# GAPCO Uganda Limited

# Independent Auditors' Report

**TO THE MEMBERS OF**
**GAPCO UGANDA LIMITED**

**Report on the Financial Statements**

We have audited the accompanying financial statements of GAPCO Uganda Limited, ("the Company") set out on pages 7 to 36, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the company's preparation of the financial statements that give a true and fair view 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Ugandan Companies Act, 2012.

**Report on Other Legal Requirements**

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

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's statement of financial position (Balance Sheet) and statement of comprehensive income (Profit & Loss account) are in agreement with the books of account.

**Certified Public Accountants (Uganda)**

**4th April, 2016**
**Kampala**

# Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December, 2015

| | Note | 2015 Ushs'000 | 2014 Ushs'000 |
|---|---|---|---|
| TURNOVER | 5 | 203,241,373 | 189,746,731 |
| COST OF SALES | 6 | (186,480,226) | (179,787,645) |
| GROSS PROFIT | | 16,761,147 | 9,959,086 |
| OTHER INCOME | 7 | 4,096,434 | 794,062 |
| SELLING AND DISTRIBUTION EXPENSES | 8 | (10,139) | (39,702) |
| ADMINISTRATIVE EXPENSES | 9 | (5,247,453) | (4,268,121) |
| OTHER OPERATING EXPENSES | 10 | (2,865,230) | (2,412,956) |
| FINANCE COSTS | 11 | 8,518,077 | 3,208,141 |
| PROFIT BEFORE TAXATION | 13 | 21,252,836 | 7,240,510 |
| TAXATION CHARGE | 14(a) | (6,297,107) | (2,049,867) |
| PROFIT FOR THE YEAR | | 14,955,729 | 5,190,643 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME | | 14,955,729 | 5,190,643 |
| EARNINGS PER SHARE | | 34.18 | 11.86 |

# Statement of Financial Position as at 31 December, 2015

| | Note | 2015<br>Ushs'000 | 2014<br>Ushs'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 15 | 22,908,607 | 24,075,797 |
| Operating lease prepayments | 16 | 1,144,396 | 1,181,309 |
| | | 24,053,003 | 25,257,106 |
| **Current assets** | | | |
| Inventories | 17 | 6,184,843 | 3,169,138 |
| Trade and other receivables | 18 | 1,660,617 | 4,875,131 |
| Due from related parties | 19(a) | 55,478,800 | 39,716,983 |
| Bank and cash balances | 20 | 3,892,954 | 2,535,413 |
| | | 67,217,214 | 50,296,665 |
| **Total assets** | | 91,270,217 | 75,553,771 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 21 | 8,750,100 | 8,750,100 |
| Revaluation reserve | | 3,811,537 | 4,075,372 |
| Retained earnings | | 63,272,021 | 48,052,457 |
| Shareholders' funds | | 75,833,658 | 60,877,929 |
| **Non-current liabilities** | | | |
| Deferred taxation liability | 14(d) | 5,683,103 | 5,187,325 |
| Gratuity obligation | 23 | 664,295 | 627,165 |
| | | 6,347,398 | 5,814,490 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | 6,058,796 | 7,062,202 |
| Due to related parties | 19(b) | 2,966,482 | 859,186 |
| Income tax payable | 14(c) | 63,883 | 939,965 |
| | | 9,089,161 | 8,861,352 |
| **Total equity and liabilities** | | 91,270,217 | 75,553,771 |

The financial statements on pages 7 to 36 were authorized and approved for issue by the board of directors on 4th April, 2016 and signed on its behalf by:

Director　　　　Director

# Statement of changes in equity for the year ended 31 December, 2015

| | Share Capital UShs '000 | Revaluation Reserve UShs '000 | Retained earnings UShs '000 | Total UShs '000 |
|---|---|---|---|---|
| At 1 January 2014 | 8,750,100 | 4,339,206 | 42,597,979 | 55,687,285 |
| Transfer of excess depreciation on property, plant and equipment | - | (376,907) | 376,907 | - |
| Deferred tax on excess depreciation on property and equipment | - | 113,072 | (113,072) | - |
| Profit for the year | - | - | 5,190,643 | 5,190,643 |
| At 31 December 2014 | 8,750,100 | 4,075,371 | 48,052,457 | 60,877,928 |
| At 1 January 2015 | 8,750,100 | 4,075,372 | 48,052,457 | 60,877,929 |
| Transfer of excess depreciation on property and equipment | - | (376,907) | 376,907 | - |
| Deferred tax on excess depreciation on property and equipment | - | 113,072 | (113,072) | - |
| Profit for the year | - | - | 14,955,729 | 14,955,729 |
| At 31 December 2015 | 8,750,100 | 3,811,537 | 63,272,021 | 75,833,658 |

