

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 37, which comprise the statement of financial position as at 31 December 2014, 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 2014 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)

2015
Kampala

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December, 2014

	Note	2014 Ushs'000	2013 Ushs'000
Turnover	5	189,746,731	206,949,603
Cost of Sales	6	(179,787,645)	(195,118,888)
Gross Profit		9,959,086	11,830,715
Other Income	7	794,062	3,419,716
Selling and Distribution Expenses	8	(39,702)	(18,596)
Administrative Expenses	9	(4,268,121)	(6,451,076)
Other Operating Expenses	10	(2,412,956)	(2,448,771)
Finance Costs	11	3,208,141	(1,830,316)
Profit Before Taxation	13	7,240,510	4,501,672
Taxation Charge	14(a)	(2,049,867)	(1,287,118)
Profit for the year		5,190,643	3,214,554
Other Comprehensive Income		-	-
Total Comprehensive Income		5,190,643	3,214,554
Earnings per share		11.86	7.35

Statement of Financial Position as at 31 December, 2014

	Note	2014 Ushs'000	2013 Ushs'000
ASSETS			
Non-current assets			
Property and equipment	15	24,075,796	23,862,067
Operating lease prepayments	16	1,181,309	1,218,220
		<u>25,257,105</u>	<u>25,080,287</u>
Current assets			
Inventories	17	3,169,138	6,342,027
Trade and other receivables	18	4,875,131	1,932,886
Due from related parties	19(b)	39,716,983	35,231,569
Income tax recoverable	14(c)	-	123,315
Bank and cash balances	20	2,535,413	1,225,780
		<u>50,296,665</u>	<u>44,855,577</u>
TOTAL ASSETS		<u><u>75,553,770</u></u>	<u><u>69,935,864</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	8,750,100	8,750,100
Revaluation Reserve		4,075,371	4,339,206
Retained earnings		48,052,457	42,597,979
Shareholders' funds		<u>60,877,928</u>	<u>55,687,285</u>
Non-current liabilities			
Deferred taxation liability	14(d)	5,187,325	5,018,864
Gratuity obligation	23	627,165	772,615
		<u>5,814,490</u>	<u>5,791,479</u>
Current liabilities			
Trade and other payables	22	7,074,856	6,243,606
Due to related parties	19(c)	846,531	2,213,494
Income tax payable	14(c)	939,965	-
		<u>8,861,352</u>	<u>8,457,100</u>
Total equity and liabilities		<u><u>75,553,770</u></u>	<u><u>69,935,864</u></u>

The financial statements on pages 7 to 37 were authorized and approved for issue by the board of directors on 2015 and signed on its behalf by:

Director

Director

Statement of changes in equity for the year ended 31 December, 2014

	Share Capital UShs '000	Revaluation Reserve UShs '000	Retained earnings UShs '000	Total UShs '000
At 1 January 2013	8,750,100	4,602,320	39,120,311	52,472,731
Transfer of excess depreciation on property, plant and equipment	-	(375,877)	375,877	-
Deferred tax on excess depreciation on property and equipment	-	112,763	(112,763)	-
Profit for the year	-	-	3,214,554	3,214,554
At 31 December 2013	<u>8,750,100</u>	<u>4,339,206</u>	<u>42,597,979</u>	<u>55,687,285</u>
At 1 January 2014	8,750,100	4,339,206	42,597,979	55,687,285
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	-	-	5,190,643	5,190,643
At 31 December 2014	<u>8,750,100</u>	<u>4,075,371</u>	<u>48,052,457</u>	<u>60,877,928</u>

Statement of Cash Flows for the year ended 31 December, 2014

	Notes	2014 UShs '000	2013 UShs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		7,240,510	4,501,672
Adjustments for:			
Depreciation & amortization	10	1,323,835	1,280,764
Unrealised foreign exchange differences		123,941	-
Operating cash flows before movement in working capital		8,688,286	5,782,436
Decrease/ (increase) in inventory		3,172,889	(239,192)
(Increase)/ decrease in trade and other receivables		(2,942,245)	513,224
Increase / (decrease) in trade and other payables		831,250	(951,023)
Net movement in related party balances		(5,852,377)	(1,580,000)
Net movement in retirement benefit obligations		(145,450)	64,915
Cash generated from operations		3,752,353	3,590,360
Taxation paid		(942,067)	(2,282,420)
Net cash generated from operations		2,810,286	1,307,940
INVESTING ACTIVITIES			
Purchase of property and equipment		(1,500,653)	(1,254,022)
Net cash used in investing activities		(1,500,653)	(1,254,022)
INCREASE IN CASH AND CASH EQUIVALENTS		1,309,633	53,918
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,225,780	1,171,862
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		2,535,413	1,225,780
REPRESENTED BY:			
Bank and cash balances		2,535,413	1,225,780

