ANNUAL REPORT 2015

For the year
ended 31st December 2015

UEGCL
Generating for Generations

CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Head office
Block C
Plot 6-9, Okot Close - Bukoto
Victoria Office Park
P.O. Box 75831
Kampala – Uganda

Branch office
Plot 18-20 Faraday Road
P. O. Box 1101
Jinja-Uganda

COMPANY SECRETARY

Mr. Mark Martin Obia,
Block C, Plot 6-9, Okot Close-Bukoto
Victoria Office Park
Tel: 256-312 372165
Email: omark@uegcl.co.ug

BANKERS

Standard Chartered Bank Uganda Limited
P.O. Box 1583
Jinja-Uganda

Crane Bank Limited
P.O. Box 22572
Kampala-Uganda

Stanbic Bank Uganda Limited
17 Hannington Road , Crested Towers
P.O. Box 7131
Kampala, Uganda

SHAREHOLDERS

- Minister of Finance Planning and Economic Development
- Minister of finance (Privatization and Investment)

UEGCL BOARD OF DIRECTORS

1. **Dr. Stephen Robert Isabalija** (Independent (Non-Executive Director and Board Chairman)

2. **Mr. Zachary Baguma M. Atwoki**
(Non-Executive Director)

3. **Eng. Proscovia Margaret Njuki**
(Independent Non-Executive Director)

4. **Ms. Zeridah Zigiti**
(Non-Executive Diector)

5. **Dr. Nixon Kamukama**
(Independent Non-Executive Director)

6. **Mrs. Jennifer Katagyira Lubaale**
(Non-Executive Director)

7. **Eng. Paul Mubiru**
(Non-Executive Director)

CHIEF EXECUTIVE OFFICER

Dr. Eng . Harrison E. Mutikanga

LIST OF ACRONYMS

COSASE	Parliamentary Committee on Statutory Authorities and State Enterprises
ERA	Electricity Regulatory Authority
GOU	Government of Uganda
HRC	National Research Institute for Rural Electrification /Hangzhou Regional Centre for small hydro-power, China
IAS	International Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
MEMD	Ministry of Energy and Mineral Development
Minister	Minister of Energy and Mineral Development
MoFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorundum of Understanding
MW	Mega Watts
PDU	Procurement and Disposal Unit
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal of Public Assets Authority
UEB	Uganda Electricity Board
UEGCL	Uganda Electricity Generation Company Limited
UGX	Uganda Shillings
USD	United States Dollar

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UEGCL Board Chairman Dr. Stephen Robert Isabalijja (Extreme Right), Board Member Dr. Nixon Kamukama (Center) and a representative of the supervision consultant - Energy Infratec during a site tour of a tunnel at the Karuma Hydro-power project in February 2015

BUSINESS DESCRIPTION

The Objectives of UEGCL have since expanded to include project development including development of Hydro Power Stations and other renewable energy projects, In this regard, the company is the implementing agency of the Government of Uganda for the 183 MW Isimba and 600 MW Karuma Hydro Power Projects and Associated Transmission Lines and Sub stations with the mandate to deliver the projects within time, cost and to agreed specifications.

VISION

To be a leading power producer in the Great Lakes Region.

MISSION

To sustainably generate reliable, quality and affordable electricity for socio-economic development.

CORE VALUES

- Integrity
- Innovation
- Accountability
- Safety
- Sustainability

Uganda Electricity Generation Company Limited ("UEGCL or the Company") was incorporated in 2001 initially with the main objective to take over as a going concern the generation activities of the now defunct Uganda Electricity Board (UEB) together with all or any part of the property, assets and liabilities associated with it as was transferred to the Company by UEB in accordance with the Public Enterprise Reform and Divestiture Act. These assets transferred to the Company from UEB were principally the 180 MW Nalubaale and 200 MW Kira Hydro Power Stations located in Jinja.

The Objectives of UEGCL have since expanded to include project development including development of Hydro Power Stations and other renewable energy projects, In this regard, the company is the implementing agency of the Government of Uganda for the 183 MW Isimba and 600 MW Karuma Hydro Power Projects and Associated transmission Lines and Sub stations with the mandate to deliver the projects within the cost, time and specified quality.

UEGCL is also developing other small Hydro Power stations namely the 44.7 MW Muzizi Hydro Power Plants. 5.5 MW Nyagak III Hydro Power Plant and future projects such as Latoro (4.2 MW), Agbinika (2.2 MW) and Okulacere (6.3 MW) and plans to do more renewable energy plants in the future. The main objective of UEGCL is the development, efficient operation and maintenance of Power plants and the generation and sale of affordable electricity to consumers. This may be broken down into the following objectives;

i. To implement the Vision and National Development Plan of the Government with regard to the generation of electricity, provision of high quality management and consultancy services and advice and training and capacity building in the Electricity Sector.
ii. To carry on the business of electricity power generation and sale for industrial and factory use, lighting, heating or any other purpose whatsoever, for consumption in Uganda and or for export to neighbouring countries and to that effect to enter into contracts for the sale whether in bulk or otherwise of electric power.
iii. To engage in designing, planning, development and operation of electricity Generation projects in accordance with prudent utility practice and international best practice.
iv. To engage in the preparation of annual generation capacity planning in close consultation with relevant stakeholders on the local, regional, continental and international scenes.
v. To engage in the development, monitoring and operation of electricity generation projects whether publicly or privately owned by way of commercial agreement, where deemed necessary.
vi. To lobby for and facilitate private sector involvement in the electricity generation sector in Uganda in accordance with the Public-Private Partnership Policy, Investment Policy, Renewable Energy Policy, Energy policy and related institutional frameworks and lessons learnt from previous engagement with the private sector in existing generation projects.
vii. To engage in the provision of consultancy services in the electricity generation sector and related projects at agreed commercial terms.
viii. To establish a technical capacity building institution in the power generation sector and provide training on terms and conditions to be approved by the Board of Directors from time to time and to lobby the relevant academic regulators locally, regionally or internationally for accreditation of its programmes
ix. To engage with the private sector, donors and relevant government ministries, departments and agencies for purposes of enhancing the technical capacity of the Company's human resources in delivering on the set targets.

ADDRESS

Head office
Plot 6-9 Okot Close, Bukoto
Block C Victoria Office Park
P.O. Box 75831, Kampala- Uganda
Tel: +256 312 372 165

Branch Office
Plot 2-8 Faraday Road, Amberley Estate
P. O. Box 1101 Jinja-Uganda
Tel +256 434 120 891
Fax +256 434 123 064

KEY DEVELOPMENTS & HIGHLIGHTS

1. Then State Minister for Finance (General Duties) Hon. Fred Omach (extreme right) officiating at the launch of UEGCL's New Vision and Strategic Direction (2015-2017) in January 2015.

2. H.E. President Yoweri K. Museveni (center) officiating at the first concrete pouring ceremony for the 183MW Isimba Hydro Power Project

3. UEGCL CEO Dr. Mutikanga and an official from ILF Consulting Engineers Austria GmbH sign the contract for the implementation Engineer for the 44.7MW Muzizi Hydro power project in the presence of an official from KfW

4. Eng. Proscovia Margaret Njuki (right) recieves a prestigiuos award from the Uganda Institute of Professional Engineers

1. UEGCL Board , Managment and staff bench-marking at Bujagali HPP. Fourth from right is Bujagali General Manager Mr. John Berry

2. UEGCL CEO Dr.Eng. Harrison E. Mutikanga (left) and Director of HRC-China Prof. Cheng Xialei, (right) exchange signed copies of an MOU between UEGCL and HRC for training. UEGCL plans to establish a first of its kind training centre in Jinja with the main objective to build local and regional human resource capacity for the electricity sector particularly in Operations and Maintenace of Power Plants

3. UEGCL Board, Management and staff together with the staff of Eskom (U) Ltd during the test opening of the Spillway Gates at Nalubaale Hydro Power plant in Jinja.

CORPORATE SOCIAL RESPONSIBILITY

- **Bugungu Tree Planting**

  The Bugungu Afforestation project is an environmental community development project .The Afforestation Project located in Bugungu, Kyaggwe, Nyenga Sub County, Buikwe District is an offset project for the construction of the 200MW Kiira Hydro Power Station. The major objective of this project is to compensate for the lost biodiversity at the canal during the construction of Kiira, then Owen Falls Dam extension Project, but also to protect the soil within the Lake Victoria and River Nile catchment from erosion while preventing siltation. Furthermore, the project would make a significant contribution to reduction of global warming and climate change.

  To get the project rolling, UEGCL partnered with a local community based organization Environmental Conservation Agriculture and Tree Planting Initiative Association (ECATPIA), formed as an implementing partner.

- **UEGCL supports Children with Congenital Heart Defects**

  As a way of engaging with the community, UEGCL partnered with the Rotary Club of Kampala North and contributed money to help save children diagnosed with congenital heart defects.

1. UEGCL PRO Mrs. Cissy Nawatene (Centre) receiving an award from the Rotary Club of Kampala North after making a contribution in support of the children with congenital heart defects

2. Board and staff of UEGCL infer with the caretakers of Bugungu afforestation project

Bugungu afforest ation project in Buikwe District

UEGCL ANNUAL PERFORMANCE EVALUATION STAFF AWARDS 2015

PRIORITIES FOR 2016: STRATEGIC OUT LOOK

UEGCL intends to continue lifting the performance and profitability of its operations while securing safe, sustainable business practices. The priorities include;

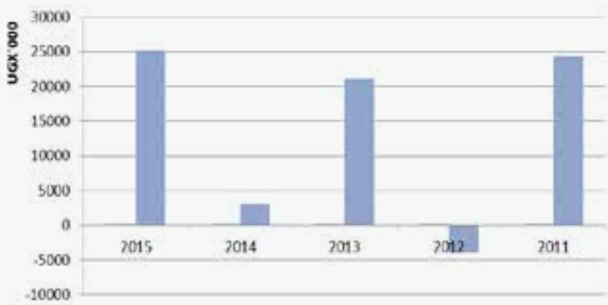
- Preparation for O&M of Karuma and Isimba as a means of ensuring indigenous development of capacity and ensuring cost effective delivery of services.
- Capacity Building through Training and benchmarking of services, ICH, HRC
- Research and Development to improve both Operational and Project development efficiency (Partnerships being developed with CEDAT, CREEC, UIRI, ICH etc)
- Establishment of the first Hydropower Vocational Training Centre in the country for manpower capacity development.
- Reinforce performance together with safety, environment (HSE), compliance and corporate social responsibility (CSR)
- Enhancing workforce performance, engagement and diversity
- Ensure International Standards Organisation (ISO) certification

1. *Then Minister of Finance (Privatisation) Hon. Aston Kajara handing over the employee of the year award to the best employee Mr. Raymond Akankwasa*
2. *Dr. Nixon Kamukama awards the Legal Department who emerged First runner-up*
3. *CEO Dr. Eng.Harrison Mutikanga awards Mr. Paul Kasozi the best staff in Isimba HPP*
4. *The best performing team Strategy and Business Development department receive an award from then State Minister for privatization Hon. Aston Kajara and Chief Guest for best performing team*
5. *Director Zeridah Zigiti awards Mr. Robert Waswa Hanghusi the best performing staff in Karuma HPP*
6. *Eng. Proscovia Margaret Njuki awards the Finance Department who emerged 2nd runner Up*

FINANCIAL & OPERATIONAL HIGHLIGHTS

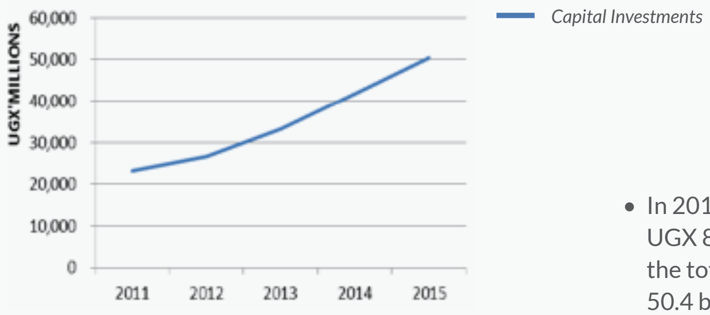
FINANCIAL STATISTICS	2015 UGX '000	2014 UGX '000
For the year		
Revenue	63,503,193	8,511,652
Operating profit/loss	12,651,411	(9,610,058)
Earning before interest,depreciation and tax	25,192,273	3,083,811
Profit/loss for the year	13,507,712	(9,098,081)
Capital investments	50,400,000	41,700,000
At year-end		
Total Assets	1,004,701,796	510,329,619
Shareholder's Equity	474,045,632	466,528,524
Outstanding interest bearing debt	521,177,479	-
Cash flow data		
Net cashflows from operating activities	17,623,983	1,071,632
Netcashflows used in investing activities	(531,465,980)	(2,378,372)
Net cashflows from / (used in) financing activities	518,182,309	5,990,601
Operating and other statistics	**FY 2015**	**FY 2014**
Total number of customers(Concession- Eskom)	1	1
Total number of employees	61	43
Exchange rate: US Dollar to Uganda Shilling (at year end)	3,372	2,769
Exchange rate: US Dollar to Uganda Shilling (average for the year ended)	3,083	2,600

Profitability (EBITDA)



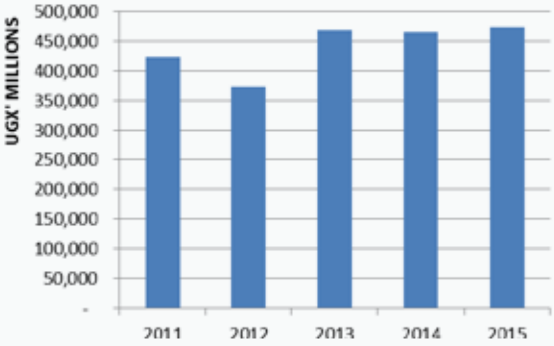
- Earnings before interest tax depreciation and amortization (EBITDA) was UGX 25.2 billion in 2015 up from UGX 3.1 billion in 2014.
- EBITDA in 2015 of UGX 25.2 billion was boosted by:-
  a. Provision for licenses for HPP's (UGX4.0 billion);
  b. Government grants for supervision of Karuma & Isimba HPP (UGX 8.0 billion)
  c. Write back of prior years provisions for tariff stabilization(UGX6.1 billion)
  d. Exchange gains UGX 1.2 billion

Capital Investment in plant by ESKOM



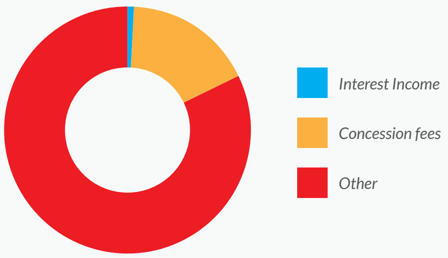
- In 2015, the concessionaire invested UGX 8.7 billion in the plants, increasing the total cumulative investments to UGX 50.4 billion.