# Statement of Cash Flows for the year ended 31 December, 2015

| | Notes | 2015<br>UShs '000 | 2014<br>UShs '000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | 21,252,836 | 7,240,510 |
| Adjustments for: | | | |
| Depreciation& amortization | 10 | 1,373,060 | 1,323,835 |
| Operating cash flows before movement in working capital | | 22,625,896 | 8,564,345 |
| (Increase) / decreasein inventory | | (3,015,705) | 3,172,889 |
| Decrease / (increase) in trade and other receivables | | 3,214,514 | (2,942,245) |
| (Decrease) / increase in trade and other payables | | (1,016,060) | 831,250 |
| Net movement in related party balances | | (13,641,866) | (5,852,377) |
| Increase / (decrease)in retirement benefit obligations | | 37,130 | (145,450) |
| Cash generated from operations | | 8,203,909 | 3,628,412 |
| Prior year tax arrears paid | | (799,236) | 123,941 |
| Current year taxation paid | | (5,878,175) | (942,067) |
| Net cash generated from operations | | 1,526,498 | 2,810,286 |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (168,957) | (1,500,653) |
| Net cash used in investing activities | | (168,957) | (1,500,653) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 1,357,541 | 1,309,633 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 2,535,413 | 1,225,780 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 3,892,954 | 2,535,413 |
| REPRESENTED BY: | | | |
| Bank and cash balances | | 3,892,954 | 2,535,413 |

# Notes to the Financial Statements for the year ended 31 December, 2015

1. REPORTING ENTITY

GAPCO Uganda Limited is a limited liability company incorporated in accordance with the laws and regulations of Uganda. The company is wholly owned by Gulf Africa Petroleum Corporation, a company incorporated in Mauritius.

For purposes of the Ugandan Companies Act, the balance sheet is presented as statement of financial position in these financial statements and the profit and loss account as statement of profit or loss and other comprehensive income.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's)

**2.1 Amendments to IFRSs' and the new Interpretation that are mandatorily effective for the year ended 31 December 2015**

In the current year, the company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

*Amendments to IFRS 19 Defined benefit plans: Employee contribution*

The company has applied the amendments for the first time in the current year. Prior to the amendments, the company accounted for discretionary employee contributions to defined benefit plans as a reduction of the service cost when contributions were paid to the plans, and accounted for employee contributions specified in the defined benefit plans a reduction of the service cost when services are rendered. The amendments require the company to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to series. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to period of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the company recognises the reduction in the service cost in the period in which the related services are rendered.

The application of these amendments has had no material impact on the disclosures or the amounts recognised in the company's financial statements.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:[2]

| | |
|---|---|
| IFRS 9 | Financial instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in JointOperations[2] |
| Amendments to IAS 1 | Disclosure initiatives[2] |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[2] |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants[2] |
| Amendments to IFRS 10 and 28 | Sale or contribution of Assets between an investor and its Associate or Joint Venture[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment entities: Applying the consolidation exception[2] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012-2014 Cycle[2] |

[1]*Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted*
[2] *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted*

*IFRS 9 Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial

# Notes to the Financial Statements for the year ended 31 December, 2015

assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

*Key requirements of IFRS 9:*

- all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Company's financial assets and financial liabilities.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

# Notes to the Financial Statements for the year ended 31 December, 2015

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company' financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018 and is not expected to have a material impact to the financial statements of the entity.

*Amendments to IAS 1 disclosure initiative*

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the company do not anticipate that the application of these amendments to IAS 1 will have a material impact on the company's financial statements.

*Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Company's financial statements as the Company is not engaged in agricultural activities.

**Annual Improvements 2010-2012 Cycle**

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'

- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date

IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)

- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner

# Notes to the Financial Statements for the year ended 31 December, 2015

consistent with a revaluation of the carrying amount

- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

These IFRS improvements are effective for accounting periods beginning on or after 1 July 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 July 2014.

The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

These amend IAS 16*Property, Plant and Equipment* and IAS 38*Intangible Assets* to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated
- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The amendments are effective for accounting periods beginning on or after 1 January 2016.

The directors of the company do not anticipate that the application of these amendments to IASs 16 and 38 will have a significant impact on the company's financial statements as the company's selection of depreciation method is not based on its revenues.

**2.3 Early adoptation of standards**

The company did not early adopt any new or amended standards in 2015

3 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently throughout the period.

