Statements *(Continued)*

Other information

The directors are responsible for the other information. Other information consists of the information included in the Company Information, Report of the Directors, Statement of Directors' Responsibilities and the Supplementary Information appended to the audited financial statements, which we obtained prior to the date of this report, and the other information included in the Annual Report, which is expected to be made available to us after that date, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the contents of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditor's 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 auditor's 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 judgment and maintain professional scepticism throughout the audit. We also:

Report of the Independent Auditor *(Continued)*

Report On The Audit Of The Financial Statements *(Continued)*

Auditor's responsibilities for the audit of the financial statements ***(Cont'd)***

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's 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 of the Independent Auditor *(Continued)*

Report On Other Legal Requirements

As required by the Companies Act, 2012 of Uganda, we report to you, based on our audit, that:

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

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

iii. The statement of financial position, statement of profit or loss and statement of other comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Julius Rwajekare – P0307.

Ernst & Young

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Ernst & Young
Certified Public Accountants
Kampala, Uganda

....

Julius Rwajekare
Partner

22nd March 2021

Statement Of Profit Or Loss

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Ushs million	2019 Ushs million
Revenue from contracts with customers	6	1,660,841	1,776,597
Cost of sales	7	(1,181,852)	(1,182,497)
Gross Profit		**478,989**	**594,100**
Repair and maintenance expenses	8	(45,744)	(30,911)
Administration expenses	9	(179,945)	(182,982)
Foreign exchange losses	10 (a)	(11,413)	(7,782)
Increase in expected credit losses	10 (b)	(7,614)	(3,860)
Profit Before Amortisation, Impairment, Interest And Tax		**234,273**	**368,565**
Amortisation and write off of intangible assets	11	(141,275)	(122,994)
Operating Profit		**92,998**	**245,571**
Finance income	12	18,913	17,639
Finance costs	13	(48,950)	(58,853)
Profit Before Tax	**14**	**62,961**	**204,357**
Income tax expense	15(a)	(19,880)	(65,205)
Profit For The Year		**43,081**	**139,152**

		2020 Ushs	2019 Ushs
Basic And Diluted Earnings Per Share	**16**	**27**	**86**

The notes set out on pages 84 to 148 form an integral part of these financial statements.

Statement Of Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 Ushs million	2019 Ushs million
Profit for the year	**43,081**	**139,152**
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):		
Differences on translation from functional currency to presentation currency	(6,264)	(13,052)
Total comprehensive income for the year, net of tax	**36,817**	**126,100**

The notes set out on pages 84 to 148 form an integral part of these financial statements.

Statement Of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	31 Dec 2020 Ushs million	31 Dec 2019 Ushs million
ASSETS			
Non-current assets			
Intangible assets	17	787,665	808,631
Other financial asset	18	1,016,856	855,497
Concession financial asset	19	329,283	327,570
		2,133,804	**1,991,698**
Current assets			
Inventories	20	102,600	69,778
Contract assets	21	91,433	85,215
Current income tax recoverable	15(b)	41,137	11,077
Trade and other receivables	22	218,402	216,309
Prepayments		47,642	68,501
Bank balances	23	30,022	99,196
		531,236	**550,076**
TOTAL ASSETS		**2,665,040**	**2,541,774**
EQUITY AND LIABILITIES			
Equity			
Issued capital	24	27,748	27,748
Share premium	25	70,292	70,292
Retained earnings		521,980	546,030
Translation reserve		183,186	189,450
		803,206	**833,520**
Non-current liabilities			
Borrowings: Non-current portion	27	341,464	428,457
Concession obligation	28	329,283	327,570
Long term incentive plan	29	58	866
Deferred tax liability	15(c)	215,313	195,455
		886,118	**952,348**
Current liabilities			
Borrowings: Current portion	27	175,640	128,477
Customer security deposits	30	496	492
Contract liabilities	31	139,866	138,095
Accrued expenses	32	53,931	15,704
Provisions	32	1,311	1,318
Trade and other payables	33	522,457	425,480
Bank overdrafts	34	82,015	46,340
		975,716	**755,906**
TOTAL EQUITY AND LIABILITIES		**2,665,040**	**2,541,774**

The financial statements were approved by the Board of Directors on 19th March 2021 and were signed on its behalf by:

Patrick Bitature
Director's name

Selestino Babungi
Director's name

The notes set out on pages 84 to 148 form an integral part of these financial statements.

Statement Of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Issued capital	Share premium	Retained earnings	Translation reserve	Total equity
		Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 1 January 2019		27,748	70,292	473,294	202,502	773,836
Profit for the year		-	-	139,152	-	139,152
Other comprehensive income, net of tax		-	-	-	(13,052)	(13,052)
Total comprehensive income for the year, net of tax		**-**	**-**	**139,152**	**(13,052)**	**126,100**
Dividend paid – 2018 interim dividend	26	-	-	(20,623)	-	(20,623)
Dividend paid - 2018 final dividend	26	-	-	(45,793)	-	(45,793)
At 31 December 2019		**27,748**	**70,292**	**546,030**	**189,450**	**833,520**
At 1 January 2020		27,748	70,292	546,030	189,450	833,520
Profit for the year		-	-	43,081	-	43,081
Other comprehensive income, net of tax		-	-	-	(6,264)	(6,264)
Total comprehensive income for the year, net of tax		**-**	**-**	**43,081**	**(6,264)**	**36,817**
Dividend paid - 2019 final dividend	26	-	-	(67,131)	-	(67,131)
At 31 December 2020		**27,748**	**70,292**	**521,980**	**183,186**	**803,206**

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

The notes set out on pages 84 to 148 form an integral part of these financial statements.

Statement Of Cashflow

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 Ushs million	2019 Ushs million
Profit before tax		**62,961**	**204,357**
Adjustment for non-cash items:			
Gain on disposal of assets	6	-	(134)
Amortisation of intangible assets	11	130,320	120,034
Write off of intangible assets	11	10,955	2,960
Interest income on bank deposits	12	(484)	(330)
Finance income on other financial asset	12	(14,880)	(12,668)
Finance income on concession financial asset	12	(3,549)	(4,641)
Finance cost on concession obligation	13	3,549	4,641
Other financing costs	13	6,416	9,330
Expected credit losses on trade and other receivables	10(c)	7,614	3,860
Provision for obsolete stock	20	361	-
Interest expense on long and short term borrowings	27	35,787	41,845
Amortisation of deferred transaction costs	27	4,454	2,608
Increase in long term incentive plan liability	29	-	775
Unutilised long term incentive provision	29	(819)	(937)
Increase in provisions	32	-	1,318
Cash flows before working capital changes		**242,685**	**373,018**
Changes in working capital items:			
Increase in inventories		(33,183)	(5,121)
Increase in contract assets		(6,218)	(78,471)
Increase in trade and other receivables		(9,707)	(20,465)
Decrease/(increase) in prepayments		20,859	(39,157)
Increase in contract liabilities		1,771	50,732
Increase/(decrease) in accrued expenses		38,227	(14,457)
Increase in trade and other payables		96,977	37,858
Cash generated from operating activities		**351,411**	**303,937**
Interest received from banks		484	330
Current income tax paid	15(b)	(30,082)	(38,829)
Long and short term borrowings interest paid	27	(37,163)	(47,197)
Other financing costs paid		(6,416)	(9,330)
Borrowings transaction costs paid	27	(1,093)	(8,769)
Long term incentive plan payment	29	-	(5,993)
Net cash flows from operating activities		**277,141**	**194,149**
Investing activities			
Investment in the distribution network	17	(278,744)	(104,817)
Proceeds from sale of intangible assets		-	134
Net cash flows used in investing activities		**(278,744)**	**(104,683)**
Financing activities			
Dividend paid	26	(67,131)	(66,416)
Repayment of principal for long term borrowing facilities	27	(73,402)	(127,376)
Repayment of principal for short term borrowing facilities	27	(36,650)	(104,500)
Proceeds from term borrowing facilities	27	70,690	186,613
Proceeds from short term borrowing facilities	27	-	91,150
Net cash flows used in financing activities		**(106,493)**	**(20,529)**
Net (decrease)/increase in cash and cash equivalents		**(108,096)**	**68,937**
Cash and cash equivalents at 1 January		52,364	(18,712)
Translation differences		3,243	2,139
Cash and cash equivalents at 31 December	**35**	**(52,489)**	**52,364**

The notes set out on pages 84 to 148 form an integral part of these financial statements.

Notes To The Financial Statements

1. Company Information And Going Concern

1.1 Company information

Umeme Limited ("Umeme" or the "Company") entered into a concession arrangement (the "concession") effective from 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 ending on 28 February 2025. 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 tariffs, and assuming no growth in sales volume during the retail tariff year, Umeme's annual return from operating the electricity distribution concession will be equal to a contractually allowed annual return of 20% on capital investments. 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. The annual return is based on the unrecovered capital investments, in nominal United States Dollar ("USD"), approved by the Electricity Regulatory Authority ("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). Performance above these targets results in a positive impact on the Company's profitability while performance below the targets negatively impacts profitability. 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 tariffs and thereby provide the Company baseline revenues that should just cover expenses relating to these parameters. To the extent that actual operating performance is better than that envisaged in the tariff parameters, the Company's revenues in respect of these operating parameters will exceed the related expenses leading to a positive impact on the overall profitability of the Company, and vice versa.

More information about the Company, including the principal place of business and registered address, is included under Company Information and the Directors' Report.

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 2020 were authorised for issue in accordance with a resolution of the directors on 19 March 2021.

2. Summary Of Significant Accounting Policies

a) Basis of preparation and statement of compliance

The financial statements are prepared on a historical cost basis except where otherwise stated. The financial statements provide comparative information in respect of the previous period.

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

The principal accounting policies adopted in the preparation of these financial statements are set out below:

b) Functional and presentation currencies and translation of foreign currencies

Functional currency and translation to functional currency

The Company's functional currency is USD, which is the currency that most influences the Company's business and financial statements.

Transactions in foreign currencies are initially recorded by the Company at the spot exchange rates between the functional currency and the foreign currencies at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2. Summary Of Significant Accounting Policies *(Continued)*

b) Functional and presentation currencies and translation of foreign currencies *(Cont'd)*

Functional currency and translation to functional currency *(Cont'd)*

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 the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

Presentation currency and translation from functional to presentation currency

The financial statements are presented in Uganda Shillings (Ushs) rounded to the nearest million (Ushs million) except where otherwise indicated.

For presentation of the financial statements, assets and liabilities are translated into Ushs at the rate of exchange prevailing at the reporting date. The statement of profit or loss items are translated at the exchange rates prevailing at the dates of the transactions or, where appropriate, period average exchange rates. The exchange differences arising on translation from functional to presentation currency are recognised in a translation reserve under equity through other comprehensive income ("OCI"). On winding up the Company, the translation reserve is reclassified to profit or loss.

Issued capital and share premium are translated into Ushs at the exchange rates as at the date of the related initial transition.

The translation reserve is not considered to be distributable to the shareholders.

c) Service concession arrangement

The concession agreements set out terms, conditions and obligations of the parties to the different contracts as indicated in Note 43. The directors 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 on 28 February 2025, 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 tariffs 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 investments made by the Company into the Distribution Network are recovered through the tariff methodology as annual capital recovery charges 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 of the Distribution Network to UEDCL 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 18. In order for Umeme to recover its investments in the Distribution Network and earn a return, the investments need to be verified and approved by ERA.

The Company is only allowed to recover actual costs incurred and earns no profit on the construction services relating to the customer-funded investments.

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

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

The nature of the consideration received by the Company for the services performed and obligations assumed determines its accounting treatment.

2. Summary Of Significant Accounting Policies *(Continued)*

c) Service concession arrangement *(Cont'd)*

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 and operation 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 Distribution Network. A right to charge users of the Distribution Network 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. 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 under the accounting policy on financial liabilities. 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 19.

The recovery of the investments 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 these investments. The Company recognises an intangible asset that is accounted for as described in Notes 2(f) and 17.

Under the terms of the contractual arrangements, the Company acts as a service provider with respect to expansion and upgrading (construction services) and operating and maintaining (operations services) of the Distribution Network. The Company accounts for revenue and costs relating to construction services and operations services in accordance with IFRS 15 as described in the accounting policy on revenue.

d) Revenue from contracts with customers

Revenue represents income arising in the course of Company ordinary activities, which leads to an increase of economic benefits during the accounting period. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The Company applies the portfolio approach in assessing contracts. Revenue is stated net of VAT.

Revenue is primarily derived from the sale of electricity and provision of related services, and provision of construction services. Payments from customers for which no services or goods have been transferred are carried in the statement of financial position as a contract liability until when the control of the related services or goods passes to the customer.

The five-step model stipulated in IFRS 15 ***Revenue from contracts with customers*** is applied when accounting for revenue from contracts with customers. The Company accounts for a revenue contract with a customer only when all the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods or services to be transferred;
- The Company can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e., the risk, timing or amount of future cash flows is expected to change as a result of the contract); and
- It is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The Company recognises revenue from sale of electricity and from provision of construction services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. Revenue from sale of goods is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of electricity, services and goods, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer, if any. Currently, the Company does not have contracts with customers with these characteristics.

2. Summary Of Significant Accounting Policies *(Continued)*

d) Revenue from contracts with customers *(Cont'd)*

Electricity sales

There is only one performance obligation, which is to stand ready to supply electricity to the customer. The transaction price includes both a fixed monthly fee and a variable fee that depends on the customer tariff category as determined by ERA. The fixed and variable components are recognised based on the amount chargeable to the customer. For customers on post-paid metering, where the meter reading is not available, the electricity consumption between the last meter reading and the end of the reporting period is estimated.

Rate-regulated activities

The end-user tariffs approved by ERA at the beginning of each year are used as the base tariffs subject to quarterly adjustments for changes in the macro-economic factors of fuel prices, foreign exchange rates and inflation rates (together, 'the adjustment factors'). The tariffs are adjusted with the actual amounts for the three macro-economic factors lagged by a quarter. The base tariffs are based on the actuals for the period up to 30 November, the second, third and fourth quarter tariffs are based on the actuals up to 29 February, 31 May and 31 August, respectively.

The future tariffs that the Company is allowed to charge customers is therefore influenced by past fuel prices, foreign exchange rates and inflation rates. The Company does not recognise assets and liabilities arising from the future tariffs that the Company will be allowed 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 higher prices to be allowed by the regulator in future are 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.

Other regulated income

Other regulated income includes reconnection fees, meter-testing fees, inspection fees, fines and other sundry incomes. They are recognised at the point when the related performance obligation has been fulfilled at the rates prescribed by applicable regulations or at the amounts agreed with the customers.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

A contract asset is initially recognised for revenue earned from construction services because the receipt of

consideration is conditional on successful completion of the services. Upon completion of the services and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables.

The Company recognises a contract asset from the costs incurred to fulfil a contract if those costs meet all of the following criteria:

- The costs are not within the scope of another IFRS;
- The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify;
- The costs generate or enhance resources of the Company that will be used in satisfying, or in continuing to satisfy, performance obligations in the future; and,
- The costs are expected to be recovered.

The Company recognises an impairment loss in profit or loss to the extent that the carrying amount of an asset recognised from costs to fulfil a contract exceeds the remaining amount of consideration that the Company expects to receive in exchange for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services and that have not been recognised as expenses. For the purposes of determining the amount of consideration that the Company expects to receive, the Company uses the principles for determining the transaction price, except for the requirements on constraining estimates of variable consideration, and adjusts that amount to reflect the effects of the customer's credit risk.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional, that is, only the passage of time is required before payment of the consideration is due. Refer to the accounting policy on financial assets.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due, whichever is earlier. Contract liabilities are recognised as revenue when the Company performs under the contract.

Customers are required to fully or partly 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 a contact liability until when utilised for the construction of the installation paid for.

2. Summary Of Significant Accounting Policies *(Continued)*

d) Revenue from contracts with customers *(Cont'd)*

Contract balances *(Cont'd)*

ERA may include in the tariffs a component for recovery of funds to finance non-network assets. The amounts billed to customers in this respect are not revenue for the Company and are hence offset from the billings to customers and recognised as contract liabilities.

Construction revenue and construction costs are recognised by reference to the satisfaction of the performance obligations of the project.

e) Finance income and finance costs

The Company's finance income and finance costs comprise of interest income and interest expense on financial instruments. Interest income and interest expenses are recognised using the effective interest amortised cost method. The effective interest rate 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.

f) Intangible assets

Property, plant and equipment that are part of the concession 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, that is, the amount paid for GoU support and assurance rights. This intangible asset is amortised over the concession period of 20 years.

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 the costs are not expected to be recovered through the tariff methodology by the end of the concession, they are classified as a financial asset, that is, the buy out amount.

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, that is, the pattern in which the investment will be recovered through capital recovery charges as allowed by ERA in the tariff as part of Umeme's revenue requirement. The following are the depreciation rates for the underlying property, plant and equipment that are used as the basis for amortising the intangible asset.

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 tangible assets' residual values, useful lives and methods of depreciation at least at each reporting date.

Intangible assets are 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 profit or loss in the year the asset is de-recognised.

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

g) Impairment of non-financial 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 CGU's fair value less costs of disposal 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 of disposal 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 of disposal and fair value less costs of disposal 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.

2. Summary Of Significant Accounting Policies *(Continued)*

g) Impairment of non-financial assets *(Cont'd)*

In determining fair value less costs of disposal, 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 profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses recognised in prior years are reversed through 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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15 as further detailed under the accounting policy on revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'SPPI' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company's financial assets at amortised cost include trade receivables, buy out amount (other financial asset), concession financial asset, bank balances and other assets that are financial assets.

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets)

is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- 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
    - » the Company has transferred substantially all the risks and rewards of the asset, or
    - » the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

2. Summary Of Significant Accounting Policies *(Continued)*

h) Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs.

Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Further disclosures on impairment of financial assets are included under the disclosures on significant judgements, estimates and assumptions and the notes on the respective financial assets.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities at amortised cost, net of incremental transaction costs.

The Company's financial liabilities include borrowings, concession obligation, customer security deposits, accrued expenses, trade payables, other payables that are financial instruments and bank overdrafts. These are all classified as financial liabilities at amortised cost.

Subsequent measurement

After initial recognition, the Company's financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included as finance costs in profit or loss.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position 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.

i) Cash and cash equivalents

Cash on hand, bank balances on demand and time deposit accounts with banks whose original maturities do not exceed three months, and which are subject to an insignificant risk of changes in value, less bank overdraft amounts and bank balances not available for use in the Company's operations, are classified as cash and cash equivalents in the statement of cash flows.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2. Summary Of Significant Accounting Policies *(Continued)*

j) Inventories

Inventories 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. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

k) 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 emoluments. The Company's contributions are charged to profit or 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 profit or loss in the period to which they relate.

Long term incentive plan (LTIP)

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. The cost is recognised over the period during which the qualifying employees provide services. If the effect of the time value of money is material, the liability is discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

l) 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 Income Tax Act (Cap 340) of Uganda. 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 outside profit or loss is recognised outside profit or loss in correlation to the underlying transaction either in OCI or directly in equity. Management periodically evaluates positions taken in the income tax returns in respect to aspects where the Income Tax (Cap 340) of Uganda is subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred 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.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except: when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred 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 tax asset to be utilised.

Deferred 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 OCI is recognised in OCI and not in 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 taxes relate to the same taxable entity and the same taxation authority.

2. Summary Of Significant Accounting Policies *(Continued)*

l) Tax *(Cont'd)*

Value Added Tax

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 the taxation 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.

m) 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:

- 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; or
- 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:

- 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; or
- 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, respectively.

n) Dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per Companies Act, 2012 of Uganda, a distribution is authorized when it is approved by the shareholders. The approved dividends are charged to retained earnings and recognised as liabilities until when paid. Interim dividends are charged to retained earnings when paid. Withholding tax is deducted, where applicable, in accordance with the prevailing tax laws and regulations.

o) 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 expense and other costs, e.g., exchange differences arising from foreign currency borrowings and other financing costs to the extent that they are regarded as an adjustment to interest costs that the Company incurs in connection with the borrowing of funds.

p) Provisions

Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of 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. The expense relating to any provision is presented in profit or loss.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

q) Comparatives

Except when IFRSs permit or require otherwise, the Company presents comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. The Company includes comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

The Company presents, as a minimum, two statements of financial position, two statements of profit or loss, two statements of comprehensive income, two statements of cash flows and two statements of changes in equity, and related notes. The Company presents a third statement of financial position as at the beginning of the preceding period in addition to these minimum comparative financial statements required if:

- it applies an accounting policy retrospectively, makes a retrospective restatement of items in the financial statements or reclassifies items in the financial statements; and,
- the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

2. Summary Of Significant Accounting Policies *(Continued)*

q) Comparatives *(Cont'd)*

In these circumstances, the Company presents three statements of financial position as at:

- the end of the current period;
- the end of the preceding period; and,
- the beginning of the preceding period.

The Company does not present the related notes to the opening statement of financial position as at the beginning of the preceding period.

If the Company changes the presentation or classification of items in the financial statements, it reclassifies comparative amounts unless reclassification is impracticable.

r) Equity

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

s) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company's lease arrangements are under the concession and hence scoped out of IFRS 16 ***Leases***.

t) Fair value measurement

The Company has no assets or liabilities for which the carrying amounts are at fair value at each reporting date. Fair value measurements are therefore done for the purposes of initial measurement of financial instruments and for fair value disclosure purposes. Refer to Note 44 for further disclosures on fair value.

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 is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- **Level 1** — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- **Level 3** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Company's management determines the policies and procedures for fair value measurement. Generally, the discounted cash flows method is used to determine fair values of assets and liabilities for which fair value disclosures are required. Otherwise, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs.

3. 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.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have had significant effects on the measurement and presentation of the amounts recognized in the financial statements:

3. Significant Accounting Judgments, Estimates And Assumptions *(Continued)*

Judgments *(Cont'd)*

Impairment at cash generating unit level

The Company's market capitalization as at year-end was Ushs 378,364 million which was lower than the carrying amount of the Company's net assets of Ushs 833,520 million. The directors consider that this is not an impairment indicator whereby the carrying amount of the net assets of the Company may not be recoverable. The judgements applied in this assessment include that the Company's business fundamentals remain positive as expected, with increasing profitability and investments in the Distribution Network. Furthermore, the market capitalization is higher than the carrying amount of the net operating assets. The directors also consider that the carrying amount of the net assets of the Company is supported by the buy out amount for which the Company has contractual and legal remedies that support its recoverability.

Lease arrangements

The Company has entered into lease agreements for office space and residential premises. The Company has determined, based on an evaluation of the terms and conditions of the concession agreements, that all the lease arrangements are under the concession arrangement for which IFRIC 12 is applied. As such, the lease arrangements are scoped out of IFRS 16 ***Leases***.

Useful lives of intangible assets

The estimated useful lives and residual values of items of the intangible assets are reviewed annually and are in line with the rates at which they are amortised. Refer to Notes 2(f) and 17 for further disclosures on intangible assets.

Investments in the Distribution Network

The directors have determined that the Company has rights in the concession agreements to recover all investments in the Distribution Network that are done in accordance with the concession agreements. The investments are firstly recovered through the intangible asset mechanism, that is, through the tariff methodology during the concession period, and secondly, investments not recovered through the tariff methodology by the end of the concession period are recovered through the buy out amount mechanism. The amounts recovered through the intangible asset mechanism are derived from the investments verified and approved by ERA for recovery through the tariff rate asset base. Investments verified by ERA and not approved for recovery through the tariff methodology, but for which there is reasonably sufficient evidence that the investments were done in accordance with the concession agreements, are considered to be recoverable through the buy out amount option. The directors apply judgement in determining that the Company has sufficient evidence that the investments were done in accordance with the concession agreements. The directors also apply judgement in determining the discount rate to use in calculating the fair value on initial recognition of these financial assets, that is, the market rate applicable to similar investments. Refer to Note 18 for further disclosures on the buy out amount financial asset.

Functional currency

The directors have assessed that USD continues to be the Company's functional currency since it is the currency that influences most the Company's operations and financial results and position. Some of the factors considered in this assessment are that the Company's revenue requirements are contractually based in USD, a number of expenses are incurred in USD and that financing is mainly sourced in USD.

Concession obligation and asset

The directors have assessed that despite the LAA requiring the Company to pay rental amounts to UEDCL in the subsequent year, the Company will not have this obligation since the related debt service amounts are not included in the base tariffs for the subsequent year. As such, the Company has no rights to collect the related financial asset from billing customers. On this basis, the concession obligation and financial asset have been considered to be non-current. Refer to Notes 19 and 28 for further disclosures.

Floating rate borrowing and borrowing transaction costs

Where a floating rate financial liability is initially recognised at an amount equal to the principal repayable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the financial liability. The directors consider that this implies that the Company may simply account for periodic floating-rate payments on an accrual basis in the period they are incurred. An alternative treatment would consist of calculating the effective interest rate based on a market-derived yield curve applicable for the entire life of the instrument. Applying this alternative approach, the calculated effective interest rate is applied until estimated future cash flows are revised, at which point a new effective interest rate is calculated based on the revised cash flow expectations and the current carrying amount. The Company considers the former treatment to be more appropriate.

Borrowing incremental costs are deferred and amortised over the term of the related borrowing. The directors' assessment is that the impact of using this approach is not materially different from amortising the costs using the effective interest method.

Refer to Note 27 for further disclosures on borrowings.

Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

3. Significant Accounting Judgments, Estimates And Assumptions *(Continued)*

Judgments ***(Cont'd)***

Determining the timing of satisfaction of the construction service performance obligations: The Company concluded that revenue from construction services contracts is to be recognised over time as the constructed asset is installed. The directors have applied judgement in determining that the Company's performance creates an asset that the customer controls as the asset is created or enhanced.

Identifying performance obligations relating to electricity sales: The Company sells electricity and provides related after sales services. The Company determined that these services are not capable of being distinct. The fact that the Company does not sell the services separately on a stand-alone basis indicates that the customer cannot separately benefit from services provided on their own.

Refer to Note 6 for further disclosures on revenue.

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.

Fair value of financial instruments

Where the fair value on initial measurement of a financial instrument or disclosed in the financial statements cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable market data where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as expected cash flows and discount rates. Changes in assumptions about these factors could affect the disclosed fair values. Refer to Note 44 for further disclosures on fair value measurements.

Impairment of non-financial assets

Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Company performs the annual impairment assessment at year-end. The Company considers the relationship between value in use and the carrying amount of the asset, among other factors, when reviewing for indicators of impairment. As at year-end, the impairment assessment indicated that there were no indicators that the carrying amounts of the non-financial assets could be impaired.

Impairment exists when the carrying amount 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 fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing off the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. *Refer to Notes 2(g) and 17 for the accounting policy on impairment of non-financial assets and the carrying amounts of the non-financial assets.*

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. Given the nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority. 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 taxable entity and the tax authority. Such differences of interpretation may arise on a wide variety of issues, depending on the conditions prevailing in the country.*Further disclosures on tax and tax contingencies are included in Notes 15 and 41.*

Expected credit losses on financial assets

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for the customers. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (e.g. inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs involves estimation. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Notes 22 and 44.

3. Significant Accounting Judgments, Estimates And Assumptions *(Continued)*

Estimates and assumptions ***(Cont'd)***

Contingencies and provisions

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Litigation and other judicial proceedings as a rule raise difficult and complex legal issues are subject to uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case and differences in applicable law. Upon resolution of any pending legal matter, the Company may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the Company could be materially affected by the unfavorable outcome of litigation.

Refer to Note 41 for further disclosures.

Prepaid revenue cut off

The Company operates a prepaid metering system for some of the domestic consumers and government bodies. The electricity units paid for but not consumed by year-end are determined basing on the customers' consumption patterns. The customers' historical consumption patterns may not be representative of the unutilised units at year-end.

Refer to Note 31 for further disclosures.

Regulatory adjustments

Some aspects of the following regulatory adjustments involve estimation:

Computation of Power Sales Price: Annex A of the Supply of Electricity License provides for Power Sales Price (PSP) reconciliations based on actual power purchases from UETCL and the cost of power purchased (Bulk Supply Tariff) from UETCL as set by ERA. The reconciliation mainly occurs due to differences between inputs used in setting bulk supply tariffs and actual out turns. The resulting differences or reconciliations are allowed for recovery in the subsequent tariff periods. Refer to Note 40 for further disclosures.

Computation of growth factor revenues: Amendment 5 to the Company's Electricity Supply Licence recognises that the Company generates excess sales volume over and above the targeted sales volume used in setting the tariffs. ERA determines the growth factor (HVE) resulting from this by applying the actual distribution price approved and the actual out turn of energy losses to the excess sales volume. Refer to Note 6 for further disclosures.

4. Standards and Interpretations Issued and Effective During The Year

The accounting policies adopted and methods of computation followed are consistent with those of the previous financial year. There were several new and amendments to standards and interpretations which are applicable for the first time in 2020.

The Company has listed only the disclosure of new and amended standards and interpretations that are effective from 1 January 2020, that had an impact on the Company's financial statements or arise from changes that could have an impact on the Company.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

The Interest Rate Benchmark Reform as a project will have impacts on the company as further explained in note 5

5. Standards Issued But Not Yet Effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below, if they are expected to have an impact on the Company's financial statements. The Company has listed only standards and interpretations that are expected to have an impact on Company's financial position, performance, presentation and/ or disclosures. The Company intends to adopt the new and amended standards and interpretations which are expected to be applicable, when they become effective. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a Risk Free Rate (RFR).

The Phase 2 Amendments provide the following changes in respect of financial instruments that are directly required by the Reform:

- A practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted
- Reliefs from discontinuing hedge relationships
- Temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component
- Additional IFRS 7 disclosures

5. Standards Issued But Not Yet Effective *(Continued)*

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Cont'd)

Regarding changes in the basis for determining the contractual cash flows, in its Phase 2 Amendments, the IASB identified four ways that changes in the basis for determining the contractual cash flows of a financial instrument might be made in order to achieve IBOR Reform:

- By amending the contractual terms (for instance, to replace a reference to an IBOR with a reference to an RFR)
- Through activation of an existing fallback clause in the contract
- Without amending the contractual terms, by changing the way that an interest rate benchmark is calculated
- A hedging instrument may alternatively be changed as required by the Reform by closing out an existing IBOR-related derivative and replacing it with a new derivative with the same counterparty, on similar terms except referencing an RFR or by combining the existing IBOR-related derivative with a new basis swap that swaps the existing referenced IBOR for the RFR.

The first three of these types of changes to the basis for determining contractual cash flows may have an effect on how interest is recognised on financial instruments recorded at amortised cost or at fair value through other comprehensive income. The fourth mainly affects hedge accounting, but all four are relevant to the assessment as to whether the change to the basis for determining contractual cash flows results in derecognition.

In respect to changes in the rate of interest, if an IBOR is amended to refer to an RFR, the Phase 2 Amendments require, as a practical expedient, for changes to cash flows that relate directly to the Reform to be treated as changes to a floating interest rate, i.e., the EIR is updated to reflect the change in an interest rate benchmark from IBOR to an RFR without adjusting the carrying amount. In effect, the change is treated as akin to a movement in the market rate of interest. The use of the practical expedient is subject to two conditions: First, the change in the basis for determining contractual cash flows must be a 'direct consequence of the Reform'; and Second, the new basis for determining the contractual cash flows must be 'economically equivalent' to the previous basis immediately preceding the change.

In respect to derecognition due to modification of non-derivative financial instruments, as addressed in IFRS 9 for financial liabilities, the key requirement is that a modification that results in a 'substantial change' in the expected cash flows will lead to the derecognition of the original liability and the recognition of a new one.

The Phase 2 Amendments only require an assessment of whether the derecognition criteria apply if changes are made to the financial instrument beyond those that qualify for the practical expedient discussed above.

It follows that changes that qualify for the practical expedient will not be regarded as sufficiently substantial that the instrument would be derecognised. However, after an entity applies the practical expedient, it must then separately assess any further changes that are not required by the Reform (e.g., a change in credit spread or a maturity date) to determine if they would result in derecognition.

In respect to classification of financial assets, any new financial assets, or any that have been derecognised and a new one recognised, because they have been subject to substantial modification as discussed above will need to be classified to determine their accounting treatment. A financial asset may only be accounted for at amortised cost or at fair value through other comprehensive income (FVOCI) if, at original recognition, the cash flows represent Solely Payment of Principal and Interest (SPPI). The Company will, therefore, need to apply judgement in assessing whether there are any modifications to the time value of money element in replacement RFRs and, if there are, whether these modifications will cause a financial asset to fail the SPPI test.

The Phase 2 Amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. Application is retrospective although hedge relationships may not be designated retrospectively.

The Phase 2 Amendments also affected IFRS 16 Leases and IFRS 4 Insurance Liabilities. The amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9.

Consequential amendments were made by the Phase 2 Amendments to IFRS 7, to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. As a result, entities should disclose information about: The nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages those risks; and their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The Company has borrowing facilities for which interest is charged basing on LIBOR as disclosed in note 27. The nature of the risks arising from the reform could include changes in the amount of cash flows in respect to the interest paid on the affected borrowing facilities, for example, if the changes in interest rates because of the reform result into different cash flow requirements. The Company's management and directors are currently understanding the reform and the available alternative benchmark rates and expect to start discussions with the Company's lenders thereafter. As such, the extent of the risks to which the Company is exposed had not yet been quantified at the time of issuing these financial statements. However, the risks are expected to be managed by discussing with and engaging the lenders to ensure that changes in interest rates due to the reform do not result into material changes in the net cost of borrowing.

6. Revenue From Contracts With Customers

The Company's primary geographical market is Uganda. Revenue from sale of electricity including lifeline surcharge revenue is recognised at a point in time when the customer consumes electricity, based on the end user tariff set by ERA.

Changes in prices charged to customers arise through changing tariffs over the contract term through the quarterly price changes made by ERA, and pricing by time of day, that is, peak, shoulder and off-peak. The pricing by time of day reflects the value of electricity that the customer consumes during the different time segments during the day. In line with the IFRS 15 practical expedients, the Company has assessed that the tariff adjustments are not variable considerations but rather a reflection of the value of providing electricity units during the tariff period. Moreover, the changes in tariffs are accounted for in the same reporting period.

The Company's revenue is disaggregated by tariff code of billing and nature as follows:

	Notes	2020 Ushs million	2019 Ushs million
Electricity Sales			
Domestic		476,808	460,764
Commercial		218,759	247,953
Street lighting		603	686
Medium industrial		294,223	339,046
Large industrial		327,091	359,066
Extra-large industrial		288,198	247,115
Total amount billed to customers		**1,605,682**	**1,654,630**
Less: Amounts collected from customers that are not revenue for the year:			
Growth factor amounts	(a)	(2,547)	(56,610)
Recovery of amounts for funding non-network assets	(b)	(7,447)	(9,274)
Recovery of surcharge revenue (Lifeline revenue)	(c)	-	(13,521)
Recovery of amounts for skills development program and meter testing costs	(d)	-	(642)
		1,595,688	**1,574,583**
Other revenue streams:			
Construction revenue - construction of assets	(e)	4,841	3,910
Construction revenue - ECP revenue	(f)	54,242	190,439
		59,083	**194,349**
Other regulated income:			
Reconnection fees		510	2,103
Inspection fees		3,456	4,129
		3,966	**6,232**
Other non-regulated income:			
Sale of scrap and other income		2,104	1,299
Gain on disposal of assets		-	134
		2,104	**1,433**
Total revenue from contracts with customers		**1,660,841**	**1,776,597**

6. Revenue From Contracts With Customers *(Continued)*

(a) Modification Number Five to Umeme's Electricity Supply Licence No.048 requires that the Growth Factor (Hvey) revenues arising from actual total energy purchases being higher than the total energy purchases used in determining the year-on-year tariffs should be deployed towards investment in the Distribution Network in a manner as approved by ERA, and that the amounts should be used to leverage grant or other counterpart financing applied towards investment in the Distribution Network. The Company is not entitled to a Return on Investment on the investments implemented using the Growth Factor amounts in line with similar terms for projects funded using concessionary financing but will earn a one-off management fee. Ushs 2,547 million (2019: Ushs 56,610 million) has been determined as the net excess amount billed to customers by the Company through growth. As such, in line with Amendment No. 5, this amount has been ring fenced for future investment into the Distribution Network once approved by ERA.

