Our Mission

"To develop and manage the most efficient and
transparent securities market
that matches international standards, and promotes a
partnership with the general public, foreign investors,
institutional investors, companies employees, the
Government and other stakeholders in the development of
Uganda's capital markets industry."

From left to right:

Mr. Andrew Owiny
Executive Director
MBEA Brokerage Services (U) Ltd

Mr. Robert Warlow
Managing Director
Crane Bank (U) Ltd

Mr. Micheal Opagi
Director
Privatisation Unit

Mr. Geoffrey A. Onegi-Obel
Chairman, USE

Managing Director
G. A. Onegi- Obel & Co Ltd

Mr. Simon Rutega
Chief Executive
Uganda Securities Exchange Ltd

Dr. Ram Jass Yadav
Director
Baroda Capital Markets

Mr. Sam Njuki
Director
Equity Stock Brokers (U) Ltd.

PAGE CONTENTS

Chairman's Statement

THE DOMESTIC CAPITAL FORMATION POLICY; RELATED ECONOMY WIDE AND SUB-SECTOR CHALLENGES

Mr. Geoffrey Onegi-Obel, *Chairman.*

Using USE lenses, the Ugandan economy in the year under review presented urgent and increased challenges in the area of sector monetary and fiscal policy signals to the domestic and foreign investing communities.

At the USE, the Energy Demand Gap, the related and outstanding Benchmark Bond and Uganda sovereign rating challenges, and the ongoing PEAP revision exercise as well as the related reactivation of the Medium Term Competitive Strategy [MTCS] -continue to top our agenda of 'most urgent sub-sector items for implementation and roll out'- under an also urgently required Comprehensive Development Framework [CDF] customized for Uganda.

Without decisive policy action on a customized Uganda CDF, and a resolution of the above urgent sub-sector issues, no amount of studies to better understand the 'nature and character of poverty', or research into the 'number of constraints to investment', will trigger off the long awaited GDP expansion for economic transformation, and arrest the worrying pattern or trend in key economic indicators since the end of the minimum recovery program period in 1998.

Presenting the most serious cross-cutting challenge for stakeholders by sector is the Power Demand Gap in the energy sub-sector.

The collapse of the Bujagali project worsened the power demand gap crisis and signaled the need for a radical and total review of national energy strategy - preferably away from standard project financing model - and towards a revised new model, which puts downward pressure on the cost of energy per megawatt.

I am glad to report that the USE together with a stakeholder group is engaged in the design and delivery of a way forward out of this energy crisis.

However, because industry bottom lines and national strategies for GDP expansion and export competitiveness are threatened, broad and joint stakeholder action together with national policy authorities is required, together with a collective recognition of the magnitude of the power demand gap issues.

Since it is accepted that engineering accelerated growth for economic transformation is a direct function of deliberate signals to domestic and foreign investors, an urgent and improved level of signaling at policy level on all cross-cutting challenges and issues is required. Accordingly at this point we flag the long outstanding matter of the Benchmark Bond and a sovereign rating for Uganda.

It is our view that stakeholders need to decisively rally behind the Governor of the Central Bank and help expedite the delivery of Uganda's first medium term signal to investors - Uganda's first Benchmark Bond for deepening the shallow financial sector, triggering new instruments for financial intermediation, and delivering a- new yield curve to better signal domestic and foreign investors.

The securing of a sovereign rating from S&P will complement and strengthen the Benchmark Bond signal, and in this regard we hope that the Bank of Uganda will be front and back office for the management of the S&P rating infrastructure.

On the overall customized Comprehensive Development Framework, it is now clear that the PEAP revision process must be accompanied by an active and revised Medium Term Competitive Strategy [MTCS] function.

The current signal from all recent studies is that in order to reduce the poverty rate by even just 10% by 2017, average GDP growth rates will have to be in the double digits.

An even stronger signal since the beginning of significant GDP contraction in 1998 is that Aid and Foreign Direct Investment [FDI] resources can only engineer economic transformation if combined with a simultaneous domestic capital formation function, financial sector deepening and Domestic Direct Investment [DDI]

To the extent that we as stakeholders have been slow in appreciating the importance of the Benchmark Bond and a Sovereign Rating for Uganda as primary signals and tools for financial sector deepening - and moving the economy away from the current expensive cash regime, we have all not been responsive to the needs of the economy .

> The collapse of the Bujagali project worsened the power demand gap crisis and signaled the need for a radical and total review of national energy strategy.

For emphasis, Ugandans can save and are willing to save. All that is required is an appropriate regime of product driven savings instruments underwritten by overall macroeconomic stability and a decent yield curve from a benchmark bond - be they social insurance annuities or mortgage finance products.

A saving is a saving even if it is just Ush 1000 per month. Let us have an urgent monetary and fiscal policy response targeting all the key sub-sectors above.

Above all at the USE we continue to work with private sector stakeholders to get the domestic capital formation function to become a routine working tool of our monetary and fiscal policy authorities - so that we can help bring to a halt the official shorting of the Uganda Economy.

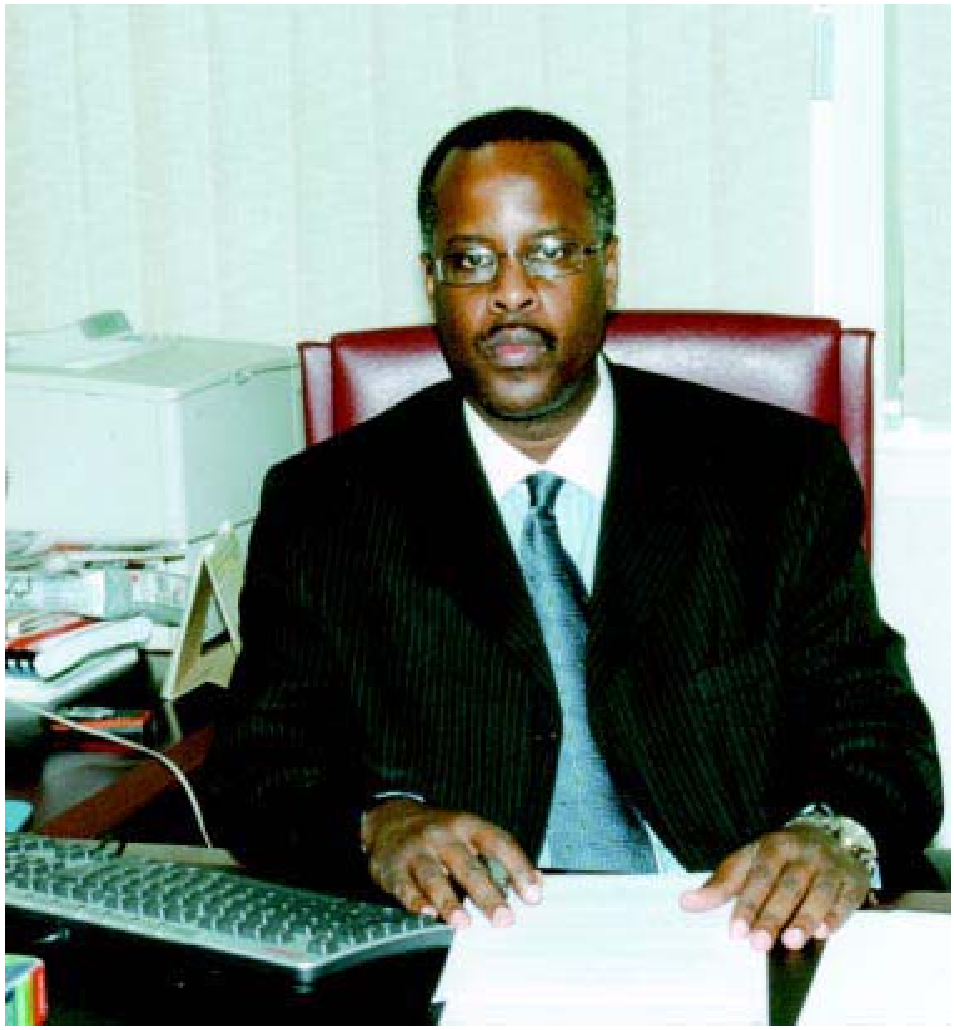
While we continue to work and look forward to more corporate paper and bonds on the market - all quality paper designed to deepen the financial sector and progressively diminish the role of the Treasury Bill [TB] as the poor benchmark paper it is, we also continue to perfect our role as the preferred entry and exit platform for serious medium to long term portfolio and non portfolio Domestic and Foreign Direct Investment.