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis except for the revaluation of certain property and equipment and the carrying of investment property at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

# Notes to the Financial Statements for the year ended 31 December, 2015

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Uganda Shillings (Ushs), which is also the company's functional currency. Except as indicated, financial information presented in Uganda Shillings has been rounded to the nearest thousand.

REVENUE RECOGNITION

Sales are recognized upon delivery of products and customer acceptance if any, net of sales taxes

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, excluding the costs of day to day serving, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met.

Land and buildings are measured at fair value less depreciation on buildings and impairment charged subsequent to the date of the revaluation.

Depreciation is calculated on the straight line method, at annual rates estimated to write off carrying values of the assets over their expected useful lives. The 2014 and 2013 signed financial statements incorrectly disclosed the depreciation method as reducing balance, however, the actual method used during these years was the straight line method.

The annual depreciation rates in use are:

| | |
|---|---:|
| Buildings | 4% |
| Plant and machinery | 4 % -20% |
| Motor vehicles | 12.5% - 20% |
| Furniture, fittings, and equipment | 5% |
| Computer equipment | 5% - 16.67% |
| Leasehold improvements | over the period of the lease |

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

***Impairment of non-financial assets***

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the company estimates the assets recordable amount. An asset's recoverable amount is the higher of an assets cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or companies of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and it is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of sell, an appropriate valuation model is used.

CAPITAL WORK IN PROGRESS

Assets in the course of construction (capital-work-in-progress) are not depreciated. Upon completion of the project the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the Property and Equipment policy set out above.

# Notes to the Financial Statements for the year ended 31 December, 2015

LEASES

Leases entered into by the company are all operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease or other more reasonable basis.

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currency during the year are converted into Uganda shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the statement of financial position date, which are denominated in foreign currencies are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account.

TRADE RECEIVABLES

Trade receivables are non-derivative financial assets with fixed or determinable payments that are no quoted in an active market. After initial measurement receivables are carried at cost less any allowance for impairment.

A provision for impairment is made where there is objective evidence (such as the probability of insolvency for significant financial difficulties of the debtor) that the company will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

INTEREST BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as at fair value through profit or loss. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

*Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized when:

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

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

*Financial Liabilities*

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

# Notes to the Financial Statements for the year ended 31 December, 2015

TAXATION

*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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences in the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 utilized except:

- Where 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; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be fully utilized.

Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

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

RETIREMENT BENEFIT OBLIGATIONS

The Company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act, 1985. The Company's obligation under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees gross salary.

# Notes to the Financial Statements for the year ended 31 December, 2015

The Company's contributions to the scheme are charged to the profit and loss in the year in which they are made.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts and short-term deposits with an original maturity of three months or less.

INVENTORIES

Inventories comprise petroleum products and are stated at the lower of cost and net realizable value. Cost is determined using the first in first out (FIFO) cost method. Net realizable value is the estimated selling price in the ordinary course of business less any cost to sale. Specific provision is made for slow moving, obsolete and defective inventories.

PROVISIONS

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

4 CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumption that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

**i) Taxes**

The Company is subject to income and capital gains tax under the Uganda tax laws. Significant judgment is required in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment in uncertain. The Company recognizes liabilities for current based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal unity and fall due in approximately the same period.

**ii) Bad and doubtful debts**

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

**iii) Impairment of financial assets**

The Company assesses whether there are any indicators of impairment for all financial assets at each reporting date. Other financial assets are tested for impairment whenever there are indicators that carrying amounts may not be recoverable.

| | | 2015<br>Ushs' 000 | 2014<br>Ushs' 000 |
|---|---|---|---|
| 5 | TURNOVER | | |
| | Sale of petroleum products | 203,241,373 | 189,746,731 |
| 6 | COST OF SALES | | |
| | Cost of inventory sold | 185,102,683 | 178,872,903 |
| | Direct costs | 1,377,543 | 914,742 |
| | | 186,480,226 | 179,787,645 |