(b) In accordance with Amendment Number 4 of the Company's Electricity Supply License, ERA approved Ushs 7,447 million (2019: Ushs 9,274 million) to be collected from customers through the retail tariffs for purchase of non-network assets. Non-network assets are those assets which do not directly improve or expand the Distribution Network but are necessary for operation of the Distribution Network. This amount is excluded from the amounts billed to customers to arrive at the reported revenue in line with the funding mechanism.

(c) As disclosed in the 2018 annual financial statements, the Company earned surcharge revenue relating to 2016 (Ushs 46,038 million), 2017 (Ushs 57,672 million) and January 2018 to March 2018 (Ushs 17,000 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 under recovery of Umeme revenue requirements for the respective financial periods. ERA approved the recovery/collection of these amounts through the tariffs effective from April 2018. The adjustment of Ushs 13,521 million relates to the portion of the revenue amount of Ushs 17,000 million recognised in 2018 but billed and recovered from customers during 2019.

(d) ERA approves the recovery from customers of amounts for the Skills Development Program within the Electricity Sector. ERA also approves the recovery from customers of amounts to finance the testing of electricity meters in order to ensure compliance with the Weights and Measures (Electricity Meters) rules. Refer to Notes 18 (f) and 18 (g) for further disclosures. No amounts were approved by ERA for recovery during the period (2019: Ushs 196 million and Ushs 125 million for the Skills Development Program and meter testing, respectively).

(e) The Company provides construction services relating to the upgrading and expansion of the Distribution Network in accordance with the concession agreements. The expenses that are incurred on the assets additions funded by direct cash contributions paid by customers are recognised in profit or loss as construction cost of sales and the amounts paid by the customers for the construction services ("non-refundable capital contributions" or "NRCC") are recognised as construction revenue when utilized. The costs incurred on the upgrading and expansion additions funded by the Company are offset from the related construction revenue as this reflects the substance and legal form of the transactions.

(f) Under the Electricity Connections Policy (ECP), the Company was engaged by the Rural Electrification Agency (REA) to provide construction services regarding connection of no-pole and one-pole electricity connections. The agreement for this service entitles the Company to bill REA at specified approved standard cost rates plus a margin of 5%. Billing for the connections constructed is subject to verification and clearance by the IVA.

(g) Contract balances are trade receivables (Note 22), contract assets (Note 21) and contract liabilities (Note 31).

(h) Information about the Company's performance obligations is summarised in Note 2(d).

Notes To The Financial Statements *(Continued)*

7. Cost Of Sales

	2020 Ushs million	2019 Ushs million
Electricity purchase from UETCL	1,115,504	984,276
Generation levy	4,822	4,726
Construction costs: construction of assets [Note 6(e)]	4,815	3,910
Construction costs: ECP [Note 6(f)]	56,711	189,585
	1,181,852	**1,182,497**

8. Repairs And Maintenance Expenses

	2020 Ushs million	2019 Ushs million
Distribution (overhead and underground)	10,545	5,234
Transformers, meters and other electrical equipment	15,907	9,051
Other repairs and maintenance	19,292	16,626
	45,744	**30,911**

Other repair and maintenance costs include pole replacement costs, vegetation management, substation repairs and other maintenance related costs.

9. Administration Expenses

	2020 Ushs million	2019 Ushs million
Staff and network contractor management costs[1]	101,157	104,665
Transport costs	17,684	16,455
Software support agreements	7,179	6,098
Publicity, advertisement and sms communication	4,509	6,243
ERA licensing fees	5,738	3,398
Operating concession charges – UEDCL	6,602	6,555
Rental expenses	3,355	3,235
Directors' expenses and allowances	2,823	3,090
Other administration costs[2]	17,162	20,320
Consultancy fees	4,044	2,459
Telephone expenses	5,451	5,968
Debt collection expenses	1,590	1,881
Insurance premium charges	2,651	2,615
	179,945	**182,982**
[1]Staff and network contractor management costs		
Salaries and wages	62,315	55,308
National Social Security Fund (NSSF) contributions	6,405	7,133
(Decrease)/increase in long term incentive plan provision	(778)	775
Other employment related costs	33,215	41,449
	101,157	**104,665**

Notes To The Financial Statements *(Continued)*

The other employment related costs include the following amounts:

	2020 Ushs million	2019 Ushs million
Employee performance bonus	5,001	9,960
Contractor management fees[1]	11,532	10,453
Staff medical expenses	3,582	3,346
Travel expenses	3,053	3,951
Retirement benefit scheme	2,376	2,118
	25,544	**29,828**

[1]Contractor management fees mainly relate to fees paid to contractors that are involved in the repair and maintenance of the distribution network.

[2]The 2020 amount includes Covid related costs of Ushs 2,128 million

10. Other Operating Expenses

		2020 Ushs million	2019 Ushs million
(a) Net foreign exchange losses		11,413	7,782
		11,413	**7,782**
b) Increase in expected credit losses	**Notes**		
Increase in ECL - trade receivables	22	7,619	3,822
(Decrease)/increase in ECL - other receivables	22	(5)	38
		7,614	**3,860**

11. Amortisation And Write Off Of Intangible Assets

	2020 Ushs million	2019 Ushs million
Amortisation of intangible assets (Note 17)	130,320	120,034
Write off of intangible assets (Note 17)	10,955	2,960
	141,275	**122,994**

12. Finance Income

	2020 Ushs million	2019 Ushs million
Interest on bank deposits	484	330
Finance income on other financial asset (Note 18)	14,880	12,668
Financing income on concession financial asset (Note 19)	3,549	4,641
	18,913	**17,639**

Notes To The Financial Statements *(Continued)*

13. Finance Costs

	2020 Ushs million	2019 Ushs million
Finance costs relating to debt facilities		
Interest expense on Facility A (Note 27)	10,534	16,058
Interest expense on Facility B (Note 27)	10,590	18,039
Interest expense on Facility C (Note 27)	7,209	208
Interest expense on Facility D (Note 27)	6,073	174
Interest on short term borrowings (Note 27)	1,381	7,366
Amortisation of borrowings transaction costs[1]	4,576	2,722
Other financing costs[2]	6,416	9,330
	46,779	**53,897**
Less: Capitalised borrowing costs	(1,445)	-
	45,334	**53,897**
Finance costs related to other financial liabilities		
Accrued interest on customer security deposits	67	315
Finance charge on concession obligation (Note 28)	3,549	4,641
	3,616	**4,956**
Total finance costs	**48,950**	**58,853**

[1]This relates to deferred costs on the borrowings in Note 27 of Ushs 4,454 million (2019: Ushs 2,608 million) and overdraft facilities in Note 34 of Ushs 122 million (2019: Ushs 114 million).

[2]The other financing costs comprise of the following:

	2020 Ushs million	2019 Ushs million
Interest expense on overdraft facilities	5,634	7,263
Late payment interest - UETCL	782	2,067
	6,416	**9,330**

14. Profit Before Tax

	2020 Ushs million	2019 Ushs million
Profit before tax is stated after charging:		
Amortisation of intangible assets	130,320	120,034
Write off of intangible assets	10,955	2,960
Auditor's remuneration[1]	897	725
NSSF - employer's contributions	6,405	7,133
Directors' expenses and allowances	2,823	3,090
Performance bonus	4,999	9,960
(Decrease)/increase in long term incentive plan provision	(778)	775
Donations	87	136
Unrealised foreign exchange losses	13,449	476
Staff medical and welfare expenses	4,423	4,743
And after crediting		
Interest on bank deposits	**484**	**330**

[1]Included in other administration costs in Note 9.

15. Taxation

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

a) Income tax expense

	2020 Ushs million	2019 Ushs million
Amounts recognized in profit or loss		
Current income tax charge for the year	-	32,090
Current income tax charge – prior years	22	342
Deferred tax charge for the year	19,829	30,592
Deferred tax charge – prior years	29	2,181
	19,880	**65,205**

The effective tax rate is 31.58% (2019: 31.91%) The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2020 Ushs million	2019 Ushs million
Accounting profit before income tax	62,961	204,357
At statutory income tax rate of 30%	18,888	61,307
Tax effect of:		
Expenses not allowable for tax purposes		
Non qualifying depreciation	780	1,135
Staff welfare	136	198
Other non deductible expenses	25	42
Current income tax – prior years	22	342
Deferred tax charge – prior years under provision	29	2,181
Income tax expense charged to profit or loss	**19,880**	**65,205**

b) Current income tax recoverable

	2020 Ushs million	2019 Ushs million
At 1 January	(11,077)	(4,680)
Current income tax charge for the year	22	32,432
Payment of current income tax	(30,082)	(38,829)
At 31 December	**(41,137)**	**(11,077)**

15. Taxation *(Continued)*

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

	Closing balance	Movement for the year				As previously stated
		Profit or loss	Prior year	Restated	Prior year adjustment	
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 31 December 2020						
Deferred tax liabilities / (assets)						
Accelerated tax depreciation	241,203	28,532	-	-	-	212,671
Provision for bad debts	(13,983)	(1,118)	29	-	-	(12,894)
Other provisions	(3,711)	467	-	-	-	(4,178)
Unrealised foreign exchange gains	(3,620)	(3,476)	-	-	-	(144)
Tax losses	(4,576)	(4,576)	-	-	-	-
Net deferred tax liability	**215,313**	**19,829**	**29**	**-**	**-**	**195,455**

	Closing balance	Movement for the year				As previously stated
		Profit or loss	Prior year	Restated	Prior year adjustment	
		Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 31 December 2019						
Deferred tax liabilities / (assets)						
Accelerated tax depreciation	212,671	23,012	2,597	187,062	(45,325)	232,387
Provision for bad debts	(12,894)	6,673	(357)	(19,210)	556	(19,766)
Other provisions	(4,178)	1,125	(96)	(5,207)	127	(5,334)
Unrealised foreign exchange gains	(144)	(218)	37	37	(48)	85
Net deferred tax liability	**195,455**	**30,592**	**2,181**	**162,682**	**(44,690)**	**207,372**

[1] This relates to the prior year adjustments recognised in the 2019 financial statements.

Notes To The Financial Statements *(Continued)*

16. Basic And Diluted Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2020 Ushs million	2019 Ushs million
Profit attributable to ordinary equity holders (Ushs million)	**43,081**	**139,152**
Basic number of ordinary shares (million) [Note 24]	1,6 24	1,624
Diluting shares (million)	-	-
Basic and diluted weighted average number of ordinary shares (millions)	1,624	1,624
Basic and diluted earnings per share (Ushs)	**27**	**86**

17. Intangible Assets

	GoU support and assurances rights Ushs million	Other concession rights Ushs million	Total Ushs million
Cost			
At 1 January 2019	3,620	1,542,065	1,545,685
Additions		104,817	104,817
Write offs	-	(2,960)	(2,960)
Disposals	-	(4,424)	(4,424)
Transfer to financial asset (Note 18)	-	(174,291)	(174,291)
Translation differences	(44)	(18,495)	(18,539)
At 31 December 2019	**3,576**	**1,446,712**	**1,450,288**
Additions		278,744	278,744
Write offs	-	(20,975)	(20,975)
Transfer to financial asset (Note 18)	-	(154,419)	(154,419)
Translation differences	(20)	(9,829)	(9,849)
At 31 December 2020	**3,556**	**1,540,233**	**1,543,789**
Amortisation			
At 1 January 2019	(2,308)	(531,647)	(533,955)
Charge for the year	(123)	(119,911)	(120,034)
Disposals	-	4,424	4,424
Translation differences	12	7,896	7,908
At 31 December 2019	**(2,419)**	**(639,238)**	**(641,657)**
Charge for the year	(123)	(130,197)	(130,320)
Disposals and write offs	-	10,020	10,020
Translation differences	(2)	5,835	5,833
At 31 December 2020	**(2,544)**	**(753,580)**	**(756,124)**
Net carrying amount			
At 31 December 2020	1,012	786,653	787,665
At 31 December 2019	1,157	807,474	808,631

17. Intangible Assets *(Continued)*

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 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 assets added to 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 the Company's property, plant and equipment. An intangible asset equal to the carrying amount 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 underlying property, plant and equipment.

Capitalised borrowing costs

Funding used to construct qualifying assets is financed out of borrowings. The capitalisation rate applied is the weighted average of the borrowings costs applicable to qualifying capital expenditure. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 0.6% (2019: nil) and the amount of borrowing costs capitalised during the year ended 31 December 2020 was Ush 1,445 million (2019: nil).

Collateral for borrowings

The Company's rights, title and interest under the intangible assets are pledged as collateral for the borrowing facilities as disclosed in Note 27.

18. Other Financial Asset: Buy Out Amount

	2020 Ushs million	2019 Ushs million
At 1 January	855,497	679,378
Transfer from intangible assets (Note 17)	154,419	174,291
Finance income accrued	14,883	12,668
Translation differences	(7,587)	(10,484)
	1,017,212	**855,853**
Expected credit losses	(356)	(356)
	1,016,856	**855,497**

The movement in expected credit losses was as follows:

	2020 Ushs million	2019 Ushs million
At 1 January	356	361
Increase for the year	-	-
Translation differences	-	(5)
At 31 December	**356**	**356**

18. Other Financial Asset: Buy Out Amount *(Continued)*

The buy out amount is computed as the gross accumulated capital investments less the cumulative capital recovery charges expected to be allowed in the tariffs by the time of transferring the Distribution Network to UEDCL and discounted over the remaining concession period using the pre tax return on investment of 28.6% (2019: 28.6%), for investments verified and approved by ERA, and 5.02% (2019: 5.14%) for investments not approved by ERA for recovery through the tariff methodology. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate.

The buy out amount is contractually denominated in USD. The USD balance has been translated to Ushs at the reporting date spot exchange rate of Ushs 3,650.43 (2019: 3,670.2).

As at 31 December 2020, the estimated weighted average depreciation rate was 10.2 % (2019: 10.2%) and it is hence estimated that capital investments amounting to Ushs 1,016,856 million or USD 279 million, as of that date (2019: Ushs 855,497 million or USD 233 million) will not have been recovered through the tariff methodology by the end of the concession.

The buy out amount shall be paid in cash with a 5% return and hence the amounts receivable are accounted for as a financial asset.

The Company's rights, title and interest under the buy out amount are pledged as collateral for the term borrowing facilities as disclosed in Note 27.

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

	2020		2019	
	Ushs million	USD million	Ushs million	USD million
Gross investments[1]	2,668,464	731	2,408,113	656
Less: Cumulative capital recoveries[2]	(1,029,421)	(282)	(859,010)	(234)
Unrecovered investments	1,639,043	449	1,549,103	422
The gross investments comprise:				
Total investments in the ERA tariff base[3]	1,752,206	480	1,665,916	454
Total investments not yet approved by ERA	916,258	251	742,197	202
	2,668,464	**731**	**2,408,113**	**656**
The investments not yet approved by ERA are represented by:				
Completed projects undergoing ERA verification	868,802	238	663,338	181
Capital work-in-progress	47,456	13	78,859	21
	916,258	**251**	**742,197**	**202**

[1]Includes capital work-in-progress.

[2]The cumulative capital recoveries and investments approved by ERA are inclusive of the allowance for impairment charge of USD 7 million relating to the year ended 31 December 2010. The gross investments are adjusted by this amount.

[3]The amount of the investments in the ERA tariff base changes as more investments are verified and approved by ERA.

Notes To The Financial Statements *(Continued)*

18. Other Financial Asset: Buy Out Amount *(Continued)*

Completed investments that are yet to be approved by ERA are summarized below. All amounts are in USD million.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Completed investments yet to be approved	9.3	11.7	20.3	16.7	26.1	18.7	22.9	29.1	83.1	237.9

USD 83.1 million relating to capital investments completed in 2020 was allowed in the 2021 tariff base pending verification by ERA..

Whilst it is expected that all investment will be recovered, the directors apply judgement in determining the quantum of the investments that will be recovered through mechanisms that allow for payment of a return on investment or mechanisms that don't allow for payment of a return on investment like allowing for recovery of investments through additional operational expenditure in future tariff determinations.

The table below includes Umeme's capital investments over the period 2005 to 2020. The amounts presented below are at the historical average Ushs:USD exchange rates while the amounts presented in the statement of financial position are at the closing Ushs:USD exchange rates.