Five years ago not many gave the USE any chance of survival. Today our growth indicators and market capitalization reflected in this report, as well as the quality of our listings speak for themselves.

We look forward to a stakeholder approach to a resolution of all the challenges raised here ▪

Chief Executive's Statement

The annual report covering the period 2002/2003 marks five years of our existence as a Securities Exchange business in Uganda. In the last five years we have attempted to conform to the standards required for capital market development take off. In this regard, I am happy to report that USE has adopted international standards of regulations, listed local equity products, listed corporate bond products, cross listed regional equity products, traded, cleared and settled over 14 billion shillings, provided training and public awareness programs, launched a new website, been appointed as the ISIN numbering agency for the country and been actively engaged in the pension and social security reform initiatives. I believe that under the circumstances USE, has been extremely successful in meeting the minimum objectives that we set out to achieve. However, it is also important to note that the state of affairs prevailing at the USE today is in fact a reflection of the conditions of our domestic financial sector. Being pioneer practitioners in our nascent financial markets in the last five years has brought the realization on the importance of deepening our domestic financial sector, increasing our domestic savings rates and reducing the cost of funding on local capital as key components for our nations priorities in its objective of achieving sustainable economic growth and transformation.



Mr. Simon Rutega, *Chief Executive.*

What is the big picture?

The big picture is that all countries that have transformed their economies within one generation have all had domestic capital formation as a fixed ingredient in their successful equations. I have come to the conclusion that domestic capital formation is a preresquite for sustainable economic growth and transformation of any nation. The Stock Exchange in any jurisdiction is the face of domestic capital formation through its liquidity aggregator role. The Uganda Securities Exchange has taken on this important role without hesitation, exception and prejudice. Stock Exchanges advertise the fact that the private sector and Government are able to raise medium and long term capital through financial instruments in an environment that is safe and well regulated. The Stock Exchange is advertising the fact that secondary markets exist in a transparent manner. The Stock Exchange is acting as a barometer of the economy and telling potential investors the story of the performance of listed entities who are the

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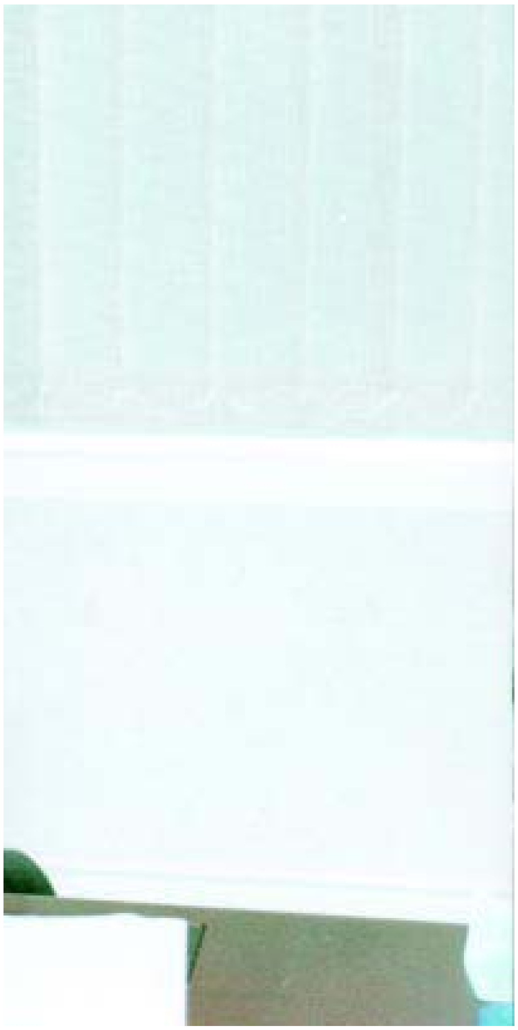


true representatives of the corporate sector. Last year African Stock Exchanges provided the highest rate of return on investment in the world showing that Africa remains the last frontier in obtaining such high rates of return on equity investment.

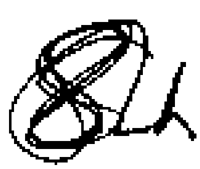
I believe that the listing of successful entities on the Uganda Securities Exchange is primarily about advertising the success of the listed entities through our index and being able to attract further investment into Uganda and the East African region. Of course, other benefits include partnering with the Ugandan Public, employees, obtaining market valuation, promoting corporate governance and enabling secondary market trading. But finally, on this point I must stress the importance of inculcating the promotion of the equity culture for our people and thus creating a formidable middle class of investors and consumers. This issue of promoting equity or ownership for our people cannot be underestimated. Equity means ownership which enables collateral, which enables access to credit, which enables positive leverage and which enables investment in productive enterprise. This promotes the effective mobilization and utilization of resources and this I believe is really how economies grow. We must promote the ownership of financial products and housing through mortgage finance products, equity and other financial products that the financial system recognizes. USE in the next years will play its part and strive to work with Housing Finance companies on the issues of securitization and listing of mortgage backed financial products.

What next for USE?

USE will continue to champion domestic capital formation in our jurisdiction while promoting regional integration. USE will continue to disseminate information about the economy and tell our story on domestic financial markets to potential investors. USE will also continue to be a small and efficient client centric organization that encourages investment in our financial markets. We indeed look forward to the next years of consolidation and financial market deepening.

Appreciation

I am grateful for the support and guidance extended to me by the Chairman and members of the Governing Council, the Privatization Unit, Ministry of Finance and Economic Planning, Bank of Uganda, SIDA/GTZ, USAID, NSE, our listed entities and all our thousands of investor stakeholders. I would also like to take this opportunity and thank the USE staff for their dedication, hard work and commitment throughout this financial year 2002/2003. Finally let me commit the unwavering support of USE in the challenge of our nation in deepening our domestic financial sector.



Simon Rutega, Chief Executive,
Uganda Securities Exchange

Research and Market Development Report

Economic Review

The World Economy

The past two years have seen growth of world output fall sharply. After reaching almost 4 per cent in 2000, it dropped below 2 per cent for the first time since 1993. In industrial countries, growth more than halved between 2000 and 2002 while in developing countries it fell by 2 percentage points says the recent Trade and Development Report, 2003, released by UNCTAD, on Capital Accumulation, Growth and Structural Change. The report further reveals that, while no developing region was able to escape the consequences of global slow down, there was considerable diversity in the performance of individual countries. East Asian economies helped by their buoyant intraregional trade and low dependence on capital inflows, managed to maintain momentum with growth rates ranging between 5 per cent and 8 per cent in 2002.

