GOING FOR GOLD

USE
UGANDA SECURITIES EXCHANGE

Annual Report 2010

Cover Picture: Mr. Moses Kipsiro, Uganda's Double Gold Medalist
Commonwealth Games 2010 in New Delhi, India

GOING FOR gold

Contents

Chairman's Statement

I am pleased to present to you the Annual Report and Accounts for the year ended 31st December 2010. 2010 was a year that presented a broad mix of challenges and achievements across the global financial markets. Notwithstanding, amid the continued volatility and ongoing uncertainty, USE maintained its resilience and delivered a modest recovery from the depressed performance recorded in 2009. In a large part, the recovery reflects the sound and stable macroeconomic environment put in place by the Government.

Economic Review and Outlook

World

In 2010, a large section of the global economy was still dealing with the consequences of the 2008/09 financial crisis. Emerging powers (China, India, Brazil, etc.) that suffered minimum damage from the financial crisis continued their ascension to the international scene.

China surpassed Japan in terms of GDP and became the world's second largest economy. In the United States, a return to boom was not as intense as was predicted. Difficulties arising from the financial crisis continued to plague the economy and apprehension remained as financial risk persisted. In the Euro zone, the fiscal crisis in the periphery countries was far from being resolved and defaults which would have severe economic repercussions globally remained a genuine threat. Emerging powers and dynamic developing countries like Thailand, Turkey, Malaysia, Mexico, Indonesia, etc. enjoyed high growth rates due to their minimized exposure to the financial crisis.

Unlike some skepticism regarding the economic conditions of the third world, 2010 probably brought international limelight to the developing world as these markets continued to register relatively great economic performance.

Sub-Saharan Africa

Economic growth rate in Sub-Saharan Africa reached 5 percent in 2010 and could go up to 5.5 percent in 2011 after a notable drop to 2.5 percent in 2009, according to a report of the International Monetary Fund (IMF), Africa showed a lot of resilience during the world financial crisis and an economic revival that has continued despite some risks. The implementation of well-conceived economic policies before the meltdown of 2007-2009 is one of the reasons for the resilience which boosted the economic situation of most countries with regular growth, weak inflation, viable budget balances, increasing exchange reserves and an increasing public debt. The crisis however, left some marks as revealed by macroeconomic indicators including, a high unemployment rate. Notably, in South Africa, the crisis created high unemployment and deteriorated budget balances.

2011 Outlook

The two-speed recovery will continue. In advanced economies, growth shall remain subdued, with high unemployment and renewed stresses in the euro area periphery, which will exacerbate the downside risks. Activity in many emerging economies is projected to remain buoyant, inflation pressures are expected to emerge and there are already signs of overheating, driven in part by strong capital inflows. Most developing countries, particularly in sub-Saharan Africa, are projected to grow strongly. Global output is projected to expand by 4½ percent in 2011, an upward revision relative to the October 2010 World Economic Outlook (WEO).

Global Stock Market Performance

As financial markets struggled with the lingering effects of the sub prime crisis, many stock markets rose despite the low or poor economic growth. The U.S. market was a perfect example of this scenario. While the U.S. economy continued to struggle with high unemployment rates, slowing demand, more bank failures and other negative events, corporate profits rose and equities took off ending the year with double-digit returns for the S&P 500. Equity markets of countries with low or no debt woes like Denmark and Sweden performed well compared

"Future survival will require three broad strategies: first, exchanges must diversify to become multi-asset/product entities; second, they must move both upstream and downstream to grab more of the pre-trade and post-trade business; and third, they must expand their geographical reach by entering innovative and higher-growth territory. Reinventing our overall business strategy through growing our existing business, broadening our revenue streams and expanding our product diversity will henceforth be our immediate strategic focus."

to countries with significant debt problems like Spain and Greece. Chinese stocks ended the year in the red while other emerging markets like India and Russia were up by double digits. Many of the frontier and emerging markets beat the more developed stock markets by a wide margin. Small countries with medium-size markets such as Chile, Argentina, Philippines, Colombia, Malaysia, etc. produced higher returns than countries like India and China. African markets like Kenya, Ghana, Mauritius, South Africa, Nigeria and Egypt demonstrated impressive élan and continued to feature among the best performers in the World.

USE Performance

The slow recovery in the global financial markets coupled with the sluggish return in investor confidence resulted in a notable shift from equity to the relative safety of fixed income securities. Recovery in the equity market registered a dismal increase in turnover from the 2009 record. Financial service counters recorded stable activity while other counters remained unstable or subdued. The year also witnessed a gradual rebound in prices across various counters which bottomed out from the all time lows registered during the economic meltdown. The price increases experienced throughout the year, across the various stocks were a direct effect of supply and demand factors; demand consistently outstripped supply making it a seller's market throughout the year. Two notable reflections of the improved performance of the USE were the 62% increase in the All Share Index to 1,188 in 2010, from the low 732 recorded in 2009 and the excess demand on the various counters denoting increasing investor appetite.

Technological Advancement and Innovation

The ability of stock exchanges to keep their technology in step with market and regulatory developments is crucial. April 2010 saw the implementation of the Securities Central Depository (SCD) of the Uganda Securities Exchange (USE), ushering in a paperless clearing and settlement regime on the USE. Clearing and Settlement processes of the USE are now supported by a robust and efficient IT infrastructure. This development is a positive step towards achieving the Group of 30's (G30) standards adopted in 1989 to ensure that securities clearing and settlement world wide becomes simpler, safer and more efficient. The next phase in our technological advancement will be the automation of the trading platform. Full automation of the USE will bring forth the elements of efficiency, speed and certainty which are the bedrock upon which financial markets revolve. Other technology initiatives in the pipeline include: Connecting the USE depository to the Bank of Uganda Real Time Gross Settlement System (RTGS), moving to a Wide Area Network (WAN) to allow our members to initiate trades from the comfort of their offices, acquiring a Broker Back Office (BBO) system to provide a centralized and standardized solution to broker front and back end office operations and lastly, to integrate the Trading, Clearing and Settlement platforms of the EAC Partner State Stock Exchanges.

Product Development

The USE listed two new equities during the year, National Insurance Corporation, a Government divestiture product and Nation Media Group a cross listing from Nairobi Stock Exchange. With the increasing dearth of equity listings, exchanges are being forced to think long and hard about their strategies for growth amid increasing consolidation, competition and globalization. Future survival of exchanges will require three broad strategies: first, exchanges must diversify to become multi-asset/product entities; second, they must move both upstream and downstream to grab more of the pre-trade and post-trade business; and third, they must expand their geographical reach by entering innovative and higher-growth territory. Reinventing our overall business strategy through growing our existing business, broadening our revenue streams and expanding our product diversity will henceforth be our immediate strategic focus. Opportunities for innovative product offerings exist in among others, the bond market, SME/MSME listings, derivatives, commodities and technology services.

The East African Community Common Market Protocol

1st July 2010 marked the commencement of the operationalization of the East African Community (EAC) Common Market, following the ratification of the Protocol on the Common Market. The protocol allows free movement of goods, services, capital and labour in the bloc and is a significant development in Africa's quest to remove barriers to intra-trade. Huge trade opportunities are expected with the expanded market of a population of over 132 million people. Following the signing of the Treaty in 1999, the EAC economies have seen significant cross-border services intensify, benefitting from bold economic liberalization policies and measures effected in all the EAC Partner States. The entry of the Common Market Protocol will thus provide impetus to an already thriving cross-border services industry. The securities market is yet to be regionalized while the Cross border and IPO transactions continue to present unique challenges to the EAC markets. Removal of restrictions on capital flows will serve as a catalyst for capital market development and the create access to long term and risk capital most needed to spur economic development. At the EAC level, USE together with CMA have participated in various ongoing programmes towards the promotion of a regional capital markets regime.

Corporate Governance

The recent sub prime crisis and bankruptcies of various firms shook investor confidence in governance and over sight practices and intensified regulatory and stakeholder scrutiny. Global and domestic convergence of standards and quality control considerations, have risen to the forefront of stakeholders interests. Improvement in corporate governance is being viewed as a critical, if not fundamental, component necessary for change.

