REPUBLIC OF KENYA

OAG

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

GEOTHERMAL DEVELOPMENT COMPANY LIMITED

FOR THE YEAR ENDED 30 JUNE, 2023

GDC Geothermal Development Company

Green Energy for Kenya

GEOTHERMAL DEVELOPMENT COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 2023

Prepared in accordance with the International Financial Reporting Standards (IFRS)

Table of Contents **Page No**

ACRONYMS AND GLOSSARY OF TERMS

IFRS	*International Financial Reporting Standards*
CEO	*Chief Executive Officer*
NT	*National Treasury*
PFM	*Public Finance Management.*
PSASB	*Public Sector Accounting Standards Board*
BOD	*Board of Directors*

I. KEY ENTITY INFORMATION

BACKGROUND

Geothermal Development Company Limited (the "Company") is fully government-owned company in Kenya's energy sector. At cabinet level, the Company is represented by the Cabinet Secretaries for National Treasury & Economic Planning and Energy, who are responsible for the general policy and strategic direction of the Company. The Company was formed in 2008 and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the development of geothermal resources in Kenya, including prospecting, drilling, harnessing and supply of steam to electricity generating companies for energy production and sale to the national grid.

VISION

To be a world leader in the development of geothermal resources.

MISSION

Develop green energy for Kenya from geothermal resources.

DIRECTORS

Hon. Walter O. Nyambati	Chairman
Mr. Paul K. Ngugi	Managing Director and Chief Executive Officer (From 24th April 2023)
Eng. Jared O. Othieno	Managing Director and Chief Executive Officer (Up to 18th April 2023)
Dr. Nelly Yatich	Director (Appointed on 6th October 2022)
Mr. Mwendia Nyaga	Director
Mr. John Gicamu	Director (Appointed 28th October 2022)
Mr. Hillary Koech	Director
Mr. Kamau Kuria	Director
Mr. Joseph M. Waruiru	Alternate Director to the CS, The National Treasury & Economic Planning
Mr. Chrispin O. Lupe	Alternate Director to the PS, Ministry of Energy

COMPANY SECRETARY	P.O. Box 100746 – 00101 Nairobi
REGISTERED OFFICE	KAWI House, South C P.O. Box 100746 – 00101 Nairobi, KENYA
COMPANY HEADYEARS	P.O. Box 100746 – 00101 KAWI House, South C Nairobi, KENYA

I. KEY ENTITY INFORMATION (CONTINUED)

BANKERS

Co-operative Bank of Kenya Limited
Upper Hill, Nairobi

Kenya Commercial Bank Limited
Kipande House, Nairobi

ABSA Bank Kenya
Plaza Corporate Service Centre, Nairobi

NCBA Bank
Masaba Branch, Upper Hill, Nairobi

AUDITOR

Principal Auditor

The Office of the Auditor General
Anniversary Towers, University Way
P O Box 30084
GPO 00100
Nairobi, Kenya

PRINCIPAL LEGAL ADVISERS

The Attorney General
State Law Office
Harambee Avenue
P O Box 40112
City Square 00200
Nairobi, Kenya

II.BOARD OF DIRECTORS

Hon. Walter Nyambati, Chairman GDC Board of Directors

Hon Walter Osebe Nyambati is the Chairman of Geothermal Development Company (GDC). He is a member of the Public Relations Society of Kenya (PRSK). He comes to GDC with over 30 years' experience in leadership and management having served both in the public and private sector. Previously, he has served in various leadership positions among them Member of Parliament, Vice Chairperson of Parliamentary Service Commission and Chairperson Jomo Kenyatta Foundation.

Mr. Paul Ngugi – Managing Director & CEO (From 19.04.2023)

Mr. Ngugi has over 25 years' experience in geothermal business development. Prior to his appointment, he was the acting General Manager Technical Service. He is a member of Geothermal Association of Kenya

Eng. Jared O. Othieno, Managing Director & CEO (up to 18.4.2023)

Eng. Jared O. Othieno is the Managing Director & CEO of the Geothermal Development Company. He is a Member of the Institution 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 master's degree in business administration (MBA) and a Bachelor of Science (BSc) in Electrical Engineering from the University of Nairobi

Dr Nelly Yatich, Independent Non -Executive Director

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 at Birmingham, USA.

Dr Yatich has extensive experience in epidemiology, monitoring & evaluation, 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 program 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. Mwendia Nyaga, Independent Non -Executive Director

Mr. Mwendia holds a Bachelor of Commerce (Honours) from UON, and he is a Certified Public Accountant, Kenya. He is the founder and lead consultant at Oil and Energy Services Limited with 15 years' experience in the oil and gas industry. A petroleum and finance professional with experience 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.

Mr. John Gicamu, Independent Non -Executive Director

Mr. John Gicamu is a social entrepreneur with a Bachelor of Arts in leadership and management from St. Paul's University. He worked for the Kenyan government as a community leader for over ten years, working with diverse groups and communities to improve their wellbeing and social functioning through a variety of interventions such as advocacy, conflict resolution, and community capacity building. Mr Gicamu served, as the chair of the finance committee and vice chair of the justice, legal, and constitutional affairs committee at the County Assembly of Nakuru. Has vast experience in legislation and oversight role.

Mr. Mr. Hillary Koech, Independent Non -Executive Director

Mr. Hillary Koech is a Health Economists, a Monitoring and Evaluation (M&E) Specialist, a Prolific Researcher, and a Public Health professional with over 20 years of progressive and hands-on experience acquired designing and implementing programs in public health and behavioural sciences (HIV/AIDS); community sensitization, training, and empowerment; micro-enterprise development and socio-economic programming and intervention. His expertise has revolved around project research, conceptualization, and design, Fundraising and Program implementation, monitoring and evaluation and Donor reporting.

Throughout this over 20-year career period, Hillary has demonstrated his ability to build, manage and lead effective teams, and deliver project results consistent with designed program outputs. Hillary is a highly professional result-driven individual with extensive leadership, management, and technical skills. He is currently pursuing a Master of Science in Public Health from the Jomo Kenyatta University of Agriculture and Technology (JKUAT).

Mr. Joseph Mucugu Waruiru, Director (Alternate to the CS, National Treasury & Economic Planning)

Mr. Joseph Waruiru is the alternate director to the Cabinet Secretary National Treasury. 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 Chrispin O. Lupe, Director (Alternate Director to the PS Ministry of Energy)

Mr. Lupe holds a Bachelor of Science Degree in Geology from the University of Nairobi and Master of Science Degree in Geo-informatics from International Institute for Geo-Information Science and Earth Observation (ITC), Netherlands. He is a registered Geologist with the Geologists Registration Board and a professional member of the Geological Society of Kenya. He has served in the Civil Service for 28 years as a Geologist at various levels. He is currently heading the Geo-Exploration Directorate in the Ministry of Energy.

	**Mr. Kamau Kuria, Independent Non -Executive Director** 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 numerous awards in social entrepreneurship. The awards include the 2009 Africa Social Entrepreneur of the Year (World Economic Forum Davos, Switzerland) Ashoka Fellowship, Aspen Fellowship and Schwa Fellowship. He is a member of the Global Agenda Council of Entrepreneurship, Project Management Institute, Kenya Privat Sector Alliance, Water, Environment and Natural Resources Working Group, East Africa Grain Council, and the Kenya Bur of Standards (KEBS) Standards Committee on Wastewater. M Kuria is also a founder member of the Kenya Schools Alumni Association

III.MANAGEMENT TEAM

Mr. Paul Ngugi	Managing Director & Chief Executive Officer (From 19.04.2023)
Mr. Cornel Ofwona	General Manager, Geothermal Resource Development
Mr. Stephen Busieney	General Manager, Finance
Ms. Irene Onyambu	General Manager, Human Resource & Administration
Ms. Agnes Muthengi	Ag. General Manager, Legal Services
Ms. Martha Mburu	Ag. General Manager, Strategy, Research and Innovation
Mr. Reuben Ngosi	Ag. General Manager, Drilling & Infrastructure
Eng. Jared O. Othieno	Managing Director & Chief Executive Officer (Up to 18.04.2023)

III.MANAGEMENT TEAM (CONTINUED)

	**Mr. Paul Ngugi – Managing Director & CEO** Mr. Ngugi has over 25 years' experience in geothermal business development. Prior to his appointment, he was the acting General Manager Technical Service. He is a member of Geothermal Association of Kenya
	**Mr. Cornel Ofwona – General Manager, Geothermal Resource development** 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 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. His geothermal expertise spans over 20 years.
	**Mrs. Irene Onyambu- General Manager, Human Resource & Administration & Administration** Mrs. Irene Onyambu has over 15 years' experience in administration and Human Resource Management. Prior to her appointment, she was the Regional Manager for GDC's South Rift Region. She is a member of the Institute of Human Resource Management (IHRM).