Africa and the transition economies were less affected by the global slowdown, maintaining growth rates of around 3 and 4 per cent respectively. While Africa has remained relatively insulated from the recent shocks, the region depends on Western European economies for its export growth implying that the decline in the prices of major commodity exports and the stagnation of aid flows could inhibit Africa from repeating its growth performance of the past two years.

The recovery of global economic activity after its sharp decline in 2001 has been much slower and more erratic than expected, reveals the report. Due to the weakened support for acceleration in global growth above the 2 per cent rate in 2002, there is little prospect of reaching the 3 per cent rate. To reach this rate will require a much more rigorous and balanced recovery than that during the sustained expansion of the 1990's and will need to involve all developed and the major developing countries, says the report.

Ms. Harriet Kiwanuka
Research & Market Development Manager

Uganda

Growth in real GDP for the year was low at 4.9%, below the projected 7%, and lower than the 5.6% growth in the previous year; however, it was well above the 3% African average. The decline in GDP growth was attributed to the slowdown in the growth of food crop agriculture, on account of the deterioration in climatic conditions, relative to the good climatic conditions, which prevailed in the previous year. With the expected recovery in agricultural production, growth in real GDP for the 2003/2004 fiscal year is projected at 5.6% while Government's medium term objective is to restore GDP growth to 7% per annum which is achievable through deepening and accelerating the supply side reforms required to boost the economy. Key focus areas include:

- Strategic Exports Programme;
- Medium Term Competitive Strategy for Private Sector Development;
- Control of Fiscal Deficit;
- Strengthening of the business environment through infrastructure improvement, promotion of science and technology, strengthening legal and regulatory frameworks, financial sector strengthening and;
- Promotion of security and good governance.

> "The decline in GDP growth was attributed to the slowdown in the growth of food crop agriculture, on account of the deterioration in climatic conditions, relative to the good climatic conditions which prevailed in the previous year.''

In the past fiscal year, Government successfully completed the first phase of its economic programme, namely economic rehabilitation and was moving on to its next challenge of transforming the economy through export led economic growth. As reported in this year's budget speech, Government's medium term highest priority of achieving accelerated economic growth that was adequate for mass poverty eradication required significant economic transformation through expansion of production, diversification, quality control and adding value to the country's products for both domestic consumption and export.

Inflation

Inflation rose in the past year, with annual headline inflation up at 5.9% from negative 2% of the previous year. The outturn of underlying inflation, which excludes food crops, was projected at 2.9%, which was slightly lower than the 3.5% in the previous year. Developments in the food markets had an impact on inflation. Whereas food crop prices fell sharply in the previous year due to good harvests, the much slower growth in 02/03 led to a rebound in food crop prices, which in turn pushed up headline consumer price inflation.

Interest Rates

Treasury bill rates were on the increase for the large part of the fiscal year. The period of July 2002 to June 2003 saw an increase in interest rates on all tenors with the 91-day bill rising to 14.52% in February 2003 from 5.96% in July 2002, dropping slightly to 13.45% in March 2003 and rising back steadily to 18.96% in June 2003. The 182-day bill also followed an upward trend reaching 15.76% in December 2002 from 9.60% in July 2002, dropping slightly to 13.99% in March and rising back to a higher 20.66% in June 2003. Annualized rates on the 273 and 364 t/bills followed an upward trend rising to 16.44% and 16.43% respectively in December 2002 from 11.30 % and 11.62 % in July 2002, dropping to 13.97% and 13.79% in March and rising back and closing at 20.81% and 20.72% respectively in June 2003.

Performance by Sector

Growth in the agricultural sector was slow at 4.8% although agriculture remained the main contributor to GDP at 40.8%. Manufacturing grew at 6.6% while transport and communications registered a 9.7% growth rate.

External Sector Performance

Government policy on diversification of exports and increased access to United States and European Union markets led to some improvement in the export sector. Despite the deterioration in terms of trade, total export earnings from goods and non-factor services for 02/03 increased by 15% from USD 700m recorded in the previous year to USD 800m. Recent initiatives by other development partners to increase market access for Uganda's exports have opened up opportunities as Ugandan goods gain market recognition. It is further believed that increased regional co-operation through the East African Community and the Common Market for East and Southern Africa will greatly enhance Uganda's exports.

Fiscal Performance

Fiscal policy continues to be characterized by a wide margin between Government expenditure and domestic revenue collections. The Government succeeded in reducing domestic expenditure but not the elimination of accumulated domestic arrears through, among other measures, the implementation of the Commitment Control System (CCS). The overall budget deficit fell from 7.4% to a projected 5.8% of GDP while the deficit excluding grants went down from 13.1% to 11.1% of GDP.

External Budget Support

Donor budget support commitments for this year accounted for 48% representing a slight drop from the 52% contribution in the previous fiscal year. The budget speech emphasized Government's desire to reduce over dependency on donor funding and revealed Government's desire to limit donor funds to a level that would not increase public expenditure to an extent that would crowd out the private sector from the economy. Also noted was the unpredictable nature in the timing of such funds, which tended to have adverse effects on the economy when disbursements were not received when anticipated.

Market Developments

Bank Of Baroda, Uganda Listing

During the period under review, the USE listed another equity, Bank of Baroda, Uganda Ltd. on 14th November 2002, making it the first financial institution to list on the Uganda Securities Exchange. The listing of BOBU brought the number of listed companies on the USE to five. At commencement of trading, the Bank of Baroda share price closed at Ushs 715 representing a 19.2% increase from the IPO price of Ushs 600. This saw the USE Market Capitalization rise to Ushs 385bn from Ushs 361bn.

Uganda Telecom Ltd. Note Issuance Programme

During the fiscal year, UTL, a telecommunication service provider issued a Ushs 54 billion Medium Term Note program that was approved by the USE. The first tranche of the UTL Note amounting to Ushs. 30 bn was issued on June 30, 2003. USE wishes to take this opportunity to congratulate Uganda Telecom for this productive initiative.

USE Educational Drive

USE continued its Education campaign throughout the year. Campaigns covered various programmes tailored to suit different segments of our stakeholders. This segmented approach in our education campaigns is aimed at achieving effectiveness in reaching various categories of the public. Among the programmes under this drive include;

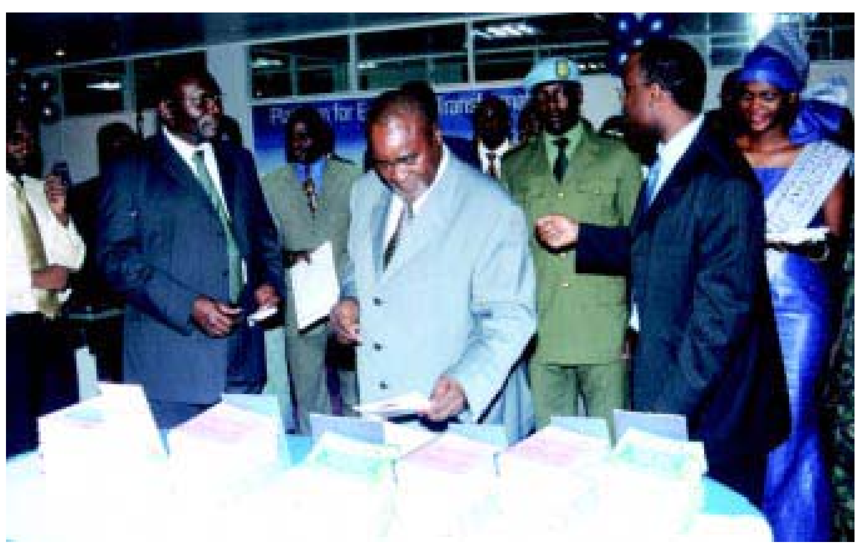
- **Road shows:** These are conducted in various key towns around the country;
- **In-house workshops** hosted to visiting groups to the USE including visits to higher Institutions of Learning, Rotary Clubs, etc.
- **International Trade Exhibition** USE also participates in this annual event organized by Uganda Manufacturers Association, which attracts several participants from all over the world.