Stock exchanges are now faced with more regulation and prescription requirements from regulators and Government in a drive for greater transparency and in a bid to protect the investors' savings. As a Self Regulatory Organization (SRO), corporate governance is not only about our rules. It is about building a culture of openness and internal compliance to proactively promote good practices and move away from what were previously considered "norms" and entrench principles that propagate good governance through openness, inclusivity, integrity and accountability and translate these into practical implementable steps in our systems and processes. In fulfillment of this, the Governing Council among other things passed a resolution requiring all member firms of the USE to publish their final accounts. Member firm onsite inspections on compliance related matters were also conducted during the year while our continuing listing obligations provided a good expedient for protecting shareholder rights and ensuring equitable treatment of investors.

Directors

The Governing Council offered guidance on the company's strategic direction and its ongoing renewal process continued throughout the year. Mr. Samwiri Njuki, a long standing Member and Chairman of the Governing Council, and from whom I take over, resigned in April 2010 from the USE Governing Council to take up another posting. Mr. Simon Rutega, who served as the Chief Executive of USE since its inception in 1998 also resigned at the end of June to pursue a fellowship at the Harvard University. I would like to thank Mr. Njuki and Mr. Rutega for their significant contribution to the USE and wish them well for the future. I also wish to take this opportunity to welcome our new Chief Executive Mr. Joseph S. Kitamirike. Mr. Kitamirike is the immediate past Chief Executive Officer of National Housing & Construction Company and holds a B.Sc. (Eng) (Hons) in Mechanical Engineering from Makerere University and a MBA (Finance) from the University of Connecticut, USA.

Corporate Social Responsibility

Challenges in the business environment of the kind that were experienced in 2010 result in budget cuts for even the strongest corporate, and social programs are often the first to suffer the brunt. But as every responsible corporate knows when the economy takes a dip the need of the people is greater than ever. In response to our social responsibility, USE continued to support the well-being of selected local communities represented under Church parishes, Children's hospitals and Rural Schools.

Appreciation

In closing, I wish to thank the members of the Governing Council for their unwavering commitment, diligence and guidance during what was a challenging year. I also acknowledge with appreciation the support of the Bank of Uganda, Ministry of Finance, Planning and Economic Development, CMA, Private Sector Foundation and the World Bank. I would also like to thank the management team for steering the Exchange through a challenging 2010. I anticipate 2011 to be one of great opportunities and I am confident that with the cooperation of all market players the Exchange will deliver the 2011 – 2015 strategic objectives.

Charles Mbire
Chairman

USE Governing Council

Charles Mbire Chairman
Uganda Securities Exchange

Kenneth Kitariko, Director
African Alliance (U) Limited

A.R Kalan, Director
Crane Financial Services Limited

Pramod Gupta, Director
Baroda Capital Markets (U) Limited

Geoffrey Onegi Obel, Director
UAP Financial Services Limited

USE Governing Council

Agnes Mayanja, Director
DFCU Limited – Issuers' Representative

Samuel Njirwa, Director
Dyer & Blair (U) Limited

Maxwell Ibeanusi, Director
Equity Stock Brokers (U) Limited

Keith Kalyegira, Director
Renaissance Capital Limited

Robert Baldwin, Director
Crested Stocks & Securities Limited

Joseph S. Kitamirike, Chief Executive
Uganda Securities Exchange

Chief Executive's Statement

2010 was the second full year following the 2008 Global Financial Crisis. At the beginning of the year, expectations of global economic recovery were quite high, optimism having been fuelled by the Quantitative Easing strategies adopted in much of the Western world. Stock markets recovered and outperformed many benchmarks but they left job markets in their wake. Gold posted record highs at a time when debt markets had not fully regained their vibrant pre-crisis form. The Uganda Shilling lost a lot of ground against all major currencies, complicating a persistently successful story of macroeconomic management.

During the same year, half a world away in India, a young Ugandan, Moses Kipsiro, proved his style and mettle when he won Gold in the 5,000m and 10,000m races at the Commonwealth Games. His Quest for Gold and dramatic victory in two endurance races at the same event were most inspirational, especially so, knowing Kipsiro's humble beginnings. Kipsiro's victory reminds us of the words of Calvin Coolidge, President of America early in the 20th century, who once said "Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful people with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan "press on" has solved and always will solve the problems of the human race". Kipsiro's persistent investment in time and training, clear sightedness and focus on the expected prize, as well as his patriotism in sharing his victory with the Kenyan team he had vanquished and with his countrymen on his return inspired us.

USE too did Go for Gold in 2010! The USE ALSI (All Share Index) returned over 60% while NSE ALSI returned about 40% in 2010, both among the best in the World, underlining the emerging attractiveness of ALSI stock in our country and our region. A number of regionalization strategies have been agreed with counterparts in the East African region to drive the region to Gold and to avail our winning returns to a broader section of our countrymen. New strategies developed at both Exchanges promise to tap into the ALSI return by introducing Exchange Traded Funds (ETFs). USE on the other hand expects to introduce automated trading, trading of treasury securities, to activate an Alternative Investment Market Segment and to introduce derivative securities.

The role USE plays in mobilization of domestic savings and capital formation will see us spread our wings countrywide in a cam-

"Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful people with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan "press on" has solved and always will solve the problems of the human race". – John Calvin Coolidge, 30th President of the United States (1923–1929)

paign to encourage people to establish securities accounts on the Securities Central Depository (SCD) and immobilize their securities. Huge strides have been made since the SCD started operations. The bulk of the Ushs. 42bn traded in 2010 was transacted on the SCD, encouraging us to implement the Clearing & Settlement layer, involving the use of RTGS and SWIFT GLOBAL connectivity and the Automated Trading System. Our target for the SCD will be to reach a million unique investors in a period of two years.

Foundations have been laid for USE to provide the platform for raising funds for the proposed Uganda Infrastructure Fund and for the Securities Industry Training Institute (SITI) to provide specialized industry training that would be used in certifying and licensing professionals in the securities industry. A license agreement was signed with IFC, enabling SITI to access and provide training using modern materials.

2010 saw the cross listing of Nation Media Group (NMG) and the IPO of National Insurance Corporation (NIC), bringing the total number of equities listed on the USE to thirteen. Housing Finance also listed its bond during the year. This marks an average rate of one equity listing per year, which outperforms the NYSE in its formative years and NSE closer to home. We plan to attract more cross listings to USE, with a view to increasing the product diversity and liquidity of the USE.

Our new quest for gold at USE is achieving a million securities accounts. We shall persist with determination to reach that goal. In pursuing it, we shall encourage people to take up securities training in order to raise the level of knowledge and to build up the cadre of professionals required by the industry. In our sights as well, we envisage opportunities to list and trade stock in companies that will be active in the petroleum production sector and the SME sector. We shall press on every day, with those who are willing to emulate Kipsiro, not resting until we know that they too can Go for Gold and become the real victors in this race to establish and activate an account in the securities market.

Joseph S. Kitamirike
Chief Executive

Operations

Market Report

Equities Market

The modest turnover recorded in 2010 is symptomatic of the lingering effects of the global economic downturn. Turnover was up 100% in 2010 compared to 2009. Market capitalization rose 79% from Ushs. 7.1 trillion in 2009 to Ushs. 12.8 trillion in 2010.

