



UEGCL

Generating for Generations



ANNUAL REPORT

For the 18 Months Ended June 2017



Picture of a welder in Karuma HPP

LIST OF ACRONYMS

AfD	Agence Française de Développement
CAA	Concession and Assignment Agreement
CEDAT	College of Engineering Design Art and Technology
COSASE	Parliamentary Committee on Commissions, Statutory Authorities and State Enterprises
COMPLEX	Nalubaale and Kiira Power Stations
CREEC	Centre for Research in Energy and Energy Conservation
CSR	Corporate Social Responsibility
EOI	Expression of Interest
EPC	Engineering, Procurement and Construction
ERA	Electricity Regulatory Authority
ERT	Electricity for Rural Transformation
ESI	Electricity Supply Industry
EUL	Eskom Uganda Limited
GDP	Gross Domestic Profit
GOMC	Generation Operation and Maintenance Costs
GOU	Government of Uganda
HPPs	Hydro Power Plants
HPS	Hydro Power Station
HRC	National Research Institute for Rural Electrification /Hangzhou Regional Centre for small hydro-power, China
IA	Internal Audit
IAS	International Accounting Standards
ILF	Consulting Engineers-Austria GmbH
IPPs	Independent Power Producers
IPS	Industrial Promotion Service
ISSAIs	International Standards of Supreme Audit Institutions
ISO	International Standards Organization
KfW	Kreditanstalt fuer Wiederaufbau
KPS	Kiira Power Station
MEMD	Ministry of Energy and Mineral Development
MoFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
MW	Mega Watt
MWh	Mega Watt hour
NPS	Nalubaale Power Station
PDU	Procurement and Disposal Unit
PPA	Power Purchase Agreement
PFMA	Public Finance Management Act, 2015
PPDA	Public Procurement and Disposal of Public Assets Authority
REA	Rural Electrification Agency
SD	Strategic Direction (2015-2017)
UIPE	Uganda Institute of Professional Engineers
UEB	Uganda Electricity Board
UEDCL	Uganda Electricity Distribution Company Limited
UEGCL	Uganda Electricity Generation Company Limited
UETCL	Uganda Electricity Transmission Company Ltd
UGX	Uganda Shillings
USD	United States Dollar

CONTENTS



List of Acronyms	3
Corporate Information	5
Mandate and Organization set up for UEGCL	6
Our Quality Statements	8
Our Communication	9
UEGCL at a Glance	10
Our Core Business	14
Financial and Operational Highlights	16
Sustainability Report	20
Chairperson’s Message	22
Chief Executive Officer’s Message	27
Corporate Governance Statement	33
Board of Directors	47
Management Team	48
Report of the Auditor General on the Financial Statements of UEGCL for the 18 months period ended 30 th June, 2017 ----	49
Financial Statements for the 18 months period ended 30 th June, 2017	57
Report of the Directors	59
Statement of Comprehensive Income	63
Statement of Financial Position	64
Statement of Changes in Equity	65
Statement of Cash Flows	66
Notes to the Financial Statements	67

CORPORATE INFORMATION

CORPORATE INFORMATION

SHAREHOLDERS

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

BOARD OF DIRECTORS

1. Eng. Proscovia Margaret NJUKI

(Independent Non-Executive Director and Chairperson)

2. Mr. Zachary BAGUMA M. ATWOKI

(Non-Executive Director)

3. Ms. Zeridah ZIGITI

(Non-Executive Director)

4. Dr. Nixon KAMUKAMA

(Independent Non-Executive Director)

5. Mrs. Jennifer KATAGYIRA LUBAALE

(Non-Executive Director)

6. Eng. Gilbert John KIMANZI

(Independent Non-Executive Director)

7. Mr. Ronald DRAVU

(Independent Non-Executive Director)

CHIEF EXECUTIVE OFFICER

Dr. Eng. Harrison.E. MUTIKANGA

COMPANY SECRETARY

Mr. Mark Martin Obia
Block C, Plot 6-9, Okot Close - Bukoto
Victoria Office Park
Tel: 256-312 372165

PRINCIPAL AUDITOR

Auditor General
Office of the Auditor General
Audit House
Plot 2/4, Apollo Kagwa Road
P.O Box 7083, Kampala

BANKERS

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

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

REGISTERED OFFICE AND PRINCIPAL PLACES OF BUSINESS

Head Office

Victoria Office Park, Block C
Plot 6-9, Okot Close - Bukoto
P.O. Box 75831, Kampala – Uganda
Email: info@uegcl.com

Branch Office

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

Site Offices

- **Karuma Hydro Power Site Office**
Kiyandongo and Oyamu District
- **Isimba Hydro Power Site Office**
Kayunga and Kamuli District

MANDATE AND ORGANIZATION SET-UP OF UEGCL

UEGCL is mandated to establish, acquire, maintain, and operate electricity generation facilities and to promote Research and Development in the electricity generation sector while running the company on sound business principles.

UEGCL was incorporated on 26th March 2001 under the Companies' Act and in conformity with the Public Enterprise Reform and Diverstiture Act and Electricity Act, 1999 and started operations on 1st April 2001.

Shares in the company are held by the Minister of Finance, Planing and Economic Development and the Minister of State for Finance (Privatisation and Investment) on behalf of the Government of Uganda.

The executive management comprises of the CEO and six departments: Projects, Operations, Finance, Human Resource and Administration, Strategy and Business Development, legal and Board Affairs, Internal Audit, Risk and Compliance. These are supported by Corporate Affairs, Business Performance, Information Technology, Procurement and Disposal Unit.

74 New Staff

A total of 74 staff were recruited bringing the total UEGCL staff compliment to 123 as at June 2017.



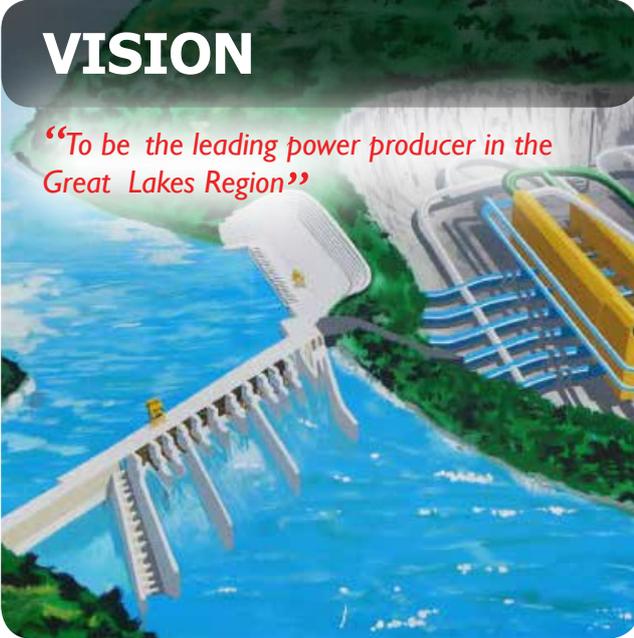


Board and Management Team

OUR QUALITY STATEMENTS

VISION

“To be the leading power producer in the Great Lakes Region”



MISSION

“To sustainably generate reliable, quality and affordable electricity for social-economic development.”



Generating for Generations

Quality Policy

Committed to the efficient monitoring of operations and supervision of development of electricity Generation facilities in line with the Company Strategic Planning Process so as to ensure reliable, quality and affordable electricity in compliance with the applicable requirements (Electricity Act of 1999, Regulations, ISO 9001:2015 Standard)

Core Values





OUR COMMUNICATIONS

UEGCL as a government agency, conducts its communication in a delicate blend of private sector corporate finesse guided by a strong adherence to Government of Uganda's communication policy guidelines, Public service standing orders, the requisite municipal laws and regulations as well as the social and cultural sensitivities of the local communes from where our stakeholders come.

Recognizing that the decisions we make and the actions we take in delivering on our mandate affect a wide range of individuals, businesses and organizations that include both state and non-state entities; UEGCL relies on both traditional and new media platforms.



www.uegcl.com



UEGCL AT A GLANCE



1. The Prime Minister of Uganda, Rt. Hon. Dr. Ruhakana RUGUNDA presided over the unveiling of the UEGCL home in December 2016. Following the acquisition office space at Block C, Plot 6-9, Okot Close -Bukoto Victoria Office Park, Significant savings have been made and directed to investments.



2. The UEGCL Board Chairperson, Eng. Proscovia Margaret NJUKI (M) and CEO, Dr. Eng. Harisson. E. MUTIKANGA (R) welcome the Prime Minister, Rt. Hon. Dr. Ruhakana RUGUNDA (L) to the newly acquired UEGCL Head Office in Kampala



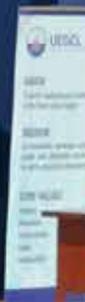
3. UEGCL Board and Stakeholders

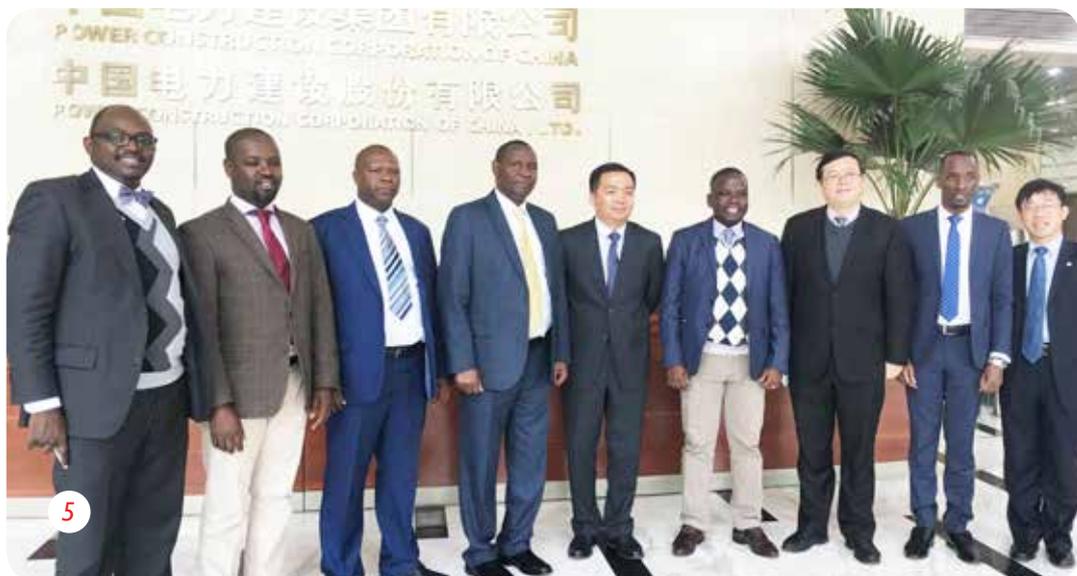
UGANDA
ELECTRICITY
GENERATION
COMPANY
LIMITED

Generating

for

Generations





1. STRATEGIC PARTNERSHIPS: Finance Minister Hon. Matia KASAIJA and French Ambassador to Uganda H.E Stephani RIVOAL exchange agreements in Kampala.

2. CAPACITY BUILDING: UEGCL CEO Dr.Eng MUTIKANGA flags off staff to Kafue Gorge Regional Training Centre (KGRTC) in Zambia for specialized training in Operation and Maintenance of hydro Power facilities

3. CEOs Dr. Eng. MUTIKANGA (R) and UETCL MD/CEO, Mr. Willy. K. KIRY-AHIKA display the Deeds of Assignment for contract administration powers for Karuma and Isimba HPP. They received them from Energy Minister Eng. Irene Muloni (left) in November 2016

4. UEGCL CEO Dr. MUTIKANGA (2nd from right) receives the UIPE Presidential Citation award for his distinguished contribution to the Energy and Water Sector in Uganda.

5. STAKEHOLDER ENGAGEMENT: Members of Parliament on the Natural Resources Committee at Power China Headquarters in Beijing in March 2017.



STRATEGIC PARTNERSHIP: UEGCL's CEO Dr.Eng. MUTIKANGA (Second left) signs an MoU with then Vice Chancellor of Makerere University Prof. Ddumba SENTAMU on behalf of Makerere College of Engineering, Design, Arts and Technology (CEDAT) to develop joint programs aimed at creating knowledge and skills in several education and training programs.

