ANNUAL REPORT

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UMEME

Powering Uganda

INVESTING

In Electricity Access, Reliability and Efficiency

Contents

Strategic Foundations

Our Vision

Powering communities, business and industry for a prosperous Uganda

Our Mission

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

Our Core Mandate

Umeme Limited is licenced to distribute and supply electricity to customers within its authorised footprint. We construct, operate, and maintain the Distribution Network. The Distribution Network comprises of distribution electrical lines at medium and low voltage, substations, distribution transformers, and other network infrastructure.

The second core function involves supply of electricity to customers including provision of additional products and services.

Our Aspiration into the Future

We aspire to be the leading electricity distribution utility, supplying safe and reliable electricity for the economic transformation of Uganda. As an employer of choice, adopting technological solutions and financial capital, we aim to deliver sustainable shareholder value.

Our Values

- Safety
- Customer Service
- Integrity
- Team Work
- Innovation

1. Our Business

The Umeme 2018 Annual Report

We are delighted to report to our shareholders and stakeholders on the performance of Umeme for the year ended 31 December 2018 and highlight the prospects of the electricity supply industry for the years to come. We review and report on the key material issues and results of our operations from the financial, economic, social, environmental and operational perspectives.

The report also covers the governance aspects in ensuring organisation compliance and sustainable business operations.

The scope of the report is the financial year ended 31 December 2018 and any other material developments up to the date of the publication of this report.

As delegated by the Board, the Audit Committee oversees the financial reporting and internal control systems, external audit, internal audit and risk management framework. The Company applies the International Financial Reporting Standards (IFRS) and complies with the Capital Markets Authority and Uganda Securities Exchange listing obligations, and the Companies Act 2012, of Uganda.

The Board is accountable for the integrity and completeness of the annual report and any additional information. The Board approved the Annual Report and Financial Statements on 22 March 2019.

Umeme Limited – The Electricity Distribution Company

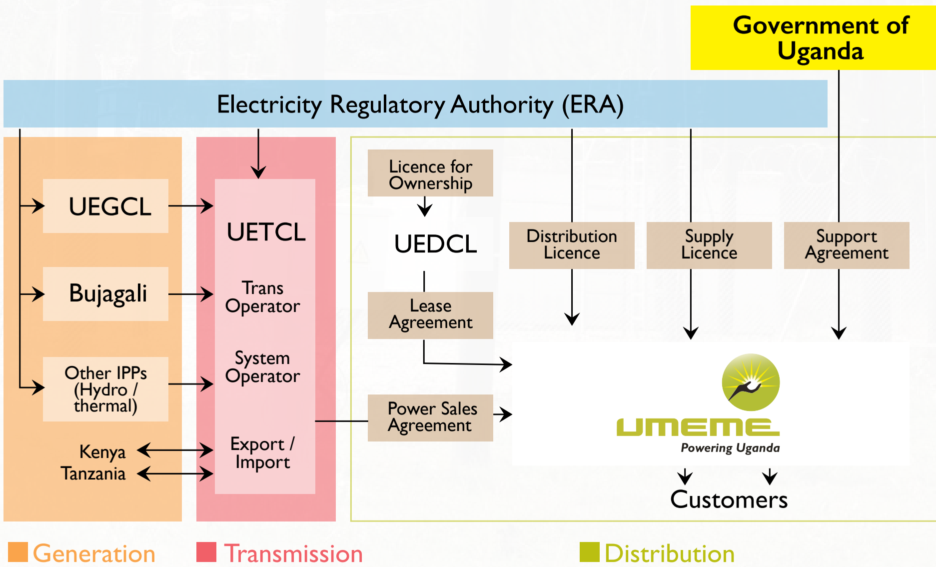
About Umeme Limited

Umeme Limited is Uganda's main electricity distribution Company, listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange. The National Social Security Fund that has 23% shareholding in Umeme Limited, is currently the largest shareholder. (see list of top ten shareholders on page 108).

The Company operates a 20-year electricity distribution concession from the Government of Uganda that took effect on 1st March 2005. The Company was listed on the Uganda Securities Exchange and cross listed on the Nairobi Securities Exchange in November and December 2012 respectively. Umeme is licensed to distribute and supply electricity to customers, operating between 33kV and 240 volts. This mandate involves; operation, maintenance and upgrading of the electricity distribution infrastructure, electricity retail and provision of related services. The electricity sector in Uganda is regulated by the Electricity Regulatory Authority (ERA), whose mandate include setting operating standards, sector monitoring and setting appropriate end user tariffs.

Electricity Supply Industry Structure

After the sector reforms that happened in 2000, the electricity industry is structured as outlined below. The generation and distribution sub sectors were opened up for private sector participation, while the Government retained 100% ownership of the transmission, regulation and policy formulation and oversight. Government is currently undertaking the construction of the 783MW generation plants at Karuma (600MW) and Isimba (183MW).



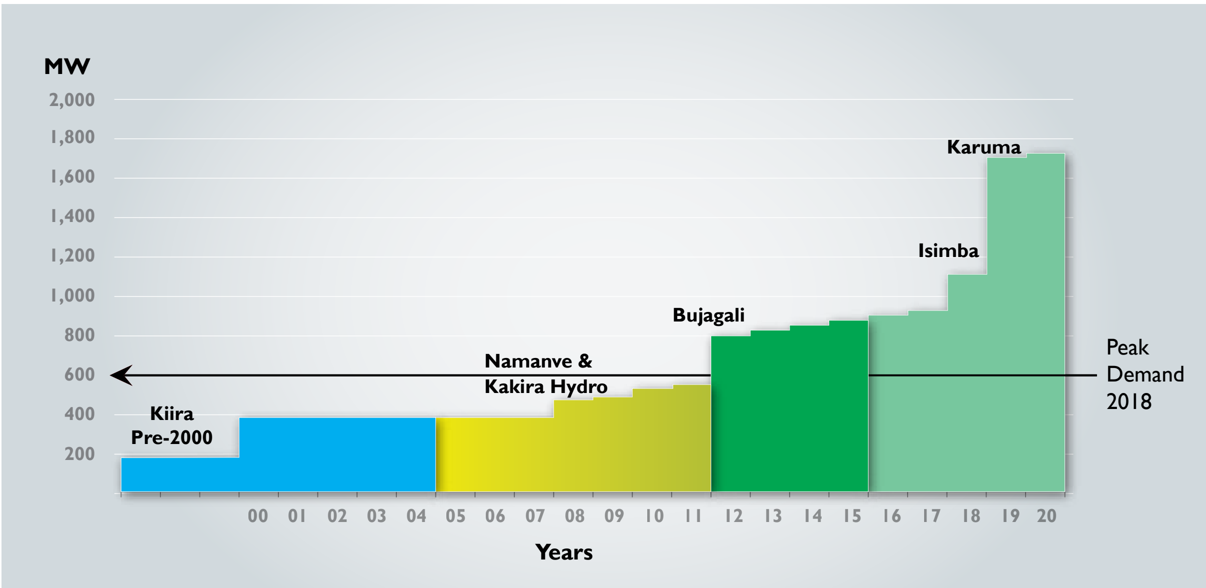
Uganda's Electricity Value Chain

Generation Source (No.)	Installed Capacity (MW)	Transmission	Distribution
Hydro (79.5%)	744	UETCL Domestic Supply	Umeme (94.3 %)
Solar (3.5%)	41		
Thermal (8.7%)	102		
Co-Generation (8.2%)	96		
Diesel (0.1%)	1	Exports	UEDCL and 6 others (1.6 %)
Total	**984**	Imports	Net Exports (4.1 %)

Source: MEMD, UETCL and ERA

The Evolution of the Electricity Generation Capacity

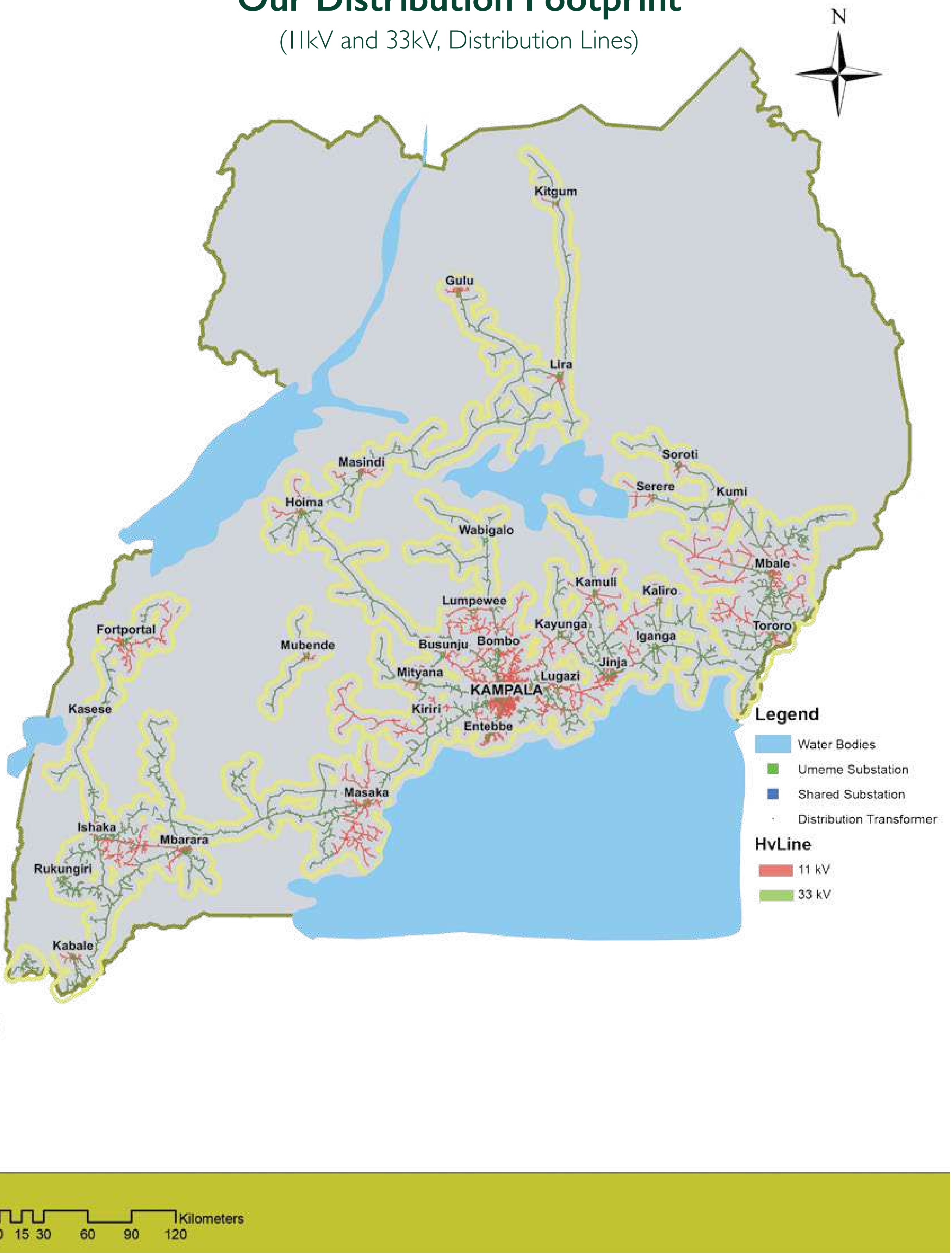
Uganda currently has sufficient electricity to meet its existing needs, with an installed capacity of 984 MW, an additional 783 MW is due to be commissioned in 2019, leading to a total installed capacity of 1,767 MW.



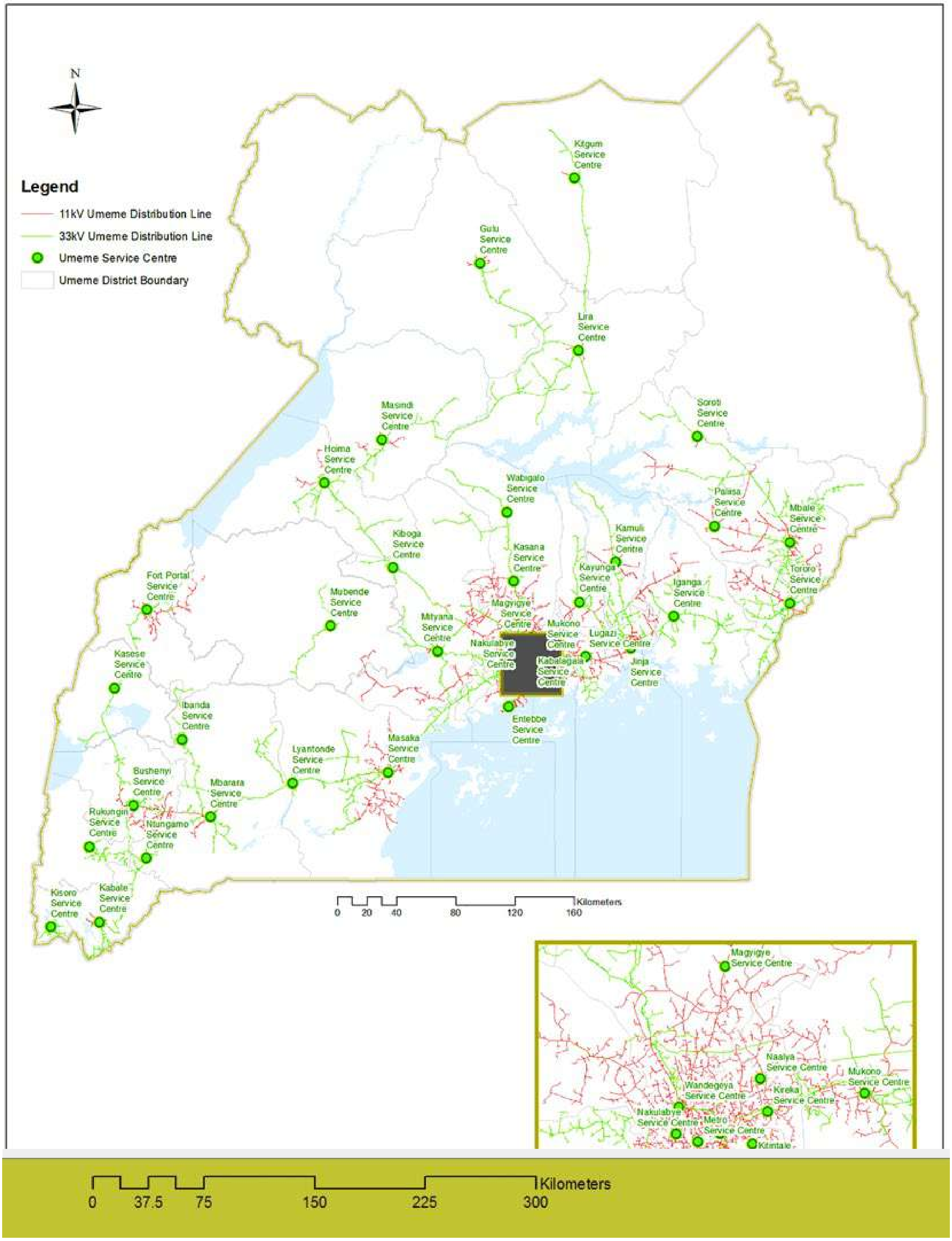
Source: MEMD, UETCL and ERA

Our Distribution Footprint

(11kV and 33kV, Distribution Lines)



Our Service Centres



Corporate Information

Principal Place of Business and Registered Address

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

Company Secretary

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

Auditors

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

Share Registrars

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

Main Bankers

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

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

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

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

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

Our 2018 Performance at a Glance

Electricity Sales

3,011 GWh

+9.1%

Energy Losses

Decrease in energy losses

16.6%

Number of Customers

1.3 million Customers

+14.8%

Electricity Sales (BIlls)

Ushs 1.6 Trillion

+13%

Payments to UETCL

Ushs 1.1 Trillion

(Power purchases)

Gross Profit

Ushs 581 Billion

+11%

EBITDA

Ushs 354 billion

+8.9%

Taxes Paid to URA

Ushs 135 billion

+88%

(Inc. Corp Tax, VAT, PAYE, WHT, Customs)

Profit after Tax

Ushs 133 Billion

+269%

Total Assets

Ushs 2.5 Trillion

+8.7%

Net Debt

Ushs 528 Billion

-20%

Capital Investments

Invested

Ushs 231 billion

Net Cash flow from Operations

Ushs 395 billion

+31%

Proposed Dividends

Ushs 28.2

(Per Share)

50% Pay-out

Earnings Per Share (EPS)

Ushs 82

(Per Share)

+273%

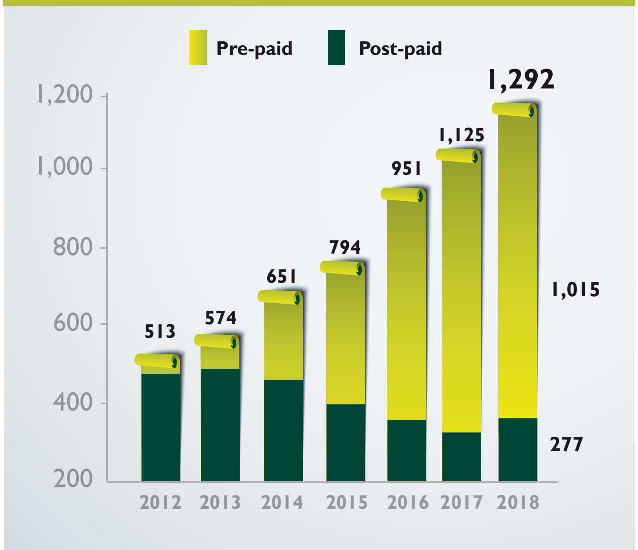
Key Performance Statistics for the Year 2018

Financial Statistics	2018 Ushs million	2017 Ushs million	2018 USD '000	2017 USD '000
For the year				
Revenue	1,493,232	1,485,202	400,297	410,702
Gross profit	581,198	524,707	155,687	145,033
Operating profit	243,756	112,379	65,379	30,832
Profit before tax	195,085	44,600	52,305	12,101
Profit for the year	132,815	35,494	35,790	9,570
Capital investments	230,600	236,427	61,784	65,385
At year-end				
Total assets	2,463,643	2,349,433	662,727	645,025
Shareholder's equity	722,200	617,669	197,605	169,578
Outstanding interest-bearing debt	528,535	659,616	142,204	181,094
Cash flow data – for the year				
Net cash flows from operating activities	395,213	302,404	106,254	84,239
Net cash flows used in investing activities	(230,600)	(236,427)	(61,784)	(65,385)
Net cash flows from financing activities	(162,899)	(65,590)	(57,715)	(18,050)
Per share	**Ushs**	**Ushs**	**Ushs**	**Ushs**
Basic and diluted Earnings per Share	82	22	0.02	0.01
Proposed Dividend per Share	28.2	7.6	-	-

Operating and Other Statistics	2018	2017
Electricity sales during the year (GWh)	3,011	2,760
Electricity purchases during the year (GWh)	3,610	3,334
Energy losses (percentage)	16.6%	17.20%
Revenue collections rate (percentage)	102.5%	100.20%
Total length of distribution lines (Km)	14,216	13,933
Total length of low voltage lines (Km)	19,930	19,431
Total distribution transformers at the end of the year	12,523	11,859
Bulk Supply off take points (UETCL Substations 132KV / 66KV / 33KV / 11KV)	17	15
Distribution Substations (33KV / 11KV)	58	58
Number of pending service applications	109	233
New connections during the year	166,520	174,477
Total number of consumers	1,291,811	1,125,291
Total number of company employees	1,514	1,472
Exchange rate: US Dollar to Uganda Shilling (at year end)	3,717	3,642
Exchange rate: US Dollar to Uganda Shilling (annual average)	3,732	3,616

The 2018 Operational Performance Review

Customer Numbers

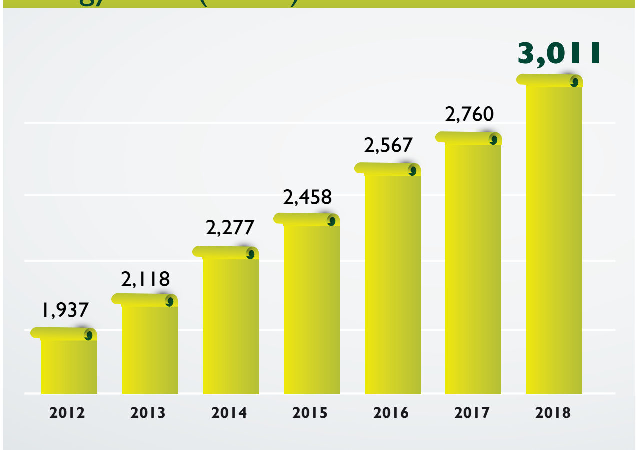


14.8%

The customer base has doubled over the last 4 years, with Prepayment metering contributing 24% of the Company revenues.

We project further growth with the implementation of the Electricity Connections Policy, that aims to achieve 80% access to clean energy by 2040.

Energy Sales (GWh)



9.1%

Electricity sales (GWh) increased by 9.1% on account of increased industrial demand, new connections, system stability and energy losses reduction.

The growth is consistent with other economic growth indicators.

Energy Losses (%)

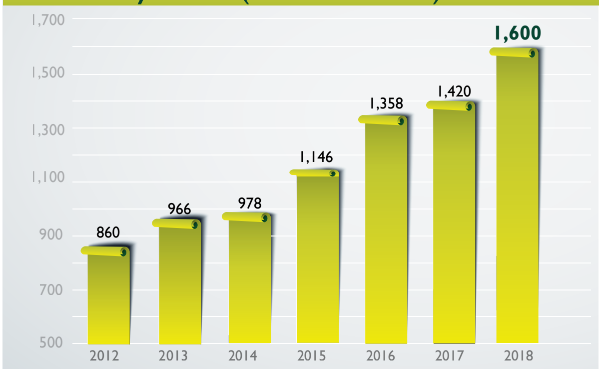
at 16.6%

Over the last 7 years, energy losses have reduced by 9.5% to 16.6% from 26.1% recorded 2012.

This has been achieved through deliberate investments in the distribution network to reduce technical losses and implementation of the commercial losses reduction strategy.

The 2018 Operational Performance Review - cont'd

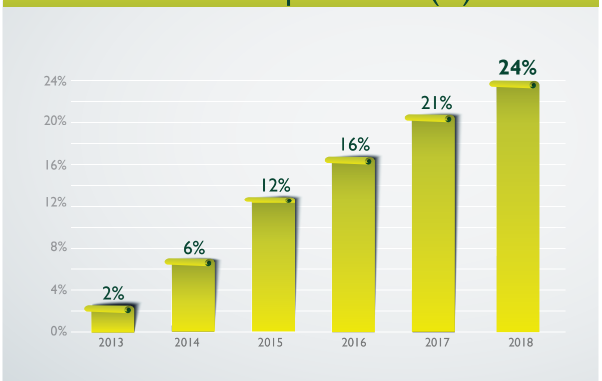
Electricity Sales (Ushs Millions)



13%

Electricity Sales grew on account of 9.1% increase in volumes (GWh) and the underlying pricing.

Revenues From Prepaid Sales (%)



24%

Customers on prepaid metering account for 24% of our electricity sales. We plan to convert the remaining 277,000 post-paid customers to prepayment by 2020.

We converted 87% of GOU electricity accounts to prepayment metering. We are in the process of converting the remaining 13%. The conversion of GOU accounts has improved revenue collections.

Revenue Collections (%)

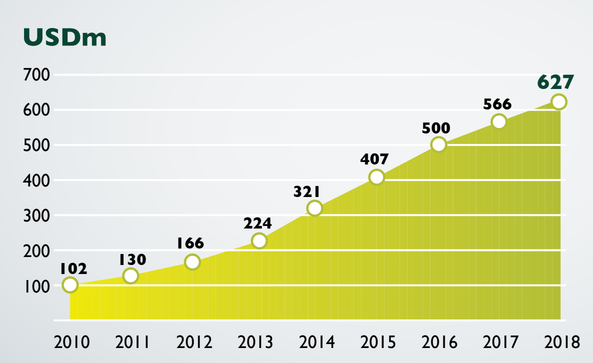
at 102.5%

Revenue collections have increased due improved service delivery, rollout of pre-payment metering and increase in the number of bill payment channels including banks, VISA, Mobile Money and Points of Sale.

We continue to focus on collection of outstanding arrears.

The 2018 Operational Performance Review - cont'd

Investment in Distribution Network

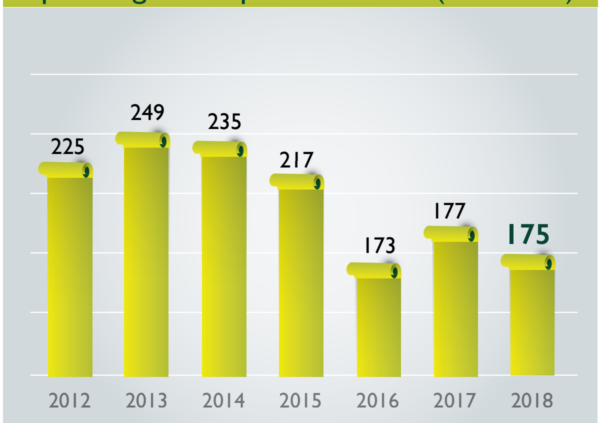


Invested

62m USD in 2018

Key Projects during the year
New customer connections
Quality of supply for Kampala Industrial Business Park
Upgrade of Tororo Cement Industries power
GET FiT switching stations in Kasese area
Renovation of Ishaka Substation
Upgrade of Kakiri power line
Transformer injections
GOU Smart metering installation

Operating Costs per Customer (UShs'000)

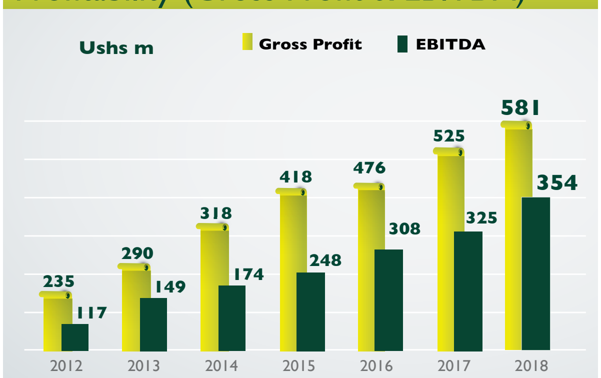


1.1%

Operating costs excluding impairments in 2017 as a result of Amendment 5 increased by 13%. We recruited additional staff and accelerated expenditure on repairs and maintenance to improve distribution network safety, supply reliability and customer service. As a result repair and maintenance costs increased by 21%.

Operating costs per customer, however decreased by 1% compared to 2017.

Profitability (Gross Profit & EBITDA)



Gross profit 11%
EBITDA 9%

Gross profit for period grew by 11% on account of increased pricing margins and increase in volume sales.