	**Mr. Stephen Busieney – General Manager, Finance** Mr. Stephen Busieney has over 15 years of 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 Institutes of Certified Public Accountants of Kenya, and of Rwanda and holds Master of Business Administration (MBA) and B. Com degrees from the University of Nairobi, as well as a Leadership Certification from the University of Pretoria's Gordon Institute of Business Science.
	**Eng. Martha Mburu – Ag General Manager, Strategy Research and Innovation.** Eng. Martha Mburu has over 20 years' experience in the geothermal industry. She has vast expertise in geothermal reservoir engineering, geothermal Steamfield management and geothermal Direct Uses. Engineer Martha holds a MSc. in Renewable Energy, Technology and Sustainability from Reading University, United Kingdom, BSc. Mechanical Engineering from University of Nairobi, Post graduate Diploma from Geothermal Institute, university of Auckland, New-Zealand and Advanced Diploma in Geothermal Reservoir Engineering from the United Nations University in Iceland. She is an expert in geothermal Direct-Use where she has authored and co-authored many papers in this field as well as capacity building across the East African region and beyond. Her geothermal expertise spans over 20 years.
	**Eng. Reuben Ngosi – Ag. Manager Drilling & Infrastructure** Eng. Reuben Ngosi is a highly skilled and seasoned mechanical Engineer and Project manager with 18 years of cumulative working experience in both private and public sectors; 14 of which are in the Development and Management of geothermal energy projects in Kenya Reuben holds an MSc in Project Management and a BSc in Mechanical Engineering, both from Jomo Kenyatta University of Agriculture and Technology - JKUAT. He is a transformational leader who holds a Certificate in leadership Development from Harvard Business School. Reuben has undergone several advanced and specialized training in Drilling Technology, Management, & Development of geothermal energy projects, Power plant design, Procurement, Hybrid Project Financing, and Performance management from across the globe. He is a Certified Application Associate- Enterprise Asset Management SAP ERP from SAP Academy in South Africa. Prior to his appointment, he was the Manager, Drilling Operations Department. He has previously served as the Manager, Drilling Equipment Maintenance and

	Manager, Drilling Planning and Logistics within GDC. Before joining GDC, he worked at KenGen, and other private entities.
	Ms Agnes Muthengi – Ag. Manager Legal Services
	**Eng. Jared O. Othieno, Managing Director & CEO** Eng. Jared O. Othieno is the Managing Director & CEO of the Geothermal Development Company. He is a Member of the Institution 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 master's degree in business administration (MBA) and a Bachelor of Science (BSc) in Electrical Engineering from the University of Nairobi.

CHAIRMAN'S STATEMENT

Dear Shareholders,
It is my solemn honour and pleasure to submit to you our books of accounts for the financial year 2022/23.

The year under review, the Board of Directors engaged in a robust streamlining process desired to stabilize the Company and thrust it into the path of efficiency and productivity. An enhanced corporate governance mechanism has facilitated the management team to focus on clear cut deliverables. As a result, productivity has improved.

The Company in its current architecture relies on revenues from the National Treasury, and KenGen from sale of steam at the Olkaria Geothermal project. The overall receipts from steam charge payments increased to Shs. 3.75 billion compared to Shs 3.03 billion in the previous financial year. The allocation of steam receipts to development activities was Ksh 2.2 billion compared to Ksh 1.8 billion in the previous year.

During the year, an investment of Shs. 3.95 billion (2028: Shs. 3.8 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 2.2 billion (2022: Shs 1.8 billion) received from/through the Government of Kenya and plough-back of funds received from steam charge payments.

In the year, we registered impressive drilling operations performance at Paka Geothermal Project. We drilled six geothermal steam wells and realized steam worth 42.75 MW. Now the Company has entered the appraisal drilling phase at the Paka.

The Company is also working on diversification strategies especially in the Direct Uses of geothermal resources. The strategic position of the Board of Directors is that the Company can improve its position by pursuing other ventures apart from power generation.

These immense opportunities are a clear indication that your Company is viable, a going concern with very promising prospects ahead. The Board of Directors will continue to offer its support so that the management can optimally deliver on the mandate. Critically, the Board of Directors have continued to uphold sound Corporate Governance in line with the Mwongozo guidelines in a bid to make GDC a strong, organization that delivers on its mandate.

In the same year, I joined the Company as the new Chair of the Board, in the process replacing Mr. John Njiraini who had served the Company from since October 2019. In the same year, the term of Eng. Jared Othieno as the Managing Director and CEO ended in April having served the Company since April 2020. He was replaced by Mr. Paul Ngugi who is a capable industry veteran with 32 years of experience in the energy sector especially in geothermal.

I want to thank the Board of Directors, the Management, and staff of GDC for their continued diligence and commitment towards the success of the Company.

Hon. Walter Nyambati
Chairman, Board of Directors

MANAGING DIRECTOR & CEO'S REPORT

Dear Shareholders,

We are closing the financial year 2022/20233 with lessons and optimism. In the year, the Management put into place strategic mechanisms that helped to place the Company on the path of productivity.

Our drilling operations in the Baringo Silali Block continued uninterrupted. We drilled six wells at the Paka Project that yielded 42.75 MW.

In the same year, Sosan Menengai Geothermal LTD completed the construction of a 35 MW power plant at the Menengai Geothermal Project and start to carry out reliability tests. Our projections are that by the end of September, in the financial year 23/24, the Company will start to receive revenue from the IPP. On the same breath, another IPP, Globeleq Ltd broke ground for the construction of a 35 MW power plant at the Menengai Geothermal Project.

At the same time, we rolled out numerous stakeholder engagements. Such engagements are critical in establishing mutual relationships that are supportive of our operations. Having successfully singed a CFA with the County Government of Nakuru, we entered into discussions of establishing Phase I of the commercialization process.

GDC also initiated talks with the County Governments of Kajiado, Narok, Baringo and Turkana geared towards more collaboration towards holistic development of geothermal resources.

The Company has also been keen on its revenue diversification program. In the year under review, GDC provided consultancy expertise services to external clients that yield a gross of KES 41,836,447.33.

Community Engagement
As part of continuous stakeholder management, the company cultivated and maintained sound relationships with host communities. Through our Social Transformation Program, GDC provided relief food to communities in Baringo, Menengai and Kajiado and Narok. Further, the Company continued to supply fresh water to the community in the Baringo Silali Geothermal Project. The Company is also keen on supporting education and health. In the Baringo Silali Project area, GDC provides free medical services to the community.

In the year under review, I was also recruited as the new Managing Director and CEO of the Company replacing Eng. Jared Othieno whose three-year term had come to an end.

Future outlook
The year ahead looks promising as we start appraisal drilling at Paka and prepare for operations at the Silali Prospect. I have also established a robust stakeholder engagement framework where the organization will strategically draw mutual support as well as construct a strong and admirable brand.

Mr. Paul Ngugi
Managing Director and CEO

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022

The Company attained a composite score of **2.9976** which is ranked as very good as per the criteria below:

Criteria Value Range			Range Span	Ranking Value
Upper		Lower		
1.00		2.40	1.40	Excellent
2.40		3.00	0.60	Very Good
3.00		3.60	0.60	Good
3.60		4.00	0.40	Fair
4.00		5.00	1.00	Poor

Under the core mandate, 6wells were drilled to completion, an additional steam of 42.75 MW was realized from the following wells: PW 1A= 8.75 MW, PW2A= 15.8 MW and PW8A= 18.2MW. Infrastructure works were also completed. On financial stewardship, the company achieved a 98.54% & 95.14% absorption of allocated funds from the ex-chequer and external financing. For local A-I-A, the company surpassed the target for the year.