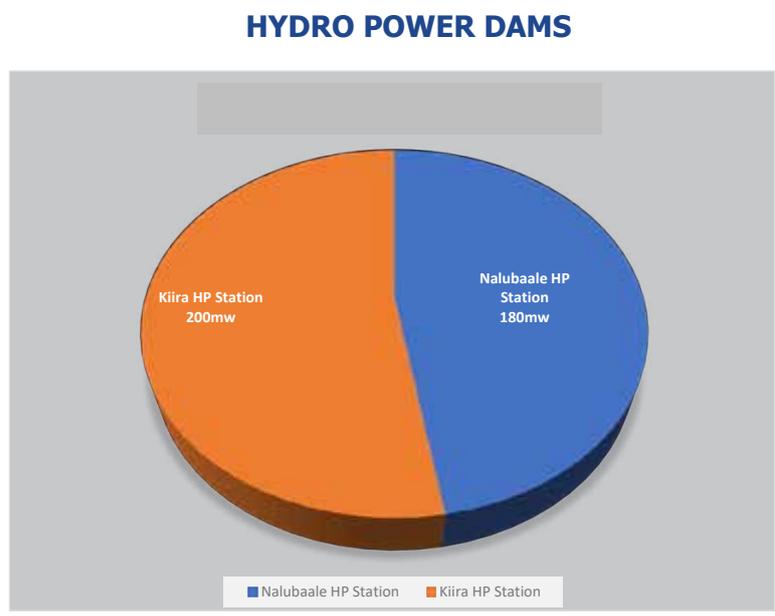
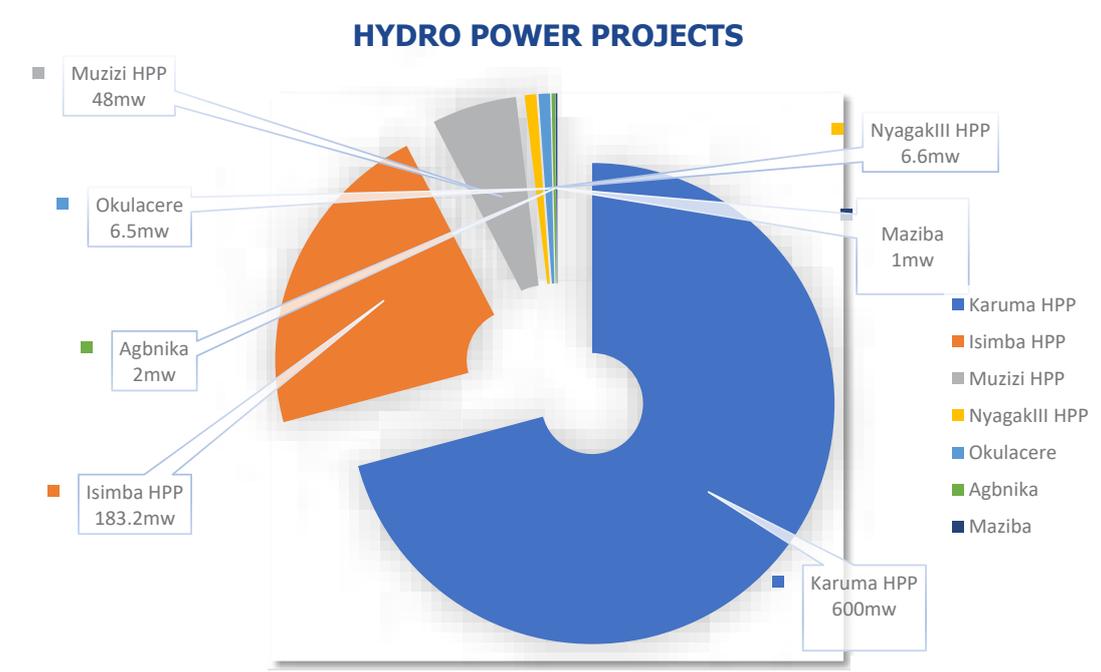


CERTIFIED: Energy Minister Eng. Irene Muloni (L) celebrates with UEGCL during their attainment of ISO 9001: 2015 Certification in June 2017. With this certification, UEGCL joins the ranks of organizations whose products and processes meet internationally accepted standards

OUR CORE BUSINESS

PROJECTS

These projects are significant as they fulfil UEGCL mandate to ensure reliable energy to all including those in the rural areas. Significant progress was made in the construction of the Karuma (52%) and Isimba (76%) hydro-power plant projects



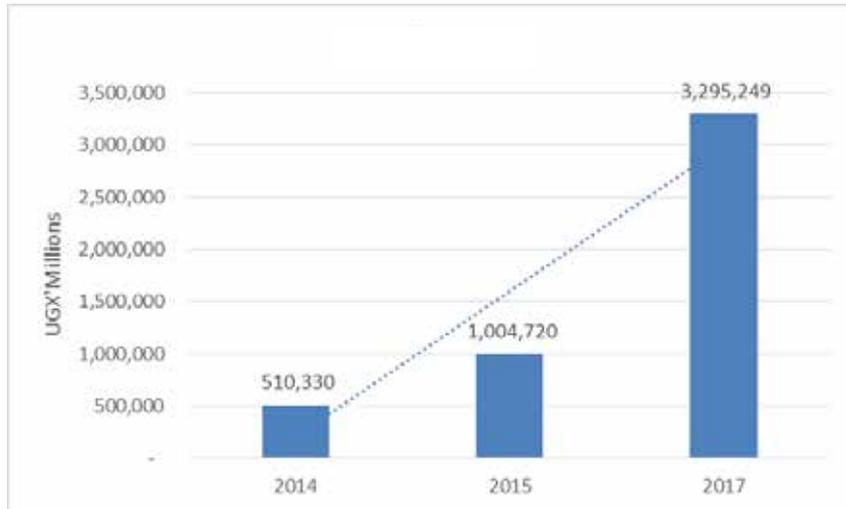


FINANCIAL AND OPERATIONAL CHART

FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL AND OPERATIONAL HIGHLIGHTS		
FINANCIAL STATISTICS	18 MTHS TO 30TH	
	JUNE 2017	2015
	UGX '000	UGX '000
For the year		
Concession Fees	14,760,123	10,933,855
Other income	2,788,222	43,189,880
Operating profit/loss	(14,544,735)	4,643,487
Earning before interest,depreciation and tax	5,527,075	17,184,349
Profit/loss for the year	(13,908,313)	5,401,891
Capital investments	57,740,000	50,400,000
At year-end		
Total Assets	3,295,248,519	1,004,701,796
Shareholder's Equity	452,031,495	465,939,809
Outstanding interest bearing debt	2,787,203,448	521,177,479
Cash flow data		
Net cashflows from operating activities	2,725,941	9,616,059
Netcashflows used in investing activities	(2,309,915,911)	(531,465,980)
Net cashflows from / (used in) financing activities	2,307,453,821	526,190,233
Operating and other statistics		
	FY 2017	FY 2015
Total number of customers(Concession- Eskom)	1	1
Total number of employees	127	61
Exchange rate: US Dollar to Uganda Shilling (at year end)	3596	3,372
Exchange rate: US Dollar to Uganda Shilling (average for the year ended)	3475	3,083

TOTAL ASSETS

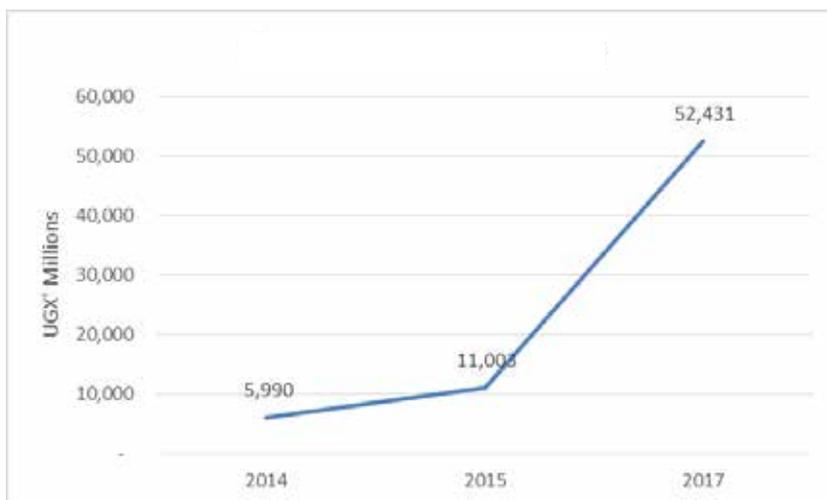


Total Company assets have grown from UGX 1 Trillion to 3.3 Trillion as a result of new hydro power plants being developed- Karuma, Isimba Muzizi and Nyagak.

3.3tn
INCREASE IN TOTAL ASSETS

All these projects are still work in progress thus are not yet contributing to revenues and profitability

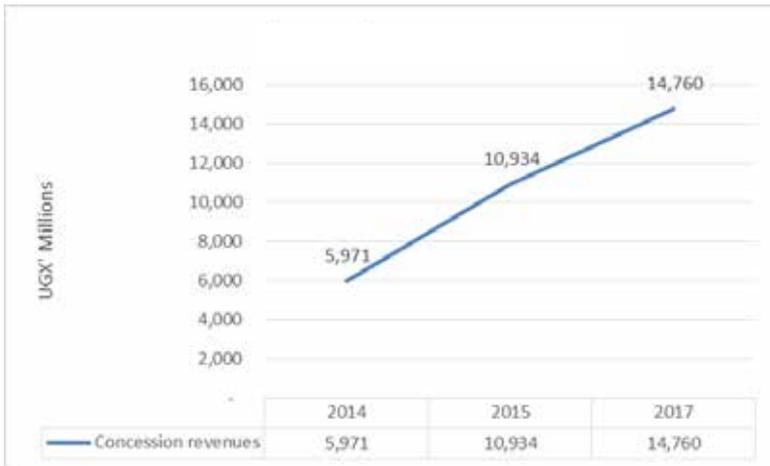
GOVERNEMENT PROJECT GRANTS



**INCREASE
IN GOVERNMENT
PROJECT GRANTS**

Government Project grants, which are reported as deferred income in the balance sheet Increased from UGX 11 billion to UGX **52 Billion**, as a result of significant progress in the implementation and supervision of the flagship hydropower projects.

CONCESSION REVENUES



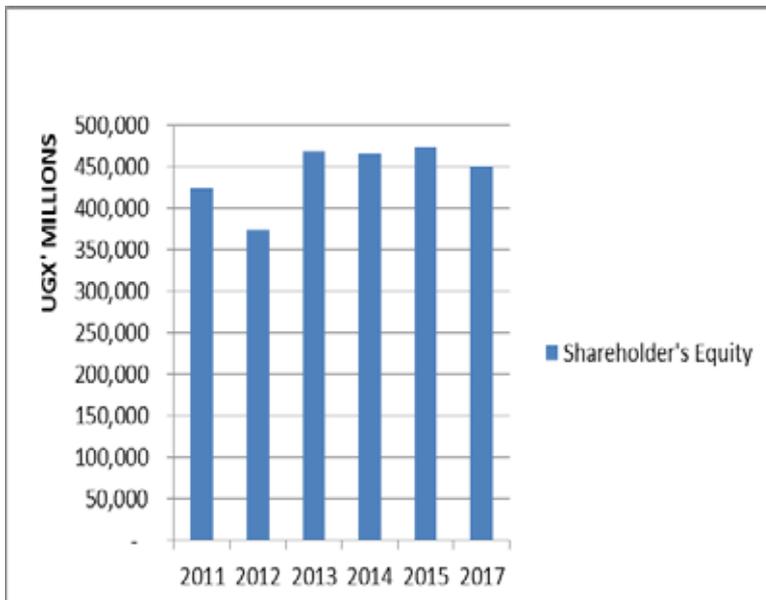
35 % GROWTH

Core income from concession fees increased from UGX 10.9 Billion to UGX 14.7 Billion, a growth of 35 %.

UEGCL is faced with the challenge of "Under-billing" of Concession Fees to Eskom

As much as UEGCL, 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.

SHAREHOLDERS EQUITY



POSITIVE EQUITY

The Company at 30th June 2017, is solvent with positive equity of UGX 452 billion, Operating loss for 2017 was UGX 13.9 billion

ANALYSIS OF THE FINANCIAL RESULTS

1. Revenue

Revenues decreased to UGX 17.5 billion in 2017 compared to UGX 54 billion in 2015. Revenues are low compared to 2015 mainly because of the write off of Government liabilities inherited from UEB worth UGX 40 billion. UEGCL is faced with the challenge of “Under-billing” of Concession Fees to ESKOM

As much as UEGCL, 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 (EBIT-DA)

EBITDA dropped in 2015 to UGX 5.4 billion compared to UGX 17.1 billion in 2015. This was caused by the decrease in revenues as explained above.

3. Balance sheet analysis

Total assets as at 30th June 2017 were UGX 3,295 billion. The Company at 30th June 2017, was solvent with positive equity of UGX 452 Billion.

There is therefore NO material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern, so as to be able to realize its assets and discharge its liabilities in the normal course of business

The company made a loss for the period ended 30th June 2017 of UGX 13.9 billion bringing its shareholders’ equity down to UGX 452 billion(in 2017) from UGX 465 billion (in 2015).

4. Cash flows analysis

The Company generated a net cash of UGX 263 million. Closing cash and cash equivalents was UGX 20.7 billion.

5. Borrowings.

Outstanding loan at the period ended 30th June 2017 increased to UGX 2.7 trillion from UGX 521 billion in 2015. This is mainly due to increase in certified works on the Karuma and Isimba HPPs and the related interest to the loans.



The Board chairperson Eng. Proscovia Margaret NJUKI awards the finance department for their excellent performance.

SUSTAINABILITY REPORT

We are committed to efficient generation of reliable, safe, quality and competitively priced electric energy to the satisfaction of our customers. We understand the effects of our activities on natural resources and the environment and make effort to minimize these effects. We are also aware that responsible and effective sustainability initiatives offer lots of benefits including financial savings, compliance with environmental legislation and ensures a clean and safe environment for employees, the public and for the future children of Uganda

Our mission is to "sustainably generate reliable and affordable electricity for socio-economic advancement. In this regard, it is our firm intent to aim to ensure our activities improve the overall wellbeing of our country and citizens for generations to come. To this end, we are undertaking the following.



Power Generation

Innovation is one of our values, is key to what we do at UEGCL and extends to our commitment to protecting the natural environment for the future. It is our belief that we should devote sufficient time and resources to pursuing innovations which provide solutions to important challenges in our environment particularly climate change. Accordingly, in this regard, we are investigating the possibilities of integrating the small hydro power plants with generation of solar energy to compensate for the drop in generation capacity of the plants which experience low water levels particularly in the dry seasons. This will ensure that we maintain a relatively stable level of energy generation and revenue throughout.



Safety

Safety is paramount in UEGCL and is one of our core values. It is managed and monitored through policies & rules and enforcement. Additionally, annual inspections and audits on equipment are undertaken, not only to ensure the life of the equipment is maintained but also to ensure operations are undertaken in a safe and healthy manner.

All employees and visitors at our power plants and projects sites are provided with personal protective equipment to protect them from any injuries.

As we prepare to commence operations and maintenance of the power plants, safety assumes an added importance to which the company will commit sufficient resources.



Quality Management

UEGCL is ISO 9001:2015 certified. As such, all our processes are guided by the key components of the Quality Management System (QMS). Our processes are documented to ensure a uniform way of implementing initiatives or activities regardless of who does it. This also ensures business continuity, and reduces variability thus creating efficiencies and savings.



Stakeholder Engagement

We appreciate the value of our stakeholders and believe that their effective engagement is key to our success and sustainability. We consider constant engagement, cooperation and collaborations vital to achieving our vision. This gives us an opportunity to receive opinions and views on various activities or initiatives to inform decision making.



Environment Management

It is our belief that we can make the most impact on conservation of the environment by reducing the impact of our activities on climate change by using renewable energy sources and driving energy efficiency in our operations and facilities in order to conserve resources.

At UEGCL, we ensure that all our projects have the necessary water and environmental permits issued by the relevant government agencies. We also ensure through resettlement action plans that persons affected by our project activities are carefully identified and adequately compensated and resettled including livelihood restoration and Community Development actions plans to alleviate the effect of the projects on the project areas. Our partners also have strict standards for compliance with Environment and Social Management Plans for the Projects.