EBITDA increased by 9% in line with increase in gross margins.

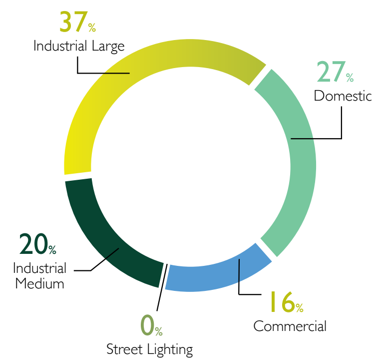
EBITDA was however negatively impacted by 13% increase in operating costs. This was however compensated through improved performance on losses, improved service and supply reliability.

The 2018 Operational Performance Review - cont'd

Electricity Sales (Ushs billion)

Customer Category	2018	2017	Growth	% Share
Domestic	428	384	11.5%	26.7%
Commercial	251	215	16.7%	15.7%
Street Lighting	1	1	0%	0.1%
Industrial - Medium	329	283	16.3%	20.5%
Industrial - Large	331	291	13.7%	20.7%
Industrial - Extra Large	261	246	6.1%	16.3%
	1,601	**1,420**	**12.7%**	**100.0%**

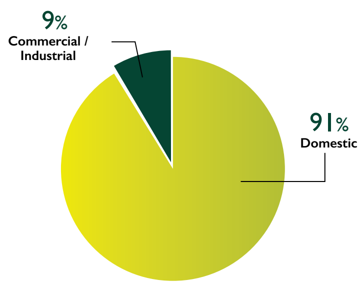
Sales Distribution



Customer Numbers

Customer Category	2018	2017	Growth
Domestic	1,177,964	1,026,205	18%
Commercial	110,449	95,483	20%
Street Lighting	250	322	22%
Industrial - Medium	2,606	2,735	5%
Industrial - Large	502	508	-1%
Industrial - Extra Large	40	38	5%
	1,291,811	1,125,291	15%

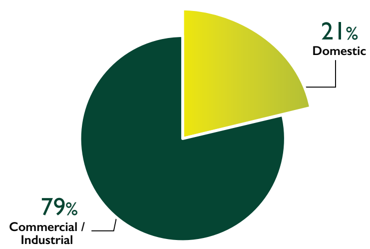
Customers per Tariff Category



Electricity Sales (GWh)

Customer Category	2018	2017	Growth (y/y)
Domestic	640.4	625.6	2.4%
Commercial	366.9	341.3	7.5%
Street Lighting	1.1	1.6	-32.9%
Industrial - Medium	477.2	432.3	10.4%
Industrial - Large	793.2	712.2	11.4%
Industrial - Extra Large	732.2	647.1	13.2%
	3,011.0	**2,760.1**	**9.1%**

Electricity Sales (GWh) per Tariff Category



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
BARCLAYS
Housing Finance Bank
citi
E-pay
dfcu BANK
DTB — DIAMOND TRUST BANK
PostBank
Orient BANK LIMITED
KCB BANK
GTBank

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

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UMEME
Powering Uganda

Financial Performance Review

Net Revenues increased to Ushs **1,493 billion**

Gross Profit increased by 11% to Ushs **581 billion**

Profit after Tax Ushs **133 billion**

Basic Earnings per Share increased to Ushs **82 per share**

Total Assets grew to Ushs **2,464 billion**

Revenue

Net Revenues increased to Ushs 1,493 billion in 2018 compared to Ushs 1,485 billion in 2017. Electricity sales (customer billings) increased by 13% to Ushs 1,600 billion in 2018 compared to Ushs 1,420 billion in 2017, driven by increase in sales units.

The units of electricity sold (GWh) increased by 9.1% to 3,011 GWh in 2018 compared to 2,760 GWh in 2017, driven by improved supply availability, increased industrial demand capacity and reduction in energy losses.

Gross Profit

The Company's gross profit increased by 11% to Ushs 581 billion in 2018 from Ushs 525 billion in 2017, on account of revenue growth and improved margins underpinned by capital investments allowed for recovery in the tariff and improved operational efficiencies.

Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA)

EBITDA increased by 8.9% in 2018 to Ushs 354 billion compared to Ushs 325 billion in 2017. The growth in US Dollar terms was 5.6%, from USD 90 million in 2017 to USD 95 million in 2018. This growth is attributed to; increase in the capital investments base, increase is electricity sales units and general performance of the Company against its regulatory targets.

Operating costs excluding impairments in 2017 as a result of Amendment 5 increased by 13% on account of increased business activities and general inflation prevailing in the Country.

Profit Before Tax

Profit before tax increased from Ushs 45 billion in 2017 to Ushs 195 billion in 2018.

Income taxes

Income tax charge for the year amounted to Ushs 62 billion, reflecting an effective average tax rate of 30% compared to Ushs 9 billion of 2017.

Profit After Tax

Profit for the year ended 31 December 2018 was Ushs 133 billion (2017: Ushs 35 billion). The increase in profits is explained by improved operational performance as explained above and reduction in financing costs on account of borrowing repayments made during the year.

The basic earnings per share increased to Ushs 82 from Ushs 22 in 2017. Accordingly, the Board proposed a dividend per share of Ushs 28.2 in 2018 (Ushs 7.6 in 2017).

Balance Sheet Analysis

Total assets as of 31 December 2018 were Ushs 2,464 billion compared to Ushs 2,349 billion in 2017. Shareholder Equity increased from Ushs 618 billion in 2017 to Ushs 722 billion in 2018. The increase is attributed to profits after tax for the year net of dividends paid during the year.

Outstanding interest bearing debt reduced to Ushs 528 billion in 2018 from Ushs 660 billion in 2017. Debt repayments of Ushs 260 billion were effected in settlement of the term facility with Standard Chartered Bank, Stanbic Bank Uganda Limited, International Finance Corporation (IFC) and a short term revolving facility with dfcu Bank Limited.

Our Debt to Equity ratio is 0.75 which is well within our loan covenant ratio of 2.5. The Company's debt to asset ratio remains sufficient at 23% compared to an industry average of 40%.

Financial Performance Review cont'd

Ushs
395
billion
generated from operating activities

Ushs
12
billion
paid in relation to dividends

We complied with all borrowing covenants.

Capital investments implemented in the year totalled Ushs 231 billion with cumulative investments since the commencement of the concession amounting to Ushs 2,330 billion (USD 627 million) and the undepreciated asset base of Ushs 1,710 billion (USD 460 million).

Cash Flows Analysis

During the year under review, the company generated Ushs 395 billion from operating activities compared to Ushs 302 billion of 2017. The cash generated was used to fund some of the capital investments, dividends, taxes and financing obligations.

The Company paid Ushs 205 billion (USD 55 million) of the term facilities and short term revolving facility. The net outstanding debt balance amounted to Ushs 529 billion (USD 142 million).

The Company also paid Ushs 12 billion in relation to dividends during the year.

The net cash available reduced to Ushs -19 billion in 2018 compared to the opening cash balances of Ushs -22 billion. The Company has working capital facilities of USD 40m with Standard Chartered Bank, Stanbic Bank Uganda Limited and dfcu Bank Limited.

2. Chairman's Report

Increased Investments In Uganda's Electricity Sector Provides Us an Opportunity to Scale Distribution and Access to Grid connections

To our Shareholders,

It is my pleasure to communicate to you our performance results for the year ended 31 December 2018 and provide guidance on our strategic imperatives for the future of Umeme. As we celebrate the 14 years of our existence, I am proud of what the Company has been able to achieve in transforming the electricity distribution sector in Uganda. Umeme and the Uganda electricity supply industry are models of reference for financial sustainability and operational efficiency, while attracting private capital.

Patrick Bitature
Chairman, Board of Directors
Umeme Limited

Over the period, as guided by the Uganda Government Energy Policy and National Development Plans, Umeme has played a critical role in the transformation of the electricity supply industry. Some of the achievements recorded include:

- Doubling the size of the distribution network to 33,146 Km of distribution lines and over 12, 523 distribution transformers at the end of 2018. In addition the the electricity distribution network is more safe, reliable and efficient.
- Customers connected to the grid have increased fourfold from 290,000 as of 2005 to 1.3 million at the end 2018. Pre-paid metering has been rolled to 950,000 of these customers, contributing 24% of the Company's revenues.
- The distribution system is more efficient, having reduced energy losses to 16.6% in 2018 from 38% of 2005.
- We improved revenue collections with a the 5 year collection rate averaging 99% as of 2018 compared to 80% at the start of the concession.
- Umeme has been innovative, implementing technologies like pre-paid metering and network automation to improve our service experience.
- The sector is less reliant on government subsidies, there by self-generating cash flows to meet the cash needs of the electricity value chain. Electricity sales have increased to Ushs 1,600 billion in 2018 compared to Ushs 160 billion of 2005.

- Due to the conducive investment climate, the installed generation capacity has increased from 240 MW as of 2005 to 984 MW, mainly driven by private sector investments. The electricity sales have increased to 3,011 Gwh in 2018 compared to 1,000 GWh of 2005.

The period up to 2012, was focused on stabilization of the industry given that the country was experiencing electricity generation shortages and this was followed by improved operating efficiencies. Learning from this period, I am pleased to note the current period is one of growth, with an opportunity to double the electricity demand in order to uptake the new generation capacity. It is therefore important to prioritise investments across the entire electricity supply chain from generation to distribution.

The Economy and Sector growth

Uganda has registered strong economic growth with Gross Domestic Product (GDP) growth of 6.1% in 2017/18 compared to 3.9% in 2016/2017. The main economic growth drivers were increased private sector activity, significant growth in the services sector and recovery in agricultural growth from the previous drought seasons. The Government continues to prioritize investments in public infrastructure especially roads, electricity and airports.

Among other infrastructural projects, we are pleased with the Government investments in the electricity generation capacity and transmission grid that are expected to be in commercial operation by 2019 / 2020. The investments will deliver supply security and capacity for further growth.

The 183 MW Isimba Hydro Power Project is due for commissioning in quarter 1 2019. As at the end of the year Uganda's installed capacity was 984 MW. The national transmission grids are under construction, with the Kawanda – Masaka line, Nkenda – Fort Portal and Fort-Portal Hoima lines commissioned in 2018, together with the transmission substations at Fort – Portal and Hoima. The Queensway Substation was also commissioned in the year 2018, improving the quality of supply and reliability in the Kampala Central Business District (CBD).

Growth in Demand

Electricity sales increased by 9.1% to 3,011 GWh in 2018 compared to 2,760 GWh of 2017, on account increased industrial demand, system stability and new customer connections. The industrial demand grew at an average of 12%. Our customer base increased by 15% to 1,291,811 customers, having connected 166,520 new customers to the grid (net of disconnections).

Investments in the Distribution Network

During the year, we invested Ushs 231 billion (USD 62 million) in the network, leading to a cumulative investment of Ushs 2,330 billion (USD 627 million) over the last 14 years. We recognize the urgency of additional investments required in the network on the account of increased generation capacity and the implementation of the last mile connections programme.

To further mobilise additional capital, the extension of the existing concession beyond 2025 becomes critical. I am pleased to note the willingness of government to engage with the Company and agree on terms of an extended concession. Once the process is concluded, the Company will be able to unlock funding opportunities for long term capital to finance the Company's projected capital investments programme of USD 450 million for the next 6 years.

> ...I am pleased to note the willingness of government to engage with the Company and agree on terms of an extended concession.

Regulatory Updates

2018 marked the 7th year of the Company's second regulatory parameters cycle running up to 28th February 2019. Effective 1st March 2019, new set of tariff parameters will be agreed upon between Umeme and ERA. These include; Energy losses, Target bad debt rate, Operating costs and workings capital. The set targets are expected to be fair and reasonable, and achievable within the available resource envelope.

During the year, ERA proposed 5 amendments to our Supply License on the following items;

- Definition of RQ (reconciling amount) under Power Supply Price (PSP) reconciliation
- Introduction of minimum connection targets
- Supply reliability penalties/rewards mechanism
- Provision of information during the transition period
- Adjustment indexation of USD Component operating costs to international inflation

Whereas the regulatory framework balances the needs of the customers with the returns to investors, the impact of the proposed amendments shall be assessed and appropriate legal and commercial remedies implemented.

Financial Performance

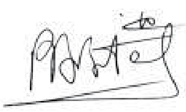
The Company recovered from the 2017 regulatory write-downs, posting a strong performance for the year. Earnings Before Interest Tax Depreciation and Amortization (EBITDA) increasing by 8.9% to Ushs 354 billion in 2018 compared to Ushs 324 billion in 2017. The Profit after tax increased to Ushs 133 billion compared to Ushs 36 billion in 2017.

During the year, cash flows generated from operations were Ushs 395 billion compared to Ushs 302 billion in 2017. The cash generated was used to fund capital investments, dividends and financing obligations. In total our capital investments implemented in the year were Ushs 231 billion (2017: Ushs 236 billion). The cumulative investments since the commencement of the Concession to 2018 stand at Ushs 2,330 billion (USD 627 million).

This year, the Board recommends a final dividend of Ushs 28.2 per share compared to UShs 7.6 per share of 2017. Once approved by the shareholders at the Annual General Meeting, the final dividend shall be paid on or about 15th July 2019.

Conclusion

In conclusion, on behalf of the Board, I extend our sincere appreciation, to our customers, staff, the Government and stakeholders for your continued support to Umeme. Without your support, Umeme would not have transformed the electricity distribution system in Uganda and bring to fruit the objectives of the sector reforms effected in 2000. We look forward to your continued support.



Patrick Bitature
Board Chairman

Newly commission USD 3.88m (Ushs 14bn) Nyakesi Sub-Station to boost industrialization in Tororo district.

3. Managing Director's Report

Umeme Anchors The Growth Of The Entire Electricity Supply Industry

I am pleased to report to shareholders and stakeholders on Umeme's performance results for the year ended 31 December 2018, that also marked the end of the Company's second 7 year regulatory cycle. Over the last 14 years of Umeme's electricity distribution concession, the Company has turned around electricity distribution in Uganda and anchored the growth of the entire Electricity Supply Industry.

Selestino Babungi
Managing Director
Umeme Limited

Uganda's National Development Plans, highlight the criticality of increasing energy security and electricity penetration for economic and social transformation. Umeme, as the leading Distribution Company, has been at the centre of ensuring supply to our customers of safe, reliable and efficient electricity services.

Since inception in 2005, Umeme has more than doubled the electricity distribution network infrastructure, quadrupled the number of customers connected to the grid to 1.3 million, increased distribution efficiency to 85.5%, built organization and staff capability, with overall improvements of staff and public safety. There is a long road ahead to further propel electricity penetration to acceptable regional levels from current 26%.

The year 2018, recorded a remarkable improvement in performance when compared to 2017, which was challenging from a regulatory front.

Staff and Public Safety

The electricity distribution system is hazardous and can cause injuries or lead to fatal accidents. As such, safety of staff, contractors and the general public remains our number one priority. A number of interventions were implemented during the year to achieve this objective. These included; training of technical staff in System Operating Regulations, public awareness programs through school and community visits and mass media communications on radio, television and online.

We also, refurbished sections of the network considered in dangerous condition, while responding faster to safety emergency calls.

With regret, the number of reported public fatal accidents in the year were 39, resulting from network interference, internal house wiring and power theft. Management reviews all incidents to ensure mitigation actions are implemented to deter or minimise recurrence.

Customer Service

To enhance the service experience and get closer to our customers, we opened 6 new service centres in Kiboga, Lyantonde, Ibanda, Ntungamo, Sironko and Pallisa. We have received positive feedback on the new centres, with customers noting the faster service response times and ease of accessing our services. Our strategy is to continue focusing on improving customer service experience through use of technology, while maintaining lean service presence in satellite offices.

We added 166,520 customer connections to the grid, increasing our customer base to 1,291,811 from 1,125,291of 2017. Prepayment metering, constitutes 79% of the customer base, now contributes 24% of electricity sales.

In November 2018, the Government rolled out the Electricity Connections Policy, where customers within 90 metres of the nearest low voltage electricity network could be connected, with Government paying the connection capital costs. Despite the initial logistical challenges experienced, resulting from a surge in applicants which led to an increase in time to connect to 30 days, the systems are projected to stabilize in 2019. The annual national target for connections is 300,000, doubling the current average rate.

Operational Performance

Demand for electricity increased to 9.1% in 2018 compared to 2017, with 3,011 GWh of sales. The increase was driven mainly by industrial demand, new customer connections and reduction in energy losses.

The distribution efficiency factor for 2018 was 85.5% compared to 50% at the start of the concession. The energy losses reduced to 16.6% in 2018 compared to 17.2% of 2017 and over 35% of 2005. The split between non-technical and technical losses is estimated at 6.6% and 10% respectively. The strategy of zonal focus on loss reduction continues to guide our actions.

As a strategy to improve the cash generation capability of the Company, we focused on collection of existing bills and arrears from past sales. As a result, we collected 102.5% of the electricity sales during the year compared to 100.2% of 2017.

Automation of our business processes, with technology at the centre of our operations is a priority to enhance operational efficiency. During the year we successful implemented 2 important systems; *SAP Hana* and HRConnect.

SAP Hana, will be our core system integration ERP (Enterprise Resource Planning). In 2018, the Financial and Material Management modules went live, replacing the outdated Sun Systems. Over the 3 years to 2020, the business shall rollout the Asset Management modules, Maintenance Module and Projects Management modules, while integrating the billing systems and other critical ICT systems to *SAP Hana.* The integrated systems will improve decision making, transparency, operational efficiency and internal controls environment.

We also launched HRConnect, a Human Resources Management information system during the year. The automated Human Capital management processes will improve staff administration and management.

Our People

We aspire to be employers of choice, attracting, developing and retaining the best talent to drive the organization into the future. The implementation of HRConnect is enabling better talent management capability.

The growth of the electricity industry requires adequate, trained and skilled manpower to deliver services to customers. We recruited 100 technicians and 20 engineering graduate

To enhance the service experience and get closer to our customers, we opened 6 new service centres in Kiboga, Lyantonde, Ibanda, Ntungamo, Sironko and Pallisa...

trainees during the year, as part of our continued organization development. Our head count increased from 1,472 in 2017, to 1,514 in 2018.

At least 68% of the staff undertook at least 3 days of training in the different fields including System Operations Regulations, customer service, safety, financial reporting, *SAP Hana*, regulation among others. We believe continuous training is important for the organizational business sustainability.

Our reward strategy is incentive based, with annual performance based rewards and 3 year cycle management *Long Term Incentive Plans (LTIP)* aligned to the delivery of regulatory targets and shareholder returns. On the back of LTIP 2 payout, the Board through the Remuneration Committee, approved the principles for the setup of LTIP 3. The plans are projected to be implemented by June 2019.

Financial Performance

The operational performance and the regulatory outcomes drive the financial results of the Company. Our strategy continues to deliver balances results for our customers and shareholders. On the back of the 2017 financial provisions / write-downs resulting from regulatory amendments to the Umeme License, I am pleased to report the financial performance of the Company for the year ended 31 December 2018.

The Earnings before tax, depreciation, interest and amortisation increased to Ushs 354 billion compared to Ushs 324 billion of 2017. Profit before tax increased to Ushs 195 billion from Ushs 45 billion of 2017 and the Profit after tax was Ushs 133 billion compared to Ushs 35 billion of 2017.

We generated Ushs 395 billion from operating activities, an increase of 31% compared to 2017 (Ushs 302 billion: 2017). We invested Ushs 231 billion in the distribution network and repaid Ushs 260 billion principal of loans from lenders. The net debt reduced by 20% to UShs 528 billion from Ushs 660 bllion of 2017.

Looking Ahead

A review of the last regulatory cycle affirms that Umeme on balance delivered on its agenda. We had projected a customer base of 1 million by 2018, however we connected 300,000 customers more leading to total customers of 1.3 million. We reduced energy losses to 16.6% compared to 27.5% of 2011 and collected an average of 98.5% of electricity billed to customers. The total capital investments in the period between 2012 to 2018 were USD 498 million compared to a then projection of USD 440 million.

As we commence the next regulatory period, 2019 to 2025, the electricity industry is growing at a faster rate. We consider that the key priorities will be on:

- Expansion of the electricity distribution grid to evacuate the additional 783MW of generation capacity. Creation of demand and delivery of reliable and quality electricity to industrial customers shall be a priority.
- Increasing electricity penetration from current estimate of 26% to 60% by 2027. A total of 2 million new customers are projected to be connected to the electricity grid by 2025.
- Further efficiency gains through reduction in distribution costs per MWh, energy losses reduction and revenue collections efficiency are important elements in the tariff equation.
- Organization capacity and human capital development is an important priority of the electricity industry. More resources shall be required to service the increased customer base.

There is urgency in mobilizing capital and investments in the electricity distribution system, to seize and scale up electricity distribution. A well-funded and prioritized investment programme shall anchor Umeme's growth agenda.

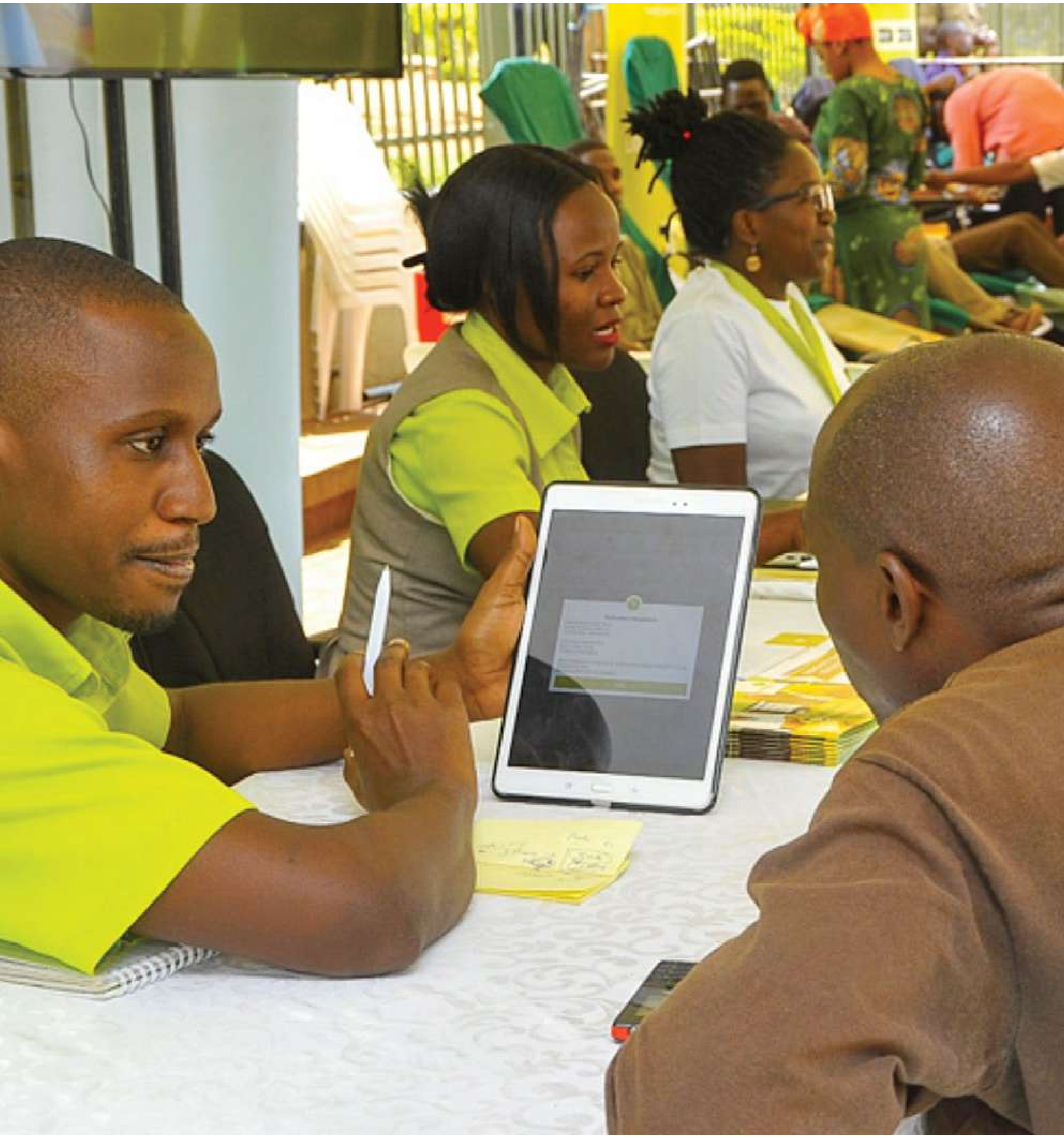
In Conclusion

We extend our sincere thank you to our customers, for allowing Umeme to serve you. Our staff continue to work with effort to improve and meet our service expectations. To the Government, the regulator and our stakeholders, your incredible support has not only propelled Umeme to its current state, but enabled the general growth of the electricity supply industry, as a model to other emerging economies.

Lastly I extend my sincere gratitude to the Board of Directors and the Umeme staff, for the support, focus and continued determination to drive Umeme to greater heights.

I am proud of what we have so far achieved and the prospects of further improving Uganda's electricity distribution ahead of us.

Selestino Babungi
Managing Director



Customer Service week an active initiative to bring our services closer to the customers

4. Corporate Governance

Board of Directors

Mr. Patrick Bitature
Non Executive Director

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

Through his Board leadership, Patrick has been at the centre of structural transformation of Umeme, carrying on the ethos of the founders on governance, operating philosophy and models underpinned by service and ESG principles.

He is passionate about energy and electrification of Uganda, through investment in electricity generation and distribution. He believes in customer centric approach to business sustainability.

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

Patrick is the Board Chairman, Chairs the Nominations Committee and is a member of the Strategic Review Committee. He was first appointed as Director of Umeme Limited since November 2007.

He is a Member of the institute of Chartered Secretaries and Administrators, UK and Fellow of the Institute of Chartered Secretaries, FCIS.

Mr. Selestino Babungi
Executive Director

As the Managing Director, Selestino is an Executive Director responsible for the day to day management of the Company, responsible for the performance of the Company as directed by the Board's overall strategy.

He joined the Board of Directors in March 2015 as an Executive Director, is a member of the Environmental Safety and Governance Committee, Customer Service and Loss Reduction Committee and Strategic Review Committee. As the Managing Director,

Previously he served as the Company's Chief Financial Officer (CFO) from 2011, having held operational management roles. As the CFO he oversaw the listing on the Uganda Securities Exchange and cross listing on the Nairobi Securities Exchange, a capital markets platform that enabled repayment of shareholder loans and exit of the original anchor investor Actis. In 2013, he coordinated the fundraising of USD 190 million syndicated financing facilities from a lender group to partially finance the Company's USD 440m 6 year investment plan.

Selestino provided audit and advisory services to clients from the private and public sectors in Uganda, while he worked at Ernst & Young Uganda.