Shareholder Equity



- The Company at 31 December 2015, is solvent with positive equity of UGX 474 billion
- The Equity position improved by conversion of UGX 105 billion debt into equity in 2013.
- Operating profit for 2015 was UGX 13.5 billion

Revenue Analysis



- Other revenues relate to UGX 8 billion Government grants, UGX 36 billion write back of Government liabilities inherited at incorporation in 2001 and write back of UGX 6 billion that was meant for tariff stabilization that never materialized.

ANALYSIS OF THE FINANCIAL RESULTS

1. **Revenue** Revenues increased to UGX 63.5 billion in 2015 compared to UGX 8.5 billion in 2014. Revenues in 2014 were boosted by:-
   - Strong exchange gains (UGX1.2 billion);
   - Government grants for supervision of Karuma and Isimba HPPs (UGX 8.0 billion)
   - Write back of Government liabilities inherited at incorporation (UGX36billion); and prior over provisions written back UGX 6 Billion

   UEGCL is faced with the challenge of "Under-billing" of Concession Fees to ESKOM
   As much as UECGL, under the Concession and Assignment Agreement, has the right to bill Eskom for Debt service, Depreciation, Return on Equity and Administrative costs; because of the tariff structure approved by the Electricity Regulatory Authority ("ERA") UEGCL only bills Eskom for Administrative costs. This means that UEGCL Conceded Assets are not able to generate enough revenue / cash to recover their carrying amount.

2. **Earnings Before interest Taxation Depreciation and Amortization (EBITDA)**
   EBITDA increased in 2015 to UGX 25.2 billion compared to UGX 3.1 billion in 2014. This was caused by the increase in revenues due to factors explained above
3. **Balance sheet analysis**
   Total assets as of 31 December 2015 were UGX 1,005 billion. The Company at 31 December 2015, was solvent with positive equity of UGX 474 Billion. The significant increase in assets by UGX 525 billion is due to the work in progress on Karuma and Isimba HPPs.
   The company made a profit for the year 2015 of UGX 13.5 billion bringing its shareholders' equity to UGX 474 billion(in 2015) from UGX 467 billion (in 2014). ;
   In 2015, Eskom invested UGX 8.7 billion in the plants, increasing the total cumulative investments since the commencement of the concession to UGX 50.4 billion.
4. **Cash flows analysis**
   The Company generated a net cash of UGX 17.6 billion from operations. Closing cash and cash equivalents was UGX 20.5 billion

Construction of access road to the Nyagak III Hydro Power Project site in Zombo District

CHAIRMAN'S MESSAGE

FINANCIAL AND OPERATING OVERVIEW

As chairman of the Board of Directors of Uganda Electricity Generation Company Limited and on behalf of the Board of Directors, It gives me great pleasure to present the Company's Annual Report and Financial Statements for the year ended 31st December 2015.

The year was characterized by improvements in financial and operational performance. During the year revenue increased to UGX 63.5 Billion compared to UGX 8.5 Billion in 2014 driven largely by strong exchange rate gains of UGX 1.2 Billion, UGX 8 Billion of Government grants for the supervision of the construction of the Karuma and Isimba Hydro Power Projects, write back of government liabilities inherited at incorporation amounting to UGX 36 Billion and a write back of UGX 6.1 Billion provision for tariff stabilization.

Earnings before interest, tax, depreciation and amortization (EBITDA) increased to 25.2 Billion in 2015 from 3.1 Billion in 2014 driven largely by increases in the revenues explained above.

The company made a profit of UGX 13.5 Billion from a loss of UGX 9.5 Billion in 2014 bringing its shareholders equity to UGX 474 Billion compared to UGX 467 Billon in 2014. As at 31st December 2015 the company is solvent with a positive equity of UGX 474 Billion improved by the conversion of UGX 106 Billion debt owed to Government of Uganda to Equity in the company.

Total Assets as of 31st December 2015 were 1,005 Billion. The significant increase in assets by UGX 552 Billion represents work in progress on Karuma and Isimba Hydro Power Projects. These are captured here by virtue of the On- Lending agreement executed between Government of Uganda and the company under which government has on–lent to the company the loans advanced by the Export Import Bank of China for the development of the Karuma and Isimba Hydro Power Projects.

Operating environment

The company operates in a changing business environment influenced by social - political, macro-economic, regulatory and other factors. The provision of reliable and affordable energy and electricity is a key goal of the Government under the National Development Plan II, accordingly the government has continued to channel significant funding to the construction of Karuma and Isimba hydro power projects as well other small hydro power plants under development by the company such as Muzizi Hydro Power Project and Nyagak III Hydro Power Project in order to increase installed capacity. This has also attracted development partners such as KfW Development Bank, French Development Agency (AFD) including private investors looking to cement partnerships and opportunities in the sector.

Strategy

We launched a new vision and mission on 16th January 2015 to focus the strategic direction of company to achieve growth, financial sustainability and the goals of the National Development Plan.

"

In line with our strategic goals, Uganda's Vision 2040 and the National Development Plan, we shall continue diligently building on the achievements of 2015 with the main focus being on increasing the generation capacity, growth and revenue of the company.

Future Outlook

In line with our strategic goals, Uganda's Vision 2040 and the National Development Plan, we shall continue diligently building on the achievements of 2015 with the main focus being on increasing the generation capacity, growth and revenue of the company.

This includes;
The refurbishment of the Nalubaale Power Station to relieve the effects of alkaline silicate reaction which has caused damage to the plant and limited its generation capacity;
Preparation to take over the operation and maintenance of Nalubaale and Kiira hydro power stations as the concession to Eskom (U) Limited is due to expire in 6 years;

Diligent supervision of Karuma and Isimba Hydro Power Projects to ensure quality and timely completion of works witin the budgted costs and preparation for operations and maintenace of the plants once complete.
Planning and development of the Muzizi and Nyagak III Hydro Power Plants and other small hydro power Plants.

Raising financing for development of new power plants in the short term by partnering with the the private sector, development partners and government as we expore ways to raise financing in the markets in the future.

Conclusion

The company continues to strive towards realization of its investment priorities and national core project – Energy Infrastructure envisaged in the National Development Plan II and Vision 2040 by continued implementation of its strategic objectives using the balanced score card approach, attraction, motivation and retention of a highly skilled workforce.

A key milestone in the year was the acquisition by the company of its own office premises. This acquisition will go a long way in helping the company to rationalise its costs and focus its resources on investments and growth.
My gratitude goes to the members of the Board of Directors, management and staff for their tireless efforts in implementation of the company's strategic objectives. I also thank our Shareholders and the Ministry of Energy and Mineral Development for always being readily available to give us financial and policy support as we strive to implement our strategies and grow the company.

Dr. Stephen Robert Isabalija
CHAIRMAN, BOARD OF DIRECTORS

CHIEF EXECUTIVE OFFICER'S MESSAGE FOR THE YEAR ENDED 31ST DECEMBER 2015

UEGCL has laid the foundation to propel it to greater heights through Business Process Re-orientation, Growth and Diversification

I am once again delighted to present my message for the reporting period January to December 2015. As will be recalled, the Board approved and laid out a bold Vision and Strategic Direction (2015-2017) in January 2015 in which it tasked management under my leadership to implement. The year was therefore particularly significant as it marked the first year of the implementation of our Strategic Direction, and a litmus test for our resolve to accomplish the various commitments we had made in the Strategic Direction.

The focus areas of the Strategic Direction were grouped into the four Balance Scorecard Themes namely; Financial, Business Processes, Customer/Stakeholders and Learning and Growth. Suffice it to say that the year was marked by a Plethora of activities aimed at attaining the Company's Vision Mission. In summary, during the year, the Company commenced its path of re-engineering all its processes so as to conform to its enhanced mandate of project implementation, operational management, and meeting the expectations of Government and all stakeholders through the provision of sustainable, affordable and reliable power supply.

The following were the Key activities undertaken in line with the Balance scorecard perspectives:

Financial Perspective

Within the context of the Financial Perspective;

1. After a protracted period of posting losses, UEGCL was able to post a profit during the year, largely as a result of the implementation of the projects. However, it is envisaged that this positive trend will continue as the Company continues to implement and ready itself for the operations and maintenance function.

2. UEGCL acquired new office premises situated at Block "C" Victoria Office Park, Plot 6-9 Okot Close Bukoto, Kampala. This is in accordance with the key strategy of cost optimization which includes inter alia acquisition by the company of its own office facilities to save on monthly rent. This will help us to rationalize costs and free up resources for productive and investment purposes.

3. In order to increase its income and improve the skills of its staff and in the sector, the company embarked on the establishment of a Professional Services Unit (PSU) which will provide professional consultancy services in the sector, and a Training School which will provide training in Hydro Power not only to UEGCL staff but also across the East African region. In order to implement these initiatives, the company is working with various strategic and Development partners.

Within the context of the Business Processes the Company;

4. Introduced a Performance Based Management System and culture underpinned on Performance Contracts based on the Balance Score Card to monitor the contribution of individual staff members to the achievement of the strategic objectives of the company.

5. Designed Key Performance Indicators to effectively monitor the Operation and Maintenance of the Nalubaale and Kiira Hydro Power Stations by the concessionaire Eskom (U) Limited. Once implemented these indicators should provide more accurate evaluation of the performance of the concessionaire, we shall also conduct more comprehensive inspections to monitor more closely the state of the plant.

6. Adopted an Operations and Maintenance model (O&M) which will be utilized for operations of the Isimba and

Business Processes

Karuma Hydro Power Stations when complete, as well as to the Nalubaale and Kira Power Plants upon expiry of the concession.

7. Embarked on the process of ISO Certification aimed at streamlining all business process and attaining internationally best practice in provision of goods and services.

8. As part of the Business Growth and Diversification process, embarked on the acquisition and diversification of Generation assets. This included exploration of new hydropower sites including Okulacere (6.5 MW), Latoro (4.2 MW), Agbinika (2 MW) and Maziba (1 MW) as well as Solar and Geothermal prospects.

Customer/Stakeholders

Within the context of the Customer/Stakeholders the Company;

9. Enhanced its image and visibility, and rebranded by the introduction of a new Logo and tag line. Our new brand reflects our proud heritage and bright future and marks the beginning of an exciting new chapter in our journey of Generating for Generations (G4G).
10. Worked closely with our Shareholders (MoFPED), the Ministry of Energy and Mineral Development, Electricity Regulatory Authority and Development Partners such as KfW, the French Development Agency and various other stakeholders both financial and institutional in furtherance of its Business Growth and Diversification and Financial sustainability. These included institutions of learning, Training and Private Sector entities.

Learning and Growth

Within the context of the Learning and Growth, the Company;

11. Rationalized and increased its staff compliment in order to ensure that it effectively delivers its mandate and enhanced function of Project implementation. Some of the positions filled included; Chief Projects Officer; Project Managers, Engineers, Environmental specialists and sociologists. We also created new roles such as the Chief Strategy and Business Development Officer; Head Business Performance and Chief Human Resources' Officer to enable the company peruse and achieve its new Strategic Vision and Direction 2015-2017.

Project Implementation

In line with the implementation of Flagship Investments, UEGCL has made significant progress in the Karuma, Isimba, Nyagak III and Muzizi Hydro Power Projects. The following milestones were achieved during the period under review.

i. **Karuma Hydro Power Project (600MW):** Financial Closure with China Export- Import Bank was attained; Physical Hydraulic and Turbine model tests were completed; River Diversion was completed, Structural Concrete works at the Dam site commenced; underground Powerhouse and Tailrace tunnel excavations started.

ii. **Isimba Hydro Power Project (183MW):** Financial Closure with China EXIM Bank was attained; Foundation excavation for the Powerhouse, Spillways 1 &2, and Gravity Dams 1 & 2 was completed; Foundation treatment / consolidation grouting for the Powerhouse and Spillway was completed; Structural Concrete works at the powerhouse and spillways commenced; Foundation excavation of the left embankment dam commenced;

    Monitoring of quality assurance and quality control; Health, Safety and Environment (HSE) performance was a key focus area for these projects. We also hired two competent firms to provide project management consultancy services to assist the company execute its mandate as the implementing agency of the Government flagship projects. The company has used its best efforts to point out the construction quality issues that have arisen and proposed remedial measures and in accordance with the requirements of the On- Lending agreements for the projects, it has promptly notified government of the status of the projects and the issues that might imped the progress of the project. Similarly, upon achieving financial close for the projects, the company will proceed to apply to the Regulator for Licences for Generation and sale of Electricity for each of the plants.

iii. **Nyagak III SHPP (5.5 MW):** The Shareholder's Agreement between the Private Partner, a consortium of Hydromax Ltd and Dott Services Ltd, was executed; A special purpose vehicle Genmax Nyagak Ltd, was incorporated and registered under the laws of Uganda; GOPA International Energy Consultants GmbH in association with Zollet Ingegneria were contracted as the Owner's Engineer to oversee the proper construction of the project; ,land was procured after compensation of the project affected persons and handed over to the Private Partner to commence construction of access Roads and designs for the project.

iv. **Muzizi HPP (45 MW):** Cabinet approved the proposal to borrow 45 million Euros from the French Development Agency (AFD) and 40 million Euros from KfW Development Bank; ILF Consulting Engineers Austria GmbH was procured as the Implementation Engineer for preparation of the basic design, procurement of the EPC contractor and construction supervision respectively.