In addition, annual environmental audits are carried to augment the ongoing internal compliance mechanisms.

The company is putting in effort to ensure that it has a sustainable water resource base for the existing and generation plants under development. Accordingly, we have commenced steps to put in place measures including a catchment management plan to ensure that the water catchment areas are protected.

We have initiated contact with the Directorate of Water Resources Management have been advised on the catchment Management requirements for reservoirs. The next step is the development of a management program to preserve the identified catchments which is to be developed in consultation with stakeholders.

We also involved in planting and preserving forests, which, when managed properly, can be important renewable resources. To this end, we have since 2003 contributed to the planting of Bugungu forest on the banks of Lake Victoria as an offset for Nalubaale hydro Power Plant. The forest serves as mitigation against siltation of the Lake Victoria basin.



People

We are cognisant of the role employees play in ensuring the company remains profitable and sustainable. We therefore aim at attracting, developing & retaining talented staff to deliver the right results for the Company. The Company also focuses on developing internal capability alongside attracting, developing and retaining critical skills from the market. Employees also receive relevant training to empower them and enhance their ability to deliver excellent results for the organization.

The Company's recruitment and selection process emphasizes equal opportunity for all. We are an equal opportunity employer and work towards gender diversity of our staff.

The Company has also instituted a Succession and Talent Management Policy to implement a mechanism to identify potential replacements for key positions in the company in the short, medium and long term. Where obvious gaps or risks occur, appropriate action can be taken. The succession plan also provides a basis for relevant, targeted learning to prepare people for future roles.

We implement a performance management cycle which involves goal setting, regular performance monitoring and performance reviews bi-annually. The review takes into consideration the upholding of company values in delivering results. Employees and departments that excel are recognized and rewarded. This practice ensures that employees put due consideration in ensuring they meet their objectives and by extension Company's objectives.

CHAIRPERSON'S MESSAGE

“We are swiftly and steadily consolidating our efforts to lever the uphill tasks by developing additional generation capacity”

Engineer
Proscovia Margaret NJUKI
Chairperson Board of Directors



On behalf of the Board of Directors, I am pleased to present to you our Annual Report and Financial Statements for the 18 months ended 30th June 2017.

It is worth noting that the Annual Report and Financial Statements presented herein followed an audit carried out by the Auditor General for the 18 months ended 30th June 2017 instead of the usual 12 months. This was to enable the company transition into the July – June financial year cycle from the calendar year cycle on which it has hitherto operated. This change is in accordance with the requirements of the Public Finance Management Act 2015 which requires all Government agencies to align their financial year with that of Government. Accordingly, the company has effective July 2017 aligned its financial year with that of the Government.

Financial overview

The Company's Revenues dropped to UGX 17.5 Billion from UGX 54 billion in 2015 in large part due to the write off of long outstanding debt of UGX 30.9 Billion from UETCL and a write back of Government liability of UGX 42 Billion.

Earnings before interest, taxation depreciation and amortization (EBITDA) dropped to UGX 5.4 Billion compared to UGX 17.1 Billion in 2015 due to the drop in revenues explained above.

The Company made a loss of UGX 13.9 Billion for the period consequently reducing its shareholders equity to UGX 452 billion in 2017 from UGX 465 Billion in 2015.

Total Assets as of 30th June 2017 had grown to UGX 3,295 Billion from UGX 1,004 Billion in 2015.

Borrowings as at 30th June 2017 increased to UGX 2.7 Trillion compared to UGX 521 Billion in 2015 due to related interest on the loans and the increase in certified works on Karuma and Isimba hydro power projects against which the loan is dis-

*Total Assets as of 30th June 2017 had grown to UGX 3,295 Billion from UGX 1,004 Billion in 2015.
Borrowings as at 30th June 2017 increased to UGX 2.7 Trillion compared to UGX 521 Billion in 2015.*

bursed by the Lender the Export Import Bank of China. The disbursed loans are on-lent to the company by virtue of an on lending agreement with the Government.

However, the company is solvent with a positive equity of UGX 452 Billion. There is therefore no material uncertainty which may cast doubt on the company’s ability to continue as a going concern so as to be able to discharge its liabilities in the normal course of business.

The financial performance of the company has been continually hampered by continued under billing of concession fees which results in billing only for administration fees without depreciation and return on equity. These components save for administration fees were not billed because they were not included in the tariff methodology approved by the Regulator. This is a policy matter which the company is pursuing with the Government. The Board is committed to improving the financial performance and sustainability of the company and restoring it to profitability, as such, it is therefore keen to resolve, in a timely manner, this matter which is one of the major factors affecting the company’s performance.

Operating environment

In line with the Uganda Vision 2040 and National Development Plan (NDP) II aspirations to have a more competitive economy, the need for reliable and affordable electricity cannot be over stated as a key development goal for Government.

Additionally, the demand for new investments for development of new power projects is growing driven by the desire of Government to achieve economic transformation through industrialization. Government is also investing considerably in the transmission infrastructure to evacuate the

power to be generated.

Our vision to be the leading power producer in the great lakes region is exemplified by our commitment to contribute towards the national agenda to increase generation installed capacity for power from the current 853 MW to 1686 MW by 2020.

Since incorporation of the company, our mandate has expanded to include the development of power projects starting with Isimba and Karuma hydro power projects and later operation & maintenance in addition to concession monitoring, We are swiftly and steadily consolidating our efforts to lever the uphill tasks by developing additional generation capacity in Muzizi (48MW) and Nyagak III (6.6MW) hydro power projects with the support of Government of Uganda and development agencies such as the Kreditanstalt für Wiederaufbau (KfW) Agence Française De Développement (AfD) among others. We shall soon commence feasibility studies for a number of small hydro power plants as well as for refurbishment of Nalubaale hydro power plant in



order to increase the life of the plant and ensure we do not lose capacity from the ageing plant.

Strategy

The three year strategic direction of the company set to run up to December 2017 was aimed at achieving growth, financial sustainability and contributing to the achievement of the national development goals. Currently, the company is transitioning from predominantly concession monitoring to the Development and Management of the new hydropower Plants.

In addition, the company is adopting an indigenous model for the operation and maintenance (O&M) of the hydro power plants under development. The model is in line with Government policy of utilizing and harnessing local capacity, thereby providing skills and employment to the people of Uganda. We are therefore strengthening and skilling our operations and maintenance (O&M) teams who are currently undergoing intense training to prepare them for operation of the new dams once they are commissioned.

We also continued to build partnerships with development partners (AFD and KfW) and other stakeholders to raise finance and develop skills to enhance the energy sector.

The Company is also formulating a new five year strategic plan for the period 2018 to 2023. It is expected that the new strategic plan if well executed shall steer the Company towards achieving its objective of increasing generation capacity to enhance economic development and transformation of the country. The strategy is aimed at putting the company on a new platform of growth

and development, which in turn will translate into sustainable and affordable electricity to the Ugandan economy at large and the socio-economic transformation of the citizens of Uganda.

We shall launch the new strategic plan in December 2017 with the support of our shareholders and key stakeholders, after the launch it will be communicate it to all our stakeholders. The Board shall oversee the implementation of the new strategic plan by Management which is charged with the responsibility of the day to day implementation under the balanced score card approach which has been adopted by the company.

We have also adopted a new organization structure to address the changing operating environment and have instituted staff development programs and recruitment practices to ensure we have the talented workforce we need in order to deliver our strategies.

Governance

Good governance is an important part of the Company's success and as we continue to embrace best practice principles of corporate governance and strive to ensure compliance with all laws and regulations, the Board re-



mains committed to ensuring that the long-term interests of stakeholders are at all times protected and to perform its oversight role to ensure transparency and accountability.

Through its diverse range of skills and experience, the Board is able to effectively challenge management and provide guidance on the Company's strategic direction.

The Board was given a fresh three mandate by the shareholders at the last Annual General Meeting on 16th September 2017. Additionally, three new Directors were appointed to the Board namely; Mr. Zachary Baguma Mosimoson Atwoki replaced Mr. Paul Mubiru, Mr. Ronald Dravu was appointed to enhance the mix of skills on the Board and Eng. Gilbert John Kimanzi replaced Dr. Stephen Robert Isabalija who departed to take up his appointment as Permanent Secretary, Ministry of Energy and Mineral Development.

We remain forever grateful to Dr. Stephen Robert Isabalija for his immense contribution to the company and wish him every success in his endeavors.

The Board continued to appraise itself of training needs to ensure its effectiveness. The Directors undertook various trainings during the year to enhance their effectiveness and skills which we view as an obligation. In addition, an induction was undertaken for the all Directors.

The Board is cognizant of the need to ensure its continuous improvement. Accordingly, the Board conducted an evaluation of its effectiveness, its Committees and members in December 2016 with the assistance of an external facilitator to bring objectivity and independence to the process.



While we concluded that overall the Board continued to operate in an effective manner, we aim to improve our performance. The results of this evaluation were discussed by the Board at the Board retreat held in February 2017 and formed a basis for identification of areas of improvement and training needs.

Corporate Citizenship

We remain committed to creating value to our stakeholder through execution of our strategy. As such, we aim at positively impacting on our partners, customers, stakeholders, employees and society within which we operate. We also remain committed to managing our operations in a transparent, responsible and ethical manner.

We shall continue to work hand in hand with our stakeholders towards ensuring value creation and growth of the company and energy sector.



Future Outlook

We are very optimistic that the company will continue to grow despite the challenges in the oper-

ating environment economic conditions which are likely to persist.

Ensuring the Efficiency of the Kiira/Nalubaale Hydropower Stations Kiira/Nalubaale Plant which is the least cost plant generating power at 1 US Cent per Kwh (Shs 36/KWh) is key for us. Despite the challenges associated with the ageing structure we have planned for short and long term investments to ensure the asset continues to operate in order to keep the tariff low.

Timely delivery of the hydropower plants under construction is also vital. In the next one to two years, we expect about 780 MW of electricity will be added on to the grid. We shall work towards ensuring that the plants are completed and handed over in the best condition possible.

The on-going hydropower projects will further be augmented by development of new small hydropower plants. We hope that with adequate financing for the projects, we shall meet Government's objective of achieving economies of scale and affordable tariffs.

We are optimistic about the future, projected energy demand remains strong, and we expect the need for electricity to continue to grow over the next couple of year as Uganda aspires to reach middle income status and achieve a better quality of life for its citizens. As we work to provide the energy the country needs we will continue to be guided by our vision, mission and to live by our values and we are confident that the strategy we shall have put in place shall guide us to the right direction.

We are confident the company will remain competitive and at the forefront of an industry that provides reliable and affordable energy necessary for economic growth. Thank you for your interest in the company.

Conclusion

My appreciation goes to my fellow members of the Board of Directors for their insight, dedication and unwavering support to the Company. We shall continue to provide oversight, guidance and support to Management to ensure the Company continues to fulfill its mandate.

To the Management and all staff, thank you for your hard work and dedication.

I would like to thank our customers and stakeholders for their support and loyalty. The continued support of our stakeholders is key and we are confident that if we work together we shall transform the company, the energy sector and the Country. I especially thank the Ministry of Energy and Mineral Development for working with us and providing the necessary policy guidance in the sector.

I thank the shareholders for trusting us to provide the necessary stewardship to the Company and we are confident that with your continued support, the sky shall be the limit.



Engineer Proscovia Margaret NJUKI

Chairperson Board of Directors

CEO'S MESSAGE

“Our performance achievements have included; a robust buttressing of our Human Resources, unrelenting Contract administration of the flagship projects, strategic partnerships with key stakeholders in financing and academia and the achievement of ISO Certification in tandem with international best practices.”

Dr. Eng. Harrison E. MUTIKANGA
Chief Executive Officer



UEGCL ON THE PATH TO REALISING THE BENEFITS OF INCREASED POWER GENERATION AND QUALITY MANAGEMENT SYSTEMS.

First and foremost, it gives me great pleasure to congratulate the Board, Management and staff of UEGCL for having come to the successful end of yet again another financial reporting period ended June 2017. In my opinion, the period was resoundingly successful, in which a firm foundation was laid for the Company to increase power Generation coupled with the adoption of best management practices.

During the period under review, in line with the **UEGCL Strategic Direction (2015 – 2017)** UEGCL's activities were focused towards the attainment of the overall Government's Vision of transforming the Ugandan Society from a predominantly peasantry to a middle income status as enshrined in the National Development Plan II, the Vision 2040, and H.E the President's Manifesto. Due Cognisance was also given to the President's message on the need for affordable and reliable electricity.

Suffice it to say that the performance achievements have included; strengthening our Human Resources, unrelenting Contract administration of the flagship projects of Karuma (600MW) and Isimba (183 MW), enhanced monitoring of our Concessional generation fleet at Nalubaale (180 MW) and Kiira (200 MW), strategic partnerships with key stakeholders in financing and academia, the achievement of **ISO Certification (ISO 9001: 2015)** in tandem with international best practices, and **a rebranding of UEGCL**. As will be deduced, ours was a continuous quest in finding the right balance between internal and external processes, underpinned by performance management in all our processes, and cordial partnerships with all our stakeholders both internal

We are in the final stages of formulating our Strategic Plan for the next 5 years 2018 – 2023. The plan is aimed at anchoring UEGCL as the Generator for Generations (G4G).

The Company assets grew from Shs 1 Trillion to Shs 3.3 Trillion in 2017 as a result of the on-going projects

14.7bn

Core income from concession fees increased from Shs 10.9 billion to Shs 14.7 billion, a growth of 35%.

and external.

The following milestones summarise the performance of the Company during the reporting period.

Financial Performance

During the reporting period core income from concession fees increased from Shs 10.9 billion to Shs 14.7 billion, a growth of 35%. In addition, project grants, which are reported as deferred income in the balance sheet increased from Shs 11 billion to Shs 52 billion, signifying significant progress in the implementation of the flagship hydropower projects of Karuma and Isimba. The Company assets grew from Shs 1 Trillion to Shs 3.3 Trillion in 2017 as a result of the on-going projects. It should however be noted that the Company was still constrained by failure to bill all components of the Concession fees, thus resulting into a bottom line loss on the Profit and Loss account of Shs 13.1 billion. However, it is envisaged that this position will change with further engagement and consultation with the relevant authorities.

