GDC Geothermal Development Company

Green Energy for Kenya

2019 Annual Report & Financial Statements

WHO WE ARE

GDC is a fully government owned company in Kenya's energy sector. GDC was formed in 2008 as a special purpose vehicle (SPV) to accelerate the development of geothermal resources in Kenya.

OUR VISION

To develop 1065MWe from Geothermal Resources by 2030.

OUR MISSION

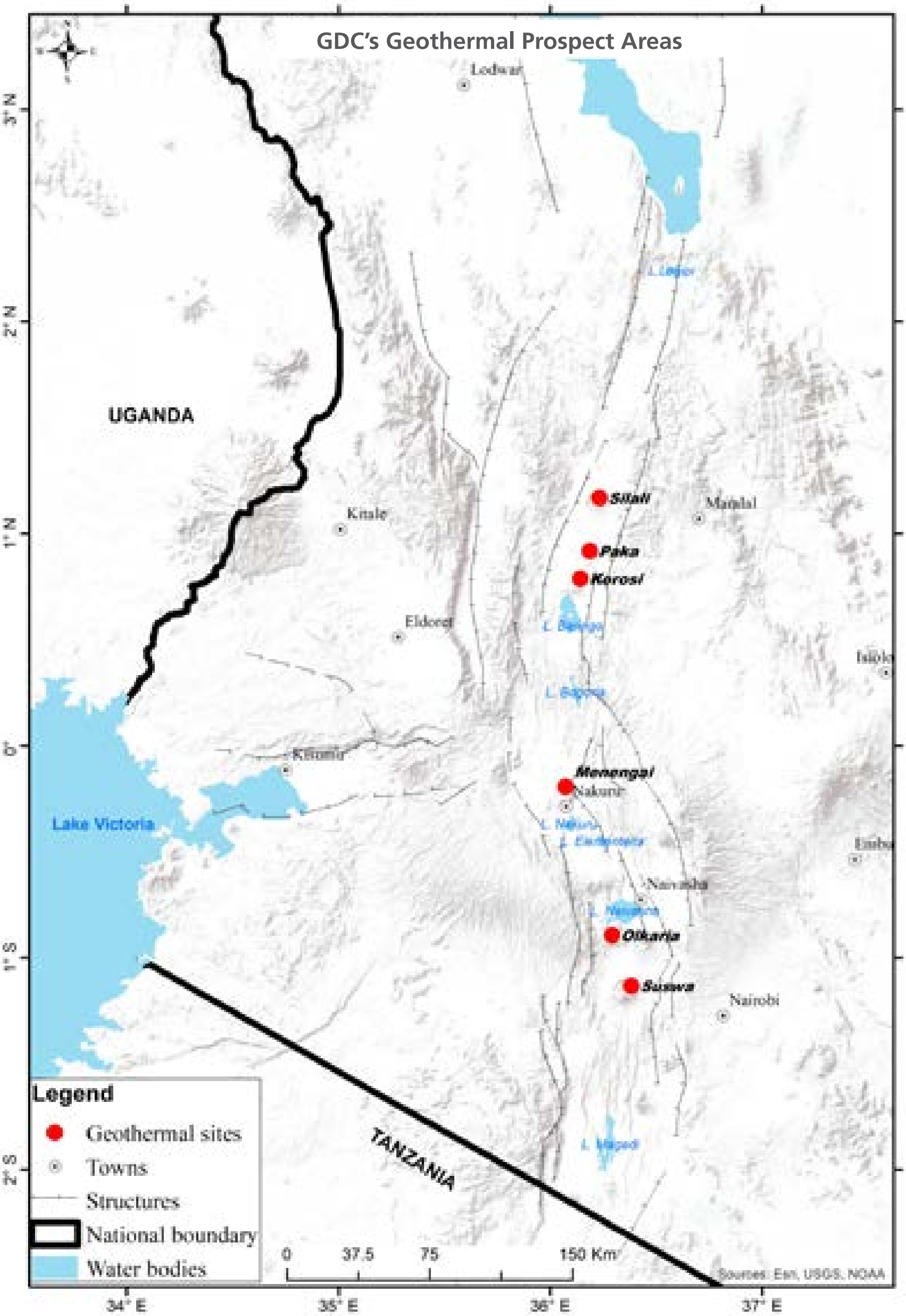
To reduce the cost of power in Kenya.

OUR CORE VALUES

- Integrity
- Professionalism

"Geothermal energy is derived from the natural heat of the earth stored in the geothermal rocks and is mined when a well is drilled to tap the fluid in the geothermal reservoir. The well is the conduit through which the fluid flows to the surface and is tapped for utilization."

Geothermal energy is derived from the natural heat of the earth stored in the geothermal rocks and is mined when a well is drilled to tap the fluid in the geothermal reservoir. The well is the conduit through which the fluid flows to the surface and is tapped for utilization. There are fourteen (14) high temperature and five (5) low temparature geothermal prospects located in the Kenyan Rift valley and other five (5) low temperature geothermal prospects. GDC projects are spread out in the following areas:




GDC

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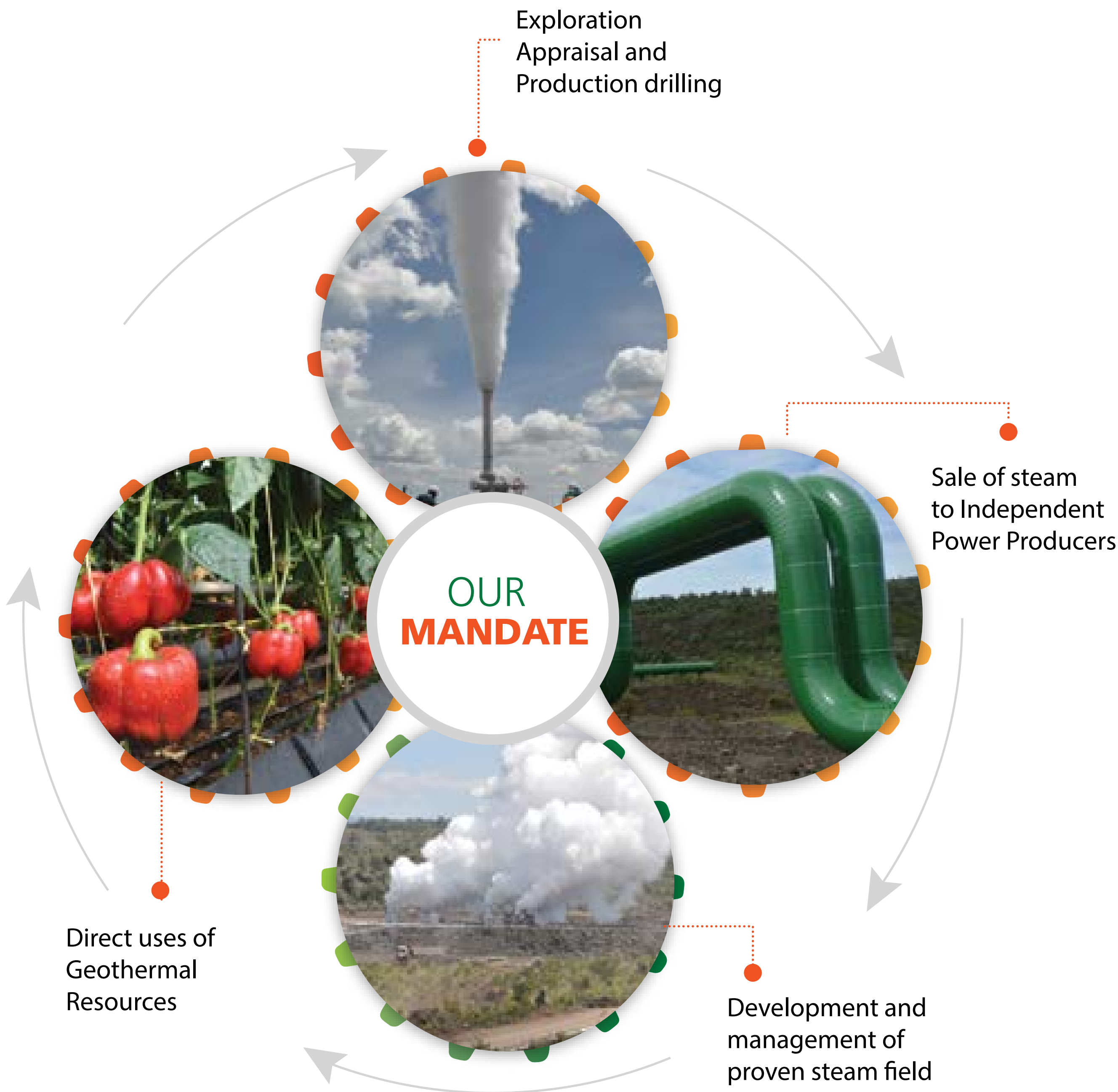
GDC AT A **GLANCE**



OUR **VALUE CHAIN**

01

FINANCIAL **CAPITAL**

Our funding sources are as follows:
- Exchequer disbursements
- Steam sales
- Development partners

02

HUMAN **CAPITAL**

The key to our success is hinged on our staff.

Total staff	**1,052**
Male	**735 (70%)**
Female	**317 (30%)**

03

INTELLECTUAL **CAPITAL**

Our innovation is driven by the desire to be the world leader in development of geothermal resources

04

SOCIAL AND **RELATIONSHIP CAPITAL**

Mutually beneficial relationships with our stakeholders is a key driver of our growth and success

05

NATURAL **CAPITAL**

Our operations are geared towards:
- Realization of the Sustainable Development Goals
- Compliance through environmental and social management plans

06

MANUFACTURED **CAPITAL**

Our structures and systems provide the basis for our operations

A **GDC engineer adjusts a valve** on the Steam Gathering System at the Menengai Geothermal Project

GDC **HISTORY/ MILESTONES**

2008

GDC incorporated as a special purpose vehicle to accelerate development of geothermal resources in Kenya

2009

GDC opened its offices, recruited staff and commenced drilling operations in the Olkaria geothermal field to avail steam for KenGen

2010

Acquired our first two (2) high capacity drilling rigs

2011

Discharged the first well in Menengai (MW-01) proving resource existence. The well has a capacity of 12.5MW.

2012

Received support from our partners to develop the Menengai Geothermal Project

2013

- Feasibility study for the power plant at the Menengai Geothermal Project commissioned.
- GDC invited bids from Independent Power Producers (IPPs) for power plant development for the Menengai Phase I Project.

2014

- Struck a 30 MW well (MW-1A) at Menengai
- Acquired three (3) additional high capacity drilling rigs.

2015

- Three IPPs competitively selected and awarded contract each to construct 35MW power plant for the Menengai Phase I Project.
- Launched Direct Use pilot projects at Menengai which include a geothermal-powered dairy unit, geothermal-powered laundromat, geothermal-heated fish pond and geothermal-heated greenhouse.

2016

Within the FY 2015/2016, earned revenue from steam sales worth approximately KShs. 3B from the Olkaria Geothermal Project in Naivasha.

2017

Completed construction of 25 km of additional access road and carried out maintenance of the already existing road network in the Bogoria-Silali geothermal project area.

2018

- Completed construction of the Steam Gathering System in the Menengai Geothermal Project.
- Carried out the first rig mobilization to Paka Prospect in the Bogoria- Silali Geothermal Project to commence drilling operations.
- International partnerships: Carried out capacity building consultancy program for a team from the Djibouti Office for Geothermal Development (ODDEG).
- Africa Geothermal Centre of Excellence (AGCE) approved 32 instructors from GDC staff to give training in various areas of expertise at the GDC's Centre of Excellence.

2019

- Grain dryer for Direct Use demonstration was installed and tested. Testing was successfully done using wheat and maize.
- Water supply system installed and commissioned in Bogoria-Silali Geothermal Project.

GDC **COMPETITIVE ADVANTAGE**

- Identification of GDC projects as government flagship projects;
- Highly-skilled and specialised personnel;
- Access to high potential geothermal resources;
- Seven (7) deep drilling rigs;
- First geothermal drilling simulator in Africa for capacity building;
- World class scientific equipment;
- Continued financial support from government and development partners;
- Competitive Staff benefits package: robust medical scheme, car loan scheme, mortgage scheme, flexi work hours.

DIRECT **USE**

One of the mandates of GDC is to promote and market geothermal direct use of geothermal energy. Direct Use is the utilisation of geothermal energy for other purposes other than electricity generation, mainly use of thermal energy for process heating in industries, agriculture and tourism. Apart from geothermal thermal energy, other geothermal by-products include gases (CO2, H2S), Minerals (Silica, Sulphur, lithium, boron and some trace of metal elements) as well as water.

Geothermal Direct use has many benefits such as:

- Enhance efficiency in energy utilisation
- Reliable and affordable energy to investors
- Utilisation of energy from low enthalpy wells
- Economic empowerment of local community
- Economic growth of the host counties
- Utilisation of geothermal by-products as raw materials for industries
- Employment creation
- Food security by enhancing value addition, irrigation, enhanced growth in heated greenhouses, and preservation of perishable food products
- Reduced carbon emissions
- Sale of carbon credits
- Revenue stream to GDC

Direct Use mainly uses heat not suitable for electricity generation. Such energy is from Separated brine after electricity generation or from low enthalpy wells not suitable for electricity generation (see Figure 1). Such an application increases energy utilisation efficiency and enhances the projects profitability.

" In milk pasteurisation, manufacturers can reduce upto to 70 percent of their heating costs by using geothermal energy."

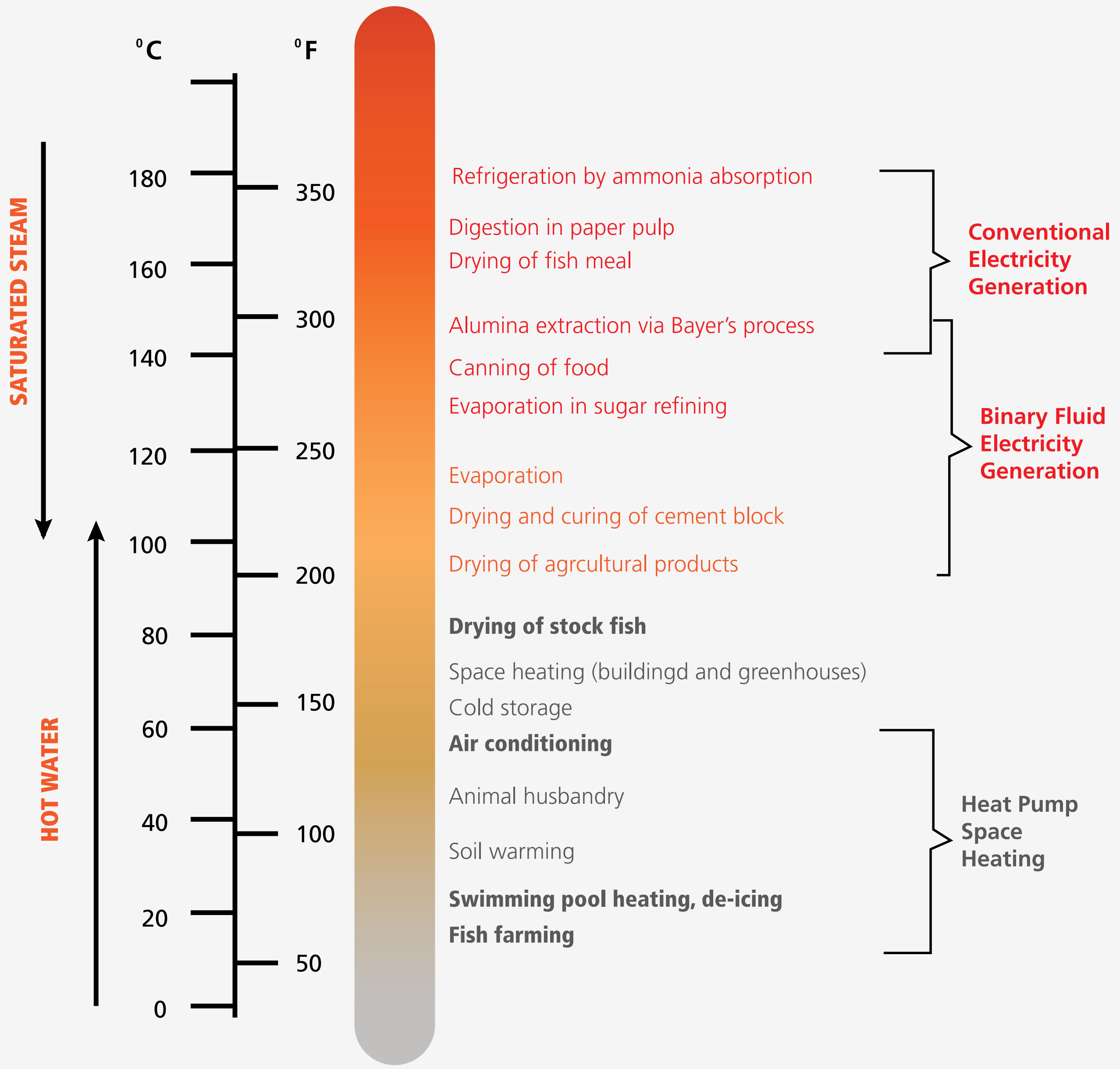
Besides electricity, geothermal energy provides direct heat to industrialists. This is a by-product of electricity in the form of steam coming from power plants at about 1500C. As a by-product, it is very cheap, yet, highly sought-after.

The heat is also used in the industrial drying of grains, fish, vegetables, tea, and pyrethrum and milk pasteurization. The geothermal fluid boosts tourist's paradise in form of medicinal spas. The list is endless.

In Nevada, United States, onions and garlic are dried using geothermal heat.

In New Zealand, geothermal power is used in paper manufacturing and seasoning timber. In Menengai, GDC has experimented the use of geothermal energy for milk pasteurisation, aquaculture, greenhouse heating and in a laundromat.

That is why we at GDC are excited that with more focus on the development of geothermal energy, Kenya will be very competitive in Africa as an investment destination. We are encouraging manufacturers to take advantage of this resource and our expertise.



°C
°F
SATURATED STEAM
HOT WATER
180
160
140
120
100
80
60
40
20
0
350
300
250
200
150
100
50
Refrigeration by ammonia absorption
Digestion in paper pulp
Drying of fish meal
Alumina extraction via Bayer's process
Canning of food
Evaporation in sugar refining
Evaporation
Drying and curing of cement block
Drying of agrcultural products
Drying of stock fish
Space heating (buildingd and greenhouses)
Cold storage
Air conditioning
Animal husbandry
Soil warming
Swimming pool heating, de-icing
Fish farming
Conventional Electricity Generation
Binary Fluid Electricity Generation
Heat Pump Space Heating

Figure 1

DIRECT USE OF GEOTHERMAL ENERGY- GDC'S INITIATIVES, ACHIEVEMENTS AND FUTURE PLANS (CONTINUED)

Since 2010, GDC has undertaken various studies to establish the viability of direct use projects in Kenya and in Africa. After three (3) years of study and evaluation done in collaboration with USAID, four small scale demonstration projects were set up in Menengai to utilise energy from a low enthalpy exploration well, which could not be used for electricity generation.

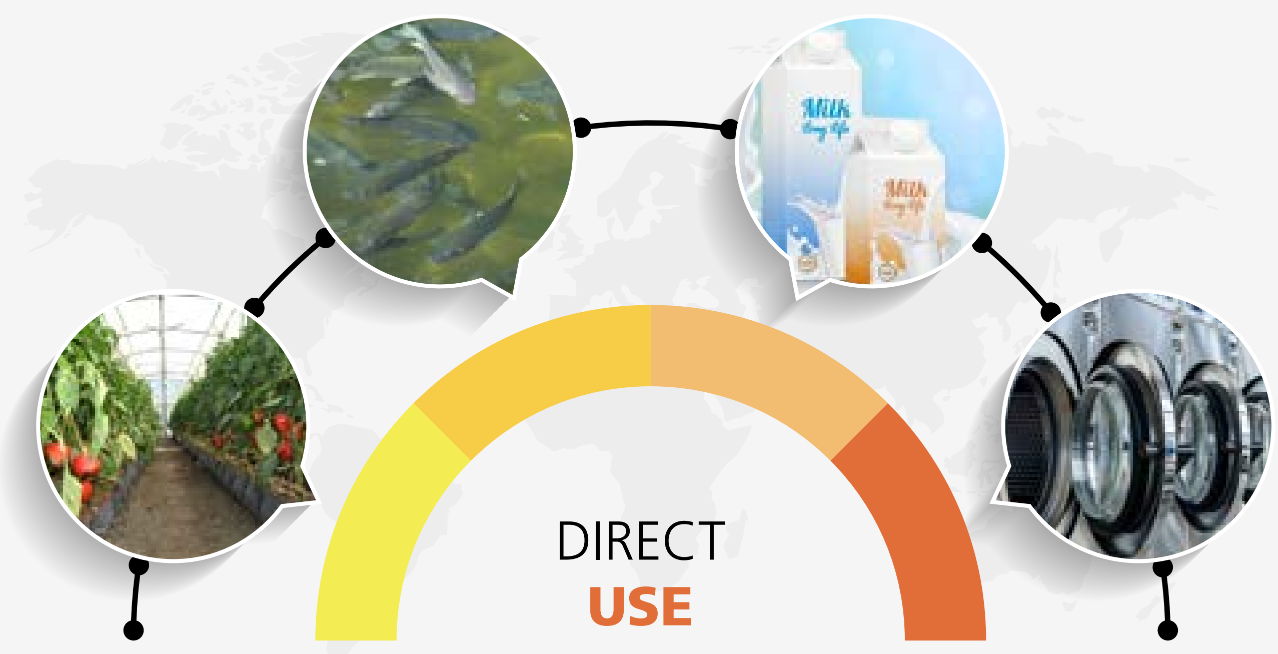
In 2019, after successfully demonstrating the technology for four (4) years, GDC in collaboration with ICEIDA set up a semi-commercial geothermal powered grain dryer. Several studies have been done and five (5) demonstration projects set up:

a. Geothermal Powered Milk Pasteurizer - 2015
b. Heated Greenhouse - 2015
c. Heated fish ponds - 2015
d. Geothermal Powered Laundry and Dryer unit - 2015
e. Geothermal Powered Grain Dryer - 2019

The studies and demonstration projects proved the viability and profitability of direct use. More than 3,000 groups, from local and international investors, learning institutions, donors, government representatives, community groups have visited the demonstration site.

GDC plans to partner with investors to commercialise the direct use projects. To maximize the benefit and efficiency of such projects, investments need to be located in a centralised place for ease of energy supply and profitability. Set up of an industrial park is proposed adjacent to the Menengai geothermal project.

A pre-feasibility study carried out by GDC shows that such a resource park is viable since there is enough energy, demand, land and other necessary required infrastructure. Stakeholders and their role and benefits at the proposed park have been identified.



COMPANY **INFORMATION**

BOARD OF DIRECTORS

MR. JOHN NJIRAINI
Chairman, with effect
from16th October 2019

ENG. JARED O. OTHIENO
Managing Director & Chief Executive Officer
with effect from 19th April 2020

ENG. JOHNSON P. OLE NCHOE
Ceased to be the Managing Director
and Chief Executive Officer
with effect from 17th April 2020

MR. NAMADA SIMONI
Director (Re-appointed on 8th February 2019)

MS. ANNE TOO
Director (Appointed on 6th June 2018)

DR. NELLY YATICH
Director (Appointed on 6th June 2018)

MR. KAMAU KURIA
Director (Appointed on 6th
June 2018)

MR. MWENDIA NYAGA
Director (Appointed on 8th February 2019)

MR. JOSEPH KARIUKI
Ceased to be the Alternate Director,
National Treasury with effect from
19th August 2019

MR. JOSEPH WARUIRU
Alternate Director, National Treasury with effect
from 19th August 2019

MR. TIMOTHY GAKUU
Alternate Director, Ministry of Energy

COMPANY SECRETARY
Ms. Beatrice Kosgei

REGISTERED OFFICE
KAWI House, South C
P.O. Box 100746 – 00101Nairobi

BANKERS
Co-operative Bank of Kenya Limited
Upper Hill, Nairobi

Kenya Commercial Bank Limited
Kipande House, Nairobi

AUDITOR
Principal Auditor
Auditor General
Office of the Auditor General, Anniversary Towers
P.O. Box 30084 – 00100 GPO,
Nairobi

Audit conducted on behalf of the Auditor General by;
Deloitte & Touche

Deloitte Place, Waiyaki Way, Muthangari
P.O. Box 400092 – 00100 GPO,
Nairobi

A **geothermal-heated greenhouse** in Menengai. Crops grow faster in a heated greenhouse. They are also less susceptible to fungi and frost.

CHAIRMAN'S **STATEMENT**

John Njiraini,
Chairman GDC Board

Dear Shareholders,

Over the years, GDC has established an elaborate infrastructure and solid corporate governance systems that are critical to the realization of the Company's goals. Indeed, through the insights gained from experience, meticulous investment in strategic assets and coupled with boundless support from the shareholders and financiers, GDC has made tremendous strides in the quest to provide the country with affordable and reliable clean energy from geothermal resources.

Suffice it to say, GDC has realigned its strategic thinking in tune with the "Big Four Agenda". Indeed, GDC understands that geothermal energy is a key economic enabler and will play a pivotal role towards manufacturing, food security, affordable health and housing. Besides, GDC is also firmly anchored in the Vision 2030 strategy. This explains our firm commitment and focus towards a fast-tracked geothermal environment. Our development models are designed to create a vibrant geothermal sector with the participation of the Independent Power Producers (IPPs).

Revenue

The Government of Kenya and external partners have been critical in financing the Company's operations.