“We shall pursue a growth strategy to increase the generation capacity by developing more power plants to provide electricity to support the government's vision for middle income status for Uganda.

Challenges Encountered

1. As in the past years, certain components of the concession fee payable by the concessionaire of the Nalubaale Kiira Power station namely, return on equity, depreciation and debt service were not allowed into the tariff methodology approved by the Regulator which severely affects the financial performance of the company and contributes to asset impairment.
2. The effects Alkali-Aggregate Reaction (AAR) which has affected the Nalubaale Power House Concrete Structure (cracking) and poses a high risk to the proper functioning of the electro mechanical and other equipment.
3. The delays by the Ministry of Energy and Mineral Development to streamline project implantation have continued to impair effective project supervision.

Conclusion

Going forward, UEGCL's businesses will be guided by our core mandate which broadly falls in two categories, Internal capacity development depicted in the mandate by the need to establish, acquire, maintain and operate electricity generation facilities and to promote Research and Development, and secondly, in the longer term, the implementation of the Operation and Maintenance Business Model Framework that promotes efficiency in the operation and management of the Hydropower Plants depicted in the mandate by the need to run the Company on sound business principals.

Hydropower development – In terms of hydropower development, UEGCL will focus on efficiently and effectively delivering the power Plants under construction. In the next five years, over 800 MW of electricity will be added on to the grid and this will enhance socio-economic development. The on-going hydropower projects will further be augmented by development of new hydropower sites in line with Governments objective achieving economies of scale and affordable Tariffs. These projects will take advantage of the new Public Private Partnership Act recently enacted by Government for funding purposes.

O&M Business Model – UEGCLs future growth is premised on the effective and efficient management of the Hydropower Assets that are currently under development/construction. Key among the strategic activities for UEGCL is the preparation for the Operation and Maintenance phase of the new hydropower plants. UEGCL has already identified the skills required for the two plants of Karuma and Isimba, and the staff are already being sourced. Furthermore, UEGCL plans to adopt an indigenous O&M Framework utilizing its own staff to operate the plants within the framework of Internal Performance Contracts with clear Key Performance Indicators. UEGCL will therefore be moving from a Business as usual mode to a model of competitive operations to ensure a competitive Tariff within the region.

As UEGCL we look ahead into the medium Term with hope and confidence. Our resolve is to make our operations even more efficient and strengthen our financial position so that we can meet the expectations of our various stakeholders.

I thank the Board of Directors for their strategic guidance and the management and staff for their tireless efforts and zeal to propel the Company forward. We continue to count on the support of the Board, the shareholders and other stakeholders as we implement our strategies geared to sustainably generate reliable, quality and affordable electricity for socio economic development.

Dr. Eng. Harrison E. Mutikanga
CHIEF EXECUTIVE OFFICER

UEGCL 2015 CORPORATE GOVERNANCE STATEMENT

The company adopted the Corporate Governance Code under the Companies Act 2012 and strives to uphold the principles enshrined therein including best practice.

The Board devotes considerable attention to corporate governance matters relating to the Company's internal controls, risk, compliance and managing the long term sustainability of the company all geared towards steering the Company in the right direction and creating value for the Shareholders.
The annual Board calendar is designed to enable the Board to deliver the company's key strategic goals including goals to better monitor the implementation of the Concession and Assignment Agreement with Eskom (U) Ltd the operator of the Nalubaale and Kira Power Plants as well as the operations of the concessionaire and Project activities pertaining to the delivery of the government flagship projects of Karuma and Isimba Hydro Power Plants and other projects, such an the 44.5 Muzizi Hydro Power Project, the 5.5 Nyagak III Hydro Power Project.

Shareholders' Meetings

The Company held the Annual General Meetings for the years ended 31st December 2013 and 31st December 2014 on the 1st September 2015. The Annual General Meeting for the year ended 31st December 2013 could not be held in 2014 owing to the need to re-structure the company which was necessitated by the need for conversion of the company's debt totaling to UGX 106,275,126,000 comprising of the IDA Loan 2002 UEB and IDA loan Power IV to the Government of Uganda into equity. The conversion of the debt to equity was necessary to meet the concerns of the Export-Import Bank of China about the Government of Uganda's ability to repay the proposed loan for the development of the 600 MW and 183 MW Karuma and Isimba Hydro Power Projects through the company as the implementing agency of the Government for the projects. However, the company will hold all future Annual General Meetings within the requisite timeframes and in accordance with the Companies Act, the Companies Constitution and other relevant laws.

Board Composition and Structure

Cognizant of the need to have a Board with the ability to drive change and achieve the interests of company and its shareholders geared towards achieving one of the National Development Plan (NDP) II investment priorities and national core projects – Energy Infrastructure, the Shareholders have ensured that the Board is composed of members with a mix of different skills, a balance of gender, Independent Non—Executive Directors and Non-Executive Directors as follows;.

No	Director	Classification	Skills
1	Dr. Robert Stephen Isabalija	Chairman/ Independent Non- Executive Director	Finance & Change Management
2	Mr. Baguma Zachary M. Atwoki	Non- Executive Director	Geology
3	Dr. Nixon Kamukama	Independent Non- Executive Director	Finance
4	Mrs. Jennifer Lubaale Katagyira	Non- Executive Director	Finance
5	Miss. Zeridah Zigiti	Non- Executive Director	Economics
6	Eng. Proscovia Margaret Njuki	Independent Non- Executive Director	Engineering

Board of Directors' Meetings
The Board has adopted and implemented an electronic - Board platform converting Board meetings from paper to a digital medium hence shifting the focus away from paper to content of the meeting and on the issues at hand so there is a better debate within the Board. This has helped to maximize efficiency by reducing the time taken to put together papers for the meetings as well as decision making.
The Board acts as a team, strives to reach decisions by consensus and has steered the Company in the right direction on behalf of the Shareholders by setting the vision, mission and goals of the company. These they determine in consultation with the Chief Executive Officer, the Management team and staff of the company. The Board also upholds its fiduciary duty to protect the organization's assets and member's investment by overseeing, monitoring and controlling the functions delegated to Management.

Board Committees
The Board has five standing Committees in accordance with its Charter which clearly outlines the terms of reference of the each Committee. The primary objective of the Committees is to assist the Board in fulfilling its role and obligations.

All the Committees of the Board are chaired by chaired by the independent Non- Executive Directors in accordance with best practice and corporate governance guidelines. The Committees of the Board are as follows;

No.	Committee	Chairperson	Members
1	Audit, Risk & Compliance Committee	Eng. Proscovia Margaret Njuki	• Mrs. Jennifer Katagyira Lubaale • Dr. Stephen Robert Isabalija
2	Finance Committee	Dr. Nixon Kamukama	• Ms. Zeridah Zigiti • Mrs. Jennifer Katagyira Lubaale
3	Technical Committee	Eng. Proscovia Margaret Njuki	• Mr. Baguma Zachary M. Atwoki • Ms. Zeridah Zigiti
4	General Purpose and Planning Committee	Dr. Nixon Kamukama	• Eng. Proscovia Margaret Njuki • Ms. Zeridah Zigiti
5	Remuneration Committee	Dr. Nixon Kamukama	• Mr. Baguma Zachary M. Atwoki • Ms. Zeridah Zigiti

Audit, Risk and Compliance Committee
Established by the Board generally to review, evaluate and make recommendations to the Board in relation to:
a. Assessing the Risk Management, Compliance and Control environment
b. Overseeing Financial Reporting, and;
c. Evaluating Internal and External Audits

Finance Committee
Established by the Board generally to review, evaluate and make recommendations on matters relating to the financial planning for the Company with reference to
a. Financial Risk Management;
b. Annual Expenditure requirements;
c. Annual Budget;
d. Revenue Generation;
e. Budget performance;

Technical Committee

Established by the Board generally to review, evaluate and make recommendations to the Board for approval and adoption in relation

a. Assessing the Company's performance in Concession Monitoring
b. Overseeing Energy Generation Projects – Planning, Implementation and Management, and;
c. Evaluating the Company's performance in Energy Generation Project Planning, Implementation and Management

General Purpose and Planning Committee

Established by the Board generally to review, evaluate and make recommendations to the Board in relation to:

a. The skills requirements for the Board;
b. Board induction, training, development and performance management;
c. Strategic Planning and the Company's performance in realising Strategic goals;
d. Assessment of the Company's human resource requirements;
e. Performance Management System;
f. Appointment and termination of the Company's Senior Management Team;

Remuneration Committee

Established by the Board generally to review, evaluate and make recommendations to the Board in relation to:

a. Remuneration requirements and benefits for the Board Directors and Staff bonus schemes
b. Staff retention strategies and related matters
c. payments due to the Company's Consultancy Unit Staff for services rendered for and on behalf of the Company under any Consultancy Service bid or contract;
d. ensuring that an adequate reward system is in place to link the Company's and Individual performance goals and outcomes and their alignment with the creation of sustainable Shareholder value;

Conflict of Interest

The Board of Directors complies with the Companies Act 2012 and the principles of Corporate Governance, and has developed and adopted a Board Charter which adequately provides measures to prevent and where necessary manage conflict of interest. Additionally, Members are required to declare any conflict of interest whether actual or apparent prior to consideration of any matter by the Board and its Committees and these declarations are recorded.

Directors' Development

In keeping with the NDP II vision attribute of knowledge and skills as a pre-requisite for a modern society able to respond to development challenges and compete nationally, regionally and internationally, the directors have had training in the fields of corporate Governance, improving Board performance, Energy and Audit in line with the Company's mandate.

Board Performance Evaluation

The Board carried out an evaluation of its effectiveness, its Committees and that a peer evaluation of its members. Each of the members also separately evaluated the chairman. In order to bring independence and objectivity to the process, the Board used an external evaluator to bring their own judgment on the quality of the Board's performance during the evaluation. It was of great importance to the Board that trust was established in the credibility and confidentiality of the process of Board evaluations as trust is the best incentive to encourage candid input and feedback from Board members and other stakeholders so the evaluation results will be taken seriously by the Board

Company Secretary

A new Company Secretary was appointed assumed office on 12th January 2015. The Company Secretary ensures that board procedures are followed and regularly reviewed. He also ensures the Company complies with Laws and regulations. The Chairman and the Board look to the Company

Secretary for guidance on what their responsibilities and liabilities' are under the Laws. All directors have access to the advice and services of the Company Secretary.

Stakeholder Engagement Strategy

Government, civil society, and the private sector play an important role in Planning, development implementation and maintenance of power projects. We therefore maintain dialogue with the different stakeholders through different fora to ensure we accurately discharge our mandate and ensure that the public is kept a braced on our power projects through community sensitization, newspapers and radio.

Risk Management and Internal Control

The Internal Audit function was outsourced to AH Consulting Limited. The Internal Audit function is effective and assists the Board of Directors to accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of Company controls, risk management, and governance. The risk management strategy includes a fraud prevention plan as well as the Business Recovery Plan used to direct the internal audit effort. Quarterly and ad – hoc reports are presented to the Audit, Risk and Compliance Board Committee and the Board of Directors containing analyses, appraisals, recommendations, counsel and information on the activities reviewed and regular follow up. The Company Secretary also prepares compliance reports for the Board.

Compliance

UEGCL strives to uphold the laws and regulations during the course of its business and prepares compliance reports for the Board of Directors.

Going Concern

In Directors' analysis, the Company will remain a going concern for at least the next twelve months from the date of this statement.

Strategy and Staff

The Board approved a revised structure for the senior management in order to implement the strategic direction which it launched in January 2015. The Board also recruited a company Secretary, Chief Human Resources Officer and a Chief Strategy and Business Development Officer, Project Managers and Engineers, Environmental and Health Practitioners to be able to deliver the Government flagship projects of Karuma and Isimba Hydro Power Projects.
The Board also resoled to carry out a job evaluation in order to streamline the organization structure and the roles to deliver the organizations new vision and strategic direction.

Policies and procedures

The Board enacted a revised Human Resources Policy & Procedures Manual and as well as a Transport and Motor vehicle use policy and Manual in order to streamline the systems in the organization to create an efficient and cost conscious organization.