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

Hon. Gerald Ssendaula

Non Executive Director

Hon Ssendaula is a seasoned and retired public servant. He is a former Chairman of the Uganda Revenue Authority, former Chairman of Private Sector Foundation. He is a retired Member of Parliament and Cabinet Minister, who held the portfolios of Energy and Finance and was previously a banker and member of the Barclays Bank Uganda Limited Management team.

Currently, he is also a Special Advisor to the President of Uganda on finance, Chairman Tropical Africa Bank and a commercial farmer.

Hon Ssendaula joined the Umeme Boad of Directors in November 2013 and is the Chairman of the Customer Service and Loss Reduction Committee, a member of the Audit Committee and Nominations Committee.

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

Mr. Pieter Adriaan Faling

Non Executive Director

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.

Over the last 2 decades, Pieter has also acted in advisory and management capacity to multiple energy projects in South Africa, Kosovo, Nigeria and Mozambique.

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

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

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

Florence Namatta Mawejje

Non Executive Director

Florence has a wealth of experience in advisory on Corporate Governance, Managerial, Administrative and People Management.

Florence is currently the General Manager, Human Resources at Centenary Rural Development Bank. She previously served as the General Manager, Human Resources at MTN Uganda (1998-2009), HR Manager, Care International Uganda, Human Resource Management Director, East and Southern Africa (ESA) business Cluster at Unilever Kenya.

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

Florence joined the Umeme Board of Directors in April 2016. She is a member of the Environment, Safety and Governance Committee, Strategic Review Committee and Remuneration Committee.

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

Andrew Buglass

Non Executive Director

Andrew has over 30 years of experience of banking and finance, and has focused exclusively on the energy sector since 1992. He founded and runs Buglass Energy Advisory, a UK based consultancy supporting energy sector investors and developers with strategic and commercial advice.

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

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

Andrew was appointed to the board on 17th May 2018. He chairs the Remuneration Committee and is a member of the Strategic Review and Audit Committees.

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

Anthony Marsh

Non Executive Director

Anthony has 35 years' experience in investing of both debt and equity in infrastructure, particularly the electricity sector. These included; setting up the UK's Green Investment Bank at the request of the UK government and being Chair of the Investment Committee, and CEO of a fund manager providing debt and guarantees into African and SE Asian infrastructure on behalf of the UK, Swiss, Swedish and Dutch governments.

Currently, in addition to his role at Umeme, Anthony is a member of investment committees for the Emerging Africa Infrastructure Fund, GuarantCo, Aviva Infrastructure and an infrastructure fund in the Baltic States, and chair of a Charity, Energy 4 Impact, providing support to make productive use of energy in Africa.

Anthony was appointed to the board on 17th May 2018. He is the Chairman of the Strategic Review Committee and a member of the Audit Committee, and Customer Service and Loss Reduction.

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

Mr. Stephen Emasu

Non Executive Director

For the past 16 years, Stephen has worked with or provided technical advice to various ministries responsible for finance in about 10 African countries, including the Ugandan and Rwandan Ministries of Finance under either the World Bank or the Fiscal Affairs Department of the IMF.

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

Stephen has many years of audit experience having worked with PricewaterhouseCoopers for several years as a Senior Audit Manager

Stephen was appointed to the board on 17th May 2018 and is currently the chairman of the Board Audit Committee and a member of the Strategic Review Committee.

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

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

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

Mrs. Florence Nakimbugwe Nsubuga

Executive Director

Florence has extensive experience in the operations of electricity distribution having served in various operational management roles. She was appointed to the role of Chief Operations Officer in 2012 and is responsible the retail and commercial performance of Umeme, through oversight of the decentralised operational model.

Florence joined the Umeme Board in March 2015, as an Executive Director, a member of the Customer Service and Loss Reduction Committee and Environmental, Safety and Governance Committee.

She holds a Master in Arts in Economic Policy and Planning and Bachelors of Commerce.

Mr. Riccardo Ridolfi

Non Executive Director

Riccardo has advisied corporates, sovereigns and multinational organizations in matters relating to finance, energy and foreign investment. He has gained significant experience negotiating concessions and tariffs for off-grid investments in the region.

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

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

He was appointed to the board on 17th May 2018 and is a member of the Strategic Review Committee and Environment, Social and Governance Committee.

Riccardo is a qualified lawyer, admitted to practice in England and Wales, Italy and Australia.

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

Capital Markets Awards

The 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 is an electrical engineer and an MBA holder. Simbiso brings to Umeme 20 years' experience in the electricity supply industry across Southern Africa including overseeing the prepayment metering installation project in Zimbabwe as General Manager of Zimbabwe Electricity Distribution Company.

Andrew Oyie
Acting Chief Finance Officer

Andrew is a qualified accountant with over 9 years' experience in accounting and audit that permeates various sectors of the economy including; energy and utilities, banking & financial services, public sector, oil and gas, telecommunications, real estate, manufacturing, construction among others.

Andrew was appointed acting Chief Finance Officer effective 1 December 2018 having worked as a Finance Manager at Umeme since 2016.

Prior to joining Umeme, Andrew worked at Ernst & Young (EY) Uganda where he rose up the ranks to Audit Manager providing audit and advisory services to key clients in Uganda, Kenya, South Africa, South Sudan, Ireland, and United Arab Emirates.

Andrew holds a degree in Computer Science from Makerere University, is a member of ACCA and is currently receiving CPA and CFO leadership training from Abacus Business School.

Blessing Nshaho
Chief Corporate and Regulatory Officer

Blessing's career spans over 16 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 has previously served Umeme as a consultant in a number of transformation projects.

He is a 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).

Roger Charles Bentley
Chief Information Officer

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

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

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

Isaac Serwadda

Acting General Manager Capital and Contracts Division

Isaac is a registered and licensed Engineer (Electrical) and a Member of the Uganda Institute of Professional Engineers (UIPE). He holds a Bsc. Electrical degree (Makerere University) and various certifications in the Project Management field as well as Engineering fields. He has been in the power sector for close to 16 years with vast practical experience ranging from power generation, power plant designs and commissioning, operations management and project implementation. Prior to joining Umeme in 2007, he worked with Eskom Uganda Limited as HV/LV systems engineer and later on as the project coordinator in charge of the restoration and refurbishment project at Owen Falls Dam from 2003.

While in Umeme, Isaac has worked through the ranks of Project coordinator, Project Manager to Heading the Capital Projects department which oversees Capital projects implementation to assure full maximization of shareholder value through recovery of capital investments for approved and executed project annually.

Fred Mwita

Head of Human Resources

He is a results driven corporate strategist who possesses a unique "cross-over" profile. 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.

Fred holds a PhD in Management and Human Resources from Washington University and has been working at the heart of the digital transformation shaping employee and consumer behavior. His assimilation of the latest thinking in global business best practices, coupled with a broad and deep regional cultural understanding has enabled him to hone the skills, behaviors and attitude necessary to effectuate strategic organizational change.

Patrice Namisano

Head of Supply Chain

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

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

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

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

Agnes Nalwanga
Head of Customer Service

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

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

Ruth Doreen Mutebe
Head of Internal Audit

Ruth Doreen has over 14 years' vast experience in senior leadership in commercial and microfinance banking, internal auditing, external auditing, financial management, training, general business administration and board governance. She serves as the Vice President of the Institute of Internal Auditors Uganda as well as Vice President of the Institute of Certified Public Accountants Uganda.

She's 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 is also a writer in the National media in Uganda, graduate of Advanced Leadership from The Wharton School of Executive Education (USA) & Creative Metier (England), and a trainer certified by the Institute of Internal Auditors – Florida, USA.

Ruth Doreen loves people and considers Audit as a Strategic Alliance/ Partnership towards achievement of Corporate Strategy.

Sandorlyle Walusimbi
Head of Communications

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

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

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

Corporate Governance Statement

Umeme Limited is a public company that is listed on the Uganda Securities Exchange and the Nairobi Securities Exchange. The Company is obligated to comply with the requisite continued listing requirements and governing laws relating to corporate governance. The Company is governed by provisions of the Companies Act Uganda, the Capital Markets Corporate Governance Guidelines, the Uganda Securities Exchange Listing Rules, and the Code of Corporate Governance Practices for Issuers of Securities to the Public Kenya and other attendant applicable regulations. However the company is not only fully committed to complying with the above provisions, it also seeks to continuously monitor, adopt and apply best practices to ensure the cardinal areas of accountability, transparency and fairness are upheld.

Board of Directors

Structure

At the top of the governance structure is the Board of Directors (the "Board") whose primary responsibility is to offer strategic oversight with a long term view while ensuring shareholder value and responsibility to the Company's key stakeholders with particular consideration to the perspective of the long term success of the company. An adequately developed corporate governance structure is defined by the calibre of directors, board committees under the effective leadership of an independent Non-Executive director. The Chairman is responsible for the leadership of the Board and ensuring its effective functioning without limiting its collective responsibility for Board decisions.

Best corporate governance practice advocates for a separation of powers within the board between the Chairman and the Managing Director and it is for this reason that the position of Chairman and Managing Director are separate and distinct. This is incorporated into the Board Charter, which promotes a clear balance of power and authority within the Board. The directors continue to be mindful and appreciate their fiduciary duty to act in the best interest of the Company and accordingly discharge their duties independently. The directors particularly through the various Board sub-committees routinely engage and guide Management in the execution of its duties.

Composition

The Board currently comprises of eight non- executive and independent directors and two executive directors with an intricate balance between resident and non-resident directors. A board is only able to drive the long term success of a company if it has the right skill sets within the boardroom. The current composition represents an enviable mix of skill, knowledge and experience which are integral to the operation of a successful enterprise. The directors' profiles and competencies can be seen on pages 24 - 28.

Board Terms of Reference

The Company has a Board Charter in place which guides the board in the execution of its duties with reference to legislative requirements and principles of good corporate governance, defines the governance parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board, its committees and Directors, as well as certain roles and responsibilities incumbent upon the directors as individuals. The Board Charter is complementary to the existing laws and regulations governing the Company. The Board has access to the services and advice of the Company Secretary who not only advises directors on their statutory obligations, disclosure obligations and listing rule requirements especially as a cross-listed entity but also in respect of corporate governance practices and effective board processes. All Company information is available to the directors upon request.

The Board is tasked with amongst others;

- reporting to the shareholders;
- ensuring regulatory compliance;
- ensuring adequate risk management and internal control systems and processes exist and are complied with;
- approval of key policies including investment and strategy as well as risk management;
- reviewing internal and external audit reports;

- reviewing financial statements;
- ensuring good corporate governance practices and monitoring and influencing the ethical standards of the Company;
- monitoring and implementing the Board composition strategy and director selection, processing and performance as well as succession planning;
- approving key executive appointments and ensuring executive succession planning;
- reviewing the performance of the Managing Director and Senior management, reviewing and approving senior executive remuneration;
- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the Annual Operating Plans and approving such plans;
- consideration and approval of the Annual Financial Statements and Dividend; and
- and such other matters as are incidental to the above and relevant to fostering business growth and success.

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

Managing Director

In keeping with its mandate, the Board appointed a Managing Director who continues to handle the day to day management of the Company and the execution of the Company's long term strategic plan. The Managing Director and the Senior Management Team report to the Board on a quarterly basis and more frequently where necessary depending on the urgency of the matter.

Board Induction and Training

Members of the Board once appointed undergo an individually designed comprehensive induction process which involves orientating the new Directors with the industry, organisational culture, governance and strategy. This includes but is not limited to site visits and meetings with senior management to enable the Directors to build up a detailed understanding of the company business and the key risks and challenges it faces. They are also provided with an induction pack that includes copies of the Terms of Reference for the Board Sub Committees and a copy of the Board Charter.

The Directors are regularly kept abreast of all applicable legislation, regulations, 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.

Board Evaluation

The Board acknowledges the need to continually assess and improve its effectiveness and process. In accordance with its Board Charter the Board reviewed its last evaluation and is continuously working to implement the proposals arising from the evaluation. The Board will be conducting another Board evaluation in 2019 with a view of improving its effectiveness.

The performance of the Managing Director is evaluated annually against targets set by the Board at the beginning of each year. The Board Chairman, supported by feedback from Directors conducts the evaluation.

Board and Management Engagement

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

Access to information

During its meetings and when called upon from time to time, the Board receives information and reports from Management and additional information and or clarifications are sought as and when needed. The Board accesses all the information through an online eBoard system and the Company Secretary and Managing Director ensures timely information flows to the Board and its Committees.

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 through the active involvement of the Nomination Committee. The Directors are entitled to appoint alternates who can attend meetings on their behalf when they are unable to do so. The appointment of alternate directors is governed by the Articles of Association of the Company.

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

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

The following director appointments have occurred since the last annual report:

Interim Appointments during the year:

1. **Stephen Emasu -** Non-executive director with effect from the 22 March 2018
2. **Riccardo Ridolfi -** Non-executive director with effect from the 22nd March 2018
3. **Pius Bigirimana -** Non-executive director with effect from the 22nd March, 2018

Directors who stood for re-election during the year

1. **Gerald Ssendaula –** Non-executive director with effect from 17th May 2018.
2. **Florence N. Mawejje** – Non-executive director with effect from 17th May 2018.
3. **Andrew Buglass –** Non-executive director with effect from 17th May 2018.
4. **Anthony Marsh** – Non-executive director with effect from 17th May 2018.

Shareholders Appointment during the year

1. **Stephen Emasu** - Non- executive director with effect from the 17th May, 2018.
2. **Riccardo Ridolfi** - Non- executive director with effect from the 17th of May, 2018.

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

Declaration of Interests

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

Board Committees

Board committees have been established to enable the Board to operate effectively and to give full consideration to key matters. The Committees meet independent of the Board and prior to the substantive Board Meeting. The Committees are substantially composed of and chaired by Non- Executive members who provide independent oversight and rigorous challenge of the key matters within their delegated sphere of authority. These Committees have been supported by the Company Secretary in the performance of their functions.

Currently, there are six committees namely;

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

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

Board Meetings

At the end of each year, the Board with the assistance of the Company Secretary sets out and agrees on its board calendar for the next year which assists the board to identify the year's key issues and guides directors on matters requiring their attention and how to address them in a timely and logical manner.

Board and board committee meetings are scheduled and held at least once every quarter. Ad hoc meetings and or meetings by conference call are held when the circumstances or the urgency of the matter dictates. Directors are provided with detailed comprehensible papers and reports well in advance of the meetings. Additional information is also provided by Management as and when requested for.

Directors are authorised by the board charter to seek external professional advice on matters under consideration by the Board or in connection with the discharge of their responsibilities and duties with the approval of the Board Chairman.

Resolutions of the Board are ordinarily made by way of written resolutions however the Board and its committees can make decisions by way of circular resolutions or round robin approvals. Where such resolutions are made it is customary to hold a Board call to receive a briefing and discuss the matter requiring the circular resolution. For more effective utilisation of board meeting time, the Board is occasionally briefed by Management prior to each Board meeting.

The minutes of the meetings are signed and kept in the Minute Register. The record of attendance is well documented and kept in the Attendance Book.

The attendance of Board meetings in 2018 was as follows:

Director	22.03.18	16.05.18	28.06.18	16.07.18	24.09.2018	22.11.2018
Patrick Bitature	√	√	√	√	√	√
Pieter Adriaan Faling	√	√	√	√	√	√
Charles Chapman	AD	A	X	X	X	X
Samuel Zimbe	√	√	X	X	X	X
Florence Nsubuga	√	A	√	√	√	√
Gerald Ssendaula	√	A	√	√	A	√
Selestino Babungi	√	√	√	√	√	√
Florence Namatta Mawejje	√	√	√	A	√	√
Andrew Buglass	√	√	√	√	√	√
Anthony Marsh	√	√	√	√	√	√
Ricardo Ridolfi	N/A	√	√	√	√	√
Stephen Emasu	N/A	√	√	√	A	√

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

Board Committees

Audit Committee

The Board has overall responsibility to oversee the Company's financial reporting systems and internal control systems. The Audit committee assists the board in fulfilling this responsibility and providing oversight of related disclosures of the Company including the Company's Audit and Internal control functions.

Composition:

- Andrew Buglass (appointed as Chairperson from 12th December 2017 to 27th July 2018)
- Stephen Emasu (Chairperson) appointed on 11 August 2018 to present
- Anthony Marsh
- Gerald Ssendaula

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

- the adequacy of the Company's accounting system and internal control environment;
- the adequacy of the Company's system for compliance with relevant laws, regulations, standards and codes;
- the identification of improvements that can or should be made to the Company's internal controls, policies and financial disclosures;
- the functioning of the internal audit function and ensuring that the internal auditor has an unobstructed and clear communication channel to the Committee and the Board;
- the frequency and significance of all transactions with related parties and assessing their propriety;
- the Company's risk management system;
- the integrity and quality of the Company's financial information; and
- the independence, objectivity, scope and quality of the external audit.

During the year, the Audit Committee met four times and below are some of the key activities:

- Consideration of the Financial Statements for the year ended 31 December 2017.
- Consideration of Internal and External audit reports and management responses thereof
- The Committee reviewed the interim results announcement, which focused on the interim financial statements focusing on key areas such as changes in the accounting policies which required the adoption of the new IFRS provisions 9 and 15.
- The Committee reviewed and considered the VAT legislation amendment that was later abandoned during the course of the year.

- The Committee also reviewed the external audit findings from its review of the interim results.
- Continuous assessment of the Company's going concern status
- Monitoring of the company's Enterprise Risk Management framework including key risks the company is facing and mitigation strategies.
- Oversight in transitioning from the Sun Systems to SAP Hana financial systems.

The attendance of Audit Committee meetings in 2018 was as follows:

Director	21.03.2018	27.06.2018	14.08.2018	20.11.2018
Stephen Emasu	N/A	N/A	√	√
Gerald Ssendaula	√	√	√	√
Andrew Buglass	√	√	√	√
Anthony Marsh	√	√	√	√

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

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, communities and other stakeholders.

Composition:

- Pieter Adriaan Falling (Chairperson) appointed on 30th October 2015.
- Charles Chapman (resigned on 17th May 2018)
- Riccardo Ridolfi (appointed on 17th May 2018
- Florence Nsubuga
- Selestino Babungi
- Florence Namatta Mawejje

The Committee's responsibilities include:

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

The Committee met four times in the financial year of 2018 to review major activities focused on its mandate as described above.

The attendance of ESG committee meetings in 2018 was as follows:

Director	20.03.2018	26.06.2018	15.08.2018	21.11.2018
Pieter Adriaan Faling	√	√	√	√
Charles Chapman	A	X	X	X
Florence Namatta Mawejje	√	A	A	√
Florence Nsubuga	√	√	√	√
Ricardo Ridolfi	N/A	N/A	√	√
Selestino Babungi	√	√	√	√

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

Customer Service and Loss Reduction Committee (CSLR)

The Committee is responsible for overseeing and advising on two important pillars of the Company's strategy; excellence in service and reduction in energy losses.

Composition:

- Gerald Ssendaula (Chairperson)
- Pieter Adriaan Faling
- Florence Nsubuga
- Samuel Zimbe (resigned in March 2018)
- Selestino Babungi
- Anthony Marsh
- Riccardo Ridolfi (appointed on the 17th May 2018)

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 on energy losses reduction and customer service strategies
- monitoring the progress of implementation of the plans, challenges faced and underlying mitigations
- providing status updates of Management's performance against plans and making relevant recommendations to the Board.

Four meetings were held during the course of the financial year of 2018.

The attendance of Customer Service and Loss Reduction Committee meetings in 2018 was as follows:

Director	21.03.2018	27.06.2018	14.08.2018	20.11.2018
Gerald Ssendaula	√	√	√	√
Pieter Adriaan Faling	√	√	√	√
Sam Zimbe	√	X	X	X
Florence Nsubuga	√	√	√	√
Selestino Babungi	√	√	√	√
Anthony Marsh	√	N/A	√	√
Ricardo Ridolfi	N/A	N/A	√	√

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

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, management and staff to drive the achievement of the corporate objectives.

Composition:

- Andrew Buglass (Chairperson)
- Florence Mawejje
- Charles Chapman (Resigned in March 2018

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 Directors, Managing Director, Management etc; and
- making recommendations as to appropriate incentive schemes.

No director or manager is involved in any decisions as to their own remuneration. The Directors' remuneration is highlighted on page 118.

5 meetings were held in 2018.

The attendance of Remuneration Committee meetings in 2018 was as follows:

Director	11.03.2018	23.03.2018	25.06.2018	19.08.2018	19.11.2018
Charles Chapman	A	X	X	X	X
Andrew Buglass	√	√	√	√	√
Florence N Mawejje	√	√	√	√	√

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

Nomination Committee

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

Composition:

- Patrick Bitature (Chairperson)
- Gerald Ssendaula
- Pieter Adriaan Faling

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.

In line with its mandate to hold at least one meeting a year, the Committee held three meetings in 2018.

During the year, the Nomination Committee engaged in the consideration and recommendation for the interim appointment of potential new Non-Executive Directors and these included; Riccardo Ridolfi, Pius Bigirimana and Stephen Emasu. At the Annual General Meeting held on 17th May 2018, Riccardo Ridolfi and Stephen Emasu were re-elected.

The attendance of the Nomination Committee in the year 2018 was as follows:

Director	20.03.2018	27.06.2018	20.11.2018
Patrick Bitature	√	√	√
Gerald Ssendaula	A	√	√
Pieter Adriaan Faling	√	√	√

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

Strategic Review Committee

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

Composition:

- Anthony Marsh (Chairperson) appointed to the SRC on the 31st August 2017
- Charles Chapman (resigned in May 2018)
- Patrick Bitature
- Samuel Zimbe (resigned in March 2018)
- Selestino Babungi
- Andrew Buglass
- Florence Namatta Mawejje
- Stephen Emasu (appointed to the SRC on 17th May 2018)
- Riccardo Ridolfi (appointed to the SRC on 17th May 2018)

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 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.

In line with its mandate, the Committee held seven meetings in the financial year of 2018.

The attendance of the Strategic Review Committee in the year 2018 was as follows:

Director	01.02.2018	20.03.2018	15.05.2018	27.06.2018	15.08.2018	30.10.2018	21.11.2018
Charles Chapman	√	A	A	X	X	X	√
Patrick Bitature	√	√	√	√	√	A	√
Samuel Zimbe	√	√	X	X	X	X	X
Selestino Babungi	√	√	√	√	√	√	√
Anthony Marsh	√	√	A	√	√	√	√
Andrew Buglass	√	A	√	√	√	√	√
Florence Namatta Mawejje	√	√	√	√	√	A	√
Riccardo Ridolfi	N/A	N/A	N/A	N/A	√	√	√

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

Company Secretary

In accordance with the Articles of Association and the Board Charter the Company has a Company Secretary whose duties are to ensure that the Board remains cognisant of its fiduciary duties, conduct the induction of new directors, coordinate Board trainings and maintain Board and Company records. All directors have access to the services and advice of the Company Secretary. The Company secretary for the board is the company secretary for all board committees.

Each director is encouraged to contact the Company Secretary prior to Board meetings to discuss any matters that require clarification. The Company Secretary has a holistic view of the governance framework and as such they ensure that this framework and any supporting policies and procedures are clearly documented.
The Company Secretary function is currently outsourced to Shonubi, Musoke & Co Advocates who are empowered to play their pivotal role in the Company's corporate governance framework.

Induction Training

An orientation programme is developed for new directors with the assistance of management that entails:

- Brief meetings with the Executive Directors and other Non-executive Directors on the Company Vision, strategy, culture and history
- Trainings on UMEME's regulatory environment and the responsibilities and duties of a Director.
- Provision of induction materials such as company policies, the board charter, relevant committee terms of reference
- Site Visits to UMEME major operations

Directors are also continuously supported with trainings on emerging business, governance, accounting and legal issues that impact the business.

A site visit by both the new and old directors took place in Western Uganda during the fourth Quarter of 2018.

Succession Planning

The Board through the nomination committee has developed a succession planning strategy to enable it to secure the appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. The Nomination Committee is responsible for reviewing the composition of the Board and succession to it as well as the succession planning for senior leadership positions. The Board remains confident that its succession planning and talent management strategy will ensure continuity of the Company's business in the long term.

Shareholder Relations

It is a cardinal principle of good corporate governance to ensure transparency and fairness. The Board is mindful of this and ensured that appropriate information regarding its operations was disclosed to its shareholders and the general public and at the same time. The Company continues to make information available on its website and upon request. All shareholders are encouraged to attend the AGM. The Company notably through its Investor Relations Manager routinely holds meetings or calls with its Institutional investors to discuss performance and governance matters at the very least following the publication of periodic reports. These investors also exercise their votes during AGMs. At the AGM, the Chairman explains each proposed resolution and grants reasonable time for discussions and questions on the proposal before a vote is taken.

The Company engaged C&R Registrars, Share Registrar to handle day to day shareholder register issues. Dividends, when declared, are paid on time. A final dividend of Ushs 28.2 per share approved by the Board on 22nd March 2019 will be paid to eligible shareholders on or about 15th July 2019.

Stakeholder Engagement

The Board continues to be mindful of its mandate to ensure that it maintains constant and engaging relations with its key stakeholders who include the Government of Uganda, Electricity Regulatory Authority, suppliers, financial institutions, customers and the general public. The goodwill of stakeholders is important to the Company's long-term future.
During the year, several stakeholder engagements took place and some of the key events are highlighted in the Sustainability Report included on pages 44 of this Annual Report.

Dealing in Securities of the Company

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

Related Party Transactions

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.

Ethics and organisational integrity

The code of ethics, together with its underlying policies (Human Resources Manual), describes what is expected of all our employees, the Board directors and third-party providers. The code is designed to enable Company employees to effectively make decisions while going about their day to day activities according to the Company's prescribed ethical principles. These principles being the highest standards of responsible practice for the Company and the business environment it operates. Ethics incidents are reported to the independent integrity department that is in-charge of overseeing all integrity related issues. Reported incidents include fraud and human resources related issues.

Risk Management

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take and for ensuring that risks are managed effectively. The Board has in place a risk management framework to guide in risk identification, monitoring and management. The Audit Committee of the Board periodically monitor the Company risks and subsequently are discussed and reported to the full Board. The day to day duty to implement the Risk Management Policies rests with Management.

In November 2018, a joint risk review session was held between management and the Board to identify, harmonise and agree on risk mitigation strategies.

Risk Appetite Statement
The company has in place risk tolerance levels, with mitigation strategies put in place to minimise the impact of these risks on the Company and its stakeholders.

Umeme operates in a sector that is inherently subject to a high degree of political, regulatory and legislative risk. 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.

Creating A Right Risk Culture
Establishing a sustainable risk culture that is embraced by all staff is critical to our ability to seize opportunities and manage our key risks. As such, the Company takes deliberate efforts to continuously reinforce a positive risk culture, including;

- Continuous capacity building and risk awareness programs across the business
- 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.