# Notes to the Financial Statements for the year ended 31 December, 2015

| | | 2015 Ushs' 000 | 2014 Ushs' 000 |
|---|---|---|---|
| 7 | OTHER INCOME | | |
| | Interest income (Inter-company) | 2,470,288 | 626,390 |
| | Reversal of provisions | 1,416,244 | - |
| | Miscellaneous income | 141,911 | 167,672 |
| | Interest income (Current account) | 61,590 | - |
| | Bad debts recovery | 6,401 | - |
| | | 4,096,434 | 794,062 |
| 8 | SELLING AND DISTRIBUTION EXPENSES | | |
| | Sales promotion expenses | 5,615 | 35,303 |
| | Advertising expenses | 4,524 | 4,399 |
| | | 10,139 | 39,702 |
| 9 | ADMINISTRATIVE EXPENSES | | |
| | Salaries and wages | 2,373,089 | 1,783,356 |
| | Other staff expenses | 373,575 | 301,935 |
| | Staff medical and welfare | 98,533 | 105,437 |
| | Postages and telephones | 132,007 | 143,425 |
| | Printing and stationery | 21,296 | 30,780 |
| | Travelling and entertainment | 271,534 | 320,535 |
| | Subscriptions | 54,016 | 18,881 |
| | Donations and fines | 2,000 | 250 |
| | Audit fees | 99,021 | 80,128 |
| | Legal and professional fees | 1,725,010 | 1,253,331 |
| | Miscellaneous expenses | 57,757 | 135,208 |
| | Commission | - | 380 |
| | Bank charges | 39,615 | 23,882 |
| | Bad debts | - | 70,593 |
| | | 5,247,453 | 4,268,121 |
| 10 | OTHER OPERATING EXPENSES | | |
| | Rent and rates | 780,425 | 414,881 |
| | Repairs and maintenance | 260,208 | 248,565 |
| | Electricity and water | 130,236 | 151,654 |
| | Insurance | 183,426 | 130,817 |
| | Security expenses | 70,267 | 95,119 |
| | Licenses | 67,608 | 48,085 |
| | Depreciation & amortization | 1,373,060 | 1,323,835 |
| | | 2,865,230 | 2,412,956 |

# Notes to the Financial Statements for the year ended 31 December, 2015

| | | 2015 Ushs' 000 | 2014 Ushs' 000 |
|---|---|---|---|
| 11 | FINANCE COSTS | | |
| | Realised foreign exchange differences | (5,735,227) | (715,344) |
| | Unrealised foreign exchange difference | (2,782,850) | (2,492,797) |
| | | (8,518,077) | (3,208,141) |
| 12 | STAFF COSTS | | |
| | Salaries and wages | 2,188,951 | 1,701,347 |
| | NSSF | 89,223 | 82,009 |
| | Increase in retirement benefit obligation (note 23) | 94,915 | - |
| | Total salaries and wages (note 9) | 2,373,089 | 1,783,356 |
| | Other staff expenses | 373,575 | 301,935 |
| | Staff medical and welfare | 98,533 | 105,437 |
| | | 2,845,197 | 2,190,728 |
| 13 | PROFIT BEFORE TAXATION | | |
| | The profit before taxation is arrived at after charging: | | |
| | Audit fees | 99,021 | 80,128 |
| | Depreciation & amortization | 1,373,060 | 1,323,836 |
| | Staff costs | 2,845,197 | 2,190,728 |
| 14 | TAXATION | | |
| | a) Taxation charge | | |
| | Current tax | 5,801,329 | 1,489,827 |
| | Deferred taxation charge -current year | 587,514 | 168,461 |
| | Deferred taxation charge - prior years | (91,736) | 391,579 |
| | | 6,297,107 | 2,049,867 |
| | b) Reconciliation of tax credit | | |
| | Accounting profit before taxation | 21,252,836 | 7,240,510 |
| | Taxation chargeat the applicable rate of 30% | 6,375,851 | 2,172,153 |
| | Tax effect of non-deductible items | 12,992 | (513,866) |
| | Prior year tax adjustment | (91,736) | 391,579 |
| | | 6,297,107 | 2,049,866 |
| | c) Corporate tax payable / (receivable) | | |
| | At 1 January | 939,965 | (123,315) |
| | Prior year under provision | (91,736) | (391,579) |
| | Charge for the year | 5,801,329 | 1,489,827 |
| | Tax arrears paid | (707,500) | 515,520 |
| | Paid during the year | (5,878,175) | (550,488) |
| | At 31 December | 63,883 | 939,965 |

# Notes to the Financial Statements for the year ended 31 December, 2015

d) Deferred income tax liability

Deferred income taxes are calculated under the liability method using the applicable tax rate of 30%. The deferred income tax liability comprises

| | 2015<br>Ushs' 000 | 2014<br>Ushs' 000 |
|---|---|---|
| **Deferred tax liability**: | | |
| Accumulated capital allowances | 3,414,020 | 4,376,726 |
| Deferred tax on revaluation surplus | 1,633,516 | 1,746,588 |
| Unrealised exchange gain | 885,000 | - |
| | 5,932,536 | 6,123,314 |
| **Deferred tax assets** | | |
| Unrealised exchange loss | (50,145) | (747,839) |
| Gratuity provision | (199,288) | (188,150) |
| | (249,433) | (935,989) |
| | 5,683,103 | 5,187,325 |

e) The movement in the deferred tax account:

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 5,187,325 | 5,018,864 |
| Income statement charge/(credit) (note 14(a)) | 495,778 | 168,461 |
| At 31 December | 5,683,103 | 5,187,325 |

15 PROPERTY AND EQUIPMENT

| | Buildings<br>Ushs'000 | vehicles<br>Ushs'000 | Plant<br>Motor<br>& computers<br>Ushs'000 | Furniture<br>machinery<br>equipment<br>Ushs'000 | fittings and<br>in Progress<br>Ushs'000 | Capital Work<br>Total<br>Ushs'000 |
|---|---|---|---|---|---|---|
| COST/ REVALUATION | | | | | | |
| At 1 January 2014 | 8,284,324 | 672,004 | 17,268,769 | 730,808 | 1,189,146 | 28,145,051 |
| Additions | - | - | 6,963 | 2,855 | 1,490,835 | 1,500,653 |
| Transfer from capital work in progress | 621,594 | - | 640,006 | - | (1,261,600) | - |
| At 31 December 2014 | 8,905,918 | 672,004 | 17,915,738 | 733,663 | 1,418,381 | 29,645,704 |
| At 1 January 2015 | 8,905,918 | 672,004 | 17,915,738 | 733,663 | 1,418,381 | 29,645,704 |
| Additions | - | - | 11,052 | 4,340 | 153,565 | 168,958 |
| Transfers | 62,276 | - | 416,419 | - | (478,695) | - |
| At 31 DECEMBER 2015 | 8,968,194 | 672,004 | 18,343,209 | 738,003 | 1,093,251 | 29,814,662 |
| DEPRECIATION | | | | | | |
| At 1 January 2014 | 818,034 | 559,989 | 2,576,069 | 328,892 | - | 4,282,984 |
| Charge for the year | 317,976 | 20,620 | 946,809 | 1,518 | - | 1,286,923 |
| At 31 December 2014 | 1,136,010 | 580,609 | 3,522,878 | 330,410 | - | 5,569,907 |
| At 1 January 2015 | 1,136,010 | 580,609 | 3,522,878 | 330,410 | - | 5,569,907 |
| Charge for the year | 338,767 | 20,620 | 975,105 | 1,655 | - | 1,336,147 |
| At 31 DECEMBER 2015 | 1,474,777 | 601,229 | 4,497,983 | 332,065 | - | 6,906,054 |
| NET BOOK VALUE | | | | | | |
| At 31 DECEMBER 2015 | 7,493,417 | 70,775 | 13,845,226 | 405,938 | 1,093,251 | 22,908,607 |
| At 31 December 2014 | 7,769,908 | 91,395 | 14,392,860 | 403,253 | 1,418,381 | 24,075,797 |

# Notes to the Financial Statements for the year ended 31 December, 2015

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capital Work in Progress relates to accumulated costs of developing company owned petrol stations in various strategic locations of Uganda, as part of management's strategic plan to improve the company's distribution network.

The Buildings were last revalued in 2011. The net book value of the revalued amounts isUshs 5.6 billion as at 31 December 2015 (2013: Ushs 5.8 billion).

| | | 2015<br>Ushs '000 | 2014<br>Ushs '000 |
|---|---|---|---|
| 16 | OPERATING LEASE PREPAYMENTS | | |
| | COST | | |
| | At 1 January& 31 December | 1,818,042 | 1,818,042 |
| | AMORTIZATION | | |
| | At 1 January | 636,733 | 599,822 |
| | Charge for the year | 36,913 | 36,911 |
| | At 31 December | 673,646 | 636,733 |
| | NET BOOK VALUE | 1,144,396 | 1,181,309 |
| 17 | INVENTORIES | | |
| | Material and supplies | 529,845 | 290,232 |
| | Fuel and lubricant stocks | 3,911,077 | 1,176,783 |
| | Goods in transit | 1,743,921 | 1,702,123 |
| | | 6,184,843 | 3,169,138 |
| 18 | TRADE AND OTHER RECEIVABLES | | |
| | Trade receivables | 1,728 | 164,874 |
| | Less provision for impairment | - | (43,224) |
| | | 1,728 | 121,650 |
| | Prepayments and deferred charges | 1,658,889 | 4,753,481 |
| | | 1,660,617 | 4,875,131 |

Trade receivables which are less than three months are not considered impaired. The other classes within trade and other receivables do not contain impaired assets. In the opinion of the directors, the carrying amounts of trade and other receivables approximate to their fair value.