Attendance Record of the Board and Board Committees

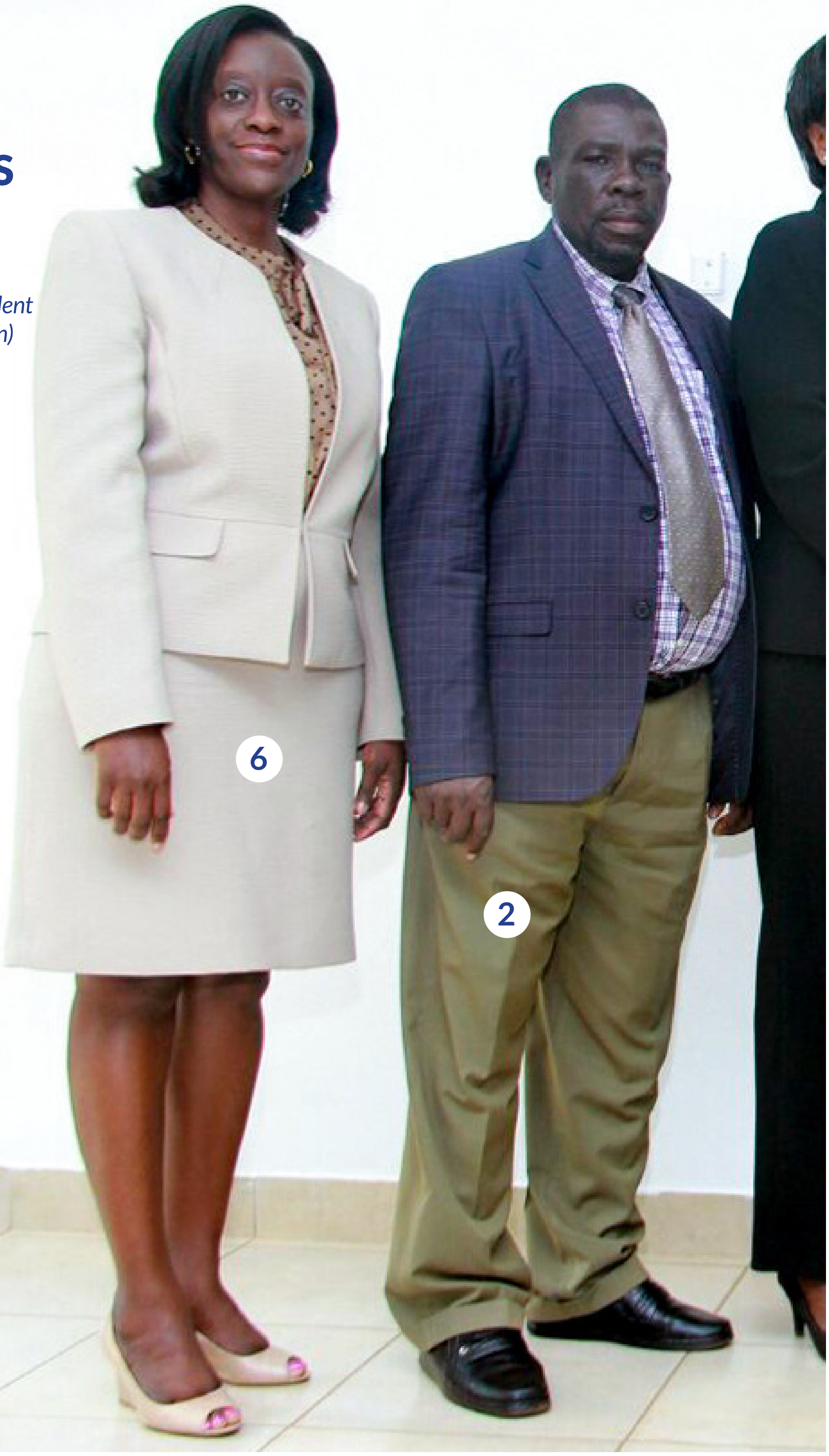
In accordance with the requirements of the Code of Corporate Governance to disclose the attendance record at meetings of the Board and its Committees. The attendance for the period is indicated below;

No.	Meeting	No of Meetings Held	Date	Attendance
Ordinary Board Meetings		4		
1	41st		7/01/15	6
2	42nd		30/04/15	5
3	43rd		24/08/15	3
			4/09/15	6
			17/09/15	4
4	44th		17/11/15	4

No.	Meeting	No of Meetings Held	Date	Attendance
Extra- ordinary Board Meetings		9		
1	58th		21/01/15	6
2	59th		29/01/15	5
3	60th		12/02/15	4
4	61st		20/02/15	4
5	62nd		9/04/15	5
6	63rd		29/05/15	6
7	64th		10/06/15	5
8	65th		14/08/15	3
9	66th		15/12/15	5
Committee Meetings		3		
Audit, Risk & compliance				
1	1st Joint Meeting with Finance Committee		1/04/15	4
2	10th Meeting		10/08/15	2
3	11th Meeting		22/10/15	2
Finance Committee		5		
1	8th Meeting		11/02/15	2
2	9th Meeting		19/05/15	2
3	10th Meeting		12/08/15	2
4	11th Meeting		16/10/15	2
5	12th Meeting		12/11/15	2
Technical Committee		3		
1	3rd		21/05/15	3
2	4th		6/08/15	2
3	5th		14/10/15	2
General Purpose and Planning Committee		4		
1	3rd		3/02/15	3
2	4th		6/0815	3
3	5th		24/08/15	2
4	6th		20/10/15	3
Remuneration Committee		**2**		
1	3rd Meeting		23/10/15	2
2	4th Meeting		10/11/15	2

UEGCL
BOARD OF DIRECTORS

1. **Dr. Stephen Robert Isabalija** *(Independent Non-Executive Director & Board Chairman)*
2. **Mr. Zachary Baguma M. Atwoki** *(Non-Executive Director appointed on 4th May 2016 replacing Eng. Paul Mubiru)*
3. **Eng. Proscovia Margaret Njuki** *(Independent Non-Executive Director)*
4. **Ms. Zeridah Zigiti** *(Non-Executive Diector)*
5. **Dr. Nixon Kamukama** *(Independent Non-Executive Director)*
6. **Mrs. Jennifer Katagyira Lubaale** *(Non-Executive Director)*

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UEGCL
MANAGEMENT TEAM

Dr. Eng. Harrison E. Mutikanga
Chief Executive Officer

Joshua Karamagi
Chief Fiance Officer

Mark Martin Obia
Comapny Secretary

David Kahwa Isingoma
Chief Strategy and Business Development Officer

Harriet Oyulu Ekude
Chief Human Resource Officer

Dan Mayanja
Technical Manager

OFFICE OF THE
AUDITOR GENERAL UGANDA

THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA ELECTRICITY GENERATION COMPANY LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2015

OFFICE OF THE AUDITOR GENERAL UGANDA

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA ELECTRICITY GENERATION COMPANY LIMITED (UEGCL) FOR THE YEAR ENDED 31ST DECEMBER, 2015

THE RT. HON. SPEAKER OF PARLIAMENT

I have audited the financial statements of the Uganda Electricity Generation Company Limited for the year ended 31st December 2015. These financial statements comprise of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement together with other accompanying schedules, notes and accounting policies.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and the requirements of the Uganda Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008 is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the Auditor's judgment, including the assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Part "A" of this report sets out my opinion on the financial statements and Part "B" which forms an integral part of this report presents in detail all the significant audit findings made during the audit which have been brought to the attention of management.

PART "A"

Basis for Qualified Opinion

- **Non-recognition of Impairment loss – UGX.138 Billion**

  The IAS 36 requires impairment loss to be recognized when the recoverable amount of the asset is below its carrying amount.

  Following the under billing of the Concession fees due to subsidization of the electricity tariff, an impairment assessment was carried out in March 2015 which resulted into an impairment loss of UGX.138 Billion. However, this impairment loss has not been reflected in the books of UEGCL leading to overstatement of the asset balances and profit for the year.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Uganda Electricity Generation Company Limited's as at 31st December, 2015 and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Companies Act, 2012 of the Laws of Uganda.

138bn

which resulted into an impairment loss subsidization of the electricity tariff, an impairment assessment

Report on Other Legal Requirements

As required by the Uganda Companies Act, I report to you, based on my audit, that:

1. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit.
2. In my opinion, proper books of account have been kept by the company, so far as appears from my examination of those books; and
3. The statement of financial position and statement of comprehensive income are in agreement with the books of account.

John F.S. Muwanga
AUDITOR GENERAL

1st September 2016

PART "B"

DETAILED REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE UGANDA ELECTRICITY GENERATION COMPANY LIMITED FOR THE YEAR ENDED 31ST DECEMBER, 2015

This Section outlines the detailed audit findings, management responses and my recommendations in respect thereof.

1.0 INTRODUCTION

Article 163 (3) of the Constitution of the Republic of Uganda, 1995 (as amended) requires me to audit and report on the public accounts of Uganda and all public offices, including the courts, the central and local government administrations, universities and public institutions of like nature, and any public corporation or other bodies or organisations established by an Act of Parliament. Accordingly, I carried out the audit to enable me report to the UEGCL Board and Parliament.

2.0 BACKGROUND INFORMATION

The Uganda Electricity Generation Company (UEGCL) is a limited liability company incorporated in March 2001 Uganda under the Companies Act following implementation of a power sector reform and privatization policy, which resulted in the unbundling of Uganda Electricity Board (UEB) into Generation, Transmission and Distribution successor companies. The UEGCL is one of the successors of the Uganda Electricity Board.

The Company's principal activity is the generation of electricity. On the 26th November 2002 a concession agreement was signed between UEGCL and Eskom Uganda Limited for the Operation and Maintenance of Nalubaale and Kira Power Stations (the Complex) as part of Government privatization process. Following the concessioning of the Electricity Generation Complex to Eskom Uganda Limited (EUL) for 20 years effective April 2003, UEGCL's principal activity has been reviewing the operation and maintenance of the complex, by Eskom and monitoring the concession and construction of other Electricity Power plants.
UEGCL's current core business activities include:

- Management of power generation assets constituting the power plants concessioned to ESKOM Uganda limited.
- Monitoring utilization of the concessioned facilities.
- Providing technical services for operations, maintenance, rehabilitation, and safety surveillance.
- Provide financial and legal services to support the sound operation and monitoring of the concession by the concessionaire..

3.0 FUNCTIONS OF UEGCL

The company was established by the Public Enterprises Reform and Divestiture Act Cap 98 and the Electricity Act, Cap. 145 under the Companies Act, 2012 with the main objective of taking over, as a going concern, the generation activities of Uganda Electricity Board (UEB) established under Cap 135 of the laws of Uganda together with all or any part of the property, assets and liabilities associated with it.
The company's principal business is the generation of electricity and operation and maintenance of generation plants in addition to other roles assigned by the Ministry of Energy and Mineral Development from time to time and the roles incidental to the objectives set out in its Memorandum of Association.

By virtue of a Concession and Assignment Agreement ('concession agreement') signed between the company and Eskom Uganda Limited ('EUL' or 'Eskom' or 'the Concessionaire'), the company's two assets, Nalubaale and Kira Power Stations, ('the complex') were concessioned out to the concessionaire, for a term of twenty five (20) years effective April 2003, with a contractual responsibility of operation and maintenance of the complex. As a result, the company also plays a vital role in the monitoring of the performance of the concessionaire against the agreed performance parameters. The company is also involved in the monitoring and supervision of the on-going construction of the 600MW Karuma and 180MW Isimba dam projects in addition to other small mini hydro dam projects.

4.0 AUDIT OBJECTIVES

The audit was carried out in accordance with the International Standards on Auditing and accordingly included a review of the accounting records and agreed procedures as was considered necessary. In conducting my reviews, special attention was paid to establish whether:

1. The financial statements have been prepared in accordance with consistently applied Accounting Policies and fairly present the revenues and expenditures for the period and the financial position as at the end of the period.
2. All Company funds were utilized with due attention to economy and efficiency and only for the purposes for which the funds were provided.
3. Goods and services financed have been procured in accordance with the Government of Uganda procurement regulations.
4. Sufficient internal controls have been applied consistently throughout the year to safeguard the assets of the company and mitigate the risk of misstatement of the financial statements.
5. All necessary supporting documents, records and accounts have been kept in respect of all Company activities, and are in agreement with the financial statements presented.

5.0 AUDIT PROCEDURES PERFORMED

The following audit procedures were undertaken:

a. Revenue/receipts
Obtained schedules of all revenues collected and reconciled the amounts to the cashbooks and bank statements.

b. Expenditure
Vouched a sample of transactions to establish whether documentation in support of the expenditure agreed with the amounts and descriptions on the payment vouchers.

c. Internal Control System
Reviewed the internal control system and its operations to establish whether sound controls were applied throughout the period audited.

d. Procurement
Reviewed the procurement of goods and services by the Company during the period under review and reconciled with the approved procurement plan.

e. Fixed Assets Management
Reviewed the use and management of the Company assets during the period audited.

f. Company's Financial Statements
Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessed the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation.

6.0 SUMMARY AUDIT FINDINGS

6.1 Categorization of audit findings

The following system of profiling of the audit findings has been adopted to better prioritise the implementation of audit recommendations.

No	Category	Description
1	High significance	Has a significant / material impact, has a high likelihood of reoccurrence, and in the opinion of the Auditor General, it requires urgent remedial action. It is a matter of high risk or high stakeholder interest.
2	Moderate significance	Has a moderate impact, has a likelihood of reoccurrence, and in the opinion of the Auditor General, it requires remedial action. It is a matter of medium risk or moderate stakeholder interest.
3	Low significance	Has a low impact, has a remote likelihood of reoccurrence, and in the opinion of the Auditor General, may not require much attention, though its remediation may add value to the entity. It is a matter of low risk or low stakeholder interest.

6.2 Summary of audit finding according to the above profiling

No	Title of findings	Significance
1	Non-recognition of Impairment loss	High
2	Procurement	Moderate

7.0 DETAILED AUDIT FINDINGS

7.1 Non-recognition of Impairment loss – UGX.138 Billion

Under IAS 36 an impairment loss is recognized when the recoverable amount of the asset is below its carrying amount.

Although UEGCL has the right to bill ESKOM, under the Concession and Assignment Agreement, for Depreciation, Return on Equity and Administrative costs, UEGCL only bills Eskom Administrative costs as approved by the regulator (ERA) implying that UEGCL may not be able to generate enough revenue to recover the Conceded assets' carrying amount.