Project Implementation

In summary, significant overall physical progress was made in the construction of the **Karuma (52%) and Isimba (76%)** hydro-power plant projects, albeit the challenges that were faced. The progress was in part as a result of the re-invigorated monitoring and supervision by UEGCL team with support from the Project Steering Committee (PSC) set up by H.E. The President, to streamline project implementation. It is envisaged that both projects will be commissioned in the course of the next financial year (2018/19).



In tandem with the project activities, Community Development Action Plans (**CDAP**) for Karuma and Isimba were approved and these have commenced with the procurement of various interventions aimed at ensuring that communities benefit from the implementation of the Projects.

During the reporting period, the **Muzizi (48 MW)** project advanced with the completion of the detailed designs, and prequalification of potential contractors. The project is at advanced stages of tendering for construction works. On the other hand, the **Nyagak III (6.6 MW)** project attained financial closure, and the project is set to move on to the next phase of construction despite various challenges faced by the Strategic Partner. It is envisaged that construction works for both projects will commence in 2018.



Operational Performance

Currently, UEGCL operations are dominated by monitoring of the Concession with ESKOM UGANDA LIMITED (EUL) at the Kiira/Nalubaale Complex, and preparation for the Operation and Maintenance

of the Karuma and Isimba Generation Plants. Key activities undertaken included; the recruitment, deployment and Training of O&M Staff, carrying out of studies to address the concrete structural problems at Nalubaale, and the quarterly inspection of the complex at Jinja. A key milestone achieved was the mobilisation of funds and the commencement of the procurement process for the rehabilitation of the Kiira/Nalubaale to ensure sustainable long-term electricity generation, increased plant capacity, improved plant efficiency and to mitigate the effects of concrete expansion and cracks due to Alkali Aggregate Reaction (AAR). The rehabilitation has been occasioned by incidences of power blackouts at the complex, signalling challenges of asset management, and inadequate investment in the plant by the concessionaire.

Business Growth and Development

From the Business Development Perspective, key achievements included the acquisition of new hydropower sites including, Okulacere 6.5MW (Arua District), Agbnika 2MW (Yumbe District) and Maziba 1MW (Kabale District). These projects are significant as they fulfil UEGCL mandate to ensure reliable energy to all including those in the rural areas. In addition, collaborative engagements (MoUs) were signed with different Partners as a means of fostering capacity building, financial mobilisation for various company activities, and enhanced Research and Development. MoUs were signed with, the Centre for Research in Energy and Energy Conservation (CREEC) based at Makerere University, College of Engineering Design Art and Technology (CEDAT), Hangzhou Regional Centre for Hydropower Development (HRC) of China, Compagnie Nationale Du Rhone (CNR) of France, and the International Hydropower Institute of Norway (ICH). The MoUs were aimed at addressing the perspective of learning and growth, coupled with the need to enhance knowledge and skills of our employees, while the

Research & Development activities address various operational and project implementation challenges.



Human Resource Development

The Human resource is the vanguard and pillar of any Company’s successful performance. During the period, UEGCL set out to realign its organisational structure to its strategic objectives. Furthermore, a key consideration was the preparation activities for the planned operation and maintenance of the Karuma, and Isimba Hydropower Plants. During the reporting period a total of 74 staff were recruited bringing the total UEGCL staff compliment to 123 as at June 2017. The staff recruitments were carried out to bolster the project supervision works, and majorly in preparation for Operation and Maintenance activities for the flagship projects. The O&M Staff are already undergoing Training both onsite and overseas. UEGCL is proud to have effectively contributed towards the Governments Vision 2040 and National Development Plan (2015 – 2020) goal of “Strengthening Uganda’s Competitiveness for Sustainable Wealth Creation, Employment and In-



clusive Growth”, which focuses on implementing key development priorities, narrowing the infrastructure gap, while promoting economic productivity and diversification for better job creation to satisfy Ugandans. Within the on-going projects a total of 7,040 Ugandans have been directly employed, Karuma 5,271 and Isimba 1769. The projects have indirectly benefited the surrounding communities who have provided services to the workers. UEGCL has also engaged the contractors to support the “Buy Uganda Build Uganda” (BUBU) cause by sourcing their materials such as cement and steel from the local market.

Quality Management System Development

I am glad to report that during the reporting period, UEGCL attained ISO 9001: 2015 Certification and therefore joins the ranks of organisations whose products and processes meet internationally accepted standards. With the attainment of this milestone, emphasis is being placed on Customer Focus, Process Approach and Continual improvement. Activities that are benefiting from the Certification include; Project Implementation, Operations and Maintenance, Human Resource activities and Information Technology.

Operation and Maintenance Strategic Direction

The **O&M Business Model** approved by the UEGCL Board of Directors entails UEGCL working as the Asset holder, managing the various hydropower plants as independent business units under Internal Performance Contracts. This will allow for operational independence, operational efficiency gains, lower Tariffs through efficiency gains and enable UEGCL generate adequate revenues to cover O&M costs and loan repayment. However, the longer term and ultimate objective will be the transformation of the Generation plants into subsidiary company’s wholly owned by UEGCL with clear performance



targets and deliverables based on private sector business principles.

Challenges Faced by Management

Challenges faced by UEGCL during the reporting period were identified as follows;

- **Financial resource constraints** arising out of limited budget which curtails UEGCL’s ability to effectively carry out all its planned activities.
- **Inadequate Investments by EUL** plus delayed implementation of Projects at the Jinja Complex.
- **Project Implementation challenges** related to Construction Supervision at Karuma and Isimba that are likely to result into time and cost overruns. There is also a risk that the long-term performance of the plants could be compromised due to inadequate quality assurance and compliance to technical specifications and employer’s requirements.
- **Policy conflicts** related to the licencing regime for the Karuma, Isimba and Muzizi hydropower Plants. The conflict is based on the Deemed/

Energy position.

- **Impaired Asset position** due to failure to bill for cost of depreciation and return on equity.
- **Information Asymmetries** as a result of the inadequate information from the Computerised Maintenance Management System of the Concessionaire which hampered asset condition monitoring.
- **Delays of Nyagak III Implementation** resulting from the delay in the Private Partner to attain financial closure.
- **Inadequate Asset Management** by the Concessionaire which has exposed the Generation Fleet at Jinja to high risk of structural failure and equipment damage due to concrete expansion and cracking as a result of the Alkali-Silica Reaction (ASR)

Future Outlook

UEGCL is currently in the final stages of formulating its Strategic Plan for the next 5 years 2018 – 2023. The plan is aimed at anchoring UEGCL as the Generator for Generations (G4G). Indeed, we are on course to deliver 920 MW in the next 5 years, which will comprise a Generation mix of hydro, solar and Geothermal. Suffice it to say that the experiences garnered from the implementation of the Karuma and Isimba Projects places UEGCL at an advantaged position to continue implementing new power projects in the pipeline such as the Ayago (840 MW) Hydropower Project. Specific project activities to be undertaken in the next year will include the implementation of the Community Development Action Plan (CDAP), and the completion of the permanent employer's facilities.

Furthermore, UEGCL is poised to establish a Hydropower Vocational Training centre to cater for the continuous staff capacity needs at the Generation facilities, coupled with the establishment of a Professional Services Unit and enhanced Research and Development activities which are aimed at improving process efficiency and augmenting UEGCL's financial position.

The cardinal focus areas for the next five years will be; Operational Excellence, Stakeholder and Reputation Management, Sustainable Growth, Engaged Work Force, and Safety Excellence. Pivotal to these aspirations will be the quest for availability, reliability, affordability, and Quality electricity Services. In addition, cognizant of the eminent competition within the region, UEGCL aims at operating its generation facilities efficiently so as to ensure affordable Tariffs that will attract investors and spiral industrialization for socio-economic development.

Conclusion

In conclusion, I wish to thank all our stakeholders including the Ministries of Finance Planning and Economic Development and Energy and Mineral Development, our Development Partners, the sector regulator (ERA) and the entire Board and Management for the support and strategic guidance rendered throughout the year.

We look forward to another fulfilling year 2017- 2018, and pledge our commitment to further contributing to the Governments development objectives by ensuring reliable and affordable power to all sectors for socio-economic development of our Country.



Dr. Eng. Harrison E. MUTIKANGA

Chief Executive Officer

*Concrete placement
around the sill plate
of upper spillway
radial gate*



CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

The Board is responsible for the overall direction and strategy of the Company. The roles of Chairperson and Chief Executive are separate and distinct.

The Board is comprised of members with a mix of skills and experience required to enable effective board discourse and decision making. The Board comprises seven Directors who are all Non-Executive Directors, four of whom are independent while the other three represent the main stakeholders namely; the shareholders, the Minister of Finance, Planning & Economic Development, the Minister of State for Finance (Privatisation and Investments) who hold shares on behalf of the State and the Ministry of Energy and Mineral Development which is responsible for the sector in which the company falls.

The mix of Directors ensures a balance of power on the Board, so that no individual or group can dominate board processes or decision making and ensures the appropriate level of challenge. The number and calibre of independent non-executive directors on the Board ensures that decision making is sufficiently informed by independent perspectives.

The Chairperson of the Board is an independent, Non-Executive Director and is responsible for the leadership of the Board and ensuring its effectiveness.



Board of Directors

APPOINTMENTS

The Board takes cognisance of the requisite knowledge, skills and experience of Directors, as well as other necessary attributes to enable them perform their roles. Appointments therefore take into consideration the knowledge, skills and experience of prospective directors and need for gender presentation balance.

The appointment of Directors is governed by the provisions of the law and the Articles of Association. Under the law, power to appoint the Board is vested in the shareholders at the Annual General Meeting while the Articles of Associations of the Company allows for the Board to appoint directors to fill in a casual vacancy. These appointments are then confirmed at the Annual General Meeting

During the past financial year, we bid farewell to the immediate former Chairperson of the Board, Dr. Stephen Robert Isabalija who was appointed Permanent Secretary at the Ministry of Energy and Mineral Development. Dr. Isabalija served as Chairperson of the Board for 3 years (2014 to 2016) and steered the Board towards ensuring strong leadership and accountability.

As his replacement, Eng. Proscovia Margaret Njuki, who has served on the UEGCL Board since November 2013 was appointed Chairperson, Board of Directors effective January 2017. She brings a wealth of knowledge, experience and ethical leadership to the role but also continuity.

The period January 2016 to June 2017 saw the appointments of the following onto the Board;

Eng. Gilbert John Kimanzi, appointed on 24th November 2016 for a three year term. He brings to the Board a lot of knowledge and experience in Engineering, water resources management, water supply and sanitation and is the Assistant Commissioner (Planning and Quality Assurance) at the Ministry of Water and Environment, Directorate of Water Resources Management. He was appointed to fill a casual vacancy and shall be presented to the shareholders at the Annual General Meeting of the company scheduled for November 2017 for election.

Mr Ronald Dravu, appointed on the 15th September 2016 for a three year term. He is a Certified Public Accountant and Auditor with a lot public sector experience in accounting, auditing, policy implementation and management.

Mr Zachary Baguma Mosimoson Atwoki, appointed on 4th May 2016 for a three year term. He is the Commissioner for Geological Survey at the Ministry of Energy and Mineral Development with 28 years' experience in the field of geology and earth sciences. He has overseen fully fledged mineral exploration, geological surveys, geological mapping and engineering site investigation programs among others.

The other members of the Board of Directors namely; Eng. Proscovia Margaret Njuki (Chairperson), Dr. Nixon Kamukama, Ms. Zeridah Zigiti and Mrs. Jennifer Katagyira Lubaale were reappointed for a three year term effective the 12th November 2016.

The composition of the Board is currently as follows:

No.	DIRECTOR	CLASSIFICATION	SKILLS	INDEPENDENT
1	Eng. Proscovia Margaret Njuki (Chairperson)	Non-executive Director	Engineering, leadership and Management	✓
2	Mr. Baguma Zachary Mosimoson. Atwoki	Non-executive Director	Geology and earth sciences	–
3	Dr. Nixon Kamukama	Non-executive Director	Accounting and Finance	✓
4	Mrs. Jennifer Katagyira Lubaale	Non-executive Director	Finance and Statistics	–
5	Ms. Zeridah Zigiti	Non-executive Director	Economics, policy analysis, development Planning & Budgeting.	–
6	Mr. Ronald Dravu	Non-executive Director	Accounting, auditing, policy implementation and management.	✓
7	Eng. Gilbert John Kimanzi	Non-executive Director	Engineering and Water Resources Management	✓

The Board is governed by the Companies Act, The Public Enterprises Reform and Divestiture Act under which the company is incorporated and Managed, The Board Charter, the Company's Articles of Association and the respective Committees Terms of Reference which provide the basis for the roles, duties and responsibilities of the Board.

Strategy

The Board is responsible for setting the Company's strategic direction and ensures it is aligned to the Company's vision, mission and that it takes into account the country's development aspirations as set out in the National Development Plan and Uganda's Vision 2040.

In 2015, the Company approved a 3 year strategic Direction that is set to run up to December, 2017. The Board holds a retreat at the beginning of each year to review performance against the set strategy and to ensure it is well implemented. In addition, quarterly reports on the performance against the strategy are submitted to the Board for consideration to enable them monitor the implementation of the strategic direction.

This year, the retreat was held in February 2017. At the retreat, the Board reviewed the Company's Performance on implementation of the strategic direction and agreed on the corporate scorecard for 2017.

Since the current strategic direction runs up to December, 2017, development of the next five year strategic plan (2018 to 2023) is ongoing and will be completed and launched in December 2017 after approval by the Board.

Board Trainings and Induction

Upon appointment to the Board, directors undergo induction to enable them fully understand their roles and responsibilities. During the Induction, the directors are provided with all relevant documentation including but not limited to; the Board Charter, the organisation structure, relevant reports, the Company's strategic plan, key legislation and policies among others. The Company Secretary is responsible for ensuring that directors, upon appointment undergo a comprehensive induction.

In the past financial year, induction was undertaken for the new directors Eng. Gilbert John Kimanzi, Mr. Ronald Dravu, Mr. Zachary Baguma Mosimoson Atwoki to provide them as new board members with all the information and support they need to be confident and productive in their role and to help to understand the organisation, the environment in which it operates, and their role in making it a success. Additionally, all the Directors fully participated in the induction program.



CLOSE SUPERVISION: Board chairperson Eng. Proscovia Margaret NJUKI (center) together with the Board and Management at one of their routine visits to Karuma HPP studying design drawing.