The aging analysis of the trade and other receivables is as summarized below.

| | 0 - 3 month<br>Ushs'000 | 3 - 12 months<br>Ushs'000 | Over 1 year<br>Ushs'000 | Total<br>Ushs'000 |
|---|---|---|---|---|
| **At 31 December 2015** | | | | |
| Trade receivables | 1,728 | - | - | 1,728 |
| Prepayments and deferred charges | 1,658,889 | - | - | 1,658,889 |
| | 1,660,617 | - | - | 1,660,617 |
| **At 31 December 2014** | | | | |
| Trade receivables | 121,650 | - | - | 121,650 |
| Prepayments and deferred charges | 4,753,481 | - | - | 4,753,481 |
| | 4,875,131 | - | - | 4,875,131 |

# Notes to the Financial Statements for the year ended 31 December, 2015

19 RELATED PARTY BALANCES AND TRANSACTIONS

| | 2015<br>Ushs'000 | 2014<br>Ushs'000 |
|---|---|---|
| **a) Amounts due from related parties** | | |
| GAPCO Tanzania Limited - Loan | 55,478,800 | - |
| GAPCO Kenya Limited - Loan | - | 39,476,390 |
| GAPCO Kenya Limited – Advance | - | 240,593 |
| | 55,478,800 | 39,716,983 |

The loan amounts due from GAPCO Tanzania Limited are interest bearing loans providedby GAPCO Uganda Limited to GAPCO Tanzania Limited at an interest rate of 4.50% perannum.The 2014 loan was repaid by GAPCO Kenya Limited during the year in full.

The GAPCO Kenya advance account was for a prepayment on purchases based on a specific requirement that did not arise during the current year.

| | 2015<br>Ushs'000 | 2014<br>Ushs'000 |
|---|---|---|
| **b) Amounts due to related parties** | | |
| GAPCO Kenya Limited | 1,850,401 | - |
| Reliance Corporate IT Park Limited | 450,752 | 431,534 |
| Reliance Industries Limited | 454,813 | 295,110 |
| GAPCO Tanzania Limited | 170,952 | 119,887 |
| Reliance Petro Marketing Ltd. | 39,564 | 12,654 |
| | 2,966,481 | 859,186 |

The amounts due to the related parties arise from normal business operations, are at arm's length and attract no interest.

**c) Related party transactions**

The transactions during the year included;

| | 2015<br>Ushs'000 | 2014<br>Ushs'000 |
|---|---|---|
| *Purchases* | | |
| GAPCO Kenya Limited | 111,779,851 | 122,471,729 |
| GAPCO Tanzania Limited | 1,298,896 | 721,524 |
| *Management consultancy services* | | |
| Reliance Industries Limited | 505,349 | 327,900 |
| *Business Support /IT support services* | | |
| Reliance Corporate IT Park Ltd | 500,836 | 479,484 |
| *Lubricant license fee* | | |
| Reliance Petro Marketing Ltd. | 49,998 | 42,064 |
| *Interest on related party loan* | | |
| GAPCO Kenya Limited | 1,040,510 | 626,390 |
| GAPCO Tanzania Limited | 1,429,778 | - |
| **d) Key management compensations** | | |
| Directors' remuneration | 267,359 | 67,190 |

# Notes to the Financial Statements for the year ended 31 December, 2015

| | | 2015 Ushs'000 | 2014 Ushs'000 |
|---|---|---|---|
| 20 | BANK AND CASH BALANCES | | |
| | Bank balance | 3,890,711 | 2,535,113 |
| | Cash balance | 2,243 | 300 |
| | | 3,892,954 | 2,535,413 |
| 21 | SHARE CAPITAL | | |
| | **Authorized, share capital** | | |
| | 437,507.5 (2014: 437,507.5) ordinary shares of Ushs 20,000 each. | 8,750,150 | 8,750,150 |
| | **Issued and fully paid** | | |
| | 437,505 (2014: 437,505) shares paid up ordinary shares ofUshs 20,000 each. | 8,750,100 | 8,750,100 |
| 22 | TRADE AND OTHER PAYABLES | | |
| | Trade payables | 1,879,114 | 608,960 |
| | Other payables and accruals | 4,179,682 | 6,453,242 |
| | | 6,058,796 | 7,062,202 |

In the opinion of the directors, the carrying amounts of the trade and other payables approximate their fair value.