An impairment assessment was thus carried out in March 2015 and this resulted in an impairment loss of UGX 138 Billion. However, the assets balance reported in the books of UEGCL have not been adjusted for this loss. This implies that the assets and the profit balances have been overstated in the financial statements.

In their response, management explained that the board had decided not to write down the plant with regard to the impairment but rather pursue the issue with ERA and MoFPED. Billing for the depreciation has still not been granted by ERA mainly to keep the tariff low.

I advised management to adhere to the requirements of IAS 36 Impairment of Assets and recognize the impairment loss as required.

7.2 Procurement

a) Failure to appoint Contract managers

Contrary to the requirements of Section 52 (1) of the PPDA Regulation No.14, 2014 (Contracts) which requires the Accounting Officer to appoint members of the user departments with appropriate skills and experience as contract managers, various contracts worth UGX.8,884,296,755 were implemented without contracts managers being appointed to oversee the implementation of these contracts.

Failure to appoint contract managers results in poor contract execution leading to possible delays in service delivery and degraded value for money.
It was also noted that contracts including construction of dams were being implemented without contracts management implementation plans contrary to Section 51 (3) of the PPDA Regulations.
Management explained that respective Heads of Department have been in full charge of procurements that fall under their respective departments. However going forward, this has been formalised with written appointments of contract managers in 2016 by the accounting Officer, in compliance with the PPDA regulations. Management also indicated that contract management plans would be prepared for all contracts beginning financial year 2016.
The action taken by the accounting Officer shall be reviewed in subsequent audits.

b) Non-use of Framework Contracts

Section 58 (C) of the PPDA Act, 2003 requires entities, where appropriate, to use framework contracts for the procurement of regularly required items to provide an efficient, cost effective and flexible means to procure works, services or supplies that are required continuously or repeatedly over a set period of time. It was however noted that many regularly required items such as fuel and stationery were procured repeatedly using either requests for quotations or direct procurements without subjecting them to competition. The practice may compromise the achievement of value for money.
Management acknowledged the anomaly and indicated that framework contracts had now been set up in 2016 for regularly procured items such as stationery.
I advised management to continually apply the use of framework contracts for frequently required items to encourage competition and attain Value for Money in the use of the company resources.

7.3 Unresolved Previous Year Issues

I reviewed the implementation of the previous year's audit recommendations and noted that they had not been fully implemented as summarized in the table below;

Ref.	Summary of the issues	Status	Management Comment
1	Under billing of concession fees	Recommendation not implemented	UEGCL budgeted for depreciation in the concession fees for 2015; however, ERA did not approve the billing for depreciation mainly to keep the tariff low. UEGCL escalated the issue to MOFPED and the resulting meeting between ERA, UEGCL and MoFPED. It was resolved that the billing for depreciation would not be allowed.
2	Conversion of Government of Uganda Loans to Equity	Resolved	Debts belonged to UEB but were vested to the company and reversed by the same Minister for Finance. All debts being paid by Government
3	Long Outstanding Balances due to Government.	Resolved	The Board approved a write-off.
4	Contributions from Government of Uganda.	Resolved	Adjustments made and Government contributions now being treated as grants
5	Non Remittance Of Taxes Due.	Not resolved	Withholding tax not remitted but UEGCL has sought a waiver from MoFPED.

I advised Management to implement the audit recommendations so as to ensure proper company stewardship and enhanced accountability to the shareholders.

A team from Sino-Hydro Corporation led by the Regional President East & Southern Africa paying a courtsy visit to UEGCL offices

FINANCIAL STATEMENTS

UEGCL
Generating for Generations

The directors submit their report together with the audited financial statements for the year ended 31 December 2015 which disclose the state of affairs of Uganda Electricity Generation Company Limited ("the company" or 'UEGCL').

1. PRINCIPAL ACTIVITIES

The company was established under the Public Enterprises Reform and Divestiture Act Cap 98 and the Electricity Act, Cap. 145 under the Companies Act, 2012 with the main objective of taking over, as a going concern, the generation activities of Uganda Electricity Board (UEB) established under Cap 135 of the laws of Uganda together with all or any part of the property, assets and liabilities associated with it.

The company's principal business is the generation of electricity and operation and maintenance of generation plants in addition to other roles assigned by the Ministry of Energy and Mineral Development from time to time and the roles incidental to the objectives set out in its Memorandum of Association. By virtue of a Concession and Assignment Agreement ('concession agreement') signed between the company and Eskom Uganda Limited ('EUL' or 'Eskom' or 'the Concessionaire'), the company's two assets, Nalubaale and Kira Power Stations, ('the complex') were concessioned out to the concessionaire, for a term of twenty (20) years effective April 2003, with a contractual responsibility of operation and maintenance of the complex. As a result, the company also plays a vital role in the monitoring of the performance of the concessionaire against the agreed performance parameters.

2. RESULTS

The results for the year are set out on page 8. The profit for the year of UGX 13.5 billion (2014: loss: UGX 9.1 billion) has been transferred to accumulated losses.

3. DIVIDEND

The directors do not recommend payment of a dividend for the year ended 31 December 2015 (2014: Nil).

4. AUDITORS

In accordance with Article 163 of the Constitution of the Republic of Uganda, Section 17 of the Public Enterprises Reform and Divestiture Act, Cap.98 and Sections 13 (1) (a), 17 and 23 of the National Audit Act, 2008 , provide that the financial statements of the company shall be audited once every year by the Auditor General.

5. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Director 31st August 2016

By order of the Board,

Company Secretary

31st August 2016

The Companies Act, 2012 and Electricity Act, 1999 (Cap 145) of Uganda require the directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.
The directors are ultimately responsible for the internal control of the company. The directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of the company's assets. Appropriate accounting policies supported by reasonable and prudent judgements and estimates, are applied on a consistent basis and using the going concern basis. These systems and internal controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the year's financial statements, which have been prepared using accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that the company will have adequate resources to continue in business for the foreseeable future. This assessment is based on the fact that the company is established under laws of Uganda to provide a service in the power sector and there is no indication that this arrangement will be changed in the foreseeable future. The company's main source of revenue is the concession fee billed to Eskom Uganda Limited which is expected to cover the company's operating costs at a minimum. In addition, funding for supervision of Karuma and Isimba Hydro power projects for the next financial year have been approved by Government in addition to other small hydro plants such as Muzizi and Nyagak III Hydro power projects. As such, the directors are not aware of any material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The financial statements were approved by the Board of Directors on 31st August **2016**
and signed on its behalf by:

Director **Director**

STATEMENT OF COMPREHENSIVE INCOME

	Note	2015	2014
		UGX '000	UGX '000
Concession fees	3	10,933,855	5,970,938
Other operating income	4	50,439,400	1,530,749
Total income		**61,373,255**	**7,501,687**
Staff costs and employee benefits	5	(3,531,996)	(2,740,346)
Project administration expenses			(22,658)
Other administration expenses	6	(33,922,623)	(2,152,861)
Depreciation and amortization charge	7(a)	(12,540,862)	(12,693,869)
Foreign exchange gains/(losses)	7(b)	1,273,637	497,989
Total operating expenses		**48,721,844**	**(17,111,745)**
Operating profit/loss		**12,651,411**	**(9,610,058)**
Interest income	8	856,301	511,976
Profit/Loss before tax		**13,507,712**	**(9,098,081)**
Income tax expense		-	-
Profit/Loss for the year		**13,507,712**	**(9,098,081)**
Other comprehensive income		-	-
Total comprehensive income for the year		**13,507,712**	**(9,098,081)**

Director

Director

STATEMENT OF FINANCIAL POSITION

	Note	2015 UGX' 000	2014 UGX' 000
ASSETS			
Non-current assets			
Property, plant and equipment	09	451,698,404	456,634,077
Prepaid operating lease rentals	10	758,914	843,910
Land Nyagak	11	291,645	-
WIP-Projects	12	525,066,806	2,330,054
Due from Eskom	13	2,146,878	1,191,288
		979,962,647	**460,999,329**
Current assets			
Due from related parties	21(ii)	-	31,176,347
Trade and other receivables	14	4,217,898	1,973,007
Fixed deposits at amortized cost	15	9,235,697	3,918,703
Cash and bank balances	16	11,285,551	12,262,233
		24,739,147	**49,330,290**
TOTAL ASSETS		**1,004,701,796**	**510,329,619**
EQUITY AND LIABILITIES			
Equity			
Issued capital	17a	105,208,169	105,208,169
Capital contributions	17b	554,861,676	554,861,676
Government contributions –projects	17c	-	5,990,601
Accumulated losses		(186,024,213)	(199,531,924)
		474,045,632	**466,528,522**
Non-current liabilities			
Stanbic Loan	18	8,700,000	-
Karuma on lent Loan	19a	214,158,010	-
Isimba on lent loan	19b	298,319,469	-
Due to Government of Uganda	20	-	33,827,934
		521,177,479	**33,827,934**
Current liabilities			
Due to other related parties	21(iii)	7,941	1,442,937
Due to Electricity Regulatory Authority	22	-	6,129,813
Deferred Income	23	2,995,431	-
Trade and other payables	24	6,388,539	2,253,185
Gratuity Payable	25	86,774	147,228
		9,478,865	**9,973,163**
TOTAL EQUITY & LIABILITIES		**1,004,701,796**	**510,329,619**

Director

Director

STATEMENT OF CHANGES IN EQUITY

	Issued capital UGX '000 (Note 17a)	Capital contributions UGX '000 (Note 17b)	Accumulated Profit/losses UGX '000	Government Contribution UGX '000	Total UGX '000
At 1 January 2014	105,208,169	554,861,676	(190,433,842)	-	469,636,003
Loss for the year	-	-	(9,098,082)	-	(9,098,082)
Conversion of Government of Uganda loans to equity				5,990,601	5,990,601
At 31 December 2014	**105,208,169**	**554,861,676**	**(199,531,924)**	**5,990,601**	**466,528,522**
At 1 January 2015	105,208,169	554,861,676	(199,531,924)	-	460,537,921
Profit for the year	-	-	13,507,711	-	13,507,711
At 31 December 2015	**105,208,169**	**554,861,676**	**(186,024,213)**		**474,045,633**

Spillway gates opened at Nalubaale Hydro-Power Plant

STATEMENT OF CASHFLOWS

	Note	2015	2014
		UGX' 000	UGX' 000
Operating activities			
Profit/Loss before tax		13,507,712	(9,098,081)
Adjustments for:			
Interest income	8	(856,301)	(511,976)
Depreciation and amortization	7a	12,540,862	12,693,869
Unrealized exchange (gain)/losses		-	(327,741)
(Gain) / Loss on disposal of motor vehicle		(38,200)	-
		25,154,072	**2,756,070**
Decrease/(increase) in trade and other receivables		(1,388,590)	(363,544)
Increase/(decrease) in trade and other payables		4,135,354	(1,247,515)
Increase/(decrease) in gratuity payable		(60,454)	(1,142,716)
Due to GOU write back		(33,827,934)	
		-	
Bad debts		31,176,343	
		-	
Due to Electricity Regulatory Authority write back		(6,129,813)	-
Decrease in due from related party		(1,434,996)	118,898
(Decrease)/Increase in amounts due to related parties		-	112,072
Cash generated from operations		**17,623,983**	**233,265**
Interest received		-	838,367
Net cash flows from operating activities		**17,623,983**	**1,071,632**
Investing activities			
Asset disposal proceeds		38,200	-
Purchase of property, plant and equipment	09	(7,811,839)	(48,318)
Expenditure on WIP Projects	12	(522,736,751)	(2,330,054)
Amounts due from Eskom	13	(955,590)	-
Net cash flows used in investing activities		**(531,465,980)**	**(2,378,372)**
Financing activities			
On lent Borrowings	19	512,477,479	5,990,601
Government contribution towards projects		(5,990,601)	-
Deferred income	23	2,995,431	-
Long term borrowing	18	8,700,000	-
Net cash flows used in financing activities		**518,182,309**	**5,990,601**
Movement in cash and cash equivalents		4,340,312	4,683,856
Increase /Decrease in cash and cash equivalents		16,180,936	11,497,080
At end of year		**20,521,248**	**16,180,936**

Construction works at Isimba Hydro-Power Project

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY AND GOING CONCERN

1.1.Reporting entity

Uganda Electricity Generation Company Limited (the 'company' or 'UEGCL') is a corporate body, incorporated under the Companies Act, 2012 and in conformity with the Electricity Act, 1999.
The company was incorporated in March 2001 to operate and maintain the generation plants at Nalubaale and Kiira power stations that were formally owned and operated by UEB. The company is primarily involved in the monitoring of the 20 year concession arrangement with Eskom Uganda Limited and construction of electricity power plants.

1.2. Going concern

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that the company will have adequate resources to continue in business for the foreseeable future. This assessment is based on the fact that the company is established under laws of Uganda to provide a service in the power sector and there is no indication that this arrangement will be changed in the foreseeable future. The company's main source of revenue is the concession fee billed to Eskom Uganda Limited which is expected to cover the company's operating costs at a minimum. As such, the directors are not aware of any material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the principal accounting policies used in preparation of these financial statements. The policies have been applied consistently to all periods presented and are set out below.

a). Basis of accounting and statement of compliance

The financial statements are prepared on the historical cost basis unless otherwise stated. The financial statements are presented in Uganda Shillings which is the company's functional currency, rounded to the nearest thousands (UGX '000).
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act, 2012 of Uganda.

b). Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the company and that revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding Value Added Tax, discounts, commissions, rebates and other sales taxes.
Concession fees receivable from the concessionaire (Eskom) for operating and maintaining the complex (the two dams of Kiira and Nalubaale) is recognized in the statement of comprehensive income on a monthly basis. The concession fees are based on the amount pre-approved by Electricity Regulatory Authority on annual basis and comprise of the components specified in the concession agreement, debt service, depreciation of the concession assets and administration expenses. Concession fees comprise of the amounts invoiced on a monthly basis and are stated net of VAT and discounts.

c). Interest income and expenses

Interest income comprises of income on funds invested in fixed deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.
Interest expense comprises of interest charges on the company's borrowings and is recognised using the effective interest rate method.

d). Translation of foreign currency transactions and balances

Transactions in foreign currencies are translated into Uganda Shillings 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 Uganda Shillings at the exchange rates ruling at that date. Foreign currency differences arising on translation are recognized in profit or loss except for differences arising on translation of available-for-sale equity instruments.
Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into Uganda Shillings at the exchange rate at the date when the fair value was determined.

e). Service concession arrangements

A service concession arrangement is typically an arrangement involving a private sector entity (the operator) constructing and/or upgrading, operating and maintaining infrastructure used to provide a public service for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices and arrangements for arbitrating disputes. The grantor (the party that grants the service arrangement) controls the infrastructure and the operator is required to return the infrastructure to the grantor at the end of the concession period.