Additionally, The Board acknowledges the need for ongoing training to ensure directors are empowered with relevant knowledge and skills to enable fulfilment of their mandate and to keep them abreast of developments in the energy sector, corporate governance practices, changes in law and regulations as well as key developments within the sector. In the past financial year, the Board undertook training in utility strategy and regulation, leadership in utility policy, audit and risk management, corporate governance, Board leadership and effectiveness.

The Board has also been involved in conferences such as the Africa Utility week and hydro Vision International which provide good platforms for policy debate, emerging trends in the sector, networking and discusses issues affecting hydro power resources, challenges and measures to ensure the future sustainability of hydro power.

The Board also conducts quarterly field visits to the Hydropower Projects (Karuma, Isimba, Nyagak III & Muzizi) and Nalubaale/Kiira Hydropower Plant to ensure directors are well aware of progress in implementation of the Company's mandate. The Board site visits also are an opportunity for the Board not only to interact with stakeholders but also to emphasise on and ensure proper implementation of the relevant project implementation agreements.

Conflict of interest

Conflict of interest is a critical consideration for the Board in dealing with all matters pertaining to the Company. In this regard, the Company complies with the provisions of the Companies Act and the Board Charter and declarations of actual or apparent conflict of interest are done prior to consideration of any matter by the Board and its Committees.

The Company Secretary maintains a record of all declarations of conflict of interest. Directors with a conflict of interest on a matter under consideration do not participate in decision making on the matter.

Board Meetings

The Board meets quarterly and the meetings are structured to allow open discussion. Special meetings are held as and when need arises.

All substantive agenda items have comprehensive briefing papers which are circulated to the Board in advance. Resolutions made are filed in accordance with the Companies' Act 2012.

To facilitate efficient decision making, senior management and third party professionals like the External Auditor may be in attendance on a needs basis. The CEO is always in attendance during Board Meetings while members of the Senior Management Team attend on invitation to provide additional information where necessary.

The attendance of the Ordinary Board Meetings for the period January 2016 to June 2017 is set out in the table below.

Name	26.02.16	13.05.16	31.08.16	28.10.16	1.03.17	12.05.17
Eng. Proscovia Margaret. Njuki (Chairperson)	√	√	√	√	√	√
Mrs. Jennifer Katagyira Lubaale	√	×	√	√	√	√
Ms. Zeridah Zigiti	√	√	√	√	√	√
Dr. Nixon Kamukama	√	×	√	√	√	√
Mr. Zachary Baguma Mosimoson Atwoki	NA	NA	√	√	√	√
Mr. Ronald Dravu	NA	NA	NA	√	√	√
Eng. Gilbert John Kimanzi	NA	NA	NA	NA	√	√
Dr. Stephen Isabalija (Former Board Chairperson)						

√ = Attendance × = absent with Apology NA = Not yet appointed to the Board
ND = Ceased being Director

Board Committees

i) The Board Committees were reconstituted in accordance with the resolutions of the Board following the recommendations from the last Board evaluation in January 2017 in order facilitate the more effective discharge of the Board's functions. The reconstitution of the Board Committees was effective 16th February 2017 as follows:

No.	Old Committee	New Committee
1	Technical Committee	Technical Committee
2	Finance Committee	Finance and Audit Committee
3	Remuneration Committee	Human Resource, Compensation and Planning Committee (created by merging the two Committees)
4	Planning and General Purpose Committee	
5	Audit, Risk and Compliance Committee	Governance, Risk and Compliance Committee

The Board Committees operate through terms of reference that are annually reviewed to ensure they are updated with any changes in legislation and corporate governance practices as well as the changing needs of the organisation.

Each Committee's terms of reference sets out in detail, the roles, responsibilities, scope of authority, composition and the procedures to be followed by the Committee.

All committees are comprised of at least 3 members of the Board and are chaired by Independent Non -Executive Directors. Joint meetings of the Committees may be held where necessary and beneficial. The Committees hold their meetings at least quarterly. Special meetings are held as and when need arises.

(i) Governance, Risk and Compliance Committee

The Audit, Risk and Compliance Committee provides oversight, reviews, evaluates and makes recommendations to the Board on Governance, risk and compliance management.

Formerly, the Committee was headed by an Independent Non-Executive Director, Eng. Proscovia Margaret. Njuki, who was subsequently replaced by another Independent Non-Executive Director, Mr. Dravu Ronald upon her appointment as Board Chairperson.

The Committees composition and schedule of meetings held is as follows;

Director	23.02.16	29.04.16*	19.09.16	21.10.16	15.02.17	26.04.17
Eng. Proscovia M. Njuki (Former Audit, Risk and Compliance Committee Chairperson)	√	√	√	√	NM	NM
Mrs. Jennifer Katagyira. Lubaale	√	×	√	√	√	√
Dr. Stephen Robert. Isabalija	×	√	ND	ND	ND	ND
Mr. Ronald Dravu (New Committee Chairperson)	NA	NA	NA	NA		√
Dr. Nixon Kamukama	NA	NA	NA	NA	NA	√
Mr. Zachary Baguma Mosimoson Atwoki	NA	NA	NA	NA	√	NM

√ = Attendance × = absent with Apology NA= Not yet appointed ND= Ceased being Director NM=Ceased being a member of the Committee after reconstitution of the Committee NC=was not a member of the Committee during the period

(ii) Finance and Audit Committee

The Finance Committee reviews, evaluates, makes recommendations to the Board and provides oversight in relation to financial risk management, annual budgetary requirements and performance of the Company's revenue generation among others.

In addition, the Committee reviews the financial reporting process, the system of internal control and the effectiveness of internal audit activities.

The Committee is headed by Dr. Nixon Kamukama, an Independent Non-Executive Director.

The Committees composition and schedule of meetings held is as follows;

Director	Meeting number and date					
	29.04.16	12.02.16	17.08.16	18. 10.16	1.02.17	27.04.17
Dr. Nixon Kamukama	√	√	√	√	√	√
Ms. Zeridah Zigiti	√	√	√	√	√	√
Mr. Dravu Ronald	NC	NC	NC	NC	NC	
Mr. Jennifer Katagyira Lubaale	x	√	√	√	NM	NM
Eng. Gilbert John Kimanzi	NA	NA	NA	NA	√	NM

√ = Attendance x= absent with Apology NA= Not yet appointed ND= Ceased being Director
 NM=Ceased being a member of the Committee after it was reconstituted
 NC=was not a member of the Committee during the period

(iii) Technical Committee

The Technical Committee provides oversight, reviews, evaluates and makes recommendations to the Board in relation to the Company's performance on the concession monitoring function, preparations for operations and maintenance for the hydro power plants under development, the Company's performance as project implementation agency on the 600MW Karuma and 183MW Isimba hydro power project, Muzizi Hydropower Project, Nyagak III Hydropower Project and any other assignment that may be assigned to the Company from time to time.

The Committee was formerly headed by an Independent Non-Executive Director (Eng. Proscovia Margaret. Njuki who was subsequently replaced by Eng. Gilbert John Kimanzi following her appointment as Chairperson of the Board.

The Committees composition and schedule of meetings held is as follows;

Director	Meeting number and date						
	6 th 16.02.16	7 th 25.04.16	8 th 12.08.16	9 th 20.10.16	10 th 22.02.17	11 th 25.04.17	30.5.2017
Eng. Proscovia Margaret. Njuki	√	√	√	√	√	NM	NM
Ms. Zeridah Zigiti	√	√	√	√	√	√	x
Mr. Zachary Baguma Mosimoson Atwoki	NA	NA	√	√	√	√	√
Eng. Gilbert John Kimanzi	NA	NA	NA	NA	NA	√	√

√ = Attendance x= absent with Apology NA= Not yet appointed ND= Ceased being Director
 NM=was a member of the committee during the period, but ceased being a member of the Committee
 NC= not a member of the Committee during the period

(iv) Human Resource, Compensation and Planning Committee

The Human Resource, Compensation and Planning Committee provides oversight, reviews, evaluates and makes recommendations to the Board in relation to the Board recruitments, induction, training, development and performance management, the Company's strategic planning and performance, the Company's organization structure and human resource requirements, the Company's

performance management system among others.

The Committee is headed by Eng. Gilbert John Kimanzi an Independent Non-Executive Director.

The Committees composition and schedule of meetings held is as follows;

Director	Meeting number and date						
	11.02.16	20.04.16	16.08.16	17.10.16	16.02.17	28.04.17	30.05.17
Dr. Nixon Kamukama	√	√	√	√	√	NM	NM
Ms. Zeridah Zigiti	√	√	√	√	NM	NM	NM
Eng. Proscovia Margaret Njuki	√	√	√	√	NM	NM	NM
Eng. Gilbert John Kimazi	NC	NC	NC	NC	√	√	√
Mrs. Jennifer Katagyira. Lubaale	NC	NC	NC	NC	√	√	√
Mr. Zachary Baguma	NC	NC	NC	NC	NC	√	√
Mosimoson Atwoki							
Mr. Ronald Dravu	NC	NC	NC	NC	√	NM	NM

√ = Attendance ×= absent with Apology NA= Not yet appointed ND= Ceased being Director
 NM=was a member of the committee during the period, but ceased being a member of the Committee

NC = not a member of the Committee during the period

INTERNAL AUDIT

The Company has outsourced its Internal Audit function to AH Consulting Ltd. The Internal Auditor's role is to provide assurance to the Board and the Executive Management on governance, risk management, and internal control processes by analysing, measuring and evaluating the effectiveness of systems or controls in place.

The Internal Auditor reports to the Finance and Internal audit Committee functionally and administratively to the CEO.

Audits are undertaken in accordance with the approved annual audit plan covering all the company's business functions and approved by the Board at the beginning of each calendar year.

In the past Financial Year, audit reports were presented to and discussed with Management prior to presentation to the Board. Action plans to address identified areas of improvement were agreed and implementation dates set. Thereafter, progress on agreed action plans was reviewed in conjunction with the respective Department Heads.

The Audit reports were presented to the Finance and Audit Committee at its quarterly meetings.

To enhance the effectiveness of the Internal Audit Unit, the Company is in the process of setting up an In-house Internal Audit department.

RISK MANAGEMENT

The Company is in the process of recruiting a Risk Manager to assist Management and the Board in monitoring risk to assess impact and appropriateness of responses by both Management & the Board.

In addition the Board and Management undertook training in Risk Management to empower them in Risk Management.

REMUNERATION PHILOSOPHY

The Company aims at attracting and retaining high caliber directors to provide oversight and guidance to Management. In determining the remuneration of Non-Executive Directors, the shareholders considers the extent and nature of their responsibilities and reviews of comparative remuneration offered by similar companies.

In the past financial year Non-executive Directors were paid a monthly retainer fees and sitting allowance as follows:

Allowance	Chairperson	Directors
Sitting Allowance (UGX (net))	490,000	350,000
Monthly Retainer Fees (UGX (net))	2,100,000	1,750,000
Mileage Allowance (UGX)	1800 per Kilometer	1800 per Kilometer
Subsistence Allowance (UGX)	250,000 per night	250,000 per night

Mileage is paid when a Director who uses his or her personal vehicle for company business such as long distance to attend Board meetings and participate in other board activities.

Substance allowance is paid to a director travelling for company business to cover the cost of lodging, meals and associated expenses.

Setting of remuneration for employees is guided by the need to maintain a caliber of human resource that is capable of ensuring the Company continues to thrive.

In the Past Financial Year, the Company engaged a consultant to undertake a job evaluation exercise. On completion of the consultancy, the Board approved an organogram and salary structure. In coming up with the structure, the remuneration of employees offered by similar companies and the Company's performance against financial objectives was considered. The salary structure shall be implemented in phases depending on availability of resources.

The terms and conditions of employment of all employees are guided by local legislation and the Human Resource Policy and Procedures Manual. All employees are appointed on 3 year contracts.

Structure of Remuneration

Fixed pay: This is normally reviewed annually at the end of the financial year.

Benefits: The Company provides medical cover, insurance and death benefits for staff and dependents.

Retirement Benefits Scheme: The Company through the Uganda Retirement Benefits Authority operates a retirement benefits scheme for all its staff on successful completion of probation. As part of the scheme, the Company contributes 25% of each employee's gross salary while each staff contributes 5% of his/her monthly gross salary.

Variable pay

Incentives set basing on the Company's overall performance are provided to ensure appropriate reward for good performance. Employees who excel are rewarded bi-annually.

Board Evaluation

The Board is cognisant of the need for continued improvement to its effectiveness and performance. As such, the Board's performance and that of its Committees is assessed annually through a Board Evaluation process. The evaluation focuses on aspects such as; the role of the Board, its structure and composition, Board and Management relations and Company Secretarial Services.

The results of the evaluation are considered by the Board as a whole and relevant actions are noted for implementation.

The objective of these evaluation is to assist the Board and Committees to constantly improve their effectiveness by addressing areas in need of improvement and to guide in identification of training needs for directors.

In the past financial year, a Board Evaluation was undertaken in December 2016 with the assistance of an external facilitator to provide independence and objectivity to the process. Findings of the evaluation were presented to the Board in on 2nd February 2017. Action points were agreed upon which included among others; the reconstitution of the Committee.

DELEGATION OF AUTHORITY

Management of the Company's business is vested in the directors, who have delegated some of their powers to Board Committees, although retaining ultimate responsibility and effective control. The Board has however developed a list of matters reserved for the Board.

Additionally, the Board has delegated to the Chief Executive Officer the day to day management of the Company to ensure a smooth operation of the Company and proper implementation of the Company's strategic direction. The CEO fulfills this role with support from the Senior Management Team. Despite the fact that he is not a member of the Board, the Chief Executive Officer reports to the Board quarterly and at other times as may be necessary. He also attends all Board and Board Committee Meetings to inform and update the Board on implementation of its decisions.

FINANCIAL REPORTING AND DISCLOSURES

Financial performance is monitored through quarterly Management Accounts from management. The performance is formally reported to shareholders through the annual audited financial statements. The audited accounts are presented to, and considered by shareholders at the Annual General Meeting.

Financial statements are produced in accordance with International Financial Reporting Standards (IFRS) and the requirements of all the relevant statutes, rules and regulations in Uganda.

COMPANY SECRETARY

The Company Secretary is responsible for the efficient administration of the Board and ensuring the Board remains cognisant of its roles and obligations.