Equities Market Performance

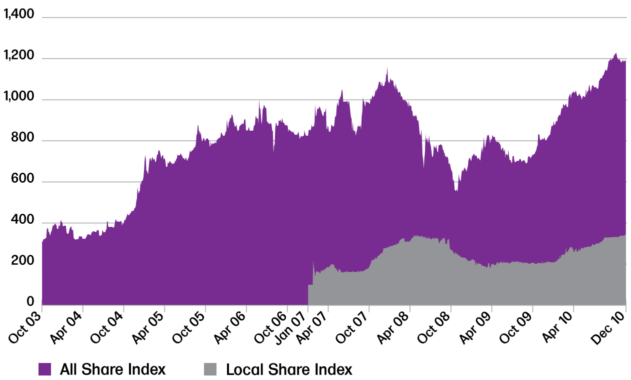
	1st Jan – 31st Dec 2010	1st Jan – 31st Dec 2009	% Change
Turnover (Ushs)	42bn	19.7bn	113%
Volumes (shares)	226.5m	123.2m	84%
Deals	4,960	5,698	(13%)
Trading days	151	150	
Daily average turnover (Ushs)	278.5m	131.6m	112%
Commission (Ushs)	117.7m	55.3m	113%
ALSI	1,188.07	732.53	62%
LSI	339.79	204.4	66.3%
Market Capitalization (Ushs)	12,769.17bn	7,120.45bn	79%

Source: USE Trading Department

Index Performance

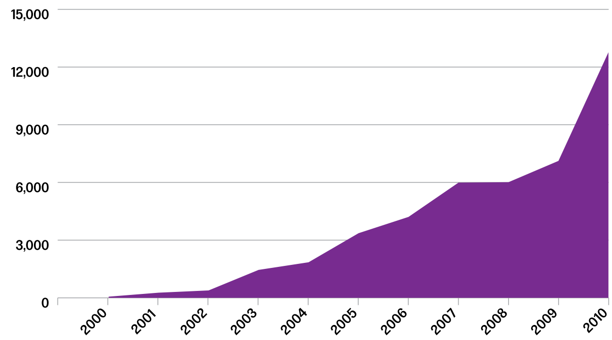
The All Share Index rose 62% from 732.53 in 2009 closing at 1,188.07 in 2010 while the Local Share Index rose 66% closing at 339.79 at the close of 2010.

USE Indexes as at 31st December 2010



Source: USE Trading Department

Market Capitalisation Growth
January 2000 to December 2010 (Ushs bn)



Source: USE Trading Department

USE Indexes	ALSI - All Share Index	LSI - Local Share Index
Base Value	100	100
High	1,229.88 (November 2010)	367.70 (March 2011)
Low	307.81 (October 2003)	98.99 (September 2007)
Opening January 2010	732.53	204.40
2010 low	730.76 (4th January, 2010)	204.35 (January 2010)
2010 high	1,229.88 (23rd November, 2010)	346.70 (December 2010)
Closing position December 2010	1,188.1	339.79

Source: USE Trading Department

New Listings

National Insurance Corporation

National Insurance Corporation listed on the USE on March 25th 2010 following a successful IPO which was over subscribed by 33%. National Insurance Corporation is the second insurance firm and the seventh local company to list on the bourse. The listing of the NIC shares saw a price appreciation of 33% on the first day of trading closing at the price of Ushs 60. 16.7 million shares where traded on the first day.

Right to Left: Mr. Simon Rutega, outgoing CE USE, Mr. Remi Olowude, Chairman NIC ringing bell to commemorate the listing, Andrew Owiny, MBEA Brokerage Services, Haji Twaaha Kawaase, Chairman CMA, Mr. Japheth Katto, CEO CMA

Nation Media Group

Nation Media Group (NMG) cross listed on the Uganda Securities Exchange on 19th October 2010; making it the sixth cross listing on the USE after East African Breweries Limited, Kenya Airways, Jubilee Holdings Limited, Kenya Commercial Bank and Equity Bank Limited. In Uganda Monitor Publications Limited is the Group's flagship, which prints among others the Monitor newspaper a well known daily newspaper among Ugandans, KFM a popular radio station and the NTV televsion station which broadcasts countrywide. Nation Media Group cross-listing in the region was a bid to foster the ideals of the East African Community Common Market Protocol.

Chairman Nation Media Group Mr. Wilfred Kiboro rings the bell to mark the listing accompanied by Hon. Ephraim Kamuntu Minister of State for Finance & Economic Monitoring

Operations

Fixed Income Securities Market

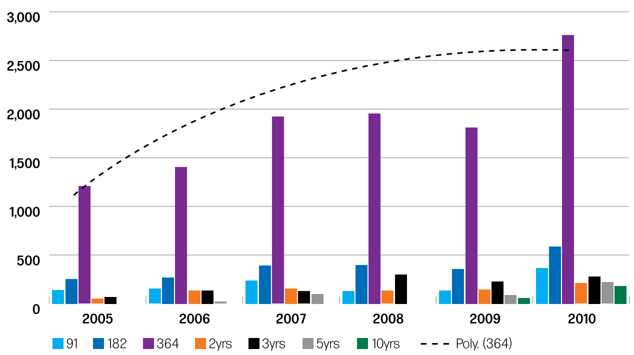
Government Bonds

Over the years, the Government has progressively continued to issue treasury bonds for purposes of implementing its monetary policy. Today the composition of Government debt ranges between short term, medium term and long term borrowing (fig 1). As at end December 2010, the total stock of treasury bills stood at Ushs. 1,960 billion whereas Treasury bond stock stood at Ushs 1,607 billion accounting for 54.95 percent and 45.05 percent (fig 2) respectively against the domestic debt strategy desired instrument mix of bills-to-bonds ratio of 40:60.

Government Bond Turnover

Bond turnover has been on the increase over the last three years. The increase in turnover points to considerable demand indicating that investors are shifting towards bonds for their perceived low risk and relatively high and predictable income streams. The turnover (fig 3) recorded in the year increased slightly by 4.3% from Ushs 1,144 bn to Ushs 1,193 bn in 2010. Interest rates on all tenors were on the rise throughout the year. The yield curve (fig 4) reflects the performance of the various tenors as at close of December 2010.

Fig 1: Uganda's Issuance in the Primary Market in Ushs bn (2005 - 2010)

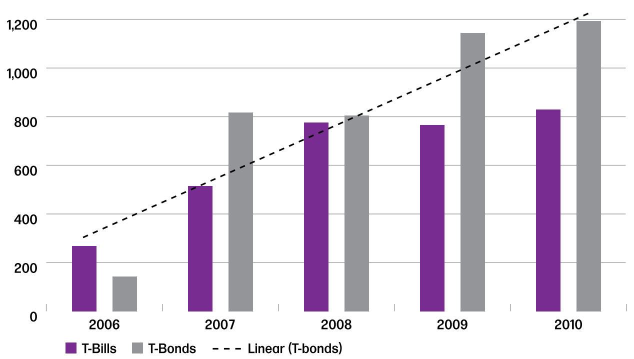


Source: Bank of Uganda

Fig 2: Government Securities Holdings in Ushs bn as at 31st December, 2010

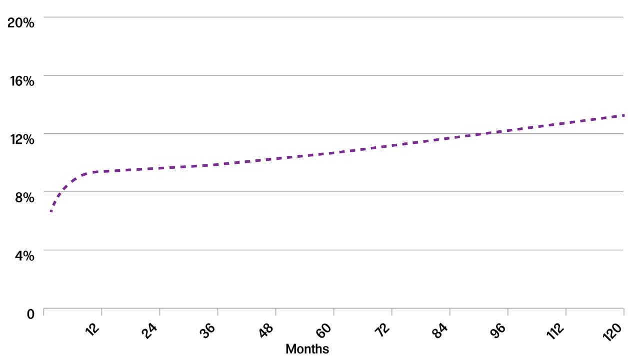
Source: Bank of Uganda

Fig 3: Volume of Trade in Secondary Market 2006 - 2010 (Ushs bn)



Source: Bank of Uganda

Fig 4: Government Bond Yield Curve as at 31st December 2010



Source: Bank of Uganda

Legal and Regulatory Framework

In the period of the report, the Exchange reviewed the Rules of the Exchange to ensure that they remain both relevant and responsive to market needs. To this end, the legal and surveillance department worked closely with the Capital Markets Authority and the broking community to ensure that legislative proposals take into the sentiments of the industry.

The USE Rules were amended to among other things:

- Permit a member to deal in the securities of a listed company to which such member is a subsidiary company. This Rule was relaxed on the back of an enhanced inspection regime aimed at curbing and detecting insider dealing and market manipulation;
- Offer preferential treatment for East Africa countries cross listing on the USE by prescribing lower fees for this category in comparison to companies from outside the region. This Rule enforces the regional integration objectives of the East African region.