Good performance was also noted in the service delivery, implementation of Presidential directives, promotion of local content in procurements and other cross cutting areas.

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2022

STATEMENT OF CORPORATE GOVERNANCE

Introduction

Corporate Governance involves a set of relationships between a Company's Management, its Board, its Shareholders, and other Stakeholders. Corporate Governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring of performance.

Statement of Compliance

The Board of Directors ("Board") has committed itself to the services of GDC to uphold the tenets of good corporate governance by being responsible, transparent, accountable, efficient, effective, persons of integrity and in exercising fairness in all their dealings.

In its endeavour to uphold the tenets of good governance, the Board is guided by the Code of Governance for State Corporations otherwise known as the Mwongozo Code of Governance for State Corporations, the Board Charter, the Constitution of Kenya 2010, the Leadership and integrity Act No. 19 of 2012, the Public Officers and Ethics Act No, 4 of 2003, and the Directors Code of Conduct and Ethics. GDC is now certified for ISO 9001:2015 - Quality Management System since August 2021.

The responsibility and 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. The areas covered include the values expected of the Director to have respect for people, uphold integrity, be transparent and accountable, provide stewardship and be persons of excellence. The Code also covers policies on Conflict of Interest, Whistleblowing and Resolution of Issues in respectful manner.

Board Charter

The Board Charter is a commitment by members of the Board to discharge the mandate of GDC. It seeks to ensure the effectiveness of each Directors' contribution in the governance of the Company by facilitating full and free exercise of independent judgement and professional competence. It outlines the rules that guides the Board and does not in any way purport to replace or supersede any laws and regulations that govern the Company.

The Board Charter sets out the structure and processes of the GDC Board. It does this by providing an overview of roles, functions, responsibilities and powers of the Board and individual Directors; Composition of Board Committees and their responsibilities; Matters reserved for final decision making by the Board, and Policies and Practices of the Board on matters of Corporate Governance, Directors declarations and Conflicts of Interests, Conduct of Board meetings, Board Induction and Continuous Skills Development, Governance Audit, and Board Evaluation and Performance. The GDC Board Charter was first developed and approved in the year 2012, and it has been reviewed over the years by the Board in line with changes in law and with Mwongozo guidelines. A copy of the Board Charter has been circulated to the Board members for their reference and records.

Board Composition, Size and Appointment

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 who is the Managing Director & CEO. Out of the eight (8) non-executives, six (6) should be 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.

The appointing authority ensures that the 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 done by name and notice in the Kenya Gazette. The Board Chairperson is appointed by His Excellency the President while Board members are appointed by the Cabinet Secretary in the Ministry of Energy & Petroleum.

As of 30th June 2023, the Board of Directors was made up of seven (7) Non-Executive Directors and one (1) Executive Director, bringing the total to eight (8) Directors. The Board has two (2) Alternate Directors representing the majority shareholder, who is the Cabinet Secretary, National Treasury & Economic Planning and the minority shareholder who is the Principal Secretary, Ministry of Energy.

The Eight (8) Board members as shown below;

No.	Name	Position	Date of Appointment
1)	Hon. Walter Nyambati	Chairman	23 December 2022
2)	Mr. Paul K. Ngugi	Managing Director & CEO	24 April 2023
3)	Mr. Joseph Waruiru	Alternate Director, National Treasury	8 February 2019
4)	Mr. Chrispin Lupe	Alternate Director, Ministry of Energy	4 August 2020
5)	Dr Nelly Yatich	Member	22 April 2022
6)	Mr. Mwendia Nyaga	Member	14 April 2022
7)	Mr. Hillary Koech	Member	14 April 2022
8)	Mr. John Njuguna Gicamu	Member	28 October 2021

Board Diversity /Skills

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

Fields of Expertise Numbers

No.	Field of Expertise	Numbers
1.	Business Management & Administration	2
2.	Finance & Economics	1
3.	Monitoring Learning Research & Evaluation Expert	2
4.	Oil & Gas Specialist	1 (Mwendia)
5.	Geologist	1
7.	Geothermal Energy Specialist	1 (Paul)

Board Effectiveness

The separation of roles and duties of the Chairman, Managing Director & CEO and further between the Board and Management ensures that the parties are independent of each other thus enhancing decision making, accountability, power balance and clarity in responsibilities.

Role of the Board

The role of the Board is to provide leadership and strategic guidance to GDC, in addition to overseeing Management's implementation of the company's strategic initiatives. It does this through the establishment of GDC's short- and long-term goals and coming up with strategies to achieve these goals thus;

a) Approving GDC annual targets and financial statements and monitoring the financial performance of the Company.
b) Setting and reviewing the key performance indicators and performance of management.
c) Risk management by ensuring that the company has adequate systems of internal controls together with appropriate monitoring of compliance activities.
d) Ensuring proper and adequate disclosures in regard to the company's operations thus enhancing transparency and integrity.
e) Ensuring ethical behaviour and compliance with all the relevant laws and regulations.
f) Audit and accounting principles, corporate policies and procedures, and code of ethics:
g) Developing and reviewing succession planning for the Management team and approving senior executive appointments, organizational changes and remuneration.
h) Constituting and reviewing the composition of Board Committees and;
i) Evaluating and approving each committee's report.

Induction and Capacity Building for the Board

The Board attends trainings on Corporate Governance and other relevant areas to equip it with the knowledge required to effectively discharge its responsibilities. Upon appointment, the Board members go through an internal induction programme to familiarize themselves with the operations and the areas that the company carries out its operations. An external induction is undertaken by State Advisory Committee (SCAC) while an internal induction is undertaken by the office of the Managing Director & Chief Executive Officer in liaison with the Company Secretary's Office. The internal induction ensures that the Director's receive knowledge about the Company through site visits, informal interactions with Management and Staff, regular in-depth reports, and presentations. The Managing Director & CEO ensures that Management updates the Board on matters relevant to GDC's business, changes in law and regulation including Government accounting policies.

The Board has also put in place an annual development program for all its members to improve on their individual capacity. Board members are encouraged to undertake continuous professional development in their respective professional bodies as guided by Mwongozo guidelines.

During the year under review, new directors were inducted, and the existing directors were taken 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 held at least four (4) times a year. A schedule of meetings is agreed upon by the Board members and set out in the Board Work plan and Board Almanac.

The Agenda for the meetings is aligned to the Board work plan and each Board member is free to suggest the inclusion of items on the Agenda. Notices of meetings are issued by the General Manager Legal Services & Company Secretary, and Board papers are circulated in advance to enable the Directors to prepare adequately for the meetings.

The quorum for a Board meeting is five (5) members while for the Board Committee is three (3) members. Senior Managers, employees and advisors are invited by the Managing Director & CEO to attend Board or Committee meetings whenever considered necessary.

The Board of Directors held thirteen (13) Full Board meetings during the period under review which were attended as follows: -

No.	Name of Director	Board Position	Status	Number of Full Board Meetings Held	Number of Meetings Attended
1.	Mr. John Njiraini	Chairman	Independent & Non-executive	13	4
2.	Hon. Walter Nyambati	Chairman	Independent & Non-executive	13	9
3.	Eng. Jared O. Othieno	MD & CEO	Executive	13	5
4.	Mr. Paul K. Ngugi	MD & CEO	Executive	13	2
5.	Mr. Chrispin Lupe	Alternate Director Ministry of Energy	Non-Independent & Non-executive	13	13
6.	Mr. Joseph Waruiru	Alternate Director National 60Treasury	Non-Independent & Non executive	13	13
7.	Dr Nelly Yatich	Director	Independent & Non-executive	13	6
8.	Mr. Mwendia Nyaga	Director	Independent & Non-executive	13	13
9.	Mr. John Gicamu	Director	Independent & Non-executive	13	13
10.	Mr. Hillary Koech	Director	Independent & Non-executive	13	13

Directors Remuneration

Directors are remunerated for their services with guidance from the State Corporation Advisory Committee (SCAC) through Government circulars issued from time to time. The Directors are paid sitting, lunch and accommodation allowances and mileage reimbursement where applicable. The sitting allowances are taxed and paid for each meeting attended. Lunch allowance is paid in lieu of lunch being provided. Mileage and accommodation allowances are paid while on Company duty for each event or meeting attended.