	2005-2013 Ushs Million	2014 Ushs million	2015 Ushs million	2016 Ushs million	2017 Ushs million	2018 Ushs million	2019 Ushs million	2020 Ushs million	Total Ushs million
In Ushs									
Substations, low voltage lines & services	437,787	264,483	278,879	314,558	229,999	226,830	100,143	272,067	2,124,746
Land and buildings	8,438	2,909	777	1,309	470	123	46	188	14,260
Furniture, fittings, tools & office equipment	12,910	780	776	1,730	2,408	2,794	3,228	3,245	27,871
Computers, communication & MIS	34,186	664	92	117	3,504	837	1,348	2,506	43,254
Motor vehicles	20,969	-	4	83	47	16	52	738	21,909
Total investments	**514,290**	**268,836**	**280,528**	**317,797**	**236,428**	**230,600**	**104,817**	**278,744**	**2,232,040**
Represented by:									
Completed and capitalised	493,992	267,415	248,426	273,114	238,559	213,696	147,478	309,339	2,192,019
Capital work-in-progress	20,298	1,421	32,102	44,683	(2,131)	16,904	(42,661)	(30,595)	40,021
	514,290	**268,836**	**280,528**	**317,797**	**236,428**	**230,600**	**104,817**	**278,744**	**2,232,040**
In USD million									
Average foreign exchange rate (Ushs:USD)	2,290	2,778	3,242	3,423	3,616	3,732	3,709	3,724	
Total investments in USD million	**225**	**97**	**87**	**93**	**65**	**62**	**28**	**74**	**731**

19. Concession Financial Asset

	2020 Ushs million	2019 Ushs million
At 1 January	327,570	327,074
Finance income for the year	3,549	4,641
Foreign exchange loss	(1,836)	(4,145)
At 31 December	**329,283**	**327,570**
Maturity analysis of the financial asset:		
Outstanding financial asset	329,283	327,570
Less: Amount recoverable within one year	-	-
Non-current portion of financial asset	**329,283**	**327,570**
The financial asset is recoverable as analysed below:		
Within one year	-	-
Between one and two years	309,136	297,871
Between two and three years	10,144	9,443
Between three and four years	10,003	10,200
Between four and five years	-	10,056
After five years	-	-
	329,283	**327,570**

The terms of the Lease and Assignment Agreement (LAA) stipulate that the Company has an unconditional right to receive from the users of the Distribution Network, through the tariff methodology, cash relating to the concession rental payments made to UEDCL.

No concession rental payments were made to UEDCL regarding the concession obligation since the year ended 31 December 2012 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 tariffs 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 receivable. 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 base tariffs for the subsequent year.

Refer to Note 28 for further disclosures.

20. Inventories

	2020 Ushs million	2019 Ushs million
Overhead materials and accessories	30,083	25,948
Underground cables, materials and accessories	10,802	8,038
Substation transformers and accessories	14,018	9,601
Meters, metering equipment and accessories	38,764	20,612
Tools and other equipment	7,078	4,276
Stationery	2,216	1,303
	102,961	**69,778**
Provision for impairment	(361)	-
	102,600	**69,778**
Provision for impairment		
At 1 January	-	1,882
Inventory write off	-	(1,882)
Increase in provision	361	
At 31 December	**361**	**-**

Inventories comprise mainly network equipment and accessories like transformers, cables, switch-gear, poles, meters and accessories used in construction or maintenance of the Distribution Network.

Inventories expensed during the year under cost of sales amounted to Ushs 67,527 million (2019: Ushs 109,284 million) while Ushs 37,516 million (2019: Ushs 26,273 million) was expensed under repairs and maintenance expenses.

21. Contract Assets

	2020 Ushs million	2019 Ushs million
a) Amounts recoverable from customer capital contributions		
At 1 January	4,867	4,542
Additions to customer funded installations	7,086	7,218
Amounts billed to customers	(4,778)	(6,773)
Translation differences	(71)	(120)
At 31 December	**7,104**	**4,867**
b) ECP costs not yet verified		
At 1 January	80,348	2,202
Costs incurred during the year	56,711	187,176
Less: Billed during the year	(47,372)	(100,855)
Excess costs above the standard billing rate	(4,837)	(7,523)
Translation differences	(521)	(652)
At 31 December	**84,329**	**80,348**
Total contract assets	**91,433**	**85,215**

21. Contract Assets *(Continued)*

Amounts recoverable from customer capital contributions relate to the costs incurred by the Company on commercial schemes in excess of the capital contributions made by the customers. The Company has contractual and legal rights to recover the excess costs from the customers.

The ECP amounts not yet verified relate to costs incurred by the Company on no pole and one pole connections for which verification by the IVA had not been completed by year-end. The amount relates to costs incurred on connections not completed or connections pending verification and clearance by the IVA. After verification and clearance by the IVA, the amounts are billed to and reimbursed by REA. The ECP project commenced in November 2018. The project was suspended from 29th July 2020 because of a realignment of priorities and financial resources by the government, in part brought about by the unexpected COVID-19 pandemic. Effective from 9th December 2020, the ECP project was amended by ERA to allow willing and able customers to pay for the connections.

22. Trade And Other Receivables

	2020 Ushs million	2019 Ushs million
Trade receivables	225,162	199,425
Less: Allowance for expected credit losses	(45,072)	(41,440)
Net trade receivables	**180,090**	**157,985**
Letters of credit	-	1,072
Other receivables	2,157	1,831
Ministry of Energy – Peri Urban Development project	2,365	2,378
REA – OBA receivables	-	14,141
REA – ECP receivables	33,883	39,000
Less: Allowance for expected credit losses	(93)	(98)
	38,312	**58,324**
Trade and other receivables	**218,402**	**216,309**

Other receivables comprise of staff salary advances and work 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 their fair values due to the short-term nature of the financial assets.

The movement in the expected credit losses on trade receivables was as follows:

	2020 Ushs million	2019 Ushs million
At 1 January	41,440	64,478
Allowance for ECLs for the year	7,619	3,822
Less: Bad debts written off[1]	(3,850)	(26,203)
Translation differences	(137)	(657)
At 31 December	**45,072**	**41,440**
[1]Bad debts written off are made up as follows:		
Pre-concession trade receivables	3,850	20,503
Trade receivables relating to the concession period	-	5,700
	3,850	**26,203**

22. Trade And Other Receivables *(Continued)*

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

Year	Total	<30 days	30-60 days	60 - 90 days	>90 days (default)
	Ushs million	Ushs million	Ushs million	Ushs mil lion	Ushs million
2020	225,162	111,746	23,295	45,049	45,072
2019	199,425	110,862	14,497	32,626	41,440

Expected credit losses on other receivables	Lifeline Surchage Revenue	REA - OBA / ECP receivables	Peri-Urban / Other Receivables	Customer Capital contributions receivable	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 1 January	52	2	-	6	60
Increase for the year	(52)	76	-	14	38
At 31 December 2019	**-**	**78**	**-**	**20**	**98**
(Decrease) / increase for the year	-	(78)	73	-	(5)
At 31 December 2020	**-**	**-**	**73**	**20**	**93**

The changes in expected credit losses are under Note 10.

Peri-urban development receivable

This relates to funds received from Development Fund Institutions (DFIs) through Ministry of Energy and Mineral Development (MEMD) for providing electricity access to customers that are within range of the electricity grid but do not have access. The following were the amounts utilized but not yet received from MEMD as at year-end:

	2020	2019
	Ushs million	Ushs million
At 1 January	2,378	2,410
Additions	-	-
Translation differences	(13)	(32)
At 31 December	**2,365**	**2,378**

23. Bank Balances

	2020	2019
	Ushs million	Ushs million
Bank balances	30,022	99,196

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 bank deposits market interest rates.

24. Issued Capital

a) Number of shares	2020	2019
i) Authorised ordinary shares		
At 1 January and 31 December	1,800,000,000	1,800,000,000
ii) Number of issued ordinary shares		
At 1 January and 31 December	1,623,878,005	1,623,878,005
b) Par value of ordinary shares		
At 1 January and 31 December per share (Ushs per share)	**17.088**	**17.088**

c) Value of issued shares	**2020 Ushs million**	**2019 Ushs million**
Nominal value of shares at 1 January and 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 the Company's general meetings.

d) Spread of issued shares

Number of shares - At 31 December 2020	Number of shareholders	Number of shares held	Percentage shareholding
Less than 500	823	159,270	0.01%
500 - 5,000	3,008	5,565,233	0.34%
5,001 – 10,000	621	4,848,201	0.30%
10,001 – 100,000	1,038	30,614,583	1.89%
100,001 - 1,000,000	382	97,100,836	5.98%
Above 1,000,000	80	1,485,589,882	91.48%
	5,952	**1,623,878,005**	**100.00%**

Number of shares - At 31 December 2019	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500	708	137,214	0.01%
500 - 5,000	2,916	5,378,659	0.33%
5,001 – 10,000	605	4,737,442	0.29%
10,001 – 100,000	1,018	30,181,618	1.86%
100,001 - 1,000,000	381	100,426,866	6.18%
Above 1,000,000	98	1,483,016,206	91.33%
	5,726	**1,623,878,005**	**100.00%**

24. Issued Capital *(Continued)*

e) Shareholding

	Name	31 December 2020 Number of shares	31 December 2020 Percentage shareholding	31 December 2019 Number of shares	31 December 2019 Percentage shareholding
1	National Social Security Fund	378,933,288	23.34%	377,426,009	23.24%
2	Allan Gray	240,654,523	14.82%	208,072,017	12.81%
3	Kimberlite Frontier Africa Master Fund	144,564,483	8.90%	144,564,483	8.90%
4	Utilico Emerging Markets Limited	135,900,000	8.37%	126,003,874	7.76%
5	Imara S P Reid (Pty) Ltd	84,671,509	5.21%	87,121,509	5.37%
6	Investec Asset Management Africa	60,165,040	3.71%	60,165,040	3.71%
7	International Finance Corporation	45,220,900	2.78%	45,220,900	2.78%
8	Coronation Global Opportunities Fund	41,728,070	2.57%	41,728,070	2.57%
9	Duet Fund	39,796,024	2.45%	39,796,024	2.45%
10	Conrad and Hilton Foundation	31,327,420	1.93%	20,509,649	1.26%
11	Others	420,916,748	25.92%	473,270,430	29.14%
		1,623,878,005	**100.00%**	**1,623,878,005**	**100.00%**

25. Share Premium

	2020 Ushs million	2019 Ushs million
At 1 January and 31 December	**70,292**	**70,292**

26. Distributions To Shareholders Made And Proposed

	2020 Dividend per share Ushs	2020 Total Ushs million	2019 Dividend per share Ushs	2019 Total Ushs million
Dividend paid				
2018 interim dividend[1]	-	-	12.7	20,623
Final dividend	41.34	67,131	28.2	45,793
	41.34	**67,131**	**40.9**	**66,416**
Dividend proposed				
Final dividend	12.2	19,807	41.34	67,133
	12.2	**19,807**	**41.34**	**67,133**

[1]The 2018 interim dividend was paid in January 2019.

The Company is required to withhold tax on the dividend payments in accordance with the tax laws of Uganda and remit the amounts withheld to Uganda Revenue Authority.

Notes To The Financial Statements *(Continued)*

27. Borrowings

	2020 Ushs million	2019 Ushs million
Long term facilities – Facilities A and B	271,260	345,836
Long term facilities – Facilities C and D	255,530	186,630
Short term facilities	-	37,525
Less: Deferred transaction costs	(9,686)	(13,057)
	517,104	**556,934**
Less: Current portion - amount due within one year		
Facilities A and B	(90,461)	(90,952)
Facilities C and D	(85,179)	-
Short term facilities	-	(37,525)
Amounts due within one year	**(175,640)**	**(128,477)**
Amounts due in more than one year	**341,464**	**428,457**

More details on borrowings are provided iln this publication, pages are 116 to 120.

a) Long term facilities

	2020 Ushs million			2019 Ushs million		
	Facility A	**Facility B**	**Total**	**Facility A**	**Facility B**	**Total**
At 1 January	176,089	169,747	345,836	222,946	255,525	478,471
Interest charge for the year	10,534	10,590	21,124	16,058	18,039	34,097
Foreign exchange gains	(450)	(835)	(1,285)	(2,605)	(2,797)	(5,402)
Less: Principal repayment	(44,376)	(29,026)	(73,402)	(44,319)	(83,057)	(127,376)
Less: Interest payment	(10,484)	(10,529)	(21,013)	(15,991)	(17,963)	(33,954)
At 31 December	**131,313**	**139,947**	**271,260**	**176,089**	**169,747**	**345,836**

The amounts due are made up as follows:

Principal due after one year	87,486	93,313	180,799	132,024	122,860	254,884
Principal due in one year	43,827	46,634	90,461	44,065	46,887	90,952
	131,313	**139,947**	**271,260**	**176,089**	**169,747**	**345,836**

27. Borrowings *(Continued)*

	2020 Ushs million			2019 Ushs million		
	Facility C	**Facility D**	**Total**	**Facility C**	**Facility D**	**Total**
At 1 January	101,312	85,318	186,630	-	-	-
Amount received	38,375	32,315	70,690	101,304	85,309	186,613
Interest charge for the year	7,209	6,073	13,282	208	174	382
Foreign exchange losses	(1,023)	(865)	(1,888)	5	7	12
Less: Interest payment	(7,157)	(6,027)	(13,184)	(205)	(172)	(377)
At 31 December	**138,716**	**116,814**	**255,530**	**101,312**	**85,318**	**186,630**
The amounts due are made up as follows:						
Principal due after one year	92,476	77,875	170,351	101,312	85,318	186,630
Principal due in one year	46,240	38,939	85,179	-	-	-
	138,716	**116,814**	**255,530**	**101,312**	**85,318**	**186,630**

b) Short term facilities

dfcu Bank Limited	**2020 Ushs million**	**2019 Ushs million**
At 1 January	37,525	57,085
Amount received during the year	-	91,150
Interest charge for the year	1,381	7,366
Principal repayment	(36,650)	(104,500)
Interest payment	(2,966)	(12,866)
Foreign exchange losses/(gains)	710	(710)
At 31 December	-	**37,525**

c) Deferred transaction costs

Long term facilities	2020 Ushs million			2019 Ushs million		
	Facility A	**Facility B**	**Total**	**Facility A**	**Facility B**	**Total**
At 1 January	1,776	2,541	4,317	2,750	4,271	7,021
Management, security and agency fees	312	360	672	-	-	-
Amortisation for the year	(786)	(1,043)	(1,829)	(940)	(1,668)	(2,608)
Foreign exchange losses	(2)	(7)	(9)	(34)	(62)	(96)
At December	**1,300**	**1,851**	**3,151**	**1,776**	**2,541**	**4,317**

27. Borrowings *(Continued)*

	2020 Ushs million			2019 Ushs million		
	Facility C	**Facility D**	**Total**	**Facility C**	**Facility D**	**Total**
At 1 January	4,744	3,996	8,740	-	-	-
Upfront and guarantee fees	-	-	-	4,031	3,395	7,426
Management, security and agency fees	343	78	421	729	614	1,343
Amortisation for the year	(1,426)	(1,199)	(2,625)	-	-	-
Foreign exchange (losses) /gains	(3)	2	(1)	(16)	(13)	(29)
At December	**3,658**	**2,877**	**6,535**	**4,744**	**3,996**	**8,740**

Term and revolving credit facility agreement

The Company has a Term and Revolving Credit Facilities Agreement (the **"facilities agreement"**) with International Finance Corporation (IFC), Standard Chartered Bank and Stanbic Bank Uganda Limited as the mandated lead arrangers. Standard Chartered Bank is the overdraft issuer, security agent and the facility agent.

A total amount of USD 235 million was initially committed in 2013. USD 90 million was designated as term Facility A provided by IFC and USD 125 million as term Facility B provided 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.

On 9 December 2019, the facilities agreement was restated and amended as follows:

- By committing the following additional term facilities and extending the revolving credit facilities for financing working capital and capital expenditure:

Term facilities	**USD**
IFC - Facility C "A"	28,000,000
IFC - Facility C "B1"	10,000,000
Standard Chartered Bank – Facility D	16,000,000
Stanbic Bank – Facility D	16,000,000
	70,000,000
Revolving credit facilities	
Standard Chartered Bank	15,000,000
Stanbic Bank	5,000,000
	20,000,000
Total amount committed by the lenders	**90,000,000**

If Umeme procured the renewal of the Concession in accordance with the amended and restated borrowing agreement by the Concession Renewal Longstop Date (31 December 2020), Umeme shall repay the aggregate Facility C and Facility D loans in semi-annual, that is, on 30 June and 31 December, instalments of 12.5% of the drawn down amount, starting 30 June 2021.

The Company had not procured the renewal of the Concession in accordance with the amended and restated borrowing agreement by the Concession Renewal Longstop Date, Umeme therefore shall repay the aggregate Facility C and Facility D loans in semi-annual, that is, on 30 June and 31 December, instalments of 16.67% of the drawn down amount, starting 30 June 2021, but with the last instalment being 16.65%. As the Concession Renewal Longstop Date was not procured by year-end, these repayment terms will be applicable after the reporting period, unless if otherwise amended.

27. Borrowings *(Continued)*

- Modifying the repayment terms for the outstanding Facility A amounts to semi-annual, that is, on 30 June and 31 December, repayments of 6.67% of the drawn down amount but with the final instalment being 6.62%. Before the amendment of the borrowing agreement, Facility A was repayable 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).
- Modifying the repayment terms for the outstanding Facility B amounts to semi-annual repayments of 5.11% of the drawn down amount on 30 June and 31 December but with the final instalment being 5.12%. Before the amendment of the borrowing agreement, Facility B was repayable in 9 semi-annual instalments of 9% of the total facility drawn down at the end of the availability period and 28% on the termination date (November 2020).

Facilities A, B, C and D attract interest at LIBOR (applicable screen rate) plus a margin of 5% per annum. The revolving credit facilities other than those denominated in Ushs attract interest at LIBOR plus 7.8% per annum while the interest for those denominated in Ushs is the Uganda Government 182 days treasury bill rate plus 5.2% per annum. The Company's management will engage the lenders to agree the basis for the interest rates if and when LIBOR is discontinued. No significant changes in the Company's cost of borrowing is expected to arise from this.

Term and revolving credit facility agreement *(Cont'd)*

The following were the applicable annual interest rates:

	2020	2019
Long term facilities		
Facility A	6.14%	7.28%
Facility B	6.14%	7.28%
Facility C	6.14%	7.80%
Facility D - Standard Chartered Bank	6.14%	7.80%
Facility D - Stanbic Bank	6.14%	7.80%
Revolving credit facilities		
Ushs	15.331%	16.329%
USD	8.338%	10.078%

The term and revolving credit 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.