The Company Secretary is also responsible in consultation with the Chairperson of the Board for induction of all new directors, organising Board trainings and maintaining Board and Committee records.

The Company Secretary acts as secretary to the board and its committees and is tasked with ensuring a timely and smooth flow of information from the Board to Senior Management and Staff.

The Company Secretary is an advisor to the Board and is responsible for ensuring that the correct board procedures and applicable laws are followed. He is also responsible for ensuring the Board is kept abreast of relevant changes in legislation and governance best practices.

All directors have adequate access to the advice and services of the Company Secretary.

STAKEHOLDER ENGAGEMENT

The Company endeavours to fulfil the interest of its key stakeholders such as the shareholders, Government, regulators, contractors, suppliers, the general public, customers among others.

To this end, the Company maintains its relations with the Ministry of Energy and Mineral Development the line Ministry and the Shareholders through regular correspondences and communication. Additionally, the Annual General Meeting is an avenue through which the Shareholders are engaged. The Board and Senior Management attend the Annual General Meeting to answer any questions that the shareholders may have.

Additionally, regular engagements are maintained with the Regulator, UETCL, contractors, Eskom Uganda Limited. The Company ensures that the Regulator is updated of the Company's performance through quarterly reports.

The Company also serves the needs of the community and the public by providing regular updates on the projects and carrying out corporate social responsibility in areas within which it operates.



CLOSE SUPERVISION: Board chairperson Eng. Proscovia Margaret NJUKI (centre) together with the Board at one of their routine visits to Isimba HPP.

CODES AND REGULATIONS

The Board appreciates the requirement for the Company to adhere to good corporate governance standards and practices and this informs the Board in fulfilling its oversight and strategic role. The Company's corporate governance framework is enshrined in the Board Charter, the principles of corporate governance in the Companies Act, particularly the code of Corporate Governance in Table "F" and international best practices.

The Company also ensures that it practices good corporate governance and that as a bare minimum, its business operations take into account the interests of key stakeholders such as the shareholders, government, the environment, regulators, suppliers, the general public, and customers among others.

The Company operates within the energy sector and adheres to the various Laws, Regulations, Guidelines, License terms and Contracts essential to its operations.

The oversight for the compliance function lies with the Board and ongoing compliance monitoring is delegated to the Governance, Risk and Compliance Committee which receives and reviews quarterly compliance reports. The Compliance reports detail the status of compliance risk management and any significant areas of non-compliance to which corrective actions is required.

The Risk and Compliance Committee also continuously monitors any changes to legislation and regulation and their likely impact on the business and operations of the Company.

GOING CONCERN

The Board has sufficient reason to believe that the Company is a going concern and will remain a going concern for at least the next twelve months from the date of this statement.



*Maheswara Reddy, Director
Hydromax Limited on a guided
tour with the Board of Directors to
Nygakilli HPP*



KARUMA HYDRO POWER PROJECT (KHPP)

The 600 MW Karuma HPP is located on the Nile River in Kiryandongo District in mid-northern Uganda, 110km downstream of Lake Kyoga and 270km from Kampala the Capital of Uganda.

Background and Key Dates

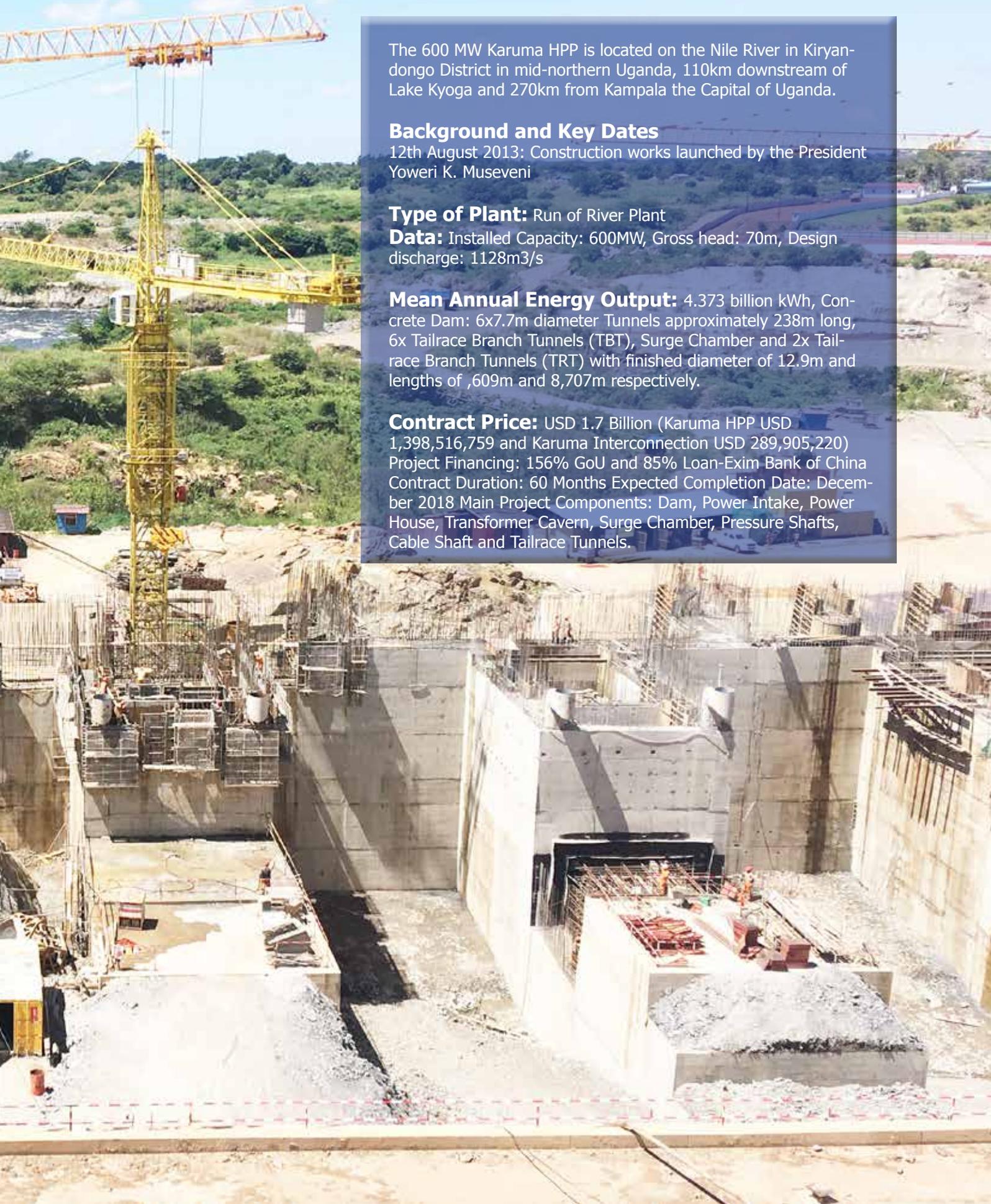
12th August 2013: Construction works launched by the President Yoweri K. Museveni

Type of Plant: Run of River Plant

Data: Installed Capacity: 600MW, Gross head: 70m, Design discharge: 1128m³/s

Mean Annual Energy Output: 4.373 billion kWh, Concrete Dam: 6x7.7m diameter Tunnels approximately 238m long, 6x Tailrace Branch Tunnels (TBT), Surge Chamber and 2x Tailrace Branch Tunnels (TRT) with finished diameter of 12.9m and lengths of ,609m and 8,707m respectively.

Contract Price: USD 1.7 Billion (Karuma HPP USD 1,398,516,759 and Karuma Interconnection USD 289,905,220)
Project Financing: 156% GoU and 85% Loan-Exim Bank of China
Contract Duration: 60 Months Expected Completion Date: December 2018
Main Project Components: Dam, Power Intake, Power House, Transformer Cavern, Surge Chamber, Pressure Shafts, Cable Shaft and Tailrace Tunnels.





The spiral casing taking shape in the power house of the Karuma (600MW) HPP

BOARD OF DIRECTORS



Eng. Proscovia Margaret NJUKI

Engineer Proscovia NJUKI was appointed to the Board of UEGCL on 13th November, 2013 and was appointed Board Chairperson on 11th November, 2016. She has over 30 years' experience after serving at Uganda Television, now Uganda Broadcasting Corporation and as the Ag. Executive Director of the Gender Advisory Board of the United Nations Commission on Science and Technology for Development (GAB/UNCSTD).

She is a holder on an Honours Degree in Electrical Engineering.



Dr. Nixon KAMUKAMA

Prof. KAMUKAMA was appointed member of the Board of Directors, UEGCL on 6th December, 2012. As a holder of a Doctorate in Business from Makerere University, Prof. KAMUKAMA is proficient in financial management and has authored several publications in the same. He is currently the Deputy Vice Chancellor of Mbarara University of Science and Technology in charge of academic affairs. Prof. KAMUKAMA is the chairperson of the Board Finance and Audit Committee and a member of board governance and Risk and Compliance committee.



Ms Zeridah ZIGITI

Ms. ZIGITI was appointed member for the Board of Directors, UEGCL on 13th November, 2013. She has over 15 years' experience in economics, policy, budgeting and financial management and is currently the Ag. Assistant Commissioner Infrastructure at the Ministry of Finance, Planning and Economic Development. She holds a Master's degree in Economic Policy Management. She is currently a member of the Board of Trustee Uganda Wildlife Authority and Uganda Trypanosomiasis Control Council. Ms ZIGITI is a member of the Technical Committee and the Finance and Audit Committee of the Board.



Mr. Ronald DRAVU

Mr. Dravu was appointed member of the Board of Directors, UEGCL on 15th September, 2016. He has a wealth of experience in financial management, audit and policy implementation. Prior to his retirement, he served at Ministry of Local Governments as the Chief Finance Officer, Senior Internal Auditor and finally the Principal Internal Auditor. He holds a Master's of Arts degree in Organizational Leadership. He currently serves on the board of Uganda Christian University-Arua Campus. Mr. Dravu is the Chairperson of the Governance, Risk and Compliance Committee and a member of Finance and Audit Committee of the Board.



Eng. Gilbert John KIMANZI

Eng. KIMANZI was appointed member of the Board of Directors, UEGCL on 11th November, 2016. He has over 25 years' experience in the water and sanitation sector. He is currently the Assistant Commissioner (Planning and Quality Assurance)- Water for Production in the Ministry of Water and Environment. He is a holder of a Master's Degree in Water and Waste Engineering. He is a registered Engineer and is a member of the Ugandan Institution of Professional Engineers (UIPE). Eng. KIMANZI is the chairperson of the board Technical Committee and the Board Human Resources, Compensation and Planning Committee.



Mrs. Jennifer Katagyira LUBAALE

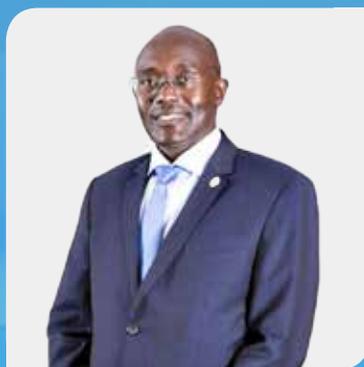
Mrs. Lubaale was appointed member of the Board of Directors of UEGCL on 12th September 2007. She has over 15 years' experience at senior management and administrative levels, her areas of specialism being Public Sector Reform and Public Private Partnerships. She is currently the Team Leader, Parastatal Monitoring Unit at the Ministry of Finance, Planning and Economic Development. She holds a Master's degree in Business Administration. Ms Lubaale is a member of the Human Resource, Compensation, Planning and Governance, Risk and Compliance Committees of the Board.



Mr Zachary Baguma Mosimoson ATWOKI

MR. Atwoki was appointed member of the Board of Directors, UEGCL on 4th May 2016. He has over 28 years' experience in the Earth Sciences field and has a wealth of experience in managing, executing, exploration, investigation and evaluation of geological and engineering programs. He is currently the Commissioner, geological Survey department at the Ministry of Energy and Mineral Development. He holds a Master's of Science in Geological Surveys and a Master's of Science and Mineral Exploration. Mr. ATWOKI is a member of the Technical Committee and the Human Resource, Compensation and Planning Committee of the Board.

MANAGEMENT TEAM



Dr. Eng. Harrison E. MUTIKANGA

Chief Executive Officer



Mr. Joshua Karamagi

Chief Finance Officer



Mr. Mark Martin OBIA

Company Secretary



Mrs. Harriet Oyule EKUDE

Chief Human Resource Officer



Eng. George Tusingwire MUTETWEKA

Chief Operations Officer



Eng. Isaac ARINAITWE

Chief Projects Officer



Mr. David ISINGOMA

Chief Strategy and Business
Development Office

**OFFICE OF THE
AUDITOR GENERAL**



THE REPUBLIC OF UGANDA

**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF UGANDA ELECTRICITY
GENERATION COMPANY LIMITED FOR THE 18 MONTHS
PERIOD ENDING 30TH JUNE 2017**

OFFICE OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF UGANDA ELECTRICITY GENERATION COMPANY LIMITED FOR THE 18 MONTHS PERIOD ENDING 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Qualified Opinion

I have audited the accompanying financial statements of Uganda Electricity Generation Company Limited for the 18 months period ending 30th June 2017. These financial statements comprise the Statement of Financial Position as at 30th June 2017, the Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 36.

In my opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Uganda Electricity Generation Company Limited's as at 30th June 2017 and its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012 of Uganda.

Basis of Qualified Opinion

- **Non-recognition of Impairment loss**

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 during the period which resulted in an impairment loss of UGX.58 Billion.

This loss, which was the basis of qualification of the previous year's report, has still not been recognised/ reflected in the books of UEGCL. The anomaly results in overstatement of the asset balances and profits for the Company.

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

I have determined that there are no other key audit matters to communicate in my report.

Other Matter

In addition to the matter raised above, I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements.

- **Non-recognition of Impairment loss**

UEGCL signed a Concession and Assignment Agreement (CAA) with Eskom, in which Eskom was granted the right and obligation to operate and maintain the Nalubale and Kiira Hydro Power Complex. During audit, I noted that UEGCL undertook monitoring visits to the Complex and noted instances of non-compliance by Eskom to the CAA. These included non-repair works at 2 turbines, ASR cracks on Nalubale dam and Power house and delayed execution of 13 projects since 2013.