The Directors' fee is paid annually based on the performance of the Company, subject to the approval of the Ministry of Energy & Petroleum and The National Treasury & Economic Planning and is approved during the Annual General Meeting (AGM). For financial year 2021/2022, it was proposed that each non-executive Director be paid a fee of KES. 360,000/- or pro rata for any part served thereof. These allowances are within set limits of Government State Corporations.

The Chairman is paid a monthly honorarium, landline, and telephone expense allowance. There were no loans granted to non-executive Directors at any time during the year. Directors 'remuneration has been disclosed in the books of accounts.

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 prevailing Automobile Association of Kenya (AA) rates,	Determined by prevailing Government guidelines; currently prevailing Automobile Association of Kenya (AA) rates,
8.	Personal Accident Cover ('Not Life")	Procured competitively	Procured competitively
9.	Medical Expenses	Inpatient Kes. 2 million per annum; Outpatient Kes.100,000/- per annum and Last expense (self) Kes.100,000/-	Inpatient Kes. 2 million per annum; Outpatient Kes.100,000/- per annum and Last expense (self) Kes.100,000/-

Director's Shareholding

No Board Member holds any shares in the Company. The National Treasury & Economic Planning owns 19,999 shares while the Ministry of Energy & Petroleum owns 1 share.

Declaration of Conflict of Interest

The duty stipulated by the law to avoid situations where a Director may have interests that conflict with those of the company has been observed by the Board. The Directors are obliged to fully disclose any real or potential conflict of interest to the Board. In a situation where there be conflict of interest, the Director involved ought to exclude himself/herself from any discussion or decision making over the matter. In any meeting of the Board, there is an agenda item giving an opportunity to Directors to declare any conflict of interest.

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.

Performance Evaluation Process

a) Facilitation by State Corporation Advisory Committee.
b) Board Member given individual codes.
c) Board Members fill Questionnaire.
d) Results are collated by State Corporation Advisory Committee.
e) Results presented by State Corporation Advisory Committee and adopted by the Board
f) Chairman discusses the results with each member.
g) Performance improvement plan developed.
h) Results submitted to state Corporation Advisory Committee & Energy.

Governance Audit

No governance audit was undertaken during the period under review.

Legal Compliance Audit

Two (2) half-year compliance audits were undertaken internally by GDC's internal counsel and a statutory compliance report was sent to SCAC and the Ministry of Energy & Petroleum.

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 Management on matters of statutory and regulatory compliance as well as good governance. In addition, as a Certified Secretary, she provides secretarial services to the Board and all Committees among other 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 them must be the Audit Committee.

The Board is required to provide Terms of Reference (TOR) 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 to undertake their duties in an effective manner. The Chairperson of the Board is not a member of any Committee except an Ad hoc Committee. An Ad hoc committee can be formed when necessary to handle pertinent issues. In addition, the Board may also form a panel to provide it with expert views on issues that may include selection of staff.

During the year under review the, the Board constituted the following committees: -

a) Audit Committee chaired by Directors Kamau Kuria and John Gicamu.
b) Strategy Committee chaired by Director Mwendia Nyaga.
c) Finance & General-Purpose Committee chaired by Director Hillary Koech.
d) Human Resource Committee chaired by Director Nelly Yatich.

Report from the Chairperson of Board Audit Committee

The Board Audit Committee comprises of three (3) non-executive Directors and is chaired by a non-executive independent Director. The Committee regularly invites the Managing Director & CEO, Manager Internal Audit, General Manager, Finance and at times other key staff members to its meetings. External auditors are also invited to attend the meetings when necessary.

The committee is appointed by the Board of GDC to assist in fulfilling the following oversight responsibilities: -

a) Obtain assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably.
b) Provide an independent review of an entity's reporting functions to ensure the integrity of financial report.
c) Monitor the effectiveness of the entity's performance management and performance information.
d) Provide strong and effective oversight of an entity's internal audit function.
e) Provide effective liaison and facilitate communication between management and external audit.
f) Provide oversight of the implementation of accepted audit recommendations.
g) Ensure the entity effectively monitors compliance with legislative and regulatory requirements.
h) Review and monitor external auditors 'independence and objectivity and effectiveness of the audit process taking into consideration relevant regulatory guidelines in Kenya.

The Committee held five (5) meetings that were attended as follows; -

No.	Name	Meetings held	Attendance
1)	Mr. Kamau Kuria	5	3
2)	Eng. Jared Othieno	5	2
3)	Mr. Chrispin Lupe	5	2
4)	Mr. Joseph Waruiru	5	5
5)	Mr. John Gicamu	5	5

19.1 Report from the Chairperson Board Strategy Committee

The Committee is comprised of three (3) non-executive Directors and the Company's Managing Director & CEO and is chaired by 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.

The Committee held eight (8) meetings which were attended as follows: -

No	Name	Meetings held	Attendance
1)	Mr. Mwendia Nyaga	8	8
2)	Eng. Jared Othieno	8	5
3)	Mr. Paul K. Ngugi	8	3
4)	Dr Nelly Yatich	8	6
5)	Mr. Chrispin Lupe	8	7

19.2 Report from the Chairperson of the Board Human Resource Committee

The Board Human Resource Committee is comprised of (3) non-executive Directors and Managing Director & CEO and is chaired by a non-executive independent Director. The Human Resource Committee is tasked with the responsibility of reviewing 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 Group GD3 and above; handling all other matters relating to staff; and dealing with occupational, health and safety issues.

The Committee held six (6) meetings which were attended as follows: -

No	Name	Meetings held	Attendance
1)	Dr. Nelly Yatich	6	6
2)	Eng. Jared Othieno	6	3
3)	Mr. Paul K. Ngugi	6	1
4)	Mr. Chrispin Lupe	6	5
5)	Mr. John Gicamu	6	6
6)	Mr. Hillary Koech	6	5

19.3 Report from the Chairperson of the Board Finance Committee & General-Purpose Committee

The Board Finance is comprised of the chairperson; three (3) independent Directors; Managing Director & CEO and 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.

The Committee held five (5) meetings which were attended as follows: -

No.	Name	Meetings held	Attendance
1)	Mr. Hillary Koech	5	5
2)	Eng. Jared Othieno	5	3
3)	Mr. Paul K. Ngugi	5	2
4)	Mr. Mwendia Nyaga	5	5
5)	Mr. Joseph Waruiru	5	5

Internal Control and Risk Management

Risk management is a critical part of Corporate Governance and ensures long term viability and sustainability of the company. GDC's system of financial control ensures that adequate systems are maintained. The Board has come up with policies on risk management that identifies, measures, and manages the risks that GDC faces. These policies have also been integrated into the overall management reporting structure. The Audit Committee of the Board regularly reviews the effectiveness of the internal control system.

Communication with Stakeholders

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 good judgement 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 work tirelessly to ensure that GDC has adequate resources to continue 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, it continues to adopt the going concern basis when preparing financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and financial performance

The company's performance for the year ended 30th June 2023 is as summarized below

Performance indicator	June 2023	June 2022
Revenue (Shs million)	1,552	1,241
Profit before income tax (Shs million)	599	350
Net assets (Shs million)	(889)	(1,417)
Current ratio	3.51:1	3.38:1
Expenditure on exploration and evaluation assets (Shs million)	3,941	3,825
Additions to property, plant, and equipment (Shs million)	82	267
Grants received (Shs. million)	4,880	3,773

Compliance with statutory requirements

The company has fully complied with all the statutory requirements.

Key projects and investment decisions implemented by the company.

In line with the National Government strategic objectives, GDC aims at increasing the national electricity generation capacity from geothermal resources by an additional 1065 MW from the following fields;

Menengai Geothermal Field	465MW
Baringo-Silali block	300MW
Suswa Geothermal Field	300MW

During the Year, drilling activities continued in the Bogoria Silali and Menengai geothermal fields where two (2) wells were being drilled for at Paka prospect while one (1) well was undergoing work-over in Menengai.