Notes to the Financial Statements for the year ended 31 December, 2014

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 2014

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 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Company's financial statements

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statement.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the Company does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

Notes to the Financial Statements for the year ended 31 December, 2014

IFRIC 21 Levies

The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on 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:

Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ¹
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ²
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ³
IFRS 15	Revenue from Contracts with Customers ⁴
IFRS 9	Financial Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

² Effective for annual periods beginning on or after 1 July 2014, with earlier exceptions. Earlier application is permitted.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

⁵ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 Financial Instruments

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

Notes to the Financial Statements for the year ended 31 December, 2014

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 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. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Company undertakes a detailed review.

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
- 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's 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.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a

Notes to the Financial Statements for the year ended 31 December, 2014

business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively 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 IFRS 11 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 amendments apply prospectively 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 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.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the Company's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The *Annual Improvements to IFRSs 2010-2012 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

Notes to the Financial Statements for the year ended 31 December, 2014

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The *Annual Improvements to IFRSs 2011-2013 Cycle* include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a company of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

Notes to the Financial Statements for the year ended 31 December, 2014

2.3 Early adoption of standards

The company did not early adopt any new or amended standards in 2014.

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.

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 recognised 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 servicing, 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 reducing balance method, at annual rates estimated to write off carrying values of the assets over their expected useful lives.

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 improvement	Over the period of the lease

When each major inspection is performed, its cost is recognised 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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 derecognised.

The asset's 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 recoverable 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

Notes to the Financial Statements for the year ended 31 December, 2014

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.

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 not 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.

Derecognition 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 assumed 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.

Notes to the Financial Statements for the year ended 31 December, 2014

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 derecognition 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.

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 recognised directly in equity is recognised 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 at 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 recognised 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 recognised 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 utilised 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 recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position 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.

Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised 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 realised 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 recognised directly in equity is recognised 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 exists 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.

Notes to the Financial Statements for the year ended 31 December, 2014

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 obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary.

The Company's contributions 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 realisable value. Cost is determined using the first in first out (FIFO) cost method. Net realisable value is the estimated selling price in the ordinary course of business less any costs to sale. Specific provision is made for slow moving, obsolete and defective inventories.

Provisions

Provisions are recognised 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 reimbursement is recognised 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.

2.4 Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions 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 judgements 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 is uncertain. The Company recognizes liabilities for current taxes 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 recognised 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.

Notes to the Financial Statements for the year ended 31 December, 2014

	2014 Ushs'000	2013 Ushs'000
5. TURNOVER		
Sale of Petroleum products	189,746,731	206,949,603
6. COST OF SALES		
Cost of inventory sold	178,872,903	193,223,253
Direct costs	914,742	1,895,635
	179,787,645	195,118,888
7. OTHER INCOME		
Miscellaneous income	167,672	105,897
Interest income	626,390	-
Excise duty refund	-	3,313,819
	794,062	3,419,716
8. SELLING AND DISTRIBUTION EXPENSES		
Sales promotion expenses	35,303	17,032
Advertising expenses	4,399	1,564
	39,702	18,596
9. ADMINISTRATION EXPENSES		
Salaries and wages	1,783,356	1,500,951
Other staff expenses	301,935	306,518
Staff medical and welfare	105,437	90,501
Postages and telephones	143,425	113,719
Vehicle running expenses	-	886
Printing and stationery	30,780	30,545
Travelling and entertainment	320,535	247,198
Subscriptions	18,881	20,691
Donations and fines	250	-
Audit fees	80,128	76,268
Legal and professional fees	1,253,331	3,542,515
Miscellaneous expenses	135,208	459,721
Commission	380	-
Bank charges	23,882	55,191
Bad debts	70,593	6,372
	4,268,121	6,451,076