Whereas the non-compliance issues were noted throughout the period under review, UEGCL did not enforce compliance by Eskom.

There is therefore a risk that the Nalubale and Kiira Hydro Power Complex may not be in proper working condition by the time of handing back to UEGCL at the end of the CAA.

- **Progress of Karuma and Isimba Hydro Power Plants**

UEGCL is overseeing the construction of Karuma and Isimba Hydro Power Plants (HPPs). My review of the progress reports for the Karuma Dam revealed a number of anomalies, including, failures in the quality assurance/quality control procedures, results likely being false in some occurrences and therefore being unreliable, poor quality of concrete lining causing cracks in some sections of the dam.

Under the Isimba HPP, progress reports revealed inadequate supervision of the EPC contractor, which resulted in poor concrete quality on site, cracking, cold joints, honeycombing and failed concrete repairs.

These are indications of lack of capacity and inadequate experienced personnel by the Owner's Engineer to resolve site problems.

Although the contract for the Consulting Engineer for the Isimba HPP expired in September 2017 and has not been renewed due to poor performance, the same Engineer is still supervising the Karuma HPP causing concerns about the quality of that dam

- **Unimplemented Activities**

A review of the performance evaluation reports revealed that some planned activities were either not undertaken or partially undertaken, and in some instances performance was below 50%. Some of these activities included; development of the environment and social management plan, approval of a risk management strategy and monitoring compliance with contract specifications and standards.

Failure to implement planned activities results in delay to achieve the entity's objectives as well as delayed service delivery.

Management's Responsibilities 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 (IFRS) and the requirements of the Uganda Companies Act, 2012, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

Auditors' Responsibilities for the audit of the Financial Statements

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

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
- I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2012, I report to you, based on my audit, that:

- 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;
- In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and
- The Company's statement of financial position and statement of financial performance are in agreement with the books of account.



John F.S. Muwanga
AUDITOR GENERAL

13th October 2017

NALUBAALE/KIIRA HPP



Ariel View of Nalubaale and Kiira Hydro Power Stations







FINANCIAL STATEMENTS

FOR THE 18 MONTHS
PERIOD ENDED
30th JUNE 2017

1. DIRECTORS

The Directors who held office during the period and to the date of this report were:

Name	Designation
Eng. Proscovia Margaret Njuki	Chairperson
Mr. Zachary Baguma M Atwoki	Member
Dr. Nixon Kamukama	Member
Dr. Jennifer Katagyira Lubaale	Member
Eng. Gilbert John Kimanzi	Member
Ms. Zeridah Zigiti	Member
Mr. Dravu Ronald	Member
Dr. Eng. Harrison .E. Mutikanga	Chief Executive Officer

2. REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Branch office

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

Head office

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

3. COMPANY SECRETARY

Mr. Martin Mark Obia
Block C
Plot 6-9, Okot Close-Bukoto
Victoria Office Park

4. BANKERS

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

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

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

The Directors submit their report together with the audited financial statements for the 18 months ended 30th June 2017 which disclose the state of affairs of Uganda Electricity Generation Company Limited ("the company" or 'UEGCL').

1. PRINCIPAL ACTIVITIES

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 (25) 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 loss for the 18 months period of UGX 13.9 billion (2015: profit: UGX 5.4 billion) has been transferred to accumulated losses.

3. DIVIDEND

The Directors do not recommend payment of a dividend for the 18 months period ended 30th June 2017 (2015: 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

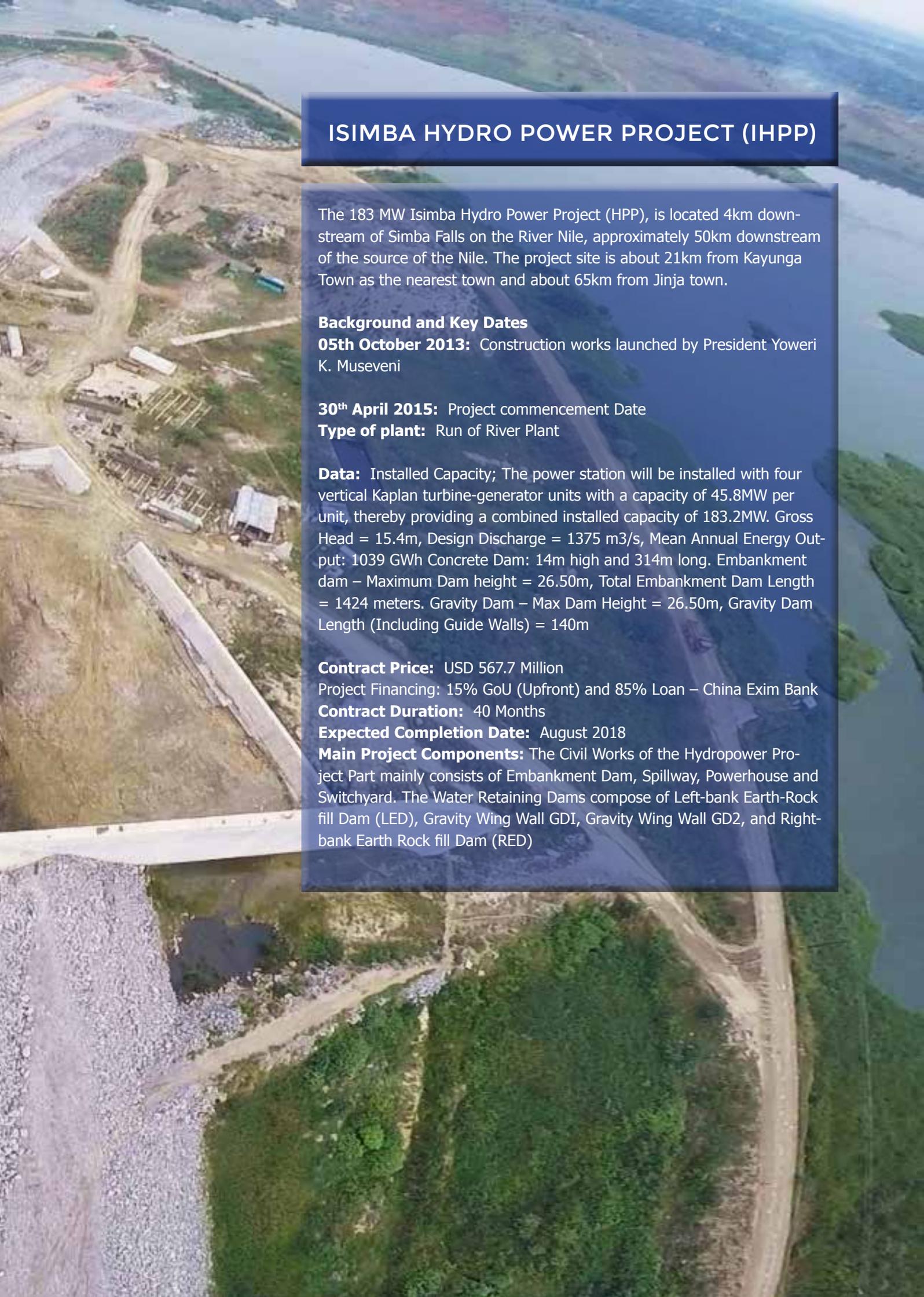
The financial statements were approved by the Board of Directors on 3rd November, 2017.

By order of the Board,



Company Secretary





ISIMBA HYDRO POWER PROJECT (IHPP)

The 183 MW Isimba Hydro Power Project (HPP), is located 4km downstream of Simba Falls on the River Nile, approximately 50km downstream of the source of the Nile. The project site is about 21km from Kayunga Town as the nearest town and about 65km from Jinja town.

Background and Key Dates

05th October 2013: Construction works launched by President Yoweri K. Museveni

30th April 2015: Project commencement Date

Type of plant: Run of River Plant

Data: Installed Capacity; The power station will be installed with four vertical Kaplan turbine-generator units with a capacity of 45.8MW per unit, thereby providing a combined installed capacity of 183.2MW. Gross Head = 15.4m, Design Discharge = 1375 m³/s, Mean Annual Energy Output: 1039 GWh Concrete Dam: 14m high and 314m long. Embankment dam – Maximum Dam height = 26.50m, Total Embankment Dam Length = 1424 meters. Gravity Dam – Max Dam Height = 26.50m, Gravity Dam Length (Including Guide Walls) = 140m

Contract Price: USD 567.7 Million

Project Financing: 15% GoU (Upfront) and 85% Loan – China Exim Bank

Contract Duration: 40 Months

Expected Completion Date: August 2018

Main Project Components: The Civil Works of the Hydropower Project Part mainly consists of Embankment Dam, Spillway, Powerhouse and Switchyard. The Water Retaining Dams compose of Left-bank Earth-Rock fill Dam (LED), Gravity Wing Wall GDI, Gravity Wing Wall GD2, and Right-bank Earth Rock fill Dam (RED)

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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. 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 3rd November, 2017 and signed on its behalf by:



Eng. Proscovia Margaret NJUKI
 Chairperson, Board of Directors



Mr. Ronald DRAVU
 Director

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE 18 MONTHS ENDED 30 JUNE 2017

	Note	18months to 30/06/2017 UGX '000	Re-stated 12months to 31/12/2015 UGX '000
Concession fees	3	14,760,123	10,933,855
Other operating income	4	2,151,800	42,431,476
Total income		16,911,923	53,365,331
Staff costs and employee benefits	5	(5,554,886)	(3,531,996)
Administration expenses	6	(6,726,598)	(33,922,623)
Depreciation and amortization charge	7(a)	(19,266,230)	(12,540,862)
Foreign exchange gains/(losses)	7(b)	91,056	1,273,637
Total operating expenses		(31,456,658)	(48,721,844)
Operating profit/(loss)		(14,544,735)	4,643,487
Interest income	8	636,422	758,404
Profit/(Loss) before tax		(13,908,313)	5,401,891
Income tax expense		-	-
Profit/(Loss) for the year		(13,908,313)	5,401,891
Other comprehensive income		-	-
Total comprehensive income for the period		(13,908,313)	5,401,891



Eng. Proscovia Margaret NJUKI
 Chairperson, Board of Directors



Mr. Ronald DRAVU
 Director

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

	Note	18months to 30/06/2017 UGX' 000	12months to 31/12/2015 UGX' 000
ASSETS			
Non-current assets			
Property, plant and equipment	09	436,713,665	451,698,404
Prepaid operating lease rentals	10	618,564	758,914
Land Nyagak	11	300,421	291,645
WIP-Projects	12	2,830,080,741	525,066,806
Due from Eskom	13	2,146,878	2,146,878
		3,269,860,268	979,962,647
Current assets			
Trade and other receivables	14	4,603,152	4,120,004
Fixed deposits at amortized cost	15	-	9,235,697
Cash and bank balances	16	20,785,099	11,285,551
		25,388,251	24,641,252
TOTAL ASSETS		3,295,248,519	1,004,603,899
EQUITY AND LIABILITIES			
Equity			
Issued capital	17a	105,208,169	105,208,169
Capital contributions	17b	554,861,676	554,861,676
Accumulated losses		(208,038,349)	(194,130,036)
		452,031,495	465,939,809
Non-current liabilities			
Deferred Income	21	52,431,210	11,003,357
Stanbic Loan	18	-	8,700,000
Karuma on lent Loan	19a	1,757,722,793	214,158,010
Isimba on lent loan	19b	959,822,224	298,319,469
Interest payable Karuma	19a	45,707,903	
Interest payable Isimba	19b	23,950,528	
		2,839,634,657	532,180,836
Current liabilities			
Due to other related parties	20	-	7,941
Trade and other payables	22	3,582,366	6,388,539
Gratuity Payable	23	-	86,774
		3,582,366	6,483,254
TOTAL EQUITY & LIABILITIES		3,295,248,519	1,004,603,899



Eng. Proscovia Margaret NJUKI
 Chairperson, Board of Directors



Mr. Ronald DRUVU
 Director

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

	Issued capital UGX '000 (Note 17a)	Capital contributions UGX '000 (Note 17b)	Re-stated Accumulated Profit/losses UGX '000	Total UGX '000
At 1 January 2015	105,208,169	554,861,676	(199,531,927)	460,537,918
Profit for the year	-	-	5,401,891	5,401,891
At 31 December 2015	105,208,169	554,861,676	(194,130,036)	465,939,809
At 1 January 2016	105,208,169	554,861,676	(194,130,036)	465,939,809
Profit for the year	-	-	(13,908,313)	(13,908,313)
At 30 June 2017	105,208,169	554,861,676	(208,038,350)	452,031,495

A Prior year adjustment of UGX 8,007,924,000 in relation to Government grants towards long life Hydro Power Plants that had been recognised as grant income up to the period ended 31st December 2015, has now been reclassified as Deferred grant income in line with IAS 20.

Over accrual for Interest income of UGX 97,896,902 on fixed deposits for the period ended 31st December 2015, has been corrected in the current period and prior year numbers reinstated accordingly.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
STATEMENTS OF CASHFLOWS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

		30/06/2017	Re-stated
		UGX' 000	31/12/2015
			UGX' 000
Operating activities			
Profit/Loss before tax		(13,908,313)	5,401,891
Adjustments for:			
Interest income	8	(636,422)	(758,404)
Depreciation and amortization	7a	20,071,810	12,540,862
(Gain) / Loss on disposal of motor vehicle		(53,520)	(38,200)
		5,473,555	17,146,149
Decrease/(increase) in trade and other receivables		(1,113,109)	(1,388,590)
Increase/(decrease) in trade and other payables		(2,806,173)	4,135,354
Increase/(decrease) in gratuity payable		(86,774)	(60,454)
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)
(Decrease)/Increase in amounts due to related parties		(7941)	-
Cash generated from operations		1,459,558	9,616,059
Interest received		1,266,383	-
Net cash flows from operating activities		2,725,941	9,616,059
Investing activities			
Asset disposal proceeds		53,520	38,200
Purchase of property, plant and equipment	09	(4,946,720)	(7,811,839)
Expenditure on WIP Projects	12	(2,305,013,935)	(522,736,751)
Amounts due from Eskom	13	-	(955,590)
Land addition		(8,776)	
Net cash flows used in investing activities		(2,309,915,911)	(531,465,980)
Financing activities			
On lent Borrowings	19	2,205,067,537	512,477,479
Government contribution towards projects		-	(5,990,601)
Deferred income	23	41,427,853	11,003,355
Interest payable		69,658,431	
Long term borrowing	18	(8,700,000)	8,700,000
Net cash flows used in financing activities		2,307,453,821	526,190,233
Increase /Decrease in cash and cash equivalents		263,851	4,340,312
Opening cash and cash equivalents		20,521,248	16,180,936
At end of year		20,785,099	20,521,248

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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.