Governance And Management Of Risk
Board Audit Committee, as required by its terms of reference, is charged with ensuring adequate risk management processes exist and are complied with. To ensure a comprehensive coverage of the risk universe, the governance structures are supplemented by distinct operational layers, otherwise known as the "lines of defense". The lines of defence include management, internal audit and external audit reviews of the business operations.

Our Principal Risks
Umeme's 7 principal risks.

- Regulatory risks.
- Operational risks – Power theft and vandalism, people.
- Safety and the environment.
- Network and Information Technology Infrastructure failure.
- Financial Risks.
- Cyber security and resilience.
- Human capital risks.

Principal Risks are positioned on a relative basis against the risk assessment process (based on changes in the context and current prevalence of each risk) and potential impact on Company's Viability based on critical risks scenarios developed in conjunction with business experts.

5. Business Sustainability

The Board and management recognise the continued Company's commitment to business sustainability through financial results, customer relations, employee engagement, operational processes, safety and regulatory compliance, environmental performance and community support.

Umeme operates in a regulated environment that requires a balance of the different stakeholder needs. We encourage open engagement with our stakeholders to understand their needs and how the business can co-exist to support these needs. The company engages through multiple channels including town hall meetings, radio and television talk shows, online, social media and through our 24/7 contact centre.

Umeme"s governance of sustainability issues within its business value chain, operating and governance model. The Managing Director has the overall lead day-to-day responsibility for sustainability, with the Board having a strategic setting, oversight and monitoring of implementation responsibility. The ESG Committee of the Board has the delegated authority for the detailed oversight role on sustainability agenda.
We report on the sustainability measures from economic, social and environment perspectives.

Vice President of Uganda, H.E Sekandi and Hon. Irene Muloni Minister of Energy and Mineral Development at the launch of the Electricity Connections Policy. *(Source - R.E.A)*

Economic Sustainability

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

Customers Revenues Billed **Ushs 1.6 Trillion**	**UETCL** Payments for Power Purchase **Ushs 1.1 Trillion**	**Government** Taxes Paid **Ushs 135 billion**
Employees Employment Costs **Ushs 99 billion**	**Suppliers** Operating Costs **Ushs 126 billion**	**Capital Investments** Investments in the network **Ushs 231 billion**
Debt Financiers Interest and Principal paid **Ushs 309 billion**	**Shareholders** Dividends Paid **Ushs 12 billion**	**The Economy** Electricity Sales **3,011 GWh**

The core economic model for sustainable shareholder returns is through investments in the distribution network, to improve on distribution efficiencies, grow the customer connections and supply of quality and reliable electricity. This calls for efficient capital allocation, balancing the different sources of capital, cost of capital and underlying risks

We project an investment of about USD 450 million over the next 6 years to scale up and expand the distribution system to cope with new generation capacity and additional consumers. By 2020, the installed generation capacity will increase from 984 MW to about 1,700 MW. In the same vein, the government launched the Electricity Connections Policy, that targets to connect 2 million additional customers to the electricity grid.

Environmental Sustainability

The Company is aware of the impact of our footprint on the environment and we take deliberate steps to minimise adverse environmental impacts and enhance positive ones.
The Company follows the International Finance Corporation's (IFC) Environmental and Social Performance Standards. These standards require Umeme to comply with certain social and environmental safeguards in the conduct of its business.
We equally comply with the National Environmental Management Act and related regulations. For all significant capital projects, we conduct Environmental and Social Impact Assessment studies before executing the projects. Key issues of concern, as outlined in the certificates are dealt with during project implementation. No significant environmental compliance issues were identified and reported during the year. One of the prime inputs in building infrastructure is wooden poles. 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 of climate change. The Company in conjunction the Government is considering the use of concrete poles in the implementation of infrastructure projects.

In addition, as a responsible corporate citizen, we made a commitment to replenish Uganda's forest cover. In 2018, the Go Green club planted over 2,000 trees in various parts of the country. In future we plan to plant even more trees to help offset carbon emissions of the industry in which we operate.

In 2018, the Company procured 8,000 and distributed LED bulbs around the country in a bid to reduce the wasteful energy consumption as well as curb the usage of fluorescent tubes and incandescent bulbs which contain mercury a compound hazardous to the environment.
The Company has concluded the testing for Polychlorinated biphenyls (PCB) in transformer oil for 100% of distribution transformers. The disposal of oil in the 58 identified PCB contaminated transformers is now ongoing and will be completed in line with the Stockholm convention target of 2025. This is a great achievement as we have now put in place measures to ensure that that all our transformers do not pose no threat to our communities in that respect.

Social Sustainability

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

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

There was an increase in incidents resulting from illegal activity, such as power theft, vandalism and illegal operation of the network inspite of the Company's deliberate implementation of safety strategies of mitigating risks associated with third party activity. With regret, 39 public fatalities were reported in 2018. We shall continue to focus on mass customer education to avert such incidents. Key initiatives include media safety campaigns, community engagements, school visits and pupil engagements and creation of safety clubs.

Staff and Contractor Safety

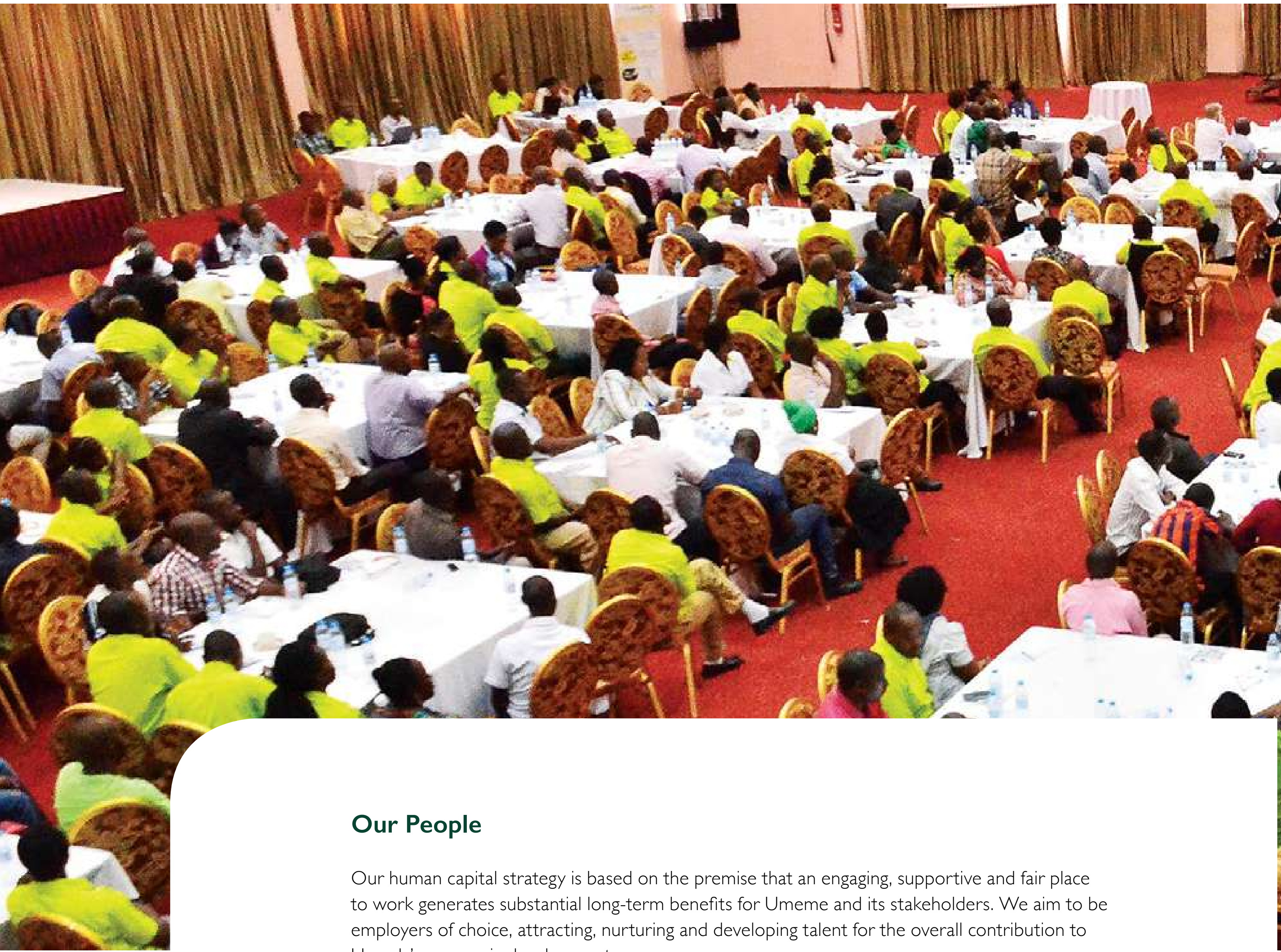
- The Company implemented its annual staff and contractor engagement programme through Safety and ORHVS Audits, and continuous periodic engagements and discussions with staff and contractors.
- As part of the Company's safety culture, safety targets continued to be monitored for all staff and safety continues to form part of the company's bonus structure in a bid to motivate Staff to continuously contribute to driving the improving of the safety agenda.

Network Safety
The network restoration efforts in line with the annual capital expenditure investment programme continued with emphasis on restoration of high-risk poor networks located near Schools, towns, markets, trading centre's to mitigate against injury or fatalities to the public.

Corporate Social Investment (CSI)
Community engagement plays an important role in ensuring the success and longevity of Umeme's projects and operations. We focus our CSI initiatives in areas of mutual community and company impact.

During the year we invested Ushs 400 million in CSI to supported several initiatives including, but not limited to the following;

CSR Activity	Impact
Bunyoro Region Surgical Camp organised by the Association of Surgeons of Uganda (ASOU) enabling disadvantaged communities to access free surgical care.	• ASOU attended to over 5000 communities and carried out at least 500 surgical operations of varying complexity free of charge
Gulu Health Camp in partnership with the Hindsfeet Project a local NGO, to provide dental services, Hepatitis B, cancer and HIV screening, general check-ups, eye checks and mama kits for expectant mothers.	• 1,200 patients were treated for their different medical conditions
Rotary Cancer Run organised by the Rotary Fraternity in Uganda in which Ushs 773 million was raised towards the fight against cancer. This was to address the growing rate of cancer incidences and deaths. Annually 5,000 cases are registered by the Uganda Cancer Institute of which 80% of every 100 cases end up in death.	• Construction of two bunkers in Nsambya Cancer ward to fit linear accelerator machines • Procurement of two linear accelerator machines for the Nsambya Cancer ward at Nsambya Hospital.
Bududa Charity Drive organised by CSR champions and Company staff to support communities affected by the October 11th, 2018 Bududa mudslides and floods that affected 12,000 people according to ACAPS a Norwegian non-profit that provides humanitarian analysis.	• Donation of food and other relief items that included clothes, shoes, bedding etc. worth 10 million to the affected people.
Tree Project with Kyankowe Primary School championed by the Company's tree planting initiative ***'U-Green'***. Considering wooden poles are one of the prime inputs in building infrastructure, it is paramount for the Company to support tree planting initiatives.	• Over 2,000 trees were planted at the school and each child was given a fruit tree to nurture. • A safety club was also launched at the school to promote Umeme's safety agenda.
Following a national shortage of blood, the Company partnered with the Uganda Red Cross Society and Uganda Blood Transfusion services to launch a national donation campaign **'Donate Blood! Save Life!'**	• Donation of 682 units of blood that helped address the national blood shortage.
NSSF Hash Run organised by the National Social Security Fund in partnership with Kampala Capital City Authority to raise funds for the renovation of public schools in Kampala.	• Contributed toward the renovation of public primary schools in Kampala.



Our People

Our human capital strategy is based on the premise that an engaging, supportive and fair place to work generates substantial long-term benefits for Umeme and its stakeholders. We aim to be employers of choice, attracting, nurturing and developing talent for the overall contribution to Uganda's economic development.

Summary of Performance

	Unit	2018	2017
Total employees	Head Count	1,514	1,472
	% Male / Female	77 / 22	69 / 31
	Permanent	1,504	1,457
	Contract	6	9
	Expatriate	4	6
Head of departments and direct reports	Head Count	98	88
	% Male / Female	69 / 39	65 / 35
Board of Directors	Head Count	10	12
	% Male / Female	80 / 20	80 / 20
Learning and development expenditure	Ushs 'million	2,761	2,948
Retention Rate	%	94.5	94.5
Total Recruitment	Number	117	155
Average Length of service	Years	8	7
Average age	Years	37	37
Average training	Hours	36.1	34.8

At Umeme, we remain an equal opportunity employer with a team of over 1500 talented staff supplying electricity and delightfully giving care to over 1.3 Million customers spread across our 46 Service Centers in the country.

In 2018 we focused on initiatives that support the organization efficiency through attracting the right talent, building capability, driving performance, rewarding and recognising talent. The Key focus areas to attain this were;

- Reorganize to attain systems alignment and create process efficiency
- Enhance performance management for employee productivity and organizational sustainability.
- Deliver optimum resourcing to support the strategic plans.
- Invest in employee capability development to enhance productivity,
- Develop and track succession planning for business sustainability
- Review the rewards and benefits structures to ensure responsiveness to business drivers.
- Drive cultural transformation in tandem with the business aspiration.

Talent Acquisition and Retention
Staff recruitments were aligned to the business needs. During the year, we recruited 48 Graduate Trainees for apprenticeship training and 100 technicians. The best apprentices will be retained in the business, as we build the talent pipeline to serve the growing and expanding business operations.

Employee Learning and Development
Umeme is committed to the ongoing development of its employees and managers. Developing employee and managers capability is strategically important as Umeme continues to meet the opportunities and challenges of operating in complex and different business environments. In 2018, our Learning & Development interventions were executed through but not limited to; on the job training (apprenticeship, job rotation, coaching & Mentoring), Instructor led training (group exercises, planned reading), Simulations (Equipment Simulators, Case Study, Role play, behavior modeling) among others.

By the end of the year, 75% of our staff had received at least 24 hours of training through various programs and the key ones include;

- 9 top were enrolled for the Managers Development Program (MDP) with Strathmore Business School
- Continuous Leadership and Management Development for over 100 Managers.
- Sponsored a Senior Manager for the CEO Apprenticeship program
- Total Technicians Training Program for over 100 recruited Technicians
- Customer Experience Training (CXP) for 520 staff in customer facing and back office staff both technical and non-technical, over 300).

Automation of HR Processes

As part of our journey of automation and making our company more technologically driven, UMEME has implemented an HR Information System (HR Connect) where all our all our people processes have been automated under 23 modules on the system i.e. Employee Information Manager, Organization Charts, Employee Life Cycle, Performance Management, Benefits Management, Leave Management, Self Service HR, Report Navigator, Payroll, Time & Attendance (T&A), Travel expenses, Manpower Planning, Recruitment, On-boarding, Mobile APP, Training and Development, Talent Management and Succession Planning, Disciplinary Management, Rewards and Recognition, Grievance Management, Off boarding, HR Dashboard and Analytical Tools. The system provides complete visibility of performance, transparency in all our people processes and elimination of paper based transactions.

The project was implemented in two phases and Phase I was successfully launched on 23rd August, 2018.

Employee Reward and Recognition

We continue to entrench our values, recognize good performance and in an effort to create a sustainable employee work life experience, the business is committed to building a culture of Recognition. The rewards and recognition framework to drive this is in place and is focused on the company's attainment of the Umeme's goals. The bonus structure is performance driven.

Retirement Benefit Scheme

Umeme continues to contribute to the staff retirement scheme Umeme Limited Staff Retirement Benefit Scheme. This is a defined contribution scheme registered under the Uganda Retirement Benefits Regulatory Authority Act, 2011. The Scheme continues to grow and helped in our talent retention.

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 year end 2018, 414 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.

Metering Team training on international metering standards

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.

We have established the following channels through which we communicate and engaged with staff.

- 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.


TRANSFORMER 1
5 MVA
33/11 kV

Leveraging
on Technology to Improve Efficiencies and Deliver Customer Service

Taking Services Closer to our Customers

New Service Centres

have been inaugurated including ***Ibanda, Kasana Luweero, Sironko, Lyantonde Paliisa, Magigye, Nansana, Ntungamo and Kiboga*** etc.

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- Pay your bills
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UMEME

Powering Uganda

Capital Investments

in Grid Expansion and Improvement to drive efficiency in service delivery

Kisubi Substation


Newly opened Umeme Service Centre in Sironko District


Refurbished Fort Portal Sub-station


Refurbished Sub-station at Hima


Refurbished Sub-station at Hoima


New Sub-station at Ishaka

Refurbished Sub-station at Entebbe

Financial Statements

For the Year Ended 31 December 2018

6. Report of the Directors For the year Ended 31 December 2018

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, 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 under License No. 047 and No. 48 to carry on business of electricity distribution and supply under the provisions of the Electricity Act 1999, (Cap 145).

The Company took over the distribution system for the distribution and supply of electricity in Uganda from Uganda Electricity Distribution Company Limited (UEDCL) under a Concession for a period of 20 years which commenced 1 March 2005. 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 Electricity Regulatory Authority (ERA) may agree.

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

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

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

Electricity distribution that involves the operation, maintenance, upgrading and expansion of the distribution network within Uganda. The distribution network consists of approximately 34,146 kilometres of low voltage, 11kV and 33kV network lines covering all major hubs in the country; and

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

Shared Purpose and Values

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

Umeme's values are:

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

Administrative Structure

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

2. KEY SHAREHOLDER INFORMATION

Umeme Limited is a Public Limited Liability Company listed on the Uganda Security Exchange (USE) and cross- listed on the Nairobi Stock Exchange (NSE).

The top shareholders are listed on page 108 of this report.

3. FINANCIAL AND OPERATIONAL HIGHLIGHTS

The key financial and operational highlights are summarised on page 8 of this report.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's risk management objectives and policies are summarised on page 42 of this report.

5. DIVIDENDS PAID TO SHAREHOLDERS

Subject to the approval of the shareholders, the directors recommend to the members that a final dividend of Ushs 28.2 per ordinary share be paid for the year ended 31 December 2018 (2017: Ushs 7.6), subject to deduction of withholding tax where applicable, to the shareholders registered in the books of the Company at close of business on 20 June 2019. The total dividend for the year will be Ushs 66,407 million (2017: Ushs 12,323 million). If approved, the outstanding dividend will be paid on or about 15 July 2019. An interim dividend for the year of Ushs 20.6 billion was paid for the year ended 31 December 2018 (2017: Nil).

6. MANAGEMENT BY THIRD PARTIES

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

7. DIRECTORS

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

	Name	Role	Nationality
a)	Patrick Bitature	Chairman	Ugandan
b)	Selestino Babungi	Managing Director	Ugandan
c)	Hon. Gerald Ssendaula	Non-executive Director	Ugandan
d)	Piet Faling	Non-executive Director	South African
e)	Florence Namatta Mawejje	Non-executive Director	Ugandan
g)	Andrew Buglass	Non-executive Director	British
h)	Anthony Marsh	Non-executive Director	British
i)	Stephen Emasu	Non-executive Director	Ugandan
j)	Riccardo Ridolfi	Non-executive Director	Italian
k)	Florence N. Nsubuga	Executive Director	Ugandan
l)	Mr. Samuel Zimbe	Executive Director – resigned effective 1 May 2018	Ugandan
m)	Mr. Charles Chapman	Non-executive Director – resigned effective 1 May 2018	Irish

Report of the Directors *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2018

8. DIRECTORS' INTEREST IN SHARES

At the date of this report, the following directors held directly an interest in the Company's ordinary issued share capital as reflected in the table below:

Director	Number of shares	% of shareholding	Number of shares	% of shareholding
	2018		2017	
Selestino Babungi	3,900,000	0.24%	4,644,684	0.29%
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%

9. INSURANCE

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

10. EVENTS AFTER THE REPORTING DATE

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

11. AUDITORS

The auditors, KPMG, being eligible for re-appointment have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012 of Uganda.

Approval Of The Financial Statements

These financial statements were approved at a meeting of the directors held on 22 March 2019.

By order of the Board,

Signed: ……………………………………….. **Date: 22 March 2019**

Shonubi, Musoke & Co Advocates
Secretary, Board of Directors

Statement Of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2018

The Company's directors are responsible for the preparation of financial statements that give a true and fair view of Umeme Limited comprising the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the 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 adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

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 22nd March 2019 and signed by:

Director **Director**

Date: 22 March 2019

KPMG
Certified Public Accountants
3rdFloor Rwenzori Courts
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Reg No. AF0026

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Independent Auditors' Report

To the Members of Umeme Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Umeme Limited (the "Company"), which comprise the statement of financial position as at 31 December 2018, 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 and other explanatory information set out on pages 69 to 137.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Umeme Limited as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act of Uganda.

Basis for Opinion

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

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

Key Audit Matters

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

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

Report on the Audit of the Financial Statements (continued)

Revenue Recognition:

See Note 2(d) and Note 6 of the financial statements

The Key Audit Matter	How The Matter Was Addressed In Our Audit
The Company recognised revenue of Ushs 1,493 billion which is derived from a number of price controls imposed by the Electricity Regulatory Authority (ERA) embedded within the tariff methodology. Revenue recognised is dependent on a complex tariff methodology and units consumed. The respective tariffs, used to bill each class of customers, are approved by ERA on a quarterly basis. Any errors in the tariff methodology identified are adjusted for in the year affected in consultation with ERA and recovered in the prospective tariff. Due to the above characteristics of the tariff methodology, this has been identified as a matter of significance in the current year audit.	• We tested the design and operating effectiveness of key controls in relation to the recognition of revenue, with particular focus on controls over management's application of the tariffs approved by ERA and the determination of units consumed by customers. • We tested the revenue recognised by comparing the value of units sold based on the approved tariffs to the revenue recorded. We inspected regulatory approved tariffs to test that the amounts charged were consistent with those tariffs. • We inspected a sample of customer rates to verify that they were properly updated on a quarterly basis in the billing systems, and that the rate types assigned to customers were consistent with the customer classification and (where appropriate) the volume of usage. • We also selected and tested individual revenue transactions to ensure they were appropriately recorded in the correct period • With respect to prepaid revenue, we tested management's assumptions in relation to historical data used in the derivation of consumption rates that are used in the estimation of prepaid revenue. • We reviewed the reconciliation adjustments made to revenue to ensure that they were appropriately supported. • We also evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions and judgments.

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

Report on the Audit of the Financial Statements (continued)

Accounting For Intangible Assets:

See Note 2(f) and Note 18 of the financial statements

The Key Audit Matter	How The Matter Was Addressed In Our Audit
A key focus for the Company is investment in the network as this is the major driver of growth in the business. The total capital expenditure capitalized as an intangible asset, during the year ended 31 December 2018 amounted to Ushs 231bn. In making the assessment on whether to capitalize or expense the expenditure related to the network, the directors apply significant judgement in determining whether the expenditure will generate future economic benefits and whether the expenditure is recoverable through Umeme's right to charge customers for additions and upgrades on the network through the tariff methodology. The directors also applied judgement to determine the value of Intangible Assets that would not be recovered through the tariff for purposes of recognizing the buyout amount. The buyout amount is a financial asset that the company is entitled to receive at the end of the concession for any unrecovered and undepreciated assets or investments added onto the distribution network throughout the concession period. Given the significant amounts involved in network costs, the high level of judgement and complexity involved in determining whether the intangible asset should be recognized, the value to be recovered through the buyout and the amount of impairment if any, we considered this to be a key audit matter in the audit of the current year.	Our audit procedures, which focused on assessing Umeme's right to charge customers for services offered and the value of the underlying network assets recognised as an intangible asset, included; • Assessing whether the Company's accounting policies in relation to the capitalisation of expenditure complied with IFRIC 12 by reviewing the effectiveness of the controls in place over the decision to capitalise expenditure as well as the documentation supporting the amounts capitalised. • We focused on capital expenditure that had the most significant value, with particular focus on additions to the distribution network. As part of our testing, we challenged management's classification by inspecting contracts and underlying invoices to ensure the classification between capital and operating expenditure was appropriate. • Our procedures also included identification of projects where the proportion of costs capitalised were different to those we would expect based on the nature of the work performed and review of completion certificates for all completed projects. Our procedures with regard to the assessment of the impairment of the intangible assets, included: • We evaluated information used by management in arriving at conclusions regarding the recoverability of the Intangible Asset in relation to investments added onto the network by the company but not approved by the Electricity Regulatory Authority for recovery through the tariff. We inspected various agreements like the Lease and Assignment Agreement and the Government Support Agreement that define the cost of investments which when incurred by Umeme would be recoverable through either capital recovery in the tariff or through payment of a buyout amount at 105% of cost invested by Umeme payable by government at the end of the concession.

KPMG

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

Report on the Audit of the Financial Statements (continued)

Accounting For Intangible Assets (continued):	
See Note 2(f) and Note 18 of the financial statements	
The Key Audit Matter	**How The Matter Was Addressed In Our Audit**
	• We performed a comparison of the carrying amount of the Intangible Asset as at year-end to the recoverable amount of the Intangible Asset as at the same date. • We also evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities.

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

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

Report on the Audit of the Financial Statements (continued)

Estimation Of Tax Liabilities	
See Notes 2(l) (p) 16, 41(b) (c) of the financial statements	
The Key Audit Matter	**How The Matter Was Addressed In Our Audit**
The company has significant investments in the distribution network (concession assets) which are accounted for under IFRIC 12; Service Concession Arrangements as Intangible Assets. The Income Tax Act provisions on capital allowances with respect to Concession Assets is not explicit, as a result, management applies significant judgements when interpreting the Income Tax Act with regards to determining capital allowances claimable on these assets. The company is currently involved in a tax dispute with URA regarding the entity's claiming of capital allowances on its Intangible Assets; charging of penalties and interest on restated additional 2016 revenues; and utilisation of carried forward tax losses. The case is yet to be finalised at the Tax Appeals Tribunal. We have assessed this as a Key Audit Matter because of the significant judgment applied by management in determining claimable allowances; the possible differences in approach/ interpretation between Umeme and Uganda Revenue Authority (URA) in the judgements applied for purposes of determining capital allowances on the Concession Assets; and the significant judgment applied in determining the outcome of the dispute at the Tax Appeals Tribunal.	Our audit procedures included, among others; • We evaluated, with the help of our tax specialists, the treatment of capital allowances in line with the provisions of the Income Tax Act and the IFRIC 12, which governs the use of the concessionary assets to assess the appropriateness of the approach adopted by management with regard to the claiming of capital allowances on the concessionary assets. • We also performed inquiries with management and inspected the correspondences with URA on this matter and the provisions of the Income Tax Act. • We obtained and evaluated management representations on the capital allowances including inspecting correspondence with their tax lawyers that provided a detailed analysis of the issues. • We also evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities.