The Department also made several proposals towards the amendment of the Exchange's Rule Book of 2003, unbundling of the single USE into its constitutive parts for greater scope, depth and ease of reference. It was also proposed that all applicable fees and penalties be contained in a distinct instrument for both ease of reference and future management.

Market Surveillance

Market surveillance is key in promoting fair, efficient and transparent operations on the Bourse, which in turn goes a long way in fostering investor confidence. As part of the market surveillance role, the Legal Department enhanced its on site inspection instrument and procedures to ensure a robust system of surveillance. In the period, the Department carried out two rounds of scheduled inspections of member firms as per the new surveillance regime. These scheduled inspections are augmented by ad hoc surveillance visits on a case by case basis. The Department also enhanced its compliance monitoring systems for both members and listed entities by establishing electronic registers to track continuing obligations.

Corporate Governance

As part of its corporate governance framework the Uganda Securities Exchange Governing Council is guided by the Governing Council Procedures Manual. In the period, the Department made several proposals towards enhancing this procedures manual into a comprehensive and contemporary Board Charter that will upgrade the corporate governance benchmark of the Exchange. In its technical work the Governing Council is assisted by six substantive committees namely; Audit Committee, Finance and Projects Committee, Human Resources Committee, Business Development Committee, Listing Committee and Legal Committee which operate on terms and conditions stipulated in the Governing Council's Procedures Manual.

Governing Council

During the period under review, the following governance changes took place at the Governing Council:

- The resignation of Mr. Samwiri Njuki from his position as chairman of the Exchange. Mr. Njuki had served in this capacity since 2007;
- The resignation of Mr. Simon Rutega from his position as Chief Executive. Mr. Rutega had served as the Chief Executive of the Exchange since its inception;
- The election of Mr. Charles Mbire as the new Chairman of the Exchange. Mr. Mbire, who is also the Chairman of MTN Uganda Limited and Invesco Uganda Limited, holds a prominent position in Uganda's private sector and several Directorships including Eskom Uganda Limited and Ecobank Uganda. He is also a Trustee of Kabale University, a member of the Uganda Presidential Investment Roundtable and a member of the World Economic Forum Global Agenda Council on HIV/AIDS. He was recently appointed as an IMF Regional Advisor for Africa;
- The appointment of Mr. Joseph S. Kitamirike as the new Chief Executive of the Exchange. Mr. Kitamirike was the immediate past Chief Executive Officer of National Housing & Construction Company and had previously held senior management positions in General Electric Capital Corp, Stanford, Connecticut, the Ministry of Trade, Tourism and Industry, Uganda Revenue Authority, Uganda Development Bank and Uganda Investment Authority. He holds a B.Sc. (Eng) (Hons) in Mechanical Engineering from Makerere University and a MBA (Finance) from the University of Connecticut, USA.

Operations

Information Technology

The IT infrastructure performed to expectations during the period under review with planned incidents of downtime mainly arising from infrastructure upgrades hence the health of IT systems at the USE in 2010 can be described as generally stable. The focus for the IT department in 2010 was the implementation of the SCD and its attendant infrastructural services both within USE and its stakeholders.

Systems

The systems run by the department include database systems, the corporate network connected to the internet, communications systems including public address systems, email and telecommunication; user applications and Anti-Virus software.

The long awaited SCD system was launched in Q1 characterised by smooth IT systems implementations. The department provided support in the stages leading to the go-live of the new system which was seamlessly integrated with the USE IT infrastructure, and IT and has since put in considerable effort to maintain the system, supporting users and enhancing the SCD to provide users and investors value added services. The first of many such services to come were the Biometrics identification system and the transaction notification service by which investors are uniquely identified and notified of transactions on their securities accounts at the close of each trading session.

The website (www.use.or.ug) was updated regularly with trading and market information, and together with the mailing list facility has been instrumental in disseminating information to the general public. It has been observed that the most visited page of the website is the data search facility that enables users to look at the historical trading of the Exchange since inception (2000).

The e-mail service at the Exchange were enhanced for capacity and value added services in 2010. Incoming inquiries are now centralized and internally routed to appropriate departments for response. The Email system continued to be an effective communication system used to distribute market reports to over 2,000 subscribers efficiently and effectively.

Incremental backups of the above systems were carried out daily to an offsite Data Recovery Site located 7km out of Kampala Central Business District. The automated backups of both data and electronic files were transferred on a daily basis to this site over a secure dedicated link.

Training on technologies

The IT staff attended local and international technical training sessions on SWIFT technologies and this was planned to build capacity for USE to implement SWIFT-enabled Delivery Vs Payment systems going forward. This training was supported by the Financial Markets Development Plan in conjunction with the Private Sector Foundation of Uganda.

The Future

The focus for the future remains consolidation of efforts of maintaining a functional SCD system and delivering more value added services like online account access for investors and all stakeholders. Implementation of an ATS and integration of systems in the EA region will also be on agenda in short to medium term strategy.

Efficiency and cost of IT systems will remain the key drivers of all IT departmental strategies in 2011.

APPOINTED SECURITIES CENTRAL DEPOSITORY AGENTS

Below is a list of Securities Central Depository Agents (SCDA's) who are authorized to transact on the Securities Central Depository (SCD).

Broker/Dealer firms

- African Alliance (Uganda) Ltd
- Baroda Capital Markets (U) Ltd.
- Crane Financial Services (U) Ltd.
- Crested Stocks and Securities Limited
- Dyer & Blair (Uganda) Ltd
- Equity Stock Brokers (U) Ltd
- Renaissance Capital Ltd

Custodian Banks

- Standard Chartered Bank Uganda Ltd
- Stanbic Bank Uganda Ltd

Securities Central Depository (SCD) Go Live 2010

The Securities Central Depository (SCD) system at USE was officially launched on 18th February, 2010 at a launch cocktail sponsored by the Private Sector Foundation Uganda (PSFU) and presided over by Hon. Aston Kajara the Minister of State for Finance in charge of Investments. Also in attendance was the Governor, Bank of Uganda Prof Emmanuel Tumusiime Mutebile and other dignitaries from key Institutions. In preperation for the SCD the launch, USE conducted several SCD sensitisation activities key among which were the nation wide media campaign, workshops and seminars and a series of special training sessions for the Securities Central Depositing Agents (SCDAs) and USE staff.

Chief Guest Hon. Aston Kajara Minister of State for Finance in charge of Investments (right) flanked by the outgoing Chairman of USE Mr. Samwiri Njuki (left)

Hon. Aston Kajara addressing the gathering

Prof Emmanuel Tumusiime Mutebile Governor BoU (right) at the SCD launch

Left to right: Outgoing CEO of USE Mr. Simon Rutega, Hon. Aston Kajara Minister of State for Finance in charge of Investments, Governor Bank of Uganda Prof Emmanuel Tumusiime Mutebile and outgoing Chairman of USE Mr. Samwiri Njuki

Operations

Uganda double 2010 commonwealth gold medalist of the 5000m and 10000m races in New Delhi, India. Mr. Moses Kipsiro opens his SCD account (left) and later rings bell to commence trading on the USE (right) accompanied by Mr. Joseph S. Kitamirike CEO, USE

SCD Implementation

Implementation of the SCD commenced with a special Account Opening phase specifically dedicated to creation and activation of shareholder accounts in the SCD. A key unique feature of the account opening process is the introduction of the biometric system to guarantee unique shareholder identification in the SCD. Account opening remains a continuous process under the SCD.

Settlement Bank

In effort to ensure smooth and efficient clearing and settlement under the SCD environment, USE appointed a single settlement bank to carry out all the settlement of securities cleared in the SCD. A Settlement Bank Agreement was signed off between USE and Stanbic Bank (U) Ltd. Settlement in the SCD regime is conducted through the New Business Online (NBOL) functionality, a secure and robust internet-based platform that enables the Exchange to:

view SCD Agents settlement account balances, to verify funds availability, authorize transfer instructions as per system generated settlement positions and, receive settlement confirmations.