In the financial year 2018/19, GDC received KSh. 2.01 Billion from the Exchequer and financiers towards capital expenditure, and KSh. 4.0 Billion from steam sales and exchequer recurrent budget.

> *"Indeed, GDC understands that geothermal energy is a key economic enabler in the achievement of the Government's policies on manufacturing, food security, affordable health and housing."*

2.01Bn
Received from the Exchequer and financiers towards capital expenditure

4Bn
Received from the from steam sales and exchequer recurrent budget.

2,936MW
Additional geothermal capacity to be developed by 2025

50, 000
No. of households accessing water within their vicinity

National Geothermal Strategy

Vision 2030 development agenda aims to transform Kenya into an industrialised nation that provides a high quality of life to all of its citizens. To achieve this, the Government of Kenya through the World Bank Energy Sector Management Assistance Program (ESMAP) has since developed a National Geothermal Strategy to identify the means by which to develop 2,936 MW of additional geothermal capacity by 2035. According to the national power development master-plan, geothermal power has been identified as the least cost alternative base-load power for Kenya. The GDC five (5) year strategic plan is aligned to the National Geothermal Strategy.

Stakeholder Management

The Company places great premium on stakeholder engagement. To this end, GDC has adopted a strategic and mutually-beneficial stakeholder management paradigm. Our collaborative and proactive relationship with stakeholders has enabled the Company to make key progress in its operations while enjoying bountiful stakeholder support and social license to operate. We have continuous multi-level engagements with the Government of Kenya, County Governments, financiers, local communities, and other specialised state and international agencies. The continuous interactions have also opened great opportunities for GDC to expand its operations and for capacity building.

GDC is also undertaking robust Corporate Social Responsibility (CSR) programs targeted at communities within our project areas. GDC is often a first-responder in the event of humanitarian situations in our project areas. GDC has also rolled out elaborate water supply network to communities around Bogoria-Silali Project, an arid and semi-arid area where water is scarce and highly prized. Our community engagement effort has seen over 50, 000 households accessing water within their vicinity.

Industry Outlook

Kenya's Big Four Agenda is heavily reliant on affordable and reliable energy. The agenda prioritizes manufacturing, universal healthcare, affordable housing and food security. The sheer demand for energy, especially in manufacturing, places GDC in a strategic position as a key player in national development as well as corporate growth and expansion. This positions geothermal energy at the center of this grand agenda.

Board Changes

During this year, one new member, Mr. Mwendia Nyaga, was appointed to the Board. He will serve for a period of three years. Mr. Namada Simoni, and Eng. Johnson P. Ole Nchoe, were reappointed to the GDC Board as independent non-executive director and Managing Director and CEO respectively. They will serve for a period of three and one year respectively. I wish to thank H.E. The President of the Republic of Kenya, Uhuru Kenyatta, for my appointment to serve as the Chair of the Board during the period. I also welcome the new Directors aboard and look forward to their valuable contribution. I also wish to express my gratitude to the Directors who have served during the year for their immense contribution towards the success of the Company.

We, the Board of Directors, express gratitude to the Government of Kenya, Development Partners, the management, staff and all our stakeholders for their continued support as we strive to achieve our mandate.

John Njiraini,
Chairman GDC Board

2019

TAARIFA **YA MWENYEKITI**

John Njiraini,
Chairman GDC Board

Wapendwa Wenye hisa,

Kwa miaka mingi sasa, GDC imeweka miundomsingi mathubuti na mifumo thabiti ya usimamizi wa kiushirika ambayo ni muhimu sana katika kuyatimiza malengo ya Kampuni. Ama kwa kweli, kupitia maarifa tuliyoyapata kutokana na tajriba yetu, uwekezaji uliofanywa kwa njia ya kipekee kwenye rasilimali ya kimkakati pamoja na usaidizi usio na mipaka ilioupata kutoka kwa wenye hisa na wafadhili, GDC imepiga hatua kubwa katika jitihada zake za kutoa kawi safi na ya bei nafuu kutoka rasilimali za kawi ya mvuke.

Ni vyema kusema kuwa, GDC imeoanisha mawazo yake ya kimkakati na "Ajenda Nne Kuu". Ama kwa kweli, GDC inaelewa kwamba kawi ya mvuke ni kiwezesha uchumi kikubwa na itachukua nafasi kubwa katika utengenezaji, utoshelevu wa chakula, afya na nyumba za bei nafuu. Kando na hayo, GDC pia ni mhimili mkubwa katika mkakati wa Maono ya 2030. Hii inaonyesha dhahiri kuhusu ahadi yetu thabiti na shabaha ya kuanza kuyatunza mazingira ya kawi ya mvuke. Miundo yetu ya maendeleo imesanifiwa ili kuweka sekta inayovuma ya kawi ya mvuke kwa kushiriki kwa Wazalishaji Huru wa Kawi (IPPS).

Mapato

Serikali ya Kenya na washirika wa nje wamekuwa washikadau muhimu katika kufadhili shughuli za Kampuni.

Katika mwaka wa kifedha wa 2018/19, GDC ilipokea Bilioni Ksh. 2.01 kutoka Wizara ya fedha na wafadhili kufadhili matumizi ya mtaji na Bilioni Ksh. 4.0 kutoka kwa mauzo ya mvuke na bajeti inayojirudia ya wizara ya fedha.

> *"Hakika, GDC inaelewa kwamba kawi ya mvuke ni kiwezesha uchumi kikubwa na itachukua nafasi kubwa katika utengenezaji, utoshelevu wa chakula, afya na nyumba za bei nafuu"*

Billioni
2.01
Zilipokewa kutoka Wizara ya fedha na wafadhili ili kufadhili matumizi ya mtaji

Billioni
4
Zilipokelewa kutoka kwa mauzo ya mvuke na bajeti inayojirudia ya wizara ya fedha.

MW 2,936
Uwezo wa ziada wa kawi ya mvuke kuzalishwa kufikia 2025

Kaya
50, 000
Zinafikia maji ndani ya maeneo wanapoishi

Mkakati wa Kitaifa wa Kawi ya Mvuke

Maono ya maendeleo ya 2030 yanalenga kugeuza Kenya kuwa nchi ya viwanda inayotoa maisha ya ubora wa juu kwa wananchi wake wote. Ili kufikia hili, Serikali ya Kenya kupitia kwa Mpango wa Usaidizi wa Usimamizi wa Sekta ya Kawi wa Benki ya Dunia (ESMAP) imeunda Mkakati wa Kitaifa wa Kawi ya Mvuke ili kutambua njia za kuzalisha MW 2,936 za uwezo wa ziada wa kawi ya mvuke kufikia 2035. Kulingana na mpango mkuu wa kitaifa wa maendeleo ya kawi, kawi ya mvuke imetambuliwa kama kawi mbadala ya gharama ya chini nchini Kenya. Mpango wa kimkakati wa miaka mitano (5) wa GDC umeoanishwa na Mkakati wa Kitaifa wa Kawi ya Mvuke.

Usimamizi wa Washikadau

Kampuni inategemea pakubwa kushirikishwa kwa washikadau. Kufikia sasa, GDC imekumbatia mageuzi ya kimkakati na ya manufaa kwa wote ya usimamizi wa washikadau. Uhusiano wetu wa kushirikiana na unaoendelea na washikadau wetu uliwezesha Kampuni kupiga hatua muhimu katika oparesheni zake huku ikifurahia msaada maridhawa kutoka kwa washikadau na leseni ya kijamii kuendesha shughuli zake. Tuna ushirikiano unaoendelea wa viwango anuai na wa mikondo mbalimbali na Serikali ya Kenya, Serikali za Kaunti, wafadhili, jamii za ndani na mashirika maalum ya nchini na ya kimataifa. Miingiliano inayoendelea pia imefungua fursa kubwa kwa GDC kupanua oparesheni zake na kwa kukuza uwezo.

GDC pia inaendesha mipango mikubwa ya Uwajibikaji wa Kijamii wa Shirika inayolenga jamii ndani ya maeneo yetu ya mradi. GDC mara nyingi huitikia haraka kukitokea hali za ubinadamu katika maeneo yetu ya mradi. GDC imezindua mtandao mpana wa usambazaji wa maji kwa jamii zinazoishi karibu na Mradi wa Bogoria-Silali, eneo kavu ambapo maji si ya kutosha na hulipwa kwa bei ghali. Juhudi zetu za kujihusisha na jamii zimesababisha kaya 50, 000 kuweza kufikia maji karibu nao.

Matarajio ya Siku Zijazo

Ajenda Nne Kuu za Kenya zinategemea mapubwa kawi nafuu na inayoweza kutegemewa. Ajenda hii inazipa kipaumbele utengenezaji, huduma ya afya nafuu kwa wote, nyumba za bei nafuu na utoshelevu wa chakula. Hitaji la kawi, hususan katika utengenezaji, linaweka GDC katika nafasi ya kimkakati kama mhusika muhimu katika maendeleo ya kitaifa pamoja na ukuaji na upanzi wa shirika. Hii inaweka kawi ya mvuke kama kiunzi muhimu katika ajenda hii kubwa.

Mabadiliko ya Bodi

Mwaka huu, mwanachama mmoja mpya, Bw. Mwendia Nyaga, aliteuliwa kujiunga na Bodi. Atahudumu kwa kipindi cha miaka mitatu. Bw. Namada Simoni, na Mhandisi Johnson P. Ole Nchoe, waliteuliwa tena kuhudumu katika Bodi ya GDC kama mkurugenzi huru asiye mtendaji na Mkurugenzi Mtendaji, mtawalia. Watahudumu kwa kipindi cha miaka mitatu na mwaka mmoja, mtawalia. Ningependa kumshukuru Mheshimiwa Rais wa Jamhuri ya Kenya, Uhuru Kenyatta, kwa kuniteua kuhudumu kama Mwenyekiti wa Bodi katika kipindi hiki. Pia ninawakaribisha Wakurugenzi wapya kwenye bodi na ninatazamia mchango wao wenye thamani. Pia ningependa kutoa shukrani zangu kwa Wakurugenzi ambao wamehudumu katika mwaka huu kwa mchango wao mkubwa kwa ufanisi wa Kampuni.

Sisi, Bodi ya Wakurugenzi, tunatoa shukrani kwa Serikali ya Kenya, Washirika wa Maendeleo, usimamizi, wafanyakazi na washikadau wetu wote kwa msaada wanaoendelea kutoa tukijizatiti kufikia wajibu wetu

John Njiraini,
Mwenyekiti wa Bodi ya GDC

2019

A section of the 25 KM Steam Gathering System at the Menengai Geothermal Project

MANAGING DIRECTOR
& CEO'S STATEMENT

Eng. Jared O. Othieno
Managing Director & CEO

Dear Shareholders,

It is with great pleasure that I present the Geothermal Development Company's Limited Annual Report and Financial Statements for the year ended 30 June 2019.

As a Special Purpose Vehicle, GDC is at a unique position to redefine the destiny of our great nation through the realization of geothermal energy. The Country is endowed with large potential of geothermal resources estimated at over 10,000 MW electric equivalent which remain largely untapped. The private sector have also been locked out from this economic sector due to the unfavorable upfront risk that is characteristics of this industry. The risk has proven a great huddle for private sector to overcome while at the same time assure the Country affordable tariff necessary for a competitive economy.

On the other hand, the Government recognizes that without the private sector participation, the sector which is known to be capital intensive will not grow in tandem with the economic needs of the nation for lack of the requisite development capital. Consequently, in the great wisdom of the Government, GDC was therefore formed and mandated to de-risk the geothermal resources and facilitate entry of the private sector.

In support of this Government effort, GDC has designed business models under the framework of public private partnership that will shield the private sector from significant risk but also assure the country very attractive tariff. In one of this model, GDC has engaged three independent power producers for development of 105 MW at Menengai. In addition, GDC has partnered with KenGen for the development of 325MW at Olkaria.

> *"GDC is alive to the global wave towards green energy and we are proud that we are part of this move that will safeguard the future of the environment and generations to come"*

29.49%
Asset base growth due to the completion of the vesting process of 59 wells

3,000 MW
Potential of The Bogoria-Silali Block which will be developed in three phases

105 MW
Menengai Geothermal project is at advanced stages of development

3.36 Bn
Revenue earned from the steam sales to Ken Gen

The tariff in both of this project is about UScent 7 per kilo watt hour.

GDC has further embarked, supported by exchequer financing, KfW and African Union Commission through Geothermal Risk Mitigation Facility (GRMF), on the development of 1065 MW by 2030. These include 465 MW at Menengai, 300 MW in Baringo Silali Block and 300 MW in Suswa. In Menengai 105 MW awaits construction of power plant, drilling has commenced for a second 60 MW plant and project preparation activities are in progress for the additional 300 MW. In Baringo – Silali road network and water supply has been constructed connecting Korosi, Paka and silali prospects. While I appreciate that the gestation period for realization of geothermal resource is relatively long, once availed the energy is low-cost, clean, reliable, and other direct use opportunities are enormous.

Indeed, Sustainable Development Goals (SDG)7 places a premium on universal access to sustainable electricity by 2030. Further, Kenya's National Development Strategy the Vision 2030 banks on reliable and affordable energy to spur industrial development. Clean energy will also be the key enabler for the Big 4 Agenda of Health, Manufacturing, Food Security and Affordable Housing.

GDC is alive to the global wave towards green energy and we are proud that we are part of this move that will safeguard the future of the environment and generations to come.

Year under Review

During the year, in line with the Company's mandate, GDC implemented several activities geared towards accelerating the development of geothermal resources in Kenya through surface exploration and drilling for steam in the Menengai and Bogoria-Silali Geothermal Projects.

Financial Position

The Company's asset base grew by 29.49% from KSh. 78B in June 2018 to KSh 101B in June 2019. The increase is attributed to the completion of the vesting process of 59 wells at the Olkaria Geothermal Project and the ongoing development of the Menengai and Bogoria-Silali Geothermal Projects.

Revenue decreased marginally to Shs. 3.4 billion from Shs. 3.6 billion mainly due to maintenance of the plant in Olkaria during the year. The Company recorded profit before tax of Shs. 1.2 billion compared to previous year's profit before tax of Shs. 2.2 billion.

The company's net profit for the year was Shs 490,633,131 (2018: Shs 1,429,741,000).

Performance Overview

The GDC 2018/2019 Financial Year activities focused on the continuation of existing programmes in the Olkaria, Menengai and Bogoria-Silali Geothermal Projects.

The Menengai Geothermal Project's focus was on two major activities: (i) Completion of the Steam Gathering System for the 105MW project and (ii) Drilling operations for for the 60MW project.

During the year, GDC participated in and facilitated the processes of financial closure for two IPPs - Quantum Power East Africa (QPEA) and Sosian-Menengai Geothermal Power Ltd - to enable them commence the construction of 35 MW each power plant at the Menengai Geothermal Project.

GDC also continues in its efforts to facilitate another IPP namely OrPower 22 towards achieving financial close and eventual commencement of power plant construction.

In the year, GDC completed the construction of the Steam Gathering System in Menengai. This is a core infrastructure that will be used to transport steam from various wells to the three power plants that will generate 105MW. We also drilled four wells within the Menengai project. As at year end, the total cumulative steam realized in the Menengai Geothermal Field stood at 170 MW.

In the Bogoria-Silali Geothermal Project, GDC targeted to carry out the following project activities: (i) Drilling of wells (ii) the construction of drill pads, (iii) the construction of access roads, and, (iv) operation and maintenance of existing project infrastructure.

The following outcomes were achieved: i) GDC drilled and discharged one (1) geothermal well at the Paka Prospect, ii) Completed construction of the water system required to supply water for drilling.

The Company continues to adhere to the government's directive of providing opportunities to the Youth, Women and Persons with Disability through Access to Government Procurement Opportunities (AGPO) and Promotion of Local Content Procurements under the "Buy Kenya Build Kenya" initiative. In the reporting year, GDC awarded tenders worth KSh. 122M and KSh. 750M under the target for AGPO and promotion of local content respectively.

Organizational Sustainability

GDC receives its funding from the Exchequer, development partners and sale of steam from the Olkaria wells. During the year, GDC earned revenue amounting to KSh. 3.36 Billion from the sale of steam to Kenya Electricity and Generating Company (KenGen) at Olkaria Geothermal Field in Naivasha.

Vision2030 Flagship Projects

GDC is developing two (2) fields; Menengai and Baringo – Silali Geothermal projects.

Menengai Geothermal Project

The 105MW Menengai Geothermal Project is at an advanced stage of development with the main outstanding component being power plant development. Three IPPs – Quantum Power East Africa Ltd (QPEA), Sosian Menengai Geothermal Power Ltd (SMGPL) and Orpower Twenty-Two Ltd - will undertake power plant development. GDC has made all the necessary arrangements to facilitate commencement of power plant works at the Menengai Geothermal Project.

Bogoria–Silali Geothermal Project

The Bogoria-Silali Block has an estimated potential of 3,000MW which will be developed in phases.

The first three phases target the development of 300MW at Korosi, Paka and Silali respectively. Infrastructural activities completed include over 100km of access roads and the water reticulation system. Exploration drilling commenced during the reporting year, which will be followed by feasibility studies, production drilling and early production. The project is currently being funded by the Government of Kenya and KfW.

Opportunities ahead

GDC is emerging as the premier to-go-to expert on geothermal matters in the East African Rift System region. There are numerous opportunities for capacity building and provision of technical advice to other countries that are desirous of establishing their own geothermal portfolios. As a matter of priority, we are strengthening our own consultancy wing – the Africa Geothermal Center of Excellence charged with this emerging and lucrative area.

Further, cognizant of the versatility of geothermal in other strategic areas like direct uses, GDC is laying a firm foundation where this segment will firmly be anchored in our plans and activities. We have four pilot direct use projects in Menengai – geothermal milk pasteuriser, geothermal heated aquaponds, geothermal heated greenhouses, and geothermal heated laundromat. All these prototypes have produced incredible results suitable for commercialization. GDC is in the process of acquiring and installing a semi-commercial geothermal cereal drier, in partnership with the Icelandic International Development Agency (ICEIDA). All these are game-changing projects that will give more impetus to the geothermal portfolio in the country and establish GDC as the premier company that deploys geothermal energy in its holistic design.

Eng. Jared O. Othieno
Managing Director & CEO

TAARIFA YA MKURUGENZI MKUU
NA MKURUGENZI MKUU MTENDAJI

Eng. Jared O. Othieno
Managing Director & CEO

Wapendwa Wenye hisa,

Ni furaha yangu kuwasilisha kwenu Ripoti ya Kila Mwaka na Taarifa za Kifedha za Kampuni ya Geothermal Development ya mwaka uliokamilika tarehe 30 Juni 2019.

Kama Chombo chenye Shabaha Maalum, GDC iko katika nafasi ya kipekee kubainisha mustakabali wa taifa letu kupitia utoaji wa kawi ya mvuke. Nchi hii ina utajiri mkubwa wa rasilimali za mvuke zinazokadiriwa kuwa zaidi ya MW 10,000 za umeme ambao unasalia kutotumika kwa kiasi kikubwa. Sekta ya kibinafsi pia imefungiwa nje ya sekta hii ya uchumi kutokana na hatari zinazotarajiwa zisizo njema ambazo zimekuwa sehemu ya sekta hii. Hatari hii imekuwa kikwazo kikubwa kwa sekta ya kibinafsi kukabiliana nayo huku pia ikihakikishia Nchi bei nafuu ambayo ni muhimu kwa uchumi shindani.

Upande mwingine, Serikali inatambua kwamba bila kushirikisha sekta ya kibinafsi, sekta hii ambayo inajulikana kuwa ya uwekezaji mkubwa wa mtaji haitakua sambamba na mahitaji ya kiuchumi ya taifa kwa ukosefu wa mtaji unaohitajika ili kufanya maendeleo. Kutokana na hayo, kwa hekima kuu ya Serikali, GDC kwa hivyo iliundwa na kupewa mamlaka ya kuondoa hatari ya rasilimali za kawi ya mvuke na kuwezesha kuingia kwa sekta ya kibinafsi. Katika kuunga mkono juhudi za Serikali, GDC imesanifu miundo ya biashara chini ya kiunzi cha ushirikiano baina ya sekta ya umma na ile ya kibinafsi itakayokinga sekta ya kibinafsi dhidi ya hatari kuu na pia kuhakikishia nchi bei inayovutia ya umeme. Katika mojawapo ya miundo hii, GDC imeshirikisha wazalishaji kawi watatu huru kwa uzalishaji wa MW 105 Menengai. Isitoshe,

> *"GDC inafahamu fika kuhusu harakati za kilimwengu za kawi salama na tunafurahia ya kuwa sisi ni miongoni mwa wahusika wa mchakato huo utakaolinda mustakabali wa mazingira pamoja na vizazi vijavyo"*

29.49%
Ukuaji wa kiwango asili cha mali kutokana na kukamilika kwa mchakato wa uwekezaji wa visima 59

3,000 MW
Uwezekano wa kupata umeme huko kwenye Eneo la Bogoria-Silali utashughulikiwa katika awamu tatu

105 MW
Mradi wa Kuzalisha Umeme wa Mvuke wa Menengai Geothermal umefikia hatua ya juu kabisa ya kimaendeleo

3.36 Bn
Mapato yaliyopatikana kutoka kwa mauzo ya mvuke kwa Ken Gen

GDC imeshirikiana na KenGen kwa ajili ya uzalishaji wa MW 325 Olkaria. Bei katika miradi hii miwili ni takriban senti 7 za Marekani kwa kila saa ya kilo watt.

GDC kupitia ufadhili wa Wizara ya Fedha, KfW na Tume ya Muungano wa Afrika kupitia Kituo cha Kukabiliana na Hatari za Kawi ya Mvuke (GRMF), imeanza uzalishaji wa MW 1065 kufikia 2030. Hii ni pamoja na MW 465 kule Menengai, MW 300 Eneo la Baringo Silali na MW 300 Suswa. Kule Menengai, MW 105 inasubiri ujenzi wa kituo cha kawi, shughuli ya uchimbaji ilianza kwa kituo cha pili cha MW 60 na shughuli za maandalizi ya mradi zinaendelea kwa MW 300 za ziada. Kule Baringo – Silali barabara na usambazaji wa maji umeundwa na kuunganisha Korosi, Paka na silali. Huku nikikiri kwamba kipindi cha uzalishaji wa rasilimali ya kawi ya mvuke huwa ndefu, pindi ikipatikana, kawi hii huwa ya gharama ya chini, ya kutegemewa na fursa nyingine kubwa za moja kwa moja zipo.

Hakika. Malengo ya Maendeleo Endelevu (SDG)7 yanatilia maanani upatikanaji wa umeme kwa wote kwa njia endelevu kufikia 2030. Vilevile, Mkakati wa Maendeleo ya Kitaifa wa Kenya, Maono ya 2030 unategemea kawi inayotegemewa na ya bei nafuu kupiga jeki maendeleo ya kiviwanda. Kawi safi pia itakuwa kiwezeshaji muhimu cha Ajenda 4 Nne kuu za Afya, Utengenezaji, Utoshelevu wa Chakula na Nyumba za Bei nafuu.

GDC inatambua mapigo ya kimataifa kuelekea kawi ya vyanzo asili na tunafahari kwamba sisi ni sehemu ya mwamko huu utakaolinda mustakabali wa mazingira na vizazi vijavyo.

Mwaka Unaokaguliwa

Katika mwaka huo, kulingana na mamlaka ya Kampuni, GDC ilitekeleza shughuli nyingi zilizolenga kuendeleza uundaji wa rasilimali za kawi ya mvuke nchini Kenya kupitia uchunguzaji wa ardhi na uchimbaji wa mvuke katika Miradi ya Kawi ya Mvuke ya Menengai na Bogoria-Silali.

Nafasi ya Kifedha

Msingi wa mali ya Kampuni ilikua kwa 29.49% kutoka Bilioni Ksh. 78 mwezi Juni 2018 hadi Bilioni Kshs. 101 mwezi Juni 2019. Ongezeko hili ni kwa hisani ya kukamilishwwa kwa mchakato wa chimbo 59 katika Mradi wa Kawi ya Mvuke wa Olkaria na Miradi inayoendelea ya Kawi ya Mvuke ya Menengai na Bogoria-Silali.

Mapato yalipungua kwa kiasi hadi Bilioni Ksh. 3.4 kutoka Bilioni Ksh. 3.6 hasa kutokana na ukarabati wa kituo cha Olkaria katika mwaka huo. Kampuni ilirekodi faida ya kabla ya kodi ya Bilioni Ksh 1.2 ikilinganishwa na faida ya kabla ya kodi ya mwaka jana ya Bilioni Ksh 2.2

Jumla ya faida ya kampuni katika mwaka huo ilikuwa Shs 490,633,131 (2018: Shs 1,429,741,000).

Muhtasari wa Utendaji

Shughuli za Mwaka wa Kifedha wa 2018/2019 wa GDC ziliangazia kuendeleza programu zilizopo katika Miradi ya Kawi ya Mvuke ya Olkaria, Menengai na Bogoria-Silali.

Mradi wa Kawi ya Mvuke wa Menengai ulilenga shughuli mbili kuu: (i) Kukamilisha Mfumo wa Ukusanyaji wa Mvuke kwa ajili ya MW 105 na (ii) oparesheni za uchimbaji kwa mradi wa MW 60.

Katika mwaka huo, GDC ilishiriki na kuwezesha mchakato wa ufungaji wa kifedha wa IPP mbili - Quantum Power East Africa (QPEA) na Sosian-Menengai Geothermal Power Ltd - ili kuziwezesha kuanza ujenzi wa kituo cha kawi cha MW 35 kila mmoja katika Mradi wa Kawi ya Mvuke wa Menengai.