Other Information

The directors are responsible for the other information set out on pages 58 to 61 and pages 131 to 137. The other information comprises information included in Company Information, the Report of the Directors', the Statement of Directors' Responsibilities, and the Supplementary Information (but does not include the financial statements and our auditors' report thereon), which we obtained prior to the date of the auditors' report and the Annual Report, which is expected to be made available to us after that date.

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

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

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

Responsibilities of Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditors' Report

To the Members of Umeme Limited (Continued)

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is CPA Asad Lukwago - P0365

KPMG

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

Date: 22 March 2019

Statement Of Profit Or Loss

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 Ushs million	2017 Ushs million
Revenue from contracts with customers	6	1,493,232	1,485,202
Cost of sales	7	(912,034)	(960,495)
GROSS PROFIT		**581,198**	**524,707**
Repair and maintenance expenses	8	(45,693)	(37,680)
Administration expenses	9	(179,941)	(161,600)
Effects of Amendment 5	10	-	(115,237)
Foreign exchange (losses)/gains	11(a)	(6,076)	2,401
Other expenses	11(b)	(1,791)	(706)
PROFIT BEFORE INTEREST, TAX AND AMORTIZATION		**347,697**	**211,885**
Amortisation of intangible assets	12	(103,941)	(99,506)
OPERATING PROFIT		**243,756**	**112,379**
Finance income	13	43,845	29,849
Finance costs	14	(92,516)	(97,628)
PROFIT BEFORE TAX	**15**	**195,085**	**44,600**
Income tax	16(a)	(62,270)	(9,106)
PROFIT FOR THE YEAR		**132,815**	**35,494**
		2018 Ushs	**2017 Ushs**
BASIC AND DILUTED EARNINGS PER SHARE	**17**	**82**	**22**

The notes set out on pages 69 to 130 form an integral part of these financial statements

Statement Of Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 Ushs million	2017 Ushs million
Profit for the year	**132,815**	**35,494**
Other comprehensive income		
Items not to be reclassified to profit or loss		
Exchange differences on translation from functional currency, net of tax	7,841	(29,434)
Total comprehensive income	**140,656**	**6,060**

The notes set out on pages 69 to 130 form an integral part of these financial statements

Statement Of Financial Position

AS AT 31 DECEMBER 2018

	Note	2018 Ushs Million	2017 Ushs Million
ASSETS			
Non-current assets			
Intangible assets	18	1,011,731	1,023,798
Other financial asset	19	679,017	499,770
Concession arrangement : financial asset	20	435,291	394,985
		2,126,039	**1,918,553**
Current assets			
Inventories	21	64,657	58,490
Contract assets	22	4,542	12,461
Tax recoverable	16(b)	18,357	8,123
Trade and other receivables	23	199,496	317,392
Prepayments		29,344	12,370
Bank Balances	24	21,208	22,044
		337,604	**430,880**
TOTAL ASSETS		**2,463,643**	**2,349,433**
EQUITY AND LIABILITIES			
Equity			
Issued capital	25	27,748	27,748
Share premium	26	70,292	70,292
Retained earnings		466,348	369,658
Translation reserve		157,812	149,971
		722,200	**617,669**
Non-current liabilities			
Borrowings	28	343,200	460,960
Concession obligation	29	435,291	394,985
Deferred income tax liability	16(c)	207,372	160,859
		985,863	**1,016,804**
Current liabilities			
Borrowings	28	185,335	198,656
Customer security deposits	31	791	615
Contract liabilities	32	78,887	37,768
Provisions	33	30,161	25,088
Long term incentive plan	30	6,965	-
Trade and other payables	34	414,312	409,164
Short term borrowing	35	39,129	43,669
		755,580	**714,960**
TOTAL EQUITY AND LIABILITIES		**2,463,643**	**2,349,433**

The financial statements on pages *69 to 130* were approved by the Board of Directors on 22 March 2019 and were signed on its behalf by:

…………………………
Director

…………………………
Director

The notes set out on pages 69 to 130 form an integral part of these financial statements

Statement Of Changes In Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Issued Capital Ushs Million	Share Premium Ushs Million	Translation Reserve Ushs Million	Retained Earnings Ushs Million	Total Equity Ushs Million
At 1 January 2017	**27,748**	**70,292**	**179,405**	**346,831**	**624,276**
Profit for the period	-	-	-	35,494	35,494
Other comprehensive loss, net of tax	-	-	(29,434)	-	(29,434)
Total comprehensive income for the year, net of tax	**-**	**-**	**(29,434)**	**35,494**	**6,060**
Dividend paid	-	-	-	(12,667)	(12,667)
At 31 December 2017	**27,748**	**70,292**	**149,971**	**369,658**	**617,669**
At 1 January 2018	**27,748**	**70,292**	**149,971**	**369,658**	**617,669**
Adjustment on initial application of IFRS 9 (net of tax) – note 4(i)	-	-	-	(3,161)	(3,161)
At 1 January 2018 – Restated	**27,748**	**70,292**	**149,971**	**366,497**	**614,508**
Profit for the year	-	-	-	132,815	132,815
Other comprehensive income, net of tax	-	-	7,841	-	7,841
Total comprehensive income for the year, net of tax	**-**	**-**	**7,841**	**132,815**	**140,656**
Final dividend for 2017	-	-	-	(12,341)	(12,341)
Proposed interim dividend for 2018	-	-	-	(20,623)	(20,623)
At 31 December 2018	**27,748**	**70,292**	**157,812**	**466,348**	**722,200**

The notes set out on pages 69 to 130 form an integral part of these financial statements.

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

Statement Of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 Ushs Million	2017 Ushs Million
Profit before tax		195,085	44,600
Adjustment for:			
Interest received from banks	13	(314)	(481)
Finance income on concession financial asset	20	(32,386)	(29,047)
Amortisation of intangible assets	18	92,881	82,668
Impairment/loss on disposal of intangible assets		11,680	17,544
Interest expense on borrowings	28	49,486	45,137
Amortisation of deferred transaction costs on borrowings	28	3,777	7,109
Finance cost on concession obligation	29	32,386	29,047
Fair Value loss on valuation of other financial asset	19	-	7,985
Impairment of other financial asset	19	361	-
Finance income on other financial asset	19	(11,145)	(321)
Cash flows before working capital movements		**341,811**	**204,241**
Changes in:			
Inventories		(6,167)	(2,969)
Contract assets		7,919	(5,479)
Trade and other receivables		113,696	52,010
Prepayments		(16,974)	7,226
Contract liabilities		41,119	30,763
Long term incentive plan		6,965	(2,867)
Provisions		4,758	3,243
Trade and other payables		(15,475)	66,980
Cash generated from operating activities		**477,652**	**353,148**
Interest received from banks	13	314	481
Interest paid on borrowings	28	(47,819)	(45,027)
Commitment fees on borrowings	28	(1,853)	(2,463)
Current income tax paid	16(b)	(33,081)	(3,735)
Net cash flows from operating activities		**395,213**	**302,404**
Investing activities			
Purchase of intangible assets	18	(230,600)	(236,427)
Net cash flows used in investing activities		**(230,600)**	**(236,427)**
Financing activities			
Repayment of principal on term loans	28	(205,058)	(124,843)
Proceeds from short term borrowing	28	-	71,920
Proceeds from short term revolving facility	28	109,250	-
Repayment of principal on short term revolving facility	28	(54,750)	-
Dividends paid		(12,341)	(12,667)
Net cash flows used in financing activities		**(162,899)**	**(65,590)**
Net increase in cash and cash equivalents		**1,714**	**387**
Cash and cash equivalents at 1 January		(22,240)	(24,955)
Translation differences		1,814	2,328
Cash and cash equivalents at 31 December	36	**(18,712)**	**(22,240)**

The notes set out on pages 69 to 130 form an integral part of these financial statements

Notes To The Financial Statements

1. COMPANY INFORMATION AND GOING CONCERN

1.1 Company Information

The Company entered into a concession arrangement effective 1 March 2005 in which, among other terms it signed a Lease and Assignment Agreement ("LAA") with Uganda Electricity Distribution Company Limited ("UEDCL") for the Power Distribution Network for a period of 20 years. The LAA provides for termination of the agreement by either party, but a "Buy-Out Amount" (as defined in the agreement) is payable to the Company by Government of Uganda ("GoU").

The concession is structured so that if Umeme's operational performance matches the targets used in setting the tariff, and assuming no growth in sales volume during the retail tariff year, Umeme's annual returns from operating the electricity distribution concession will be equal to a contractually allowed return on its capital investments of 20%. This contractual return is set through the life of the concession and is not part of the tariff review. The return is on investment in capital expenditure. The return is annual, based on the level of capital investment in nominal United States Dollar ("USD") as approved by ERA.

In addition, Umeme receives all of the rewards and bears all the risks of achieving its tariff targets, including Distribution Losses, Uncollected Debt and Distribution Operation, and Maintenance Costs (DOMC). 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 tariff and thereby provide the Company baseline revenues that should just cover expenses relating to these parameters. To the extent actual operating performance is better/worse than envisaged in the tariff parameters, the Company's revenues in respect of these operating parameters will / will not cover the related expenses leading to a positive / negative impact in the overall profitability of the Company.

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 2018 were authorised for issue in accordance with a resolution of the directors on 22 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation and statement of compliance

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

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

The financial statements are prepared on a historical cost basis except for certain assets and liabilities and any contingent consideration that have been measured at fair value. The financial statements provide comparative information in respect of the previous period. This is the first set of the Company's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 4.

b) Translation Of Foreign Currencies And Presentation Currency

Functional Currency

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

Foreign Currency Transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the United States Dollars at the exchange rate at the date when the fair value was determined. Non-Monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Presentation Currency

- The financial statements are presented in Uganda Shillings rounded to the nearest million (Ushs million) except when otherwise indicated. The Company's functional currency is translated to the presentation currency as follows:
- Assets and liabilities for each statement of financial position presented (i.e. including comparatives) are translated at the closing rate at the date of the statement of financial position;
- Income and expenses in each statement of profit or loss and other comprehensive income (i.e. including comparatives) presented are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognized in a translation reserve through other comprehensive income.

c) Service Concession Arrangement

The Company signed a LAA with UEDCL and other agreements to support a 20-year service concession ("concession") from 1 March 2005. The agreements set out terms, conditions and obligations of the parties to the different contracts as indicated in note 43. The Company assessed that the concession is within the scope of IFRIC 12 Service Concession Arrangement (IFRIC 12) because:

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

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

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

c) Service concession arrangement (continued)

UEDCL retains title to the modifications and additions funded by the Company and/or customers from the effective date of the modification. The investment made by the Company into the Distribution Network is recovered through the tariff methodology at the agreed rate of return as the annual capital recovery charge that is factored into the tariffs charged to the customers. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate. The investments not yet recovered through the tariff methodology at the time of transfer are to be paid to the Company as a Buy-Out Amount.

The Buy-Out Amount is computed as the gross accumulated capital investments less cumulative capital recovery charges at the time of transfer and is accounted for as described in note 19. In order for Umeme to recover its investments in the Distribution Network and earn a return, such investments need to be verified and approved by ERA. The Company earns no profit on the construction services provided for the customer-funded investments and is only allowed to recover the actual cost incurred.

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

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

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

The Company is required to make monthly rental payments to UEDCL for the concession assets taken over from UEDCL and the IDA financed modifications. The Company recognises a liability in respect of the unfulfilled obligations it assumed in exchange for these assets. This rental payment obligation is accounted for as a financial liability measured at amortised cost as described in note 2(g). 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 20.

The recovery of the investment by the Company in the Distribution Network is dependent on the performance of the network assets over the concession period and the Company therefore assumes demand risk with respect to this investment. The Company recognises an intangible asset that is accounted for as described in Notes 2(f) and 18.

Under the terms of the contractual arrangements, the Company acts as a service provider with respect to construction or upgrading of the infrastructure (construction or upgrade services) used to provide the public service, operates, and maintains the infrastructure (operation services). The Company accounts for revenue and costs relating to construction or upgrade services and operations services in accordance with IFRS 15 as described in Note 2(d).

d) Revenue From Contracts With Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

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

d) Revenue from contracts with customers (continued)

Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

i) Electricity Sales

Umeme's contracts with the consumer and business customers cover the electricity sales. There is only one performance obligation, which is to stand-ready to supply electricity to the customer. The transaction price generally 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 fees chargeable from the customer. If automated meter reading is not available, the electricity consumption between the last meter reading and end of the month is estimated. Electricity sales revenue is recognised in the financial statements net of Value Added Tax ("VAT").

Rate-Regulated Activities

The end-user tariffs approved by ERA at the beginning of each year are used as the Base Tariffs subject to quarterly adjustments for changes in the macro-economic factors of fuel prices, foreign exchange rates and inflation rates (together, 'the adjustment factors'). The tariffs are adjusted with actuals for the three macro-economic factors lagged by a quarter. The base tariff therefore use actuals for the period up to 30 November, Second quarter tariffs use actuals up to 28 February, 3rd Quarter up to 31 May and 4th quarter up to 31st August.

The future price that the Company is allowed to charge its customers is therefore influenced by past levels of fuel prices, foreign exchange rates and inflation rates. The Company does not recognise assets and liabilities arising from the future price that the Company will be required to charge since the ability to charge a higher or lower price in the future does not meet the definition for an asset or a liability respectively. The ability to charge higher tariffs for electricity to be supplied in the future does not meet the definition of an intangible asset in IAS 38. In particular, the higher prices in future by the regulator is not accompanied by a legal requirement for a customer to buy electricity in future, meaning that the Company cannot demonstrate sufficient control over the related benefits to meet the definition of an intangible asset. The requirement to charge a lower price for the supply of electricity in the future does not meet the definition of a past obligating event, or a liability.

Other Income

Other revenues include reconnection fees, meter-testing fees, inspection fees, fines and other sundry incomes. They are recognised as performance obligation to deliver electricity is fulfilled at the rates prescribed by applicable regulations or at the amounts agreed with the customers.

ii) Contract Balances

Contract Assets

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section *g) Financial instruments – initial recognition and subsequent measurement.*

Contract Liabilities

Deferred construction income (contract liabilities), construction revenue and construction costs

Customers are required to fully or part-fund the cost of new installations to their facilities. This amount is paid in advance to the Company as a non-refundable capital contribution. The non-refundable capital contribution is treated as deferred income/contact liability until utilised for the construction of the installation paid for. ERA may also include in the tariff a component for recovery of funds to finance non-network assets. The amounts billed to customers in this respect are offset from revenue and any unutilised amounts at the reporting date are treated as deferred income.

Construction revenue is recognised as revenue in the statement of profit or loss in the accounting periods in which the work is performed (performance obligation is met). Construction costs are recognised as expenses in the statement of profit or loss in the accounting periods in which the work to which they relate is performed (performance obligation). 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 mainly comprise of Interest income and Interest expense.

Interest income and interest expenses is recognised as interest accrues using the effective interest rate method, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

f) Intangible Assets

Property, plant and equipment included in the concession arrangement from UEDCL are not recognised in the Company's financial statements in accordance with IFRIC 12.

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

f) Intangible assets (continued)

Under the concession agreements, the Company received the right to access, operate and use the concession assets, charge customers for the supply of electricity, and other rights in the form of government support and assurances for a period of 20 years in exchange for the transaction fee, monthly rental payments and obligations to restore, reinforce and modify the Distribution Network.

The Company recognised an intangible asset for the initial transaction fee i.e. the amount paid for GoU support and assurance rights. The Distribution Network restoration, reinforcement and modification costs that are funded by the Company and meet the recognition criteria of property, plant and equipment are added to the intangible asset and in cases where they are not recoverable through the tariff they are classified under the Buy-Out-Amount (financial asset).

The Buy-Out-Amount represents capital investments by the Company in the distribution system which would not have been recovered through the tariff methodology at the end of the concession. The Buy-Out-Amount is adjustable depending on the circumstances of the Concession termination. Under the LAA, the investment in the intangible assets is recovered basing on depreciation rates of the underlying property, plant and equipment. The intangible assets are therefore amortised using the straight-line method over the useful lives of the underlying property, plant and equipment as this reflects the pattern in which the asset's future economic benefits are expected to be consumed by Umeme ie Recovery of the investment through capital as allowed by ERA in the tariff as part of Umeme's revenue requirement.

The following are the rates for the underlying property, plant and equipment that are used to amortise the intangible assets.

Buildings	5%
Substations	9%
Low voltage lines	5%
Pole and no-pole service lines (services)	5%
Furniture and fittings, tools and other equipment	25 – 30%
Computer equipment and other office equipment	30%
Motor vehicles	25%

The residual values, useful lives and amortisation methods of the intangible assets are reviewed and adjusted through review and adjusting prospectively, if appropriate, of the underlying assets' residual values, useful lives and methods of depreciation at each financial year-end.

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

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

Impairment of intangible assets

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

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

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

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

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

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

f) Intangible assets (continued)

Impairment of intangible assets (continued)

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

g) Financial Instruments-Initial Recognition And Subsequent Measurement

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.

i) Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (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. Refer to the accounting policies in section *(d) 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 'solely payments of principal and interest (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.

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) – The Company does not hold any assets in this category.
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) - The Company does not hold any assets in this category.
- Financial assets at fair value through profit or loss -The Company does not hold any assets in this category.

Financial Assets at Amortised Cost (Debt Instruments)

This category is the most relevant to the Company. 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.

The Company's financial assets at amortised cost mainly includes trade receivables, Buy-Out amount (other financial asset), concession financial asset and bank balances.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions - Note 3
- Changes in accounting policies and disclosures – Note 4
- Trade receivables - Note 23.

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

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

(ii) 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 directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and concession financial obligation.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Borrowings, Concession Obligation And Trade Payables

After initial measurement, borrowings, concession obligation and trade payables are subsequently measured at amortized cost using the effective interest rate method. Amortization is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in the statement of profit or loss.

Customer Deposits

Customers are required to pay a specified amount as a deposit before they are connected to the power distribution system. The deposit acts as security for any unpaid bills in case of termination of the supply agreement with the customer.

The supply agreement can be terminated at the customer's discretion or by the Company in case of non-payment of bills or other instances of non-compliance with the power supply agreement. The customer deposits are initially measured at fair value and subsequently at amortised cost. Electricity Regulatory Authority issued guidelines that require the Company to ring-fence the cash held in respect of customer security deposits from any other funds of the Company. The Company is required to invest the deposits in government securities or approved assets with similar risk profile. The Company shall pay to the customer an interest rate equivalent to the annualized rate on a 360-treasury bill as published by Bank of Uganda.

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 the statement of profit or loss.

(iii) 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, to realise the assets and settle the liabilities simultaneously.

(iv) IAS 39 - Financial Instruments - Initial Recognition And Subsequent Measurement (For Comparatives)

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities are classified and subsequently measured at amortised cost using the effective interest method.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial assets and financial liabilities are recognised initially at fair value plus transaction costs, except in the case of financial instruments recorded at fair value through profit or loss.

De-recognition of financial assets and financial liabilities

Financial Assets

A financial asset is de-recognised where:

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

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

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

Financial liabilities

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

Offsetting of financial instruments

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from banks, trade receivables and the concession arrangement financial asset carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit and Loss. Trade receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the Statement of Profit and Loss.

h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts or short-term borrowings as they are considered an integral part of the Company's cash management.

i) Inventories

Inventories comprise mainly network equipment and accessories like transformers, cables, switch-gear, poles, meters and accessories used in network construction or maintenance of the distribution network and are stated at the lower of cost and net realisable value. Cost is determined as the weighted average purchase cost and includes transport, handling costs, duties and other costs incurred in bringing the inventories to their present location and condition.

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.

j) Employee Benefits

Short-Term Employee Benefits

Short-term employee benefits are expensed as the related service is provided.

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

j) Employee benefits (continued)

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

Defined Contribution Plans

- **National Social Security Fund contributions**

  The Company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The Company's contributions are charged to the Statement of Profit and Loss in the period to which they relate.

- **Staff retirement benefit scheme**

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

- **Long term incentive plan**

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

k) Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or the services are received. A corresponding increase in a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, the Company accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight-line basis over the vesting period). Share based payments that vest immediately the services are received are recognised in full.

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 Ugandan Income Tax Act (Cap 340). The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.
Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the statement of profit or loss.

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

Deferred Income Tax

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

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

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

l) Tax (continued)

Deferred income tax *(continued)*

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

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

Value Added Tax (VAT)

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

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

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

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 either:

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

All other assets are classified as non-current.

A liability is current when either:

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

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

n) Share Capital and Equity

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

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

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

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

o) Leases

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

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

p) Provisions

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

q) Borrowing Costs

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

r) Cash Dividend

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

s) Fair Value Measurement

Fair value related disclosures for financial instruments measured at fair value, or where fair values of financial instruments measured at amortised cost are disclosed, are summarised in Note 44. For the purposes of impairment testing, the Company uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements when the carrying amounts are not a reasonable approximation of the fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

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

s) Fair value measurement (continued)

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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.

Other disclosures relating to the Company's exposure to risks and uncertainties are included in Note 44 and discuss the following:

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

Judgments

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

(i) Revenue from contracts with customers – Note 2 (d)

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

Amendment Number 5 did not provide for recovery of the previously clawed (reconciled out of the tariff) regulatory receivables. Due to the uncertainty arising from the issuance of Amendment Number 5, a write-off for these receivables was recognised in the 2017 financial statements.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(i) Impairment losses on trade receivables – Note 2 (g), Notes 22 and 44 (Credit risk).

(ii) Valuation of Buy-Out amount financial asset – Note 19

(iii) 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.

(iv) Computation of growth factor revenues

Amendment 5 to the Company's license recognises that the Company generates excess sales volume over and above the targeted sales volume used in setting the tariff. ERA determines the HVE by applying the actual distribution price approved and the actual outturn of energy losses to the excess sales volume.

(v) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing. The Company is subject to income tax and various other government taxes under the Ugandan tax laws. Significant estimates and judgements are required in determining the provision for taxes on certain transactions. For these transactions, the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matter s is different from the amounts that were initially recorded, such differences will impact the Statement of Profit and Loss. Further details on taxes are disclosed in Note 16.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS *(Continued)*

Estimates and assumptions (continued)

(vi) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The recoverable amount of the intangible asset is comprised of the Rate Asset Base in the Tariff and Investments yet to be verified by ERA for inclusion in the tariff. Management applies judgement when assessing the inclusion of investments yet to be verified in the tariff to form part of the Rate Asset Base in the Tariff. The portion of intangible that is not recovered through the tariff is recovered through the buyout amount and this is classified as a financial asset and tested for impairment.

(vii) Share grant scheme payments

Estimating the value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the grant, changes in the inputs to the valuation and making assumptions about them. The liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating the value for share-based payment transactions are disclosed in Note 30.

(viii) Fair value measurement of financial instruments

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

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

i) New and amended standards and interpretations

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange of transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company has adopted IFRS 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Other reclassification of other income items to Revenue from customers with contracts in the statement of profit or loss, the adoption of the Standard has not had any other impact on the financial statements of the Company.

IFRS 9 Financial Instrument

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings

	Impact of adopting IFRS 9 on opening balance
Retained Earnings	**Ushs 'million**
Impact of recognition of expected credit losses under IFRS 9	(4,515)
Impact net of tax of recognition of expected credit losses under IFRS 9	**(3,161)**

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities (see (iii) below). The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

i) New and amended standards and interpretations (continued)

IFRS 9 Financial Instrument *(continued)*

Classification and measurement of financial assets and financial liabilities (continued)

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI (Fair value Through Other Comprehensive Income) – debt investment; FVOCI – equity investment; or FVTPL (Fair Value Through Profit and Loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Ushs Million	New carrying amount under IFRS 9 Ushs Million
Trade receivables	Loans and receivables	Amortised cost	187,070	182,870
Buyout Amount	Loans and receivables	Amortised cost	499,770	499,770
Lifeline Surcharge Receivable	Loans and receivables	Amortised cost	103,710	103,710
Letters of credit	Loans and receivables	Amortised cost	4	4
Amount recoverable from customer capital contribution	Loans and receivables	Amortised cost	12,461	12,461
Cash and cash equivalents	Loans and receivables	Amortised cost	22,044	22,044
OBA receivable	Loans and receivables	Amortised cost	11,481	11,481
Total financial assets			**836,540**	**832,340**

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

i) New and amended standards and interpretations (continued)

IFRS 9 Financial Instrument (continued)

Classification and measurement of financial assets and financial liabilities (continued)

An increase of Ushs 4.515 million in the allowance for impairment of these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents and receivables from Government.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.
- Receivables from Government entities for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company has elected to apply the simplified approach and record lifetime expected losses on all trade receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Energy debtors are presented net of IFRS 9 impairment as disclosed in note 23 while IFRS 9 impairment on other financial assets is recorded under provisions. As at 31 December 2018, impairment on other financial assets other than energy debtors amounted to Ushs 382 million (31 December 2017: Ushs 220 million)

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

i) New and amended standards and interpretations (continued)

IFRS 9 Financial Instrument (continued)

Impact of the new impairment model (continued)

	Ushs million
Loss allowance at 31 December 2017 under IAS 39	69,144
Additional impairment recognised at 1 January 2018 on:	
Trade receivables	4,200
Buyout amount	250
Lifeline Surcharge Receivable	52
OBA receivable	2
Letters of credit	-
Amount recoverable from customer capital contributions	6
Cash and cash equivalents	-
VAT Claimable	5
	73,659

The following analysis provides further detail about the calculation of ECLs related to trade receivables on the adoption of IFRS 9. The additional impairment as at 1 January 2018 of Ushs 4,515 million is recorded net of tax at Ushs 3,161 million on initial application of IFRS 9. The Company considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The ECLs were calculated based on actual credit loss experience over the past five years. The Company performed the calculation of ECL rates separately for customer categories. The Company used the simplified approach to determine the expected credit losses ie a provision matrix, because; the customer base consists of a large number of small clients, the receivables have common risk characteristics and the trade receivables do not have a significant financing component.

Actual credit loss experience was adjusted by scalar factors to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Scalar factors were mainly based on GDP and inflation forecasts.

The following table provides information about the Provision matrix the company uses to estimate ECLs for trade receivables

Ageing	Weighted average loss rate	Credit impaired
0-90 days	3.9%	No
90-120 days	25%	No
120-150 days	50%	No
151-180 days	75%	No
Over 180 days	100%	Yes

The methodology described above has been used at the reporting date.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as described below.

- The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - » The determination of the business model within which a financial asset is held.
  - » The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted them in preparing these interim financial statements. The Company has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Company's financial statements

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. IFRS 16 introduces a single, on-balance sheet lease accounting model for leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements and is yet to complete its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

In relation to the concession service arrangement, IFRS 16 scopes out the contracts under IFRIC 12, there would therefore be no impact to the concession arrangement by IFRS 16.