The company (the grantor) entered into a service concession arrangement where it is the grantor. On 26 November 2002, the company entered into a service concession agreement with Eskom Uganda Limited to operate two hydropower dams at Kiira and Nalubaale power stations. Under the terms of the agreement, Eskom is to operate and maintain the dams for a period of 20 years. Eskom is responsible for any maintenance services required during the concession period.
The company is charged with the responsibility of managing the concession on behalf of Government of Uganda which owns the assets constituting these dams.

The standard rights of the grantor to terminate the agreement include poor performance by Eskom and in the event of a material breach in the terms of the agreement. The standard rights of Eskom to terminate the agreement include failure of the grantor to make payment under the agreement, a material breach in the terms of the agreement, and any changes in law which would render it impossible for Eskom to fulfil its requirements under the agreement.
The concession agreement assigns the company the right of ownership to all modifications incorporated into the complex by Eskom during the concession term. The concession assets handed over to Eskom are 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 Eskom. However, the company does not recognise the modifications and upgrades as assets because the company does not incur any costs on these modifications. Eskom recovers the cost incurred from Uganda Electricity Transmission Company including a return on investment of 12% per annum. At the end of the concession, the company will assess the recognisability of the remaining book value of the modifications.

f). Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. When part of the item of property, plant and equipment has different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent cost

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss.

De-recognition

An item of the property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is de-recognised. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of property, plant and equipment. When revalued assets are disposed off, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and useful lives unless it is reasonably certain that the company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

Nalubaale & Kiira Power Station – Civil	1.25%
Nalubaale & Kiira Power Station – Others	2.50%
Nalubaale & Kiira Power Station Plant	8.30%
Furniture and fittings	12.5%
Office machinery and equipment	20%
Computers	20%
Buildings	2.5%
Motor vehicles	20%
Tools and equipment	12.5%

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.
No depreciation is charged for property, plant and equipment in the course of construction (capital work-in-progress). Upon completion of the project, the accumulated cost is depreciated using the depreciation rate of the appropriate property, plant and equipment category set out above.

g). Prepaid operating lease rentals

Leasehold land is recognised as an operating lease. Any upfront payments are recognised as prepaid lease rentals and recorded under non-current assets and are amortised over the remaining period of the lease on a straight-line basis.
Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

h). Cash and cash equivalent

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held at call with banks that are due within three month, and investments in money market instruments, net of bank overdrafts, if any.

i). Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

j). Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity until ratified at the Annual General Meeting.

k). Tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, in accordance with the provisions of the Income Tax Act (Cap 340) of Uganda. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.
Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss.

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

Deferred income 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 income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
The carrying amount of deferred 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 income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in profit or loss.
Deferred income tax assets and deferred income 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.

l). Financial Instruments

i). Initial recognition
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. The company determines the classification of its financial instruments at initial recognition.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial assets and financial liabilities are recognised initially at fair value plus transaction costs, except in the case of financial instruments recorded at fair value through profit or loss. The company's financial assets include cash and short-term deposits, trade and other receivables, amounts due from related parties and staff loans, and the company's financial liabilities include trade and other payables, amounts due to related parties and borrowings (Government of Uganda loans).

ii). Subsequent measurement

Bank balances, trade receivables and other receivables and amounts due from related parties

These financial assets are classified as loans and receivables, as they are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'financial assets held-for-trading', designated as 'financial investments available-for-sale' or financial assets designated 'at fair value through profit or loss'. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest rate method, less allowances for impairment. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in profit or loss. The losses arising from impairment are recognized in profit or loss.

Borrowings, amounts due to related parties and trade payables

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortisation is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The amortization is included in profit or loss.

iii). De-recognition of financial assets and financial liabilities

Financial assets

A financial asset is de-recognised where:

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

Financial liabilities

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

iv). 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.

m). Impairment of assets

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of what the asset's carrying amount would have been net of depreciation or amortization if no impairment loss was recognized.

n). Employee benefits

Retirement Benefit Scheme

With effect from 1 April 2014, a new retirement benefit scheme was set up where members of staff contribute 5% of their gross monthly salary and the Company contributes 25% of the gross monthly salary for each month worked for the contract staff. The scheme was registered as a defined benefit contribution with the Uganda Retirement Benefits Regulatory authority.

National Social Security Fund

The company also makes contributions to a statutory scheme, the National Social Security Fund (NSSF). Contributions to NSSF are determined by applicable statute and are shared between employer and employee. The company's contributions of 10% on employee emoluments are charged to profit or loss in the year to which they relate.

2.1. ADOPTION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

(i). New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Changes resulting from the following new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs that were effective for the current reporting period did not have any impact on the accounting policies, financial position or performance of the Company.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10.
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32: These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.
- IFRIC Interpretation 21 Levies (IFRIC 21): IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- IAS 36 Disclosure requirements for the recoverable amount of impaired assets - Amendments to IAS 36: Clarifies the disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39: These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

(ii). Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are described below. This description is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Company's financial position or performance in the period of initial application. In cases where it will have an impact, the Company is still assessing the possible impact.

Standards and interpretations issued or revised but not yet effective for the financial year ended 31 December 2015

- IFRS 15: Revenue from Contracts with Customers (Effective 1 January 2016)
- IFRS 14: Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Effective 1 January 2016)
- IAS 16 and IAS 41: Accounting for bearer plants (Effective 1 January 2016)
- IFRS 9: Financial instruments (Effective 1 January 2018)
- IFRS 11: Accounting for the acquisition of interests in a Joint Operation (Effective 1 January 2016)
- IAS 27: Equity method in separate financial statements (Effective 1 January 2016)

Excavation of underground powerhouse at
Karuma Hydro-Power plant site

3. CONCESSION FEES

	2015 UGX '000	2014 UGX '000
Administration component	**10,933,855**	**5,970,938**

The debt service and depreciation component was not accrued for during the year under review because it was not included in the tariff methodology approved by Electricity Regulatory Authority.

4. OTHER OPERATING INCOME

	2015 UGX '000	2014 UGX '000
Grant income	8,007,924	452,340
Gain on disposal	38,200	-
Sundry Income	42,393,276	159,356
Other income	-	919,053
	50,439,400	**1,530,749**

Sundry income mainly relates to a write back of Government liability inherited from UEB of UGX 33.8 billion due to failure to collect revenue from UETCL and liability owed to UEB of UGX 1.3 billion. A provision for a tariff stabilization fund set up by the Electricity Regulatory Authority under the provisions of the Electricity Act, 1999 of UGX 6.1 billion was written back.

5. STAFF COSTS AND EMPLOYEE BENEFITS

Salaries	2,023,489	1,504,819
Company contributions to NSSF and other funds	202,753	97,389
Other staff benefits and allowances	1,305,755	1,138,138
	3,531,996	**2,740,346**

The average number of persons employed by the company during the year was 61 (2014: 43). During the year ended, project employee benefits were capitalised as they arose directly from the construction of Karuma, Isimba, Nyagak III and Muzizi Hydropower projects.

6. OTHER ADMINISTRATION EXPENSES

	2015	2014
	UGX '000	UGX '000
Transport expenses	261,897	153,811
Operational expenses	66,843	99,716
Audit fees and related expenses	42,373	34,447
Directors' allowances	280,300	234,364
Directors' expenses	568,409	77,233
Professional fees		1,809
Consultancy fees	98,084	119,918
Legal fees	24,000	56,000
Legal expenses	25,477	128,893
Other costs*	32,555,240	1,254,389
	33,922,623	**2,152,861**

*Other costs is mainly in relations to write-off of old outstanding debts dating back to 2001 of UGX 30.9 billion from UETCL and UGX 183 million from UEB.

7. DEPRECIATION AMORTISATION CHARGE AND FOREIGN EXCHANGE LOSSES

a) Depreciation and amortisation charge

	2015	2014
	UGX '000	UGX '000
Depreciation charge	12,455,377	12,592,634
Amortisation charge	85,485	101,235
	12,540,862	**12,693,869**

b) Net foreign exchange gains/(losses)

	2015	2014
	UGX '000	UGX '000
Net foreign exchange gains/(losses)	**1,273,637**	**497,989**

The net foreign exchange gains include foreign exchange gains of UGX 1.2 billion (2014: gains of UGX 498 million) arising from translation of monetary transactions, assets and liabilities denominated in foreign currencies.

8. INTEREST INCOME

	2015 UGX '000	2014 UGX '000
Interest income from fixed deposit accounts	856,301	511,976
INTEREST EXPENSE		
Government of Uganda loan	-	1,615,937
World Bank-IDA loan	-	4,361,674
	-	**5,977,611**

The Government of Uganda loan were converted to equity in the financial year 2013.

Construction works at Karuma Hydro-Power project

9. PROPERTY, PLANT AND EQUIPMENT

	Plant & Machinery UGX '000	Buildings UGX '000	Furniture & Fittings UGX '000	Computers UGX '000	Tools & Equipment UGX '000	Communication Equipment UGX '000	Motor Vehicles UGX '000	Office Machinery UGX '000	Total UGX '000
COST									
At 1 January 2014	845,932,483	1,590,661	139,829	544,607	747,551	189,674	1,691,915	277,053	851,113,772
Additions	-	-	25,875	11,210			-	11,233	48,318
Write offs	-	-	-	-	-	-	-	-	-
At 31 December 2014	**845,932,483**	**1,590,661**	**165,704**	**555,817**	**747,551**	**189,674**	**1,691,915**	**288,286**	**851,162,090**
Additions	-	7,434,538	6,848	52,940	16,700	-	-	8,679	7,519,704
Write offs	-	-	-	-	-	-	106,060	-	106,060
At 31 December 2015	**845,932,483**	**9,025,199**	**172,552**	**608,757**	**764,251**	**189,674**	**1,585,855**	**296,965**	**858,575,734**
DEPRECIATION									
At 31 January 2014	**378,710,349**	**777,297**	**81,968**	**328,815**	**700,162**	**41,551**	**1,119,905**	**175,332**	**381,935,379**
Charge for the year	12,210,856	39,767	16,421	52,125	8,989	5,122	232,646	26,708	12,592,634
At 1 December 2014	**390,921,205**	**817,064**	**98,389**	**380,940**	**709,151**	**46,673**	**1,352,551**	**202,040**	**394,528,013**
Charge for the year	12,210,856	39,767	14,305	62571	9207	5,122	89,333	24,216	12,455,377
Write offs	-	-	-	-	-	-	(106,060)	-	(106,060)
At 31 December 2015	**403,132,061**	**856,831**	**112,694**	**443,511**	**718,358**	**51,795**	**1,335,824**	**226,256**	**407,089,450**
NET CARRYING VALUE									
At 31 December 2015	**442,800,422**	**8,168,368**	**59,858**	**165,246**	**45,893**	**137,878**	**250,031**	**70,709**	**451,698,404**
At 31 December 2014	**455,011,278**	**773,597**	**67,315**	**174,876**	**38,400**	**143,001**	**339,364**	**86,246**	**456,634,077**

Testing of the complex assets for impairment

The installed capacity of the power complex (Nalubaale and Kiira) is 380 MW. However, the average capacity generated during the year was about 138 MW (2014: 140MW). The low generating capacity is attributed to the varying water levels, which resulted in restricted amount of water released to the complex. The company has no control over the amount of water released through the complex. However, the complex is being operated and maintained in accordance with the laws of Uganda and prudent utility best practice. An impairment test was carried out and it resulted into an impairment loss of UGX 138 billion. The results of the impairment assessment have not been accounted for in the financial statement.

Modifications to the complex by Eskom Uganda Limited

Under section 2.8 of the concession agreement with Eskom Uganda Limited (the operator), the company is entitled to a right of ownership on all modifications to the complex. However, the Power Purchase Agreement (PPA) between the operator and Uganda Electricity Transmission Company Limited (UETCL) entitles the operator to fully recover the cost of the modifications plus a 12% return-on-investment from UETCL. Therefore, although the company has a legal right of ownership, all the economic benefits arising out of the modifications are enjoyed by the operator. As such, the company has not recognised the value of the modifications in these financial statements. As at 31 December 2015, the operator had made a total investment in relation to modification of the complex amounting to UGX 8.7 billion (2014: UGX 8.4. billion).