USE Executive Edification Programme

USE launched its Executive Edification Programme for Senior Corporate Executives, Board of Directors and other key corporate and institutional decision makers. The primary objective of this program is to reach the key decision makers of strategic corporations, businesses and institutions. Targeted entities for this programme include Financial Institutions, Pension Institutions, Corporations, the Private Sector plus other bodies with the potential to list at the USE. The workshops can be organized in house by the USE or companies may opt for inviting USE to their premises to conduct workshops.

USE Tertiary Institute's Education Programme

Also kicked off under the same period was the USE Tertiary Institutes Education Programme (TIEP) with a workshop conducted for the MSC Accounting and Finance class of Makerere University Business School (MUBS). The Prime objective of this programme is to target the institutes of higher education in efforts to enhance the effectiveness of our education campaign given our limited resources .



H. E. Vice President, Prof. Gilbert Bukenya, *flanked by* ***Mr. Onegi-Obel*** *- Chaiman USE and* ***Mr. S. Rutega*** *Chief Executive -USE at the official launch of the USE translated publications.*

Mr. Kagalwala - Managing Director Bank of Baroda (second left) rings bell at the official listing of Bank of Baroda on the USE. Looking on are Dr. F. Omaswa (left), Mr. M. Opagi and Mr. S. Rutega

Publication of Translated Brochures

Additional Publications in translated versions were introduced to add to the already existing publications. Brochures were translated into four main languages that fairly represent the four key geographical regions of Uganda. The languages include Luo, Runyakitara, Ateso and Luganda. These new publications will enhance the effectiveness of the ongoing road show public education campaigns particularly those conducted in the rural areas of the country where a preference for local languages exists.

Training and Development Programmes

Training and staff development continued to take precedence at USE. In order to develop a market that is transparent, competent and able to meet the demands of investors, it is vital that sufficient training and education is availed to the USE staff. Training and capacity building for the USE staff has been ongoing throughout the year. GTZ-SIDA continued to sponsor staff training under its Financial Systems Development Programme.

Corporate Governance Training

USE participated in a 3-day induction course on Corporate Governance for Company Directors and Senior Management held by the Private Sector Corporate Governance Trust, Kenya from 11th to 13th December 2002 in Kampala. Among the key issues discussed were strategic analysis and evaluation, corporate governance reporting and compliance and the legal framework.

USE Logo

USE unveiled its new logo, which puts into perspective our future objectives. The Logo brands our corporate image as a sovereign Stock Exchange working towards full incorporation with other regional markets.

EASRA Meetings

USE also participated in the 12th, 13, and 14th meetings of the Stock Exchanges and Capital Markets Regulatory Authorities of the three East African Member States. A lot of work has been accomplished under this regional forum on the harmonisation of regulations and market procedures towards regional integration.

USE Website Redesign

The period under review saw the successful completion of the USE Website redesign project. The newly designed website which was funded under the GTZ/SIDA Programme is a highly dynamic and interactive website that will provide visitors with a wide range of information on a real time basis. The website is now functioning at **www.use.or.ug**

7th ASEA Conference Held in Tanzania

USE participated in the 7th African Stock Exchange Association's Annual conference in Tanzania. The conference brought together several Stock Exchanges from across Africa under the theme "Towards Integrated African Capital Markets" and was hosted by the Dar es Salaam Stock Exchange (DSE) between the 27th and the 30th of November 2002.

Pre and Post Budget Consultations convened by EAC secretariat

USE participated in the EAC Secretariat Meetings of the Budget Consultations of Ministries responsible for Finance held in Arusha. These meetings brought together Technical officials from the Capital Markets Development Committee, Ministries of Finance and Central Banks in East Africa to evaluate the implementation of past proposals and outcomes of the National Budgets for the fiscal year 2002/2003.

Market Performance

Equities Market

In the 95 trading sessions held at the Exchange during the 2002/2003 fiscal year, trading recorded a 17.6% increase in turnover from the Ushs 942,361,639 turnover recorded in the previous fiscal year to Ushs 1,108,154,731.The fiscal year under review saw the number of shares traded drop from 1,400,623 shares recorded in the previous year to 584,484 shares. The number of deals recorded increased from 301 deals recorded in the 2001/2002 fiscal year to 437 deals in 2002/2003. The market capitalization of the Exchange rose during the 2002/2003 fiscal year to Ushs 848.4bn from the Ushs 371bn levels recorded at the end of June 2002. It was during this same fiscal year that the USE listed its fifth equity, Bank of Baroda, Uganda Ltd bringing the number of listed equities on the USE up from four equities recorded at the close of the previous fiscal year to five equities.

Trading Volumes and Activity

Monthly Traded Statistics from July 2002 to June 2003

	Jul'02	Aug'02	Sept'02	Oct'02	Nov'02	Dec'02	Jan' 03	Feb'03	Mar'03	Apr'03	May'03	Jun'03
No. of Shares Traded	155,722	177,661	2,551	8,231	96,558	20,800	1,075	1,130	5,153	29,949	6,189	4,465
Turnover (Ushs)	257,067,840	652,590,732	5,972,599	13,352,950	61,208,360	14,872,000	2,309,025	5,251,185	16,884,660	40,064,250	27,494,070	11,087,060
No of Deals	52	50	35	20	41	6	12	11	46	84	36	44
Trading Days	9	9	8	10	8	4	8	7	8	9	8	7
Daily Avg. Turnover (Ushs)	28,563,093	72,510,081	746,575	1,335,295	7,651,045	3,718,000	288,628	750,169	2,110,583	4,451,583	3,436,759	1,583,866
Turnover Ratio (turnover/ market cap%)	0.07119	0.17909	0.00156	0.00336	0.01476	0.00318	0.00047	0.00089	0.00255	0.00468	0.00340	0.00131
Market Cap (Ushs Billion)	361.1	364.4	382.8	397.2	414.8	467.5	492.0	590.1	660.9	855.6	808.2	848.4
BATU closing price(Ushs)	1,200	1,200	1,200	1,200	1,200	1,200	1,195	1,195	1,200	1,200	1,200	1,200
BOBU closing price (Ushs)	n/a	n/a	n/a	n/a	715	715	715	715	715	730	760	760
EABL closing price(Ushs)	2,010	1,997	2,164	2,339	2,280	2,844	3,071	3,945	4,638	6,308	5,770	6,127
KA closing price(Ushs)	175	185	185	175	165	146	146	152	140	166	188	178
UCL closing price(Ushs)	4,635	4,667	5,030	5,030	5,030	5,030	5,025	5,030	6,100	6,130	6,130	6,220
Exchange/USD	1,821	1,820	1,830	1,845	1,850	1,851	1,885	1,930	1,985	2,000	2,000	2,010

Note

Bank of Baroda, Uganda (BOBU) listed in November 2002
Exchange Rate - Citibank Exchange Rate as at end of the month
Closing Price - Share Price at the close of the Month