Based on the information currently available, The Company estimates it will recognize additional lease liabilities and corresponding assets of Ushs 2,000 million. The Company does not expect the adoption of IFRS 16 to have an impact on its ability to comply with the existing debt covenants.

i) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases under IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines), parking space and motor vehicles that are considered of low value.

ii) Transition

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying a modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE *(continued)*

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. Since the Company operates in a dynamic tax environment, applying the Interpretation may affect its financial statements. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

Other new and amended standards and interpretations issued are not expected to have a significant impact on the financial statements of the company. These include;

- IFRS 17 Insurance Contracts,
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement,
- Amendments to IAS 28: Long-term interests in associates and joint ventures,
- IFRS 3 Business Combinations,
- IFRS 11 Joint Arrangements.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is derived from contracts with customers.

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

Variable consideration for Umeme arises through changing tariffs over the contract term through quarterly price increases/decreases by ERA and pricing by time of day ie peak, shoulder and off-peak. The pricing by day reflect the value of electricity that the customer gets. In line with IFRS 15 practical expedient, the Company has assessed that the tariff adjustments are not variable considerations but reflects the value of providing electricity units during the tariff period.

Capital contribution received from the customers by Umeme, from which construction revenue is derived is within the scope of IFRIC 12 and therefore scoped out of IFRS 15.

Umeme revenue disaggregated by tariff code of billing is as below;

	Note	2018 Ushs Million	2017 Ushs Million
Domestic		428,208	383,584
Commercial		251,413	215,284
Street lighting		749	1,068
Medium industrial		328,592	282,934
Large industrial		330,519	291,283
Extra-large industrial		260,693	245,859
Total amount billed to customers		**1,600,174**	**1,420,012**
Recovery of growth factor revenues	**6(a)**	(30,398)	(23,733)
Recovery of income for funding non-network assets	**6(b)**	(9,345)	(6,436)
Surcharge revenue adjustments (Lifeline revenue)	**6(c)**	17,000	57,672
Recovery of surcharge revenue (Lifeline revenue)	**6(d)**	(107,188)	-
Recovery of industrial tariff rebates and meter testing revenues	**6(e)**	(10,582)	-
		1,459,661	**1,447,515**
Construction revenue-construction of assets	**6(f)**	**22,142**	**28,915**
Other Regulated income:			
Reconnection fees		1,290	643
Inspection fees		7,608	6,522
		8,898	**7,165**
Other non-regulated income			
Sale of scrap and other disposals		1,758	886
OBA income		773	721
		2,531	**1,607**
Total Revenue from contracts with customers		**1,493,232**	**1,485,202**

The effect of initially applying IFRS on the Company's revenue from contracts with customers is described in note 4 (i). Due to the transition option chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirement.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS *(Continued)*

6(a) Modification Number Five to Umeme's Electricity Supply Licence No.048 requires that the Growth factor (Hvey) revenues for year-on-year total energy purchases be deployed towards investments into the Distribution Network, as approved by ERA and to be used to leverage grant or other counterpart financing that will be applied to investments in the Distribution Network. The Company is not entitled to a Return on Investment on the specific projects implemented using the reconciliation amounts in line with similar terms for projects funded using concessionary financing, but will earn a one-off management fee. An amount of Ushs 30,398 million (December 2017: 23,733 million) has been estimated as excess revenues earned by the Company through growth and as such in line with Amendment 5, this amount has been ring fenced for future Growth investments that will be approved by ERA.

6(b) In accordance with Amendment Number 4 of the Company's Electricity Supply License, ERA approved Ushs 9,345 million (December 2017: Ushs 6,436 million) to be collected from customers through the retail tariffs for purchase of non-network assets. Non-network assets are those which do not directly improve or expand the Distribution Network but are necessary for operation of the Distribution Network.

This amount was offset from the reported revenue in line with the funding mechanism.

6(c) Surcharge revenue adjustments relates to revenue earned during the period January to March 2018 as a result of an under provision in the tariff model in relation to the computation of surcharge on the lifeline tariff that resulted into an under recovery of Umeme revenue requirements for the respective financial period. ERA has confirmed that the amounts were earned as the Company fulfilled the performance obligation of supply of power and has therefore approved for the recovery of the amounts through collection in the subsequent tariffs.

6(d) As disclosed in the 2017 annual financial statements the Company earned surcharge revenue relating to the year 2016 (Ushs 46,038 million) and 2017 (Ushs 57,672 million) as a result of an under provision in the tariff model in relation to the computation of surcharge on the lifeline tariff that resulted into an under recovery of Umeme revenue requirements for the respective financial years. ERA allowed for the recovery/collection of these amounts through the tariff effective April 2018. The adjustment of Ushs 107,188 million (December 2017: nil) relates to amounts billed and recovered during the period April 2018 to December 2018.

6(e) In a bid to facilitate industrial connections and grow demand, ERA approved Ushs 10,223 million as industrial tariff rebates for partial offset of monthly bills of industrial consumers who finance connections that have a potential to benefit third party customers. ERA also approved Ushs 250 million to facilitate testing of meters in order to ensure compliance with the Weight and Measures (Electricity meter) rules.

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

7. COST OF SALES

	2018 Ushs Million	2017 Ushs Million
Electricity purchase from UETCL	885,398	927,315
Generation levy	4,494	4,265
Construction costs-construction of assets – Note 6(f)	22,142	28,915
	912,034	**960,495**

8. REPAIRS AND MAINTENANCE EXPENSES

	2018 Ushs Million	2017 Ushs Million
Distribution (over-head & underground)	9,261	7,261
Transformers, meters & other electrical equipment	12,512	8,954
Other repairs and maintenance	23,920	21,465
	45,693	**37,680**

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

9. ADMINISTRATION EXPENSES

	2018 Ushs Million	2017 Ushs Million
Staff costs (9a)	99,179	79,361
Transport costs	12,663	11,110
Software support agreements	6,903	7,304
Operating lease charge	6,177	5,917
Publicity and advertisement	4,839	3,628
Era licensing fees	3,573	2,963
Rent	3,037	2,747
Directors expenses and allowances	3,017	3,157
Other administration costs	18,535	13,165
Consultancy fees	5,070	5,640
Telephone expenses	5,255	4,761
Debt collection expenses	2,571	3,199
Insurance premium charges	2,436	2,628
Impairment provision for bad and doubtful debts	6,686	16,020
	179,941	**161,600**

(a) Staff costs	2018 Ushs Million	2017 Ushs Million
Salaries and wages	49,486	45,645
National Social Security Fund (NSSF) contributions	6,201	5,286
Long term incentive plan expenses/(reversal)	7,035	(2,878)
Other employment related costs	36,457	31,308
	99,179	**79,361**

10. EFFECTS OF AMENDMENT 5

	2018 Ushs Million	2017 Ushs Million
Provision for Growth Factor revenues - note 6(a)	-	65,861
Provision for Tax IN receivable – note 6(a)	-	38,644
Provision for appeal costs receivable	-	10,732
	-	**115,237**

As reported in the prior period financial statements, the Company assessed that it was entitled to recover the amounts clawed back by ERA, following the implementation of Amendments Number 2 and 4, in respect to the Growth factor revenues, and that the Company had commercial mechanisms and remedies to recover the growth factor (Hvey) and Tax IN revenues accrued. On this basis, the Growth factor and Tax IN revenues were accrued in the periods when earned. Amendment Number 5 did not provide for recovery of the previously clawed back Growth factor revenues amounting to Ushs 65,860 million (USD 18.2 million) and Tax IN revenues amounting to Ushs 38,643 million (USD 10.7 million) as envisaged in the Consent Judgement.

Appeal costs relate to costs incurred by ERA and Umeme in connection with the Electricity Distribution Tribunal Appeals 3 and 9 of 2012 that were paid for by the Company as required by the terms of the Consent Judgment. Amendment Number 5 did not provide for recovery of the Appeal costs amounting to Ushs 10,732 million (USD 3 million) as envisaged in the Consent Judgement.

Due to the uncertainty arising from the timing of recovery of these balances which had not been fully resolved, an impairment provision was recognised as at 30th June 2017.

The Company continues to engage ERA and other sector stakeholders to provide a recovery mechanism for this revenue.

11. OTHER OPERATING EXPENSES /(INCOME)

	2018 Ushs Million	2017 Ushs Million
a) Net foreign exchange losses /(gains)	6,076	(2,401)
	6,076	**(2,401)**
b) Other expenses		
Loss on disposal of assets	1,791	706
	1,791	**706**

12. AMORTISATION

	2018 Ushs Million	2017 Ushs Million
Amortisation of intangible assets	92,881	82,668
Impairment of intangible assets	11,060	16,838
	103,941	**99,506**

13. FINANCE INCOME

	2018 Ushs Million	2017 Ushs Million
Interest on bank deposits	314	481
Financing income on concession financial asset (note 20)	32,386	29,047
Finance income on other financial	11,145	321
	43,845	**29,849**

14. FINANCE COSTS

	2018 Ushs Million	2017 Ushs Million
Finance costs related to debt facilities		
Interest expense on Facility A	18,339	18,431
Interest expense on Facility B	22,731	24,600
Amortised borrowing costs	2,986	7,095
Other debt related financing costs	15,406	9,592
	59,462	**59,718**
Finance costs related to other financial liabilities		
Accrued interest on customer security deposits	668	878
Finance charge on concession obligation (note 29)	32,386	29,047
Fair value loss on other financial asset	-	7,985
	33,054	**37,910**
Total Financing costs	**92,516**	**97,628**

15. PROFIT BEFORE TAX

	2018 Ushs Million	2017 Ushs Million
Profit before tax is stated after charging/(crediting):		
Amortisation of intangible assets	92,881	82,668
Audit fees	877	833
NSSF-Employer's contributions	6,201	5,286
Directors' expenses and allowances	3,017	3,157
Performance bonus	10,068	6,690
Long term incentive plan expenses	7,035	-
Loss on disposal of assets	1,791	706
Donations	2	37
Management fees	-	647
Staff medical and welfare expenses	1,144	1,110
And after crediting		
Interest on bank deposits	314	(481)
Share grant and deferred bonus schemes expenses	-	(2,878)
Unrealised foreign exchange gains	(292)	(5,050)

16. TAXATION

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

a) Income Tax Expense	**2018 Ushs Million**	**2017 Ushs Million**
Amounts recognized in Profit or loss		
Current income tax charge/ (credit) for the year	18,990	(6,327)
Deferred income tax charge for the year	43,280	15,433
	62,270	**9,106**

	2018 Ushs Million	**2017 Ushs Million**
Amounts recognized in Other Comprehensive Income		
Foreign Currency Translation differences*	8,819	34,141
	8,819	**34,141**

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

The average effective tax rate is 30% (2017: 20%) The reconciliation between the income tax expense and the product of accounting profit and the tax rate is as follows:

	2018 Ushs Million	**2017 Ushs Million**
Accounting profit before income tax	195,085	44,600
At statutory income tax rate of 30% (2017: 30%)	58,526	13,380
Tax effect of:		
Expenses and income not allowable for tax purposes	3,744	2,030
Prior year over provision -Current tax	-	(6,304)
Income tax expense reported in the Statement of Profit and Loss	**62,270**	**9,106**

16. TAX *(Continued)*

b) Current income tax recoverable

	2018 Ushs Million	2017 Ushs Million
Current income tax payable brought forward	(8,123)	1,970
Current income tax charge/(credit) for the year	18,990	(6,327)
Payment on current income tax	(33,081)	(3,735)
Foreign exchange gain	3,857	(31)
	(18,357)	**(8,123)**

c) Deferred income tax liability

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

	2018	Movement			2017
	Ushs million	P&L	Retained Earnings	OCI	Ushs Million
c) Deferred tax liabilities/(assets)					
Accelerated tax depreciation	232,387	31,922	-	5,724	194,741
Provision for bad debts	(19,766)	3,146	(1,355)	(402)	(21,155)
Other provisions	(5,334)	(690)	-	(91)	(4,553)
Unrealised foreign exchange gains	85	(1,478)	-	37	1,526
Tax losses	-	10,380	-	(680)	(9,700)
Net deferred tax liability	**207,372**	**43,280**	**(1,355)**	**4,588**	**160,859**

	2017	Movement			2016
	Ushs million	P&L	Retained Earnings	OCI	Ushs Million
Accelerated tax depreciation	194,741	24,736	-	34,391	135,614
Provision for bad debts	(21,155)	(624)	-	(154)	(20,377)
Other provisions	(4,553)	(1,288)	-	(36)	(3,229)
Unrealised foreign exchange gains	1,526	1,515	-	11	-
Unrealised foreign exchange loss	-	722	-	1	(723)
	(9,700)	(9,629)	-	(71)	-
	160,859	**15,432**	**-**	**34,142**	**111,285**

17. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2018 Ushs Million	2017 Ushs Million
Profit attributable to shareholders	132,815	35,494
Basic number of ordinary shares at 1 January (million)	1,624	1,624
Basic and diluted weighted average number of ordinary shares (millions)	1,624	1,624
Basic and diluted earnings per share (Ushs)	**82**	**22**

18. INTANGIBLES ASSETS

	GOU support & assurances rights Ushs Million	Other Concession rights Ushs Million	Total Ushs Million
Cost			
At 1 January 2017	**3,523**	**1,662,266**	**1,665,789**
Additions	-	236,427	236,427
Disposals and write offs	-	(21,171)	(21,171)
Transfer to financial asset (note 19)	-	(433,690)	(433,690)
Translation differences	26	10,768	10,794
At 31 December 2017	**3,549**	**1,454,600**	**1,458,149**
Additions	-	230,600	230,600
Disposals and write offs	-	(13,440)	(13,440)
Transfer to financial asset (note 19)	-	(159,144)	(159,144)
Translation differences	72	29,449	29,521
At 31 December 2018	**3,621**	**1,542,065**	**1,545,686**
Amortisation			
At 1 January 2017	**(1,970)**	**(346,510)**	**(348,480)**
Charge for the year	(123)	(82,545)	(82,668)
Disposals and write offs	-	6,504	6,504
Translation differences	(31)	(9,676)	(9,707)
At 31 December 2017	**(2,124)**	**(432,227)**	**(434,351)**
Charge for the year	(123)	(92,758)	(92,881)
Disposals and write offs	-	1,760	1,760
Translation differences	(61)	(8,422)	(8,483)
At 31 December 2018	**(2,308)**	**(531,647)**	**(533,955)**
Net carrying amount			
At 31 December 2018	**1,313**	**1,010,418**	**1,011,731**
At 31 December 2017	**1,425**	**1,022,373**	**1,023,798**

GOU support and assurance rights

The Distribution Support Agreement of the Lease and Assignment Agreement between Government of Uganda (GOU) and the Company required Umeme to pay a transaction fee of USD 1.4 million to the GOU Privatization Unit as consideration for the rights and assurances granted by GOU to Umeme. These rights and assurances are specified in Article IV of the Distribution Support Agreement and include, among others, support for obligations, security protection, obtaining of agency loans, expeditious clearance of imported equipment and notice and opportunity to be heard. The transaction fees were capitalized and are being amortized over the lease period of 20 years.

Other concession rights

The concession agreements do not convey to the Company the right to control the use of the investments in the distribution network but rather the right to operate and use the assets and charge customers. Accordingly, in line with IFRIC 12, the assets added to the distribution network are not recognised as property, plant and equipment. An intangible asset equal to the carrying value of the assets added to the distribution network by the Company, less the residual amount (buy-out amount) is recognised, and is amortised over the useful lives of the property, plant and equipment.

18. INTANGIBLES ASSETS *(Continued)*

Capitalised Borrowing Costs

Funding used to construct qualifying assets is financed out of borrowings. The capitalisation rate applied is the weighted average of the borrowings costs applicable to qualifying capital expenditure. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 8.416% (2017:7.813%) and the amount of borrowing costs capitalised during the year ended 31 December 2018 was Ushs 1,262 million (2017: Ushs 1,300 million)

19. OTHER FINANCIAL ASSET: BUY OUT AMOUNT

	2018 Ushs Million	2017 Ushs Million
At 1 January	499,770	70,018
Transfer from intangible asset (note 18)	159,144	433,690
Interest income	11,145	321
Fair value loss	-	(7,985)
IFRS 9 impairment	(361)	-
Translation difference	9,319	3,726
	679,017	**499,770**

The financial asset represents the fair value of capital investments by the Company, which will not have been recovered through the tariff methodology at the time of transferring the distribution network back to Uganda Electricity Distribution Limited at the end of the Concession (buy out amount). It is computed as the gross accumulated capital investments less cumulative expected capital recovery charges at the time of transfer and discounted at an internal rate of return of 20.4% and a weighted average cost of capital (WACC) of 5.14% for investments yet to be approved by ERA over the remaining period of this concession. Annual capital recovery charges are computed as the product of the gross total accumulated investments and weighted average depreciation rate.

As at 31 December 2018, the estimated weighted average depreciation rate was 9.5 % (2017: 9.5%) and it is hence estimated that capital investments amounting to Ushs 679,107 million, USD 182 million, (2017: Ushs 499,770 million, USD 137 million) as of that date will not have been recovered through the tariff methodology at the end of the concession. The buy-out amount shall be paid in cash with a 5% return and hence any amounts due are accounted for as a financial asset. The buy-out amount is contractually denominated in USD. The USD balances have been translated to Uganda shillings at the reporting date spot exchange rate of Ushs 3716.8.

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

	2018		2017	
	Ushs Million	USD Million	Ushs Million	USD Million
Umeme Gross investments (incl WIP)	2,330,224	627	2,059,359	565
Less: Cumulative capital recovery charges*	(620,214)	(167)	(456,757)	(132)
Unrecovered investments	**1,710,010**	**460**	**1,602,602**	**433**
Total investments in the ERA Tariff base **	1,728,660	465	1,256,628	352
Total investments not yet verified by ERA	602,370	162	802,731	213

Investments pending ERA verification are represented by:

	2018		2017	
	Ushs Million	USD Million	Ushs Million	USD Million
Completed projects under ERA verification	467,417	126	686,973	182
Works-in-progress	134,953	36	115,758	31
Investments not yet verified by ERA	**602,370**	**162**	**802,731**	**213**

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

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

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

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

	2012	2013	2014	2015	2016	2017	2018	Total
Completed investments yet to be approved	9.3	11.7	20.3	16.7	26.1	18.7	22.9	125.7

USD 60 million relating to capital investments completed in 2018 has been allowed in the 2019 tariff base pending verification by ERA.

Whilst all investment amounts are expected to be recovered, there is an uncertainty as to the quantum of these investments that will be recovered as capital investments for the purposes of earning a return on investment or provided for as additional operational expenditure in future tariff determinations.

The table below shows a summary of Umeme's capital investments over the period 2005 to 2018.

	2005 - 2011	2012	2013	2014	2015	2016	2017	2018	Total
	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million
In Uganda Shillings									
Substations, Low Voltage Lines & Services	210,235	84,611	142,941	264,483	278,879	314,558	229,999	226,830	1,752,536
Land and Buildings	6,394	1,052	992	2,909	777	1,309	470	123	14,026
Furniture & Fittings, Tools & Office equipment	9,427	3,143	340	780	776	1,730	2,408	2,794	21,398
Computers, Communication & MIS	24,459	8,393	1,334	664	92	117	3,504	837	39,400
Motor vehicles	18,877	875	1,217	-	4	83	47	16	21,119
Total investments	**269,392**	**98,074**	**146,824**	**268,836**	**280,528**	**317,797**	**236,428**	**230,600**	**1,848,479**
Represented by:									
Capitalised	257,051	101,430	135,511	267,415	248,426	273,114	238,559	213,696	1,735,202
Capital work in progress	12,341	(3,356)	11,313	1,421	32,102	44,683	(2,131)	16,904	113,277
	269,392	**98,074**	**146,824**	**268,836**	**280,528**	**317,797**	**236,428**	**230,600**	**1,848,479**
In US Dollars									
Av. Foreign exchange rate– Ushs: USD	2,079	2,691	2,522	2,778	3,242	3,423	3,616	3,732	
Total investment: USD million equivalent	**130**	**36**	**58**	**97**	**87**	**93**	**65**	**61**	**627**

20. CONCESSION FINANCIAL ASSET

	2018 Ushs Million	2017 Ushs Million
At 1 January	394,985	363,025
Financing income for the year	32,386	29,047
Foreign exchange gain	7,920	2,913
At 31 December	**435,291**	**394,985**
Maturity analysis of the financial asset:		
Outstanding financial asset	435,291	394,985
Less: Amount recoverable within one year	-	-
Non-current portion of financial asset	**435,291**	**394,985**
The financial asset is recoverable as analysed below:		
Within one year	-	-
Between one and two years	3,976	20,226
Between two and three years	8,932	9,700
Between three and four years	42,883	8,276
Between four and five years	46,314	8,938
After five years	333,186	347,845
	435,291	**394,985**

The terms of the Lease and Assignment Agreement (LAA), indicate that the Company has an unconditional right to receive cash from the users of the distribution network for concession rental payments to UEDCL through the tariff methodology.

No concession rental payments were made to UEDCL regarding the concession obligation since the year ended 31 December 2012 to date and no recoveries of the same were made during these years since ERA excluded the concession rental payments from the tariffs for the years.

UEDCL bears the risk that the cash flows generated by the users of the Distribution Network using the tariff approved by ERA will not be sufficient to recover the concession rental amounts due to UEDCL. The Company's cash flows relating to the rentals paid are effectively secured, which results in a financial asset as the consideration received. The service concession arrangement is subject to a grantor (UEDCL) guarantee and payments made by the users are effectively regarded as cash collected on behalf of the grantor and this gives rise to a financial asset for the commitment made by the grantor.

No amount receivable within one year has been presented since the debt service component was not included in the approved 2019 base tariffs.

21. INVENTORIES

	2018 Ushs Million	2017 Ushs Million
Overhead materials & accessories	32,129	32,555
Underground cables, materials & accessories	7,980	4,517
Substation transformers & accessories	401	1,191
Meters, metering equipment& accessories	14,020	10,406
Tools and other equipment	3,464	3,045
Stationery	1,089	1,093
Expense on goods in transit	7,456	7,565
	66,539	**60,372**
Provision for impairment	(1,882)	(1,882)
	64,657	**58,490**
Provision for impairment		
At 1 January	1,882	1,882
Movement during the period	-	-
At 31 December	**1,882**	**1,882**

22. CONTRACT ASSETS

	2018 Ushs Million	2017 Ushs Million
At 1 January	12,461	6,982
Additions to customer funded installations	7,408	2,600
Completed customer funded installations	(15,924)	2,788
Translation difference	597	91
At 31 December	**4,542**	**12,461**

Contracts assets relate to amounts recoverable from customer capital contributions.

The effect of initially applying IFRS on the Company's revenue from contracts with customers is described in note 4 (i). Due to the transition option chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirement

23. TRADE AND OTHER RECEIVABLES

	2018 Ushs million	2017 Ushs million
Trade receivables	215,475	256,214
Less: Allowance for impairment	(64,478)	(69,144)
Net trade receivables	**150,997**	**187,070**
Letters of credit	1,085	4
Surcharge regulatory revenue receivable	13,521	103,710
Other receivables	11,853	12,067
OBA receivable	22,040	11,481
VAT claimable	-	3,060
	48,499	130,322
Trade and other receivables	**199,496**	**317,392**

Surcharge regulatory revenue receivable of Ushs 13,521 million (2017: Ushs 103,709 million) is described in note 6 (c).

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

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

	2018 Ushs Million	2017 Ushs Million
At 1 January	69,144	66,551
Allowance for impairment for the year	6,686	16,020
Less: Bad debts written off (see below)	(15,552)	(13,427)
IFRS 9 transition adjustment	4,200	-
At 31 December	**64,478**	**69,144**
Bad debts written off are made up as follows:		
Umeme trade receivables	15,552	13,427
	15,552	**13,427**

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

Year	Total	Neither past due nor impaired	Past due but not impaired		Impaired
		<30 days	30-60 days	>60 days	
	Ushs Million	Ushs Million	Ushs Million	Ushs Million	Ushs Million
2018	215,475	112,359	20,902	17,736	64,478
2017	256,214	98,004	13,115	71,052	69,144

24. BANK BALANCES

	2018 Ushs Million	2017 Ushs Million
Bank balances	21,208	22,044

The Company holds no collateral in respect to the bank balances. Bank balances are short-term deposits made for varying periods depending on the cash requirements of the Company, and earn interest at the applicable market deposit rates.