Immobilization

Immobilization of the securities into the Securities Central Depository followed immediately after the account opening phase. By July 2010, all the equity securities listed on the USE had been immobilized into the SCD. Immobilization of corporate bonds into the SCD followed shortly afterwards.

INTRODUCING

SCD SECURITIES CENTRAL DEPOSITORY SYSTEM IN UGANDA

safer | faster | reliable

What is a Securities Central Depository (SCD) system?
An SCD System is one in which securities belonging to a particular investor are deposited into the custody of an electronic central depository such that transactions or transfers concerning such securities are executed in book entry form. This eliminates the risk associated with holding and transferring securities in certificate form.

How does the SCD work?
Briefly, the SCD acts like a bank for securities. Investors are required to open electronic accounts (just like bank accounts) on which their securities are deposited and held.

All transactions related to their securities (e.g. buy or sell transfers) will then be done through their accounts. *(Refer to the SCD Functions overleaf for more detail)*

How will the SCD be operated?
The SCD will be operated by the Uganda Securities Exchange through approved Securities Central Depository Agents (SCDAs). The Capital Markets Authority (CMA) will regulate SCD operations.

How will an investor access the SCD system?
Through Securities Central Depository Agents (SCDAs); which are institutions appointed by the Exchange to run SCD functions on behalf of their clients. Clients/ Investors will be required to submit their instructions to SCDAs through prescribed SCD Forms, which instructions shall be implemented on the system, on their behalf by SCDAs. SCDAs will be broker/dealers or custodians.

How many securities accounts can one shareholder have?
Under the SCD Framework, it is possible for a shareholder to open and maintain more than one Securities account. A shareholder will be allowed to open an account individually or as part of a joint account or organization. The only restriction is that a shareholder can only hold one type of account per SCDA. Please note that functionality has been created for the transfer of securities between a shareholder's different accounts.

Does the system support non-trading transfers of securities?
Yes. Eligible clients wishing to effect private transfers will be requested to approach their SCDA's and fill in the relevant forms; Clients wishing to transfer their securities from an account with one SCDA to another account with another SCDA, shall also be requested to approach their SCDA's and fill out the relevant SCD Forms.

Will an investor be allowed to hold paper certificates?
Yes. The new SCD structure allows for willing investors to continue holding paper certificates. Furthermore, the system allows for investors to withdraw their securities from the system and return to paper certificates. However, any investor wishing to trade through the USE will be required to deposit their securities with the SCD.

How will an investor be able to track activity on their accounts
The SCD is required by Law to distribute statements to all investors. However, the system also has the functionality to avail statements to interested parties upon request. Therefore, investors are encouraged to approach their SCDAs to request for statements as and when they might need them.

BENEFITS OF SCD

1	2	3	4	5	6
Enhanced efficiency due to ease and speed of transfer of securities	*Reduced risk of loss, theft, and/ or mutilation of securities certificates*	*Lower administrative costs*	*Enhanced investor confidence*	*Enhanced regulation*	*Reduced possibility of bad/wrong deliveries, clearing and settlement*

SCD Educational Campaign

An extensive nation wide media campaign was carried out to sensitize and educate the general public about the SCD relating to its operations, functions and implications to the investor. The sensitization exercise saw several members of the public opening accounts to deposit securities in the SCD. The campaign was sponsored by the Financial Markets Development Project (FMDP).

Market Development, Public Education and Capacity Building

USE BERI Forum

USE Conducted the 7th, 8th and 9th BERI Forum initiatives during the year under review, and the themes discussed during the fora were;

i Enhancing Government Bond Activity by opening up to Non-Bank Primary Dealers
ii The Relevance of the Oil Sector in the Future of Uganda's Economy
iii Private Equity, an Alternative Source of Capital
iv BERI Forum brings together market professionals and other key stake holders to discuss ways of promoting the issuance of bonds, equities and other related instruments as tools in the financial systems.

For more information, please visit the BERI section of the USE Website at www.use.or.ug

Small & Medium Enterprises Workshop

In efforts to attract SME & MSME listings USE together with Ernst and Young organized a one-day sensitisation workshop for Small and Medium Scale Enterprises (SMEs). The workshop mainly focused on the opportunities, requirements and benefits of listing on the SME Segment of the USE, also known as the Alternative Market Segment (AIMS). Close to 20 companies from the SME sector attended the workshop. Also discussed was understanding the IPO process for the Alternative Investment market Segment.

Small and Medium Scale Enterprises Workshop

Schools' Outreach

Under the public education efforts USE carried out in-house educational programmes for students with a quest to understand the operations of the Stock Market. This year, USE hosted students form Makerere University, Drake University-USA, Kampala International University, St. Henry's College Kitovu and Mbale Secondary School respectively.

Top left BERI Forum Hon. Jachan Omach, Minister of State for Finance and General Duties officiates at 8th BERI Forum and participants in the BERI Forum

Operations

Mr. Nick Kotch of Reuters training journalists on developing business reporting skills at SITI Training Institute

Reuters Training For Business Journalists

Uganda Securities Exchange through the Securities Industry Training Institute (SITI East Africa) conducted a five (5) day Thomson Reuters training under the theme "Writing and Reporting Business News" at which fifteen (15) Business Journalists received Thomson Reuters Certification. The objective of the training is develop the business reporting skills of journalists. The Thomson Reuters Foundation is an internationally recognized leader in intelligent information who provide training specially tailored for journalists.

SITI CIS workshop

The Securities Industry Training Institute SITI EAST AFRICA in collaboration with the Uganda Law Society and the Uganda Securities Exchange conducted a workshop on Collective Investment Schemes (CIS) at which several members of the Law Society were equipped with knowledge and skills on Collective Investment Schemes.

SITI Fundamentals Course Training

SITI East Africa organized a course on the fundamentals of the Capital Markets Industry. The two-day training program provided the participants with an overview of the Capital Markets, Securities Markets in the region and Investments Analysis in the region. Participants were awarded certificates of completion at the close of the training.

Regional Integration

Newly elected East African Stock Exchanges Association (EASEA) Board – Left to Right: Mr. Gabriel Kitua CEO Dar-es Salaam Stock Exchange, Mr. Celestine Rwabukumba, representing Rwanda Stock Exchange, Mrs. Rose Mambo CEO CDSC Kenya, Mr. Peter Mwangi CEO Nairobi Stock Exchange and Mr.Joseph S. Kitamirike, CEO Uganda Securities Exchange

East African Stock Exchanges Association (EASEA)

Members of the Dar es Salaam, Nairobi, Rwanda and Ugandan stock markets held their 16th and 17th EASEA meetings in the region and discussed among others the following issues:

- Development of guidelines for the handling of Regional Initial Public Offers (IPOs)
- Harmonization of regional awareness and sensitization programmes
- Development of regional infrastructure bonds
- Integration of the trading and clearing systems in the region
- Inter-depository linkages of the individual market depository systems

14th Annual ASEA Conference

The Zambian Stock Exchange hosted this year's 14th Annual African Securities Exchanges Association (ASEA) Conference in November 2010. The three-day conference under the theme "Integration of African Markets through Technology" was attended by several Market participants from all over the globe. Among the issues discussed were: the creation of a Pan African Hub and the harmonization of the financial sector and capital market development in financial systems, the development of African carbon market, creating liquidity in the African Capital Markets, bond market development strategies, valuation and research on African Markets, regulatory framework and current trends, investor protection and corporate governance, sovereign rating, private equity – trends and way forward in African capital markets.

Financial Sector Development Regionalization Program

A USD 70million project under the EAC and financed by the World Bank was launched in the first half of 2010. The objective of the project is to support the development and integration of the financial sector within the Partner States. The higher-level objective will be achieved through two back-to-back projects over an 8-year period. Financial Sector Development and Regionalization Project I (FSDRPI) will run from 2011 to 2012, and FSDRP II will run from 2013 to 2018. The project will be structured in five pillars and a base component of capacity building for the EAC Secretariat.