TAARIFA YA MKURUGENZI MKUU NA MKURUGENZI MKUU MTENDAJI (MFULULIZO)

GDC pia inaendelea na juhudi zake za kuwezesha IPP nyingine kwa jina OrPower 22 ili kufikia ufungaji wa kifedha na hatimaye kuanza kwa ujenzi wa kituo cha kawi.

Katika mwaka huo, GDC ilikamilisha ujenzi wa Mfumo wa Ukusanyaji wa Mvuke wa Menengai. Huu ni miundomsingi mkuu utakaotumika kusafirisha mvuke kutoka kwenye chimbo hadi kwenye vituo vitatu vya kawi vitakavyozalisha MW 105. Pia tulichimba chimbo nne ndani ya mradi wa Menengai. Kufikia mwishoni mwa mwaka, jumla ya kawi iliyopatikana katika Uwanja wa Kawi ya Mvuke wa Menengai ilikuwa MW 170.

Katika Mradi wa Kawi ya Mvuke wa Bogoria-Silali, GDC ililenga kuendesha shughuli zifuatazo: (i) Uchimbaji wa chimbo (ii) ujenzi wa pedi za uchimbaji, (iii) ujenzi wa barabara za ufikiaji na (iv) uendeshaji na udumishaji wa miundomsingi ya mradi uliopo.

Matokeo yafuatayo yalifikiwa: i) GDC ilichimba na kutoa (1) chimbo moja ya kawi ya mvuke katika Eneo la Paka, ii) Ilikamilisha ujenzi wa mfumo wa maji unaohitajika ili kusambaza maji kwa ajili ya uchimbaji. Kampuni hii inaendelea kufuata agizo la serikali la kutoa fursa kwa Vijana, Wanawake na Watu wanaoishi na Ulemavu kupitia Ufikiaji wa Fursa za Ununuzi za Serikali (AGPO) na Kuhimiza Ununuzi wa Bidhaa zilizotengenezwa Nchini chini ya wito wa "Buy Kenya Build Kenya". Katika mwaka unaoripotiwa, GDC ilituza zabuni zenye thamani ya Milioni Ksh. 122 na Milioni Ksh. 750 chini ya lengo kwa ajili ya AGPO na kuhimiza ununuzi wa bidhaa zilizotengenezwa nchini mtawalia.

Uendelevu wa Shirika

GDC hupokea ufadhili wake kutoka Wizara ya Fedha, washirika wa kimaendeleo na mauzo ya mvuke kutoka chimbo za Olkaria. Katika mwaka huo, GDC ilipata mapato ya Bilioni Ksh. 3.36 kutokana na mauzo ya Mvuke kwa Kampuni ya Kuzalisha Kawi ya (KenGen) katoka Uwanja wa Kawi ya Mvuke ya Olkaria kule Naivasha.

Miradi Mikuu ya Maono ya 2030

GDC inakuza nyanja mbili (2), Miradi ya Kawi ya Mvuke ya Menengai na Baringo - Silali.

Mradi wa Kawi ya Mvuke wa Menengai

Mradi wa Kawi ya Mvuke wa Menengai wa MW 105 umefika katika hatua ya kina ya kukuzwa huku kipengee kikuu cha kipekee kikiwa ni ukuzaji wa kituo cha kawi. IPP tatu – Quantum Power East Africa Ltd (QPEA), Sosian Menengai Geothermal Power Ltd (SMGPL) na Orpower Twenty-Two Ltd - zitaanza kukuza kituo cha kawi. GDC imefanya mipango inayohitajika ili kuwezesha kuanza kwa kazi ya kituo cha kawi katika Mradi wa Kawi ya Mvuke wa Menengai.

Mradi wa Kawi ya Mvuke wa Bogoria-Silali

Kitengo cha Bogoria-Silali kina uwezo unaokadiriwa kuwa MW 3,000 ambao utazalishwa kwa awamu.

Awamu za kwanza tatu zinalenga uzalishaji wa MW 100 kule Korosi, Paka na Silali mtawalia. Shughuli za miundomsingi iliyokamilishwa ni pamoja na zaidi ya km 100 ya barabara za ufikiaji na mfumo wa usambazaji maji. Uchimbaji wa kiuchunguzi ulianza katika mwaka unaoripotiwa, na hii itafuatwa na utalii wa ufaafu, uchimbaji kwa ajili ya uzalishaji na uzalishaji wa mapema. Mradi huu kwa sasa unafadhiliwa na Serikali ya Kenya na kfW.

Fursa za Siku za Baadaye

GDC inaibuka kuwa mtaalamu wa kutegemewa kuhusiana na masuala ya kawi ya mvuke katika ukanda wa Mfumo wa Bonde la Afrika Mashariki. Kuna fursa nyingi za ukuzaji wa uwezo na utoaji wa ushauri wa kiufundi kwa nchi nyingine zinazonuia kuunda vyanzo vyao binafsi vya kawi ya mvuke. Kama suala la kipaumbele, tunastawisha kitengo chetu cha ushauri wa kitaalamu - Kituo cha Ufanisi cha Kawi ya Mvuke Afrika kilichotwikwa uwanja huu ibuka na wenye thamani.

Isitoshe, kwa kutambua uwezo anuai wa kawi ya mvuke katika nyanya nyingine za kimkakati kama vile matumizi ya moja kwa moja, GDC inaweka msingi imara ambapo sehemu hii itakitwa thabiti katika mipango na shughuli zetu. Tuna miradi minne ya majaribio ya matumizi ya moja kwa moja kule Menengai - uchakataji wa maziwa kwa kutumia kawi ya mvuke, vidimbwi vya samaki vinavyotiwa joto kwa kutumia kawi ya mvuke na uoshaji wa zulia kwa kutumia kawi ya mvuke. Sampuli hizi zote zimeleta matokeo ya aina yake yanayofaa kugeuzwa kuwa biashara. GDC iko katika mchakato wa kununua na kusakinisha mashine ya kukausha nafaka ya kibiashara inayotumia kawi ya mvuke, kwa ushirikano na Shirika la Icelandic International Development (ICEIDA). Hii yote ni miradi ya kipekee itakayotoa msukumo zaidi kwa uzalishaji wa kawi ya mvuke nchini na kuweka GDC kama kampuni ya kipekee inayotoa kawi ya mvuke kwa muundo wake halisi.

Mhandisi. Jared O. Othieno
Mkurugenzi Mtendaji na Mkurugenzi Mkuu Mtendaji

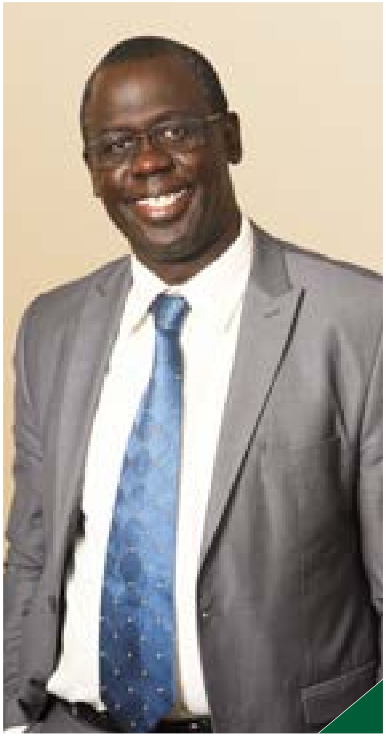
BOARD OF **DIRECTOR'S**

John Njiraini,

Chairman GDC Board

Date of Appointment - 16th October 2019

Mr John Njiraini is a distinguished technocrat with vast experience in corporate world, having worked at various strategic levels including as Chief Executive Officer of the Institute of Certified Public Accounts of Kenya (ICPAK), and Commissioner of Domestic Taxes and Large Taxpayers Office at the Kenya Revenue Authority (KRA) where he rose through the ranks to the position of Commissioner General. He holds a Bachelors of Commerce (B.Com) and a Master of Business Administration from the University of Nairobi.



Eng. Jared O. Othieno

Managing Director & Chief Exective Officer

Date of Appointment - 19th April 2020

Eng. Jared O. Othieno is the Managing Director & CEO of the Geothermal Development Company. He is a Member of the Institute of Engineers of Kenya (IEK). He has over 25 years' leadership and management experience in the Energy Sector and has served in various capacities at Kenya Power and Lighting Company. Eng. Othieno has vast experience in Power Engineering, Corporate Strategy and Performance Management, Business Processes, Corporate Governance and Project Management. He is a registered professional engineer who holds a Masters Degree in Business Administration (MBA) and a Bachelor of Science (BSc) in Electrical Engineering from the University of Nairobi.

Mr. Namada Simoni,

Independent Non -Executive Director

Date of Re- appointment - 8th February 2019

Mr. Namada Simoni is the Chairperson to the Board Audit Committee. He is an advocate of the High Court of Kenya with over 20 years' experience in legal practice. He is currently the Senior Partner at Namada & Co. Advocates. He is a member of the Law Society of Kenya (LSK) and the East African Law Society (EALS).

BOARD OF **DIRECTOR'S** (CONTINUED)

Ms Anne Too,

Independent Non -Executive Director

Date of Appointment - 6th June 2018

Ms. Anne Too has a bachelor's degree in Psychology and Criminology from Keele University, UK. She has worked as an advisor in the office of the Deputy Speaker of the National Assembly. Ms. Too also served as a personal advisor in the office of the Assistant Minister, Home Affairs. She has excellent management and communication skills. She is also self-driven and an astute entrepreneur.

Dr. Nelly Yatich,

Independent Non -Executive Director

Date of Appointment - 6th June 2018

Dr. Nelly Yatich is a Monitoring, Learning Research and Evaluation expert. Dr. Yatich holds a Doctorate in Public Health with a concentration in Epidemiology from University of Alabama, Birmingham, USA.

Dr Yatich has extensive experience in clinical research, programme design & implementation, grant writing, budgeting as well as capacity building. She previously worked as Country Director at the University of Washington, where she oversaw all programs and research activities in Kenya. She is a member of the American Public Health Association, International Society for Infectious Diseases, Global Health Council, and Phi Beta Delta Honour Society for International Scholars and the Delta Omega Honorary Society in Public Health.

Mr. Kamau Kuria,

Independent Non -Executive Director

Date of Appointment - 6th June 2018

Mr. Kamau Kuria is a social entrepreneur and is currently the CEO of Africaqua Limited and Chairman of Ikotoilet Limited. He holds a bachelor's degree in Architecture from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a master's degree in Business Administration from KCA University.

Mr. Kuria is a recipient of many awards in social entrepreneurship He is a member of the Global Agenda Council of Entrepreneurship, Project Management Institute, Kenya Private Sector Alliance, Water, Environment and Natural Resources Working Group, East Africa Grain Council, and the Kenya Bureau of Standards (KEBS) Standards Committee on Wastewater.

Mr. Kuria is also a founder member of the Kenya Schools Alumni Association.

BOARD OF **DIRECTOR'S** (CONTINUED)

Mr. Joseph Mucugu Waruiru,

Director (Alternate to the PS, National Treasury & Planning)

Date of Appointment - 19th August 2019

Mr. Joseph Waruiru is the alternate director to the Cabinet Secretary National Treasury & Planning. He is a Certified Public Accountant with more than 12 years auditing experience in the Public Service. Mr. Waruiru is currently working at the Government Investment Public Enterprise Department, National Treasury.

Mr Timothy Gakuu,

Director (Alternate Director to the PS, Ministry of Energy)

Date of Appointment - 30th October 2017

Mr Timothy Gakuu is a Chief Economist in the Ministry of Energy. He has over 25 years' experience having served in various government ministries. He is responsible for the Central Planning and Project Monitoring Unit support function across the Energy sector.

Mr. Mwendia Nyaga,

Independent Non -Executive Director

Date of Appointment - 8th February 2019

Mr. Mwendia Nyaga is the founder and lead consultant at Oil and Gas Services Limited with 15 years' experience in the oil and gas industry. A petroleum and finance professional with experience in advising the Government of Kenya on upstream matters, Mr. Mwendia has a deep appreciation of investor and government needs in this sector and specializes in assisting clients navigate this nascent sector. He is a local content expert in Kenya having contributed significantly to the dialogue around sustainable local content development in East Africa.

Eng. Jared O. Othieno

Managing Director &
Chief Executive Officer

Date of Appointment -
19th April 2020

Eng. Jared O. Othieno is the Managing Director & CEO of the Geothermal Development Company. He is a Member of the Institute of Engineers of Kenya (IEK). He has over 25 years' leadership and management experience in the Energy Sector and has served in various capacities at Kenya Power and Lighting Company. Eng. Othieno has vast experience in Power Engineering, Corporate Strategy and Performance Management, Business Processes, Corporate Governance and Project Management. He is a registered professional engineer who holds a Masters Degree in Business Administration (MBA) and a Bachelor of Science (BSc) in Electrical Engineering from the University of Nairobi.

Ms. Beatrice Kosgei,

General Manager, Legal Services & Company Secretary

Date of Appointment -
1st February 2017

Ms. Beatrice Kosgei is an advocate of the High Court of Kenya and a Certified Public Secretary with over 20 year's experience in both legal practice and corporate affairs. She previously served as the Company Secretary and Head of Legal Affairs at the Kenya Trade Network Agency. Ms. Kosgei holds a Master of Laws Degree from University of London and a LLB from University of Nairobi.

Mr.Cornel Ofwona,

General Manager, Geothermal Resource Development

Date of Appointment -
1st February 2017

Mr. Cornel Ofwona has over 20 years' experience in the geothermal industry. He has vast expertise in geothermal reservoir engineering, analysis and modeling. Prior to his appointment, he was GDC's Acting General Manager, Drilling and Infrastructure. Mr. Ofwona holds a MSc. in Engineering from the University of Iceland, Bachelor of Technology in Production Technology from Moi University, and Advanced Diploma in Geothermal Reservoir Engineering from the United Nations University in Iceland. He has several certificates in reservoir modeling.

EXECUTIVE **COMMITTTEE** (CONTINUED)

Mr. Simon Kiplang'at,

General Manager, Human Resource & Administration

Date of Appointment - 1st February 2017

Mr. Simon Kiplang'at has over 20 years' experience in corporate management and leadership in both the public and private sectors. Prior to joining GDC, he was the General Manager, Support Services, at the Kenya Trade Network Agency. Mr. Kiplang'at is a Certified Human Resource Professional (CHRP) and a Fellow Member of the Institute of Human Resource Management (Kenya), a Full Member in good standing of the Kenya Institute of Management and an Associate Member of the Kenya Institute of Supplies Management (KISM). He holds a Master of Science degree in Management and Leadership, Master of Human resource Management, Diploma in Human resource and Bachelor of Arts

Dr. George Muia,

General Manager Strategy, Research and Innovation

Date of Appointment - 1st February 2017

Dr. George Muia is a registered Geologist with over 14 years' experience in resource monetization in geological environments. Previously, he was the Deputy Director of the Kenya Pipeline Company's training centre (Morendat Institute of Oil and Gas). Dr. Muia holds a PhD in Earth Science, a Master of Science in Integrated Petroleum Geoscience, a Master of Arts in Environmental Planning and Management and a Bachelor of Science in Geology.

Eng. George Kinyanjui,

General Manager, Drilling and Infrastructure

Date of Appointment - 1st February 2017

Eng. George Kinyanjui has vast experience spanning more than 15 years in the energy sector. Prior to his appointment, he was GDC's Quality Assurance and Safety Manager. Eng. Kinyanjui holds a Master of Business Administration (MBA) and a Bachelor of Science Degree in Mechanical Engineering (Hons) from the University of Nairobi. He is a Registered Professional Engineer and a Member of the Institution of Engineers of Kenya (MIEK).

Ms. Joanne Wamuyu,
General Manager,
Corporate Services
Date of Appointment -
1st February 2017

Ms. Joanne Wamuyu is a performance & process improvement professional with over 27 years' experience in commercial, corporate turnaround management, corporate value enhancement, ICT, and strategy settings in the region and beyond. She holds a Master of Business Administration (MBA) in Strategic Management, a Bachelor of Commerce Degree in Marketing, Lean Six Sigma Black Belt qualification, Business Process Management Specialist certification, and a post-graduate Diploma in Marketing. She is also a Chartered Marketer.

Mr. Stephen Busieney,
General Manager,
Finance
Date of Appointment -
1st February 2017

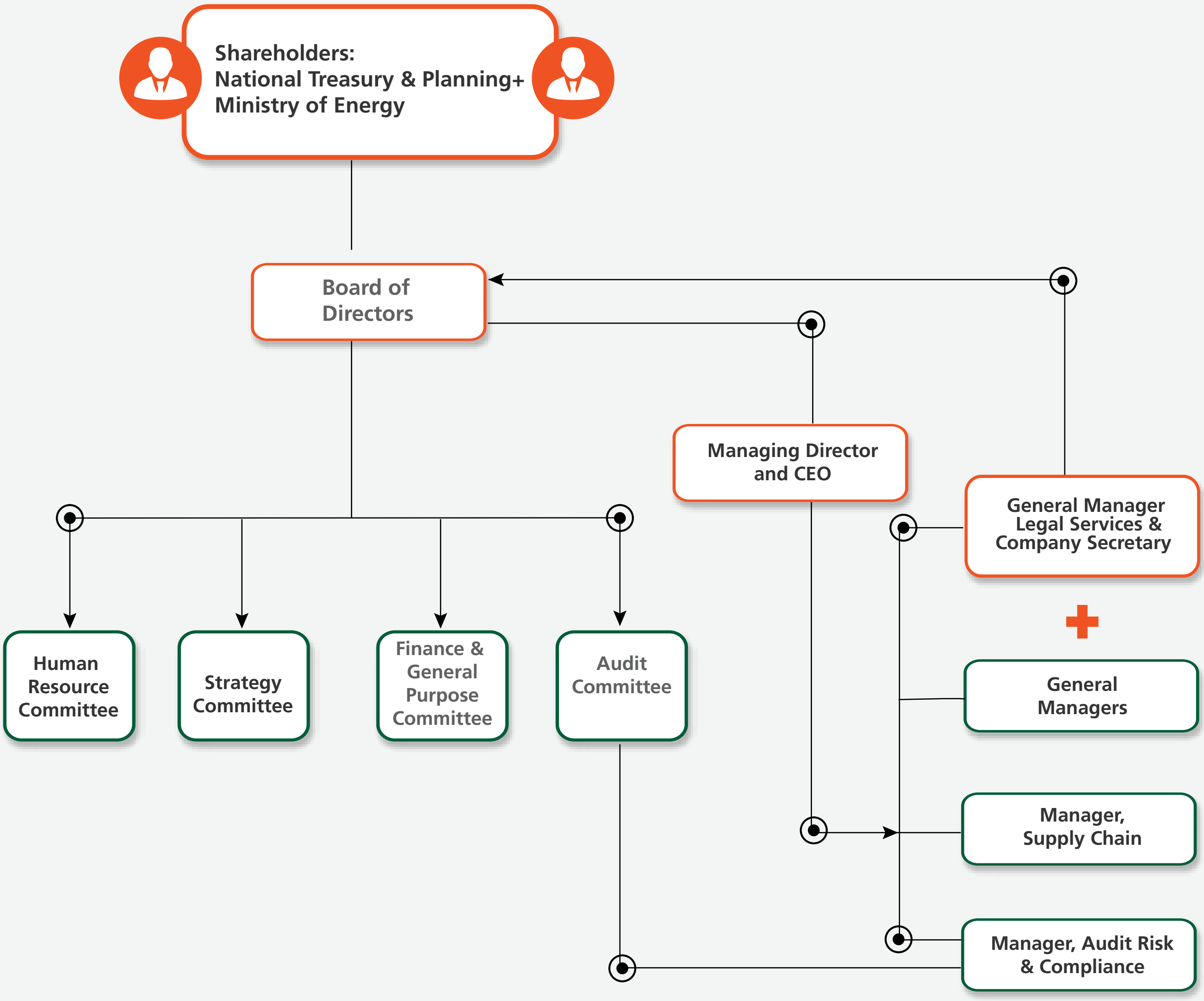
Mr. Stephen Busieney has over 15 years' experience in Finance and Accounting. Prior to joining GDC, he was the Chief Financial Officer for CIMERWA Cement Company Limited, Rwanda. Mr. Busieney is a member of the Institute of Certified Public Accountants of Kenya (ICPAK), and of Rwanda and holds a Masters of Business Administration (MBA) and Bachelor of Commerce degrees from the University of Nairobi, as well as a Leadership Certification from the University of Pretoria's Gordon Institute of Business Science.

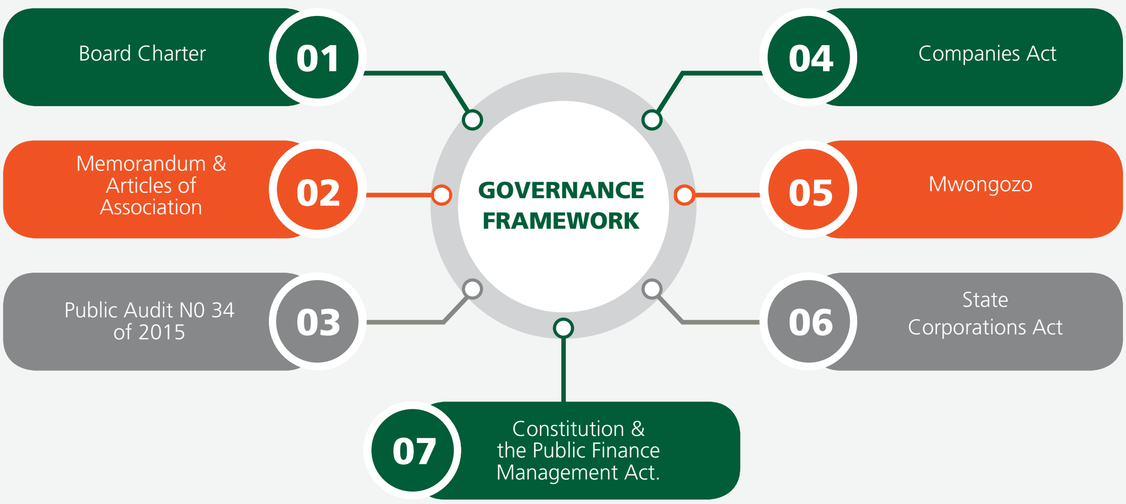
"A leader is one who knows the way goes the way and show the way"

GDC **Executive Committee** for the financial year 2018/2019

Corporate governance is the system by which companies are directed and controlled. Board of Directors are responsible for governance of their companies. The shareholders role in governance is to appoint Directors and Auditors and to satisfy themselves that an appropriate governance structure is in place.

Governance Structure





Statement of Corporate Governance

Corporate governance is the exercise of ethical and effective leadership by the governing body towards the achievement of governance outcomes, ethical culture, good performance, effective control and legitimacy. The responsibility of governing the Company lies with the Board of Directors. GDC has put in place systems to ensure that high standards of corporate governance are maintained at all levels in the Company.

This statement of corporate governance provides GDC's governance performance to date.

Statement of Compliance

The Board of Directors upholds the tenets of good governance as guided by the following documents: -

01 Code of Governance for State Corporations (Mwongozo)

02 Constitution of Kenya, 2010

03 Leadership and integrity Act No.19 of 2012

04 Board Charter

05 Public Officers and Ethics Act No, 4 of 2003

The conduct of individual directors when dealing with company business is governed by the Directors Code of Conduct and Ethics. Each director has signed the Directors' Code of Conduct and Ethics and has also made a commitment to comply with the same.

GDC employees have also signed the code of conduct and made a commitment to comply with the same. Additionally, GDC abides by all laws as a law-abiding corporate citizen.

Board Charter

The roles and responsibilities of the Board of Directors are enumerated in the Board Charter. The Charter documents the composition, role and responsibilities of the Board. It provides the Board members with an opportunity to think creatively and critically about how their strategic direction and operational plans align with the organization's expectations, with respect to governance.

The Charter also sets out the powers of various Board committees, the separation of roles between the Board and Management, as well as policies and practices of the Board in respect to corporate governance matters.

The Charter is complimentary and does not intend to change or interpret any statute law or regulation. It is available to all Board members.

Board Size, Composition and Appointments

GDC's Memorandum and Article of Association provides for a maximum of nine (9) directors, eight (8) of whom are non- executive and one (1) executive member. Out of the eight (8) non-executives, six (6) are independent directors who hold office for a period not exceeding three (3) years and are eligible for reappointment for one term not exceeding three (3) years. A Board member may be appointed for a cumulative term not exceeding six (6) years.

During the constitution of the Board, the appointing authority ensures that Board composition complies with the applicable legislation as outlined in the Constitution of Kenya. Additionally, at least one member has to be a financial management or accounting expert.

Board appointments are by name and notice in the Kenya Gazette. The Board Chairperson is appointed by the President while Board members are appointed by the Cabinet Secretary in the Ministry of Energy.

As at 30th June 2019, the Board of Directors comprised of eight (8) non-executive directors and one executive director. The two alternate directors represent the majority shareholder, who is the Cabinet Secretary, National Treasury & Planning and the minority shareholder who is the Principal Secretary, Ministry of Energy.

Executive Director
Eng. Johnson P. Ole Nchoe

Independent Non -Executive
Mr. Gershom Otachi (Chairman)
Dr. Nelly Yatich
Ms. Anne Too
Mr. Mwendia Nyaga
Mr. Kamau Kuria
Mr. Namada Simoni

Non -Executive Directors
Mr. Timothy Gakuu
Mr. Joseph Kariuki

Board Changes in the Year

The term of Eng. Johnson P. Ole Nchoe, the Managing Director & CEO ended with effect from 17th April 2019 while the term of Mr. Namada Simoni ended with effect from 1st October 2018.