25. ISSUED CAPITAL

a) Number of shares	2018	2017
i) Authorised shares		
At 1 January and 31 December	1,800,000,000	1,800,000,000
ii) Number of issued shares		
At 1 January and 31 December	1,623,878,005	1,623,878,005
b) Par value of shares		
At 1 January and 31 December per share	17.08	17.08

c) Value of issued shares	2018 Ushs Million	2017 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 general meetings of the Company.

d) Spread of issued shares at 31 December 2018

Shareholding (number of shares)	Number of Shareholders	Number of shares held	Percentage shareholding
Less than 500	578	112,336	0.01%
500 - 5,000	2,860	5,319,981	0.33%
5,001 – 10,000	598	4,698,483	0.29%
10,001 – 100,000	1,050	32,113,080	1.98%
100,001 - 1,000,000	433	115,076,323	7.09%
Above 1,000,000	118	1,466,557,802	90.30%
	5,637	**1,623,878,005**	**100.00%**

25. ISSUED CAPITAL *(Continued)*

e) Shareholding

	Name	31 December 2018 Number Of Shares	31 December 2018 Percentage Shareholding	31 December 2017 Number Of Shares	31 December 2017 Percentage Shareholding
1.	National Social Security Fund	376,315,085	23.2%	376,315,085	23.2%
2.	Allan Gray	161,921,417	10.0%	156,332,791	9.6%
3.	Kimberlite Frontier Africa Master Fund	144,564,483	8.9%	134,186,083	8.3%
4.	Utilico Emerging Markets Limited	80,386,788	5.0%	69,911,788	4.3%
5.	Investec Asset management Africa	70,502,449	4.3%	71,913,402	4.4%
6.	Imara S P Reid (Pty) Ltd	66,521,509	4.1%	40,078,109	2.5%
7.	The Africa Emerging Markets Fund	64,063,887	3.9%	64,063,887	3.9%
8.	International Finance Corporation	45,220,900	2.8%	45,220,900	2.8%
9.	Coronation Global Opportunities Fund	42,125,470	2.6%	42,125,470	2.6%
10.	Duet Fund	39,796,024	2.4%	39,796,024	2.4%
11.	Others	532,459,993	32.8%	583,934,466	36.0%
		1,623,878,005	**100%**	**1,623,878,005**	**100%**

26. SHARE PREMIUM

	2018 Ushs Million	2017 Ushs Million
At 31 December	**70,292**	**70,292**

27. DISTRIBUTIONS TO SHAREHOLDERS MADE AND PROPOSED

	2018		2017	
	Dividend per share Ushs	Total Ushs Million	Dividend per share Ushs	Total Ushs Million
Dividend paid				
Interim dividend paid	12.7	20,623	-	-
Final dividend paid	-	-	7.8	12,745
	12.7	**20,623**	**7.8**	**12,745**
Dividend proposed				
Proposed dividend	**28.2**	**45,784**	**7.6**	**12,323**

28. BORROWINGS

	2018 Ushs Million	2017 Ushs Million
Amounts due to lenders: Term loan	478,471	594,584
Short term loan	57,085	72,972
Less: Deferred transactions costs	(7,021)	(7,940)
	528,535	**659,616**
Less: Current portion - amount due within one year		
Term loan	(128,250)	(125,684)
Short term loan	(57,085)	(72,972)
Amounts due within one year	**(185,335)**	**(198,656)**
Amounts due in more than one year	**343,200**	**460,960**

28. BORROWINGS *(Continued)*

a) Amount due to Lenders

Term Loan	2018 Ushs million			2017 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	**262,216**	**332,368**	**594,584**	**303,688**	**411,262**	**714,950**
Interest charge for the period	18,783	23,280	42,063	18,893	25,217	44,110
Foreign exchange losses	6,712	9,126	15,838	1,973	2,518	4,491
Less: Principal repayment	(45,635)	(85,523)	(131,158)	(43,438)	(81,405)	(124,843)
Less: Interest payment	(19,130)	(23,726)	(42,856)	(18,900)	(25,224)	(44,124)
At 31 December	**222,946**	**255,525**	**478,471**	**262,216**	**332,368**	**594,584**
The amounts due are made up as follows:						
Principal	178,323	171,898	350,221	218,485	250,414	468,899
Principal payable in one year	44,623	83,627	128,250	43,731	81,954	125,685
	222,946	**255,525**	**478,471**	**262,216**	**332,368**	**594,584**

Short term loan – Standard Chartered Bank

	2018 Ushs Million	2017 Ushs Million
Movement on the account		
At 1 January	72,972	-
Amount received during the period	-	71,920
Interest charge for the period	915	1,027
Interest payment	(1,039)	(903)
Principal repayment	(73,900)	-
Foreign exchange gains	1,052	928
At 31 December	**-**	**72,972**

Short term loan – dfcu Bank Limited

	2018 Ushs Million	2017 Ushs Million
Movement on the account		
At 1 January	-	-
Amount received during the period	109,250	-
Interest charge for the period	6,508	-
Principal repayment	(54,750)	-
Interest payment	(3,924)	-
Foreign exchange loss	1	-
At 31 December	**57,085**	-

28. BORROWINGS *(Continued)*

b) Deferred transaction costs (continued)

Term Loan	2018 Ushs million			2017 Ushs million		
	Facility A	Facility B	Total	Facility A	Facility B	Total
Movement on the account						
At 1 January	**3,151**	**4,789**	**7,940**	**5,219**	**7,294**	**12,513**
Upfront and guarantee fees	170	-	170	-	-	-
Management, security and agency fees	134	89	223	-	-	-
Amortisation for the period	(1,257)	(1,060)	(2,317)	(2,222)	(2,624)	(4,846)
Foreign exchange losses	552	453	1,005	154	119	273
At 31 December	**2,750**	**4,271**	**7,021**	**3,151**	**4,789**	**7,940**

Short term loan – Standard Chartered Bank	2018 Ushs Million	2017 Ushs Million
Movement on the account		
At 1 January	-	-
Arrangement and commitment fees	912	-
Amortization for the period	(912)	-
At 31 December	**-**	**-**

Short term loan – dfcu Bank Limited	2018 Ushs Million	2017 Ushs Million
Movement on the account		
At 1 January	-	-
Arrangement and commitment fees	548	-
Amortization for the period	(548)	-
At 31 December	**-**	**-**

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

During the year, the Company accessed a 6 months short term revolving facility available for a year of Ushs 109,250 million (USD 30 million) from dfcu Bank Limited as per the provisions on permitted financial indebtedness in the Term Loan facilities agreement.

As at 31 December 2018, the Company had an outstanding balance of Ushs 222,946 million (USD 60 million) (2017: Ushs 262,216 million (USD 72 million) on Facility A, Ushs 255,525 million (USD 68 million) (2017: Ushs 332,368 million (USD 91 million) on Facility B, and Ushs 57,085 million (USD 15 million) on the short-term loan with dfcu Bank.

28. BORROWINGS *(Continued)*

Facilities A and B both attract interest at LIBOR (applicable screen rate) + a margin of 5%.

Facility A is 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). Facility B is 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).

The Company made loan repayments of Ushs 45,635 million (USD 12 million) relating to facility A , Ushs 85,523 million (USD 22.5 million) relating to facility B and Ushs 73,900 million (USD 20 million) in relation to short term loan with Standard Chartered Bank. The Company also made loan repayments of Ushs 54,750 million (USD 15 million) in relation to the short term loan with DFCU Bank.

The short term facility with dfcu Bank attracts interest at the 182 Treasury Bill rate plus a margin of 5.5% per annum for amounts drawn in Ushs or the 6 months LIBOR plus a margin of 5% in respect of amounts drawn down in United States Dollars.

The short term loan with dfcu Bank Limited is an unsecured revolving / renewable credit facility with a maximum tenor of six months and availability period of twelve months.

The Long term facilities are secured against a first ranking fixed charge on all the Company's rights, title and interest from time to time and all Related Rights; and all contracts of insurance in respect of the Mandatory Insurances in which the Company has an interest and all moneys from time to time payable thereunder, and related rights.

As at 31 December 2018, the company complied with all the 5 ratios and covenants as required by the loan agreements.

c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Retained Earnings Ushs Million	Borrowings Ushs Million	Total Ushs Million
Opening balance as at 1 January 2018	**369,658**	**659,616**	**1,029,274**
Impact of adopting IFRS 9, net of tax	(3,161)	-	(3,161)
Restated balance as at 1 January 2018	**366,497**	**659,616**	**1,026,113**
Changes from financing cash flows			
Repayment of principal term loans	-	(205,058)	(205,058)
Proceeds from short term borrowing	-	109,250	109,250
Repayment of principal on short term borrowing	-	(54,750)	(54,750)
Dividends paid	(12,341)	-	(12,341)
Total changes from financing cash flows	**(12,341)**	**(150,558)**	**(162,899)**
Changes from operating cash flows			
Interest paid on loan borrowings	-	(47,819)	(47,819)
Commitment fees on borrowings	-	(1,853)	(1,853)
Total changes from financing cash flows	**-**	**(49,672)**	**(49,672)**
Other equity-related changes			
Profit for the year	132,815	-	132,815
Proposed dividend 2018	(20,623)	-	(20,623)
Interest charge	-	49,486	49,486
Amortisation of deferred transaction costs	-	3,777	3,777
Translation differences	-	15,886	15,886
Total other equity-related changes	**112,192**	**69,149**	**181,341**
Balance as at 31 December 2018	**466,348**	**528,535**	**994,883**

29. CONCESSION FINANCIAL OBLIGATION

	2018 Ushs Million	2017 Ushs Million
At 1 January	394,985	363,025
Financing expense for the year	32,386	29,047
Foreign exchange loss	7,920	2,913
At 31 December	**435,291**	**394,985**
Maturity analysis of the concession obligation:		
Outstanding obligation	435,291	394,985
Less: Due within one year	-	-
Non-current portion of the obligation	**435,291**	**394,985**

The concession obligation is due as analysed below:

	2018 Ushs Million	2017 Ushs Million
Within one year	-	-
Between one and two years	3,976	20,226
Between two and three years	8,932	9,700
Between three and four years	42,883	8,276
Between four and five years	46,314	8,938
After five years	333,186	347,845
	435,291	**394,985**

On 1 March 2005, the Company took over the operation of the electricity power distribution network that was being operated by UEDCL under a 20-year concession arrangement. The present value of the obligation arising from the rental payments under the concession agreements at the commencement of the concession was estimated to be Ushs 219 billion (USD119 million) using a discounting rate of 8.911%. Interest is accrued annually to arrive at the present value of the concession obligation as at year end with the corresponding amount recognised as a receivables as disclosed in note 20.

No amount payable within one year has been presented since the debt service component was not included in the approved 2019 base tariffs.

30. LONG TERM INCENTIVE PLAN

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

	2018 Ushs Million	2017 Ushs Million
At 1 January	-	2,867
Provision for the year	7,035	-
Reversal of prior year provision	-	(2,878)
Foreign exchange loss	(70)	11
At 31 December	**6,965**	**-**

30. LONG TERM INCENTIVE PLAN *(Continued)*

Umeme wishes to better incentivize its workforce to deliver the Company's objectives in terms of safety, customer service, increased access and financial performance. The directors believe that an important route to achieving this goal is to have employees who are also shareholders in the Company. Consequently, the directors approved two new schemes as described below. The schemes were designed to promote employee retention and continued performance.

All Staff Award Scheme:

The participating employees were eligible for a cash award (net of applicable taxes), not exceeding the equivalent of USD 1,000 at the end of the Vesting Period of 31 December 2018, provided the Company achieved minimum financial performance targets in terms of loss reduction over the three years ending 31 December 2018. There is no shareholding requirement for participation in this Scheme. The scheme had 1,333 participating employees at 31 December 2018.

As at 31 December 2018, the Company had not achieved the minimum financial performance targets in relation to loss reduction and as such no provision has been recorded.

Long Term Incentive Plan:

This scheme was open to eligible employees in the middle and senior management grades, who were invited to apply to purchase shares in the Company to be in a position to receive a further cash award. The higher the amount that such employees invested in the Company's shares, the higher the ultimate cash award that they will receive (subject to the maximum number of qualifying shares and provided that they meet the other criteria for the cash awards). Employees who chose to buy and hold shares that, in aggregate, exceeded the maximum qualifying shares will only receive cash awards computed with reference to the maximum number of qualifying shares.

To qualify to receive the cash award under the scheme, a participating employee needed to be the registered owner throughout the Vesting Period of the specified number of qualifying shares. After the Vesting Date, the employee will receive the appropriate cash award (after deduction of any applicable taxes which may be payable), provided that the employee has fulfilled the service, qualifying shareholding and performance conditions that were specified.

The cash award that an employee may receive was dependent on the Company achieving minimum financial performance targets in terms of EBITDA over the three years ending 31 December 2018. The cash award is not dependent on the share price during the Vesting Period and at the Vesting Date. The Company achieved the minimum financial performance target in term of EBITDA over the three year ending 31 December 2018 and therefore a provision of Ushs 7,035 billion has been recognized as at 31 December 2018.

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

	Deferred Bonus Scheme	
	Number of Shares	Number of Staff
At start of the scheme	15,232,862	70
Forfeited shares - exited the scheme	(2,721,793)	(5)
At 31 December 2018	**12,511,069**	**65**

31. CUSTOMER SECURITY DEPOSITS

	2018 Ushs Million	2017 Ushs Million
At 1 January	615	130
Amount received during the year	822	740
Amount refunded during the year	(646)	(255)
At 31 December	**791**	**615**

31. CUSTOMER SECURITY DEPOSITS *(Continued)*

Customer security deposits relate to the amounts required to be paid by customers before they are connected to the power distribution system. The deposits act as security for any unpaid bills in case of termination of the energy supply agreement. The deposits paid per customer vary depending on the energy consumption of the customer as follows:

	2018 Ushs Million	2017 Ushs million
Domestic customers	0.1	0.1
Commercial customers-ordinary	0.2	0.2
Commercial customers-commercial time of use	0.5	0.5
Industrial customers-ordinary	1	1
Industrial customers-heavy	2	2

ERA issued guidelines that require the Company to ring-fence the cash held in respect of customer security deposits from any other funds of the Company. The Company is required to invest the deposits in government securities or approved assets with similar risk profile. The Company shall pay to the customer an interest rate equivalent to the annualised rate on a 360-treasury bill as published by Bank of Uganda. The guidelines were effective from 1 January 2011. The Company provided for the estimated interest payable on the security deposits for the year. Ushs 3,131 million was refunded in relation to interest on customer security deposits (2017: Ushs 3,164 million).

32 CONTRACT LIABILITIES AND DEFERRED INCOME

	Note	2018 Ushs Million	2017 Ushs Million
Deferred revenue on prepaid sales	**(a)**	8,593	6,990
Deferred construction income	**(b)**	1,431	823
Deferred capital fund – Growth Factor Revenues	**(c)**	54,131	23,733
Deferred capital fund – Non- network assets	**(d)**	6,371	5,027
Deferred capital fund – LED bulbs	**(e)**	342	660
Deferred capital fund –Skills Development	**(f)**	97	393
Deferred capital fund – Peri Urban projects	**(g)**	(2,410)	142
Deferred capital fund – Customer Rebates and Meter Testing	**(h)**	10,332	-
		78,887	**37,768**

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in note 4 (i).Due to the transition option chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirement.

The notes (a) to (h) describe the nature of transactions and movements in Contract liabilities.

a) Deferred Revenue On Pre-paid Sales

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

As at 31 December 2018, Ushs 6,360 million (2017: Ushs 4,890 million) sales to GOU-TOU had not been consumed while it was estimated that 6% of the pre-paid electricity tokens purchased by domestic customers in December 2018 by customers had not been consumed (2017: 8%).

32 CONTRACT LIABILITIES AND DEFERRED INCOME *(Continued)*

	2018 Ushs Million	2017 Ushs Million
b) Deferred construction income		
At 1 January	823	257
Amount received	22,545	29,545
Amount utilized	(22,142)	(28,915)
Foreign exchange loss	205	(64)
Unutilized customer contributions at 31 December	**1,431**	**823**

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 cost of sales when utilized.

c) Deferred capital fund – Growth Factor Revenues	2018 Ushs Million	2017 Ushs Million
At 1 January	23,733	-
Amount billed	30,398	23,733
At 31 December	**54,131**	**23,733**

As indicated in note 6(a), the balance as at 31 December 2018 relates to the amount billed to customers for funding construction of assets approved by ERA but not utilised.

d) Deferred capital fund – Non network assets	2018 Ushs Million	2017 Ushs Million
At 1 January	5,027	3,239
Amount billed	9,345	6,044
Amount utilised on purchasing non-network assets	(7,996)	(3,790)
Foreign exchange loss	(5)	(466)
At 31 December	**6,371**	**5,027**

	2018 Ushs Million	2017 Ushs Million
The amount utilised was spent as follows:		
Furniture & Fittings, Tools & Office Equipment	39	287
Computers, Communication Equipment& Management Information System	1,593	527
Motor vehicles	6,364	2,976
	7,996	**3,790**

As indicated in note 6(b), the balance as at 31 December 2018 relates to the amount billed to customers for funding non-network assets but not utilised.

32. CONTRACT LIABILITIES AND DEFERRED INCOME *(Continued)*

e) Deferred capital fund – LED bulbs

As at 31 December 2018, funds worth Ushs 342 million (2017: Ushs 660 million) collected from customers in the prior years to improve efficiency of the demand side energy through the use of LED bulbs had been committed but not yet utilised.

f) Skills Development

This relates to funds received for Skills Development Program within the Electricity Sector. The Company utilized Ushs 302 million during the year in relation to skills training and development.

g) Peri-Urban Development

This relates to funds received from Development Fund Institutions (DFIs) through REA for providing electricity access to customers that are within range of the electricity grid but do not have access. As at 31 December 2018, funds worth Ushs 2,410 million were utilized but not yet received from REA. (2017: Ushs 142 million was received but not utilised).

h) Customer Rebates and Meter Testing

As at 31 December 2018, funds worth Ushs 10,233 million (2017: nil) was collected from customers in the in relation to industrial rebate policy. There was no utilization during the year. Ushs 250 million relating to meter testing was collected and utilized during the year.

33. PROVISIONS

	2018 Ushs Million	2017 Ushs Million
At 1 January	**25,088**	**40,104**
Provision for the period	115,902	117,015
Utilizations/payments	(110,810)	(139,220)
Foreign exchange (gain)/loss	(19)	7,189
At 31 December	**30,161**	**25,088**

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

34. TRADE AND OTHER PAYABLES

	2018 Ushs Million	2017 Ushs Million
Trade payables	366,631	390,516
Accrued expenses and other payables	35,489	9,783
Withholding tax payable	2,223	2,247
Advance payments by energy customers	6,066	6,618
VAT Payable	3,903	-
	414,312	**409,164**

Trade and other payables are non-interest bearing and normally settled on 30-60 days' terms. Trade payables includes Ushs 248,155 million (2017: Ushs 254,533 million) due to UETCL. The balance of Ushs 118,476 million (2017: Ushs 135,983 million) is due to contractors and other service providers.

Accrued expenses also include performance bonus accrual of Ushs 10,068 million (2017: Ushs 7,951 million). Ushs 6,674 million (2017: Ushs 5,019 million) was paid during the year.

35. SHORT TERM BORROWINGS

	Note	2018 Ushs Million	2017 Ushs Million
Overdraft		39,490	44,157
Less: Deferred transactions costs	(a)	(361)	(488)
		39,129	**43,669**

(a) Deferred transaction costs

	2018	2017
At 1 January	488	644
Amortisation for the year	(137)	(160)
Foreign exchange gain	10	4
At 31 December	**361**	**488**

As at 31 December 2018, the Company had drawn down Ushs 39,490 million, USD 11 million (2017: Ushs 44,157 million, USD 12 million) from Standard Chartered Bank, Stanbic Bank and DFCU Bank under the revolving credit facilities as disclosed in Note 28. The revolving credit facility attracts interest based on the Treasury Bill rate + a margin (if withdrawn in Ushs) or LIBOR + a margin (if withdrawn in USD dollars). As 31 December 2018, the outstanding amount withdrawn was in Ushs and USD. The applicable interest rate as at year-end was Ushs – 16.141% and USD – 10.142%. (2017: Ushs – 21.415% and USD - 9.118%). Other terms and conditions are as disclosed in Note 28.

36. CASH AND CASH EQUIVALENTS

	2018 Ushs Million	2017 Ushs Million
Bank balances (note 24)	21,208	22,044
Short term borrowings (note 35)	(39,129)	(43,669)
Bank balances not available for use (note 31)	(791)	(615)
	(18,712)	**(22,240)**

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

37. LETTERS OF CREDIT

As of 31 December 2018, the Company had letters of credit facilities with Standard Chartered Bank Uganda Limited. The letters of credit facilitate the purchase and importation of equipment for the Distribution Network and related electricity distribution accessories. A total of Ushs 1,085 million (2017: Ushs 4 million) had been deposited under the letters of credit facilities as at 31 December 2018 as disclosed in Note 23. 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 2018, the Company also had letters of credit with Standard Chartered Bank Uganda Limited amounting to Ushs 5,858 million (2017: Ushs 16,010 million) with no cash cover. These are covered by the goods under importation and insurance.

Notes to the Financial Statements *(continued)*

38. RELATED PARTIES

Other Directors' Interests

At the date of this report, the following directors held directly an interest in the Company's ordinary issued share capital as reflected in the table below:

Director	Number of shares	% of shareholding	Number of shares	% of shareholding
	2018		2017	
Selestino Babungi	3,900,000	0.24%	3,900,000	0.29%
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 of key management personnel	2018 Ushs Million	2017 Ushs Million
Directors emoluments and expenses	3,017	3,151
Contribution to NSSF	352	465
Share based payments	-	-

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, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA)

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

	2018		2017	
	Ushs Million	USD '000	Ushs Million	USD '000
Operating profit before amortisation	347,697	93,201	211,885	58,542
Foreign exchange losses/(gains)	6,076	1,628	(2,401)	(664)
Effects of Amendment 5 – Impairment note 10	-	-	115,237	31,869
Total EBITDA	**353,773**	**94,829**	**324,721**	**89,747**

40. CONTINGENT ASSET

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

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

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

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

41. CONTINGENT LIABILITIES

Legal Claims And Tax Assessments

a) Legal Claims

The Company is a defendant in various legal actions arising in the normal course of business. The Company has also been advised by its Legal Counsel that it is only possible and not probable that cases worth Ushs 1.8 billion will succeed. Accordingly, no provision for any liability relating to these cases has been made in these financial statements. The Company is defending itself against these actions and therefore it is not practical to state the timing of the payment, if any.

b) Tax Dispute – Tax Treatment Of Concession Assets

Uganda Revenue Authority (URA) conducted a tax audit during the period. URA noted that all investments in the Distribution Network (concession assets) accounted for under concession accounting (IFRIC 12) in the financial statements should have been treated as intangible assets on adoption of IFRIC 12 in 2008 for purposes of determining taxable income, and that the Company is not entitled to tax depreciation allowances. URA 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 tax as a result of utilisation of carry forward tax losses and tax credits. The assessed amount was Ushs 9.2 billion as principal tax, interest and penalties from carry forward tax losses and Ushs 4.2 billion relating to utilisation of tax credits.

The Company objected to this assessment, on similar grounds as those adopted in the treatment of Concession assets noted below:

- Based on the Income Tax Act (ITA) cap 340, URA should use specific principles of taxation for purposes of determining taxable income and not just accounting standards as the sole basis for determination of taxable income.
- 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 concession agreement between Umeme Limited and Government of Uganda conferred to Umeme the right to claim capital allowances for investments in the modification of the distribution network.
- The tax losses and tax credit that the Company utilised are directly related to Umeme's tax treatment of its capital investments and were utilised in accordance with the Income Tax Act.

The Directors believe, following consultation with the company's Tax Consultants and Legal Counsel that the Company has a high chance of having this dispute determined in its favour. The consent judgement reached in 2015 between Umeme and URA with respect to these items did not remove the rights of either party with regards to the tax treatment of Concession assets.

c) Interest And Penalties Relating To The 2016 Restatement Of Revenue

URA issued an assessment indicating the restatement of the Company's 2016 financial statements resulting from recognition of lifeline revenue led to an under provision of the corporation tax amounting to Ushs 9.48 billion and the related automatic interest and penalties of 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 it in to URA in 2018. However, the Company is in the process of objecting to the interest and penalties based on the following;

Although the under provision of the lifeline revenue resulted in a restatement of the Company's 2016 financial statements, the income relating to this under provision was not taxable in 2016. The income became taxable when ERA acknowledged the under provision and approved recovery through the 2018 tariff. This is based on interpretation of Section 42 of the Income Tax Act (ITA) explained in detail below.

41. CONTINGENT LIABILITIES *(Continued)*

Legal claims and tax assessments (continued)

c) Interest and Penalties relating to the 2016 Restatement of Revenue (continued)

For income tax purposes, Section 42(2) of the Income Tax Act (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.
2. Subject to the Income Tax Act, 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 installments."

The directors therefore, in consultation with the Company's Tax Consultants and Legal Counsel, believe that the Company has a high chance of having this dispute determined in its favour. Accordingly, no provision for any liability relating to these matters has been made in these financial statements.

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 Note 18.

Concession commitments

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

	Minimum Rental Payments Ushs Million	Present Value of Payments Ushs Million
At 31 December 2018:		
Within one year	-	-
After one year but not more than five years	102,105	119,262
After five years	333,186	1,607
	435,291	**120,869**
Less: Amounts representing finance charges	(314,422)	-
Present value of minimum rental payments	**120,869**	**120,869**
At 31 December 2017:		
Within one year	-	-
After one year but not more than five years	47,140	68,673
After five years	347,845	3,425
	394,985	72,098
Less: Amounts representing finance charges	(322,887)	-
Present value of minimum rental payments	**72,098**	**72,098**

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 assets but not ownership" and thus assumed the exclusive right to use, maintain and retire the Distribution Network Assets and related systems and retransfer the assets back to UEDCL after 20 years, unless the contract is terminated before that date.

   Umeme is required to make monthly rental payments into an "Escrow Account" for the assets under concession, Assigned Interest and Other Rights equivalent to: - debt service for loans of UEDCL; actual depreciation and interest expenses related to the portion of the assets under concession assets acquired on or after 1 January 2002; a maximum return on equity of 10% on the asset carrying amount effective January 2009; and administration fees. Umeme will always receive the rental payments made to UEDCL regardless of the performance of the Distribution Network assets that were taken over from UEDCL and therefore the Company does not assume any demand risk. Umeme has, in terms of the rental payments, an unconditional right to receive cash as indicated in Note 20. The right to receive cash is accounted for by the Company as a financial asset.

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

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

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

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

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

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

43. CONCESSION ARRANGEMENT *(Continued)*

License for Supply and Distribution of Electricity

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

Escrow Agreement

This agreement was signed on 18 February 2005 between UEDCL and Umeme to establish an "Escrow Account" with Citibank N.A., London, the appointed "Escrow Agent". The account was opened and initially funded by UEDCL and thereafter by Umeme's monthly deposit of rental payments due to UEDCL under the LAA. Although the escrow amount is exclusively owned by UEDCL, in combination with a "Letter of Credit" facility funded by World Bank and issued by the Escrow Agent, the escrow amount will accumulate up to a predetermined amount ("the Required Amount") that would be used to compensate Umeme in the event of certain contingencies defined in the LAA and will also serve as security for government obligations under the Support Agreement. At the time of issuing these financial statements, the Escrow Account was depleted and not funded.

44. RISK MANAGEMENT

Regulatory and environmental risks

The Company is subject to laws and regulations in various jurisdiction in which it operates. The
Company has established regulatory and environmental policies and procedures aimed at compliance with regulatory, environmental and other laws.

Financial Risks

The Company's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its 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 two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include term loans, trade payables and short term borrowings.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2018 and 2017. 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 31 December 2018.The analyses exclude the impact of movements in market variables on: the carrying values of pension obligations; provisions; and the non-financial assets.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item 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 2018 and 2017.

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 long-term debt obligations with floating interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Company's policy is to maintain borrowings at fixed rates of interest of not more than 50%. To manage this, the Company enters into interest rate swaps, 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.

As at 31 December 2016, USD 95 million of the Company's term borrowing facilities (A and B) were fixed by interest rate swaps. The swaps expired at mid-night on 31 December 2016 without a renewal in 2017 and 2018. The Company is currently assessing the viability of entering into another hedge arrangement.

As at the reporting date, USD 152 million of the Company's term borrowings and bank overdraft had variable interest rates. The interest rate risk exposure arising from the facilities, assuming an increase/decrease in interest rates by 3% is a decrease/increase in profit before tax and equity of Ushs 450 million (2017: Ushs 565 million) and Ushs 521 million (2017: Ushs 710 million) respectively.

44. RISK MANAGEMENT *(Continued)*

Market Risk (Continued)

Interest rate risk (Continued)

The Company also has interest bearing demand bank deposits but these do not present a material interest rate risk exposure to the Company given the very low interest rates offered by the banks for such deposits.

Foreign Exchange Risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's activities (when revenue or expense is denominated in a different currency from the Company's functional currency). The Company's operations are only in Uganda and the main income from power sales is billed in the local currency while significant costs of equipment and material purchases are denominated in foreign currencies. A significant portion of the Company's borrowings is in US Dollars. Foreign exchange spot rates are negotiated with banks on a competitive basis. The Company's functional currency is USD.