The pillars are:

- financial inclusion and strengthening market participants
- harmonization of financial laws and regulations against common standards;
- mutual recognition of supervisors;
- integration of financial market infrastructures;
- development of the regional bond market.

Regional Conference on the EAC Integrated Payment Settlement System

The East African Community Secretariat together with the African Development Bank (ADB) held a two-day workshop in Kigali Rwanda. Among the issues discussed during the workshop were the proposed way forward to support innovation, development and integration of the payment and settlement systems of the financial sectors within the region. The workshop attracted participants from various financial institutions in the region.

Financial Statements

Corporate Information

GOVERNING COUNCIL

Charles Mbire, Chairman

Keith Kalyegira
A.R Kalan***
Geoffrey Onegi Obel
Kenneth Kitariko
Agnes Mayanja
Samuel Njirwa**
Maxwell Ibeanusi *
Pramod Gupta***
Robert Baldwin****
Joseph S. Kitamirike, CEO

* Nigerian, **Kenyan, ***Indian, ****American

SECRETARY

Candy Wekesa Okoboi

REGISTERED OFFICE

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

AUDITORS

Deloitte & Touche
Certified Public Accountants (Uganda)
3rd Floor Rwenzori House
1 Lumumba Avenue
P. O. Box 10314
Kampala

BANKERS

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

Stanbic Bank Uganda Limited
City Branch
P. O. Box 7130
Kampala

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2010.

Principal Activities

Uganda Securities Exchange Limited is a company limited by guarantee and incorporated in Uganda under the Ugandan Companies Act. The principal activity of the entity is to provide, maintain and regulate suitable premises and facilities for conducting all the business of the securities exchange.

FINANCIAL RESULTS

	Ushs'000
Loss before taxation	(242,995)
Taxation	-
Loss for the year	(242,995)

The company is exempt from corporation tax.

Directors

The directors of the company constitute the Governing Council. The present membership of the Governing Council set out on page 20.

The changes to the Governing Council during the year are as indicated below;

Charles Mbire	Joined November 2010
Mark Harwood	Resigned January 2010
Samwiri Njuki	Resigned April 2010
Kaushal Kumar	Resigned April 2010
Simon Rutega	Resigned June 2010
Maxwell Ibeanusi	Joined January 2010
Andrew Owiny	Resigned June 2010
Joseph S. Kitamirike	Joined August 2010
Robert Baldwin	Joined March 2010
Keith Kalyegira	Joined March 2010
Pramod Gupta	Joined April 2010

Secretary

Candy Wekesa Okoboi	Joined March 2010

Auditors

Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Ugandan Companies Act (Cap.85).

BY ORDER OF THE BOARD

Secretary
Kampala
20 May 2011

Statement of Directors' Responsibilities

The Ugandan 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 the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation of financial statements in accordance with International Financial Reporting Standards and the requirements of the Ugandan Companies Act 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.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Ugandan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state 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.

Signed on behalf of the board of directors by;

Director
20 May 2011

Chairman
20 May 2011

Independent Auditors' Report

Report on the Financial Statements

To The Members of
Uganda Securities Exchange Limited

We have audited the accompanying financial statements of Uganda Securities Exchange Limited, set out on pages 24 to 41 which comprise the statement of financial position as at 31 December 2010, and the statement of 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 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 audit. 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 as to 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, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

"We believe that the audit evidence that we 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 2010 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Ugandan Companies Act.

Report on Other Legal Requirements

As required by the Ugandan Companies Act, 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 and statement of comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Uganda)
20 May 2011, Kampala

Statement of Comprehensive Income

for the Year Ended 31st December 2010

	Notes	2010 Ushs'000	2009 Ushs'000
Revenue			
Fees and commissions	7	1,044,805	815,376
Revenue grant	8	262,500	298,750
Capital grants realised	18	136,845	-
Other income	9(a)	163,693	213,937
Interest income	9(b)	79,404	169,462
Gross income		**1,687,247**	**1,497,525**
Expenses			
Operating expenses	10	(209,173)	(137,934)
Administration expenses	11	(721,673)	(558,014)
Staff costs	5	(999,396)	(1,001,456)
Loss before taxation	**6**	**(242,995)**	**(199,879)**
Taxation	21	-	-
Loss for the year		**(242,995)**	**(199,879)**
Other comprehensive income		-	-
Total Comprehensive Loss for The Year		**(242,995)**	**(199,879)**

Statement of Financial Position

for the Year Ended 31st December 2010

	Notes	2010 Ushs'000	2009 Ushs'000
Assets			
Non-current assets			
Equipment	12	140,396	170,625
Intangible assets	13	328,096	482,658
Unquoted investment	14	96,751	65,176
		565,243	**718,459**
Current Assets			
Trade and other receivables	15	163,914	736,224
Due from related parties	16(b)	64,636	6,911
Treasury bills	17	300,000	1,434,149
Bank and cash balances		1,811,079	387,184
		2,339,629	**2,564,468**
Total Assets		**2,904,872**	**3,282,927**
Equity And Liabilities			
Capital and Reserves			
Capital grants	18	273,691	410,536
Retained earnings		2,417,556	2,660,551
		2,691,247	**3,071,087**
Current Liabilities			
Trade and other payables	19	213,625	211,840
Total equity and liabilities		**2,904,872**	**3,282,927**

The financial statements on pages 24 to 41 were approved by the board of directors on 20 May 2011 and signed on its behalf by:

Director   **Chairman**

Statement of Changes in Equity

for the Year Ended 31st December 2010

	Capital Grants Ushs'000	Retained Earnings Ushs'000	Total Ushs'000
At 1 January 2009	410,536	2,860,430	3,270,966
Total comprehensive loss for the year	-	(199,879)	(199,879)
At 31 December 2009	**410,536**	**2,660,551**	**3,071,087**
At 1 January 2010	410,536	2,660,551	3,071,087
Amortisation of capital grants	(136,845)	-	(136,845)
Total comprehensive loss for the year	-	(242,995)	(242,995)
At 31 December 2010	**273,691**	**2,417,556**	**2,691,247**

Statement of Cash Flows

for the Year Ended 31st December 2010

	2010 Ushs'000	2009 Ushs'000
Cash Flows From Operating Activities		
Loss before taxation	**(242,995)**	**(199,879)**
Adjusted for:		
Depreciation	74,535	79,848
Amortisation	154,562	12,304
Amortisation of capital grants	(136,845)	-
	(150,743)	**(107,727)**
Changes in working capital balances		
Decrease/(increase) in trade and other receivables	572,310	(6,610)
(Increase)/decrease in amounts due from related parties	(57,725)	64,911
Increase/(decrease) in trade and other payables	1,785	(35,940)
Net cash generated from/(used in) operating activities	**365,627**	**(85,366)**
Cash Flows From Investing Activities		
Purchase of property and equipment	(44,306)	(1,567)
Purchase of intangible assets	-	(60,239)
Investment in SITI	(31,575)	-
Receipts/(investment) in Treasury Bills	1,058,450	(202,551)
Interest received on Treasury Bills	75,699	164,357
Net cash generated from/(used in) investing activities	**1,058,268**	**(100,000)**
Increase/(decrease) in cash and cash equivalents	**1,423,895**	**(185,366)**
Cash and cash equivalents at beginning of period	**387,184**	**572,550**
Cash and cash equivalents at end of period	**1,811,079**	**387,184**
Represented by:		
Bank and cash balances	1,811,079	387,184

1 GENERAL

Uganda Securities Exchange Limited is a company limited by guarantee and incorporated in Uganda under the Ugandan Companies Act.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

(a) New standards and amendments to published standards effective for the year ended 31 December 2010

Amendments and revised standards	Effective
IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured	1 Jul 09
IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease	1 Jan 10
IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items	1 Jul 09
Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs	1 July 2009 and 1 January 2010

New interpretations	
IFRIC 17, Distributions of Non-cash Assets to Owners	1 Jul 09
IFRIC 18, Transfers of Assets from Customers	Transfers received on or after 1 July 2009

(b) New and amended interpretations in issue but not yet effective in the year ended 31 December 2010

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 Jul 10
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 Jul 11
IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets	1 Jan 11
IFRS 9, Financial Instruments – Classification and Measurement	1 Jan 13
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 Jan 12
IAS 24, Related Party Disclosures – revised definition of related parties	1 Jan 11
Various improvements resulting from May 2010 Annual Improvements to IFRSs	1 July
IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues	1 Feb 10

New interpretation	
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	1 Jul 10

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

Notes To The Financial Statements

for the Year Ended 31st December 2010

Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)
The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Amendments to IFRS 7 Financial Instruments: Disclosures
(as part of Improvements to IFRSs issued in 2010)
The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

Amendments to IAS 1 Presentation of Financial Statements
(as part of Improvements to IFRSs issued in 2010)
The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Improvements to IFRSs issued in 2009 and 2010
Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier, the application of Improvements to IFRSs issued in 2009 and 2010 has not had any material effect on amounts reported in the consolidated financial statements.