The movement in the long-term facilities in USD was as follows:

	2020 USD'000			2019 USD'000		
	Facility A	**Facility B**	**Total**	**Facility A**	**Facility B**	**Total**
At 1 January	47,978	46,250	94,228	59,984	68,750	128,734
Interest accrued	2,829	2,844	5,673	4,329	4,863	9,192
Principal repayments	(12,006)	(7,913)	(19,919)	(12,006)	(22,500)	(34,506)
Interest repayments	(2,829)	(2,844)	(5,673)	(4,329)	(4,863)	(9,192)
At December	**35,972**	**38,337**	**74,309**	**47,978**	**46,250**	**94,228**

	2020 USD'000			2019 USD'000		
	Facility C	**Facility D**	**Total**	**Facility C**	**Facility D**	**Total**
At 1 January	27,604	23,246	50,850	-	-	-
Drawdown	10,396	8,754	19,150	27,604	23,246	50,850
Interest accrued	1,936	1,631	3,567	56	47	103
Interest repayments	(1,936)	(1,631)	(3,567)	(56)	(47)	(103)
At December	**38,000**	**32,000**	**70,000**	**27,604**	**23,246**	**50,850**

27. Borrowings *(Continued)*

As at year-end, the Company was compliant with the five ratios and covenants specified in the facilities agreement as disclosed in note 44.

Other permitted financial indebtedness – dfcu Bank Limited and Stanbic Bank Uganda Limited.

The six-month short-term revolving credit facility with dfcu Bank Limited of USD 10 million was repaid during the period (2019: USD 28 million) and the Company did not roll forward the facility (2019: Ushs 37,525 million (USD 10 million) utilised). Instead, the Company opted for overdraft facilities with dfcu Bank and Stanbic Bank Uganda Limited of Ushs equivalent of USD 5 million and USD 15 million respectively as per the provisions in the facilities agreement on permitted financial indebtedness.

The dfcu Bank overdraft facility attracts interest at the 182 Treasury Bill rate plus a margin of 4% per annum for amounts drawn in Ushs while the Stanbic Bank Uganda Limited facility attracts interest at the 182 Treasury Bill rate plus a margin of 3.5% per annum for amounts drawn in Ushs or the 3 months LIBOR plus a margin of 3.5% for amounts drawn down in USD. The applicable interest rate for the dfcu Bank Ushs facilities was 14.43% (2019: 16.5%) and for the USD facilities was 4.1% (2019: 7.95%). The applicable interest rate for the Stanbic Bank Uganda Limited Ushs facilities was 13.93% and for the USD facilities was 3.723%.

Other permitted financial indebtedness – dfcu Bank Limited and Stanbic Bank Uganda Limited Continued)

The overdraft facilities are secured against a second 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.

Cash flow impact of borrowings

The impact of the borrowings on the cash flows for the year was as follows:

	Term loans	Short term facilities	Deferred transaction costs	Total
	Ushs million	Ushs million	Ushs million	Ushs million
At 1 January 2020	**532,466**	**37,525**	**(13,057)**	**556,934**
Changes from financing cash flows				
Principal repayments	(73,402)	(36,650)	-	(110,052)
Proceeds from borrowings	70,690	-	-	70,690
Total changes from financing cash flows	**(2,712)**	**(36,650)**	**-**	**(39,362)**
Changes from operating cash flows				
Interest repayments	(34,197)	(2,966)		(37,163)
Transaction costs paid	-	-	(1,093)	(1,093)
Total changes from operating cash flows	**(34,197)**	**(2,966)**	**(1,093)**	**(38,256)**
Other changes				
Interest charge	34,406	1,381	-	35,787
Amortisation of deferred transaction costs	-	-	4,454	4,454
Translation differences	(3,173)	710	10	(2,453)
Total other changes	**31,233**	**2,091**	**4,464**	**37,788**
At 31 December 2020	**526,790**	**-**	**(9,686)**	**517,104**

27. Borrowings *(Continued)*

Cash flow impact of borrowings *(Cont'd)*

	Term loans Ushs million	Short term facilities Ushs million	Deferred transaction costs Ushs million	Total Ushs million
At 1 January 2019	**478,471**	**57,085**	**(7,021)**	**528,535**
Changes from financing cash flows				
Principal repayments	(127,376)	(104,500)	-	(231,876)
Proceeds from borrowings	186,613	91,150	-	277,763
Total changes from financing cash flows	**59,237**	**(13,350)**	**-**	**45,887**
Changes from operating cash flows				
Interest payments	(34,331)	(12,866)		(47,197)
Transaction costs paid	-	-	(8,769)	(8,769)
Total changes from operating cash flows	**(34,331)**	**(12,866)**	**(8,769)**	**(55,966)**
Other changes				
Interest charge	34,479	7,366		41,845
Amortisation of deferred transaction costs	-	-	2,608	2,608
Translation differences	(5,390)	(710)	125	(5,975)
Total other changes	**29,089**	**6,656**	**2,733**	**38,478**
At 31 December 2019	**532,466**	**37,525**	**(13,057)**	**556,934**

The following were the undrawn approved borrowing facilities as at year-end:

	2020 Ushs million	2019 Ushs million
Long term facilities C and D		
IFC	-	38,156
Standard Chartered Bank Uganda Limited	-	16,065
Stanbic Bank Uganda Limited	-	16,065
	-	70,286
Revolving credit facilities		
Standard Chartered Bank Uganda Limited	17,146	24,168
Stanbic Bank Uganda Limited	36,409	21,005
dfcu Bank Limited	10,327	17,528
	63,882	62,701
Total approved undrawn facilities	**63,882**	**132,987**

28. Concession Financial Obligation

	2020 Ushs million	2019 Ushs million
At January	327,570	327,074
Financing expense for the year	3,549	4,641
Foreign exchange gains	(1,836)	(4,145)
At 31 December	**329,283**	**327,570**
Maturity analysis of the concession obligation:		
Outstanding obligation	329,283	327,570
Less: Due within one year	-	-
Non-current portion of the obligation	**329,283**	**327,570**
The concession obligation is due as analysed below:		
Within one year	-	-
Between one and two years	309,136	297,871
Between two and three years	10,144	9,443
Between three and four years	10,003	10,200
Between four and five years	-	10,056
After five years	-	-
	329,283	**327,570**

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 USD 133 million (Ushs 485 billion at the current year-end foreign exchange rate) using a discounting rate of 8.911%. Interest is accrued annually to determine the amortised cost amount of the concession obligation as at year-end. The corresponding amount is recognised as a financial asset as disclosed in Note 19.

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

29. Long Term Incentive Plan Liability

This relates to the provision for the long term incentive plan as follows:

	2020 Ushs million	2019 Ushs million
At 1 January	866	6,965
Provision for the year	-	775
Payment	-	(5,993)
Unutilised provision	(819)	(937)
Foreign exchange (gains)/losses	11	56
At 31 December	**58**	**866**

Umeme wishes to better incentivize its senior workforce to deliver the Company's objectives in terms of safety, customer service, increased access and financial performance. Consequently, in 2019 the directors approved a new Long Term Incentive Plan (LTIP3) to succeed the previous Plan (LTIP2) which vested on 31 December 2018 and was settled in full in 2019 in accordance with the LTIP2 Rules. The Plans were designed to promote employee retention and continued performance.

Long Term Incentive Plan 3 (LTIP 3)

Participation in the LTIP3 was offered to eligible employees in the middle and senior management grades. The cash award that a Participant may receive is dependent on the Company achieving minimum financial performance targets in terms of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) over the three years ending 31 December 2021. After the Vesting Date, the Participant will receive the cash award (after deduction of any applicable taxes which may be payable), provided that the Participant has fulfilled the service, and performance conditions that were specified.

There is no shareholding requirement to participate in the LTIP3 and consequently the cash award is not dependent on the share price during the Vesting Period and at the Vesting Date. Participants were however invited to purchase shares in the Company in order to enhance their cash award. The higher the amount that such Participant invested in the Company's shares, the higher the ultimate cash award that they will receive (provided that the other criteria for the cash awards are met). To qualify to receive an enhanced cash award under the Plan, a Participant needs to be the registered owner throughout the Vesting Period of the specified number of qualifying shares. Participants who chose to buy and hold shares that, in aggregate, exceeded the maximum number of qualifying shares will only receive cash awards computed with reference to the maximum number of qualifying shares.

Long Term Incentive Plan 2 (LTIP2)

This scheme was open to eligible employees in the middle and senior management grades, who were invited to apply to purchase shares in the Company to be in a position to receive a cash award. The higher the amount that such employees invested in the Company's shares, the higher the ultimate cash award that they received (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 only received 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 needed to be the registered owner throughout the Vesting Period of the specified number of qualifying shares. After the Vesting Date, the employee received the appropriate cash award (after deduction of any applicable taxes which may be payable), provided that the employee had fulfilled the specified service, qualifying shareholding and performance conditions.

The cash award that an employee received was dependent on the Company achieving minimum financial performance targets in terms of EBITDA over the three years ended 31 December 2019. The cash award was not dependent on the share price during the Vesting Period and at the Vesting Date.

Notes To The Financial Statements *(Continued)*

29. Long Term Incentive Plan Liability *(Continued)*

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

	Deferred bonus scheme			
	2020 (Scheme vesting in 2021)		2019 (Scheme vested in 2021)	
	Number of shares	Number of staff	Number of shares	Number of staff
Opening balance	10,745,795	130	10,770,051	130
Shares sold	-	-	(24,256)	-
At 31 December	**10,745,795**	**130**	**10,745,795**	**130**

30. Customer Security Deposits

	2020 Ushs million	2019 Ushs million
At 1 January	492	791
Amount received during the year	4	364
Amount refunded during the year	-	(663)
At 31 December	**496**	**492**

Customer security deposits relate to the amounts required to be paid by customers before they are connected to the Distribution Network. The deposits act as security for any unpaid bills in case of termination of the energy supply agreement. 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 non-compliance with the power supply agreement.

The deposits paid per customer vary depending on the energy consumption of the customer as follows:

	2020 Ushs million	2019 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 accrued for the estimated interest payable on the security deposits for the year. There was no interest paid in relation to interest on customer security deposits during the year. (2019: Ushs 1,483 million).

31. Contract Liabilities

	Note	2020 Ushs million	2019 Ushs million
Deferred revenue on prepaid sales	(a)	6,891	5,512
Deferred construction income	(b)	4,986	3,501
Deferred capital fund – Growth factor revenue	(c)	108,334	106,605
Deferred capital fund – Non-network assets	(d)	1,482	4,907
Deferred capital fund – LED bulbs	(e)	336	334
Deferred capital fund – Skills development	(f)	150	151
Deferred capital fund – Customer rebates and meter testing	(g)	10,353	10,409
Advance payments by energy customers	(h)	7,334	6,676
		139,866	**138,095**

(a) Deferred revenue on pre-paid sales

Prepaid sales relate to sales to the Government of Uganda Time of Use (GoU-TOU) arrangement and domestic customers through prepaid metering systems. The units paid for but not consumed by year-end are determined basing on the customers' consumption patterns.

As at 31 December 2020, GoU-TOU units valued at Ushs 5,366 million (2019: Ushs 3,356 million) had not been consumed while it was estimated that 4.7% of the pre-paid electricity tokens purchased by domestic customers in December 2020 had not been consumed (2019: 6%).

	2020			2019		
	GoU-TOU Ushs million	Domestic customers Ushs million	Total Ushs million	GoU-TOU Ushs million	Domestic customers Ushs million	Total Ushs million
At 1 January	3,356	2,156	5,512	6,543	2,050	8,593
Payments received	59,590	393,279	452,869	21,929	20,942	42,871
Amortised to revenue	(57,614)	(393,622)	(451,236)	(25,016)	(20,862)	(45,878)
Translation differences	34	(288)	(254)	(100)	26	(74)
At 31 December	**5,366**	**1,525**	**6,891**	**3,356**	**2,156**	**5,512**

The performance obligations relating to these contract liabilities are expected to be fulfilled in the subsequent reporting period.

(b) Deferred construction income

	2020 Ushs million	2019 Ushs million
At 1 January	3,501	1,431
Amount received	6,250	6,026
Amount utilized (Note 6)	(4,841)	(3,910)
Foreign exchange loss/(gains)	76	(46)
Unutilized customer contributions at 31 December	**4,986**	**3,501**

Deferred construction income relates to capital contributions from 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 revenue when utilized.

The performance obligations relating to these contract liabilities are expected to be fulfilled in the subsequent reporting period.

31. Contract Liabilities *(Continued)*

(c) Deferred capital fund – Growth factor revenue	2020 Ushs million	2019 Ushs million
At 1 January	106,605	54,131
Amount collected during the year (Note 6)	2,547	56,610
Amount utilised	(198)	(2,863)
Translation difference	(620)	(1,273)
At 31 December	**108,334**	**106,605**

As indicated in Note 6(a), the amount as at year-end relates to the amount billed to and collected from customers for funding construction of additions to the Distribution Network as approved by ERA but not yet utilised. The performance obligations will be fulfilled when ERA approves the utilisation of the amounts.

(d) Deferred capital fund: Non-network assets	2020 Ushs million	2019 Ushs million
At 1 January	4,907	6,371
Amount collected during the year (Note 6)	7,447	9,274
Amount utilised for purchasing non-network assets	(10,914)	(10,655)
Translation differences	42	(83)
At 31 December	**1,482**	**4,907**
The amount utilised was spent as follows:		
Furniture, fittings, tools and office equipment	1,966	936
Computers, communication equipment and Management Information System	3,050	8,295
Motor vehicles	5,898	1,424
	10,914	**10,655**

As indicated in note 6(b), the balance as at 31 December 2020 relates to the amount billed to and collected from customers for funding non-network assets but not yet utilized.

(e) Deferred capital fund – LED bulbs

This relates to the amounts collected from customers to improve efficiency of the demand side energy through the use of LED bulbs but not yet utilised.

	2020 Ushs million	2019 Ushs million
At 1 January	334	342
Amount collected during the year	-	-
Amount utilised	-	(3)
Translation differences	2	(5)
At 31 December	**336**	**334**

31. Contract Liabilities *(Continued)*

(f) Skills development

This relates to funds received for the Skills Development Program within the Electricity Sector.

	2020 Ushs million	2019 Ushs million
At 1 January	151	97
Amount collected during the year	-	392
Amount utilised	-	(338)
Translation differences	(1)	-
At 31 December	**150**	**151**

(g) Customer rebates and meter testing

This relates to the amounts collected from customers for use under the industrial rebates policy and meter testing.

	2020			2019		
	Customer rebates	Meter testing	Total	Customer rebates	Meter testing	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
At 1 January	10,202	207	10,409	10,332	-	10,332
Amount collected	-	-	-	-	250	250
Amount utilised	-	-	-	-	(40)	(40)
Translation differences	(54)	(2)	(56)	(130)	(3)	(133)
At 31 December	**10,148**	**205**	**10,353**	**10,202**	**207**	**10,409**

(h) Advance payments by energy customers

This relates to payments received from post-paid customers in advance of consuming the electricity paid for.

	2020 Ushs million	2019 Ushs million
At 1 January	6,676	6,066
Amount received	25,393	24,100
Amortised to revenue	(24,273)	(23,343)
Translation difference	(462)	(147)
At 31 December	**7,334**	**6,676**

32. Accrued Expenses And Provisions

(a) Accrued expenses

	2020 Ushs million	2019 Ushs million
At 1 January	15,704	30,161
Accrual for the year	64,063	109,150
Utilizations/payments	(25,862)	(123,417)
Translation differences	26	(190)
At 31 December	**53,931**	**15,704**

32. Accrued Expenses And Provisions *(Continued)*

These include accruals for unvoiced capital expenditure, interest on customer security deposits and other general operating expenditure.

b) Provisions

Provision for litigation	2020 Ushs million	2019 Ushs million
At 1 January	1,318	-
Provision for the year	-	1,318
Translation differences	(7)	-
At 31 December	**1,311**	**1,318**

33. Trade And Other Payables

	2020 Ushs million	2019 Ushs million
Trade payables	507,388	396,607
Other payables	10,433	25,835
Withholding tax payable	975	2,587
VAT payable	3,661	451
	522,457	**425,480**

Trade and other payables are non-interest bearing and normally settled on 30-60 days' terms. Trade payables include Ushs 396,755 million (2019: Ushs 256,673 million) due to UETCL. The balance of Ushs 110,633 million (2019: Ushs 139,934 million) is due to contractors and other service providers.

Other payables include an employee performance bonus accrual of Ushs 5,000 million (2019: Ushs 9,960 million). Ushs 11,640 million was paid during the year (2019: Ushs 9,961 million).

34. Bank Overdrafts

	Note	2020 Ushs million	2019 Ushs million
Standard Chartered Bank (SCB)	(a)	37,610	30,885
Stanbic Bank Uganda Limited (SBU)	(a)	36,600	15,697
dfcu Bank Limited (dfcu)	(a)	7,925	-
Total amount drawn down		**82,135**	**46,582**
Less: Deferred transaction costs	(b)	(120)	(242)
		82,015	**46,340**

34. Bank Overdrafts *(Continued)*

(a) The movement in the bank overdraft facilities was as follows:

	SCB Ushs million	SBU Ushs million	dfcu Ushs million	Total Ushs million
At 1 January 2020	30,885	15,697	-	46,582
Proceeds received	55,854	74,473	18,618	148,945
Interest accrued	3,074	1,469	1,091	5,634
Repayments - principal	(48,884)	(53,006)	(10,534)	(112,424)
Repayments - interest	(3,074)	(1,469)	(1,091)	(5,634)
Translation differences	(245)	(564)	(159)	(968)
At 31 December 2020	**37,610**	**36,600**	**7,925**	**82,135**
At 1 January 2019	25,873	6,773	6,844	39,490
Proceeds received	55,642	37,094	-	92,736
Interest accrued	4,358	2,490	415	7,263
Repayments - principal	(50,190)	(28,048)	(6,831)	(85,069)
Repayments - interest	(4,358)	(2,490)	(415)	(7,263)
Translation differences	(440)	(122)	(13)	(575)
At 31 December 2019	**30,885**	**15,697**	**-**	**46,582**

(b) Deferred transaction costs

At 1 January	242	361
Amortisation for the year	(122)	(114)
Translation differences	-	(5)
At 31 December	**120**	**242**

As at 31 December 2020, the total amount drawn down in USD was USD 23 million (2019: USD 13 million) from Standard Chartered Bank Limited, Stanbic Bank Uganda Limited and DFCU. The drawdowns were under the revolving credit facilities and permitted indebtedness as disclosed in Note 27.