Director	Designation	Effective Date
Eng. Johnson P. Ole Nchoe	Managing Director & CEO	17th April 2019
Mr. Namada Simoni	Independent Director	1st October 2018

Eng. Johnson P. Ole Nchoe was re- appointed as the Managing Director & CEO with effect from 18th April 2019 for a further period of one (1) year whereas Mr. Namada Simoni was re-appointed with effect from 8th February 2019 for a further term of three years.

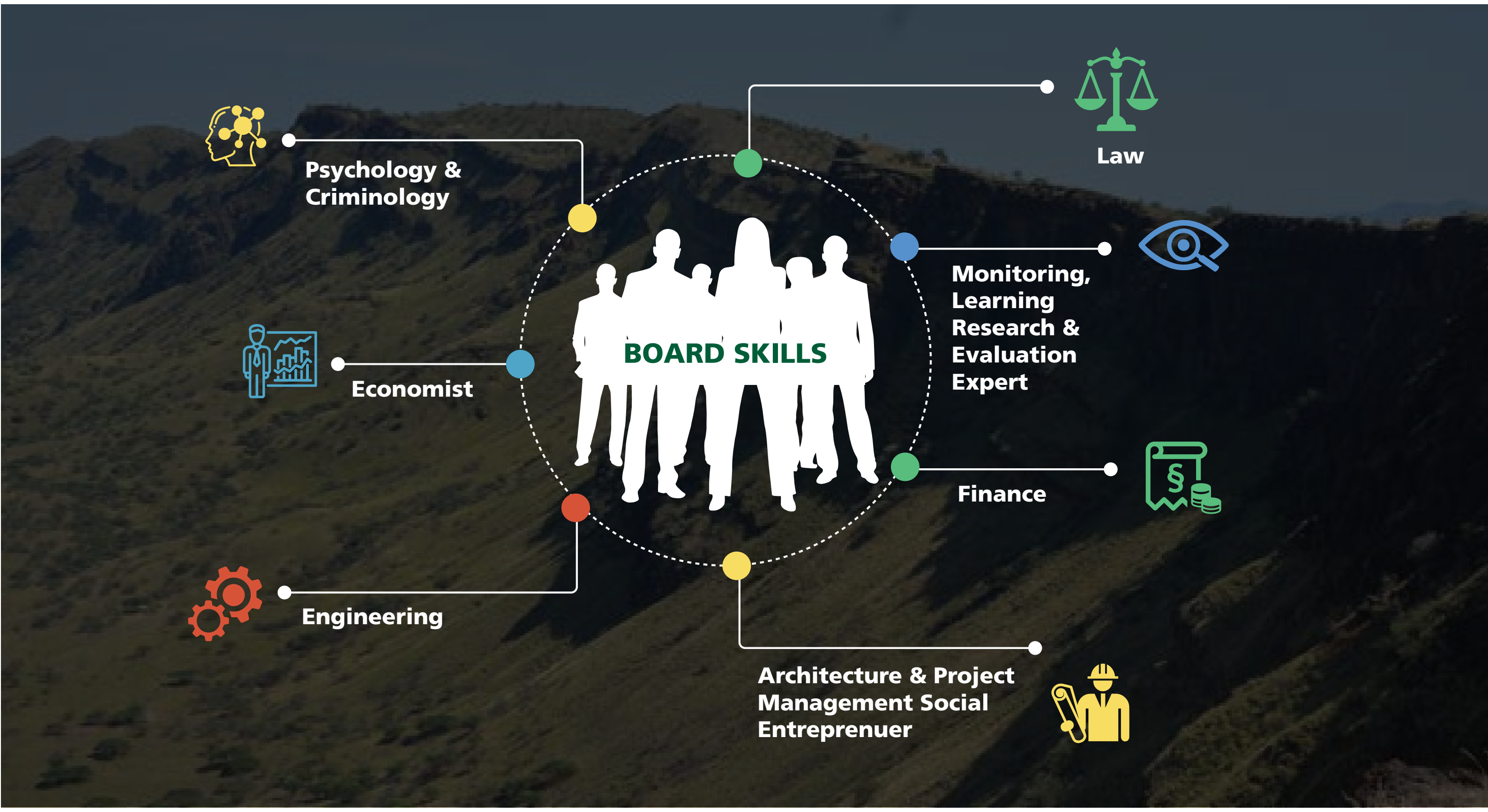
Mr. Mwendia Nyaga, an independent non- executive Director was appointed to the Board with effect from 8th February 2019 for a three-year term.

Director	Designation	Effective Date
Eng. Johnson P. Ole Nchoe	Managing Director & CEO	18th April 2019
Mr. Namada Simoni	Independent Director	8th February 2019
Mr. Mwendia Nyaga	Member	8th February 2019

"The future is green energy, sustainability renewable energy"

Board Skills

Board skills is about advancing businesses to new heights by bringing together diverse experiences. Diverse Board including but not limited to diversity of expertise, experience, age and gender makes better decision. The GDC Board as currently constituted reflects diversity which helps to perform its role effectively. The areas of expertise of the current Board are:-



** Includes the Cabinet Secretary National Treasury and Principal Secretary Ministry of Energy.*

Board Effectiveness

For the Board to achieve its mandate, there must be a distinction between the role of the Managing Director & CEO and the Chairman. The Chairperson provides leadership to the Board while maintaining close but independent working relations with Managing Director who provides the day to day leadership of the Company's business affairs.

Role of The Board

The Board has four distinct functions; Concordance, Performance, Conformity, Transformance.

Induction and Capacity Building for The Board

In adherence to the best practice, GDC develops an induction program for new Board members which entails the directors receiving knowledge about the Company through site visits, informal interactions with Management and staff, regular in-depth reports and presentations. The MD & CEO ensures that Management updates the Board on matters relevant to GDC's business, changes in law and regulation including Government accounting policies. In compliance with Mwongozo, the State Corporation Advisory Committee (SCAC) also undertakes the external induction of new Board members.

The Board has also put in place an annual development program for all its members to improve on their individual capacity. Board members are also encouraged to undertake continuous professional development in their respective professional bodies. During the year under review, new directors were inducted, and the existing directors went through various training programs and retreats to enhance their knowledge in various facets thus strengthening their role in the company.

Board Meetings

Board meetings are constituted in accordance with the constitutive document and are held at least four (4) times a year with a period of at most four (4) months between meetings. A schedule of meetings is agreed upon by the Board Members and set out in the Board Work plan and almanac.

The agenda for the meetings is aligned to the Board work plan with each Board member being free to suggest the inclusion of items on the agenda. Notices of meetings are issued by the General Manager Legal Services & Company Secretary. The Board papers are circulated in advance to enable the directors prepare adequately for the meetings. Special Board or Committee meetings are held when critical and urgent matters arise. These special meetings only cater for the specified agenda matters.

The quorum for a Board meeting is five (5) members while for the Board Committees is (3) members.

Senior managers, employees and advisors are invited by the MD & CEO to attend Board or Committee meetings whenever considered necessary.

The Board of Directors held sixteen (16) meetings during the period under review which were attended as follows: -

No.	Name of Director	Board Position	Status	Number of Meetings Held	Number of Meetings Attended
1	Mr. Gershom O. Bw' Omanwa	Chairman	Independent & Non-executive	20	20
2	Eng. Johnson P. Ole Nchoe	MD & CEO	Executive	20	20
3	Namada Simoni	Director	Independent & Non-executive	20	14*
4	Timothy Gakuu	Alternate Director Ministry of Energy	Non- Independent & Non-executive	20	20
5	Joseph Kariuki	Alternate Director National Treasury	Non-Independent & Non-executive	20	20
6	Dr. Nelly Yatich	Director	Independent & Non-executive	20	18
7	Ms. Anne Too	Director	Independent & Non-executive	20	20
8	Mr. Kamau Kuria	Director	Independent & Non-executive	20	20
9	Mr. Mwendia Nyaga	Director	Independent & Non-executive	20	11*

Notes

- Eng. Johnson P. Ole Nchoe, was reappointed as the Managing Director & CEO with effect from 18th April 2019 for a further term of one year.
- *Mr. Namada Simoni ceased to be Director, with effect from 1st October 2018 and was reappointed as an Independent Director with effect from 8th February 2019 for a further term of three years.
- *Mr. Mwendia Nyaga was appointed as an Independent Director with effect from 8th February 2019 for a term of three years.

Directors' Remuneration

Board Members are remunerated for their services in accordance with guidance from the State Corporation Advisory Committee (SCAC) through circulars issued from time to time. The regular allowances for Board Chairpersons and Board Members are as follows:-

No.	Allowance	Chairperson	Board Member
1	Honoraria	Kes.80,000/- per month	N/A
2	Sitting	Kes.20,000/- per sitting	Kes.20,000/- per sitting
3	Accommodation	Kes.18,200/- per day	Kes.18,200/- per day
4	Airtime (Mobile)	Kes.5,000 per month	N/A
5	Airtime(Landline)	Kes.2,000 per month	N/A
6	Lunch	Kes.2,000 per day	Kes.2,000 per day
7	Transport	Determined by prevailing Government guidelines; currently National Treasury Circular of 2015. Paid at the current prevailing Automobile Association of Kenya (AA) rates.	
8	Personal Accident Cover ("Not Life")	Procured competitively.	
9	Medical Expenses	Inpatient Kes.2 Million per annum; Outpatient Kes. 100,000/- per annum and Last expense (self) Kes.100,000/-	

"*The potential of renewable energy is immense*"

The Directors are paid an annual Directors' fee subject to approval by the Ministry of Energy and the National Treasury & Planning. The approval is given during the Annual General Meeting (AGM). For financial year 2018/2019, it is proposed that each non-executive Independent Director be paid Directors fee of Kes. 360,000/- or pro rata for any part served thereof. There were no loans granted to non-executive Directors during the year. The Directors' remuneration has been disclosed in the books of accounts.

19,999 SHARES
CS, National Treasury and Planning

+

1 SHARE
PS, Ministry of Energy

Director's Shareholding

The National Treasury & Planning owns 19,999 shares while the Ministry of Energy owns 1 share. No Board Member in their own capacity own shares in the Company.

Declaration Of Conflict Of Interest

Board members are required to avoid conflict of interest in any matter that relates to the company. Board members are expected to declare any real or perceived conflict of interest with the company upon appointment to the Board.

A Board member who subsequently identifies an area of conflict shall be required to disclose any actual or potential conflict of interest to the Board, and provide all relevant information and abstain from decision making where conflict exists.

Declaration of conflict of interest is a standard agenda item which is addressed at the onset of each Board and Committee meeting. GDC Directors declare conflict of interest at the beginning of each and every Board and Committee meetings and immediately thereafter sign in the register of conflict of interest.

The Board has put in place a conflict of interest policy. No conflicts of interest were declared or reported by Directors in the year under review.

Directors' Evaluation

GDC Board of Directors conduct annual evaluation to appraise its performance, and that of Individual Directors, Managing Director & CEO using the appraisal tools developed by the State Corporation Advisory Committee (SCAC) and actualized by the circular from Head of Public Service dated 29th June 2011.

The Board self-evaluation for the year under review was facilitated by the State Corporation Advisory Committee (SCAC) where strengths, collective skill gaps and individual areas of improvement were identified after which a Board Performance Improvement Plan was prepared.

Governance Audit

No Governance Audit was undertaken during the period under review.

Legal Compliance Audit

External Legal Compliance Audit was undertaken by the Kenya School of Law.

General Manager Legal Services & Company Secretary

The General Manager Legal Services & Company Secretary is tasked with providing a central source of guidance and advice to the Board and Management on matters of statutory and regulatory compliance as well as good governance. In addition, as a Certified Public Secretary of good standing, she also serves as the Secretary to all committees of the Board among other crucial roles.

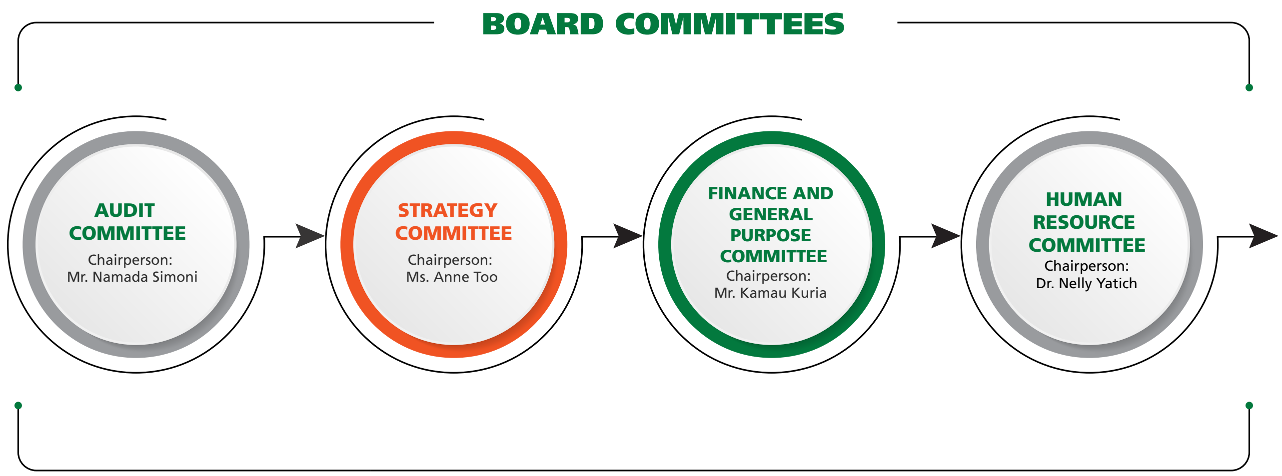
Board Committees

The State Corporation Act Cap 446, Section 15, allows Boards of State Corporations to establish Committees. The Mwongozo Code Chapter 1 Section 1.7 allows the Board to establish not more than four committees of the Board of which one of the committees must be Audit Committee.

The Board is required to provide terms of reference for each committee; review the mandate of the committees periodically; determine the frequency of committee meetings; appoint the Chairperson of each committee; and annually review the effectiveness and performance of its committees. The Board also provides the Committees with all necessary resources to enable them undertake their duties in an effective manner. The Chairperson of the Board is not a member of any Committee except an Adhoc Committee.

The Board may establish an ad-hoc committee to deal with emerging issues that do not fall under the domain of the regular Board Committees. In addition, the Board may also form a panel to provide it with expert views on issues that may include selection of staff.

The Board Established 4 Committees, with their terms of references as follows:-



Report From The Chairperson of the Board Audit Committee

The Board Audit Committee comprises of three (3) non-executive Directors and is chaired by a non-executive independent Director. When necessary, the committee invites a representative of the external auditors when reviewing annual financial reports. The Committee also periodically invites the Managing Director & CEO, the General Manager, Finance and at times other key staff members to attend the meetings.

The Committee is appointed by the Board to assist in fulfilling the following key oversight responsibilities among others: - internal control and risk management; External Auditor oversight; disclosure matters and financial reporting and internal audit function.

A summary of the Board Audit meetings and attendance is shown below:-

	Board Member				
Date when meeting was held	Mr. Namada Simoni	Mr. Joseph Kariuki	Mr. Timothy Gakuu	Ms. Anne Too	Mr. Mwendia Nyaga
6.9.18	●	●	●	●	N/A
11.9.18	●	●	●	●	N/A
21.9.18	●	×	●	●	N/A
1.10.18	●	●	●	●	N/A
8.11.18	N/A	●	●	●	N/A
16.11.18	N/A	●	●	●	N/A
28.1.19	N/A	●	●	●	N/A
8.3.19	●	●	N/A	●	●
6.6.19	●	●	N/A	●	●
17.6.19	●	●	N/A	●	●
25.6.19	●	●	×	●	●

● Attended × Not Attended N/A - Not Applicable to Member

NOTES

- Mr. Namada Simoni ceased to be Director and a member of the Audit Committee, with effect from 1st October 2018. He was reappointed as an Independent Director with effect from 8th February 2019 for a further term of three years.
- Mr. Mwendia Nyaga was appointed as an Independent Director with effect from 8th February 2019 for a term of three years. He was appointed as a member of the Audit Committee with effect from 8th February 2019.
- Mr. Timothy Gakuu ceased to be a member of the Audit Committee with effect from 28th February 2019.

Report From the Chairperson of Board Strategy Committee

The Committee is comprised of four (4) non-executive Directors and the Company's Managing Director & CEO and is chaired by a non-executive independent Director. The Committee considers Management's proposals; provides oversight to Management and recommends to the Board on matters relating to GDC's strategic direction and technical services.

A summary of the Board Strategy Committee meetings held in the year and attendance is shown below:-

	Board Member							
Date when meeting was held	**Ms. Anne Too**	**Mr. Kamau Kuria**	**Mr. Timothy Gakuu**	**Mr. Mwendia Nyaga**	**Eng. Johnson P. Ole Nchoe**	**Mr. Namada Simoni**	**Mr. Joseph Kariuki**	**Dr. Nelly Yatich**
27.9.18	Apology	●	N/A	N/A	●	●	●	●
20.11.18	●	●	N/A	N/A	●	N/A	●	●
23.11.18	●	●	×	×	●	N/A	●	●
8.4.19	●	●	●	●	●	N/A	N/A	N/A
30.4.19	●	●	●	●	●	N/A	N/A	N/A
17.5.19	●	●	●	●	●	N/A	N/A	N/A
27.6.19	●	●	●	●	●	N/A	N/A	N/A

● Attended × Not Attended N/A - Not Applicable to Member

NOTES

- Mr. Namada Simoni ceased to be Director, with effect from 1st October 2018 and was reappointed as an Independent Director with effect from 8th February 2019 for a further term of three years.
- Mr. Mwendia Nyaga was appointed as an Independent Director with effect from 8th February 2019 for a term of three years.
- Mr. Joseph Kariuki ceased to be a member of the Strategy Committee with effect from 28th February 2019.
- Mr Namada Simoni ceased to be a member of the Strategy Committee with effect from 28th February 2019. Dr. Nelly Yatich ceased to be a member of the Strategy Committee with effect from 28th February 2019.
- Mr. Mwendia Nyaga was appointed as a member of the Strategy Committee with effect from 28th February 2019.

Report From The Chairperson Of The Board Human Resource Committee

The Board Human Resource Committee is comprised of three (3) non-executive Directors and Managing Director & CEO. It is chaired by a non-executive independent Director. The Human Resource committee is tasked with the responsibility of reviewing the terms and conditions of service for employees of the Company; reviewing recommendations for appointment, promotion, confirmation or termination of staff in job groups GD3 and; handling disputes between Management and staff in Job groups GD3 and above; handling all other matters relating to staff; and dealing with occupational, health and safety issues.

A summary of the Board Human Resource Committee meetings held in the year and attendance is shown below:-

	Board Member				
Date when meeting was held	**Dr Nelly Yatich**	**Mr. Timothy Gakuu**	**Mr. Namada Simoni**	**Mr. Kamau Kuria**	**Ms. Anne Too**
12.9.18	●	●	●	●	●
1.10.18	●	●	●	●	●
15.11.18	●	●	N/A	●	●
30.11.18	●	●	N/A	●	●
20.12.18	●	●	N/A	●	●
8.3.19	●	●	●	N/A	N/A
13.3.19	●	●	●	N/A	N/A
2.5.19	●	●	●	N/A	N/A
21.5.19	●	●	●	N/A	N/A
27.5.19	●	●	●	N/A	N/A
29.5.19	●	●	●	N/A	N/A
30.5.19	●	●	●	N/A	N/A

● Attended × Not Attended N/A - Not Applicable to Member

NOTES

- Mr. Namada Simoni ceased to be Director, with effect from 1st October 2018 and was reappointed as an Independent Director with effect from 8th February 2019 for a further term of three years.
- Mr. Mwendia Nyaga was appointed as an Independent Director with effect from 8th February 2019 for a term of three years. He was appointed as amember of the HR Committee with effect from 8th February 2019.
- Mr. Kamau Kuria ceased to be a member of the Human Resource Committee on 28th February 2019.
- Ms. Anne Too ceased to be a member of the Human Resource Committee on 28th February 2019.

Report From The Chairperson of The Board Finance Committee & General Purpose Committee

The Board Finance and General Purpose Committee is comprised of Three (3) non-executive Directors and the Managing Director & CEO. It is chaired by a non-executive independent Director. The Committee considers all matters of financial strategy and policy, financial forecasts, annual budgets and reviewing expenditures/ procurements for each quarter of the financial year.

A summary of the Board Finance and General Purpose Committee meetings held in the year and attendance is shown below:-

	Board Member			
Date when meeting was held	Dr. Nelly Yatich	Mr. Kamau Kuria	Mr. Joseph Kariuki	Mr. Timothy Gakuu
27.9.18	●	●	●	●
5.10.18	●	●	●	●
22.11.18	●	●	●	●
28.01.19	●	●	●	●
13.02.19	●	●	●	●
5.03.19	●	●	●	●
10.4.19	●	●	●	●
26.6.19	●	●	●	N/A

● Attended × Not Attended N/A - Not Applicable to Member

NOTE

Mr. Timothy Gakuu ceased to be a member of the Board Finance and General Purpose Committee in April 2019.

Risk Management and Internal Controls

Risk is a potential event that may prevent the organization from achieving its stated goals and must cover compliance, operational functional and strategic issues. Risk management needs to be on the Board agenda in order to eliminate surprises and increase the likelihood of meeting objectives. Risk management must be part of strategic discussions and must be viewed holistically.

Menengai Geothermal field

To address Risk, GDC Board has approved the Risk Management Policy, Risk Management Framework; established a Risk Management Function; and delegated to Management the responsibility to implement the Risk Management Plan. The Audit Committee of the Board regularly reviews the effectiveness of the internal control system.

Stakeholders' Engagement

The effective management of stakeholder's interest creates goodwill, promotes a positive image of the organization and enhances the achievement of corporate goals. The Board has carried out stakeholder mapping, approved the stakeholder's policy and ensured that the policies, practices and strategic plans of GDC are aligned with Government directives, national policies and national development goals including the Kenya vision 2030 and the Big 4 agenda.

The Board considers its primary responsibility to be the maximization of long term shareholders value. All the Directors have collective responsibilities and are fiduciary agents.

The Board communicates organizational strategy and performance, addresses all issues relevant to members' interests, corporate social responsibility and good governance.

Procurement Policies

Procurement policies have been put in place to ensure fair competition taking into consideration economy, efficiency, transparency and accountability in accordance with legal and statutory requirements consistent with the governing laws.

Code of Conduct and Ethics

This focuses on ethical conduct and integrity at workplace and since it does not cover everything, the code is not used as a substitute for the good judgment expected of Board members and employees working for the company.

The Board has approved the code of conduct and ethics and corporate gift policies. Every Board member and employee has committed to adhere to the values in the Code of Conduct.

Going Concern

The Board confirms that financial statements are prepared on a going concern basis. The Directors works tirelessly to ensure that the company has adequate resources to continue with business for the foreseeable future. This assessment has been made through consideration of a wide range of information relating to current and projected conditions that is cash flows, capital resources and potential exploration sites. For this reason, the company continues to adopt the going concern basis when preparing financial statements.

Ms. Beatrice Kosgei
General Manager, Legal Services & Company Secretary

GDC **engineers operating a valve** of a completed geothermal well in Menengai.

To ensure the long-term resilience and stability of the Company, the Board has aligned risk management activities to meet the needs of our stakeholders. Even as we accept the risks inherent in our core business of geothermal drilling, we also seek to diversify them through our geographic spread, variety of products and services. The Board through its Board Audit, Risk & Compliance Committee provides oversight role to ensure mitigation of risk occurrence that may prevent the company from achieving its strategic goals and adverse financial exposure.

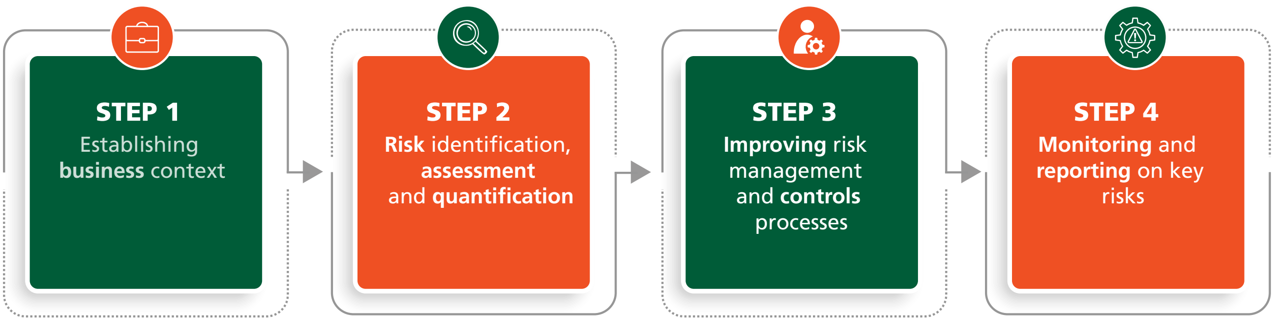
Enterprise Risk Management Framework

The Company has put in place a robust and comprehensive enterprise risk management framework comprising of a system of governance, risk management processes and a risk appetite framework. Therefore, all key risks are assessed within a unitary framework aligned to the Company's risk assessment and governance responsibilities.