IFRS 9, Financial Instruments
IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement 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. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognised 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant 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 that effect until a detailed review has been completed.

The amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets
These increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the company's disclosures regarding transfers of trade receivables previously effected. However, if the company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IAS 24 Related Party Disclosures (as revised in 2009)
This modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the company because the company is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the company has not entered into transactions of this nature. However, if the company does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

3 ACCOUNTING POLICIES

The principal accounting policies are set out below:

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable from provision of goods and services. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Fees and commissions are recognised on an accrual basis when the service has been provided.

Interest income is recognised on an accrual basis by reference to the principal outstanding and at the effective interest rate applicable.

EQUIPMENT

Equipment are stated at the cost of bringing the assets to their present location and condition less accumulated depreciation.

DEPRECIATION

Depreciation is calculated to write off the cost of property and equipment on a straight line basis using the following annual rates:

Motor vehicles	25.00%
Furniture and fittings	12.50%
Office partitions	33.33%
Computer equipment	33.33%

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Notes To The Financial Statements

for the Year Ended 31st December 2010

INTANGIBLE ASSETS

Software

Computer software is measured initially at purchase cost and amortized on a straight-line basis over its estimated useful life.

Capital grants

Grants related to the acquisition of assets are recognised in profit or loss on a systematic basis over the useful lives of the assets acquired.

Impairment of tangible and intangible assets

At each end of reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FINANCIAL INSTRUMENTS

Financial assets

Financial assets are recognised initially at cost using settlements date accounting. Held to maturity investments are subsequently measured at amortised cost while financial assets held for trading and available for sale are measured at fair value.

Loans, advances and receivables

Loans advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

Trade receivables are carried at an anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

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

Financial liabilities

Borrowings are classified as financial liabilities.

Derecognition
The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when its contractual obligations are discharged or extinguished.

Measurement
Financial instruments are initially recognised at fair value plus transaction costs.

Financials assets at ' fair value through profit and loss' are subsequently carried at fair value. Gains and loss arising from changes in the fair value in those assets are recognised in profit or loss in the period in which they arise.

Loans and advances and held to maturity investments are carried at amortised cost using the effective interest rate method.

Financial liabilities are subsequently measured at amortised cost.

PROVISIONS

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

RETIREMENT BENEFIT OBLIGATIONS

National Social Security Fund
The company makes contributions to the National Social Security Fund (NSSF) which is a statutory retirement benefit scheme established under the NSSF Act. This is a defined contribution scheme into which the company contributes 10% of the employees' gross cash emoluments. The company's contribution is charged to profit or loss as it falls due.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities at the end of the reporting period which are expressed in foreign currencies are translated into Uganda Shillings at the rate of exchange ruling at the reporting date. Foreign currency transactions during the year are translated into Uganda Shillings at the rates ruling at the transaction dates. The resulting differences are dealt with in profit or loss in the year in which they arise.

TAXATION

The company is exempt from corporation tax as per section 2 of the Income Tax Act .

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts.

COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes To The Financial Statements

for the Year Ended 31st December 2010

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

i) Critical accounting judgements in applying the bank's accounting policies

Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in profit or loss, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets, before a decrease can be identified with an individual assets in that portfolio. This evidence may include observable data indicating that there has been an adverse change in national or local economic conditions that correlate with impairment of assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The Company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, management evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

ii) Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by the directors in determining depreciation rates and useful lives of the items of property and equipment.

5 STAFF COSTS

	2010 Ushs'000	2009 Ushs'000
Health and travel insurance	22,695	20,879
Salaries and wages	762,648	772,767
Staff training	15,366	3,743
NSSF Contribution	74,883	74,979
Staff welfare	123,804	129,088
	999,396	**1,001,456**

6 LOSS PROFIT BEFORE TAXATION

The loss before taxation is arrived at after charging:

	2010 Ushs'000	2009 Ushs'000
Auditors' remuneration	15,673	21,065
Depreciation	74,535	79,848
Amortization of intangible assets	154,562	12,304

7 FEES AND COMMISSIONS

	2010 Ushs'000	2009 Ushs'000
Application and entrance fees	29,000	-
Brokerage commission	117,758	55,270
Equity listing	407,672	249,231
Membership fees	13,500	13,500
Bonds listing fees	476,875	497,375
	1,044,805	**815,376**

8 REVENUE GRANT

This is a grant received on an annual basis from Bank of Uganda to assist the company in carrying out its operations.

9 OTHER OPERATING INCOME

	2010 Ushs'000	2009 Ushs'000
a) Other income		
Securities Central Depository (SCD) Income	159,873	-
Income from training-Securities Industry Training Institute (SITI)	-	9,260
Miscellaneous income	3,346	181,829
Website advertising	474	414
Penalties	-	3,914
Foreign exchange gains	-	18,520
	163,693	**213,937**
b) Interest income		
Interest on earned Treasury Bills	75,699	164,357
Interest earned on current account	3,705	5,105
	79,404	**169,462**
Total other income	**243,097**	**383,399**

10 OPERATING EXPENSES

	2010 Ushs'000	2009 Ushs'000
Regional meetings and travel	65,991	44,221
Software licences	3,491	29,566
With Holding Tax	20,558	21,653
Hardware maintenance and repairs	2,638	3,432
Motor vehicle and equipment costs	6,170	14,830
USE courses, seminars and exhibitions	265	1,391
Central Depository System (CDS) operational expenses	80,425	3,135
Securities Industry Training Institute costs	8,903	4,886
Business development	7,735	3,574
ASEA expenses	8,499	11,121
Exchange loss	3,098	-
Public education	1,400	125
	209,173	**137,934**

Notes To The Financial Statements

for the Year Ended 31st December 2010

11 ADMINISTRATIVE EXPENSES

	2010 Ushs'000	2009 Ushs'000
Rent	237,606	226,896
Depreciation	74,535	79,848
Telephone, fax, post and email	47,158	48,678
General office expense	23,509	8,548
Board allowances	30,675	28,800
Insurance	9,678	6,441
Stationery and printing	14,329	11,237
Printing and publication	34,621	21,432
Membership and subscription	8,461	5,022
Office redesign expenses	-	3,963
Advertising and publicity	13,386	3,783
Consultancy	14,237	171
Amortisation	154,562	12,304
Bad debts	-	56,980
EASEA Secretariat	-	179
Newspapers and magazines	1,693	1,741
Bank charges	2,898	2,877
Electricity	13,290	6,695
Corporate social responsibility	3,300	1,705
Audit fees	15,673	21,065
Cleaning and fumigation	3,888	3,642
Entertainment	1,944	1,889
External legal services	315	1,699
Security	2,478	2,419
Fuel and Lubricants	12,695	-
Vehicle washing and parking tickets	742	-
	721,673	**558,014**