The company is also closing out on the condition precedent on land compensation to unlock the second tranche of the KfW funds meant for geothermal exploration in the larger Baringo-Silali Block.

Beyond electricity

In furtherance of the national endeavor to realize energy security as a catalyst for economic development, and in the quest to diversify the development and utilization of geothermal energy, the company has put in place mechanism for direct uses that will culminate into the establishment of geothermal resource parks.

This strategy is critical in the country's desires towards food security as this will help prevent massive post-harvest losses and therefore boost grain reserves.

The model of Resource Parks is set to be the future of Kenya's manufacturing and food security as espoused in the Bottom –Up Economic Transformation Agenda (BeTA) on Manufacturing, Food Security, Affordable Housing and Universal Healthcare.

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Income tax (Continued)

(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.

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;

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

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.

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.

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) Steam charge payments are recognised in the period in which Kengen has supplied steam-generated power. Steam utilized in generation is measured by the amount of power generated by use of meters. The portion appropriated to development expenditure in the national budget is treated as development grant.
(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.

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.

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Cash and cash equivalents

Cash and cash equivalents include 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.

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.

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.

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.

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 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial Instruments (Continued)

Financial Assets (Continued)

Impairment (Continued)

(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 Company's. 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.

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 amortized cost using the effective interest method.

Derecognition of financial liabilities

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial Instruments (Continued)

Financial Assets (Continued)

(ii) De-recognition (Continued)

On derecognition of a financial asset measured at amortized 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).

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.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial instruments

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

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.

(ii) De-recognition

The Company derecognizes 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 recognizes 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 recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

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.

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 of 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 twenty-five 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 of 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.

Intangible assets

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

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

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.

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Foreign currency translation (continued)

(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'.

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.

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.

Early adoption of standards

The company did not early adopt any new or amended standards in the year ended 30 June 2022.

(c) Basis of preparation

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.

2 Significant accounting policies (Continued)

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

Relevant new and amended standards and interpretations in issue but not yet effective in the year ended30 June 2022.

New and amendments to standards	Effective for annual periods beginning on or after
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2022 (Published August 2020)
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published January 2020)
Amendment to IFRS 3, 'Business combinations'	Annual periods beginning on or after 1 January 2022 (Published May 2020)
Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017)
IFRS 17, 'Insurance contracts' Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

should continue to be recorded in the income statement. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(iii) Amendment to IFRS 3, 'Business combinations'

The Company has adopted the amendments to IFRS 3 for the first time in the current year. This amendment revises the definition of a business. The previous guidance was commonly thought to be too complex, and resulted in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(iv) Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.

The amendments have been adopted by the company in the year. These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs are aimed at the following:
- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended has defined material as:
"*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*"

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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 2022

(i) ***IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment***
In the current year, the Company has applied IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment (as published by IASB in September 2019) that became effective for annual periods beginning on or after 1 January 2020 (early adoption is permitted)

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

(ii) ***Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosure' – Interest rate benchmark reform (Phase 1)***

The Company has adopted the Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosure' – Interest rate benchmark reform (Phase 1) for the first time in the current year. These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness

Details		Final budget	Actual comparable basis	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
Auditor's remuneration	8	11,526	8,053	(3,473)	-30%	Tax component not implemented
Provision for doubtful debts of other receivables	8	-	468	468	0%	
ICT expenses	8	5,798	3,826	(1,972)	-34%	Contract expiries
Advertising and publicity	8	6,783	5,388	(1,395)	-21%	Austerity measures
Fuel expenses	8	7,000	4,693	(2,307)	-33%	Austerity measures
Operating lease payments	8	76,592	75,506	(1,086)	-1%	
Amortisation of intangible assets (Note 19)	8	-	4,479	4,479	0%	
Security Expenses	8	4,428	4,007	(421)	-10%	Guards not fully deployed
Staff Welfare expenses	8	23,501	20,871	(2,630)	-11%	Austerity measures
Insurance & Licenses	8	17,210	15,779	(1,431)	-8%	
Software support & Maintenance	8	39,494	24,310	(15,184)	-38%	Changes in providers
Internet & ISP services	8	8,600	5,525	(3,075)	-36%	Changes in providers
Maintenance expenses	8	4,070	1,426	(2,644)	0%	
Stakeholder management expenses	8	7,936	6,866	(1,069)	-13%	Austerity measures
Subscriptions	8	2,084	1,719	(365)	-18%	Reduction in staff due to contract termination
Stock valuation gains/losses	8	-	13,773	13,773	0%	
Other expenses	8	26,877	25,348	(1,529)	-6%	
Finance costs	7	637,886	192,421	(445,465)	-70%	Principal is under projects
Tax expense	11	33,451	71,255	37,803	113%	Matter is still being addressed
Other operating expenses	9	-	98,518	98,518	0%	
Total expenses		**1,838,000**	**2,728,118**	**890,117**	**48%**	**Not applicable**
Surplus/(deficit)		**0**	**528,018**	**528,018**		

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED JUNE 2023

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	1,480,000	1,552,023	72,023	5%	Not applicable
Government grant	20	358,000	358,000	(0)	0%	
Amortization of revenue grant	20	-	1,421,336	1,421,336	0%	
Other income	6 a	-	33,366	33,366	0%	
Other gains/(losses)	6 b	-	(140,948)	(140,948)	0%	
Total revenue		**1,838,000**	**3,256,135**	**1,418,135**	**0**	
Expenses						
Depreciation of property, plant & equipment (Note 17)	8	-	1,433,423	1,433,423	0%	
Employee benefits expenses (Note 4)	8	796,390	611,918	(184,472)	-23%	Reduction in staff due to contract termination
Provision for obsolete stock	8	-	-	-	0%	
Legal expenses	8	28,883	20,878	(8,005)	-28%	Reduced litagations
Accommodation and subsistence	8	32,060	28,861	(3,200)	-10%	Increased activities in the Bogoria Silali block
Training and education	8	4,052	3,991	(61)	-2%	Reduced trainings due to austerity measures
Director's fees and expenses (Note 24)	8	27,742	21,903	(5,839)	-21%	Board re-allignments in the year
Transportation expenses	8	7,333	5,717	(1,616)	-22%	Austerity measures
Management consultancy	8	28,302	17,196	(11,106)	-39%	Reduced consultancies

Details	Notes	Original budget	Adjustments (Supplementary budget cuts)	Final budget	Actual comparable basis	Performance difference
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Amortisation of intangible assets (Note 19)	8	-	-	-	4,479	4,479
Security Expenses	8	5,428	(1,000)	4,428	4,007	(421)
Staff Welfare expenses	8	15,000	8,501	23,501	20,871	(2,630)
Insurance & Licenses	8	11,000	6,210	17,210	15,779	(1,431)
Software support & Maintenance	8	51,941	(12,447)	39,494	24,310	(15,184)
Internet & ISP services	8	12,600	(4,000)	8,600	5,525	(3,075)
Maintenance expenses	8	9,278	(5,208)	4,070	1,426	(2,644)
Stakeholder management expenses	8	11,600	(3,664)	7,936	6,866	(1,069)
Subscriptions	8	7,029	(4,945)	2,084	1,719	(365)
Stock valuation gains/losses	8	-	-	-	13,773	13,773
Other expenses	8	26,877	-	26,877	25,348	(1,529)
Finance costs	7	545,800	92,086	637,886	192,421	(445,465)
Tax expense	11	20,000	13,451	33,451	71,255	37,803
Other operating expenses	9	-		-	98,518	98,518
Total expenses		**1,850,000**	**(12,000)**	**1,838,000**	**2,728,117**	**890,117**
Surplus/(deficit)		**-**	**-**	**-**	**528,018**	**528,018**

X. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED JUNE 2023

Details		Original budget	Adjustments (Supplementary budget cuts)	Final budget	Actual comparable basis	Performance difference
	Notes	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Revenue						
Sale of steam	5	1,480,000	-	1,480,000	1,552,023	72,023
Government grant	20	370,000	(12,000)	358,000	358,000	(0)
Amortization of revenue grant	20	-	-	-	1,421,336	1,421,336
Other income	6 a	-	-	-	33,366	33,366
Other gains/(losses)	6 b				(140,948)	(140,948)
Total revenue		**1,850,000**	**(12,000)**	**1,838,000**	**3,256,135**	**1,418,135**
Expenses						
Depreciation of property, plant & equipment (Note 17)	8	-	-	-	1,433,423	1,433,423
Employee benefits expenses (Note 4)	8	897,327	(100,937)	796,390	611,918	(184,472)
Provision for obsolete stock	8	-	-	-	-	-
Legal expenses	8	25,000	3,883	28,883	20,878	(8,005)
Accommodation and subsistence	8	22,276	9,784	32,060	28,861	(3,200)
Training and education	8	18,019	(13,967)	4,052	3,991	(61)
Tax penalties and interest	8	-	-	-	-	-
Director's fees and expenses (Note 24)	8	30,000	(2,258)	27,742	21,903	(5,839)
Transportation expenses	8	14,681	(7,348)	7,333	5,717	(1,616)
Management consultancy	8	21,000	7,302	28,302	17,196	(11,106)
Auditor's remuneration	8	9,250	2,276	11,526	8,053	(3,473)
Provision for doubtful debts of other receivables	8	-	-	-	468	468
ICT expenses	8	5,400	398	5,798	3,826	(1,972)
Advertising and publicity	8	10,500	(3,717)	6,783	5,388	(1,395)
Fuel expenses	8	7,000	-	7,000	4,693	(2,307)
Operating lease payments	8	72,992	3,600	76,592	75,506	(1,086)

IX. STATEMENT OF CASH FLOWS

		30/06/2023	30/06/2022
	Notes	Shs'000	Shs'000
Cash flows from operating activities			
Profit before tax		599,273	350,156
Adjustments:			
Depreciation of property, plant and equipment	8	1,433,423	1,431,499
Amortisation of intangible asset	19	4,479	667
Write-off of non-productive time	18	98,518	50,547
Amortisation of capital grants	20	(1,421,336)	(1,421,336)
Deferred Tax charge	16	(71,424)	44,935
Unrealised exchange gain on borrowings	21	423,545	224,149
Finance Income	7(a)	(32,358)	(22,748)
Interest expense	7 (b)	192,421	190,386
Changes in working capital:			
- receivables		(3,333,347)	920,476
- inventories		194,991	422,129
- trade and other payables		251,334	(240,337)
Cash generated from/(used in) operations		*(1,660,481)*	*1,950,523*
Current income tax paid	11(b)	(287,026)	(326,869)
Interest paid	21	(219,111)	(190,386)
Interest received	7 (a)	32,358	22,748
Net cash generated from operating activities		(2,134,260)	1,456,016
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(82,625)	(266,879)
Expenditure on exploration and evaluation assets	18	(3,941,122)	(3,824,745)
Expenditure on Intangible assets	19	(13,431)	-
Proceeds from disposal of property, plant and equipment	17	1,409	51,198
Net cash used in investing activities		(4,035,769)	(4,040,426)
Cash flows from financing activities			
Proceeds from capital grants	20	4,880,466	3,772,507
Repayment of Term loan	21	(378,481)	(360,286)
Net cash generated from financing activities		4,501,985	3,412,221
Net increase /(decrease) in cash and cash equivalents		**(1,668,044)**	**827,811**
Cash and cash equivalents at start of year	14	1,715,600	887,789
Cash and cash equivalents at end of year	**14**	**47,556**	**1,715,600**

VIII. STATEMENT OF CHANGES IN EQUITY

	Share capital Shs'000	Retained earnings Shs'000	Total equity Shs'000
Year ended 30 June 2022			
At start of year	2,000	(1,540,405)	(1,538,405)
Total comprehensive loss for the year		121,454	121,454
At end of year	2,000	(1,418,951)	(1,416,951)

	Share capital Shs'000	Retained Earnings Shs'000	Total equity Shs'000
Year ended 30 June 2023			
At start of year	2000	(1,418,951)	(1,416,951)
Total comprehensive loss for the year		528,018	528,018
At end of year	**2000**	**(890,933)**	**(888,933)**

VII. STATEMENT OF FINANCIAL POSITION

	Notes	30-Jun-23 Shs'000	30-Jun-22 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	38,437,500	41,566,233
Exploration and evaluation asset	18	60,700,020	55,080,165
Intangible Assets	19	24,581	16,354
Deferred Income tax	16	269,295	197,871
		99,431,396	**96,860,623**
Current assets			
Inventories	12	3,823,253	4,018,244
Receivables and prepayments	13	4,808,999	1,475,651
Cash and Cash equivalents	14	47,556	1,715,600
Current income tax	11b	445,439	229,668
		9,125,247	7,439,163
TOTAL ASSETS		**108,556,643**	**104,299,786**
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	22	2,000	2,000
Retained Earnings		(890,933)	(1,418,951)
Total equity		**(888,933)**	**(1,416,951)**
Non- Current liabilities			
Grants	20	104,838,540	101,379,410
Term Loan	21	2,009,278	2,133,681
		106,847,818	**103,513,091**
Current liabilities			
Borrowings	21	500,604	357,827
Trade and other payables	15	2,097,153	1,845,819
		2,597,757	**2,203,646**
Total liabilities		**109,445,575**	**105,716,737**
TOTAL EQUITY AND LIABILITIES		**108,556,643**	**104,299,786**

The financial statements on pages 41 to 73 were authorized and approved for issue by the board of directors on ....15/05/........ 2024 and signed on its behalf by:

Paul K. Ngugi
Managing Director & CEO.

Mr. Stephen Busieney
General Manager Finance
ICPAK M/NO: 4880

Walter O. Nyambati
Chairman, BOD

VI. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	30th June 2023	30th June 2022
		Shs '000	**Shs '000**
REVENUES			
Steam charge payments	5	1,552,023	1,241,123
Other Income		0	
Grants from National Government	20	358,000	370,000
Revenue grants (Amortized)	20	1,421,336	1,421,336
Finance Income	7a	32,358	22,748
Other Income	6a	33,366	72,989
Other gains/(losses)	6b	(140,948)	(112,841)
TOTAL REVENUES		**3,256,135**	**3,015,355**
OPERATING EXPENSES			
Administration Costs	8	1,026,539	1,042,647
Depreciation & Amortization of PPE	8	1,437,902	1,432,166
Finance Costs	7b	192,421	190,386
TOTAL OPERATING EXPENSES		**2,656,862**	**2,665,198**
PROFIT/(LOSS) BEFORE TAXATION		**599,273**	**350,156**
INCOME TAX EXPENSE	11a	(71,255)	(228,702)
PROFIT AFTER TAXATION		**528,018**	**121,454**

uncertainty exists related to events or conditions that 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 that 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 controls that 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 that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 May, 2024

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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls would not necessarily disclose all matters in the internal controls that 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 that 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 controls 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 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 that 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 controls.

- 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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have not been kept by the Company, so far as appears from the examination of those records; and,

iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, 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 Management is aware of the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors 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 overall 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 that includes my opinion in accordance with the provisions including revenues on steam charge to Kenya Electricity Generating Company(Ken Gen) had to pass through one bank account. However, no explanation was provided on steps taken to ensure that project funds are separated from the Company's.

In the circumstances, controls and safeguards against Company and Donor funded projects' funds could not be confirmed.

3. Weaknesses in Inventory Management

The statement of financial position reflects a balance of Kshs.3,823,253,000 in respect of inventories as disclosed in Note 12 to the financial statements. The inventory balance consists of drilling materials, pipes, fuel and consumables. Physical verification at the storage sites revealed that Management had high quantities of slow-moving items which increases the risk of obsolescence or deterioration of inventories and items such as drilling pipes and casings were stored in the open without protective cover, which exposed them to weather conditions thus accelerating the rate of wear and tear.

Further, inventory records reflected an amount of Kshs.87,359,565 in respect of bentonite clay. However, the quantities of the items could not be confirmed since the items were stored in bags some of which were worn and torn resulting in spillage of the clay.