The Risk Management Framework approach adopted ensures;

- Appropriate identification & Management of risks
- Adherence to policies, procedures, standards and applicable laws and regulations
- Routine audits and investigative audits are conducted
- Non-compliant areas are identified and acted upon

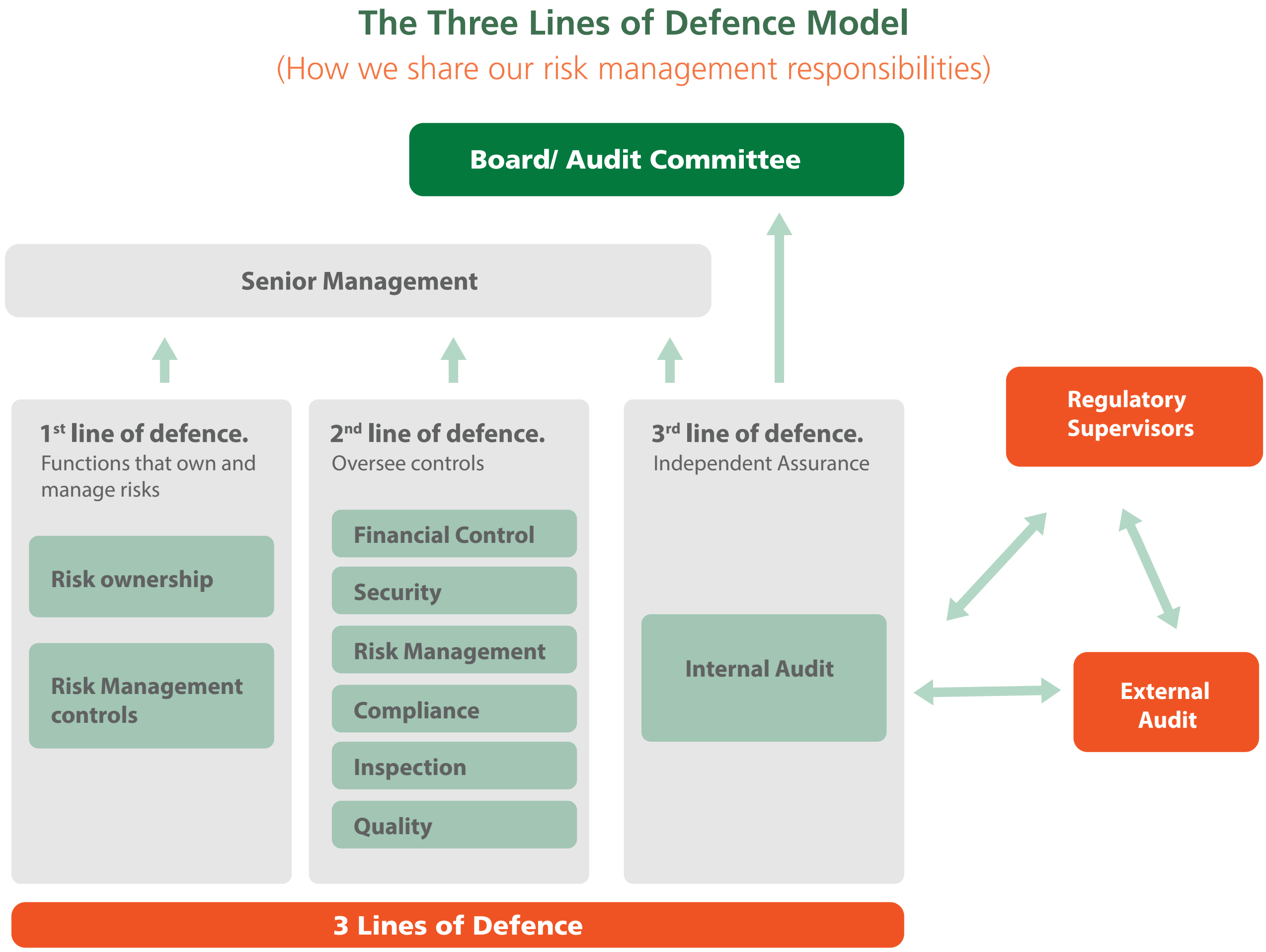
Our Risk Management Framework is based on the following six (6) building blocks for comprehensive and effective risk management consistent with best practices such as ISO 31000:2009 and COSO ERM framework. The company's Enterprise Risk Management Process involve;



The delivery of the risk management framework will be through the following levels;

- The Board of Directors
- Board Audit Committee
- Managing Director and Chief Executive Officer
- Risk Management function
- Risk Management Committee
- Risk owners (Heads of Departments/units)
- Risk champions nominated from the departments
- GDC staff
- Audit and Compliance department

In order to ensure effectiveness, the 'Three Lines of Defence' model is employed in managing relationships between functions and guides on how responsibilities should be divided



Risks inherent in our company's operations

The company's risks are associated with the development of geothermal resource and construction and operation of geothermal power plants. GDC business is focussed on exploration, discovery, development and supply of geothermal steam to power plants and geothermal fluids to direct use projects. The strategic risks that affect GDC include;

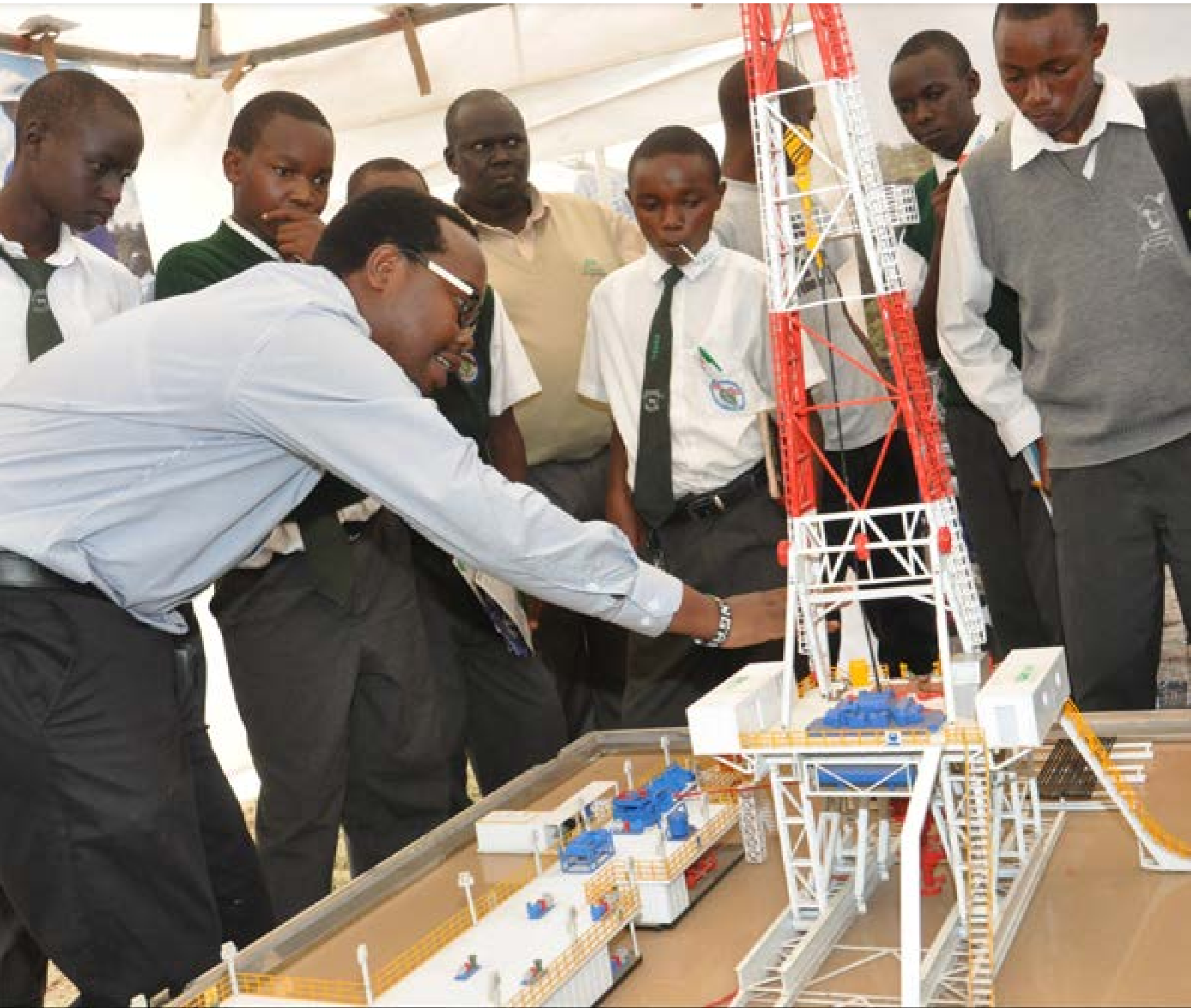
1. Strategy Implementation Risk
2. Governance Risk
3. Financial Risk
4. People Risk
5. Resource Risk
6. Drilling Risk
7. Health and Safety Risk
8. Cyber security and IT Risk
9. Compliance Risk
10. Reputational Risk
11. Bribery and Corruption Risk
12. Environmental Risk
13. Project Risk
14. Market Risk
15. Social Risk
16. Litigation and regulatory Risk

Education

GDC is passionate about offering educational support to local communities in the project areas.

During the financial year 2018/2019, the Company constructed an Early Childhood Development and Education (ECD) classroom at Kibenos in the Bogoria -Silali project area.

Further, the Company provided career guidance talks to students in secondary schools within the Menengai and Bogoria- Silali project areas.



Engagement with students to inculcate the importance of geothermal energy and to encourage adoption of geothermal-related careers

SOCIAL **SUSTAINABILITY** (CONTINUED)

Health

In light of the medical response challenges within the Bogoria-Silali project area, the Company has provided first aid support and ambulance services to the local community.

The company also procured sanitary towels for distribution to secondary schools within the financial year.

1 &2 - Delivery of Sanitary Pads
3 - GDC Ambulance

Sports

GDC has facilitated youth empowerment by sponsoring a football club (GDC FC) that nurtures local talent and create opportunities to expose their skills.

GDC Sports Team

ECONOMIC **SUSTAINABILITY**

Reserved Tender Opportunities

The Company has undertaken procurement sensitization to local businesses, women, youth and People Living with Disabilities (PWDs) on AGPO on all areas of operation. This has enabled most of the special groups to successfully participate in the tendering process at GDC. These procurement opportunities have created diverse financial benefits for the special groups as well as enhancing the GDC corporate image and reputation.

Road Infrastructure

The Company has improved the accessibility to the Bogoria-Silali region through a road network system of over 100km within the project area. By extension, the road system has immensely benefited the host community by streamlining transport and communication for commerce, education, health services and government administrative services.

Employment Opportunities

The host communities in the areas of operation have benefited from employment opportunities by GDC and its contractors. This has boosted the living standards of the communities in the project areas.

Corporate Sponsorship

GDC sponsored and participated in the Nakuru International Investment Conference (NIICO) held in Naivasha between the 29th November and 1st December 2018. Key issues discussed at the conference included the place of geothermal energy as a natural source of reliable power and its importance to the national economy.

The Company also sponsored and participated in the Fifth Africa Engineering Week and Third Africa Engineering Conference held between the 17th and 21st September 2018.

Baringo: Cattle drinking water at one of the troughs constructed by GDC.

The Company's contribution to societal well-being in its operational areas continues to be a pillar for business continuity. The Company envisions lowering the cost of power in Kenya through development of 1065MW from geothermal resources, to ensure sustainability of the business, the Company endeavors to align its activities to ensure minimal impact on the environment.

Compliance with Applicable Environmental Laws and Regulations

GDC's environmental and social management/monitoring plans are anchored on environmental laws, regulations, standards and best practices. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects as pertains to licensing/permitting for water usage (abstraction license) and project implementation to ensure sound environmental management practice

The Company undertakes quarterly and annual environmental audits and has valid permits and licenses for its operations. The Company is working towards implementation of ISO 14001 (EMS) and has also streamed its environmental and social management/monitoring plans to be in total compliance with following;

- the Environmental Management and Coordination Act (EMCA) of 1999 Amendment 2015 and the associated regulations;
- the Water Act of 2016 and Associated Rules/Guidelines;
- Occupational Safety and Health Act 2007 and Associated Rules and any other regulations relating to environmental conservation and management.

Project implementation is guided by the international best practices that include the International Finance Corporation (IFC) Performance Standards on environment and social sustainability.

Stakeholder Management

The Company's stakeholders continue to play a critical role in the success of the projects and for growth. As part of its commitment to a sustainable environment and society, GDC continues to disseminate knowledge on environmental conservation through the social afforestation program and the national/international environmental conservation and management awareness campaigns. The Company has also continued to contribute to national realization of Sustainable Development Goals (SDGs) relating to: Affordable and Clean Energy, Clean Water and Sanitation for communities in project areas, Improved Infrastructure, and Climate Change Action.

> “*Environment is no ones property to destroy its everyones responsibility to protect*”

BUSINESS PERFORMANCE **REPORT**

CUMULATIVE STEAM AVAILABILITY
170 MWe

ECONOMIC SUSTAINABILITY
STEAM SALES
KSh. 3.36B

PROFIT BEFORE TAX:
KSh.1.17B

CUMULATIVE WELLS DRILLED
53

WATER SYSTEM
100% COMPLETE

Local content in procurement:
KSh.750M

Asset Base:
KSh.101B

AGPO:
KSh.122M

INTERNSHIP OPPORTUNITIES:
210

BUDGET COMPOSITION:

MENENGAI	BOGORIA - SILALI	EXCHEQUER
KSh. 3,43B	KSh. 1,43B	24%

STEAM SALES – 55%

DONOR – 21%

Where focus goes, energy flows.

- Tony Robbins

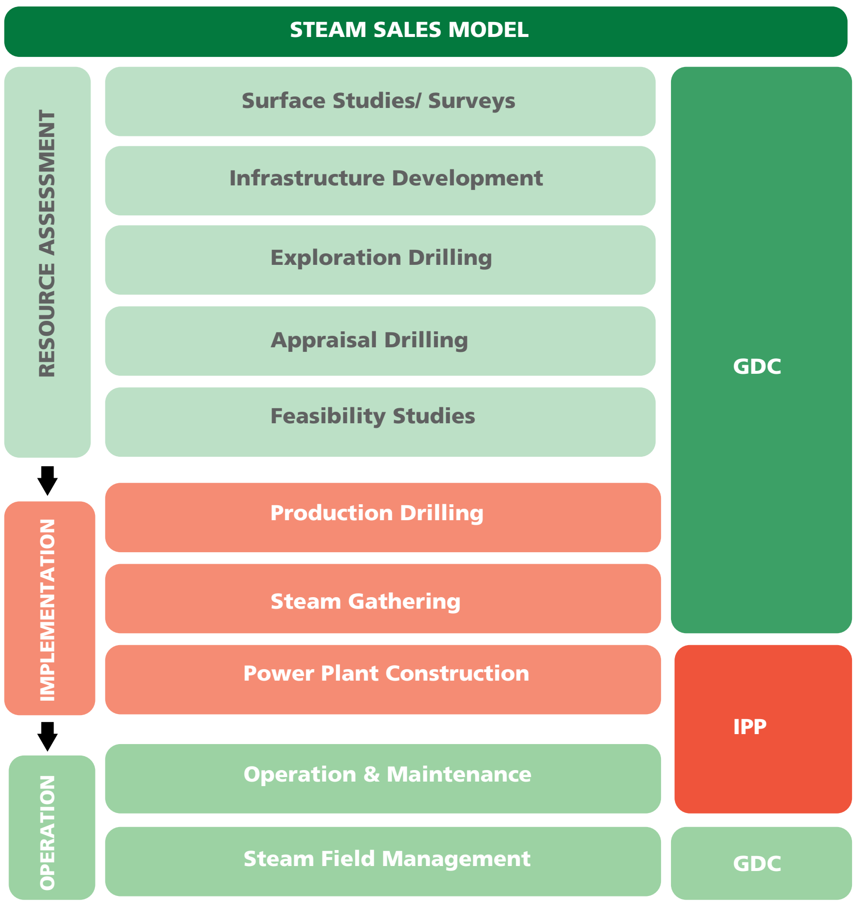
Menengai Geothermal Project

The project is located in the Menengai caldera, Nakuru County. It has an estimated potential of 1600MW. So far GDC has realized 170MWe. The total number of wells drilled are 53. The field is being developed in three phases as highlighted below;

- Phase I -105 MW
- Phase II- 60MW
- Phase III- 300MW

The infrastructural works completed include a road network of over 50 km and water supply system of over 25 km.

The company has absorbed the exploration and early development risks associated with geothermal development by opening up opportunities for private participation in subsequent phases of geothermal development in the Menengai 105MW (phase 1) project. GDC has fully developed the steam field, including production drilling and construction of a 25.5 km Steam-Gathering System. Successively, three (3) competitively selected IPPs (Sosian-Menengai Geothermal Power Ltd, Quantum Power East Africa and OrPower 22) were contracted to develop a total of 105 MW at the Menengai phase I field. The expected commissioning of the first phase is in 2022. The business model adopted for the Menengai phase I Project is as illustrated below;



Under the model, GDC will sell steam to the IPPs under a steam-sales agreement, who will convert the steam to electricity and sell it under a Power Purchase Agreement (PPA) to Kenya Power.

Scientific exploration and infrastructure development (access roads and water supply system) for the Menengai Phase II project is complete. Appraisal drilling is ongoing. Phase III is in its early stages of development.

A discharging well at the **Menengai Geothermal Project**

Bogoria-Silali Geothermal Project

The Bogoria-Silali block has an estimated potential of 3,000MW. The development of the fields will be undertaken in phases. Phase I targets to produce 300MW with Paka, Korosi and Silali fields expected to contribute 100MW each.

GDC received a Letter of Comfort from the Ministry of Energy validating operations in the Bogoria- Silali Geothermal Project area for the next 30 years from August 2014.

GDC has completed key infrastructural works including the construction of 102 km of access road and installation of water supply system that covers over 100km to support drilling operations and associated community empowerment initiatives. The construction of seven (7) drill pads - three (3) in Korosi, three (3) in Paka and one (1) in Silali - is also complete.

In December 2018, GDC commenced exploration drilling in Paka Prospect.

Olkaria Geothermal Project

GDC is tasked with the management of Olkaria I and II steam fields and sale of steam to KenGen. The company has 59 wells with a cumulative capacity of 412MWe. Out of these, 320MW has been added to the national grid. The Company earns revenue of approximately KSh. 3 Billion annually from steam sales in Olkaria.

Geothermal Direct Use

Direct use refers to the use of geothermal energy for other uses other than electricity generation. Thermal energy, a by-product of electricity generation, can be used for various applications such as agriculture, industrial processes, tourism, drying and post-harvest value additions.

During the year, the Direct Use department operated a geothermal heated greenhouse and geothermal heated aquaculture projects in Menengai. The units successfully showcased direct use technology to many investors, researchers and the local community.
The GDC direct use projects in Menengai have demonstrated geothermal uses in enhancing crop growth, aquaculture, milk pasteurization and in laundry services.

In 2019, GDC procured, pending installation and successful testing, the first grain dryer in Africa that uses steam to dry cereals, with a capacity to dry 20 tonnes of cereals per day.

GDC intends to roll out the Direct Use projects commercially by setting up industrial parks and agro-zones in its project areas.

Under the model, GDC will sell steam to the IPPs under a steam-sales agreement, who will convert the steam to electricity and sell it under a Power Purchase Agreement (PPA) to Kenya Power.

Scientific exploration and infrastructure development (access roads and water supply system) for the Menengai Phase II project is complete. Appraisal drilling is ongoing. Phase III is in its early stages of development.

GDC Geothermal Reservoir Management experts

GDC's training facility was founded as a response to an existing regional skills gap in the geothermal energy subsector within the East African Rift Region.

The Company's Geothermal Centre of Excellence offers comprehensive short-course programs to local and international students in all aspects of geothermal energy development such as modern techniques of surface exploration, drilling, resource assessment and project management and direct use applications. In implementing these programs, the Centre leverages on strong partnerships and linkages developed with various industry players. The training aims to strengthen and enhance capacities and skills of participants in the domain of geothermal resource development.

The Company also offers geothermal consultancy services within the region.

The Broad programmes include;

1. Geosciences (Geology, Geochemistry, Geophysics, GIS and Remote sensing)
2. Reservoir Management
3. Drilling Technology
4. Direct Use Technology & Applications
5. Environmental Management
6. Strategic & Financial Planning
7. Occupational Health & Safety Management
8. Project Management

GDC in partnership with local/international stakeholders has successfully trained over 650 personnel from the Africa region in geothermal priority skills. In the just concluded financial year 2018/19. Trainings conducted are summarized below

2018		2019	
NUMBER OF TRAININGS	34	NUMBER OF TRAININGS	9

A cohort of GDC's Geothermal Centre of Excellence trainees during a field work session

IMPACT OF GDC's PROJECTS ON **THE BIG 4 AGENDA**

IMPACT OF GDC's PROJECTS ON THE BIG 4 AGENDA

GDC projects are identified as government flagship projects. The socio-economic investment programmes in its projects areas is anchored on health, water availability, education, access to cheap electricity, employment and revolutionizing the agricultural sector pillars. The impact of GDC's projects are not only positively affecting the lives of the host communities but have a direct impact on the economy of Kenya. Below is a summarized overview of the impacts towards the realization of the Big 4 Agenda;

Enhancing Manufacturing

Geothermal is the least cost source of energy in Kenya. This has enabled access to cheap electricity especially to bulk users in the manufacturing sector. It has created an enabling environment in the manufacturing of products in Kenya as well as ensuring a steady, adequate and reliable supply of power across the country, especially during the cyclic periods of drought.

Food Security

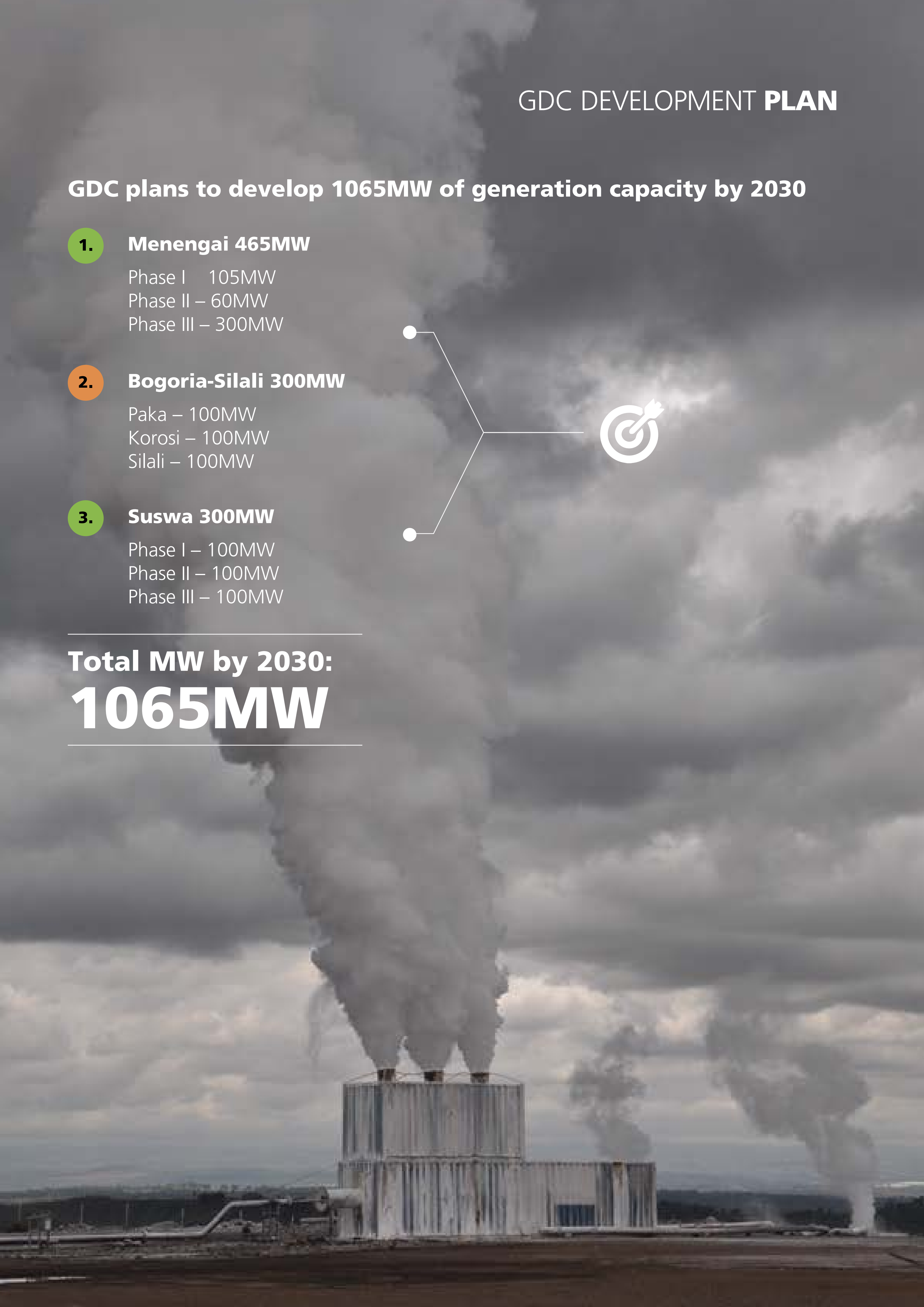
Geothermal direct use applications have the potential to enhance food security in Kenya. In Menengai geothermal project, direct use demonstrations projects have showcased the viability of alternative applications of geothermal energy, hence the need to establish an industrial park. The industrial park will offer cheap source of electricity that will catalyze the industrial production with great focus on agro-based manufacturing industries. This will revolutionize the agricultural sector by enhancing food security through application of efficient food processing methods.