Notes to the Financial Statements for the year ended 31 December, 2014

	2014 Ushs'000	2013 Ushs'000
10. OTHER OPERATING EXPENSES		
Rent and Rates	414,881	535,294
Repairs and maintenance	248,565	214,115
Electricity and Water	151,654	153,793
Insurance	130,817	153,205
Security expenses	95,119	63,673
Licenses	48,085	47,927
Depreciation & Amortisation	1,323,835	1,280,764
	<u>2,412,956</u>	<u>2,448,771</u>
11. FINANCE COSTS		
Bank interest and charges	-	1,533
Realised foreign exchange differences	(715,344)	1,121,450
Unrealised foreign exchange difference	(2,492,797)	707,333
	<u>(3,208,141)</u>	<u>1,830,316</u>
12. STAFF COSTS		
Salaries and wages	1,783,356	1,374,310
Provision for retirement benefit obligations (Note 23)	-	126,641
Other staff expenses	301,935	306,518
Staff medical and welfare	105,437	90,501
	<u>2,190,728</u>	<u>1,897,970</u>
13. PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging:		
Audit fees	80,128	76,268
Depreciation & amortization	1,323,835	1,280,764
Staff costs	2,190,728	1,897,970
	<u>2,190,728</u>	<u>1,897,970</u>
14. TAXATION		
a) Taxation charge		
Current tax	1,489,827	1,928,399
Deferred taxation charge -current year	168,461	(641,281)
Prior year tax adjustment	391,579	-
	<u>2,049,867</u>	<u>1,287,118</u>

Notes to the Financial Statements for the year ended 31 December, 2014

	2014 Ushs'000	2013 Ushs'000
b) Reconciliation of tax credit		
Accounting profit before taxation	7,240,510	4,501,672
Taxation charge at the applicable rate of 30%	2,172,153	1,350,502
Prior year tax adjustment	391,579	(79,527)
Tax effect of non-deductible items	(513,866)	(214,357)
Prior year tax adjustment – deferred tax	-	230,500
	<u>2,049,866</u>	<u>1,287,118</u>
c) Corporate tax payable / (receivable)		
At 1 January	(123,315)	230,706
Prior year under provision	515,520	-
Charge for the year	1,489,827	1,928,399
Tax arrears paid	(391,579)	(230,500)
Paid during the year	(550,488)	(2,051,920)
At 31 December	<u>939,965</u>	<u>(123,315)</u>
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		
	2014 Ushs' 000	2013 Ushs' 000
Deferred tax liability:		
Accumulated capital allowances	4,376,726	3,603,189
Deferred tax on revaluation surplus	1,746,588	1,859,660
	<u>6,123,314</u>	<u>5,462,849</u>
Deferred tax assets		
Unrealised exchange differences	(747,839)	(212,200)
Gratuity provision	(188,150)	(231,785)
	<u>(935,989)</u>	<u>(443,985)</u>
	<u>5,187,325</u>	<u>5,018,864</u>
e) The movement in the deferred tax account:		
At 1 January	5,018,864	5,660,145
Income statement charge/ (credit) (note 14(a))	168,461	(641,281)
At 31 December	<u>5,187,325</u>	<u>5,018,864</u>

Notes to the Financial Statements for the year ended 31 December, 2014

15. PROPERTY AND EQUIPMENT

	Buildings	Plant Motor Vehicles	Furniture Machinery and Computers	Fittings and Equipment	Capital work in Progress	TOTAL
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
COST/ REVALUATION						
At 1 January 2013	7,986,155	672,004	16,531,435	730,808	970,627	26,891,029
Additions	-	-	25,709	-	1,228,313	1,254,022
Transfer from capital work in progress	298,169	-	711,625	-	(1,009,794)	-
At 31 December 2014	8,284,324	672,004	17,268,769	730,808	1,189,146	28,145,051
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
Transfers	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
DEPRECIATION						
At 1 January 2013	511,650	539,369	1,660,695	327,419	-	3,039,133
Charge for the year	306,384	20,620	915,374	1,473	-	1,243,851
At 31 December 2013	818,034	559,989	2,576,069	328,892	-	4,282,984
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	-	1,286,924
At 31 December 2014	1,136,010	580,609	3,522,878	330,410	-	5,569,908
NET BOOK VALUE						
At 31 December 2014	7,769,908	91,395	14,392,860	403,253	1,418,381	24,075,796
At 31 December 2013	7,466,290	112,015	14,692,700	401,916	1,189,146	23,862,067

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 is Ushs 5.8 billion as at 31 December 2014 (2013: Ushs 6.2 billion).