Source: USE Trading Department

Trading volumes and activity on a quarterly basis: 2002/2003 Fiscal Year

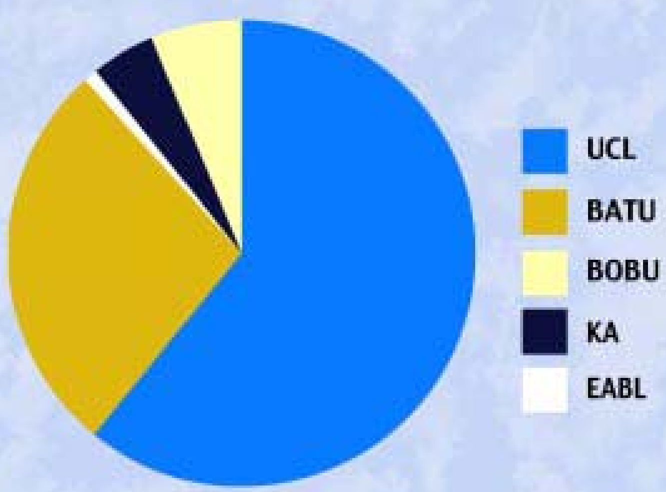
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Number of Shares Traded	410,934	125,589	7,358	40,603
Turnover (Ushs)	915,631,171	89,433,310	24,444,870	78,645,380
Number of Deals	137	67	69	164
Trading Days	26	22	23	24
Monthly Average				
Turnover (Ushs)	305,210,390	29,811,103	8,148,290	26,215,127
Monthly Average Number of Trades	46	22	23	55

Source: USE Trading Department

Activity per Counter

During the 2002/2003 fiscal year, the Uganda Clays counter recorded a turnover of Ushs 704,269,421 with the BATU counter recording a turnover of Ushs 318,164,095 and the new entrant BOBU registering a turnover of Ushs 73,065,000. For the cross listed companies, a total volume of 11,668,394 EABL shares and 51,461,766 KA shares were traded in 2,199 and 4,065 deals respectively. The general increase in turnover can be attributed to the listing of the BOBU share which offered equity investors with yet another product following its successful IPO, which improved awareness of the stock market, as well as the continued good performance of the listed companies.

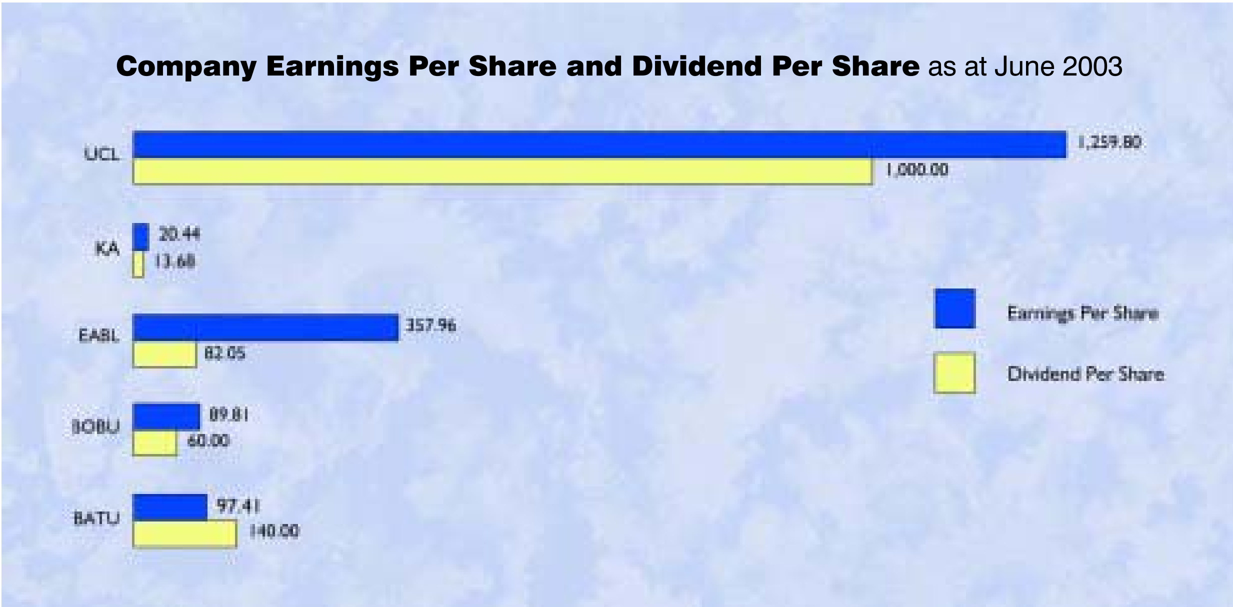
Turnover per Counter for Fiscal Year 2002/2003



Source: USE Trading Department.

Secondary Market Activity under the Primary Dealer System

In February 2003, Bank of Uganda introduced a Primary Dealer System to play the market making role for Government Securities on the Primary and Secondary market. The current list of Primary Dealers includes Standard Chartered Bank Uganda Ltd, Bank of Baroda Uganda Ltd, Barclays Bank Uganda, Stanbic Bank Uganda and DFCU Bank. As at June 30th 2003, secondary market volume of Ushs 8.45 bn has been recorded.

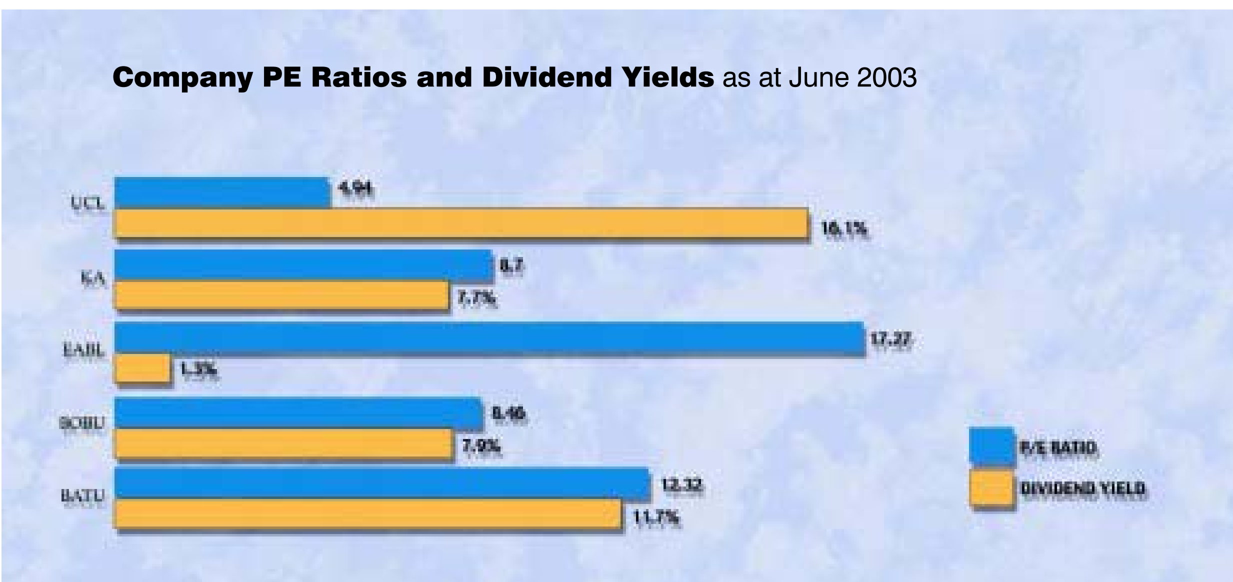


Source: USE Trading Department

Note:
EABL and KA closing price = NSE closing price for 30/6/2003
Exchange Rates = Prevailing rates as at 30/6/2003

Dividends based on company results as follows: -

BATU Audited accounts for year ending December 2002
EABL Unaudited accounts for six months ending December 2002
UCL Audited accounts for the year ending December 2002
BOBU Audited accounts for year ending 31st December 2002
KA Audited accounts for year ending 31st March 2003



Source: USE Research Department

Note:

Earnings and Dividends based on company results as follows: -

EABL and **KA** closing price = NSE closing price for 30/6/2003
Exchange Rates =Prevailing rates as at 30/6/2003
BATU Audited accounts for year ending December 2002
EABL Unaudited accounts for six months ending December 2002
UCL Audited accounts for the year ending December 2002
BOBU Audited accounts for year ending 31st December 2002
KA Audited accounts for year ending 31st March 2003

Legal & Surveillance Report

Surveillance

The surveillance function of the Legal & Surveillance Department seeks to ensure compliance by the listed securities and the members of Uganda Securities Exchange Limited (USE) to the various Rules of the Exchange.