GDC has installed twenty (20) water filtration points each with two (2) water troughs in the Bogoria-Silali Geothermal project area. Local residents are now able to access clean water for drinking and for domestic use.

Health Care

The Company has mobile ambulances offering treatment to the local communities within the project areas. In addition, community engagement programs carried out by GDC ensure locals are sensitized on HIV&AIDS prevention and wellness promotion. Condom dispensers are strategically placed in various identified spots within the project areas for use by the local communities.

A geothermal-heated greenhouse at the Menengai Geothermal Project



GDC plans to develop 1065MW of generation capacity by 2030

1. **Menengai 465MW**
   Phase I 105MW
   Phase II – 60MW
   Phase III – 300MW

2. **Bogoria-Silali 300MW**
   Paka – 100MW
   Korosi – 100MW
   Silali – 100MW

3. **Suswa 300MW**
   Phase I – 100MW
   Phase II – 100MW
   Phase III – 100MW

Total MW by 2030:

1065MW

HUMAN CAPITAL **STATEMENT**

Staff is a key resource in any organization. GDC has employed various initiatives to ensure staff empowerment and motivation.

Staff Welfare

GDC has in place Employee Welfare & Benefits initiatives which are geared towards enhanced employee motivation, retention and improvement of employees' health & wellbeing. These include; Car Loan Scheme, Home Ownership Mortgage Scheme, Staff Retirement Benefits Scheme and in-house medical scheme for employees and their declared dependents.

During the year, the first registration of a Collective Bargaining Agreement (CBA) with Kenya Electrical Trade-Allied Workers' Union (KETAWU) was done. The CBA covers staff between the job grades 8 to 12. Some of the positive aspects of the CBA implementation include remunerative and non-remunerative components. The recognition of the CBA has given staff a platform to raise their concerns through their representatives thus reducing misunderstanding and friction between staff and management, subsequently promoting a harmonious working relationship and frramework of engagement.

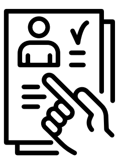
Staff Development

GDC has a Training Advisory Committee (TAC) drawn from the Human Resource Advisory Committee (HRAC) which oversees the training function. The Company has a corporate skills inventory for all employees for purposes of identifying the available competencies and the required skills in order to plan for training or recruitment to address the identified gaps and for succession management. In addition, the Company has engaged an external consultant to conduct a Training Need Analysis (TNA) which is used to identify the existing gaps in the Company and recommendation on how the gaps should be filled. Schorlarship opportunities offered to our staff have increased the competency pool, knowledge management abd staff retention.

Further, the Company organizes knowledge-sharing sessions for employees to share knowledge and experiences after attending various training programs. The sessions are aimed at ensuring that staff get an opportunity for deeper understanding of what they learnt while achieving workforce development. In order to ensure that professionalism is entrenched, all staff members are sponsored for training targeted at earning CPD points for professional good standing.

Internship and Attachment

GDC engages students/graduates from time to time on internship/attachments for a continuous period of not more than six (6) months. The Company is an equal opportunity employer and selection of graduates and stu-

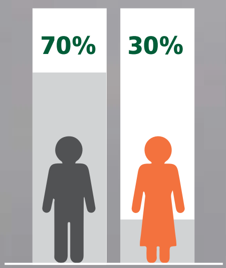


NUMBER OF INTERNS **139**

NUMBER OF ATTACHES **71**

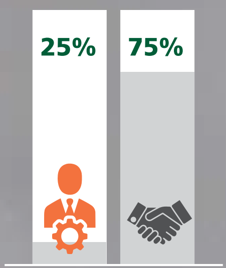
STAFF DIVERSITY

Staff Compliment



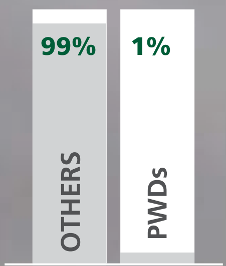
TOTAL: 1052

Management vs Unioniasable



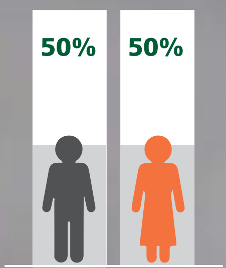
TOTAL: 1052

Affirmative Action



TOTAL: 1052

Senior Management



TOTAL: 24

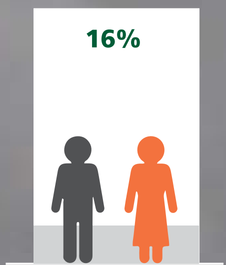
ETHNIC DISTRIBUTION

KIKUYU	20.3%	KAMBA	4.7%	NJEMPS	0.3%
KALENJIN	17.0%	POKOT	3.4%	TESO	0.2%
LUHYA	13.4%	SOMALI	3.1%	BORANA	0.2%
LUO	13.4%	TAITA	3.0%	GIRIAMA	0.3%
MAASAI	5.9%	MIJIKENDA	1.2%	ILCHAMUS	0.2%
MERU	5.9%	TURKANA	0.8%	KURIA	0.09%
KISII	4.9%	EMBU	0.5%	BAJUN	0.09%

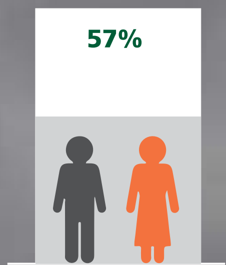
TOTAL: 1052

STAFF DISTRIBUTION BY AGE

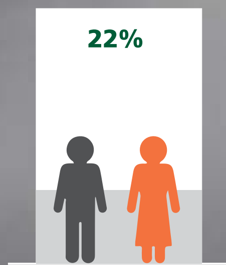
Age Groups



20-30



31-40

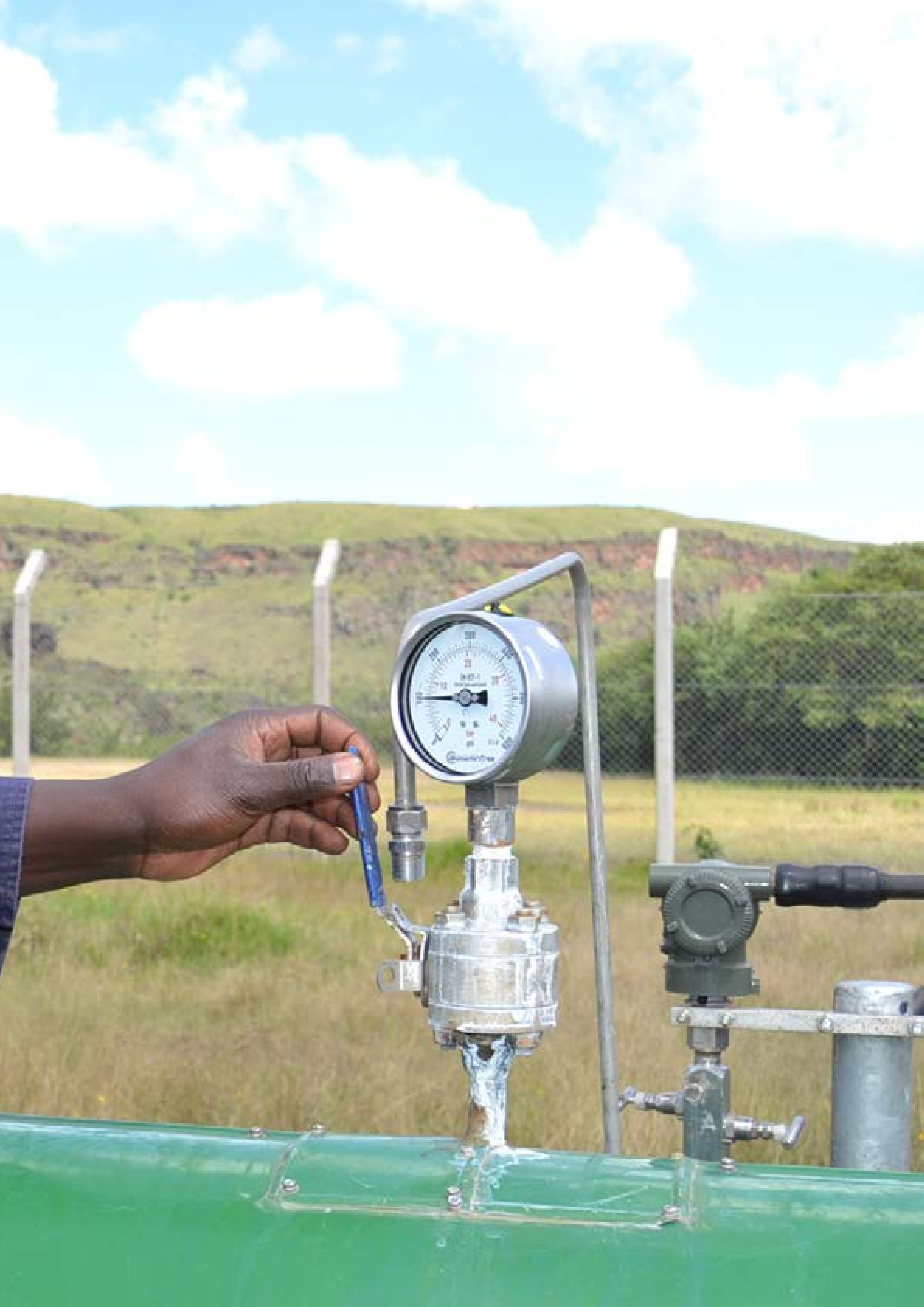


41-50

51-60

TOTAL:
1052

GDC Geothermal Reservoir Management expert checking the pressure gauge on the Steam Gathering System at the Menengai Geothermal Project



GEOTHERMAL DEVELOPMENT COMPANY LIMITED FINANCIAL STATEMENTS

The directors submit their report together with the audited financial statements of Geothermal Development Company Limited (the "Company") for the year ended 30 June 2019.

Business Review

The principal activity of the Company continues to be the development of geothermal resources in Kenya.

The Company's Performance

The Company recorded profit before tax of Shs. 1.2 billion compared to previous year's profit before tax of Shs. 2.2 billion. The decline is mainly due to a 6% decline in steam sales, a charge of Shs 917 million for the write-off of unproductive and abandoned wells and Shs. 459 million relating to the legal expenses on the GDC Vs Cluff Geothermal case.

Revenue decreased marginally to Shs. 3.4 billion from Shs. 3.6 billion mainly due to maintenance of the plant in Olkaria during the year.

During the year, an investment of Shs. 5.4 billion (2018: Shs. 6.9 billion) was spent on exploration and evaluation activities. This was directed towards drilling of five additional wells in the Menengai field, drilling of one well and development of infrastructure (road and water systems) in the Bogoria-Silali block. These were funded by capital grants of Shs. 2.04 billion (2018: Shs 6.6 billion) received from/through the Government of Kenya and plough back of funds received from sale of steam.

The Company has also started exploration and evaluation activities in the Bogoria-Silali area. Of the Shs. 658 million grants received from the Government of Kenya, Shs 407 million (2018: Shs. 2.3 billion) was for the Bogoria Silali project.

The table below highlights the performance for the year:

Performance indicator	2019	2018
Revenue (Shs million)	3,356	3,557
Operating profit %	43%	69%
Profit before income tax (Shs million)	1,166	2,161
Net assets (Shs million)	2,556	2,065
Current ratio	1.32:1	1.08:1
Expenditure on exploration and evaluation assets (Shs million)	3,757	5,210
Additions to property, plant and equipment (Shs million)	24,463	2,002
Grants received (Shs. million)	25,550	6,605

Dividend

The net profit for the year of Shs 490,633,131 (2018: Shs 1,429,741,000) has been added to retained earnings. The directors do not recommend payment of dividend.

Directors

The Directors who held office during the year and to the date of this report are set out on page 15.

Disclosure to Auditor

The directors confirm that with respect to each director at the time of approval of this report:

a. there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware of; and
b. each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of Appointment of Auditor

Deloitte & Touche were nominated by the Auditor General to carry out the audit of Geothermal Development Company Limited for the year ended 30 June 2019 in accordance with section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Employees

The directors are pleased once again to record their appreciation for the untiring effort of all employees of the Company.

Approval of Financial Statements

The financial statements were approved by the Board of Directors on 6 August 2020.

By order of the Board

Ms. Beatrice Kosgei
General Manager Legal Services & Company Secretary

STATEMENT OF DIRECTORS' **RESPONSIBILITIES**

Section 81 of the Public Finance Management (PFM) Act, 2012, Section 14 of the State Corporations Act and Kenya Companies Act, 2015 require the Directors to prepare financial statements in respect of the Company, which give a true and fair view of the state of affairs of the Company at the end of the financial year and the operating results of the Company for that year. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company. The Directors are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on 30 June 2019. This responsibility includes:

i. maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
ii. maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company;
iii. designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
iv. safeguarding the assets of the Company;
v. selecting and applying appropriate accounting policies; and
vi. making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the State Corporations Act and the Kenya Companies Act, 2015. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended 30 June 2019, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. 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.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approval of the financial statements

The Company's financial statements were approved by the Board on 6 August 2020 and signed on its behalf by:

Mr. Namada Simoni
Independent Director

Eng. Jared O. Othieno
Managing Director & CEO

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Geothermal Development Company Limited, set out on pages 86 to 135 which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Geothermal Development Company Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Geothermal Development Company Limited Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

1. Long outstanding Corporation Tax and Related Penalties

The Company being a state corporation is required to comply with tax laws and other related regulations, including remission of taxes to Kenya Revenue Authority (KRA), as per the prescribed due dates. The statement of financial position reflects current tax liability of Kshs.4,042,976,000 (2018: Kshs.3,220,274,000) for the years ended 30 June, 2015, 2016, 2017 and 2018, and quarterly instalments due as at 30 June, 2019.

Further as disclosed in Note 15 to the financial statements, the financial statements reflect other tax liabilities amounting to Kshs.2,578,205,000 which include interest and penalties of Kshs.1,440,807,350 (2018: Kshs.1,114,508,658) arising from non-payment of income taxes. According to Management, request for abandonment of the liability was not granted and subsequently the Company paid an instalment of Kshs.50,000,000 during the year under review. However, the outstanding liability is yet to be settled in full. The delayed payment of income taxes has exposed the Company to penalties and interest, which continues to increase with the continued delay.

2. Unproductive and Abandoned Wells

As similarly reported in the 2016/2017 audit report and as disclosed in Note 9 to the financial statements, the statements of profit or loss and other comprehensive income reflect Other Expenses amounting to Kshs.1,703,973,000 which constitutes an amount of Kshs.917,002,000 (2018: Nil) which relates to the cost of unproductive and abandoned wells, written off during the year under review. According to Management in past responses, success rates for geothermal wells increase as more wells are drilled to provide surface information. The cost of unproductive and abandoned wells written off by the Company are significant and requires enhanced management attention, with the aim of minimizing drilling losses.

3. Cost of Non-Productive Time

As reported in the 2016/2017 audit report and as disclosed in Note 9 to the financial statements, the statement further reflects other operating expenses of Kshs.1,703,973,000 which includes an amount of Kshs.116,288,000 (2018: Kshs.49,087,000), being the cost of Non-Productive Time (NPT) during drilling activities, which was written off during the year under review. According to Management in past responses, the causes of the NPT were mainly operational and part of the drilling program, while others were as a result of logistical challenges. The Management has in the past committed to develop a formal policy on what should constitute acceptable levels of NPT based on international best practices. However, by the time of concluding this audit, no such policy had been developed to guide the management of NPT associated with staff costs. Costs of NPT are voidable costs which increases the cost of drilling wells, and the costs ought not to have been incurred by the Company.

4. Wasteful expenses

As disclosed in Note 9 to the financial statements, the statement of profit or loss and other comprehensive income reflects other operating expenses of Kshs.1,703,973,000 which constitutes an amount of Kshs.338,688,000 (USD 2,853,177.33) which further includes interest on unpaid invoices of Kshs.62,041,000 and arbitration costs of Kshs.45,486,000, on account of a GDC vs Cluff Geothermal case. Further, as disclosed in Note 8 to the financial statements, the legal expenses balance of Kshs.118,009,000 includes an amount of Kshs.104,454,000 incurred on account of the above case, which brings the total expenses on account of the case to Kshs.211,981,000.

Further, and as disclosed in Note 23(a) to the financial statement the case arose from alleged breach of contract by the Company, for non-payment of USD 26,177,935 relating to provision of top holing services by the contractor at Menengai field. According to Management, the case has since been determined through arbitration. The above expenses which are significant, have negatively affected the operating results of the Company and calls for Management to relook its management of contracts and related obligations, to avoid such legal expenses.

My opinion is not qualified in respect of these matters

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, were of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the period under review.

Other Information

The other information comprises the Report of the Directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information which I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

i. In my opinion, the information given in the report of the directors on pages 77 to 78 is consistent with the financial statements.

ii. In my opinion, the auditable part of the Directors' remuneration report on page 47 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of any intention to liquidate the Company or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of Management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control which might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 August, 2020

STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2019 Shs'000	2018 Shs'000
Revenue	5	3,355,986	3,557,069
Government grants	20	2,056,112	1,381,795
Other income/(expenses)	6	45,452	(47,521)
Administrative expenses	8	(2,317,293)	(1,769,939)
Other operating expenses	9	(1,703,973)	(659,791)
Operating profit		**1,436,284**	**2,461,613**
Finance income	7(a)	872	1,436
Finance costs	7(b)	(271,301)	(302,235)
Profit before income tax		**1,165,855**	**2,160,814**
Income tax expense	11(a)	(675,222)	(731,073)
Profit for the year		**490,633**	**1,429,741**
Other comprehensive income		-	-
Total comprehensive income for the year		**490,633**	**1,429,741**

STATEMENT OF **FINANCIAL POSITION**

ASSETS	Notes	2019 Shs'000	2018 Shs'000
		As at 30 June	
Non-current assets			
Property, plant and equipment	17	50,222,111	31,088,333
Exploration and evaluation assets	18	40,686,368	36,260,423
Intangible assets	19	16,964	18,175
Deferred income tax	16	432,470	234,990
		91,357,913	**67,601,921**
Current assets			
Inventories	12	4,876,396	4,783,140
Trade and other receivables	13	5,027,239	6,288,276
Cash at hand	14	102,672	1,103
		10,006,307	**11,072,519**
TOTAL ASSETS		**101,364,220**	**78,674,440**
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	22	2,000	2,000
Retained earnings		2,553,919	2,063,286
Total equity		**2,555,919**	**2,065,286**
Non-current liabilities			
Capital grants	20	88,350,952	66,390,868
Term Loan	21 (a)	2,921,963	-
		91,272,915	**66,390,868**
Current liabilities			
Borrowings	21	-	2,560,033
Trade and other payables	15	3,492,410	4,437,979
Current income tax	11(c)	4,042,976	3,220,274
		7,535,386	**10,218,286**
TOTAL EQUITY AND LIABILITIES		**101,364,220**	**78,674,440**

The financial statements on pages 86 to 135 were authorized and approved for issue by the board of directors on 6 August 2020 and signed on its behalf by:

Mr. Namada Simoni
Independent Director

Eng. Jared O. Othieno
Managing Director & CEO

STATEMENT OF **CHANGES IN EQUITY**

	Share capital	Retained earnings	Total equity
	Shs'000	Shs'000	Shs'000
Year ended 30 June 2018			
At start of year	2,000	633,545	635,545
Total comprehensive income for the year	-	1,429,741	1,429,741
At end of year	**2,000**	**2,063,286**	**2,065,286**
Year ended 30 June 2019			
At start of year	2,000	2,063,286	2,065,286
Total comprehensive income for the year	-	490,633	490,633
At end of year	**2,000**	**2,553,919**	**2,555,919**

STATEMENT OF **CASH FLOWS**

	Notes	Year ended 30 June 2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Profit before tax		1,165,855	2,160,814
Adjustments:			
Depreciation of property, plant and equipment	17	1,459,151	924,066
Amortisation of intangible asset	19	909	101
Write-off of unproductive and abandoned wells	18	917,002	-
Provision for impairment of exploration & evaluation assets	18	-	206,293
Amortisation of capital grants	20	(1,421,336)	(881,747)
Write off of non-productive time	18	116,288	49,087
Loss on disposal of property, plant and equipment		16	-
Changes in working capital:			
- Trade and other receivables		1,261,037	(2,522,661)
- Inventories		(93,256)	(1,018,606)
- Trade and other payables		(945,569)	1,739,777
Income tax paid	11(c)	(50,000)	-
Net cash generated from operating activities		**2,410,097**	**657,124**
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(981,953)	(2,002,159)
Expenditure on exploration and evaluation assets	18	(3,757,392)	(5,209,722)
Purchases of intangible assets	19	-	(3,825)
Net cash used in investing activities		**(4,739,345)**	**(7,215,706)**
Cash flows from financing activities			
Proceeds from capital grants	20	2,068,887	6,605,095
Proceeds from term loan	21	2,921,963	-
Net cash generated from financing activities		**4,990,850**	**6,605,095**
Net increase in cash and cash equivalents		2,661,602	46,513
Cash and cash equivalents at start of year		(2,558,930)	(2,605,443)
Cash and cash equivalents at end of year	**14**	**102,672**	**(2,558,930)**

NOTES

1 General information

Geothermal Development Company Limited is incorporated in Kenya under the Companies Act as a state owned corporation, and is domiciled in Kenya. The address of its registered office is:

Geothermal Development Company Limited
Kawi House, South C
P.O. Box 100746 – 00101
Nairobi.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Company.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Kenyan Companies Act, 2015, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented, unless otherwise stated.

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

Impact of initial application of IFRS 9 Financial Instruments

The Company has adopted IFRS 9 'Financial Instruments' from 1 July 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategies and objectives.

2 Significant accounting policies (Continued)

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

The transition provision of IFRS 9 allow an entity not to restate comparatives consequently, the Company has elected not to restate comparatives. Therefore, the comparative information for June 2018 is reported under IAS 39 and is not comparable to the information presented for June 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 June 2019 and are disclosed in the Statement of Changes in Equity.

The standard amends the classification and measurement models for financial assets. See below.

(i) Classification and measurement of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on derecognition; and
- Financial assets FVPL.

The company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 July 2018 have not been restated where appropriate in accordance with the transition provisions of the standard. The Company's balance sheet only contains the following financial assets:

- Trade receivables;
- Grants Receivable (GOK)
- Restricted cash; and
- Cash and bank balances.

2 Significant accounting policies (Continued)

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(i) Classification and measurement of financial assets (Continued)

There has been no change in the measurement criteria for any of the company's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically 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 amount outstanding, are measured subsequently at amortised cost and are subject to impairment. See (ii) below.

(ii) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. Specifically, IFRS 9 requires the company to recognise a loss allowance for expected credit losses on its financial assets as listed in (i) above. The company measured the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL).

The ECL on trade receivables is estimated using a provision matrix by taking into account past default experience and an analysis of the debtors' current financial position and adjusted for any factors that are specific to debtors' general economic conditions. There has been no material adjustments to existing provisions. See (v) below for further financial details of the adjustments. See note 13 for details on movement in provisions for the year.

The adoption of the standard has not resulted in any adjustments to the comparatives as allowed by the provisions of the standard.

(iii) Classification and measurement of financial liabilities

The application of IFRS 9 has not affected the company's accounting for its liabilities. The payables continue to be recognised initially at fair value and subsequently measured at amortised cost.

(iv) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Company had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the company has elected to reclassify upon the application of IFRS 9.

2 *Significant accounting policies (Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

v) Impact of initial application of IFRS 9 on financial performance

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Company has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

vi) Day one adjustment

The Company's financial instruments as carried at fair value or amortised cost are all short term. The financial instruments held at amortized cost as at 30 June 2018 do not include any significant credit impairment. Accordingly, the application of IFRS 9 would not result in any significant adjustment to the opening balance and a day one adjustment to retained earnings has not been made.

The application of IFRS 9 has had no impact on the cash flows of the Company.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 July 2018. IFRS 15 introduced a five step approach to revenue recognition.

Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services has been satisfied.

The Company has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 July 2018.

2 *Significant accounting policies* *(Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) *(Continued)*

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 *(Continued)*

Impact of application of IFRS 15 Revenue from Contracts with Customers *(Continued)*

The application of IFRS 15 has not had a significant impact on the Company's accounting policies as the nature of the Company's revenue is that revenue is recognised at a point in time. IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Company. Accordingly, there has been no adjustment for any of the financial statement line items as a result of the application of IFRS 15.

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in the company financial statements.

Annual Improvements to IFRS Standards 2014-2016 Cycle

The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss (FVTPL) is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments to the standard had no impact on the company's financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2 *Significant accounting policies (Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (Continued)

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classifiedas equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

i) the original liability is derecognised;
ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments to the standard had no impact on the Company's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The application of this interpretation had no effect on the Company's financial statements.

2 *Significant accounting policies (Continued)*

(b) *Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)*

Relevant new standards and amendments to published standards effective for the year ended 30 June 2019 (Continued)

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Transfers of Investments Property clarify the following aspects:

- Transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments to the standard had no impact on the Company's financial statements.