35. Cash And Cash Equivalents

	2020 Ushs million	2019 Ushs million
Bank balances (Note 23)	30,022	99,196
Bank overdrafts (Note 34)	(82,015)	(46,340)
Bank balances not available for use (Note 30)	(496)	(492)
	(52,489)	**52,364**

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 deposits are not available for use in the Company's operations.

36. Financial Instruments

The Company's financial instruments are categorised as follows:

Financial assets

	2020 Ushs million	2019 Ushs million
Debt instruments at amortised cost		
Buy out amount	1,016,856	855,497
Concession financial asset	329,283	327,570
Non-current	**1,346,139**	**1,183,067**
Trade receivables	180,090	157,985
Letters of credit – cash cover	-	1,072
Lifeline surcharge revenue receivable	-	-
Other receivables	2,157	1,831
MEMD - Peri Urban Development project	2,365	2,378
REA – OBA receivables	-	14,063
REA – ECP	33,883	39,000
Trade and other receivables	218,495	216,329
Bank balances	30,022	99,196
Current	**248,517**	**315,525**
Total financial assets	**1,594,656**	**1,498,592**

Financial liabilities

	2020 Ushs million	2019 Ushs million
Financial liabilities at amortised cost		
Borrowings	517,104	556,934
Concession obligation	329,283	327,570
Customer security deposits	496	492
Accrued expenses	53,931	15,704
Trade and other payables	512,820	412,482
Bank overdrafts	82,015	46,340
	1,495,649	**1,359,522**
Current	824,902	603,495
Non-current	670,747	756,027
	1,495,649	**1,359,522**

37. Letters Of Credit

As at 31 December 2020, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited (the "bank"). The letters of credit facilitate the purchase and importation of equipment and inventories for the repair, upgrading and expansion of the Distribution Network and related electricity distribution accessories. There are no balances deposited as cash cover under the letters of credit facilities as at 31 December 2020 (2019: Ushs 1,072 million) as disclosed in Note 22. 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 2020, the Company also had letters of credit with the bank amounting to Ushs 12,516 million (2019: Ushs 2,451 million) with no cash cover. These are covered by insurance and the goods under importation.

38. Related Party Disclosures

The Company does not have a controlling shareholder. The party with significant influence by virtue of its shareholding is National Social Security Fund (NSSF). Transactions with NSSF are done in the ordinary course of business and include supply of electricity for use by NSSF and remittance of social security contributions for the Company's employees.

The following transactions were done with the shareholder:

	2020 Ushs million	2019 Ushs million
Sale of electricity – NSSF	1,696	1,664
Social security contributions to NSSF	11,670	7,133
Dividend payment to shareholders	15,603	15,391

The following amounts were due to the shareholder as at year-end:

	2020 Ushs million	2019 Ushs million
Social security contributions payable – NSSF	840	847
Dividends approved but not yet paid	-	-

The outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party payables.

Directors' interests

Some directors held, directly, an interest in the Company's ordinary issued share capital as indicated in the table below:

Director	Number of shares 2020	% of shareholding 2020	Number of shares 2019	% of shareholding 2019
Selestino Babungi	3,900,000	0.24%	3,900,000	0.24%
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%

Compensation for key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company's key management personnel comprise of the directors and management.

	2020 Ushs million	2019 Ushs million
Directors' emoluments and expenses	2,823	3,091
Contributions to NSSF	728	831
Short term employee benefits	6,686	5,637
Long term incentive benefits and other bonuses	1,870	2,258
	12,107	**11,817**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. The non-executive directors do not receive pension entitlements from the Company.

39. Earnings Before Interest, Tax, Depreciation And Amortisation (EBITDA)

The Company uses EBITDA as one of its alternative performance measures. For this purpose, EBITDA is determined as operating profit before amortisation, impairment of intangible assets, interest and tax as adjusted to exclude foreign exchange losses.

	2020		2019	
	Ushs million	USD '000	Ushs million	USD '000
Operating profit before amortisation, impairment of intangible assets, interest and tax[1]	234,273	62,540	368,565	98,674
Foreign exchange losses	11,413	3,440	7,782	2,789
EBITDA	**245,686**	**65,980**	**376,347**	**101,463**

40. Power Supply Price Reconciliation Amount

Power Supply Price (PSP) reconciliation amount and payment limitation provisions in the Power Sales Agreement for the Bulk Supply Tariff (BST) not recovered from the Retail Tariff

The PSP component of the Retail Tariff contains a quarterly adjustment factor, that is, the PSP reconciliation amount, necessary to reconcile the cumulative amounts of actual power supply costs incurred by Umeme, that is, the BST paid to UETCL, with the related revenues billed and collected by Umeme through the Retail Tariffs.

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 from January 2010 to October 2020 (2019: January 2010 to December 2017) against the related revenues billed and collected from customers during the same period. The outstanding claim net of the amount allowed in the current year Retail Tariffs was as follows:

	2020		2019	
	Ushs million	USD'000	Ushs million	USD'000
At 1 January	13,475	3,508	48,000	12,915
Increase on reconciliation	-	-	43,833	11,943
Recovered through the retail tariffs	-	-	(78,358)	(21,350)
At 31 December	**13,475**	**3,508**	**13,475**	**3,508**

This amount has not been recognized as an asset since recovery is contingent on billing the amount to customers in future in which ERA has approved that the Company should recover the amounts through the Retail Tariffs.

41. Contingent Liabilities

a) Legal claims

The Company is a defendant in various legal actions arising in the normal course of business. The Company has been advised by its Legal Counsels that it is only possible but not probable that cases with claims amounting to Ushs 2.9 billion (2019: Ushs 2.1 billion) could be decided against the Company. Accordingly, no provision for liabilities relating to these cases has been made in these financial statements. The Company continues to defend itself against these actions and therefore it is not practical to reasonably determine the timing of the contingent liabilities

1 As presented in the statement of profit or loss.

41. Contingent Liabilities *(Continued)*

b) Tax disputes

Tax treatment of the Company's investments in the Distribution Network

Uganda Revenue Authority (URA) conducted a tax audit during 2019. URA noted that all investments in the Distribution Network (concession assets) accounted for under concession accounting (IFRIC 12) for the purpose of the statutory financial statements prepared in accordance with IFRS 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 computed on the basis that the assets are tangible assets for income tax purposes. URA did not issue a tax assessment with respect to this matter as the Company had sought Court interpretation on the same. URA, however, issued a specific assessment indicating that for the years 2013 to 2016, the Company underpaid income tax as a result of utilisation of tax losses carried forward and utilisation of tax credits on the basis of the Company's tax treatment of the assets as tangible assets for which tax depreciation allowances should considered when determining taxable income. The assessed amount was Ushs 9.2 billion and Ushs 4.2 billion as principal tax, interest and penalties arising from carrying forward tax losses and utilisation of tax credits, respectively.

The Company objected to this assessment on the following basis, which is similar to that applied in the treatment of concession assets:

- Based on the Income Tax Act, Cap 340 (ITA), URA should use specific principles of taxation for purposes of determining taxable income and not just IFRS as the sole basis for determination of taxable income.
- 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.
- The Company's concession agreement conferred to Umeme the right to claim capital allowances for investments in the Distribution Network.
- The tax losses and tax credits that the Company utilised are directly related to Umeme's tax treatment of its capital investments and were utilised in accordance with the ITA.

In 2020, the Tax Tribunal ruled in favour of UMEME Limited. However, UEDCL exercised its right to appeal in the High Court and the matter is pending hearing.

The directors believe, based on consultation with the Company's tax consultants and legal counsel, that there is a reasonably good chance that this matter will be determined in the Company's favour. The 2015 consent judgement relating to the years up to 2012 between Umeme and URA in respect to this matter did not remove the rights of either party with regards to the tax treatment of the concession assets.

Interest and penalties relating to the 2016 restatement of revenue

URA issued an assessment on the basis that the restatement of the Company's 2016 financial statements to correct the lifeline surcharge revenue meant that income tax had been understated in the respective year by Ushs 9.48 billion. Consequently, the Company was liable to late payment interest and penalties amounting to Ushs 2 billion and Ushs 1.2 billion, respectively. The Company accrued for the assessed principal tax in the 2016 restated financial statements and paid the amount to URA in 2019. The Company disputes and has objected to the interest and penalties on the following basis:

Interest and penalties relating to the 2016 restatement of revenue (Continued)

Although the under provision of the lifeline surcharge revenue resulted in a restatement of the Company's 2016 financial statements as the Company was deemed entitled to the income for financial reporting purposes, the income relating to this under provision was not taxable in 2016 as at this time, the under recovery was not known to both the Company and ERA. The income became taxable when ERA actually included the amounts in the 2019 tariff for the Company to bill and collect. This is based on interpretation of Section 42 of the ITA as elaborated below.

For income tax purposes, Section 42(2) of the ITA provides that:

"42. Accrual-Basis Taxpayer;

1. A taxpayer who is accounting for tax purposes on an accrual basis –

a) derives income when it is receivable by the taxpayer; and

b) incurs expenditure when it is payable by the taxpayer.

41. Contingent Liabilities *(Continued)*

b) Tax disputes *(Cont'd)*

2. *Subject to the ITA, an amount is receivable by a taxpayer when the taxpayer becomes entitled to receive it, even if the time for discharge of the entitlement is postponed or the entitlement is payable by instalments."*

The directors believe, basing on consultation with the Company's tax consultants and legal counsel, that there is a reasonably good chance that this matter will be determined in the Company's favour.

42. Commitments

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 Notes 17 and 18.

Concession fees commitments

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

	2020		2019	
	Minimum payments	PV of minimum payments	Minimum payments	PV of minimum payments
	Ushs million		Ushs million	
Within one year	-	-	-	-
After one year but not more than five years	335,474	329,283	337,292	327,570
After five years	-	-	-	-
	335,474	**329,283**	**337,292**	**327,570**
Less: Amounts representing finance charges	(6,191)		(9,722)	
Present value (PV) of minimum concession fees payments	**329,283**	**329,283**	**327,570**	**327,570**

43. 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 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 on 28 February 2025, 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 assets 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 19. The right to receive cash is accounted for by the Company as a financial asset.

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

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

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

e) Umeme and UEDCL are required to agree on an agent who will be a designated bank and enter into an Escrow Agreement. The parties shall open both Ushs and USD accounts. The Company shall deposit into the Escrow Accounts 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 Citibank London.

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.

Power Sales Agreement (PSA)

Under the Power Sales Agreement entered into with UETCL and the third amendment thereto stipulates that:

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.

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.

43. Concession Arrangement *(Continued)*

Escrow Agreement

This agreement was signed on 18 February 2005 between UEDCL and Umeme to establish an "Escrow Account" with Citibank N.A., London, the appointed "Escrow Agent". The account was opened and initially funded by UEDCL and thereafter by Umeme's monthly deposit of rental payments due to UEDCL under the LAA. Although the escrow amount is exclusively owned by UEDCL, in combination with a "Letter of Credit" facility funded by World Bank and issued by the Escrow Agent, the escrow amount will accumulate up to a predetermined amount ("the Required Amount") that would be used to compensate Umeme in the event of certain contingencies defined in the LAA and will also serve as security for government obligations under the Support Agreement. At the time of issuing these financial statements, the Escrow Account was depleted and had no funds.

44. Risk Management

Regulatory and environmental risks

The Company is subject to laws and regulations in various jurisdictions in which it operates. The Company has established regulatory and environmental policies and procedures to comply with the applicable laws and regulations.

Financial risks

The Company's financial instruments comprise the items disclosed in Note 36. The main purpose of the financial liabilities is to finance the Company's operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a risk function that advises on financial risks and the appropriate financial risk governance framework for the Company. The risk function provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, interest rate risk and currency risk. The Company has no exposure to price risk as it holds no price sensitive financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2020 and 2019. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and proportion of financial instruments in foreign currencies are all constant at the reference dates. The analyses exclude the impact of movements in market variables on non-financial instruments like statutory liabilities and assets, provisions and prepayments.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the profit or loss is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2020 and 2019.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt obligations with floating interest rates.

The Company manages interest rate risk by having a balanced portfolio of fixed and variable rate debt obligations. The Company's goal is to ensure that 50% of the debt obligations are at fixed rates. To manage this, the Company may consider entering into interest rate swap arrangements, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

No hedging instruments were in place in respect to Facilities C and D as of year-end. The Company is assessing the viability of entering into appropriate hedging arrangements.

The Company's term borrowings and revolving credit facilities carry variable interest rates. The Company also has interest bearing bank demand deposits, but these do not present a material interest rate risk exposure to the Company given the low interest rates offered by the banks for such deposits.

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Market risk (Continued)

Interest rate risk (Cont'd)

The table below summarises the Company's exposure to interest rate risk. Included in the table are the Company's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. All amounts are in Ushs million.

	Up to 1 month	1 - 12 months	1 - 5 years	> 5 years	Non-interest bearing	Total
At 31 December 2020						
Financial assets						
Buy out amount	-	-	-	820,867	195,989	1,016,856
Concession financial asset	-	-	329,283	-	-	329,283
Trade and other receivables	-	-	-	-	218,495	218,495
Bank balances	30,022	-	-	-	-	30,022
	30,022	**-**	**329,283**	**820,867**	**414,484**	**1,594,656**
Financial liabilities						
Borrowings	-	175,640	341,464	-	-	517,104
Concession obligation	-	-	329,283	-	-	329,283
Customer security deposits	-	496	-	-	-	496
Accrued expenses	-	-	-	-	53,931	53,931
Trade and other payables	-	-	-	-	512,820	512,820
Bank overdrafts	**82,015**	**-**	**-**	**-**	**-**	**82,015**
	82,015	**176,136**	**670,747**	**-**	**566,751**	**1,495,649**
Net exposure	**(51,993)**	**(176,136)**	**(341,464)**	**820,867**		

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Market risk (Cont'd)

Interest rate risk (Cont'd)

	Up to 1 month	1 - 12 months	1 - 5 years	> 5 years	Non-interest bearing	Total
At 31 December 2019						
Financial assets						
Buy out amount	-	-	-	668,073	187,424	855,497
Concession financial asset	-	-	327,570	-	-	327,570
Trade and other receivables	-	-	-	-	216,329	216,329
Bank balances	99,196	-	-	-	-	99,196
	99,196	**-**	**327,570**	**668,073**	**403,753**	**1,498,592**
Financial liabilities						
Borrowings	-	128,477	428,457	-	-	556,934
Concession obligation	-	-	327,570	-	-	327,570
Customer security deposits	-	492	-	-	-	492
Accrued expenses	-	-	-	-	15,704	15,704
Trade and other payables	-	-	-	-	412,482	412,482
Bank overdrafts	46,340	-	-	-	-	46,340
	46,340	**128,969**	**756,027**	**-**	**428,186**	**1,359,522**
Net exposure	**52,856**	**(128,969)**	**(428,457)**	**668,073**		

The interest rate risk exposure arising, assuming an increase/decrease in interest rates by 3%, is a decrease/increase in profit before tax and equity of Ushs 827 million (2019: Ushs 1,106 million) and Ushs 579 million (2019: Ushs 774 million), respectively.

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Market risk (Cont'd)

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 expenses are denominated in a currency different from the Company's functional currency, which is USD. The Company's operations are only in Uganda and the main income from power sales is billed in Ushs although most of the inputs into the underlying tariff methodology are USD based. The significant costs for equipment and material purchases are denominated in foreign currencies. A significant portion of the Company's borrowings is in USD. Foreign exchange spot rates are negotiated with banks on a competitive basis.

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2020 and 31 December 2019. The table includes only financial instruments. The Company is not exposed to foreign currency risk on amounts denominated in USD as this is the Company's functional currency. The amounts denominated in USD are indicated in the table below for information. All amounts presented are in Ushs million.