(i) 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.

(ii) Government grants received for the acquisition of long-lived assets are recognized by setting up a grant as a liability (Deferred income -government grant). The differed income recognised in the income statement on a systematic and rational basis over the useful life of the asset.

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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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 of, 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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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.

I) 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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

3. CONCESSION FEES

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Administration component	14,760,123	10,933,855

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

4. OTHER OPERATING INCOME

	18months to 30/06/2017 UGX '000	Re-stated 12months to 31/12/2015 UGX '000
Grant income	1,577,529	-
Gain on disposal	53,520	38,200
Sundry Income	520,751	42,393,276
	2,151,800	42,431,476

The Grant income is in relation to Nyagak III project which is mainly funding provided by KFW to pay for the owners Engineer during the design and construction works.

UGX 8,007,924,000 Government supervision funds for Karuma, Isimba, Muzizi and Nyagak hydro power projects that had been recognized as Grant income in 2015 has been reclassified as deferred income in line with IAS 20.

5. STAFF COSTS AND EMPLOYEE BENEFITS

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Salaries	3,250,071	2,023,489
Company contributions to NSSF and other funds	1,064,513	202,753
Other staff benefits and allowances	1,240,302	1,305,755
	5,554,886	3,531,996

The average number of persons employed by the company during the 18months period ended 30th June 2017 was 141 (2015: 61).

During the year ended, project employee costs and benefits were capitalised as they arose directly from the construction of Karuma, Isimba, Nyagak and Muzizi Hydropower projects.

6. ADMINISTRATION EXPENSES

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Transport expenses	155,785	261,897
Project administration Exps (Nyagak)	1,577,530	
Operational expenses	3,315,114	66,843
Audit and related expenses	62,199	42,373
Directors' allowances	531,739	280,300

Directors' expenses	674,547	568,409
Consultancy fees	300,822	98,084
Legal fees	108,862	24,000
Legal expenses	-	25,477
Other costs*		32,555,240
	6,726,598	33,922,623

*Other costs in 2015 were mainly in relation 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

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Depreciation (Concession)	19,266,230	12,455,377
Depreciation projects	665,229	
Amortisation charge	140,351	85,485
	20,071,810	12,540,862

Depreciation on assets used for supervision of ongoing construction hydro power projects (HPP) have been capitalised to the respective (HPP) work in progress

b) Net foreign exchange gains/(losses)

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Net foreign exchange gains/(losses)	91,056	1,273,637

The net foreign exchange gains include foreign exchange gains of UGX 91Million (2015: gains of UGX 1.2 billion) arising from translation of monetary transactions, assets and liabilities denominated in foreign currencies.

8. INTEREST INCOME

	18months to 30/06/2017 UGX '000	Re-stated 12months to 31/12/2015 UGX '000
Interest income from fixed deposit accounts	636,422	758,404

Over accrual for Interest income of UGX 97,896,902 on fixed deposits for the period ended 31st December 2015, has been corrected in the current period and prior year numbers reinstated accordingly.

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 178 MW (2015: 138MW). 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 pru-

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS FOR THE 18 MONTHS
PERIOD ENDED 30 JUNE 2017

9. PROPERTY, PLANT AND EQUIPMENT

	Plant & Machinery		Buildings		Furniture & Fittings		Computers		Tools & Equipment		Motor Vehicles		Office Machinery		Total
	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	UGX '000	
COST															
At 1 January 2015	845,932,483	1,590,661	165,704	555,817	937,225	1,691,915	288,286	851,162,091							
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	953,925	1,585,855	296,965	858,575,736							
Additions	-	1,039,156	317,551	484,826	-	3,073,250	31,936	4,946,719							
Disposals	-	-	-	-	-	(503,425)	-	(503,425)							
At 30 June 2017	845,932,483	10,064,355	490,103	10,93,583	953,925	4,155,680	328,901	863,019,030							
DEPRECIATION															
At 31 January 2015	390,921,205	817,064	98,389	380,940	755,824	1,352,551	202,040	394,528,013							
Charge for the year	12,210,856	39,767	14,305	62571	14,329	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	770,153	1,335,824	226,256	406,877,330							
Charge for the year	18,231,029	377,524	43,346	127,564	62,477	1,056,997	32,522	19,931,459							
Disposals	-	-	-	-	-	(503,425)	-	(503,425)							
At 30 June 2017	421,363,090	1,234,355	156,040	571,075	832,630	1,889,396	258,778	426,808,790							
NET CARRYING VALUE															
At 30 June 2017	424,569,393	8,830,000	334,063	522,507	121,294	2,266,283	70,123	436,713,665							
At 31 December 2015	442,800,422	8,168,368	59,858	165,246	45,893	250,031	70,709	451,698,404							

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

dent utility best practice. The Company did not complete an impairment assessment of the plant for the period under review on the understanding that there was need for 100% asset verification of the plant. Management has planned to carry out an impairment test in the next financial year.

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 recognized the value of the modifications in these financial statements. As at 30 June 2017, the operator had made a total investment in relation to modification of the complex amounting to UGX 7.34 billion (2015: UGX 8.7 billion).

10. PREPAID OPERATING LEASE RENTALS

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Cost		
At 1 January	2,023,114	2,023,114
Additions		
At 31 December	2,023,114	2,023,114
Amortization		
At 1 January 2016	1,264,199	1,179,204
Charge for the year	140,351	84,996
At 30 June	1,404,550	1,264,200
Net carrying amount	618,564	758,914

10. PREPAID OPERATING LEASE RENTALS (CONTINUED)

The prepaid operating lease rentals are made up as follows:

	Nalubaale UGX' 000	Kiira UGX' 000	Total UGX' 000
Cost			
At 1 January 2015	1,581,924	441,190	2,023,114
Additions	-	-	-
At 31 December 2015	1,581,924	441,190	2,023,114
Additions	-	-	-
At 30 June 2017	1,581,924	441,190	2,023,114
Amortization			
At 1 January 2015	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
Charge for the period	75,089	65,261	140,350
At 30 June 2017	1,250,984	153,566	1,404,550
Net carrying value			

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

At 30 June 2017	330,940	287,624	618,564
At 31 December 2015	406,029	352,885	758,914

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 (G.o.U) 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 30 June 2017 of UGX 300 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.

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Opening Balance		525,066,806
2,330,054		
Additions	2,305,013,935	522,736,752
	2,830,080,741	525,066,806

WORK IN PROGRESS SUMMARY

PROJECT	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Isimba	981,343,331	302,516,384
Karuma	1,843,754,862	222,243,524
Muzizi	4,982,548	306,897
TOTAL	2,830,080,741	525,066,806

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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 15% Government contribution of USD 290,784,051 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

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Opening Balance	2,146,878	2,146,878
	<u>2,146,878</u>	<u>2,146,878</u>

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. 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

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Trade receivables-Eskom	3,532,625	1,482,579
Withholding tax recoverable	884,101	674,805
Interest receivable	-	629,961
VAT receivables	-	1,239,745
Staff debtors	115,972	31,582
Prepayments	70,453	61,332
	<u>4,603,152</u>	<u>4,120,004</u>

15. FIXED DEPOSITS

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
At 1 January	9,235,697	3,918,703
Maturities	(9,235,697)	-
Amount invested during the period	-	5,316,994
At 30th JUNE 2017	-	9,235,697

The weighted average effective interest rate on fixed deposits at 30 June 2017 was 13.8 % (2015: 14.4%).

The maturities of the fixed deposits is analysed as below:

	18months to	12months
to	30/06/2017	31/12/2015
	UGX '0	UGX '000

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

One year	-	9,235,697
	-	9,235,697

16. CASH AND BANK BALANCES

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Cash at bank	13,221,948	3,787,442
Stanbic Bank Uganda Limited Escrow Account	7,563,151	7,498,083
Cash at hand	-	27
Total	20,785,099	11,285,551

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 30 June 2017, the balance on this account was UGX 7,563,151 equivalent to USD 2,220,332.

17. ISSUED CAPITAL AND CAPITAL CONTRIBUTIONS

a) Share capital

Authorised, issued and fully paid ordinary shares of UGX 500 each:

At 1 January 2016

Conversion of Government of Uganda loans to equity

At June 2017

	Number of shares	Amount UGX '000
	2	1
	210,416,338	105,208,168
	210,416,340	105,208,169

b) Capital contributions

Government of Uganda

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
	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.

18. STANBIC LOAN

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

The Loan 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 has been fully paid up.

The Loan had the following terms

a. Loan Amount Tranche 1	- UGX 6,500,000,000
b. Loan Amount Tranche 2	- UGX 2,200,000,000
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%

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 30 June 2017 was UGX 1,757,722,792,554 One trillion seven hundred fifty seven billion seven hundred twenty two million seven hundred ninety two thousand five hundred fifty four (US\$488,813,035). The outstanding interest amount was UGX 45,707,902,853 Forty five billion seven hundred seven million nine hundred two thousand eight hundred fifty three (USD12,711,116) 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 amounts	- 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 30 June 2017 was UGX 959,822,223,560 Nine hundred fifty nine billion eight hundred

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

twenty two million two hundred twenty three thousand five hundred and sixty (US\$ 266,921,278). The outstanding interest amount was UGX 23,950,528,108 Twenty three billion nine hundred fifty million five hundred twenty eight thousand one hundred and eight (USD 6,660,510)

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. 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:

i) Transactions with directors	18months to 30/06/2017 UGX `000	12months to 31/12/2015 UGX `000
Fees for services as directors	1,206,286	848,709
	18months to 30/06/2017 UGX `000	12months to 31/12/2015 UGX `000
ii) Amounts due from related parties		
Due to UEDCL	-	7,941

There are no due amounts to UETCL & UEDCL in the current period

21. DEFERRED INCOME.

	18months to 30/06/2017 UGX `000	12months to 31/12/2015 UGX `000
Karuma	30,165,169	6,545,476
Isimba	17,022,519	4,070,124
Muzizi	5,243,045	183,032
Nyagak	-	204,750
Total	52,431,210	11,003,354

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

These amounts relate to Government contribution to supervision of Hydro Power Plants under construction.

Government grant towards long live Hydro Power Plants that had been recognised as grant income up to the period ended 31st Dec 2015, have been reclassified as Differed grant income in line with IAS 20.

22. TRADE AND OTHER PAYABLES

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Trade and other payables	2,768,816	5,286,498
Withholding Tax (WHT) payable	813,550	1,102,041
	3,582,366	6,388,539

WITHHOLDING TAX

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.

TRADE AND OTHER PAYABLES

Included in other payables is accrued license fees for Karuma and Isimba Hydro Power Project by period end amounted to UGX 2.03 billion.

23. GRATUITY PAYABLE

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
At 1 January 2016	86,774	147,228
Gratuity written off	(80,206)	-
Payment to retirement benefit scheme	-	-
Gratuity payments made	(6,568)	(60,454)
Gratuity obligation excluding the NSSF provision	-	86,774
At 30 June 2017	-	86,774

Gratuity provision of UGX 80,206,000 relating to the former CEO carried forward from prior periods was written off in the current period following dismissal of his court case against UEGCL in which gratuity was one of the claims in the said court case.

24. CONTINGENT LIABILITIES

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.

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

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) 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.

25. 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.

a) 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:

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Fixed deposits at amortized cost	-	9,235,697
Trade receivables	3,532,625	1,482,579
Staff advances and loans	115,972	31,582
Bank balances	13,221,948	11,285,551
	16,870,545	22,035,409

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

b) 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.

c) Currency risk

The company manages its foreign exchange exposure by maintaining a reserve of about USD 2.220 million (2015: USD 2.220 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.

	18months to 30/06/2017 UGX '000	12months to 31/12/2015 UGX '000
Financial assets		
Stanbic Bank Uganda Limited Escrow Account	7,563,151	7,498,083
Net currency exposure	7,563,151	7,498,083

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

The following significant exchange rates applied during the year:

	Reporting date		Average rate	
	Spot rate			
	2017	2015	2017	2015
US\$:UGX	<u>3585.90</u>	<u>3,372.01</u>	<u>3810.91</u>	<u>3,083.09</u>

d) 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.

e) 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.

30 June 2017

	Carrying amount	< 6 months	6-12 months	Over 1 year
	UGX '000	UGX '000	UGX '000	UGX '000
Financial assets				
Trade and other receivables	4,603,152	3,603,077	26,296	973,779
Cash and bank balances	20,785,099	1,776,868	7,805,432	11,202,799
	<u>25,388,251</u>	<u>5,579,945</u>	<u>7,831,728</u>	<u>12,176,578</u>
Financial liabilities				
Trade and other payables	3,900,950	1,870,817	-	2,030,233
Gratuity Payable	80,206	-	-	80,206
	<u>3,981,156</u>	<u>1,870,717</u>	<u>7,805,432</u>	<u>2,110,439</u>
Net liquidity gap	<u>21,336,642</u>	<u>3,637,653</u>	<u>7,805,432</u>	<u>9,893,557</u>

31 December 2015

	Carrying Amount	< 6 months	6-12 months	Over 1 year
	UGX '000	UGX '000	UGX '000	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
	<u>24,739,146</u>	<u>6,602,706</u>	<u>-</u>	<u>18,136,440</u>
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
	<u>6,483,254</u>	<u>886,523</u>	<u>4,494,690</u>	<u>1,196,756</u>
Net liquidity gap	<u>18,255,892</u>	<u>5,716,183</u>	<u>(4,494,690)</u>	<u>16,939,684</u>

UGANDA ELECTRICITY GENERATION COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 18 MONTHS PERIOD ENDED 30 JUNE 2017

26. 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.



Assembly of the turbin runner of unit I Isimba HPP



UEGCL

Generating for Generations

UGANDA ELECTRICITY GENERATION COMPANY LIMITED

Block C Plot 6-9 Okot Close - Bukoto Victoria Office Park

P.O. Box, 75831, Kampala

Tel: +256 312 372165, Fax: +256 414 251057

Email: Info@uegcl.com

www.uegcl.com



UEGCL



UegclOfficial