In addition, three hundred and twenty-nine (329) tons of cement valued at Kshs.8,152,675 held at Kading store could not be physically verified as silos where they were stored were not fitted with a measuring scale to show the quantities in stock.

In the circumstances, the existence of an effective inventory management system could not be confirmed.

4. Losses Through Theft and Vandalism at Geothermal Sites

Review of documents and physical inspection carried out in Nairobi and Nakuru geothermal sites revealed that, 2,080 litres of diesel with an estimated cost of Kshs.333,944 was lost through siphoning between 7 and 15 January, 2023. Further, there were more instances of losses through either theft or vandalism during the year of bond liners, copper-wired cables and a laptop which were under investigation during the time of audit. No evidence of Management's effort to enhance the security of the Company's assets was provided.

In the circumstances, existence and effectiveness of controls to safeguard against losses of company assets could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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.

Kshs.9,773,156 and two (2) fire engines at the Menengai Geothermal site valued at Kshs.1,550,764 had been vandalized while six (6) motor vehicles at Menengai and Paka sites were grounded due to lack of spare parts. Further, Management entered into a contract with an International Company to install a monitoring software at a cost of Kshs.344,523,712 for real-time off-site monitoring of the drilling process and ensuring successful implementation of the Menengai Project. However, physical verification revealed that the software had not been installed.

In the circumstances, the value for money for the expenditure incurred on acquisition of the unutilized assets and the uninstalled software could not be confirmed.

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Long Outstanding Trade Receivables

The statement of financial position reflects an amount of Kshs.4,808,999,000 in respect of trade and other receivables. Included in the balance is an amount of Kshs.87,491,579 which has remained uncollected from various suppliers for over two (2) years. Although, demand letters were issued to the suppliers in 2018, there was no evidence of further follow-up actions for review.

In the circumstances, existence and effectiveness of measures to identify and collect amounts receivable on a timely basis could not be confirmed.

2. Commingling of Funds

The statement of financial position reflects a cash and cash equivalents balance of Kshs.47,556,000. Review of bank accounts for the Company and various donor funded projects revealed that the Company funds were commingled with donor funded projects funds comprising of Menengai Geothermal Project and Bogoria Silali Geothermal Project. The commingling of funds occurred because of a contract condition by a local bank from which the Company had borrowed a term loan that required all the Company's funds means that equal opportunities might not have been accorded to both gender during appointment as required in the Constitution of Kenya.

In the circumstances, the constitution of the Board was in breach of the law.

4. Non-Compliance with the Law on Basic Salary Rule

An analysis of the monthly payrolls for the year revealed that employees of the company earned a net salary of less than a third (1/3) of the basic salary as detailed in the table below.

Month	No. of Staff Earning Below a Third
July 2022	49
August 2022	79
September 2022	73
October 2022	75
November 2022	61
December 2022	61
January 2023	73
February 2023	79
March 2023	79
April 2023	80
May 2023	62
June 2023	47

This was contrary to Section 19(3) of Employment Act, 2007 which provides that the total amount of all deductions which under the provisions of sub-section (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

In the circumstances, the Management was in breach of the law.

5. Unutilized Geothermal Resource Assessment (GRA) Equipment

As previously reported, included in the property, plant and equipment balance of Kshs.38,437,500,000 is an amount of Kshs.90,434,590 relating to a GRA equipment that was procured from a technology company on 20 February, 2013 at a cost of Kshs.90,434,590 (USD 1,051,565) and had a net book value of Kshs.997,000. However, the equipment has never been used since its procurement because it was incompatible with the software.

In the circumstances, the value for money for the resources incurred on acquisition of the equipment could not be confirmed.

6. Idle and Unutilized Assets

Review of asset records and physical verification of geothermal sites in the month of September, 2023 revealed that five (5) bulk haulage cementing trucks valued at

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregular Procurement of Legal Services

During the year under review, Management appointed a law firm to provide legal services in a legal suit with a private company, at a cost of Kshs.58,000,000. The law firm was to act together with another law firm which had been previously procured at a cost of Kshs.5,000,064 and had been representing the Company in the same legal suit. However, review of records provided for audit revealed that the law firm was directly procured and justification for the disparity in the legal fees was not provided for audit. Further, Management did not provide justifications for engaging the services of the new firm while retaining the services of the firm which had been handling the case, as this constituted a duplication of legal services.

In the circumstances, the value for money in respect of representation in the case could not be confirmed.

2. Long Outstanding Payables

The statement of financial position reflects a balance of Kshs.2,097,153,000 in respect of trade and other payables which includes trade payables of Kshs.1,088,107,000. Review of the aging analysis of the payables revealed that a balance of Kshs.162,818,656 had been outstanding for a period ranging between one (1) and two (2) years and Kshs.375,157,609 had been outstanding for more than two (2) years.

In the circumstances, failure to settle obligations when they fall due may expose the Company to litigations leading to additional costs in interest and penalties.

3. Non-Compliance with Law on Gender Balance

Review of the Company's Board of Directors composition revealed that out of the ten (10) Directors, only one (1) was female representing 10% of the Board composition. This

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

The statement of changes in equity reflects a debit retained earnings balance of Kshs.890,933,000 (2022 - debit Kshs.1,418,951,000). Review of previous financial statements revealed that the Company had remained in an accumulated deficit position for the past six (6) years. This condition indicates that material uncertainty exists, which may impair the Company's ability to operate as a going concern.

2. Commitments and Contingent Liabilities

As disclosed in Note 23 (c) to the financial statements, a dispute between the Company and a firm was adjudicated at a Tribunal and at the High Court of Kenya. Both rulings were made against the Company, resulting in an award of Kshs.3.75 billion by the High Court. However, the matter has been appealed and is currently pending at the Court of Appeal.

In the event that those contingent liabilities crystalize, the Company may be exposed to huge cash outlay which may affect its ability to meet its obligations when they fall due, thus impacting on service delivery capacity.

My opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

In the audit report of 2021/2022 financial year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to resolve them.

Other Information

The Directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the Statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

3.2 Vandalization of Geothermal Drilling Rigs

The property, plant and equipment balance includes an amount of Kshs.7,594,408,000 in respect of geothermal drilling rigs. Review of records revealed that as previously reported four (4) of the rigs purchased at a cost of Kshs.8,963,025,527 had not been used in the previous six (6) financial years due to vandalization of the equipment. According to Management explanations, assorted electric cables, batteries, and electronic components for the rigs were stolen between 31 December, 2017 and 1 January, 2020. However, Management did not assess the impairment of the assets to confirm whether the carrying amount of the rigs was higher than the recoverable amount as required by IAS 36 Paragraph 9.

In the circumstances, the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.38,437,500,000 could not be confirmed.

4. Unsupported VAT Recoverable

The statement of financial position reflects net trade and other receivables balance of Kshs.4,808,999,000 which as disclosed in Note 13 to the financial statements reflects a deduction of Kshs.6,233,000 in respect of Value Added Tax (VAT) recoverable. However, review of tax returns made to Kenya Revenue Authority (KRA) revealed VAT receivable amount of Kshs.90,886,657 resulting in an unexplained and unreconciled variance of Kshs.97,119,657.

In the circumstances, the accuracy and completeness of the Value Added Tax (VAT) recoverable could not be confirmed.

5. Unsupported Bank Accounts

The statement of financial position reflects cash and cash equivalents balance of Kshs.47,556,000 which as disclosed in Note 14 to the financial statements, includes Nil balance in respect of a dormant account held at a local bank. The account was opened to receive funds and make payments for an African Development Fund (AfDB) financed Project. However, the account has remained dormant since 2020. Costs associated with maintenance of the account and other bank charges could not be confirmed as bank statements were not provided for review.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.47,556,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the 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 adverse opinion.

amount of Kshs.9,838,766,603 representing the capitalized amount of fifteen (15) steam wells located at the Olkaria steam fields. Review of records provided for audit revealed that the output of power produced by twelve (12) of the wells was undisclosed while the other three (3) had zero output. However, Management did not provide for an assessment for the non-producing wells for impairment.