The maturity analysis of the trade and other payables is as summarized below.

| | 0 - 3 month Ushs'000 | 3 - 12 months Ushs'000 | Over 1 year Ushs'000 | Total Ushs'000 |
|---|---|---|---|---|
| **At 31 December 2015** | | | | |
| Trade payables | 1,879,114 | - | - | 1,879,114 |
| Other payables and accruals | 4,179,682 | - | - | 4,179,682 |
| | 6,058,796 | - | - | 6,058,796 |
| **At 31 December 2014** | | | | |
| Trade payables | 608,960 | - | - | 608,960 |
| Other payables and accruals | 6,453,242 | - | - | 6,453,242 |
| | 7,062,202 | - | - | 7,062,202 |

| | | 2015 Ushs'000 | 2014 Ushs'000 |
|---|---|---|---|
| 23 | GRATUITY PAYABLE | | |
| | At 1 January | 627,165 | 772,615 |
| | Less: amounts utilised | (57,785) | (145,450) |
| | Increase in provision (charge to profit or loss) | 94,915 | - |
| | At 31 December | 664,295 | 627,165 |

The company maintains a scheme for its staff which is paid out to staff at the point of separation. The provision made is based on one's gross salary and the period of service.

# Notes to the Financial Statements for the year ended 31 December, 2015

24 CONTINGENT LIABILITIES

The company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions may rise in contingent liabilities not exceeding Ushs 9.3 billion (2014: Ushs 9.3 billion, restated from an incomplete disclosure in the 2014 financial statements of Ushs 370 million).

Having regard to a review of the circumstances surrounding the litigation and legal advice received, the directors are of the strong view that the contingent liabilities indicated above will not give raise to liabilities in the future.

25 FINANCIAL RISK MANAGEMENT

The company has exposure to the following risks from its use of financial instruments;

- Credit Risk
- Liquidity Risk
- Foreign Exchange Risk

The company's business activities cover the sale of petroleum products (both retail and wholesale), their marketing, trading, storage and distribution. Management endeavors at all times to minimize risks. Management has put in place elaborate policies in all its functions as a control against risk exposure. These policies are spelt out in the finance policy, HR and credit policy with related controls aimed at minimizing risk.

The company is exposed to various risks, including credit risk, liquidity risk and foreign exchange risk. The company's risk management strategy is based on a clear understanding of various risks, disciplined risks assessment procedures and continuous monitoring.

The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The finance, maintenance, IT, analytical and production functions are supported by local management as well as group management using a comprehensive range of qualitative and quantitative tools. Management is responsible for the assessment, management and mitigation of risk in the company.

The financial management objectives and policies are as outlined below:

**(a) Credit risk**

The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to its trade and other receivables and amounts due from related parties, estimated by the company's finance departments based on prior experience, existing financial and economic factors faced by the debtor and the exit options available.

The credit risk on liquid funds with financial institutions is also low, because the institutions are banks with high credit-ratings. Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk represents a worst case scenario of credit risk exposure to the company at the comparative end of reporting periods, without taking account of any collateral held or other credit enhancements attached. For assets carried on the statement of financial position, this exposure is based on net carrying amounts as reported.

# Notes to the Financial Statements for the year ended 31 December, 2015

Collateral

The company does not hold any collateral for trade debtors.The amount that best represents the company's maximum exposure to credit as at 31 December 2015 is made up as follows:

| | Total Ushs'000 | Performing Ushs'00 | Past due Ushs'000 | Impaired Ushs'000 |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| Trade receivables | 1,728 | 1,728 | - | - |
| Due from related parties | 55,478,800 | 54,478,800 | - | - |
| | 55,480,578 | 55,480,578 | - | - |
| **As at 31 December 2014** | | | | |
| Trade receivables* | 121,650 | 121,650 | - | - |
| Due from related parties | 39,716,983 | 39,716,983 | - | - |
| | 39,838,633 | 39,838,633 | **-** | **-** |

*The exposure analysis above excludes the amounts that have already been provided for in the books of GAPCO Uganda Limited.

Cash and cash equivalents are fully performing.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The maximum exposure to credit risk is with the related parties.

**(b) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The company's operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However; management ensures that the mismatch is controlled in line with allowable risk levels.