Foreign Currency Sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Company's profit before tax and pre-tax equity is due to changes in the fair value of monetary assets and liabilities.

	Change in USD Rate	Effect on Profit Before Tax Ushs Million	Effect on Pre-Tax Equity Ushs Million
2018	+5%	5,840	4,088
	-5%	(5,840)	(4,088)
2017	+5%	14,032	9,823
	-5%	(14,032)	(9,823)

However, the Company's exposure to foreign exchange risk is mitigated through a provision in the tariff methodology that allows for adjustment for foreign exchange rate movements on a quarterly basis for the company's revenue requirements denominated in US Dollars. The components include return on investment and related tax allowance, capital recovery and US Dollar denominated operating costs. The Company's capital investments are also denominated in US Dollars, and the annual capital recovery is translated to Uganda Shillings on quarterly basis per the ruling exchange rate. As such, the impact of variations in foreign exchange rates on the results and equity of the Company are minimum, as there is a foreign exchange hedge through the tariff mechanism, subject to the USD denominated liabilities being lower than the USD revenue streams and quarterly lag in exchange rate adjustments.

44. RISK MANAGEMENT *(Continued)*

Foreign Currency (Continued)

The table below summarises the Company's potential exposure to foreign currency exchange rate risk as at 31 December 2018 and 31 December 2017. The table includes financial instruments and all balances are in millions of Uganda Shillings.

At 31 December 2018	USD	GBP	EURO	ZAR	KES	Ushs	TOTAL
Financial assets							
Other financial asset	679,017	-	-	-	-	-	679,017
Concession financial asset	435,291	-	-	-	-	-	435,291
Trade and other receivables	-	-	-	-	-	199,496	199,496
Bank balances	1,904	-	-	-	-	19,304	21,208
Total financial assets	**1,116,212**	**-**	**-**	**-**	**-**	**218,800**	**1,335,012**
Financial liabilities							
Borrowings	528,535	-	-	-	-	-	528,535
Concession obligation	435,291	-	-	-	-	-	435,291
Trade and other payables	78,273	1,568	296	244	29	333,902	414,312
Long term incentive plan	6,965	-	-	-	-	-	6,965
Bank overdraft	-	-	-	-	-	39,490	39,490
Total financial liabilities	**1,049,064**	**1,568**	**296**	**244**	**29**	**373,392**	**1,424,593**
Overall open position	**67,148**	**(1,568)**	**(296)**	**(244)**	**(29)**	**(154,592)**	**(89,581)**

At 31 December 2017	USD	GBP	EURO	ZAR	KES	Ushs	TOTAL
Financial assets							
Other financial asset	499,770	-	-	-	-	-	499,770
Concession financial asset	394,985	-	-	-	-	-	394,985
Trade and other receivables	-	-	-	-	-	317,392	317,392
Bank balances	5	-	-	-	-	22,039	22,044
Total financial assets	**894,760**	**-**	**-**	**-**	**-**	**339,431**	**1,234,191**
Financial liabilities							
Borrowings	659,616	-	-	-	-	-	659,616
Concession obligation	394,985	-	-	-	-	-	394,985
Trade and other payables	85,802	257	217	-	122	314,868	401,266
Bank overdraft	-	-	-	-	-	-	-
Total financial liabilities	**1,140,403**	**257**	**217**	**-**	**122**	**314,868**	**1,455,867**
Overall open position	**(245,643)**	**(257)**	**(217)**	**-**	**(122)**	**24,563**	**(221,676)**

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

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

44. RISK MANAGEMENT *(Continued)*

Credit Risk (continued)

Trade Receivables and Cash Deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy

Customer credit risk from trade receivables is managed by the Company's revenue cycle unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.The Company uses financial institutions regulated by Bank of Uganda and approved by the Board of Directors. Major suppliers are approved following specific eligibility criteria and provide performance guarantees or enter into Letter of Credit contracts. Customers are required to pay security deposits before being connected to the Distribution Network equivalent to three months' estimated energy consumption, unpaid amounts from Government of Uganda bodies are recoverable through contractual rights in the concession agreements, 75.3% of domestic consumers are connected to pre-paid metering and there is a target uncollected debt provision in the tariff methodology to mitigate against unrecoverable receivables.The concession agreements have additional comprehensive mechanisms to mitigate against performance failures of contract parties.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., customer (tariff category)). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 23.The Company does not hold collateral as security.

The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions with varying customer (tariff) category mix as defined by ERA.The maximum exposure arising from trade receivables is the carrying amount as disclosed in Note 23 less customer security deposits as follows:

	2018 Ushs Million	2017 Ushs Million
Gross amount of trade receivables (Note 23)	215,475	256,214
Customer security deposits (Note 31)	(791)	(615)
Maximum exposure	**214,684**	**255,599**

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity Risk

The Company monitors its risk of shortage of funds using budget analysis. This involves analysing maturities of both its financial investments and financial assets (e.g. trade receivables and bank balances) and projected cash flows from operations.The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings, equity and cash collections from customers. 39% of the Company's debt will mature in less than one year after 31 December 2018 (2017:37%) based on the carrying value of the current liabilities reflected in the financial statements.

The primary objective of the Company's liquidity management is to ensure that it maintains compliance with the creditor commitments and obligations.To maintain or adjust the liquidity position, the Company may call for more capital from shareholders, get/draw from financing facilities or adjust the timing of capital expenditure and / or repayments to some creditors, where possible. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.The Company has access to a sufficient variety of sources of funding, and debt maturing within 12 months can be rolled over with existing lenders.

44. RISK MANAGEMENT *(Continued)*

Liquidity risk (continued)

Excessive Risk Concentration

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. 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. Identified concentrations of credit risks are controlled and managed accordingly.

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

At 31 December 2018	Up to 1 Month Ushs	1 - 3 Months Ushs	3 - 12 Months Ushs	Over 1 year Ushs	Total Carrying Amounts Ushs	Total Commitments Ushs
Financial assets						
Buyout Amount	-	-	-	679,017	679,017	679,017
Concession financial asset	-	-	-	435,291	435,291	435,291
Trade and other receivables	93,102	19,099	111,986	66,551	290,738	290,738
Bank balances	21,208	-	-	-	21,208	21,208
Total financial assets	**114,310**	**19,099**	**111,986**	**1,180,859**	**1,426,254**	**1,426,254**
Financial liabilities						
Concession obligation	-	-	-	435,291	435,291	435,291
Borrowings: Facility A and B	-	-	185,335	350,221	535,556	535,556
Trade and other payables	139,065	139,310	52,742	83,195	414,312	414,312
Long term incentive scheme	-	-	6,965	-	6,965	6,965
Bank overdraft	39,490	-	-	-	39,490	39,490
Total financial liabilities	**178,555**	**139,310**	**245,042**	**868,707**	**1,431,614**	**1,431,614**
Overall open position	**(64,245)**	**(120,211)**	**(133,056)**	**312,152**	**(5,360)**	**(5,360)**

44. RISK MANAGEMENT *(Continued)*

Liquidity risk (continued)

At 31 December 2017	Up to 1 Month Ushs	1 - 3 Months Ushs	3 - 12 Months Ushs	Over 1 year Ushs	Total Carrying Amounts Ushs	Total Commitments Ushs
Financial assets						
Financial Asset - Buyout	-	-	-	499,770	499,770	499,770
Concession financial asset	-	-	-	394,985	394,985	394,985
Trade and other receivables	93,102	18,018	191,830	69,611	372,561	372,561
Bank balances	22,044	-	-	-	22,044	22,044
Total financial assets	**115,146**	**18,018**	**191,830**	**964,366**	**1,289,360**	**1,289,360**
Financial liabilities						
Concession obligation	-	-	-	394,985	394,985	394,985
Borrowings: Facility A and B	-	-	198,656	468,900	667,556	667,556
Trade and other payables	87,610	143,658	85,789	84,209	401,266	401,266
Long term incentive scheme	-	-	-	-	-	-
Bank overdraft	44,157	-	-	-	44,157	44,157
Total financial liabilities	**131,767**	**143,658**	**284,445**	**948,094**	**1,507,964**	**1,507,964**
Overall open position	**(16,621)**	**(125,640)**	**(92,615)**	**16,272**	**(218,604)**	**(218,604)**

Fair Value

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

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

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

Fair Value Measurement Using					
	Date of valuation	Total Ushs million	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Borrowings	31-Dec-18	535,556		535,556	
	31-Dec-17	667,556	-	667,556	-
Concession financial asset/ liability	31-Dec-18	435,291	-	435,291	-
	31-Dec-17	394,985	-	394,985	-
Other financial asset	31-Dec-18	721,637	-	-	721,637
	31-Dec-17	499,770	-	-	499,770

Notes to the Financial Statements *(continued)*

44. RISK MANAGEMENT *(Continued)*

Fair value (continued)

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

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

	Valuation Technique	Significant observable inputs	Range (weighted average)	
			2018	2017
Borrowings	Market Approach – Discounted cash flows	Market interest rates for similar instruments	12.12% -12.43%	12.44% -12.56%
Concession financial asset/liability		Market interest rates for similar instruments	0.64%	0.64%

Capital Management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders. The primary objective of the Company's capital management is to maximise the 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 and trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Company. The Company aims to maintain a gearing ratio of between 50% and 70%. The Company's gearing ratio as at 31 December 2018 was 56% (2017:63%) as shown in the table below:

	Note	2018 Ushs Million	2017 Ushs Million
Borrowings	28	528,535	659,616
Trade and other payables	34	414,312	401,266
Less: Cash and cash equivalents	36	(18,712)	(22,240)
Net debt		**924,135**	**1,038,642**
Issued capital	25	27,748	27,748
Share premium	26	70,292	70,292
Retained earnings		624,160	519,629
Total capital		**722,200**	**617,669**
Net debt and capital		**1,646,335**	**1,656,311**
Gearing ratio		**56%**	**63%**

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

44. RISK MANAGEMENT *(Continued)*

Capital management (continued)

Ratio	Covenant	Actual 2018	Actual 2017
Interest Cover	≥ 2.5 : 1	5.78	4.81
Adjusted leverage	≤ 3.0 : 1	1.50	2.05
Relevant Financial Indebtedness to Equity	≤ 2.5 : 1	0.75	0.98
Debt Service Cover	≥ 1.15 : 1	1.36	1.15
Buy-Out Amount to Relevant Facility Amount	≥ 1.1 : 1	2.85	2.22

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

45. EVENTS AFTER THE REPORTING DATE

There were no reportable events after the reporting date.

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 core business activities are electricity distribution and electricity supply and service after sales. Electricity distribution entails operation, maintenance and upgrading of the electricity distribution network not exceeding 33 Kilovolts (KV) within the authorised territory within Uganda. Electricity supply and service after sales that entails connection of new customers, meter reading, billing customers, revenue collection, addressing customer queries, restoration of power interruptions, general customer care, customer sensitisation on energy efficiency and marketing available power to customers. The revenue from these business activities is categorised into energy sales (billings to customers), construction income, other regulated income and other non-regulated income as presented in Note 6.

The Company's customers are categorised into domestic, commercial, medium industrial, large industrial and street lighting. The retail tariff rates are broken into categories based on the type of customer and generally charged based on relative usage levels plus a fixed monthly service charge. The ERA approved base retail tariff rates for 2018, effective as of 1 January 2018, are shown in the table below:

46. SEGMENT INFORMATION *(Continued)*

Customer segment	Description	Based on usage		Fixed monthly charge
		Usage	Ushs/kWh	Ushs
Domestic Consumers - Code 10.1	Low voltage supply at 240 volts to residential houses, small shops and kiosks	Lifeline charge applicable for the first 15 Units in a month	250	3360
		Energy above 15 units (Shs/kWh)	769.5	
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	686.1	3360
Medium industrial	Low voltage supply to medium scale industries, taking power at low voltage (415 V), with maximum demand of up to 500kVA	Peak, Shoulder and Off Peak	614.4	22,400
Large industrial	High voltage supply to large scale industrial users, taking power at high voltage (11,000 or 33,000 V), with maximum demand exceeding 500kVA but up to 1500 kVA	Peak, Shoulder and Off Peak	382.0	70,000
		Additional maximum demand charge		
		Additional maximum demand charge		
Extra Large Industrial Consumers - Code 40	High Voltage 11,000V or 33,000V, with maximum demand exceeding 1,500kVA and dealing in Manufacturing	Peak, Shoulder and Off Peak	312.5	70,000
		Additional maximum demand charge		
		Additional maximum demand charge		
Street lighting	Supply for street lighting in cities, municipalities, towns, trading centres and community centres	Average	752.2	-

The Company submits its tariff application to ERA once each year, including the fixed targets and updates for actual performance. The retail tariff is set annually from January, and is adjusted quarterly for changes in changes in foreign exchange rates, oil prices and inflation. Refer to ERA website - www.era.or.ug, for quarterly tariffs applicable to 2018.

The revenue generated from each of the above customer categories is as presented in Note 6. The Company's operations are restricted to distribution of electricity to consumers in Uganda. No single customer contributes revenue amounting to more than 10% of the Company's revenue. All the Company's assets are located in Uganda.

Supplementary Information

CONCESSION ASSETS: UMEME FUNDED ASSETS

The value of the tangible assets that form the basis of the Company's 'Other concession rights' presented in Note 18 is made up as follows:

	Substations, Low Voltage Lines & Services Ushs Million	Land & Buildings Ushs Million	Furniture & Fittings, Tools & Office Equip Ushs Million	Computers, Comm. Equip't & MIS Ushs Million	Motor Vehicles Ushs Million	CWIP Ushs Million	Total Ushs Million
At 1 January 2017	**1,428,043**	**17,455**	**20,629**	**52,804**	**26,301**	**117,034**	**1,662,266**
Additions	-	-	-	-	-	236,427	236,427
Transfer from CWIP	232,130	470	2,408	3,504	47	(238,559)	-
Disposals	(16,284)	(11)	(1,541)	-	(3,335)	-	(21,171)
Transfer to financial asset	(433,690)	-	-	-	-	-	(433,690)
Translation difference	9,029	134	159	419	171	856	10,768
At 31 December 2017	**1,219,228**	**18,048**	**21,655**	**56,727**	**23,184**	**115,758**	**1,454,600**
Additions	-	-	-	-	-	230,600	230,600
Transfer from CWIP	209,927	122	2,794	837	16	(213,696)	-
Disposals	(13,318)	(6)	(82)	(3)	(31)	-	(13,440)
Transfer to financial asset	(159,144)	-	-	-	-	-	(159,144)
Translation difference	24,736	293	502	1,151	473	2,294	29,449
At 31 December 2018	**1,281,429**	**18,457**	**24,869**	**58,712**	**23,642**	**134,956**	**1,542,065**
Depreciation							
At 1 January 2017	**252,562**	**3,663**	**17,060**	**49,150**	**24,075**	**-**	**346,510**
Charge for the year	79,658	713	1,006	554	614	-	82,545
Disposals	(6,504)	-	-	-	-	-	(6,504)
Translation difference	9,096	196	(404)	2,765	(1,977)	-	9,676
At 31 December 2017	**334,812**	**4,572**	**17,662**	**52,469**	**22,712**	**-**	**432,227**
Charge for the year	89,501	640	1,564	1,050	3	-	92,758
Disposals	(1,760)	-	-	-	-	-	(1,760)
Translation difference	5,359	114	560	1,689	700	-	8,422
At 31 December 2018	**427,912**	**5,326**	**19,786**	**55,208**	**23,415**	**-**	**531,647**
Net carrying amount							
At 31 December 2018	**853,517**	**13,131**	**5,083**	**3,504**	**227**	**134,956**	**1,010,418**
At 31 December 2017	**884,416**	**13,476**	**3,993**	**4,258**	**472**	**115,758**	**1,022,373**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 IN US DOLLARS

BASIS OF TRANSLATION

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

The translation is done in accordance with the Company's accounting policy as disclosed in note 2 (b). The rates applicable for 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Average rate	3,732	3,616	3,423
Year-end rate	3,717	3,642	3,616

Source: Bank of Uganda

Supplementary Information *(continued)*

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 31 DECEMBER 2018

	2018 USD '000	2017 USD '000
Revenue from contracts with customers	400,297	410,702
Cost of sales	(244,610)	(265,669)
GROSS PROFIT	**155,687**	**145,033**
Repair and maintenance expenses	(12,244)	(10,409)
Administration expenses	(48,139)	(44,877)
Effects of Amendment 5	-	(31,869)
Foreign exchange losses/(gains)	(1,628)	664
Other expenses	(475)	(194)
OPERATING PROFIT BEFORE AMORTISATION	**93,201**	**58,348**
Amortisation of intangible assets	(27,822)	(27,516)
OPERATING PROFIT	**65,379**	**30,832**
Finance income	11,711	8,254
Finance costs	(24,785)	(26,985)
PROFIT BEFORE TAX	**52,305**	**12,101**
Income tax expense	(16,515)	(2,531)
PROFIT FOR THE YEAR	**35,790**	**9,570**

	2018 USD	2017 USD
BASIC AND DILUTED EARNINGS PER SHARE	**0.02**	**0.01**

Supplementary Information *(continued)*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 USD '000	2017 USD '000
Profit for the year	**35,790**	**9,570**
Other comprehensive income		
Foreign exchange translation differences	(1,521)	(9,115)
Total comprehensive income for the year	**34,269**	**455**

Supplementary Information *(continued)*

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	2018 USD '000	2017 USD '000
ASSETS		
Non-current assets		
Intangible assets	272,209	281,079
Other Financial Asset	182,691	137,209
Concession financial asset	117,116	108,441
	572,016	**526,729**
Current assets		
Inventories	17,395	16,059
Contract assets	1,222	3,421
Tax recoverable	4,939	2,230
Trade and other receivables	53,674	87,138
Prepayments	7,895	3,396
Bank balances	5,706	6,052
	90,831	**118,296**
TOTAL ASSETS	**662,847**	**645,025**
EQUITY AND LIABILITIES		
Equity		
Issued capital	8,217	8,217
Share premium	20,815	20,815
Retained earnings	175,912	149,661
Reserves	(10,636)	(9,115)
	194,308	169,578
Non-current liabilities		
Borrowings	92,339	126,554
Concession obligation	117,116	108,441
Deferred income tax liability	55,794	44,163
	265,249	**279,158**
Current liabilities		
Borrowings	49,865	54,540
Customer security deposits	214	169
Contract liabilities	21,223	10,369
Long term incentive plan	1,874	-
Provisions	8,115	9,056
Trade and other payables	111,471	110,166
Short term borrowings	10,528	11,989
	203,290	**196,289**
TOTAL EQUITY AND LIABILITIES	**662,847**	**645,025**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Issued Capital USD '000	Share Premium USD '000	Translation Reserve USD '000	Retained Earnings USD '000	Total Equity USD '000
At 1 January 2017	8,217	20,815	-	143,635	172,667
Profit for the period	-	-	-	9,570	9,570
Other comprehensive loss, net of tax	-	-	(9,115)	-	(9,115)
Total comprehensive income for the year, net of tax	**-**	**-**	**(9,115)**	**9,570**	**455**
Dividend paid	-	-	-	(3,544)	(3,544)
At 31 December 2017	**8,217**	**20,815**	**(9,115)**	**149,661**	**169,578**
At 1 January 2018	**8,217**	**20,815**	**(9,115)**	**149,661**	**169,578**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	(822)	(822)
At 1 January 2018 - Restated	**8,217**	**20,815**	**(9,115)**	**148,839**	**168,756**
Profit for the period	-	-	-	35,790	35,790
Other comprehensive income, net of tax	-	-	(1,521)	-	(1,521)
Total comprehensive income for the year, net of tax	**-**	**-**	**(1,521)**	**35,790**	**34,269**
Dividend paid	-	-	-	(3,210)	(3,210)
Dividend Declared	-	-	-	(5,507)	(5,507)
At 31 December 2018	**8,217**	**20,815**	**(10,636)**	**175,912**	**194,308**

Supplementary Information *(continued)*

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 USD '000	2017 USD '000
Profit before tax	52,305	12,101
Adjustment for:		
Interest received from banks	(85)	(133)
Finance income on concession financial asset	(8,675)	(8,033)
Amortisation of intangible assets	24,880	24,662
Impairment/loss on disposal of intangible assets	3,134	4,056
Interest expense on borrowings	13,656	12,481
Amortisation of deferred transaction costs on borrowings	790	1,966
Finance cost on concession obligation	8,675	8,033
Fair value loss on valuation of other financial asset	-	2,193
Impairment of other financial asset	97	-
Finance income on other financial asset	(2,951)	(88)
Cash flows before working capital movements	**91,826**	**57,238**
Changes in:		
Inventories	(1,337)	(703)
Contract assets	2,199	(1,490)
Trade and other receivables	32,291	15,033
Prepayments	(4,499)	2,024
Contract liabilities	10,854	8,432
Long term incentive plan	1,874	(793)
Provisions	1,365	1,133
Trade and other payables	(6,546)	17,403
Cash generated from operating activities	**128,027**	**98,277**
Interest received from banks	85	133
Interest paid on borrowings	(12,597)	(12,447)
Commitment fees on borrowings	(499)	(685)
Current income tax paid	(8,762)	(1,039)
Net cash flows from operating activities	**106,254**	**84,239**
Investing activities		
Purchase of intangible assets	(61,784)	(65,385)
Net cash flows used in investing activities	**(61,784)**	**(65,385)**
Financing activities		
Repayment of principal on term loans	(54,506)	(34,506)
Proceeds from short term borrowing	-	20,000
Proceeds from short term revolving facility	29,258	-
Repayment of principal on short term revolving facility	(14,934)	-
Dividends paid	(3,209)	(3,544)
Net cash flows from financing activities	**(43,391)**	**(18,050)**
Net increase in cash and cash equivalents	**1,079**	**804**
Cash and cash equivalents at 1 January	(6,106)	(6,902)
Foreign exchange differences	(9)	(8)
Cash and cash equivalents at 31 December	**(5,036)**	**(6,106)**

Acronyms

ABC	Aerial Bandwidth Conductor
AGM	Annual General Meeting
CAPEX	Capital Expenditure
C&R	Corporate & Regulatory
CCD	Contracts Capital Division
CCRO	Chief Corporate and Regulatory Officer
CSR	Corporate Social Responsibility
CSLR	Customer Service and Loss Reduction
CUS	Customer Service
CWIP	Capital Work in Progress
DEMS	Domestic Metering Unit
DOMC	Distribution Operating and Management Costs
EBITDA	Earnings Before Interest Tax Depreciation and Amortisation
ESG	Environmental, Social and Governance
ECP	Electricity Connections Policy
GDP	Gross Domestic Product
GoU	Government of Uganda
ERA	Electricity Regulatory Authority
HR	Human Resources
ICT	Information and Communications Technology
IFC	International Finance Corporation
IT	Information Technology
LED	Light-Emitting Diode
LV	Low Voltage
MCCBs	Moulded Case Circuit Breaker
MV	Medium Voltage
NAM	Network Asset Management
NGO	Non-Governmental Organisation
NITA	National Information Technology Authority
Opex	Operating Expenditure
Ops	Operations
ORHVS	Operating Regulations for High Voltage Systems
PCB	Polychlorinated Biphenyls
PSP	Power Supply Price
RQ	Reconciling Amount
SHE	Safety Health and Environment Committee
SMT	Senior Management Team
UEDCL	Uganda Electricity Distribution Company Limited
UETCL	Uganda Electricity Transmission Company Limited
UEGCL	Uganda Electricity Generation Company Limited
URA	Uganda Revenue Authority

Powering Uganda

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Umeme Limited will be held at the Kampala Serena Hotel, Victoria Hall on Thursday 9th May, 2019 at 9:30am to conduct the following business:

Ordinary Resolutions

1. To receive the Annual Financial Statements for the year ended 31 December 2018 and the Directors and Auditors reports thereon;
2. To receive and adopt the recommendation of the Directors on the declaration of a final dividend for 2018;
3. To approve the appointment of external auditors for the year 2019 and authorize the Board to set the auditor 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:

   i. Pieter Adriaan Faling
   ii. Patrick Bitature
   iii. Anthony Marsh

5. To approve the renumeration of the Non-Executive Directors.
6. To conduct any other business that may be conducted at the AGM.

Notes

1. AGM Rights

Umeme Limited Shareholders may attend, speak and vote at the AGM or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the AGM on behalf of such shareholders. A proxy form is included in the 2018 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 6th May 2019.

2. Dividend Payment

The dividend, if approved at the AGM, will be paid on or about 15th July 2019, to shareholders whose names appear on the share register at close of business on 25th June 2019. Shareholders are advised to contact their brokers to update their bank account details. Shareholders desiring to receive their payments through mobile money are encouraged to visit the Company's Share Registrar, Custody &Registrars Services Uganda Ltd. on 4th Floor, Rm 403, Diamond Trust Building, Kampala Road to update their records.

On behalf of the board
Shonubi, Musoke and Co Advocates
Company Secretary
17th April 2019

Company Secretary

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

Share Registrars

Custody and Registrars Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Kampala, Uganda
www.crsltd.co.ke

Notes

1. Details of Directors

Directors' details as required by the Listing Rules of the Uganda Securities Exchange ("the Listing Rules') are set out on pages 24 to 28 of the Annual Report that accompanies this notice of Annual General Meeting ("the Annual Report").

2. Directors' Responsibility Statement

The Directors, whose names are given on page 59 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in the Annual Report and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listing Rules.

3. Interests of Directors

The interest of the Directors in the share capital of the Company are set out on page 60 of the Annual Report.

4. Major Shareholders

Details of major shareholders of the Company are set out on page 108 of the Annual Report.

5. Share Capital of the Company

Details of the share capital of the Company are set out on pages 107 of the Annual Report.

6. Material Change

There has been no material change in the financial or trading position of the Company since the date of publication of the Company's annual results on 25th March 2019. Umeme Limited shareholders may attend, speak and vote at the AGM or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the AGM on behalf of such shareholder. A proxy form is attached to this notice of the AGM.

Duly completed proxy forms must be returned to the Share Registrars of the Company or the registered office of the Company at the addresses set out below, to be received by not later than 17h00 on 6th May, 2019.

Registered Office

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

Share Registrars

Custody and Registrar Services Uganda Ltd.
4th Floor DTB Centre
Kampala Road
Kampala, Uganda

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Powering Uganda

Proxy Form

A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

I/We ____

(Name in block letters)

of ____

(Address in block letters)

being a member of Umeme Limited hereby appoint

____

of ______________________________________ or failing him/her

____

of ____

as my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at Kampala Serena Hotel, Victoria Hall on the 9th May 2019, and at any adjournment thereof.

Signed this ____________________ day of ____________________ 2019

Please read the notes on the next page

Notes

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

2. To be effective, completed proxy forms must be lodged by not later than 17h00 6th May 2019 with the Company Secretary or at 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 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

Ag. Chief Finance Officer
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Company Secretary
Shonubi, Musoke & Co. Advocates
Tel: +256 414 233 204

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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