At 31 December 2020	USD	GBP	EURO	ZAR	KES	Ushs	Total
Financial assets							
Buy out amount	1,016,856	-	-	-	-	-	1,016,856
Concession financial asset	329,283	-	-	-	-	-	329,283
Trade and other receivables	36,248	-	-	-	-	182,247	218,495
Bank balances	18	-	-	-	-	30,004	30,022
Total financial assets	**1,382,405**	**-**	**-**	**-**	**-**	**212,251**	**1,594,656**
Financial liabilities							
Borrowings	517,104	-	-	-	-	-	517,104
Concession obligation	329,283	-	-	-	-	-	329,283
Customer security deposits	-	-	-	-	-	496	496
Accrued expenses	-	-	-	-	-	53,931	53,931
Trade and other payables	91,444	1,682	1,472	16	3	418,203	512,820
Bank overdrafts	72,965	-	-	-	-	9,050	82,015
Total financial liabilities	**1,010,796**	**1,682**	**1,472**	**16**	**3**	**481,680**	**1,495,649**
Net open position		**(1,682)**	**(1,472)**	**(16)**	**(3)**	**(269,429)**	

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Market risk (Cont'd)

Foreign exchange risk (Continued)

	USD	GBP	EURO	ZAR	KES	Ushs	Total
At 31 December 2019							
Financial assets							
Buy out amount	855,497	-	-	-	-	-	855,497
Concession financial asset	327,570	-	-	-	-	-	327,570
Trade and other receivables	56,591	-	-	-	-	159,738	216,329
Bank balances	79,228	-	-	-	-	19,968	99,196
Total financial assets	**1,318,886**	**-**	**-**	**-**	**-**	**179,706**	**1,498,592**
Financial liabilities							
Borrowings	556,934	-	-	-	-	-	556,934
Concession obligation	327,570	-	-	-	-	-	327,570
Customer security deposits	-	-	-	-	-	492	492
Accrued expenses	-	-	-	-	-	15,704	15,704
Trade and other payables	111,692	68	510	5	-	310,167	422,442
Bank overdrafts	3,060	-	-	-	-	43,280	46,340
Total financial liabilities	**999,256**	**68**	**510**	**5**	**-**	**369,643**	**1,369,482**
Net open position		**(68)**	**(510)**	**(5)**	**-**	**(189,937)**	

Notes To The Financial Statements *(Continued)*

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Market risk (Cont'd)

Foreign exchange risk (Cont'd)

The sensitivity to a reasonably possible change in the USD to Ushs exchange rate, with all other variables held constant, is indicated in the table below. The impact on the Company's profit before tax and equity is due to changes in the fair value of monetary assets and liabilities.

	Change in USD to Ushs rate	Effect on profit before tax	Effect on equity
		Ushs million	Ushs million
2020	+5%	13,471	9,430
	-5%	(13,471)	(9,430)
2019	+5%	9,497	6,648
	-5%	(9,497)	(6,648)

The applicable USD to Ushs exchange rates were as follows:

	2020	2019
Closing foreign exchange rate	3,650.43	3,670.21
Average foreign exchange rate	3,723.63	3,709.43

Movements in the foreign exchange rates for the other currencies do not have a material impact on the Company's results.

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 USD. The components include return on investment and related tax allowance, capital recovery and USD denominated operating costs. The Company's capital investments are also denominated in USD, and the annual capital recovery is translated to Ushs 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 minimal, 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.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to financial loss. The Company is exposed to credit risk from its operating activities, mostly trade receivables, and from its financing activities, including deposits with banks and other financial instruments.

Credit risk arising from balances with banks is managed by the Company's treasury department in accordance with the Company's policy of limiting exposure to any one bank and banking with reasonably rated regulated banks as approved by the Board of Directors.

Customer credit risk from trade receivables is managed by the Company's revenue cycle unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Major suppliers are approved following specific eligibility criteria and provide performance guarantees or enter into Letter of Credit contracts to mitigate credit risk relating to advance payments to suppliers. Customers are required to pay security deposits, equivalent to estimated energy consumption of three months, before being connected to the Distribution Network.

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Credit risk (Cont'd)

Unpaid amounts due from GoU bodies are recoverable through contractual rights in the concession agreements. 97.4% (2019: 85.2%) of the domestic customers are connected to pre-paid metering and there is a target uncollected debt provision in the tariff methodology to mitigate against unrecoverable receivables. The maximum exposure to credit risk and credit concentration as represented by the carrying amount of each class of financial assets before considering collateral or other credit enhancements held by the Company was as indicated below:

	2020		2019	
	Ushs million	%	Ushs million	%
Buy out amount	1,016,856	63.8%	855,497	57.1%
Concession financial asset	329,283	20.6%	327,570	21.9%
Trade receivables	180,090	11.3%	157,985	10.5%
Letters of credit – cash cover	-	-	1,072	0.1%
Other receivables	2,157	0.1%	1,831	0.1%
MEMD - Peri Urban Development project	2,365	0.2%	2,378	0.2%
REA – OBA receivables	-	-	14,063	0.9%
REA - ECP	33,883	2.1%	39,000	2.6%
Bank balances	30,022	1.9%	99,196	6.6%
Total financial assets	**1,594,656**	**100.0%**	**1,498,592**	**100.0%**

The concentration of credit risk is further analysed as follows:

	2020		2019	
	Ushs million	%	Ushs million	%
Due from GoU bodies				
Buy out amount	1,016,856	63.8%	855,497	57.1%
Concession financial asset	329,283	20.6%	327,570	21.9%
REA	33,883	2.1%	53,063	3.5%
MEMD	2,365	0.1%	2,378	0.2%
Trade receivables - GoU bodies	-	0.0%	3,332	0.2%
	1,382,387	**86.7%**	**1,241,840**	**82.9%**
Recoverable from other customers				
Trade receivables - other customers	180,090	11.3%	154,653	10.3%
Other receivables	2,157	0.1%	1,831	0.1%
	182,247	**11.4%**	**156,484**	**10.4%**
Due from banks				
Letters of credit – cash cover	-	0.0%	1,072	0.1%
Bank balances	30,022	1.9%	99,196	6.6%
	30,022	**1.9%**	**100,268**	**6.7%**
Total financial assets	**1,594,656**	**100.0%**	**1,498,592**	**100.0%**

Except for the customer security deposits as disclosed in Note 30, the Company does not hold collateral as security against the above amounts. The concession agreements have additional comprehensive mechanisms to mitigate against performance failures of contract parties including GOU bodies. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located all over the country and in different industries.

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Credit risk (Cont'd)

Expected credit losses for trade receivables are determined for each reporting period using a single loss rate approach. Under the loss rate approach, the Company develops loss-rate statistics based on the amounts collected over the life of the financial assets rather than using separate probability of default and loss given default statistics. The Company then adjusts these historical credit loss trends for current conditions and expectations about the future. The loss rates are based on the respective tariff categories. The calculation reflects a simple average of all loss rates per period, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Company uses an overlay of measuring and forecasting the level of defaults. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Company does not hold collateral as security.

The expected credit losses for the other financial assets are generally determined using expected credit loss rates derived from the prevailing credit ratings of the counter parties. The determination of expected credit losses reflects the probability-weighted outcome, time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and expected future economic conditions. No other financial assets were considered to be in default (2019: None).

Set out below is the credit risk exposure arising from the Company's trade receivables using a single loss rate approach:

	2020			
	Gross receivable	**Loss rates**	**ECL**	**Carrying amount**
	Ushs million		**Ushs million**	**Ushs million**
Trade receivables				
Domestic	58,660	5.3%	(3,136)	55,524
Commercial	6,900	1.5%	(103)	6,797
Industrial – High Voltage	28,369	1.7%	(492)	27,877
Industrial – Low Voltage	52,089	2.1%	(1,083)	51,006
Industrial - EV	40,834	5.5%	(2,264)	38,570
Street lighting	316	0.0%	-	316
Government of Uganda	-	0.00%	-	-
Impaired receivables	37,994	100%	(37,994)	-
	225,162		**(45,072)**	**180,090**
Other financial assets				
REA - ECP receivables	33,883	0.00%	-	33,883
REA - OBA receivables	-	0.00%	-	-
MEMD – Peri-Urban development project	2,438	2.99%	(73)	2,365
Other receivables	2,157	0.00%	-	2,157
Bank balances	30,022	0.00%	-	30,022
Concession financial asset	329,283	0.00%	-	329,283
Buy out amount	1,017,212	0.035%	(356)	1,016,856
	1,414,995		**(429)**	**1,414,566**
Total financial assets	**1,640,157**		**(45,501)**	**1,594,656**

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Credit risk (Cont'd)

	2019			
	Gross receivable	Loss rates	ECL	Carrying amount
	Ushs million		Ushs million	Ushs million
Trade receivables				
Domestic	26,490	5.1%	(1,339)	25,151
Commercial	26,849	1.5%	(403)	26,446
Industrial – High Voltage	45,838	2.8%	(1,283)	44,555
Industrial – Low Voltage	36,714	3.6%	(1,322)	35,392
Industrial - EV	24,100	5.6%	(1,341)	22,759
Street lighting	412	15.4%	(64)	348
Government of Uganda	3,334	0.0%	-	3,334
Impaired receivables	35,688	100%	(35,688)	-
	199,425		**(41,440)**	**157,985**
Other financial assets				
REA - ECP receivables	39,000	0.00%	-	39,000
REA - OBA receivables	14,141	0.55%	(78)	14,063
MEMD – Peri-Urban development project	2,378	0.00%	-	2,378
Letters of credit – cash cover	1,072	0.00%	-	1,072
Other receivables	1,831	0.00%	-	1,831
Bank balances	99,196	0.00%	-	99,196
Concession financial asset	327,570	0.00%	-	327,570
Buy out amount	855,853	0.042%	(356)	855,497
	1,341,041		**(434)**	**1,340,607**
Total financial assets	**1,540,466**		**(41,874)**	**1,498,592**

Trade receivables past due by more than 90 days are considered to be impaired. There were no other financial assets that were past due or impaired.

Liquidity risk

The Company monitors the risk of shortage of funds using budget analysis. This involves analysing maturities of financial liabilities and financial assets 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.

The primary objective of the Company's liquidity management is to ensure that it maintains compliance with lenders' and 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 creditors, as appropriate. The Company assessed that the concentration of risk with respect to refinancing the outstanding debts is low. The Company has access to a sufficient variety of sources of funding, including the approved undrawn borrowing and working capital facilities disclosed in Note 27.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

44. Risk Management *(Continued)*

Financial risks *(Cont'd)*

Credit risk (Cont'd)

Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio of creditors and lenders. Identified concentrations of liquidity risk are controlled and managed accordingly.

The table below summarises the maturity profile of the Company's liabilities based on contractual undiscounted payments. All balances are in Ushs million.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Total
Financial liabilities					
At 31 December 2020					
Borrowings	-	-	207,688	362,508	570,196
Concession obligation	-	-	-	335,474	335,474
Customer security deposits	496	-	-	-	496
Accrued expenses	-	53,931	-	-	53,931
Trade and other payables	379,859	132,961	-	-	512,820
Bank overdrafts	82,015	-	-	-	82,015
	462,370	**186,892**	**207,688**	**697,982**	**1,554,932**
At 31 December 2019					
Borrowings	-	-	171,617	588,938	760,555
Concession obligation	-	-	-	337,292	337,292
Customer security deposits	492	-	-	-	492
Accrued expenses	-	15,704	-	-	15,704
Trade and other payables	326,924	85,558	-	-	412,482
Bank overdrafts	46,340	-	-	-	46,340
	373,756	**101,262**	**171,617**	**926,230**	**1,572,865**

55% of the Company's financial liabilities will mature in less than one year after 31 December 2020 (2019: 41%) based on the undiscounted cash flows above.

Fair value measurement

The Company has no assets and liabilities for which the carrying amount is based on fair value. For fair value disclosure purposes, management has evaluated that, except for the assets and liabilities presented in the table below, the fair values of the Company's financial assets and liabilities reasonably approximate their carrying amounts due to the short-term maturities of the financial instruments or because the interest rates applicable to long-term financial instruments approximate the prevailing market interest rates.

	2020		2019	
	Carrying amount Ushs million	Fair value Ushs million	Carrying amount Ushs million	Fair value Ushs million
Other financial asset	1,016,856	1,759,177	855,497	1,407,853
Concession financial asset	329,283	330,118	327,570	325,969
Concession obligation	329,283	330,118	327,570	325,969

44. Risk Management *(Continued)*

Fair value measurement *(Cont'd)*

The fair value of the above instruments is determined using the discounting of cash flows method by applying discount rates that reflect directly or indirectly observable market interest rates for similar instruments. The instruments are therefore categorised under Level 2 of the fair value measurement hierarchy. There were no transfers into and out of this fair value measurement hierarchy.

The own non-performance risk regarding the financial liabilities was assessed to be insignificant.

The significant inputs used in the fair value measurements together with a quantitative sensitivity analysis are shown below:

Item	Inputs	Inputs applied		Sensitivity of input to fair value		
		2020	2019	Change in input	2020	2019
					Ushs million	
Other financial asset	USD equivalent market yield on GOU treasury bonds with similar term	6.67%	7.83%	+-0.1%	6,443	6,209
Concession financial asset	Market interest rate for term loans with similar term	6.58%	6.29%	+-0.1%	7	16
Concession obligation		6.58%	6.29%	+-0.1%	7	16

Capital management

The primary objective of the Company's capital management is to 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 adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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 less cash and cash equivalents. For the purpose of managing capital, management considers capital to include issued capital, share premium, retained earnings and other equity reserves attributable to the equity holders of the Company. The Company aims to maintain a gearing ratio of less than 100%. The Company's gearing ratio as at year-end was as shown below:

	Note	2020 Ushs million	2019 Ushs million
Borrowings	27	517,104	556,934
Less: Cash and cash equivalents	35	52,489	(52,364)
Net debt		**569,593**	**504,570**
Issued capital	24	27,748	27,748
Share premium	25	70,292	70,292
Retained earnings		521,980	546,030
Translation reserve		183,186	189,450
Total capital		**803,206**	**833,520**
Net debt plus capital		**1,372,799**	**1,338,090**
Gearing ratio		**41.5%**	**37.7%**

44. Risk Management *(Continued)*

Capital management *(Cont'd)*

The Company's management also aims to ensure that financial covenants attached to the interest-bearing borrowings that define capital structure requirements are met. Breach of the financial covenants would permit the lenders to institute sanctions stipulated in the borrowing agreement. There was no breach of the financial covenants attached to the interest-bearing borrowings during the year and as of year-end as indicated below:

Financial covenant	Covenant requirement	Actual	
		2020	2019
Interest cover	≥ 2.5 : 1	4.95	5.97
Adjusted leverage	≤ 3.0 : 1	2.35	1.35
Relevant financial indebtedness to equity	≤ 2.5 : 1	0.76	0.74
Debt service cover	≥ 1.15 : 1	1.44	1.47
Buy out amount to relevant facility amount	≥ 1.1 : 1	1.54	2.51

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

No changes were made in the objectives, policies or processes for managing capital during the current and prior years.

45. COVID-19 Pandemic

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. On 18 March 2020, the Government of Uganda announced lockdown and restrictions as a counter-measure against the spreading of COVID-19. By the year-end, some of the restrictions had been eased. As an essential service provider, the Company continued operations during the lockdown period but with some restrictions arising from the local and global disruptions caused by the pandemic. These include market, services and supply chain disruptions, nonperformance by counter parties, unavailability of key people resources, inability to access some locations, among others. Consequently, the Company's financial performance was impacted as follows:

- Slump in forecast revenue from sale of electricity by 10.4% due to decreased demand in the commercial, medium industrial and large industrial segments. This was mainly because businesses deemed not to be essential service providers were closed during the lock down period. Refer to Note 6 for further details.

- Limitations in implementing the power loss reduction activities due to limitations on movements leading to increase in power losses from 16.4% as of 31 December 2019 to 17.5% as of 31 December 2020.

- Increase in expenses resulting from the additional costs arising from operating under lock down and other restrictions, and staff and customer safety measures.

- Delay in implementing the capital expenditure and network maintenance programs due to supply chain disruptions and limitations on movement of staff.

Use of estimates and judgements

There have been no material revisions to the nature and estimates of amounts reported in prior periods. However, the effects of COVID-19 have required judgments and estimates to be made, including:

- Determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period').

- Estimates of expected credit losses attributable to accounts receivable arising from energy sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

45. COVID-19 Pandemic *(Continued)*

Use of assumptions

The COVID-19 pandemic continued to affect the Company, countries and businesses at the time of issuing these financial statements. The directors expect that considering that the Company is an essential service provider, the Company's operations will continue despite the disruption caused by the pandemic. The directors have also assessed that:

- No adjusting events or conditions existed at the reporting date affecting the financial statements.
- The going concern status of the Company will not be affected by this event in the foreseeable future and the Company will continue to operate as a going concern. The Company's management and directors are closely monitoring the economic developments in the key markets and sectors including undertaking scenario analysis. This enables the Company's management and directors to take appropriate actions where necessary, including enhanced monitoring, amending the Company's risk appetite and/or reducing limits and exposures.
- The impact of the supply chain disruptions continues to be mitigated by proactive and dynamic inventory management to ensure that there is enough stock of materials to support the capital expenditure and network maintenance programs.
- Customer credit risk is not expected to increase further. Management will continue to closely monitor customer segments to ensure that exposures are mitigated.
- There are no conditions that would warrant impairment of non-financial assets. There are no significant financial assets measured at fair values that would materially impact the performance of the Company.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial period that are different from the judgements and assumptions used, could require a material adjustment to the carrying amounts of the assets or liabilities reported in these financial statements. The directors and management will continue to monitor the measures taken by the GoU and adjust the Company's business strategies and plans accordingly.

46. 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 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.

The Company's core business activities are electricity distribution, 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 in Uganda. Electricity supply and service after sales 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 revenue and other operating income as presented in Notes 6.

The Company's customers are categorised into domestic, commercial, medium industrial, large industrial and street lighting. The retail tariff rates are based on the type of customer category and generally charged based on relative usage levels plus a fixed monthly service charge. The revenue generated from each of the customer categories is presented in Note 6.

The Company submits its base tariff application to ERA once each year, including the fixed targets and updates for actual performance. The base retail tariffs are set annually from January and are adjusted quarterly for changes in foreign exchange rates, oil prices and inflation. Refer to ERA website - www.era.or.ug, for the quarterly retail tariffs applicable during the year.