Relevant new and amended standards and interpretations in issue but not yet effective in the year

New and Amendments to standards	Effective for annual periods beginning on or
IFRS 16 Leases	1 July 2019, with earlier application permitted
IFRS 17 Insurance Contracts	1 July 2022, with earlier application permitted
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 July 2019, with earlier application permitted
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 July 2019, with earlier application permitted
Annual Improvements to IFRS Standards 2015–2017	1 July 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits	1 July 2019, with earlier application permitted
IFRIC 23: Uncertainty over Income Tax Treatments	Effective for annual periods beginning on or after 1 July 2019

2 *Significant accounting policies (Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 30 June 2019

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 will be adopted by the Company from 1 July 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lease accounting model.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The Company will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The directors of the company anticipate IFRS 16 will be adopted in the company's financial statements for the annual period beginning 1 July 2019. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

2 Significant accounting policies (Continued)

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 30 June 2019 (Continued)

IFRS 16 Leases (Continued)

On initial application of IFRS 16, for all leases the Company will:

a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Company will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 30 June 2019, the Company has non-cancellable operating lease commitments of Sh 218.8 million. The Directors have assessed the impact of the application of IFRS 16 on the Company's financial statements and concluded that the impact would be not be significant.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 July 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

2 *Significant accounting policies (Continued)*

(b) *Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)*

Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 30 June 2019 (Continued)

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

Annual improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

All the amendments are effective for annual periods beginning on or after 1 July 2019 and generally require prospective application. Earlier application is permitted.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

2 *Significant accounting policies (Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

Impact of relevant new and revised IFRS standards in issue but not effective for the year ended 30 June 2019 (Continued)

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so. The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

2 Significant accounting policies *(Continued)*

(b) Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

The Interpretation is effective for annual periods beginning on or after 1 July 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the company financial statements.

Early adoption of standards

The company did not early adopt any new or amended standards in the year ended 30 June 2019.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Kenya Shillings in (Shs) which is the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other income or expenses'.

(d) Property, plant and equipment

Land is shown at cost. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 *Significant accounting policies (Continued)*

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

The annual depreciation rates in use are:

Buildings	2.5%
Wells	4%
Drilling rigs	6.67%
Computers & computer accessories	33.33%
Plant & machinery	12.5%
Furniture, fittings and office equipment	20%
Motor vehicles	20%
Prime movers & tractors	12.5%
Roads	12.5%

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

(e) Exploration and evaluation assets

Exploration and evaluation expenditure comprises costs that are directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and/or
- Compiling pre-feasibility and feasibility studies

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Exploration and evaluation expenditures are accounted for using 'successful efforts' method of accounting. Costs are accumulated on a field by field basis. Costs directly associated with exploration are capitalised until the determination of the field's steam potential is evaluated. If it is determined that a commercially viable steam field has not been achieved, these costs are charged to the income statement.

2 *Significant accounting policies (continued)*

(e) Exploration and evaluation assets (Continued)

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of expenditure. The carrying values of capitalised evaluation amounts are reviewed annually by management. In the case of undeveloped geothermal wells, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intention for development of undeveloped project.

Once a commercially viable steam field is determined to exist, exploration and evaluation assets are tested for impairment and transferred to development tangible or intangible assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

Once productive, geothermal wells will be capitalized in property, plant and equipment when connected and will be depreciated over their useful lives. The useful life is estimated to be fifteen years from the date of commencement of commercial operation.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate existence of impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

(f) Intangible assets

The intangible assets relate to various software which include SAP, the Company's accounting software, GIS software and ICT security software. The software's acquisition costs are recognised as intangible asset and amortized over the estimated useful life of five years.

Costs associated with maintaining computer software are recognised as an expense as incurred.

(g) Inventories

Inventories are valued at the lower of cost or net realisable value. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(h) Financial instruments

A financial asset or liability is recognised when the Company becomes party to the contractual provisions of the instrument.

2 *Summary of significant accounting policies (continued)*

(h) Financial Instruments (Continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets

(i) Classification of financial assets

The Company classifies financial instruments into three categories as described below.
Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2 *Summary of significant accounting policies (continued)*

(h) *Financial Instruments (Continued)*

Financial Assets (Continued)

(ii) De-recognition

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the assets carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment

(i) *Financial assets*

The Company recognises an allowance for Expected Credit Losses (ECLs) for its Trade receivables and Bank balances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2 *Summary of significant accounting policies (continued)*

(h) Financial Instruments (Continued)

Financial Assets (Continued)

Impairment (Continued)

(i) Financial assets (Continued)

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other assets include cash and bank balances and deposits which the Company uses counter party external rating equivalent both to determine whether the financial asset has significantly increased in credit risk and to estimate ECLs.

The Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Company that generates cash flows that largely are independent from other assets and Companys. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (Company of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 *Summary of significant accounting policies (continued)*

(h) Financial Instruments (Continued)

Financial liabilities

Recognition and measurement

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade and other payables

Trade payables and other payables are carried at cost which is measured at the fair or contracted value of the consideration to be paid in future in respect of goods and services supplied by the suppliers, whether billed or not, to the Company and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities within three months less advances from banks repayable within three months from the date of the advance.

(j) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as government grants and is accounted for under IAS 20.

(k) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies *(continued)*

(l) Government Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

(i) Revenue Grants

Grants received to compensate expenses or for the purpose of giving immediate support to the Company with no future related costs are recognised in the statement of comprehensive income in the year of receipt.

(ii) Capital Grants

Government grants relating to property, plant and equipment and exploration and evaluation assets are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(iii) Non-monetary Grants

Grants received in kind in form of non-monetary assets are recognised at fair value and are debited to the statement of financial position or the income statement based on the nature of the grant.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 *Summary of significant accounting policies (continued)*

(n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) 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 can be made of the amount of the obligation.

(o) Employee benefits

(i) Retirement benefit obligations

The Company has registered a defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Company at 14.5% and employees at 7.5% of basic salary. Benefits are paid to retiring staff in accordance with the scheme's rules. The Company and all its employees also contribute to the National Social Security Fund which is a defined contribution schemes.

The Company's contributions to the defined contribution schemes are recognised as an employee benefit expense in the income statement when they fall due. The Company has no further obligations once the contributions have been paid.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(p) Leases

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. The Company holds no such leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company holds operating leases for its office premises and geothermal exploration fields.

2 *Summary of significant accounting policies (continued)*

(q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company, the revenue can be reliably measured and when specific criteria have been met for each of the Company's activities.

Revenue is recognised as follows:

(i) Sale of steam is recognised in the period in which the Company has delivered the steam, the customer has accepted the product; and collectability is reasonably assured. Quantity of steam delivered is measured by the amount of power generated using the steam by use of meters.
(ii) Interest income is recognised on a time proportion basis using effective interest rate method (that is the rate that exactly discounts estimated future cash receipts through the expected life of financial instrument to the net carrying amount of the financial asset).
(iii) Income from consultancy services is recognised on an accrual basis, when the service has been provided.

(r) Income tax

(i) Current income tax

Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 *Summary of significant accounting policies (continued)*

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, the directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying accounting policies

Equipment

Critical estimates are made by the company management in determining depreciation rates for equipment.

Impairment losses

At the end of each 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. 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.

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

3 Critical accounting estimates and judgements (continued)

The company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Going concern

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Moreover, being a state corporation, they are expected to continue receiving government support. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Income taxes

The Company is subject to income taxes. Significant judgement is required in determining the Company's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Impairment of exploration and evaluation expenditure

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for the wells where it is considered likely to be recoverable by future exploitation. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the income statement.

4 Financial risk management objectives and policies

(a) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have 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 forecasts and actual cash flows.

The table below represents cash flows payable by the Company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 3 months	Between 3 & 12 months	Total
	Shs'000	**Shs'000**	**Shs'000**
At 30 June 2019:			
Trade and other payables (Note 15)	3,492,410	-	3,492,410
At 30 June 2018:			
Trade and other payables (Note 15)	4,437,979	-	4,437,979
Bank borrowings (Note 21)	-	1,959,710	1,959,710
Bank overdraft (Note 21)	-	600,323	600,323
	4,437,979	**2,560,033**	**6,998,012**

(b) Credit risk

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company. The Company has significant concentration of credit risk on amounts due from Kenya Electricity Generating Company (KenGen), which represent 93% of the total trade receivable as at 30 June 2019 (2018: 94%). The carrying amount of financial assets recorded in the financial statements, which are stated net of impairment losses, represents the company's maximum exposure to credit risk.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

4 *Financial risk management objectives and policies (continued)*

(b) *Credit risk (continued)*

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

The Company's current credit risk grading framework comprises the following categories:
The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12 – month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades:

	Internal/ external rating	12 months or Lifetime ECL	Gross carrying amount	Loss Allowance	Net amount
Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	
At 30 June 2019:					
Trade receivables (Note13a)	Performing	Lifetime ECL (simplified approach)	1,595,867	101,906	1,493,961
Grants receivable (GOK) (Note13a)	Performing	Lifetime ECL (simplified approach)	307,683	-	307,683
Bank Balance (Note 14)	BB	12 months ECL	102,251	-	102,251
Restricted cash (Note 13b)	BB	12 months ECL	391,194	-	391,194
			2,396,995	**101,906**	**2,295,089**
At 30 June 2018:					
Trade receivables (Note 13a)	Performing	Lifetime ECL (simplified approach)	1,958,901	102,783	1,856,118
Grants receivable (GOK) (Note13a)	Performing	Lifetime ECL (simplified approach)	381,500	-	381,500
Bank Balance (Note 14)	BB	12 months ECL	-	-	-
Restricted cash (Note 13b)	BB	12 months ECL	221,475	-	221,475
			2,561,876	**102,783**	**2,459,093**

4 *Financial risk management objectives and policies* (continued)

Bank balances are held in banks with high credit rating and are fully performing.:

For trade receivables, the company has applied the simplified approach to measure the expected credit loss allowance. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

The provision rates are based on days past due for various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Company's trade receivables and contract assets using a provision matrix:

Expected credit loss as at 30 June 2019

Loss Rates

	Current	0-30	31-60	61-90	>90
Debtor					
KenGen	0%	0%	0%	0%	0%
Others	0%	0%	0%	0%	100%

exposure as at June 2019

Current	0-30	31-60	61-90	>90	Total	
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
KenGen	-	663,396	2,291	661,673	135,354	1,462,714
Others	-	11,372	-	19,875	101,906	133,153
Total	**-**	**674,768**	**2,291**	**681,548**	**237,260**	**1,595,867**

Total impairment as at June 2019

	Current	0-30	31-60	61-90	>90	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
KenGen	-	-	-	-	-	-
Others	-	-	-	-	101,906	101,906
Total	**-**	**-**	**-**	**-**	**101,906**	**101,906**

4 *Financial risk management objectives and policies (continued)*

(b) Credit Risk (Continued)

Expected credit loss as at 30 June 2018

The transition provisions of IFRS 9 allow an entity not to restate comparatives. The company has elected not to restate comparatives in respect of the consequential amendments to IFRS 7 Financial Instruments: Disclosures. Accordingly, these amendments were applied to the disclosures for 2019 only and not to the comparative period.

Credit risk – Increase/decrease of ECL rate by 10%.

If the ECL rates on trade receivables had been 10% higher (lower) as of 30 June 2019, there would be no impact on the loss allowance on trade receivables.

(c) Market risk

Market risk is the risk of losses in positions arising from movements in market prices.

(i) Foreign exchange risk

The Company makes purchases in foreign currency, holds cash in dollars, has trade receivables denominated in foreign currencies and provides consulting services that are invoiced in foreign currency. It is therefore exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, and recognized assets and liabilities.

Management's policy to manage foreign exchange risk is to hold foreign currency bank accounts which act as a natural hedge for purchases of imported raw materials.

On 30 June 2019, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit for the year and equity would have been Shs 101,583,357 (2018: Shs 91,762,652) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

On 30 June 2019, if the Kenya Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, profit for the year and equity would have been Shs 3,525,263 (2018: 457,488) higher/lower, as a result of Euro denominated trade payables

(ii) Price risk

The Company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. As at 30 June 2019 the Company's exposure to cash flow and fair value interest rate risk on the term loan was Sh.7,851,315 (2018: Nil).

4 *Financial risk management objectives and policies (continued)*

(d) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

The gearing ratios as at 30 June 2019 and 2018 were as follows:

	2019 Shs'000	2018 Shs'000
Total borrowings (Note 21)	2,921,963	2,560,033
Less: Cash and cash equivalents (Note 14)	(102,672)	(1,103)
Net debt	2,819,291	2,558,930
Total equity	2,556,370	2,065,286
Total debt and equity	5,375,661	4,624,216
Gearing ratio	**52.45%**	**55.3%**

5 Revenue

	2019 Shs'000	2018 Shs'000
Sale of steam from Olkaria wells	3,355,986	3,557,069

6 Other income

	2019 Shs'000	2018 Shs'000
Consultancy services on geothermal drilling	6,934	16,596
Loss on disposal of property, plant and equipment	(17)	-
Miscellaneous income	5,242	3,333
Net foreign exchange gain /(loss)	33,293	(67,450)
	45,452	**(47,521)**

7 (a) Finance income

	2019 Shs'000	2018 Shs'000
Interest income on bank deposits	872	1,436

7 (b) Finance costs

	2019 Shs'000	2018 Shs'000
Interest expense on bank loans and overdraft	271,301	302,235

8 Expenses by nature

	2019 Shs'000	2018 Shs'000
Depreciation of property, plant & equipment (Note 17)	1,459,151	924,066
Employee benefits expenses (Note 10)	533,536	485,952
Provision for obsolete stock	-	30,367
Legal expenses	118,009	48,116
Accommodation and subsistence	29,028	47,173
Training and education	28,039	40,658
Tax penalties and interest	-	17,852
Director's remuneration (Note 24)	42,172	17,235
Transportation expenses	6,919	12,728
Management consultancy	9,036	12,007
Auditor's remuneration	7,337	7,669
Provision for doubtful debts of other receivables	(877)	5,625
ICT expenses	3,573	5,016
Advertising and publicity	3,680	4,850
Fuel expenses	4,065	3,759
Operating lease payments	-	162
Amortisation of intangible assets (Note 19)	909	101
Other expenses	72,716	106,603
	2,317,293	**1,769,939**

9 Other operating expenses

	2019 Shs'000	2018 Shs'000
Penalties for non-payment of corporate tax	331,995	404,411
Write off of unproductive and abandoned wells (Note 18)	917,002	-
Impairment of exploration and evaluation assets	-	206,293
Write off of non-productive drilling staff costs (Note 18)	116,288	49,087
Provision for legal fees	338,688	-
	1,703,973	**659,791**

10 Employee benefits expenses

The following items are included within employee benefits expense

	2019 Shs'000	2018 Shs'000
Salaries and wages	502,016	456,451
Retirement benefits costs:		
- Defined contribution scheme	31,110	29,097
- National Social Security Fund	410	404
	533,536	**485,952**

11 Income tax

(a) Taxation charge

Current income tax	872,702	810,416
Deferred income tax (Note 16)	(197,480)	(79,343)
Income tax expense	**675,222**	**731,073**

11 *Income tax (continued)*

Reconciliation of tax based on accounting profit to tax charge

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019 Shs'000	2018 Shs'000
Profit before income tax	1,165,855	2,160,814
Tax calculated at the statutory income tax rate of 30% (2018: 30%)	349,757	648,244
Tax effects of:		
Income not subject to tax	(468,377)	(264,524)
Expenses not deductible for tax purposes	991,855	348,792
Deferred credit to profit or loss	(197,480)	(1,439)
Advance tax paid	(533)	
Taxation charge	**675,222**	**731,073**

(b) Current tax payable

The movements in the current income tax liability are as follows:

	2019 Shs'000	2018 Shs'000
At start of year	3,220,274	2,409,858
Taxation charge (Note 11 (a))	872,702	810,416
Paid during the year	(50,000)	-
At end of year	**4,042,976**	**3,220,274**

12 Inventories

	2019 Shs'000	2018 Shs'000
Drilling materials	4,424,240	4,366,400
Pipes	305,145	234,225
Fuel	32,575	34,879
Consumables	56,363	93,632
Total inventory held for exploration and evaluation activities	4,818,323	4,729,136
Other inventories	58,073	54,004
	4,876,396	**4,783,140**

13a Trade and other receivables

	2019 Shs'000	2018 Shs'000
Trade receivables	1,595,867	1,958,901
Less: Provision for impairment losses	(101,906)	(102,783)
Net trade receivables	1,493,961	1,856,118
Value Added Tax (VAT) recoverable	1,079,515	1,269,690
Advance payment to suppliers	1,678,499	2,479,226
Grants receivable (GOK)	307,683	381,500
Restricted cash (Note 13b)	391,194	221,475
Staff receivables (Note 13c)	8,830	20,864
Other receivables and prepayments	67,557	59,403
	5,027,239	**6,288,276**

Grants receivable from GOK represents the capital grant tranche for the fourth quarter of the financial year ended 30 June 2019, which was disbursed to the Company by the Ministry of Energy on 6th July 2019.

Movements for the provision of impairment of trade receivables are as follows:

	2019 Shs'000	2018 Shs'000
At start of year	102,783	97,158
Charge to profit or loss	(877)	5,625
At end of year	**101,906**	**102,783**

The fair value of other receivables approximates their carrying value.

The ageing analysis of the gross trade receivables was as follows:

	2019	2018
Less than 30 days	674,768	321,558
Between 30 and 60 days	2,291	43,743
Between 61 and 90 days	681,548	354,463
Over 90 days	237,260	939,137
	1,595,867	**1,958,901**

13b. Restricted cash

	2019 Shs'000	2018 Shs'000
Deposit with Development Bank of Kenya	94,568	94,568
Deposit with Cooperative Bank	28,340	15,841
Staff Mortgage Account - KCB	101,067	100,196
Staff Terminal Benefits Account - KCB	37,729	10,870
Escrow Account	129,490	-
	391,194	**221,475**

Restricted cash with Development Bank of Kenya is used as a security for staff car loans and its withdrawal is restricted. Restricted cash with Cooperative bank of Kenya is used as a guarantee for provision of goods by National Oil Corporation of Kenya. Its withdrawal is also restricted. Restricted cash balances with KCB are the security for staff mortgage loans and the Company's contributions formeeting the terminal benefits liability due to contracted staff. Their withdrawal is restricted.

13c. Staff receivables

	2019 Shs'000	2018 Shs'000
Net staff loans and advances	**8,830**	**20,864**

14 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include the following:

	2019 Shs'000	2018 Shs'000
Cash at Bank	102,251	-
Cash at hand	421	1,103
	102,672	**1,103**
Short term bank loans (Note 21)	-	(1,959,710)
Bank Overdraft (Note 21)	-	(600,323)
	-	**(2,560,033)**
Net cash and cash equivalents	**102,672**	**(2,558,930)**

14 Cash and cash equivalents (continued)

The make-up of cash and cash equivalents is as follows:

Detailed analysis of cash and cash equivalents

Financial institution	Account number	2019 Shs'000	2018 Shs'000
a) Current accounts			
Co-operative Bank of Kenya	01136160857600	1,327	(1,000,271)
Co-operative Bank of Kenya	01136160857603	-	4,955
Co-operative Bank of Kenya	02120160857600	(44,923)	(42,091)
Co-operative Bank of Kenya	22120160857600	111	(1)
Co-operative Bank of Kenya	01136350124400	(10,625)	8,692
Co-operative Bank of Kenya	01136115849200	527	375
Kenya Commercial Bank	1119615208	(1,428)	3,635
Kenya Commercial Bank	1166553671	1,342	2,323
Sub- total		**(53,669)**	**(1,022,383)**
b) On - call deposits			
Co-operative Bank of Kenya	021501608576	155,920	422,060
Sub- total		**155,920**	**422,060**
c) Others			
Co-operative Bank of Kenya (PIF facility)		-	(1,959,710)
Cash in hand		421	1,103
Sub- total		**421**	**(1,958,607)**
Grand total		**102,672**	**(2,558,930)**

15 Trade and other payables

	2019 Shs'000	2018 Shs'000
Trade payables	745,450	2,318,420
Accrued expenses	168,755	287,159
Other payables	2,578,205	1,832,400
	3,492,410	**4,437,979**

Other payables include accrued interest and penalties arising from non-payment of income taxes of Shs. 1,440,807,350 (2018: Shs. 1,114,508,658).

The carrying amounts of trade and other payables approximate their fair values

16 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2018:30%).
The movement of the deferred income tax account is as follows:

	2019 Shs'000	2018 Shs'000
At start of year	234,990	155,647
Credit to profit or loss	197,480	79,343
At end of year	**432,470**	**234,990**

16 Deferred income tax (continued)

Deferred income tax asset and liabilities and deferred income tax charge in the statement of comprehensive income (SOCI) are attributable to the following items:

Year ended 30 June 2019	At start of year	Charge (credit) to profit or loss	At end of year
	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities			
Property, plant and equipment	(19,241)	(5,804)	(25,045)
	(19,241)	**(5,804)**	**(25,045)**
Deferred income tax assets			
Other temporary differences	(216,890)	(205,222)	(422,112)
Unrealised exchange losses	1,141	13,546	14,687
	(215,749)	**(191,676)**	**(407,425)**
Net deferred income tax asset	**(234,990)**	**(197,480)**	**(432,470)**

Year ended 30 June 2018	At start of year	Charge (credit) to profit or loss	At end of year
	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities			
Property, plant and equipment	(10,528)	(8,713)	(19,241)
	(10,528)	**(8,713)**	**(19,241)**
Deferred income tax assets			
Other temporary differences	(80,938)	(135,952)	(216,890)
Unrealised exchange losses	(64,181)	65,322	1,141
	(145,119)	**(70,630)**	**(215,749)**
Net deferred income tax asset	**(155,647)**	**(79,343)**	**(234,990)**

17 Property, plant and equipment

	Land & Buildings	Rigs and water supply infrastr-ucture	Roads	Wells	Plant machinery power substation, and equipment	Motor vehicles	Furniture fittings and equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2019									
Opening net book amount	161,838	12,017,934	655,776	10,421,245	580,151	1,252,273	132,690	5,866,426	31,088,333
Additions	-	-	-	23,481,249	62,828	27,487	13,800	877,838	24,463,202
Transfer from WIP	-	-	-	-	-	-	-	-	-
Depreciation:									
- charge to profit or loss	-	-	-	(1,421,336)	-	(4,045)	(33,770)	-	(1,459,151)
- charge to E & E and Grants)	(1,921)	(1,108,155)	(144,871)	(2,168,715)	(161,342)	(273,788)	(11,464)	-	(3,870,256)
Disposals	-	-	-	-	-	-	-	(17)	(17)
Closing net book amount	**159,917**	**10,909,779**	**510,905**	**30,312,443**	**481,637**	**1,001,927**	**101,256**	**6,744,247**	**50,222,111**
At 30 June 2019									
Cost	165,019	17,428,170	1,330,870	37,403,578	1,951,885	2,662,940	601,843	6,744,247	68,288,552
Accumulated depreciation	(5,102)	(6,518,391)	(819,965)	(7,091,135)	(1,470,248)	(1,661,013)	(500,587)	-	(18,066,441)
Net book amount	**159,917**	**10,909,779**	**510,905**	**30,312,443**	**481,637**	**1,001,927**	**101,256**	**6,744,247**	**50,222,111**

Work in progress comprises the steam gathering system at Menengai site and water supply system being constructed at the Baringo site.

17 Property, plant and equipment (continued)

	Land & Buildings	Rigs and water supply infrastr-ucture	Roads	Wells	Plant machinery power substation, and equipment	Motor vehicles	Furniture fittings and equipme	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2018									
Opening net book amount	114,768	12,722,714	633,122	11,302,992	567,028	1,487,156	166,554	4,711,117	31,705,451
Additions	80	53,121	162,956	-	151,484	63,272	16,875	1,554,371	2,002,159
Transfer from WIP	47,816	320,035	-	-	31,211	-	-	(399,062)	-
Depreciation:									
- charge to profit or loss	-	-	-	(881,747)	-	(4,151)	(38,168)	-	(924,066)
- capitalised to exploration and evaluation assets	(826)	(1,077,936)	(140,302)	-	(169,572)	(294,004)	(12,571)	-	(1,695,211)
Closing net book amount	**161,838**	**12,017,934**	**655,776**	**10,421,245**	**580,151**	**1,252,273**	**132,690**	**5,866,426**	**31,088,333**
At 30 June 2018									
Cost	165,019	17,428,170	1,330,870	13,922,329	1,889,057	2,635,453	588,043	5,866,426	43,825,367
Accumulated depreciation	(3,181)	(5,410,236)	(675,094)	(3,501,084)	(1,308,906)	(1,383,180)	(455,353)	-	(12,737,034)
Net book amount	**161,838**	**12,017,934**	**655,776**	**10,421,245**	**580,151**	**1,252,273**	**132,690**	**5,866,426**	**31,088,333**

Work in progress comprises steam gathering system at Menengai site and water supply system being constructed at the Baringo site.

18 Exploration and evaluation assets

These are expenses incurred by the Company in exploration and steam development. The movement in the year is as follows:

	2019 Shs'000	2018 Shs'000
At start of year	36,260,423	29,610,870
Additions	5,459,235	6,904,933
Write off of unproductive and abandoned wells	(917,002)	-
Provision for impairment	-	(206,293)
Write off of non-productive time expenses	(116,288)	(49,087)
At end of year	**40,686,368**	**36,260,423**

The additions in the year comprise the following:

	2019 Shs'000	2018 Shs'000
Depreciation of property, plant and equipment (Note 17)	1,701,541	1,695,211
Amortisation of intangible assets (Note 19)	302	-
Staff costs capitalised	1,966,312	1,808,025
Drilling materials and consumables	1,791,080	3,401,697
	5,459,235	**6,904,933**

Impairment assessment for 105MW Menengai project wells

Exploration and evaluation expenditures are accounted for using 'successful efforts' method of accounting. Costs are accumulated on a field by field basis. Costs directly associated with exploration are capitalised until the determination of the field's steam potential is evaluated. If it is determined that a commercially viable steam field has not been achieved, these costs are charged to the income statement.