During the year under review, the Department made surveillance visits to the broker/dealer firms whose number by the end of the reporting period had been reduced to four. TransAfrica Finance & Securities Limited had its broker/dealer and investment advisor licenses suspended by the Capital Markets Authority (CMA) with effect from November 2002. In June 2003, the broker/dealer and investment advisor licenses of Uganda Commercial Bank Limited (UCBL) were revoked. At this point in time, UCBL had for all intents and purposes ceased to operate as an entity having been purchased by Standard Bank of Africa and was in the process of having its operations merged with Stanbic Bank Uganda Limited. The remaining firms namely Baroda Capital Markets (U) Limited, Crane Financial Services Limited, Equity Stockbrokers (U) Limited, and MBEA Brokerage Services (U) Limited continue to operate in compliance with the Rules of the Exchange as evidenced by the surveillance reports.

The number of listed equities increased to five with the listing of Bank of Baroda Uganda Limited in November 2002. On 30th June 2003, USE approved the listing of the Uganda Telecom Limited U.Shs.54 billion Medium Term Note Programme, the first telecom instrument to list on the Exchange. All the listed securities announced dividends during the year under review. Announcements regarding appointments of key personnel were also made. Kenya Airways appointed a new Group Managing Director and CEO, Mr. Titus Naikuni, while EABL appointed a new Company Secretary, Ms Madren Nderu and a new Group Finance Director Mr. Peter Fullam. Mr. Peter Ndegwa was during the year appointed as BATU Finance Director. USE continued to receive annual reports from the listed companies in good time.

Approval of Rules

CMA approved the USE Listing Rules and the USE Rules. The Rules will be forwarded to the FPC for drafting expertise and on completion will be sent back to the CMA for final endorsement.

The full text of the Rules will be available on the USE website.

Central Depository System

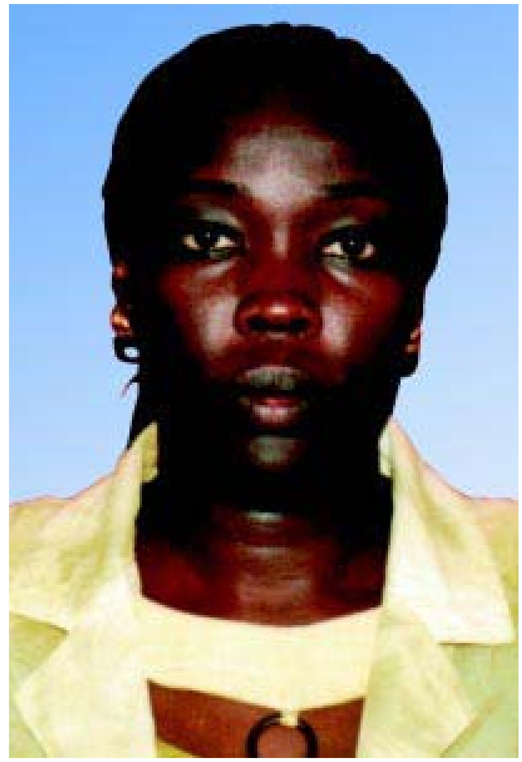
The process of establishing a Central Depository System (CDS) has commenced in Nairobi with the establishment of the Central Depository and Settlement Corporation (CDSC) a percentage of whose shares are reserved for USE and Dar es Salaam Stock Exchange (DSE). The software solution providers have permitted the use of their software in Kenya, Uganda and Tanzania.

USE awaits the realisation of the proposals made for the amendment of the Companies Act particularly the recognition of paperless securities, and CMA legislation for the regulation of the CDS. The Legal Department participated in the formulation of draft CDS Operational Rules under the auspices of the Legal Issues Committee of the East African Securities Regulatory Authorities (EASRA).

Training

The department participated in the Joint UNITAR/MEFMI Regional Workshop on Development and Regulation of Capital Markets for Eastern and Southern Africa held in Harare in August 2002. The Workshop discussed issues concerning debt and equity and explored the opportunities presented by the New Partnership for Development (NEPAD) for the financial sector.

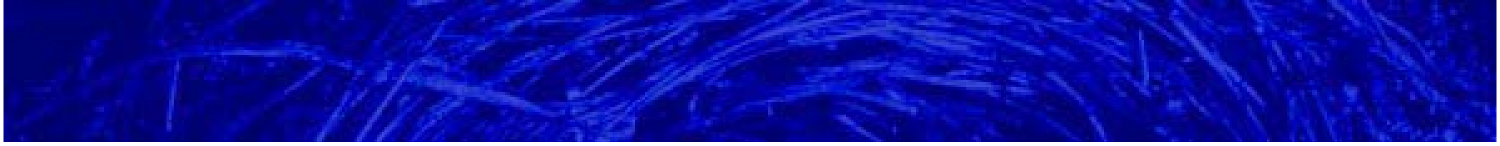
Corporate Governance has been recognised as an important factor in investor protection and in the success of a company. USE takes corporate governance issues very seriously and has during the year had the legal department undertake training in corporate governance offered by the Private Sector Corporate Governance Trust (PSCGT) of Kenya with funding from African Management Services (AMSCO) and the Africa Project Development Facility (APDF). The induction course was organised by the Institute of Corporate Governance of Uganda (ICGU).



Ms. Judy Obitre-Gama
Legal & Surveillance Manager

In June 2003, the legal department was represented in the World Bank/MEFMI/South African National Treasury funded Regional Workshop on Developing Government Bond Markets in Sub-Saharan Africa. A regional snapshot of sub-saharan Africa Government bond markets was given and a framework for building supply and demand for bonds was discussed. The role of primary dealers in a developed market was presented for comparative purposes. The pertinent question of the possibility of developing bond markets under high levels of macroeconomic risk was posed and answered in the affirmative. The issues were of great relevance to Uganda in her attempts at establishing a medium to long term government bond.

1. Directors of Bank of Baroda (U) Ltd at the BOBU Annual General Meeting.
2. Shareholders vote at the BATU Annual General Meeting.
3. MEFMI Guests attend the USE Tertiary Institutions Education Program
4. Brokers trading on the USE Floor.



(A Company Limited by Guarantee)

FINANCIAL STATEMENTS

30 JUNE 2003

(A Company Limited by Guarantee)

COMPANY INFORMATION
YEAR ENDED 30 JUNE 2003

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Workers' House
1 Pilkington Road, 2nd Floor, Northern Wing
P. O. Box 23552
Kampala

BANKERS

Stanbic Bank Uganda Limited
Corporate Banking Division
45 Kampala Road
P.O. Box 7131
Kampala

Citibank Uganda Limited
Corporate Banking Division
4 Ternan Avenue
P.O. Box 7505
Kampala

SECRETARY

Simon Rutega
P. O. Box 23552
Kampala

AUDITORS

Ernst & Young
Ernst & Young House
18 Clement Hill Road
Shimoni Office Village
P. O. Box 7215
Kampala

(A Company Limited by Guarantee)

REPORT OF THE DIRECTORS
YEAR ENDED 30 JUNE 2003

The directors submit their report and the audited financial statements for the year ended 30 June 2003 which show the state of the company's affairs.