10. PREPAID OPERATING LEASE RENTALS

	2015 UGX '000	2014 UGX '000
Cost		
At 1 January	2,023,114	2,021,764
Additions		1,350
At 31 December	**2,023,114**	**2,023,114**
Amortization		
At 1 January	1,179,204	1,077,969
Charge for the year	84,996	101,235
At 31 December	1,264,200	1,179,204
Net carrying amount	**758,914**	**843,910**

	Nalubaale	Kiira	Total
	UGX' 000	UGX' 000	UGX' 000
Cost			
At 1 January 2014	1,580,574	441,190	2,021,764
Additions	1,350	-	1,350
At 31 December 2014	**1,581,924**	**441,190**	**2,023,114**
Additions	-	-	-
At 31 December 2015	**1,581,924**	**441,190**	**2,023,114**
Amortization			
At 1 January 2014	1,016,312	61,657	1,077,969
Charge for the year	95,958	5,277	101,235
At 31 December 2014	**1,112,270**	**66,934**	**1,179,204**
Charge for the year	63,625	21,371	84,996
At 31 December 2015	**1,175,895**	**88,305**	**1,264,200**
Net carrying value			
At 31 December 2015	**406,029**	**352,885**	**758,914**
At 31 December 2014	**469,654**	**374,265**	**843,910**

At inception the lease obligations were paid up front. As such, the obligation resulting from the minimum lease payment was expunged at the beginning of the leases in a single payment.

11. LAND NYAGAK

The Government of Uganda (GoU) through the Ministry of Energy and Mineral Development (MEMD) with the support of the Federal Republic of German developed a programme "Efficient and Sustainable Energy Supply in Uganda". The Germany Government, through Kreditanstalt für Wiederaufbau (KfW), earmarked funds for the financing of selected investments in the fields of renewable energy and energy efficiency.

One of the projects being supported under this programme is the construction of Nyagak III Small Hydropower Project (SHPP) in Zombo District to which KfW allocated a grant of 8 million Euros and these funds were channelled to UEGCL through a Channelling Agreement between MEMD and UEGCL of 13th December 2011. One of the obligations of UEGCL under the Channelling Agreement is acquisition of land for the project.

The project is to be developed as a Public Private Partnership (PPP) by a Special Purpose Vehicle (SPV), Genmax Nyagak Ltd, formed between UEGCL and the procured Private Sector Partner, a consortium of Hydromax Ltd and Dott Services Ltd. UEGCL with support from KfW procured International Finance Corporation (IFC) as Transaction Advisors to assist with the procurement of the Private Sector Partner. The procured Private Partner shall be in charge of the design, construction, and operation of the power plant for a period of 20 years after which the plant shall revert to UEGCL.

The Nyagak land balance at 31 December 2015 of UGX 292 million relates to land acquisition costs for the Nyagak Hydro Power Project in respect of the project affected people's verification, disclosure activities and the land valuation.

12. WORK IN PROGRESS- PROJECTS

This amount relates to project costs so far incurred on Karuma, Muzizi and Isimba Hydro Power Projects. This includes supervision costs being incurred by UEGCL in ensuring that the Karuma, Muzizi and Isimba Projects come to life. The costs incurred to date mainly consist of civil works, staff costs and project management consultants.

	2015	**2014**
	UGX '000	**UGX '000**
Opening Balance	2,330,054	-
Additions	522,736,752	2,330,054
	525,066,806	**2,330,054**

WORK IN PROGRESS SUMMARY

PROJECT	2015	2014
	UGX`000	UGX`000
Isimba	302,516,384	1,015,116
Nyagak	-	46,271
Karuma	222,243,524	1,159,195
Muzizi	306,897	88,317
Ayago	-	21,156
TOTAL	**525,066,806**	**2,330,055**

The Karuma and Isimba HPP are owned by Government represented by Ministry of Energy and Mineral Development (MEMD). Uganda Electricity Generation Company Limited (UEGCL) is the nominated Government agency to oversee implementation and will own the plants when they are completed at a later date. (As per the General Notice No 572 of 2014, issued as Policy Direction to ERA by MEMD)

The Land acquired by MEMD has not yet been transferred to UEGCL for ownership; and the the 15% Government contribution of USD290,784,051 that was paid as advance , was appropriated and accounted for under the MEMD vote.
When the projects are completed and handed over to UEGCL, the projects will be valued and the total value will be transferred into the books of UEGCL.

13. DUE FROM ESKOM

	2015 UGX '000	2014 UGX '000
Opening Balance	2,146,878	1,191,288
	2,146,878	**1,191,288**

The advance for inventories of UGX 2.1 billion relates to critical inventories that were transferred to Eskom Uganda Limited at commencement of the concession period. This stock balance was revalued by Eskom. The initial stock balance with Eskom Uganda was UGX 1.19 billion. This amount in 2015 has been reclassified from trade receivables to noncurrent assets.
Eskom Uganda is contracted to hand over stock at the end of the concession period that can run the plant for three months.

14. TRADE AND OTHER RECEIVABLES

	2015 UGX '000	2014 UGX '000
Trade receivables-Eskom	1,482,579	1,174,285
Withholding tax recoverable	674,805	630,398
Interest receivable	727,856	-
VAT receivables	1,239,745	73,717
Staff debtors-advances not yet accounted for	31,582	6,585
Other receivables – prepayments	61,332	88,022
	4,217,898	**1,973,007**

15. FIXED DEPOSITS

	2015 UGX '000	2014 UGX '000
At 1 January	3,918,703	5,462,087
Interest income	-	511,976
Amount invested during the year	5,316,994	(2,055,360)
At 31 December	**9,235,697**	**3,918,703**

The weighted average effective interest rate on fixed deposits at 31 December 2015 was 14.4% (2014: 11.5%).

The maturities of the fixed deposits is analysed as below:

	2015	2014
	UGX '000	UGX '000
One year	9,235,697	3,918,703
	9,235,697	**3,918,703**

16. CASH AND BANK BALANCES

	2015	2014
	UGX '000	UGX '000
Cash at bank	3,787,442	6,144,585
Stanbic Bank Uganda Limited Escrow Account	7,498,083	6,147,632
Cash at hand	27	16
	11,285,551	**12,262,233**

Escrow Account

In accordance to section 5.1 of the Concession and Assignment Agreement, the company is required to open and maintain an escrow account. The required amount to be deposited on this account was established by the company and Eskom Uganda Limited as of the transfer date and there after received every six months, equal to the equivalent of Eskom Uganda Limited's revenue requirements for a four-month period exclusive of the company's concession fees. However, in no event shall the amounts required to be deposited in the escrow account exceed USD 3 million. As at 31 December 2015, the balance on this account was UGX 7,498,083 equivalent to USD 2,220,332.

17. ISSUED CAPITAL AND CAPITAL CONTRIBUTIONS

a) Share capital	Number of shares	Amount UGX '000
Authorised, issued and fully paid ordinary shares of UGX 500 each:		
At 1 January 2015	2	1
Conversion of Government of Uganda loans to equity	210,416,338	105,208,168
At December 2015	**210,416,340**	**105,208,169**

b). Capital contributions	2015 UGX '000	2014 UGX '000
Government of Uganda	554,861,676	554,861,676

This balance relates to the Government of Uganda consideration in respect to the net assets and liabilities taken over by the company from Uganda Electricity Board. The amount is not repayable to the shareholder.

c). Government contribution projects	2015 UGX '000	2014 UGX '000
Government contributions-projects	-	5,990,601
These amounts were reclassified to grant income in 2015.		

18. STANBIC LOAN

The Loan is a facility obtained from Stanbic Bank to finance the purchase of commercial (office) property to house the UEGCL's Head Office located in Leasehold Register Volume 4389 Folio 13 Plot 6-9 Okot Close-Bukoto, from M/S Metropole Holdings Limited.

The Loan bears the following terms

a. Loan Amount Tranche 1 - UGX 6,500,000
b. Loan Amount Tranche 2 - UGX 2,200,000
c. Maturity Period - 36 months
d. Interest rate Tranche 1 - 91 day Treasury Bill Rate + 3%
e. Interest rate Tranche 2 - 182 day Treasury Bill Rate + 3.5%

The Bank reserves the right to amend the interest rate and the method of calculating it at any time in line with market conditions, or if the reference rate fluctuates

19. (a) Karuma on lent loan

The amounts represent outstanding loan disbursements by the Export – Import Bank of China to the Government of Uganda; which in turn the Government has on lent to UEGCL. The outstanding loan balance as at 31 December 2015 was UGX 214,158,010,296 Two hundred fourteen billion one hundred fifty eight million ten thousand two hundred ninety six (US$63,690,304)
By the Preferential Buyer Credit (PBC) Agreement dated the 24th Day of November 2014 and the Buyer Credit Loan (BCL) Agreement dated February 20, 2015 ; the Export – Import Bank of China lent to the Government an amount of United States Dollars Seven Hundred and Eighty Nine Million Three and Thirty Seven Thousand Two Hundred and Seventy Five and Thirty Six Cents (US $ 789,337,275.36) from the PBC Financing Agreement plus another United States Dollars Six Hundred and Forty Five Million Eight Hundred and Twenty One Thousand and Four Hundred and Seven and Twelve cents two (US $ 645,821,407.12) from the BCLA Financing Agreement respectively.

Under the provisions of Article 6 Section 6.12 (1) of the PBC Financing Agreement, and Article 16 Section 16.1 (3) of the BCLA Financing Agreement, the Government is required to enter into On - Lending Agreements with UEGCL and UETCL (as borrowers') for the purpose of on lending the full amount of the Credit to UEGCL and UETCL respectively upon the terms and conditions therein stated and for the purposes of implementing the 600 MW Karuma Hydropower Dam and Associated Transmission Works and Sub Stations Project.

The Government agreed to on lend to UEGCL as Borrower, and to the extent that, such amount have been made available to the Government by the BANK, an amount not exceeding United States Dollars Six Hundred and Fifty Three Million Eight Hundred and Six Thousand and Five Hundred and Eighty Four and Eighty Three Cents (US $ 653,806,584.83) from the PBC Financing Agreement plus another United States Dollars Five Hundred and Thirty Four Million Nine Hundred Thirty Two Thousand Six Hundred and Sixty and Thirty Two Cents (US $ 534,932,660.32) from the BCLA Financing Agreement respectively and all totalling United States Dollars One Billion One Hundred and Eighty Eight Million Seven Hundred Thirty Two thousand Two hundred and Forty Five and Fifteen Cents (US $ 1,118,739,245.13) as a "Subsidiary Loan".

Subsidiary Loan bears the following terms

a. Loan Amount	- US $ 1,118,739,245.13
b. Maturity Period	- 20 years including 5 years of grace
c. Interest rate	- 2 % p.a on disbursed and outstanding amounts

19.(b) Isimba on lent loan

The amounts represent outstanding loan disbursements by the Export – Import Bank of China to the Government of Uganda; which in turn the Government has on lent to UEGCL. The outstanding loan balance as at 31 December 2015 was UGX 298,319,469,185 Two hundred ninety eight billion three hundred nineteen million four sixty nine thousand one hundred eighty five only (US$ 88,719,808.59)
By the Preferential Buyer Credit (PBC) Agreement dated the 24th Day of November 2014; the Export – Import Bank of China lent to the Government an amount of United States Dollars Four Hundred and Eighty Two Million Five Hundred and Seventy Eight Thousand and Two Hundred (US $ 482,578,200) from the PBC Financing Agreement.
Under the provisions of Article 6 Section 6.12 (1) of the PBC Financing Agreement, and Article 16 Section 16.1 (3) of the BCLA Financing Agreement, the Government was required to enter into On - Lending Agreements with UEGCL and UETCL (as borrowers') for the purpose of on lending the full amount of the Credit to UEGCL and UETCL respectively upon the terms and conditions therein stated and for the purposes of implementing the 183 MW Isimba Hydropower Dam and the Isimba-Bujagali interconnection Project.

The Government agreed to on lend to UEGCL as Borrower, and to the extent that, such amount have been made available to the Government by the BANK, an amount not exceeding United States Dollars Four Hundred and Fifty Two Million One Hundred and Forty Seven Thousand and Nine Hundred and Forty Six (US $ 452,147,946) as a "Subsidiary Loan".
Subsidiary Loan bears the following terms:

a. Loan Amount - Us $ 452,147,946
b. Maturity Period - 20 years including 5 years of grace
c. Interest rate - 2 % p.a on disbursed and outstanding amounts