Notes to the Financial Statements for the year ended 31 December, 2014

	2014 Ushs'000	2013 Ushs'000
16. OPERATING LEASE PREPAYMENTS		
COST		
At 1 January & 31 December	1,818,042	1,818,042
AMORTIZATION		
At 1 January	599,822	562,909
Charge for the year	36,911	36,913
At 31 December	636,733	599,822
NET BOOK VALUE	1,181,309	1,218,220
	2014	2013
	Ushs'000	Ushs'000
17. INVENTORIES		
Material and Supplies	290,232	271,447
Fuel and lubricant stocks	1,176,783	408,387
Goods in transit	1,702,123	5,662,193
	3,169,138	6,342,027
18. TRADE AND OTHER RECEIVABLES		
Trade receivables	164,874	250,248
Less provision for impairment	(43,224)	-
	121,650	250,248
Prepayment and deferred charges	4,753,481	1,682,638
	4,875,131	1,932,886

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.

	0-1 month Ushs'000	2-3 months Ushs'000	4-12 months Ushs'000	1-2 years Ushs'000	Total Ushs'000
At 31 December 2014					
Trade receivables	121,650	-	-	-	121,650
Prepayments and deferred charges	4,753,481	-	-	-	4,753,481
	<u>4,875,131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,875,131</u>
At 31 December 2013					
Trade receivables	210,404	39,844	-	-	250,248
Prepayments and Deferred charges	1,588,743	-	93,895	-	1,682,638
	<u>1,799,147</u>	<u>39,844</u>	<u>93,895</u>	<u>-</u>	<u>1,932,886</u>

Notes to the Financial Statements for the year ended 31 December, 2014

19. RELATED PARTY BALANCES AND TRANSACTIONS	2014	2013
	Ushs'000	Ushs'000
a) Amounts due from related parties		
GAPCO Kenya Limited -Loan	39,476,390	-
GAPCO Kenya Limited -Advance	240,593	35,231,569
	39,716,983	35,231,569

The amounts due from the related parties are interest bearing at a rate of 5.5% per annum.

b) Amounts due to related parties	2014	2013
	Ushs'000	Ushs'000
Reliance Corporate IT Park Limited	431,534	1,836,899
Reliance Industries Limited	295,110	367,380
Gapco Tanzania Limited	119,887	-
Reliance Petro Marketing Limited	-	9,215
	846,531	2,213,494

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

d) Related party transactions	2014	2013
	Ushs'000	Ushs'000
The transactions during the year included;		
<i>Purchases</i>		
Gapco Kenya Limited	122,471,729	140,759,218
Gapco Tanzania Limited	721,524	449,782
<i>Management consultancy services</i>		
Reliance Industries	327,900	408,200
<i>Back office/business/IT support services</i>		
Reliance Corporate IT Park Ltd	479,484	2,040,998
e) Key management compensations		
Directors' remuneration	67,190	-

Notes to the Financial Statements for the year ended 31 December, 2014

20. BANK AND CASH BALANCES

	2014 Ushs'000	2013 Ushs'000
Bank balances	2,525,113	1,224,915
Cash balance	300	865
	<u>2,535,413</u>	<u>1,225,780</u>

21. SHARE CAPITAL

	2014 Ushs'000	2013 Ushs'000
Authorised		
437,507.50 (2013:437,507.50) ordinary shares of Ushs 20,000 each	<u>8,750,150</u>	<u>8,750,150</u>
Issued and Fully Paid:		
437,505 (2013: 437,505) shares paid up ordinary shares of Ushs 20,000 each	<u>8,750,100</u>	<u>8,750,100</u>

22. TRADE AND OTHER PAYABLES

	2014 Ushs'000	2013 Ushs'000
Trade Payables	1,335,606	1,240,200
Other payables and accruals	5,739,250	5,003,406
	<u>7,074,856</u>	<u>6,243,606</u>

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.

	0-1 month Ushs'000	2-3 months Ushs'000	4-12 months Ushs'000	1-2 years Ushs'000	Total Ushs'000
At 31 December 2014					
Trade payables	1,335,606	-	-	-	1,335,606
Other payables and accruals	5,739,250	-	-	-	5,739,250
	<u>7,074,856</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,074,856</u>
At 31 December 2013					
Trade payables	-	1,240,200	-	-	1,240,200
Other payables and accruals	-	5,003,406	-	-	5,003,406
	<u>-</u>	<u>6,243,606</u>	<u>-</u>	<u>-</u>	<u>6,243,606</u>

Notes to the Financial Statements for the year ended 31 December, 2014

	2014 Ushs'000	2013 Ushs'000
23. GRATUITY PAYABLE		
At 1 January	772,615	707,700
Less: amounts utilised	(145,450)	(61,726)
Increase in provision (charge to profit or loss)	-	126,641
At 31 December	<u>627,165</u>	<u>772,615</u>

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.