1. PRINCIPAL ACTIVITIES

The company continues to provide, maintain and regulate suitable premises and facilities for conducting all the business of stock exchange and securities exchange.

2. RESULTS

The results for the year are set out on page 23.

3. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2003.

4. RESERVES

The reserves of the company are set out on page 24.

5. DIRECTORS

The directors who served during the year and to the date of this report were:-

- Baroda Capital Markets (U) Ltd.
- Crane Financial Services Limited
- Equity Stock Brokers (Uganda) Ltd.
- Geoffrey A. Onegi-Obel & Co. Limited
- MBEA Brokerage Services (Uganda) Ltd.
- TransAfrica Finance and Securities Ltd.
- Uganda Commercial Bank Ltd.

6. AUDITORS

Ernst & Young have expressed their willingness to continue in office in accordance with section 159(2) of the Companies Act.

By Order of the Board

19th November 2003

(A Company Limited by Guarantee)

STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 30 JUNE 2003

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the company. They are also responsible for safeguarding the assets of the company.

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

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

....	....
Director	Director
19th November 2003	19th November 2003

Ernst & Young

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF UGANDA SECURITIES EXCHANGE LIMITED

We have audited the financial statements on pages 22 to 30 which have been prepared on the basis of the accounting policies set out on page 26. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

As stated on page 20, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of the affairs of the company and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Financial Reporting Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the company at 30 June 2003 and of the surplus and cash flows for the year then ended and comply with International Financial Reporting Standards and the Companies Act.

Ernst & Young

KAMPALA

2 December **2003**

BALANCE SHEET AS AT 30 JUNE 2003

	Note	2003 Ushs	2002 Ushs
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	1(c) & 2	137,582,363	69,199,532
Investments	3	28,442,584	-
		166,024,947	69,199,532
CURRENT ASSETS			
Debtors	4	4,524,443	7,169,681
Short-term investments	5	47,923,000	-
Cash and bank balances	6	179,088,971	311,227,754
		231,536,414	318,397,435
TOTAL ASSETS		397,561,361	387,596,967
SHAREHOLDERS' FUNDS AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	7	-	-
Reserves	8	386,059,478	376,434,349
		386,059,478	376,434,349
CURRENT LIABILITIES			
Creditors and accruals	9	11,501,883	11,162,618
TOTAL SHAREHOLDERS FUNDS AND LIABILITIES		397,561,361	387,596,967

The financial statements were approved by the Board of Directors on 19th November 2003 and signed on its behalf by:-

Director

Director

INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 Ushs	2002 Ushs
INCOME			
Listing fees		445,557,293	424,578,100
Membership fees		6,000,000	7,000,000
Revenue grants		141,500,000	98,000,000
Capital grants		2,796,976	3,283,578
Miscellaneous income		15,243,179	12,102,701
		611,097,448	544,964,379
EXPENDITURE			
Staff costs		278,876,135	206,282,716
Depreciation		32,064,522	21,022,973
Audit fees and expenses		3,300,000	2,917,000
Other	10	313,801,146	223,703,711
		628,041,803	453,926,400
SURPLUS FROM CONTINUING OPERATING ACTIVITIES BEFORE TAXATION	11	(16,944,355)	91,037,979
TAXATION	12	-	-
NET SURPLUS FROM CONTINUING OPERATIONS AFTER TAXATION		(16,944,355)	91,037,979
NET (DEFICIT)/SURPLUS FOR THE YEAR		(16,944,355)	91,037,979

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2003

	Share Capital Ushs	Capital Grants Ushs	Retained Earnings Ushs	Total Ushs
At 1 July 2001	-	3,188,158	283,965,063	287,153,221
Surplus for the year	-	-	91,037,979	91,037,979
Capital grants during the period	-	1,526,727	-	1,526,727
Transfers	-	(3,283,578)	-	(3,283,578)
At 30 June 2002	-	1,431,307	375,003,042	376,434,349
At 1 July 2002	-	1,431,307	375,003,042	376,434,349
Deficit for the year	-	-	(16,944,355)	(16,944,355)
Capital grants during the year	-	29,366,460	-	29,366,460
Transfers	-	(2,796,976)	-	(2,796,976)
At 30 June 2003	-	28,000,791	358,058,687	386,059,478

CASH FLOW STATEMENT YEAR ENDED 30 JUNE 2003

	Note	2003 Ushs	2002 Ushs
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus before taxation		(16,944,355)	91,037,979
Adjustments for: -			
Depreciation		32,064,522	21,022,973
Amortisation of capital grants		(2,796,976)	(3,283,578)
Operating profit before working capital changes		12,323,191	108,777,374
Increase/(decrease) in debtors		2,645,238	(5,715,154)
Increase/(decrease) in short-term investments		(47,923,000)	73,822,500
Increase in trade creditors and accruals		339,265	1,426,406
Net cash from operating activities		(32,615,306)	178,311,126
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(71,080,893)	(19,367,927)
Long-term investment in central depository system		(28,442,584)	-
Net cash flow from investing activities		(99,523,477)	(19,367,927)
Net (decrease) in cash and cash equivalents		(132,138,783)	158,943,199
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	13	311,227,754	152,284,555
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	179,088,971	311,227,754

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are prepared on the historical cost basis of accounting.

b) Revenue Recognition

Membership fees and other income are recognised on an accrual basis.

c) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives at the following rates:

The annual depreciation rates in use are:

Office partitions	33 1/3%
Office equipment	12 1/2%
Furniture, fixtures & fittings	12 1/2%
Motor vehicles	25%
Computers	33 1/3%

d) Foreign Currency Transactions

Transactions during the year are converted into Uganda Shillings at rates ruling at the transactions dates. Monetary assets and liabilities at the balance sheet date which are expressed 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 income and expenditure account.

e) 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.

f) Revenue and Capital Grants

(i) Revenue Grants are recognised in the income and expenditure account in the year in which they are received and utilised.

(ii) Capital Grants are credited to a special capital grants reserve and written back against the income and expenditure statement over the useful lives of the assets financed by the grants.

2. FIXED ASSETS

	Office Partitions Ushs	Computer Equipment & Accessories Ushs	Vehicles Ushs	Fixtures, Fittings & Equipment Ushs	Total Ushs
Cost or Valuation					
At 1 July 2002	14,000,000	12,644,583	28,411,327	60,868,930	115,924,840
Additions	-	-	29,600,000	27,035,538	100,447,353
At 30 June 2003	14,000,000	12,644,583	58,011,327	87,904,468	216,372,193
Comprising					
Cost	14,000,000	12,644,583	26,884,600	60,868,930	114,398,113
Valuation	-	-	1,526,727	-	1,526,727
	14,000,000	12,644,583	28,411,327	60,868,930	115,924,840
Depreciation					
At 1 July 2002	9,722,223	9,371,120	13,692,375	13,939,590	46,725,308
Charge for the year	4,277,777	10,957,175	8,336,166	8,493,404	32,064,522
At 30 June 2003	14,000,000	20,328,295	22,028,541	22,432,994	78,789,830
Net Book Value					
At 30 June 2003	-	36,128,103	35,982,786	65,471,474	137,582,363
At 30 June 2002	4,277,777	3,273,463	14,718,952	46,929,340	69,199,532

3. INVESTMENT

This relates to investment in East African Central Depository system up to 2.5% shareholding bought on our behalf by the Nairobi Stock Exchange.