19 Intangible assets

Intangible assets relate to SAP, the Company's accounting software, GIS software and ICT security software.

	2019 Shs'000	2018 Shs'000
Opening net book amount	18,175	14,451
Additions	-	3,825
Amortisation:		
Charge to profit or loss	(909)	(101)
Capitalised as exploration and evaluation assets	(302)	-
Closing net book amount	16,964	18,175
Cost	292,836	292,836
Accumulated amortization	(275,872)	(274,661)
Net book amount	**16,964**	**18,175**

20 Government grants

Revenue grants and amortisation of capital grants

	2019 Shs'000	2018 Shs'000
Revenue grants issued by Government of Kenya	634,776	500,048
Capital grants amortised	1,421,336	881,747
	2,056,112	1,381,795
Capital grants		
At start of year	66,390,868	60,667,520
Grants received in the year:		
- Grants from Government of Kenya	658,000	2,670,500
- Grants from KfW	851,870	2,335,328
- Grants from AfDB	558,018	1,599,267
- NDF	999	-
- Olkaria wells vested during theyear	23,481,249	-
	25,550,136	**6,605,095**
GOK grant amortised (Olkaria wells) –Current year	(1,421,336)	(881,747)
GOK grant amortised (Olkaria wells)- Prior years	(2,168,716)	
	88,350,952	**66,390,868**

20 Government grants (Continued)

Revenue grants and amortisation of capital grants (Continued)

Revenue grants relate to grants received to cover operating expenses or for the purpose of giving immediate support to the Company. Capital grants relate to grants received for financing the exploration and drilling of geothermal wells. There are no unfulfilled conditions relating to the government grants recognised as income at 30 June 2019.

21 Borrowings (Short-term)

	2019 Shs'000	2018 Shs'000
Bank overdraft	-	600,323
Short term bank loans	-	1,959,710
	-	**2,560,033**

For the year ending 30 June 2019, the Company converted its short term facilities to an eight (8) year US Dollar denominated loan at 3months Libor +6%

21 (a) Borrowings (Long Term)

	2019 Shs'000	2018 Shs'000
Term loan	2,921,963	-
	2,921,963	**-**

The Company has a term loan facility with the Co-operative Bank of Kenya which is repaid on a quarterly basis.

22 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2017, 30 June 2018 and 30 June 2019	**20,000**	**2,000**

The total authorised number of ordinary shares is 20,000 with a par value of Shs 100 per share.

Shares are held in trust by the sitting Principal Secretaries of the Ministry of Energy & Petroleum and The National Treasury. All issued shares are fully paid for by:

	Number of shares 2019	Ordinary shares 2018
Permanent Secretary, The National Treasury & Planning	19,999	19,999
Permanent Secretary, Ministry of Energy	1	1
	20,000	**20,000**

23 Commitments and contingent liabilities

Contingent liabilities

The Company has a tax dispute with Kenya Revenue Authority which is being resolved. Appropriate provisions relating to the dispute where applicable have been incorporated in the financial statements. Additionally, the Company is subject to a number of legal claims incidental to its operations, the outcome of which cannot at present be foreseen and the possible loss or range of loss of which cannot at present be meaningfully quantified. In particular, the Company is subject to claims arising from various contracts with suppliers. The cases are summarized below:

a) Cluff Geothermal Ltd vs GDC

The Company entered into a contract with the Cluff Geothermal Ltd for provision of Top holing services at Menengai field. The Company was served with a notice of declaration of dispute by Cluff alleging breach of contract for non-payment of services. The total claim by Cluff Geothermal Ltd is USD 26,177,935.

The matter was heard at the London Court of International Arbitration from 2nd – 18th July 2018. A Partial Award was delivered on 3rd June 2019. The Tribunal awarded the Claimants the following;

(a) A sum of US $2,259,680 in respect of invoices GRD041, GRD042 and GRD058
(b) The sum of US $593,497.33 in respect of interest under s.49 of the Arbitration Act up to [3 June 2019] and continuing thereafter at a rate of US $463.23 per day until such date as the Respondent pays;
(c) Dismissed all other claims, and
(d) Issues of costs were reserved to be dealt with in a subsequent award.

Subsequently parties agreed on costs hence no need for a further hearing on the issue of costs as per the tribunal's order (d)

Management has made provisions for the above costs as per the award by the tribunal in the financial statements for the year ended 30th June 2019.

b) Linksoft Communications Limited vs GDC

The Company entered into a contract with Linksoft Communications Limited for provision of manpower services. The contract was terminated by GDC in May 2016. Linksoft sued GDC for alleged unlawful termination of the contract and is claiming Shs 361 million being unutilised balance of the contract price as well as a claim in certain reimbursements incurred in the orderly termination of the contract.

The matter has been referred to the Chartered Institute of Arbitration. GDC put in an objection to the jurisdiction of the arbitral tribunal on grounds that the claim falls outside the contract and as such the tribunal cannot entertain the same.

The Interim Award on the jurisdiction was delivered and the matter is set to proceed to full hearing. The Company has prepared the defence for filing as per the directions of the tribunal. The hearing is set for the 21st November 2019.

Based on the legal advice received, the Directors believe the probability of unfavourable outcome is remote and as such no provision has been accrued for in the financial statements.

c) Bonfide Clearing Company Limited vs GDC

The Company entered into a contract with Bonfide Clearing and Forwarding Company Limited for provision of rig moves services. The Company terminated the contract on 13 September 2016. Bonfide referred the matter for arbitration claiming an amount of Shs 3,334,124,194 for work done, loss of business, interest and damages. The arbitrator issued an interim award in September 2017 and Bonfide filed an application in the High Court against the award in October 2017.

Bonfide Clearing Company Limited have Appealed the Interim award No. 1 which dismissed the bulk of their claim leaving a balance of Kshs. 38.5 million which the Hon. Arbitrator deemed provable" which was to proceed to hearing.

A mention of the appeal in the High Court Misc Application No. 431 of 2017 took place on 6 November 2018 where the appellant requested for more time. The Arbitration matter is in abeyance after the claimant elected to abandon the prosecution of the balance of their claim as per Interim Award No. 1 pending the conclusion of the appeal filed at the High Court.

We anticipate that the challenge to the arbitration award will fail as the law on the subject is clear and legal authorities, both at the High Court and at the Court of Appeal, do not favour the position and arguments presented by Bonfide Clearing and Forwarding Company Limited, hence no additional provision has been accrued for in the financial statements.

d) Hydra Industrial Limited vs. GDC

Dispute over termination of contract amounting to Kshs. 1,194,022,324.

The matter came up for hearing on 28th & 29th March 2019 whereby the Claimant failed to turn up nor send his lawyers on the 1st day of the hearing leading to an adjournment. On the second day of hearing he sought an adjournment which was granted subject to the payment of costs of the tribunal and the respondents counsel of Kshs. 1,500,000/=. The claimant has since paid the costs. The matter is fixed for hearing.

In Management's view the chances of an adverse outcome on the matter are remote hence no provisions have been made in the financial statements.

e) Lantech Africa Limited vs GDC

Dispute over breach of contractual obligations by GDC amounting to USD 17M.

The hearing is complete. The Claimants made an application to re-open the matter by amending their statement of claim. The Arbitrator vide a decision on 24th June 2019 allowed the application. There was no further need for a hearing and the Matter closed by submissions. The ruling shall be given on Notice.

In Management's view the chances of an adverse outcome on the matter are remote hence no provisions have been made in the financial statements.

Capital commitments

Capital expenditure contracted for at the reporting date but not recognized in the financial statements is as follows:

	2019 Shs'000	2018 Shs'000
Authorized and contracted	584,487	6,095,912
Authorized but not contracted	328,090	1,052,830
	912,577	**7,148,742**

24 Related party transactions

The Government of Kenya is the principal shareholder of the Company, holding 100% of the Company's equity interest. Other related parties include The Ministry of Energy, The National Treasury, and Planning Board of Directors and key management.

IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

i) Key management compensation

Key management includes members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2019 Shs'000	2019 Shs'000
Salaries and other short-term employment benefits	**105,168**	**103,465**

ii) Directors' remuneration

Remuneration as management	13,147	12,934
Fees and allowances for services as director	42,172	17,235
	55,319	**30,169**

iii) Grants received in the year

The grants issued by the Government of Kenya in the year are set out in Note 20.

25 CURRENCY

The financial statements are presented in Kenya Shillings rounded to the nearest thousands (Shs '000), which is also the functional currency.

APPENDIX I: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Notes	Original budget	Adjustments Supplementary budget cuts)	Final budget	Actual comparable basis	Performance difference
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Revenue						
Sale of steam	5	3,000,000	670,000	3,670,000	3,355,986	(314,014)
Government grant	20	647,730	-12,955	634,776	634,776	0
Amortization of revenue grant	20	-	-	-	1,421,336	1,421,336
Other income	6	-	-	-	45,452	45,452
Total revenue		**3,647,730**	**657,045**	**4,304,776**	**5,457,550**	**1,152,774**
Expenses						
Staff costs	8	681,304	-52,449	546,494	533,536	(12,958)
Depreciation&armotization of property, plant & equipment	8	-	0	0	1,459,151	1,459,151
Directors remuneration	8	39,000	6,346	46,146	42,172	(3,974)
Accommodation & subsistence	8	24,624	16,686	31,172	29,028	(2,144)
Auditors remuneration	8	14,100	-340	8,520	7,337	(1,183)
Training expenses	8	10,283	24,343	38,328	28,039	(10,289)
Transport expenses	8	8,405	1,583	6,949	6,919	(30)
Fuel expenses	8	9,000	-2,388	4,354	4,065	(289)
Provision of bad debt	8	-	0	0	(877)	(877)
Legal expense	8	30,000	88,009	118,009	118,009	-
ICT expenses	8	2,400	2,200	3,607	3,573	(34)
General administration expenses	8	-	0	0	0	-
Publicity expenses	8	4,100	7,755	5,826	3,680	(2,146)
Management consultancy	8	5,000	1,970	9,331	9,036	(295)
Finance expenses	7	171,197	100,104	271,301	271,301	-
Tax expense	11	-	-	-	675,222	675,222
Other administrative expenses	8	145,041	-37,822	91,647	72,716	(18,931)
Other operating expenses	9	-	-	108,419	1,703,973	1,595,554
Total expenses						
		1,144,454	155,997	1,290,103	4,966,880	3,676,777
Surplus/(deficit)		**2,503,276**	**501,048**	**3,014,673**	**490,670**	**(2,524,003)**

APPENDIX I: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

Explanation of differences between actual and budgeted amounts (10% over/ under)						
Details		Final budget	Actual comparable basis	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
	Notes	Shs'000	Shs'000	Shs'000		
Revenue						
Sale of steam	5	3,670,000	3,355,986	(314,014)	-9%	Not applicable
Government grant	20	634,776	634,776	-	0%	
Amortization of revenue grant	20	-	1,421,336	1,421,336	0%	
Other income	6	-	45,452	45,452	0%	
Total revenue		4,304,776	5,457,550	1,152,774		
Expenses						
Staff costs	8	546,494	533,536	(12,958)	-2%	Not applicable
Depreciation of property, plant & equipment	8	-	1,459,151	1,459,151	0%	
Directors remuneration	8	46,146	42,172	(3,974)	-9%	Not applicable
Accommodation & subsistence	8	31,172	29,028	(2,144)	-7%	Not applicable
Auditors remuneration	8	8,520	7,337	(1,183)	-14%	
Training expenses	8	38,328	28,039	(10,289)	-27%	Adherence to the government's circular on austerity measures

APPENDIX I: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

Explanation of differences between actual and budgeted amounts (10% over/ under)						
Details		Final budget	Actual comparable basis	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
Transport expenses	8	6,949	6,919	(30)	0%	Not applicable
Fuel expenses	8	4,354	4,065	(289)	-7%	Not applicable
Provision of bad debt	8	-	(877)	(877)	0%	Not applicable
Legal expense	8	118,009	118,009	-	0%	Not applicable
ICT expenses	8	3,607	3,573	(34)	-1%	Not applicable
Publicity expenses	8	5,826	3,680	(2,146)	-37%	Adherence to the government's circular on austerity measures
Management consultancy	8	9,331	9,036	(295)	-3%	Not applicable
Finance expenses	7	271,301	271,301	-	0%	Not applicable
Tax expense	11	-	675,222	675,222	0%	Not applicable
Other administrative expenses	8	91,647	72,716	(18,931)	-21%	Adherence to the government's circular on austerity measures
Other operating expenses	9	108,419	1,703,973	1,595,554	0%	Not applicable
Total expenses		**1,290,103**	**4,966,880**	**3,676,777**	**300%**	**Not applicable**
Surplus/(deficit)		3,014,673	490,670	(2,524,003)		

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company funded by development partners

	Project title	Project Number	Donor	Period/ duration	Donor commitment (USD millions)	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	Menengai	1152102200	African Development Bank (AfDB)	From March 2012	145	Yes	Yes
2	Bogoria - Silali	1152100500	German Development Bank (KfW)	From July 2014	100	Yes	Yes

Status of projects completion

	Project	Total project cost (Shs millions)	Total expended to date (Shs millions)	Completion % to date	Budget (Shs millions)	Actual (Shs millions)	Sources of funds
1	Menengai Project	115,926	74,958	84% (105MW) 32% (60MW) 2%(300MW)	3,711	3,609	GoK Steam Sales AfDB
2	Bogoria – Silali Project	78,029	3,711	23%	1,300	1,300	GoK KfW

APPENDIX III: INTER-ENTITY TRANSFERS

Entity Name: Geothermal Development Company Limited
Break down of Transfers from the Ministry of Energy & Petroleum
Financial year 2018/19

a.	**Recurrent Grants**	**Bank statement date**	**Amount (Shs'000)**
		05.10.2018 31.01.2019 28.03.2019	139,933 174,217 158,694
		Total	**472,844**
b.	**Development Grants**	**Bank statement date**	**Amount (Shs'000)**
		06.07.2018 19.10.2018 07.01.2019 13.03.2019	381,500 170,750 170,750 170,750
			893,750
		Accrued	
		06.07.2019	307,683
		Total	**1,674,277**
c.	**Direct Payments**	**Bank statement date**	**Amount (Shs'000)**
		Nil	-
		Total	**-**
d.	**Donor Receipts**	**Payments through donors**	**Amount (Shs'000)**
		KfW African Development Bank (AfDB) Nordic Development Fund	851,870 533,091 999
		Total	**1,385,960**

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.1	**Potential impairment of Menengai geothermal field** Management should explore ways to be more cost effective in incurring E&E expenditure.	The above impairment is derived based on a steam tariff of 2 USD Cents per MW. This tariff was approved by GoK and was "arrived at in the interest of expediting this program and in consideration of minimizing electricity cost to the consumer". If the open tender rate of 3.5 USD Cents per MW is used in the calculation, the project has a positive NPV of Shs 12.18 billion. Management will deploy the accumulated knowledge base to ensure efficient well-siting and drilling operations so that the additional investment in relation to this phase is not more than the cost assumptions in the financial model.	General Manager, Drilling & Infrastructure, General Manager, Geothermal Resource Development, General Manager, Finance	Ongoing Management is sourcing for funding to have a Geothermal Advisory Board (GAB) which will assist in reviewing well citing and targeting.	Ongoing

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.2	**Opportunity costs due to delays in actualisation of steam sales for the Menengai Phase I project** Management should continue pursuing ground-breaking by the IPPs to minimize further losses due to delays. Plans on future projects should be revisited to ensure requisite components are completed at appropriate time for optimal funds utilization.	Besides the award date of the contracts, the effective date for the construction of the power plants by the IPPs hinged on fulfilment of the conditions precedent (CPs) as set out in the Project Implementation and Steam Supply Agreement (PISSA). One of the IPPs is set to move to site for the ground breaking of the first power plant. The other two are still pursuing the Financial Close. Management is working closely with all the IPPs and the other stakeholders to ensure that the CPs are fully met to avoid further delays.	General Manager, Drilling & Infrastructure & General Manager, Geothermal Resource Development	Open Plans are underway for ground breaking with one of the IPPs (Sosian)	August 2020

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.3	**Interim utilisation of steam capacity** Management should formalise and fast track plans for early generation on all existing projects including securing the necessary finances.	The company plans to use the steam for Direct use projects and for early generation, which would entail construction of wellheads. Currently, GDC has entered into a partnership agreement with the Icelandic International Development Agency (ICEIDA) through the Ministry of Energy with co-financing from the Nordic Development Fund (NDF) to carry out a pre-feasibility study for commercialization of Direct–Use. This will enhance utilization of low to medium temperature geothermal resources for agro-processing and industrial use. In addition, the company has initiated financing plans with funding proposals to United Nations Industrial Development Organization (UNIDO), The New Partnership for Africa's Development (NEPAD), Power Africa and French Development Agency (AFD) for construction of wellheads.	General Manager, Strategy Research & Innovation & General Manager, Geothermal Resource Development	Ongoing A cereal dryer was installed and commissioned, and plans are underway for full commercial utilization.	Ongoing

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.4	**Non-productive time levels** Management should develop a formal policy of what should constitute acceptable levels of NPT based on international best practices and its consequent treatment. An analysis of NPT should also be done regularly and corrective actions taken for capitalised NPT	The draft policy is awaiting Board review and formal approval. NPT drivers shall be reviewed on quarterly basis to ensure that operational causes (unavoidable) and logistical causes (avoidable) are eliminated and or contained at minimum levels. Where avoidable NPT is noted, relevant adjustments shall be done to expense the same. For operational causes, management shall review the triggers and action appropriately	General Manager, Drilling & Infrastructure	Ongoing Policy is awaiting Board approval	30th June 2020

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.5	**Underutilisation of drilling rigs** Management should source/ lobby for sufficient funding to ensure optimal utilisation of existing assets. Management should also devise alternative ways of ensuring that idle drilling rigs are utilised optimally.	The company's activities are expected to expand substantially from year 2018/2019 with the commencement of exploration drilling for the Bogoria Silali geothermal block. This shall be achieved through funding from the ex-chequer and a grant from the African Union Commission for financial support by the Geothermal Risk Mitigation Facility ("GRMF") towards infrastructure works and drilling. GDC continues to pursue the government for additional budgetary allocation to ensure that the company's strategic plan (as approved by the Ministry) that envisages development of 1,065MWe of steam by 2027 is achieved and available resources utilized optimally.	General Manager, Drilling & Infrastructure	Ongoing Management envisages utilisation of more rigs in the Bogoria -Silali block upon extension of KfW financing arrangement.	Ongoing

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.6	**Compliance with laws and regulations** **a) Non-payment of corporate income tax Management should pay the corporation taxes soonest possible to avoid continued accumulation of interest.**	Management through the Ministry of Energy submitted a request to the National Treasury for abandonment of corporation tax liability which arose as a result of lack of budgetary allocation, cash flow constraints and the company's mode of financing. The National Treasury gave due consideration to the company's request and advised that GDC applies for abandonment to the Kenya Revenue Authority (KRA). The application was submitted to KRA for consideration. GDC is awaiting a response on the way forward from KRA. Going forward, the company shall ensure that a provision for the tax component is made in its annual budget submissions to avoid accumulation of the liability.	General Manager Finance	Ongoing There are ongoing engagements with the Ministry, National Treasury and KRA following KRA's decline of the earlier request for abandonment of taxes	Ongoing

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	b) Composition of the Board of Directors The Board composition of the Company did not have a financial expert as a member following the resignation of Caroline Karugu, who was the sole financial expert previously.	Management has made a request to the Ministry of Energy to consider appointing a Finance person to the Board	General Manager, Legal Affairs and Company Secretary	Issue Closed The Board was reconstituted and now comprises of financial experts as per the code of governance.	n/a

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.7	**Contingent liabilities arising from contractual obligations** In the prior year, the Company was a respondent on several legal matters that arose during the year and were being handled by the Company's lawyers. The significant potential arrangements entered into by the Company included: Cluff Geothermal vs GDC, Linksoft Communications Limited vs GDC and Bonfide Clearing and Forwarding Company Limited vs GDC. Management should pursue the rulings by the arbitrators following the hearing sessions held in the year.	Management believe that the above matters are unlikely to crystalize into any liabilities beyond the provisions already made save for legal and professional costs, which have already been declared	General Manager, Legal Affairs and Company Secretary	Issue partially closed. The Cluff matter is now closed. Other matters are as captured under note 23	1.Hearing on Linksoft matter is scheduled for the 8th & 15th May 2020. 2.Ruling on the Misc. application no.431 of 2017 for Bonfide was given on 15th of April 2020 but has not been released to the parties owing to non-compliance on the part of the Appellant's lawyer with the directions of the Hon. Chief Justice on issuance of rulings during the COVID 19 pandemic.

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (Contd)

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.1	**Excessive SAP access in production environment** Management should restrict access to sensitive SAP basis rights to appropriate administration.	a) & b) RFC and DDIC user have been disabled and valid-through date set hence preventing login or access. c) All users with debug functionality have been removed. d) Batch job administration right revoke exercise has been completed.	General Manager Finance, Manager ICT	Issue Closed	n/a
5.2	**Control of SAP authorizations** It is possible to disable the authority check for selected authorization objects. The associated system profile parameter 'auth/object_disabling_active' should prevent this, by setting the parameter to value 'N'.	The recommendation has been complied with. Parameter is now set to value 'N'.	General Manager Finance, Manager ICT	Issue Closed	n/a
5.3	**Weak controls in user access rights reviews** Management should enforce a process to perform periodic review of users rights, administrators and super-users activities.	There is a review exercise currently in place for SAP. This will be extended to AD by June 2019. The GDC ICT policy will also be updated to capture the scope of the review.	General Manager Finance, Manager ICT	Issue Closed ICT policy was updated and is awaiting Board approval.	n/a

NOTICE OF THE 8TH **ANNUAL GENERAL MEETING**

1. **The Cabinet Secretary**
   National Treasury & Planning
2. **The Cabinet Secretary**
   Ministry of Energy
3. **The Principal Secretary**
   Ministry of Energy
4. **The Principal Secretary**
   National Treasury & Planning
5. **Chairman, Board of Directors**
   Geothermal Development Company Limited

NOTICE IS HEREBY GIVEN THAT THE 8th ANNUAL GENERAL MEETING FOR YEAR ENDED 30TH JUNE, 2019 of the Company will held at GDC Boardroom 4th Floor, Kawi House, South C, Nairobi on Friday, **December 4 2020 at 10.00 a.m.** to conduct the following business:-

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the Notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June, 2019 together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To note that the Directors do not recommend payment of a dividend for the period under review.
5. Election of Directors; to note that there will be no election or rotation of Directors for the following reasons: -
   Whereas the company was incorporated under the Companies Act, No. 17 of 2015 as a private company limited by shares, it is wholly owned by the Government. The company is, therefore governed under the provisions of State Corporations Act Cap 446 by virtue of Section 2 (c) of the Act. Further Article 2 of its Memorandum and Articles of Association provides that *"the appointment and removal of Directors shall be governed by the provisions of the State Corporations Act Cap 446 of the Laws of Kenya and as amended from time to time. Each Director shall hold office until he or she is removed or replaced as above provided."* GDC has complied with State Corporations Act Cap 446 Section 6, which provides for the composition and appointment of Directors. Under the circumstances, there will be no election or rotation of Directors.
6. To approve payment of Directors' fees for the year ended 30th June, 2019.
7. Auditors: -
   To note that the audit of the Company's books of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed by him in accordance with Part IV Section 14 (3) of the State Corporations Act and Section 23 of the Public Audit Act No. 34 of 2015. M/s Deloitte & Touché carried out the Audit for the period ended 30th June, 2019.
8. To authorize the Directors to fix the Auditor's Remuneration.

BY ORDER OF THE BOARD

Ms. Beatrice Kosgei
GENERAL MANAGER, LEGAL SERVICES & COMPANY SECRETARY

Wednesday, November 11, 2020

NOTES

a) A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf.
b) A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice.
c) To be valid the form of proxy must be duly completed and lodged at the office of the Company Secretary 4th Floor Kawi House or posted in time to be received not less than forty–eight hours (48) before the time appointed for holding the meeting.

PROXY FORM

8TH ANNUAL GENERAL MEETING OF THE GEOTHERMAL DEVELOPMENT COMPANY LIMITED TO BE HELD ON FRIDAY DECEMBER 4, 2020

APPOINTMENT OF PROXY

I, Dr. Eng. Joseph Njoroge MBS, Principal Secretary in the Ministry of Energy being a member of the above named Company, hereby appoint ……………………………………………….. of ……….. …………………. as my Proxy to vote on my behalf at the 8th Annual General Meeting of the Company to be held on **December 4, 2020** and any adjournment thereof.

Signed this …………………………….. Day of ……………………. 2020

…………………………………………………………

Dr. Eng. Joseph Njoroge,MBS
PRINCIPAL SECRETARY, MINISTRY OF ENERGY

PROXY FORM

8TH ANNUAL GENERAL MEETING OF THE GEOTHERMAL DEVELOPMENT COMPANY LIMITED TO BE HELD ON FRIDAY DECEMBER 4, 2020

APPOINTMENT OF PROXY

I, Hon. Amb. Ukur Yatani Kanacho, EGH , Cabinet Secretary in the National Treasury & Planning , being a member of the above named Company, hereby appoint ……………………………………………………. ..of ………..…………………. as my Proxy to vote on my behalf at the Annual General Meeting of the Company to held be on **December 4, 2020** and any adjournment thereof.

Signed this …………………………….. Day of ……………………. 2020

…………………………………………………………….

Hon. Amb. Ukur Yatani Kanacho, EGH

CABINET SECRETARY, NATIONAL TREASURY & PLANNING

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