The table below analyses the company's financial instruments into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | 0 - 3 month Ushs'000 | 3 - 12 months Ushs'000 | Over 1 years Ushs'000 | Total Ushs'000 |
|---|---|---|---|---|
| **At 31 December 2015** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | 3,892,954 | - | - | 3,892,954 |
| Due from related parties | 55,478,800 | - | - | 55,478,800 |
| | 59,371,754 | - | - | 59,371,754 |
| **Financialliabilities** | | | | |
| Due to related parties | 2,966,482 | - | - | 2,966,482 |
| Trade payables | 1,879,114 | - | - | 1,879,114 |
| | 4,845,596 | - | - | 4,845,596 |
| **Net liquidity excess** | 54,526,158 | - | - | 54,526,158 |

# Notes to the Financial Statements for the year ended 31 December, 2015

| | 0 - 3 month Ushs'000 | 3 - 12 months Ushs'000 | Over 1 years Ushs'000 | Total Ushs'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| **Financial assets** | | | | |
| Cash and bank balances | 2,535,413 | - | - | 2,535,413 |
| Due from related parties | 39,716,983 | - | - | 39,716,983 |
| | 42,252,396 | - | - | 42,252,396 |
| Amounts owing to related parties | 859,186 | - | - | 859,186 |
| Trade payables | 608,960 | - | - | 608,960 |
| | 1,468,146 | - | - | 1,468,146 |
| Net liquidity gap | 40,784,250 | - | - | 40,784,250 |

**(c) Market risk**

*(i) Foreign exchange risk*

The company undertakes certain transactions denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | 2015 US$ Ushs'000 | 2014 US$ Ushs'000 |
|---|---|---|
| *Assets* | | |
| Cash and bank balances | 2,387,837 | 43,052 |
| Trade and other receivables | - | 623,775 |
| Due from related parties | 55,478,800 | 39,716,983 |
| Total assets | 57,866,637 | 40,383,810 |
| *Financial liabilities* | | |
| Due to related company | 2,926,918 | 859,186 |
| Trade payables | 592,255 | 608,960 |
| | 3,519,173 | 1,468,146 |
| Net exposure | 54,347,464 | 38,915,664 |

*Foreign exchange risk – appreciation/depreciation of Ushs against other currencies by 5%.*

The following sensitivity analysis shows how profit would be affected if the market risk variables had been different at reporting date with all other variables held constant.

| | 2015 Effect on profit Ushs'000 | 2014 Effect on profit Ushs'000 |
|---|---|---|
| Currency - US Dollars | | |
| + 5% US$ Movement | (2,717,373) | (1,945,783) |
| - 5% US$ Movement | 2,717,373 | 1,945,783 |

# Notes to the Financial Statements for the year ended 31 December, 2015

*(ii) Interest rate*

Interest rate risks arise from fluctuations in the borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. The company closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of each reporting period. Included in the table are the company's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

| | 0 -3 month | 4 - 12 months | 1 - 2 years | Total |
|---|---|---|---|---|
| **At 31 December 2015** | Ushs'000 | Ushs'000 | Ushs'000 | Ushs'000 |
| Financial assets | | | | |
| Due from related parties | 55,478,800 | - | - | 55,478,800 |
| **Financial assets** | 55,478,800 | - | - | 55,478,800 |
| Financialliabilities | | | | |
| Due to related parties | 2,926,918 | - | - | 2,926,918 |
| **Financial liabilities** | 2,926,918 | - | - | 2,926,918 |
| | 52,551,882 | - | - | 52,551,882 |
| **At 31 December 2014** | | | | |
| Total financial assets | 39,476,390 | - | - | 39,476,390 |
| Total financial liabilities | 859,186 | - | - | 859,186 |
| | 38,617,204 | - | - | 38,617,204 |

The following sensitivity analysis shows how profit and equity would change if the market risk variables had been different at the end of the reporting period with all other variables held constant.

| | 2015 Effect on profit Ushs'000 | 2014 Effect on profit Ushs'000 |
|---|---|---|
| + one percentage point movement | 52,552 | 38,617 |
| - one percentage point movement | (52,552) | (38,617) |

(d) Capital Management

The company manages its capital to ensure that it is able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The company's overall strategy remains at maximising shareholders value. The Company sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments to it in light of the economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to reduce debt. Consistently with others in the industry, the company monitors capital on the basis of the debt-to-adjusted capital ratio.

26 COUNTRY OF INCORPORATION

The company is incorporated in Uganda under the Ugandan Companies Act, 2012.

27 ULTIMATE HOLDING COMPANY

The immediate holding Company is Gulf Africa Petroleum Corporation, a company incorporated and registered in Mauritius while the ultimate holding Company is Reliance Industries Limited, India, incorporated and registered in India.

# Notes to the Financial Statements for the year ended 31 December, 2015

28 CURRENCY

These financial statements are presented in Uganda Shillings in thousands (Shs'000). The Ugandan Shilling is also the functional currency of the entity.

29 SUBSEQUENT EVENTS

There were no major subsequent events after the reporting date.