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 370,000,000.

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.

Collateral

The company does not hold any collateral for trade debtors.

Notes to the Financial Statements for the year ended 31 December, 2014

The amount that best represents the company's maximum exposure to credit as at 31 December 2014 is made up as follows:

	Total Ushs'000	Performing Ushs'00	Past due Ushs'000	Impaired Ushs'000
As at 31 December 2014				
Trade receivables*	121,650	121,650	-	-
Due from related parties	39,716,983	39,716,983	-	-
Bank and cash balances	2,535,413	2,535,413	-	-
	<u>42,374,046</u>	<u>42,374,046</u>	<u>-</u>	<u>-</u>

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

As at 31 December 2013

Trade receivables	250,248	250,248	-	-
Due from related parties	35,231,569	35,231,569	-	-
Bank and cash balances	1,225,780	1,225,780	-	-
	<u>36,707,597</u>	<u>36,707,597</u>	<u>-</u>	<u>-</u>

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.

	0-1 month Ushs'000	2-3 months Ushs'000	4-12 months Ushs'000	1-2 years Ushs'000	Total Ushs'000
At 31 December 2014					
Financial assets					
Trade receivables	121,650	-	-	-	121,650
Cash and bank balances	2,535,413	-	-	-	2,535,413
Due from related parties	240,593	39,476,390	-	-	39,716,983
	<u>2,897,656</u>	<u>39,476,390</u>	<u>-</u>	<u>-</u>	<u>42,374,046</u>
Financial liabilities					
Due to related parties	846,531	-	-	-	846,531
Trade payables	1,335,606	-	-	-	1,335,606
	<u>2,182,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,182,137</u>
Net liquidity Excess	<u>715,519</u>	<u>39,476,390</u>	<u>-</u>	<u>-</u>	<u>40,191,909</u>

Notes to the Financial Statements for the year ended 31 December, 2014

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk management (Continued)

	0-1 month	2-3 months	4-12 months	1-2 years	Total
2013	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Financial assets	35,421,299	-	-	-	35,421,299
Financial liabilities	-	3,351,495	2,343,624	-	5,695,119
Net liquidity gap	35,421,299	(3,351,495)	(2,343,624)	-	29,726,180

(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:

	2014 US\$ Ushs'000	2013 US\$ Ushs'000
<i>Assets</i>		
Cash and bank balances	43,052	322,542
Trade and other receivables	623,775	-
Due from related parties	39,716,983	35,231,569
Total Assets	40,383,810	35,554,111
<i>Financial liabilities</i>		
Due to related company	846,531	2,212,494
Trade payables	1,335,606	1,240,200
	2,182,137	3,452,697
Net exposure	38,201,673	32,101,417

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.

	2014 Effect on profit Ushs'000	2013 Effect on profit Ushs'000
Currency -US Dollars		
+ 5% US\$ Movement	160,340	(91,439)
-5% US\$ Movement	(160,340)	91,439

(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.

Notes to the Financial Statements for the year ended 31 December, 2014

	0-1 month	2-3 months	4-12 months	1-2 years	Total
At 31 December 2014	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
Financial Assets Due from related parties	-	39,476,390	-	-	39,476,390
Financial Assets	<u>-</u>	<u>39,476,390</u>	<u>-</u>	<u>-</u>	<u>39,476,390</u>
Financial liabilities					
Amounts due to related parties	-	-	-	-	-
Financial liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2013					
Total financial assets	-	-	-	-	-
Total financial liabilities	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Interest rate risks – increase / decrease of 1% in net interest margin

(ii) *Interest rate*

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.

	2014 Effect on profit Ushs'000	2013 Effect on profit Ushs'000
+ one percentage point movement	37,583	-
- one percentage point movement	(37,583)	-
	<u> </u>	<u> </u>

(f) **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.

25. COUNTRY OF INCORPORATION

The company is incorporated in Uganda under the Companies Act.

26. 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.

27. CURRENCY

These financial statements are presented in Uganda Shillings in thousands (Shs'000).

28. SUBSEQUENT EVENTS

There were no major subsequent events after the reporting date.