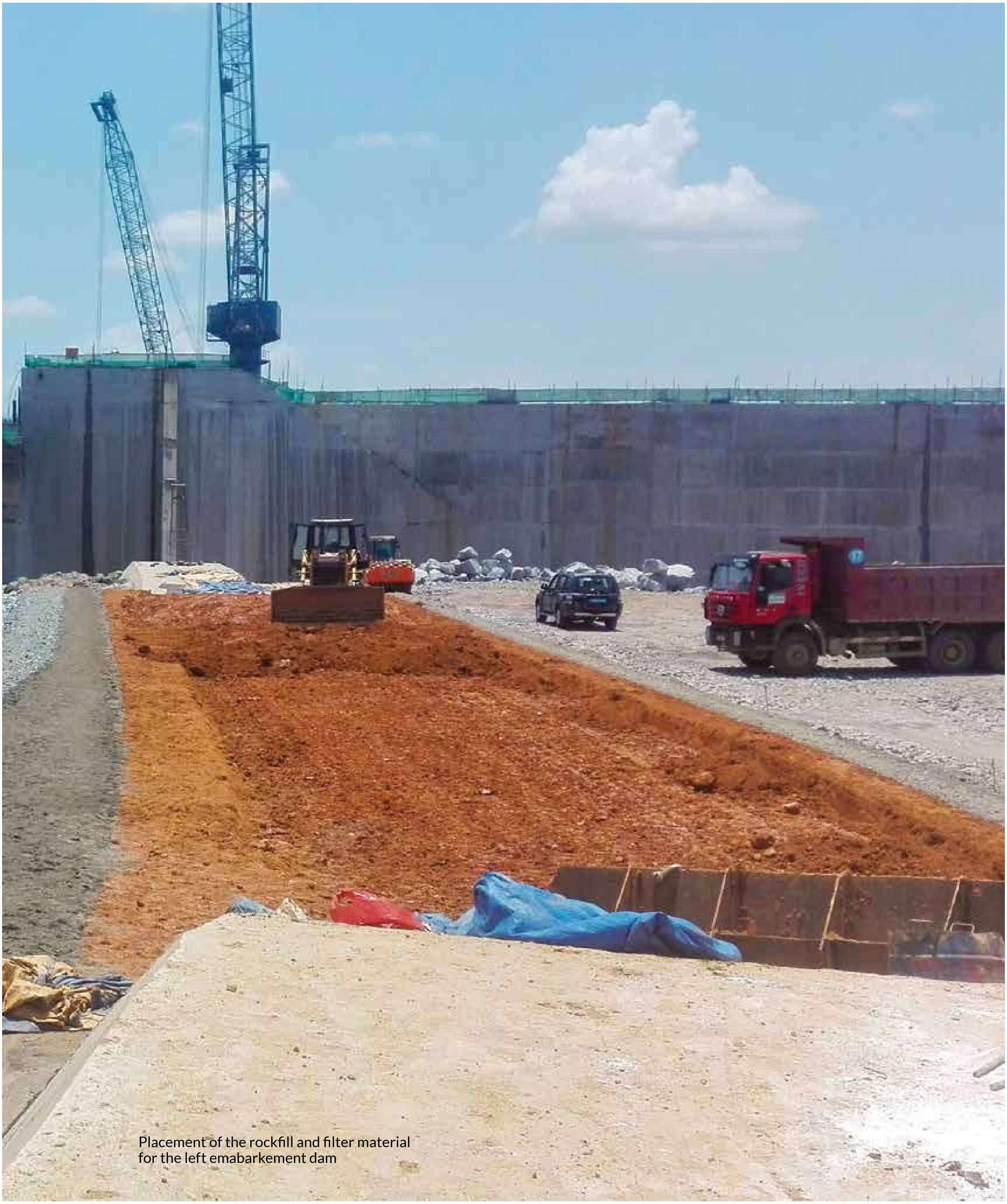
20. DUE TO GOVERNMENT OF UGANDA

	2015 UGX '000	2014 Ush'000
Uganda Government dues		14,897,779
Accrued interest		18,930,155
Accrued interest	-	33,827,934

These balances relate to the depreciation charge on property, plant and equipment for the year 2001 and accumulated accrued interest taken over from Uganda Electricity Board. The amount were payable to Government of Uganda.

UEGCL failed to collect revenues for power sales worth UGX 30.9 Billion from UETCL; and thus could not afford to pay Government on behalf of UEB.
Based on the above reason the shareholders approved a write back of the amounts due to Government as at 01 January 2015 that stood at UGX 33,827,934,000


HITACHI



Placement of the rockfill and filter material
for the left emabarkement dam

21. RELATED PARTIES

Following the restructuring of Uganda Electricity Board (UEB), three Government of Uganda fully owned successor companies were created including the company. The other two companies, Uganda Electricity Transmission Company Limited (UETCL) and Uganda Electricity Distribution Company Limited (UEDCL) are related to the company through common shareholding.

The following are the transactions carried out with related parties and the balances due to/from related parties:

	2015	2014
i) Transactions with directors	**UGX '000**	**UGX '000**
Fees for services as directors	848,709	241,036
ii) Amounts due from related parties		
Uganda Electricity Transmission Company Limited (UETCL)		30,992,456
Uganda Electricity Board (UEB)		183,891
Uganda Electricity Distribution Company Limited (UEDCL)*		65,612
		31,241,959
Provision for doubtful debts - UEDCL	-	(65,612)
	-	**31,176,347**

In the financial year 2001, UETCL was invoiced by UEGCL for energy dispatched at the price set by ERA. However during the same period there was a tariff increase which was later reversed by government, this caused delays in prompt collection of amounts invoiced in 2001.

By October 2002, UEGCL had not collected a balance of 30.9 billion. A number of reminders to UETCL were made asking them to pay for the arrears which they did not honour to date, and in their responses, they stated that they could not settle the outstanding invoices for 2001, as they were unable to collect the same from UEDCL.

At the UEGCL AGM held 01 September 2015 it was approved that these amounts be written off. Due from the former Uganda Electricity Board (UEB) UGX 183,891,000 relates to amounts that were owed to UEGCL by UEB at the incorporation of UEGCL in 2001. Despite all collection efforts by UEGCL, the amounts have remained outstanding for 14 years since 2001. At the UEGCL AGM held 01 September 2015 it was approved that these amounts be written off.

*The amounts have been provided for because they have been long-outstanding in the company's books.

iii). Amounts due to related parties	2015 UGX '000	2014 UGX '000
Uganda Electricity Transmission Company Limited (UETCL)		
Uganda Electricity Board (UEB)*		1,318,048
Uganda Electricity Distribution Company Limited (UEDCL)	7,941	124,889
	7,941	**1,442,937**

*The amounts due to Uganda Electricity Board (UEB) were written off as the liquidator has since wound up and this amount dates back to 2001.

22. DUE TO ELECTRICITY REGULATORY AUTHORITY

This relates to a provision for a tariff stabilization fund set up by the Electricity Regulatory Authority under the provisions of the Electricity Act, 1999.

ERA has for several years not approved these amounts in the electricity tariff and therefore the amount have been written back in the 2015 financial statements. These amounts are not provided for in ERA books of accounts.

23. DEFERRED INCOME

	2015 UGX '000	2014 UGX '000
Deferred income	2,995,431	-

This relates to the amount advanced by Government to UEGCL to facilitate supervision of Karuma and Isimba Hydro Power Projects which were unspent by the year end.

23. TRADE AND OTHER PAYABLES

	2015 UGX '000	2014 UGX '000
Trade and other payables	5,286,498	1,151,144
Withholding Tax (WHT) payable	1,102,041	1,102,041
	6,388,539	**2,253,185**

WITHHOLIDING TAX

(I) Withholding tax payable relates to an assessment of penal interest from Uganda Revenue Authority (URA) of UGX 814 million. The penal interest was as a result of late payment of WHT for the period 2001-2009. The principal WHT was paid in 2010.

(II) WHT payable on the consultancy services rendered for the feasibility study at Muzizi amounting to Ushs 288 million.

TRADE AND OTHER PAYABLES

Included in other payables is accrued license fees for Karuma, Isimba Hyro Power Project by year end amounted to UGX 4.4 billion.

25. GRATUITY PAYABLE

	2015 UGX '000	2014 Ush'000
At 1 January	147,228	1,289,944
Gratuity expense for the year	-	659,754
Payment to retirement benefit scheme	-	(592,732)
Gratuity payments made	(60,454)	(1,209,738)
Gratuity obligation excluding the NSSF provision	**86,774**	**147,228**
10% NSSF provision	-	
At 31 December	**86,774**	**147,228**

The gratuity payable relates to the former CEO and Manager Finance. The CEO gratuity amounts to UGX 80.2 million while UGX 6 million related to the former Manager Finance.

26. CONTINGENT ASSETS

Karuma pre-development costs

Section 8 of the Tripartite Memorandum of Understanding (MoU) between Government of Uganda represented by the Ministry of Energy and Mineral Development (MEMD) and UEGCL and UETCL stipulates that the parties will meet, discuss and reconcile accounts for UEGCL's previous development cost expenses relating to the Pre-EPC contractor appointment period in respect of all its activities on the project and MEMD will facilitate the requisite refund of monies to UEGCL. UEGCL had incurred Ushs 34.7 million on the project activities as at 31 December 2014 (2013: Ushs 34.7 million). These being contingent assets, they have not been recognized in these financial statements.

Outstanding legal cases

The Company was involved in four major litigation cases as at 31 December 2015; whose outcomes the legal department assessed to be in the Companies favour with probabilities of success greater than 50% for all cases. In accordance with IAS 37, these cases have been disclosed as contingent assets:

i. Eskom Uganda Limited VS Colonel Mulondo and Mr. Jinesh Majithia Trading as Forever Resort. Civil Suit 26 of 2015 – For encroachment on UEGCL land.
The suit was filed by Eskom (U) Ltd on the request of UEGCL as the concessionaire responsible for ensuring integrity of the assets including the land.
ii. John Eric Mugyenzi Vs UEGCL, Labour Dispute Claim No.258 of 2014.
The suit was filed by the former Chief Executive Officer alleging wrongful termination of employment
iii. Emmanuel Lubandi Vs UEGCL, Labour Dispute Claim No. 95/2015
The suit was filed by the former Finance Manager alleging wrongful termination of employment
iv. Henry Kyarimpa Vs Attorney General; Sinohydro Corporation; China International Water & Electricity Corporation(CWE); Export Import Bank of China (Exim Bank); UEGCL and Energy Infratech PVT Ltd C.S No 116/2016- Allegation is that all participating in the construction of Karuma and Isimba hydro power projects are doing it illegally.

27. FINANCIAL RISK MANAGEMENT

The company has exposure to credit, market and liquidity risks from its use of financial instruments. The company's Board of Directors has overall responsibility for the establishment and oversight of the company risk management framework.

Credit risk

Credit risk is the risk of financial loss to the company if a counterparty or customer fails to meet its contractual obligations, and arises primarily from concession fee billings and other amounts due from related parties and other stakeholders. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as indicated below:

	2015	2014
	UGX '000	UGX '000
Amount from related parties	-	31,176,347
Fixed deposits at amortized cost	9,235,697	3,918,703
Trade receivables	1,482,579	1,174,285
Staff advances and loans	-	6,585
Bank balances	11,285,551	12,262,233
	22,003,827	**48,538,153**

Trade receivables relate to billed but unpaid concession fees due from Eskom Uganda Limited and were neither past due nor impaired.

a). Market risk
Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the company's revenue or increase the operational and capital costs. The objective of the company's market risk management is to manage and control market risk exposures in order to minimize the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business operations and capital expansion.
Currency risk

The company manages its foreign exchange exposure by maintaining a reserve of about USD 2.220 million (2014: USD 2.228 million) on its US Dollar Escrow Account in order to pay for obligations that are denominated in that currency.
The company had the following currency exposures to United States Dollar at year-end. All amounts are in UGX '000.

	2015 UGX '000	2014 UGX '000
Financial assets		
Stanbic Bank Uganda Limited Escrow Account	7,498,083	6,147,632
Net currency exposure	**7,498,083**	**6,147,632**

	Reporting date Spot rate		Average rate	
	2015	**2014**	**2015**	**2014**
US$:UGX	3,372.01	2,768.79	3,083.09	2,599.80

Interest rate risk
The company has no exposure to interest rate risk as the company had no interest bearing borrowings and all its investments have fixed interest rates.

b). Liquidity risk
Liquidity risk is the risk that the company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. The objective of the company's liquidity and funding management is to ensure that all foreseeable operational, capital expansion and loan commitments can be met under both normal and stressed conditions.

The following are the contractual maturities of financial liabilities and financial assets, including estimated interest payments and excluding the impact of netting off agreements.

31 December 2015	Carrying amount UGX '000	< 6 months UGX '000	6-12 months UGX '000	Over 1 year UGX '000
Financial assets				
Trade and other receivables	4,217,898	2,815,238	-	1,402,660
Fixed deposits	9,235,697	-	-	9,235,697
Cash and bank balances	11,285,551	3,787,468	-	7,498,083
	24,739,146	**6,602,706**	**-**	**18,136,440**
Financial liabilities				
Due to related parties	7,941	-	-	7,941
Trade and other payables	6,388,539	886,523	4,494,690	1,102,041
Gratuity Payable	86,774		-	86,774
	6,483,254	**886,523**	**4,494,690**	**1,196,756**
Net liquidity gap	**18,255,892**	**5,716,183**	**(4,494,690)**	**16,939,684**

	Carrying amount UGX '000	< 6 months UGX '000	6-12 months UGX '000	Over 1 year UGX '000
31 December 2014				
Financial assets				
Due from related parties	31,176,347	-	-	31,176,347
Trade and other receivables	1,268,892	6,585	1,174,285	88,022
Fixed deposits	3,918,703	3,918,703	-	-
Cash and bank balances	12,262,233	6,114,601	-	6,147,632
	48,626,175	**10,039,889**	**1,174,285**	**37,412,001**
Financial liabilities				
Due to Government of Uganda	33,827,934	-	-	33,827,934
Due to Electricity Regulatory Authority	6,129,813	-	-	6,129,813
Due to related parties	1,442,937	-	-	1,442,937
Trade and other payables	2,253,185	-	1,151,144	1,102,041
Gratuity Payable	147,228	-	-	80,206
	43,801,097	**-**	**1,151,144**	**42,582,931**
Net liquidity gap	**4,825,078**	**10,039,889**	**23,141**	**(5,170,930)**

28. NON-FINANCIAL RISK MANAGEMENT

i. Compliance risk

Compliance risk is the risk of non-compliance with the contractual obligations and other statutory requirements of the Government of Uganda. The contractual obligations are contained in the concession agreement with Eskom Uganda Limited.

The approach adopted to manage these risks includes a combination of adequate procedures to assist management in achieving adherence to the legislative requirements and effective monitoring and reporting mechanism to ensure compliance. The company's top level management is charged with the responsibility of monitoring and ensuring adherence to the concession agreement.

ii. Operational risk

Operational risk is the risk of the company not being able to operate if certain uncertainties occurred. These are caused by environmental factors, political, social factors and machine breakdown such as floods, wars, strikes and fire.

The company recognises operational risk, inclusive of information risk and business continuity, as a significant risk category and manages it within acceptable levels. The company's management continues to develop and expand its guidelines, standards, methodologies and systems in order to enhance the management of operational risk. Actual and potential risks are reviewed regularly and proper systems are put in place to avoid and reduce such uncertainties.

The Board during a site visit to the Nyagak III Hydro-Power Project site

UEGCL
Generating for Generations

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