12 EQUIPMENT

	Motor vehicles	Furniture and fittings	Office Partitions	Computer equipment	Total
	Ushs'000	Ushs'000	Ushs'000	Ushs'000	Ushs'000
COST					
At 1 January 2009	176,267	171,240	1,819	192,458	541,784
Additions	-	1,567	-	-	1,567
At 31 December 2009	**176,267**	**172,807**	**1,819**	**192,458**	**543,351**
At 1 January 2010	176,267	172,807	1,819	192,458	543,351
Additions	-	30,287	-	14,019	44,306
At 31 December 2010	**176,267**	**203,094**	**1,819**	**206,477**	**587,657**
DEPRECIATION					
At 1 January 2009	38,722	95,245	1,819	157,092	292,878
Charge for the period	44,067	16,079	-	19,702	79,848
At 31 December 2009	**82,789**	**111,324**	**1,819**	**176,794**	**372,726**
At 1 January 2010	82,789	111,324	1,819	176,794	372,726
Charge for the year	44,067	15,918	-	14,550	74,535
At 31 December 2010	126,856	127,242	1,819	191,344	447,261
NET BOOK VALUE					
At 31 December 2010	**49,411**	**75,852**	**-**	**15,133**	**140,396**
At 31 December 2009	**93,478**	**61,483**	**-**	**15,664**	**170,625**

13 INTANGIBLE ASSETS

	Capital grant-CDS software	Software	Total
	Ushs'000	Ushs'000	Ushs'000
COST			
At 1 January 2009	410,536	92,788	503,324
Additions	55,711	4,528	60,239
At 31 December 2009	**466,247**	**97,316**	**563,563**
At 1 January 2010	466,247	97,316	563,563
Additions	-	-	-
At 31 December 2010	**466,247**	**97,316**	**563,563**
AMORTISATION			
At 1 January 2009	-	68,601	68,601

Notes To The Financial Statements

for the Year Ended 31st December 2010

Charge for the period	-	12,304	12,304
At 31 December 2009	**-**	**80,905**	**80,905**
At 1 January 2010	-	80,905	80,905
Charge for the year	142,322	12,240	154,562
At 31 December 2010	142,322	93,145	235,467
NET BOOK VALUE			
At 31 December 2010	**323,925**	**4,171**	**328,096**
At 31 December 2009	**466,247**	**16,411**	**482,658**

14 UNQUOTED INVESTMENT

	2010 Ushs'000	2009 Ushs'000
Investment in East African Central Depository System	65,176	65,176
Investment in Securities Industry Training Institute	31,575	-
	96,751	**65,176**

The unquoted investment relates to an investment in the East African Central Depository System and Securities Industry Training Institute are classified as available for sale. This investment does not have a quoted market price in an active market and therefore its fair value cannot be measured reliably. It has therefore been carried at cost less accumulated impairment if any.

15 TRADE AND OTHER RECEIVABLES

	2010 Ushs'000	2009 Ushs'000
Trade	112,858	669,043
Others	21,247	51,641
Prepayments	29,809	15,540
	163,914	**736,224**

16 RELATED PARTY BALANCES AND TRANSACTIONS

a) Related parties include:

African Alliance Uganda Limited	Dyer and Blair Uganda Limited
Baroda Capital Markets Limited	Equity Stock Brokers (U) Limited
Crane Financial Services Limited	MBEA Brokerage Services Limited
Crested Stocks and Securities	Renaissance Capital Limited
UAP Financial Services Limited	

b) Amounts due from related parties

	2010 Ushs'000	2009 Ushs'000
African Alliance Uganda Limited	36,737	308
Baroda Capital Markets Limited	3,481	171
Dyer and Blair Uganda Limited	6,864	2,711
Crane Financial Services Limited	4,210	290
Equity Stock Brokers (U) Limited	4,004	1,824
MBEA Brokerage Services Limited	2,498	844
Renaissance Capital (U) Limited	3,462	734
Crested Stocks and Securities	3,355	29
UAP Financial Services Limited	25	-
	64,636	**6,911**

c) Related party transactions comprise

	2010 Ushs'000	2009 Ushs'000
Penalty charges	-	3,914
Brokerage commission	117,758	55,270
	117,758	**59,184**

d) Key management compensation

	2010 Ushs'000	2009 Ushs'000
Salaries and benefits	481,153	184,146

e) Directors' emoluments

	2010 Ushs'000	2009 Ushs'000
Board allowances	30,675	28,800

Notes To The Financial Statements

for the Year Ended 31st December 2010

17 TREASURY BILLS

	2010 Ushs'000	2009 Ushs'000
Treasury bills at redemption value: Maturing within 90 days	300,000	1,450,000
	300,000	**1,450,000**
Less: unearned interest	-	(15,851)
	300,000	**1,434,149**

18 CAPITAL GRANT

	2010 Ushs'000	2009 Ushs'000
Opening balance	410,536	410,536
Realised to income	(136,845)	-
Closing balance	**273,691**	**410,536**

This relates to capital grants received from the German Technical Cooperation (GTZ) that was used to purchase computer software. These assets are estimated to have a useful life of 3 years. The balance at the end of the current year represents the Central Depository System operating software that was fully implemented during the current year. Amortisation has been charged in the financial statements beginning the year of implementation.

19 TRADE AND OTHER PAYABLES

	2010 Ushs'000	2009 Ushs'000
Trade	65,953	7,960
Accrued expenses	126,380	193,880
Other	21,292	10,000
	213,625	**211,840**

20 FINANCIAL RISK MANAGEMENT

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

a) Credit Risk
b) Liquidity Risk
c) Market Risk
d) Capital management

The company's principal business activity is to provide, maintain and regulate suitable premises and facilities for conducting all the business of the securities exchange.

The company is exposed to various risks, including credit risk, interest risk, liquidity risk and market risk. The company's risk management strategy is based on a clear understanding of the various risks, disciplined risks assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the clearing and forwarding industry best practices. The management is responsible for the assessment, management and mitigation of risk in the company.

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

The financial management objectives and policies are as outlined below:

a) Credit risk

The company's credit risk is primarily attributable to trade and other receivables, estimated by the company's management 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.

The amount that best represents the company's maximum exposure to credit as at end of year is made up as follows:

	Fully Performing	Past due	Impaired
	Ushs'000	Ushs'000	Ushs'000
Financial assets - As at 31 December 2010			
Bank balances	1,811,048	-	-
Trade and other receivables (less prepayments)	134,105	-	-
Due from related parties	64,636		
	2,009,820	**-**	**-**
Financial assets - As at 31 December 2009			
Bank balances	387,033	-	-
Trade and other receivables (less prepayments)	720,684	-	-
Due from related parties	6,911		
	1,114,628	**-**	**-**

Trade and other debtors under the fully performing category are paying their debts as they continue trading. The default rate is low. The directors do not consider the credit risk associated with the investment in Government securities to be significant.

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 through continuous monitoring of forecast and actual cash flows.

Notes To The Financial Statements

for the Year Ended 31st December 2010

	Fully Performing	Past due	Impaired
	Ushs'000	Ushs'000	Ushs'000
Financial assets - As at 31 December 2010			
Bank and cash balances	1,811,048	-	-
Trade and other receivables	163,914	-	-
Total	**1,974,962**	**-**	**-**
Financial Liabilities - As at 31 December 2010			
Trade and other payables	213,625	-	-
Net liquidity gap	**1,761,337**	**-**	**-**
Financial assets - As at 31 December 2009			
Bank and cash balances	387,184	-	-
Trade and other receivables	736,224	-	-
Total	**1,123,408**	**-**	**-**
Financial Liabilities - As at 31 December 2009			
Trade and other payables	211,840	-	-
Net liquidity gap	**911,568**	**-**	**-**

c) Market risk

i) Interest rate risk
The interest rate risk exposure arises mainly from interest rate movements on the company's investments in treasury bills (note 17). However, this exposure is not deemed significant.

ii) Foreign exchange risk
The company's operations are predominantly in Uganda where the currency has been relatively stable against the major convertible currencies. Some of the expenses and income are denominated in foreign currency and therefore an exposure exists but not considered material.

d) Capital Management

The company manages its capital to ensure that it will be 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 stakeholders value.

The company is not subject to any externally imposed capital requirements.

21 TAXATION

The company is exempt from corporation tax. No current or deferred taxation have therefore been provided for in the financial statements.

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