4. DEBTORS

	2003 Ushs	2002 Ushs
Interest receivable	935,791	-
Advances to staff	1,200,000	2,775,000
Brokerage commission	288,652	2,394,681
Membership fees	2,000,000	2,000,000
Refundable deposit	100,000	-
	4,524,443	7,169,681

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
	Ushs	Ushs

5. SHORT-TERM INVESTMENTS

Treasury Bills Investments	47,923,000	-

Treasury bill investments purchased on 21 May 2003 for 91 days maturity and were redeemed in August 2003.

6. CASH AND BANK BALANCES

Cash at bank - Stanbic Bank	589,878	653,878
Cash at bank - Citibank Ushs	136,349,237	248,238,899
- Citibank US$	42,012,206	62,209,827
Petty cash	137,650	125,150
	179,088,971	311,227,754

7. SHARE CAPITAL

The company is limited by the guarantee of its members who are licensed brokerage/ dealer firms.

8. RESERVES

Capital Grants	28,000,791	1,431,307
Retained earnings	358,058,687	375,003,042
	386,059,478	376,434,349

9. CREDITORS AND ACCRUALS

Prepaid membership fees	-	1,000,000
Refundable listing fees	3,084,032	3,084,032
Accruals	8,417,851	7,078,586
	11,501,883	11,162,618

10. OTHER EXPENSES

	2003 Ushs	2002 Ushs
CDS operational expenses	22,236,250	-
Advertising	2,358,300	1,300,000
Printing and stationery	5,078,570	3,028,964
Telephone, fax and postage	21,453,657	20,850,679
Maintenance costs	1,802,629	14,167,870
Venture capital initiative	22,463,580	14,634,072
Office rent	73,774,081	48,058,920
Newspapers, magazines and publication	19,842,223	9,528,980
Education, training and travel	96,180,854	92,782,453
Electricity and water	1,438,166	3,226,496
Subscriptions	6,025,000	10,297,500
Office general expenses	15,577,969	3,401,654
Sundry	25,569,867	2,426,123
	313,801,146	223,703,711

11. SURPLUS FROM CONTINUING OPERATING ACTIVITIES BEFORE TAXATION

The surplus before taxation is stated after charging:-

	2003 Ushs	2002 Ushs
Depreciation	32,064,522	21,022,973
Auditors’ remuneration	2,820,513	2,340,000

12. TAXATION

(a) Corporation Tax

Though the tax status of the company remains unresolved, no provision has been made in the financial statements. The company does not expect to pay any substantial amount of tax since revenue includes grants. In addition, for the current year, the company made tax losses.

(b) Deferred Tax

At 30 June 2003, the company had a deferred tax asset of approximately Ushs 262,038 related to the estimated taxable loss of Ushs 46 million. The deferred tax asset has not been recognised in the financial statements, as adequate profits may not be available to utilise the tax losses in the near future.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2003 Ushs	2002 Ushs
Cash at hand	137,650	125,150
Bank balances	178,951,321	311,102,604
	179,088,971	311,227,754

14. COMMITMENTS

There were no capital commitments as at 30 June 2003.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2003.

16. CURRENCY RISK

The company operates within Uganda and its assets and liabilities are reported in the local currency. It held no significant foreign currency assets and liabilities as at 30 June 2003.

17. EMPLOYEES

The average number of employees for the company during the year was eleven (2002 - 11).

18. INCORPORATION

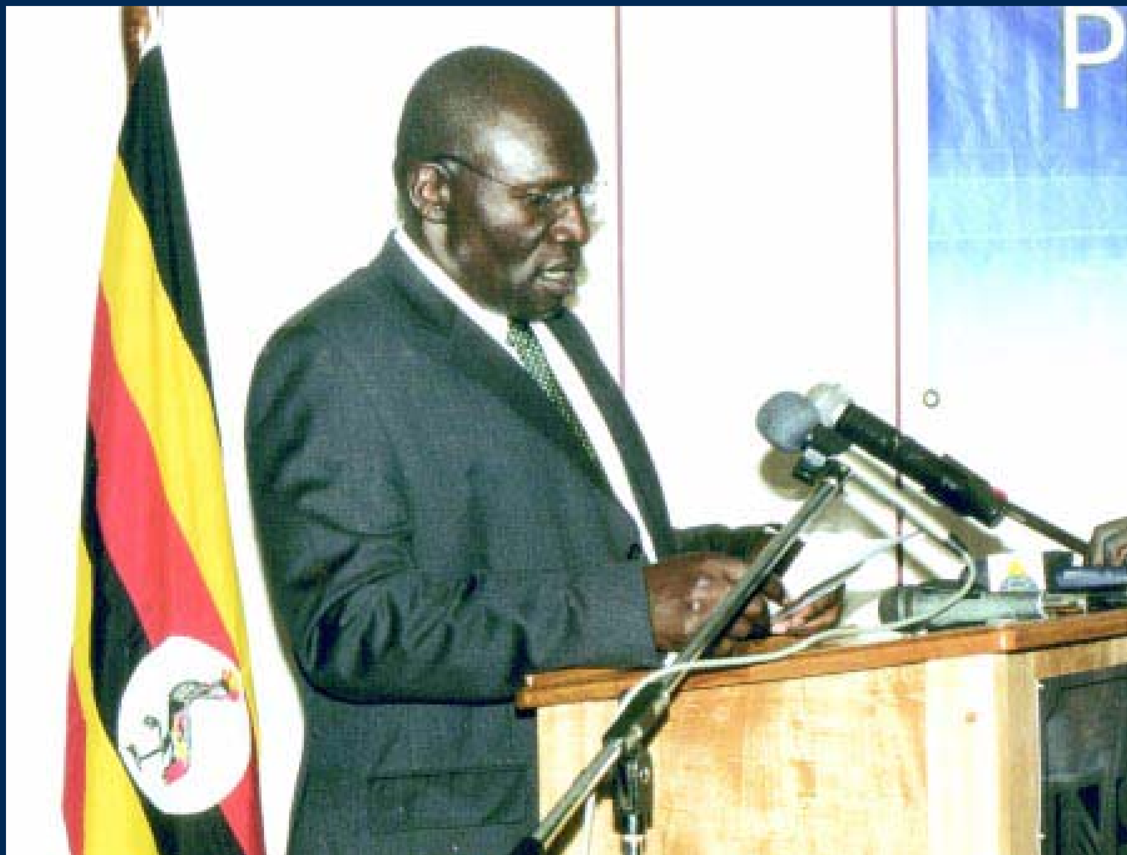
The company is incorporated in Uganda under the Companies Act.

19. CURRENCY

These accounts are presented in Uganda shillings (Ushs).

Launch of the USE Index, by H. E. Vice President - **Prof. Gilbert Bukenya**

PICTORIAL



1. **Mr. Onegi-Obel** makes speech;

2. **Mr. Simon Rutega** makes speech;

3. **Mr. Onegi-Obel** welcomes Vice President, H. E. Prof. Gilbert Bukenya;

4 & 5. **Vice President** hands out certificates to USE Securities Course participants;

6. **Vice President** launches USE All Share Index;

7. **Vice President** launches USE translated publications.

Member Firms

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P. O. Box 7197 Kampala
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Fax: 230781
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Tel: 341414 or 345345
Fax: 231578
Email: Cranebnk@imul.com
Broker/Dealer, Investment Advisor

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Fax: 236066
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Investment Advisor

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Website: www.mbea.net
Broker/Dealer, Investment Advisor