The base retail tariffs approved by ERA, effective as of 1 January, are shown in the table below:

46. Segment Information *(Continued)*

Customer segment	Description	Based on usage			Fixed monthly charge	
		Usage	Ushs/kWh		Ushs	
			2020	2019	2020	2019
Domestic consumers	Low voltage supply at 240 volts to residential houses, small shops and kiosks	Lifeline charge applicable for the first 15 units consumed in a month	250	250	3,360	3,360
		Energy above 15 units (Ushs/kWh)	751.7	769.0		
Commercial	Low voltage supply to three phase low voltage with load not exceeding 100 Amperes and supplied at 415 volts e.g., small scale industries like maize mills	Peak, shoulder and off peak	649.4	684.8	3,360	3,360
Medium industrial	Low voltage supply to medium scale industries, taking power at low voltage (415 V), with maximum demand of up to 500kVA	Peak, shoulder and off peak	575.2	613.2	22,400	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 1,500kVA	Peak, shoulder and off peak	362.4	377.7	70,000	70,000
		Additional maximum demand charge				
Extra-large industrial consumers	High voltage 11,000V or 33,000V, with maximum demand exceeding 1,500kVA and dealing in manufacturing	Peak, shoulder and off peak	302.2	311.9	70,000	70,000
		Additional maximum demand charge				
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	370	751.1	-	-

45. Events After The Reporting Period

There were no other events after the reporting period which require adjustment to or disclosure in the financial statements.

Supplementary Information

Concession Assets: Umeme Funded Assets

The carrying amount of the tangible assets that form the basis of the Company's 'Other concession rights' presented in Note 17 is made up of the following:

	Substations, low voltage lines & services	Land & buildings	Furniture & fittings, tools & office equipment	Computers, communication equipment & MIS	Motor vehicles	Capital work-in-progress (CWIP)	Total
	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million	Ushs million
Cost							
At 1 Jan 2019	**1,281,429**	**18,457**	**24,869**	**58,712**	**23,642**	**134,956**	**1,542,065**
Additions	-	-	-	-	-	104,817	104,817
Transfer from CWIP	142,804	46	3,228	1,348	52	(147,478)	-
Disposals	(4,679)	-	(1,351)	-	(1,353)	-	(7,383)
Transfer to financial asset	(174,291)	-	-	-	-	-	(174,291)
Translation difference	5,812	(1,497)	(1,200)	(4,718)	(3,457)	(13,436)	(18,496)
At 31 Dec 2019	**1,251,075**	**17,006**	**25,546**	**55,342**	**18,884**	**78,859**	**1,446,712**
Additions	-	-	-	-	-	278,744	278,744
Transfer from CWIP	302,662	188	3,245	2,506	738	(309,339)	-
Disposals	(17,652)	-	(137)	(1,790)	(1,396)	-	(20,975)
Transfer to financial asset	(154,419)	-	-	-	-	-	(154,419)
Translation difference	(9,307)	(95)	(199)	(312)	(91)	175	(9,829)
At 31 Dec 2020	**1,372,359**	**17,099**	**28,455**	**55,746**	**18,135**	**48,439**	**1,540,233**
Depreciation							
At 1 Jan 2019	**427,912**	**5,326**	**19,786**	**55,208**	**23,415**	**-**	**531,647**
Charge for the year	114,677	761	2,729	1,715	29	-	119,911
Disposals	(1,811)	-	(1,260)	-	(1,353)	-	(4,424)
Translation difference	1,879	(138)	(1,285)	(5,098)	(3,254)	-	(7,896)
At 31 Dec 2019	**542,657**	**5,949**	**19,970**	**51,825**	**18,837**	**-**	**639,238**
Charge for the year	124,407	801	2,909	2,074	6	-	130,197
Disposals	(6,749)	-	(85)	(1,790)	(1,396)	-	(10,020)
Translation difference	(5,269)	(47)	(160)	(285)	(74)		(5,835)
At 31 Dec 2020	**655,046**	**6,703**	**22,634**	**51,824**	**17,373**	**-**	**753,580**
Net carrying amount							
At 31 Dec 2020	**717,313**	**10,396**	**5,821**	**3,922**	**762**	**48,439**	**786,653**
At 31 Dec 2019	**708,418**	**11,057**	**5,576**	**3,517**	**47**	**78,859**	**807,474**

Memorandum Financial Information in USD

FOR THE YEAR ENDED 31 DECEMBER 2020

BASIS OF TRANSLATION

The directors determined that the Company's functional currency is USD effective from 1 January 2015. The statutory financial statements are presented in Ushs to meet the expectations of the key users of the financial statements. However, to meet the needs of certain users of the financial statements, memorandum financial information in USD is presented. The memorandum financial information comprises the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows.

The translation from foreign currencies to functional currency is done in accordance with the Company's accounting policy as disclosed in Note 2 (b) to the audited financial statements. The foreign exchange rates applicable were as follows:

	2020	2019	2018
Average foreign exchange rate	3,724	3,709	3,732
Year-end foreign exchange rate	3,650	3,670	3,717

Source: Bank of Uganda

Statement Of Profit or Loss or Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 USD '000	2019 USD '000
Revenue from contracts with customers	446,027	478,947
Cost of sales	(317,392)	(318,781)
Gross Profit	**128,635**	**160,166**
Repair and maintenance expenses	(12,285)	(8,333)
Administration expenses	(48,325)	(49,329)
Foreign exchange losses	(3,440)	(2,789)
Other expenses	-	-
Increase in expected credit losses	(2,045)	(1,041)
Profit Before Amortisation, Impairment, Interest And Tax	**62,540**	**98,674**
Amortisation of intangible assets	(37,940)	(33,157)
Operating Profit	**24,600**	**65,517**
Finance income	5,079	4,755
Finance costs	(13,145)	(15,866)
Profit Before Tax	**16,534**	**54,406**
Income tax expense	(5,339)	(17,578)
Profit For The Year	**11,195**	**36,828**
Other comprehensive income		
Translation differences	-	-
Total Comprehensive Income For The Year, Net Of Tax	**11,195**	**36,828**

	2020 USD	2019 USD
Basic And Diluted Earnings Per Share	**0.007**	**0.023**

Statement Of Financial Position

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 USD '000	2019 USD '000
Assets		
Non-Current Assets		
Intangible Assets	215,773	220,323
Other Financial Asset	278,558	233,092
Concession Financial Asset	90,204	89,251
	584,535	**542,666**
Current Assets		
Inventories	28,106	19,012
Contract Assets	25,047	23,218
Current Income Tax Recoverable	11,269	3,018
Trade And Other Receivables	59,830	58,936
Prepayments	13,051	18,664
Bank Balances	8,224	27,027
	145,527	**149,875**
Total Assets	**730,062**	**692,541**
Equity And Liabilities		
Equity		
Issued Capital	8,217	8,217
Share Premium	20,815	20,815
Retained Earnings	191,000	198,071
	220,032	**227,103**
Non-Current Liabilities		
Borrowings: Non-Current Portion	93,541	116,739
Concession Obligation	90,204	89,251
Long Term Incentive Plan	16	236
Deferred Tax Liability	58,981	53,255
	242,742	**259,481**
Current Liabilities		
Borrowings: Current Portion	48,115	35,005
Customer Security Deposits	136	134
Contract Liabilities	38,315	37,626
Long Term Incentive Plan	-	-
Accrued Expenses	14,774	4,279
Provisions	359	359
Trade And Other Payables	143,122	115,928
Bank Overdrafts	22,467	12,626
	267,288	**205,957**
Total Equity And Liabilities	**730,062**	**692,541**

Statement Of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2020

	Issued capital USD '000	Share premium USD '000	Retained earnings USD '000	Total equity USD '000
At 1 January 2019	8,217	20,815	179,127	208,159
Profit for the year	-	-	36,828	36,828
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year, net of tax	**-**	**-**	**36,828**	**36,828**
Dividend paid – 2018 interim dividend	-	-	(5,507)	(5,507)
Dividend paid - 2018 final dividend	-	-	(12,377)	(12,377)
At 31 December 2019	**8,217**	**20,815**	**198,071**	**227,103**
At 1 January 2020	8,217	20,815	198,071	227,103
Profit for the year	-	-	11,195	11,195
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the year, net of tax	**-**	**-**	**11,195**	**11,195**
Dividend paid - 2019 final dividend	-	-	(18,266)	(18,266)
At 31 December 2020	**8,217**	**20,815**	**191,000**	**220,032**

Statement Of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 USD '000	2019 USD '000
Profit before tax	16,534	54,406
Adjustment for non-cash items:		
Gain on disposal of assets	-	(36)
Write off of intangible assets	2,942	798
Amortisation of intangible assets	34,998	32,359
Interest income on bank deposits	(130)	(89)
Finance income on other financial asset	(3,996)	(3,415)
Finance income on concession financial asset	(953)	(1,251)
Finance cost on concession obligation	953	1,251
Other financing costs	1,723	2,509
Expected credit losses on trade and other receivables	2,045	1,041
Provision for obsolete stock	99	
Interest expense on long and short term borrowings	9,610	11,279
Amortisation of deferred transaction costs	1,196	713
Increase in long term incentive plan provision	-	209
Unutilised long term incentive provision	(220)	(231)
Increase in provisions	-	359
Cash flows before working capital changes	**64,801**	**99,902**
Changes in working capital items:		
Increase in inventories	(9,193)	(1,617)
Increase in contract assets	(1,829)	(21,403)
Increase in trade and other receivables	(2,939)	(6,247)
Decrease/(increase) in prepayments	5,613	(10,769)
Increase in contract liabilities	689	14,122
Increase/(decrease) in accrued expenses	10,495	(3,836)
Increase in trade and other payables	27,194	11,597
Cash generated from operating activities	**94,831**	**81,749**
Interest received from banks	130	89
Current income tax paid	(8,239)	(10,542)
Long and short term borrowings interest paid	(10,020)	(12,785)
Other financing costs paid	(1,723)	(2,509)
Borrowings transaction costs paid	(291)	(2,382)
Long term incentive plan payment	-	(1,616)
Net cash flows from operating activities	**74,688**	**52,004**
Investing activities		
Investment in the distribution network	(74,858)	(28,257)
Proceeds from disposal of intangible assets	-	36
Net cash flows used in investing activities	**(74,858)**	**(28,221)**
Financing activities		
Dividend paid	(18,266)	(17,884)
Proceeds from long term borrowing facilities	19,150	50,850
Repayment of principal for long term borrowing facilities	(19,919)	(34,506)
Repayment of principal for short term borrowings	(9,814)	(28,314)
Proceeds from short term borrowing facilities	-	24,685
Net cash flows used in financing activities	**(28,849)**	**(5,169)**
Net (decrease)/increase in cash and cash equivalents	(29,019)	18,614
Cash and cash equivalents at 1 January	14,267	(5,036)
Translation differences	373	689
Cash and cash equivalents at 31 December	**(14,379)**	**14,267**

10 HISTORICAL PERFORMANCE STATISTICS

Year	2015	2016	2017	2018	2019	2020	Total
Ushs - Billion							
Revenues	1,161.0	1,358.2	1,485.2	1,493.2	1,776.6	1,660.8	8,935.1
Gross Profit	418.0	476.4	960.5	581.2	594.1	479.0	3,509.2
Operating Costs	180.5	174.5	200.0	220.7	213.9	226.0	1,215.5
EBITDA	238.2	302.3	195.0	347.7	368.6	245.7	1,697.5
Depreciation	47.6	61.6	82.7	103.9	123.0	141.3	560.1
EBIT	190.6	240.7	112.4	243.8	245.6	93.0	1,126.0
Financing Costs	53.1	69.3	97.6	66.0	58.9	49.0	393.8
Profit Before Tax	161.0	200.1	177.4	195.1	204.4	63.0	1,000.8
Income Tax Charge	55.1	59.3	9.1	62.3	65.2	19.9	270.9
Profit After Tax	105.9	140.8	168.3	132.8	139.2	43.1	729.9
EPS - Ushs	65.0	85.0	22.0	82.0	86.0	27.0	340.0
Dividends for the Year	57.2	30.5	12.3	66.4	67.1	21.5	233.6
Dividend Per Share - Ushs	35.2	18.8	7.6	40.9	41.3	12.2	
Share Price - Year End (Ushs)	630.0	490.0	400.0	320.0	233.0	219.0	
Market Capitalisation	1,023.0	795.7	649.6	519.6	378.4	355.6	
Dividend Yield (%ge)	6%	4%	2%	13%	18%	6%	
Dividends Paid	49.2	57.5	12.7	12.3	66.4	67.1	265.2
Cashflow from Operations	234.3	234.5	353.1	483.8	194.1	277.1	1,777.0
Capital Investments - Gross	280.5	317.8	236.4	230.6	104.8	278.7	1,448.9
Capital Investments - Net WIP	248.4	273.1	238.6	213.7	26.0	231.3	1,231.0
Loan Drawdowns	152.0	245.8	71.3	109.3	277.8	70.7	926.7
Loan Repayments	-	62.4	124.8	259.8	231.9	110.1	789.0
Interest Paid	24.9	37.7	47.5	55.7	65.3	44.7	275.8
Net Debt Outstanding	481.2	727.3	681.2	546.5	504.1	517.1	517.1
Shareholder Equity	503.8	624.3	617.7	722.2	833.5	803.2	803.2
BST Payments to UETCL	876.5	1,020.6	1,000.2	1,002.0	1,181.1	1,195.0	6,275.4
Taxes Remitted to URA							
Income Tax	33.8	26.5	3.7	33.1	38.8	30.0	166.0
VAT	13.3	9.1	39.6	48.3	54.8	14.1	179.1
PAYE	17.9	20.9	19.5	20.2	24.3	24.9	127.7
Customs Tax	6.8	7.2	5.1	8.4	8.3	8.5	44.4
Stamp Duty	13.0	14.4	5.4	7.0	16.2	17.2	73.1
Total Taxes Remitted to URA	**84.7**	**78.0**	**73.3**	**117.0**	**142.5**	**94.9**	**590.4**

Other Payments to Government Agencies							
Electricity Regulatory Authority	6.2	7.7	8.4	9.2	9.3	9.1	49.8
Uganda Electricity Distribution Contribution	8.0	10.9	10.6	17.6	11.7	11.6	70.5
NSSF - Social Security Contributions	7.0	8.5	8.8	9.4	11.1	11.7	56.5
NSSF - Dividends Paid							
Total Taxes Remitted to URA	**21.2**	**27.2**	**27.8**	**36.2**	**32.1**	**32.4**	**176.8**

11

SHAREHOLDER INFORMATION

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Umeme Limited will be held virtually (hybrid of physical and by electronic means) on Thursday 6th May, 2021 at 10:00 am to conduct the following business:

Ordinary Resolutions

1. To receive, consider and if approved, adopt the Company's Audited Financial Statements for the year ended 31 December 2020 and the Directors and Auditors reports thereon;

2. To receive and adopt the recommendation of the Directors on the declaration of a final dividend.

3. To ratify the re-appointment of Ernst & Young Uganda as the External Auditors of the Company for the year 2020 and to authorize the Board to set the auditors fees.

4. To elect directors in place of those retiring. In accordance with the provisions of the Article 93, 94, 95 and 96 of the Company's Amended Articles of Association, the following Directors are due for retirement by rotation and being eligible, offer themselves for re-election (with the exception of Mr Pieter Adriaan Faling):

   i. Patrick Bitature
   ii. Florence Namatta Mawejje
   iii. Gerald Ssendaula
   iv. Pieter Adriaan Faling

5. To conduct any other business that may be conducted at the AGM.

Notes

6. **AGM Registration and Access Information;** The AGM will be hosted via the **LumiAGM** platform. Shareholders will receive the meeting ID and login credentials through their registered emails and mobile SMS. Shareholders that desire to update their contact details are requested to contact the share registrar, Custody and Registrars Services Uganda, at umeme@candrgroup.co.ug or call +256 757 072 773.

7. **AGM Rights:** Umeme Limited Shareholders may attend, speak and vote at the AGM or may appoint a proxy (who does not need to be a shareholder of the Company) to attend, speak and vote at the AGM on behalf of such shareholders. A proxy form is included in the 2020 Annual Report and is available on the Company's website www.umeme.co.ug.

   Duly completed proxy forms must be returned to the Company Secretary at the addresses set out below to be received by not later than 17h00 on 3rd May 2021.

8. **Dividend:** Subject to the approval of shareholders, the Directors recommend to members that a final dividend of Ushs 12.2 per ordinary share be paid for the year ended 31 December 2020 subject to withholding tax deductions where applicable.

   The dividend, if approved at the AGM, will be paid on or about 19th July 2021 to shareholders whose names appear on the share register at close of business on 25th June 2021.

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

Shonubi, Musoke and Co. Advocates
Company Secretary
15th April 2021

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

Share Registrars
Custody and Registrars Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Kampala, Uganda
www.crsltd.co.ke

Head Office: 2nd Floor, Rwenzori House,
Plot 1 Lumumba Avenue,
P.O. Box23841 Kampala, Uganda.
Tel: (256) 312 360600
Toll Free Lines: 0800 285285, 0800 385 385
www.umeme.co.ug or find us on
Umeme Limited @UmemeLtd +256 772 285285

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 on the 6th May 2021, and at any adjournment thereof.

Signed this ____________ day of ____________ 2021

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 Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. To be effective, completed proxy forms must be lodged by not later than 17h00 3rd May 2021 with the Company Secretary, Share Registrar or the registered office of the Company.

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 and Co Advocates** SM Chambers Plot 14 Hannington Road P.O. Box 3213, Kampala, Uganda **www.shonubimusoke.co.ug**	**Custody and Registrars Services Uganda Ltd.** 4th 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 Annual General Meeting (AGM) instead of the proxy.

4. The Chairman of the AGM may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.

5. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.

6. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company. In the case of a corporation, a resolution of the board or equivalent body shall be required.

7. Where there are joint holders of ordinary shares:

    a. any one holder may sign the proxy form; and

    b. the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders who tender a vote (whether in person or by proxy) appear in the Company's register) will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

Contact Details

Financial Controller
andrew.oyie@umeme.co.ug
Tel: +256 312 360 600

Investor Relations Manager
grace.semakula@umeme.co.ug
Tel: +256 312 360 600

Company Secretary
Shonubi, Musoke & Co. Advocates
Tel: +256 414 233 204

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