Further, the assets register reflected book values of all the fifty-nine (59) wells as a unit without separating them as producing, non-producing, re-injection and monitoring wells in line with their functions.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.9,838,766,603 could not be confirmed.

2.2 Exploration and Evaluation Assets

The statement of financial position reflects exploration and evaluation assets valued at Kshs.60,700,020,000. The amount includes accumulated exploration costs, steam field costs and direct cost of wells drilled in Menengai, Paka, Korosi and Suswa steam fields. However, this balance includes costs of non-generating wells that were drilled and did not yield steam during exploration. The cost of drilling the unyielding wells ought to have been written off against the statement of profit or loss and other comprehensive income in line with the Company policy of successful efforts method of accounting for exploration and evaluation expenditure.

Further, review of a status report of geothermal steam wells revealed that exploration and evaluation assets value included the direct costs of sixteen (16) wells amounting to Kshs.5,859,369,960 which were non-producing and had been abandoned. The costs had not been written off resulting in an overstatement of exploration and evaluation assets.

In the circumstances, the accuracy and completeness of exploration and evaluation assets valued at Kshs.60,700,020,000 could not be confirmed.

3. Property, Plant and Equipment

3.1 Inaccuracies in the Property, Plant and Equipment

The statement of financial position and as disclosed in Note 17 to the financial statements reflects property, plant and equipment balance of Kshs.38,437,500,000. Review of records revealed that assets with a total cost of Kshs.11,064,565 had been depreciated to zero contrary to the Company policy which provides that fully depreciated assets will have a scrap value of 5% of the asset cost.

Further, the asset register included motor vehicles with a net book value of Kshs.45,382,118 whose capitalization dates in the register were much later than the registration date reflected in their respective logbooks. The duration between the capitalization date and registration date ranged between three (3) years and three (3) months. Further, logbooks for motor vehicles with a total net book value of Kshs.63,605,480 were not provided.

income, statement of changes in equity, statement of cash flows, and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Geothermal Development Company Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Public Finance Management Act, 2012, and the Companies Act, 2015.

Basis for Adverse Opinion

1. Non-Compliance with International Financial Reporting Standards (IFRS)

The statement of profit or loss and other comprehensive income reflects revenue from steam charges totalling Kshs.1,552,023,000 as disclosed in Note 5 to the financial statements. The Note reflects gross earnings from steam charges during the year under review of Kshs.3,754,218,000 however, in line with its accounting policy, the Company reported Kshs.2,202,195,000 of the earnings as capital grants applied to fund development projects. The amount of Kshs.2,202,195,000 is however revenue based on contract between the Company and the Kenya Electricity Generating Company thereby forming a trading revenue.

The accounting policy adopted by Management constitutes a departure from the requirements of the International Financial Reporting Standards (IFRS) No.15 on revenue from contracts with customers. According to the standard, proceeds from sale of steam constitutes revenue from contracts with customers and should therefore be recognized in the statement of profit or loss and other comprehensive income and not as a capital grant in the statement of financial position.

Had the Management accounted for revenue from steam sales in accordance with IFRS No.15, the Company would have recognized additional revenue of Kshs.2,202,195,000 in the statement of profit or loss and other comprehensive income, and the carrying amount of the capital grants in the statement of financial position would have been reduced by a similar amount.

In the circumstances, the accuracy and completeness of the revenue totalling Kshs.1,552,023,000 could not be confirmed.

2. Accounting for Steam Producing and Exploration Wells

2.1 Failure to Assess Unproductive Wells for Impairment

The statement of financial position reflects property, plant and equipment balance of Kshs.38,437,500,000 as disclosed in Note 17 to the financial statements. The balance includes an amount of Kshs.24,552,742,000 in respect of wells which further includes an

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REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENT

Adverse Opinion

I have audited the accompanying financial statements of Geothermal Development Company Limited set out on pages 32 to 72, which comprise of the statement of financial position as at 30 June, 2023 and the statement of profit or loss and other comprehensive

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 Year ended on 30 June 2023. 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 the Company's transactions during the Year ended 30 June 2023, 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 15/05/ 2024 and signed on its behalf by:

Walter O. Nyambati
Chairman, BOD

Mr. Paul K. Ngugi
Managing Director & CEO

REPORT OF DIRECTORS

The directors submit their report together with the audited financial statements of Geothermal Development Company Limited (the "Company") for the year ended 30 June 2022.

Business Review

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

The Company's Performance

In the year, the Company recorded a profit before tax of Shs. 599 million compared to previous year's profit before tax of Shs. 391 million.

The overall receipts from steam charge payments increased to Shs. 3.75 billion compared to Shs 3.03 billion in the previous financial year. The allocation of steam receipts to development activities was Ksh 2.2 billion compared to Ksh 1.8 billion in the previous year.

During the year, an investment of Shs. 3.95 billion (2028: Shs. 3.8 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 2.2 billion (2022: Shs 1.8 billion) received from/through the Government of Kenya and plough-back of funds received from steam charge payments.

The Company continues with exploration and evaluation activities in the Bogoria-Silali area.

Dividend

The net profit for the year of Shs 528,017,949 (2022: Shs 121,454,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

Directors

The Directors who held office during the year and to the date of this report are set out on page 1.

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; 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. Geothermal Development Company Limited Annual Report and Financial Statements for the year ended June 30, 2022

Terms of Appointment of Auditor

The Auditor-General is responsible for the statutory audit of Geothermal Development Company Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

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 ------15/05--------- 2024.
By order of the Board

Mr. Paul K. Ngugi
MANAGING DIRECTOR & CEO

ENVIRONMENTAL & SUSTAINABILITY REPORTING

Sustainability Strategy and profile

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.

Environmental Conservation and Awareness

During the year, GDC had a robust environmental conservation program and worked with communities surrounding its project areas to raise environmental management and conservation awareness. The environmental management program involved implementation environmental management plan (EMP) while environmental conservation program involved planting of trees to minimize the impact of climate change as well as contributing towards the attainment of the government's target of growing 15 billion tree seedlings thereby increasing tree cover in Kenya to 30% by the year 2032. A total of 30,381 seedlings were donated to the community members/institutions and over 3,000 tree seedlings were planted by GDC staff as part of the rehabilitation efforts within the Baringo-Silali and Menengai geothermal project sites.

The company also collaborated with the National Environment Management Authority (NEMA) and the County Government of Nakuru in planting over ten thousand (10,000) trees in Dundori forest to mark the World Environment Day (WED) 2023 Celebrations.

Compliance with applicable environmental laws and regulations

The Company has strived to ensure compliance to relevant international and national environmental statutory provisions. All the Company operations are conducted in an environmentally sound manner and all environmental impacts mitigated and managed in a sustainable way. Through the commitment of the environmental policy, the Company has demonstrated efficient use of resources, proper management of waste generated and full compliance to legislative requirements. Environmental Social Impact Assessments (ESIA) are conducted prior to development of new projects, Environmental Audits of existing projects conducted on annual basis and timely acquisition of applicable environmental licenses and permits. Company projects EMPs are aligned to International Environmental Standards such as the IFC Performance Standards

GDC continues to streamline its environmental and social management/monitoring plans to be in total compliance with International Environmental Best Practices and Standards. 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.

The quest for compliance

GDC has not suffered any consequence because of non-compliance due to its commitment towards environmental regulatory compliance. The Company is working towards implementation of ISO 14001 Environmental Management System (EMS) which will provide our stakeholders with assurance that any of our environmental impacts are being measured and reported upon methodically, accurately with sound mitigation measures.

Stakeholder Engagement

GDC has a wide range of external stakeholders who include policy makers, host communities, county officials and development partners. They all play a key role in the success of geothermal projects. GDC is committed to supporting the host communities within the project areas. The Company continues to provide water to the host community within the Baringo – Silali Geothermal project and to their livestock too. GDC also supported the community with food items in the year to mitigate drought in the area.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The utilization of geothermal heat will displace massive amounts of wood fuel and heavy diesel normally used in heating industrial boilers. This way, GDC will be offering clean alternative energy an in line with SGD7- Affordable and Clean Energy.

Additionally, the company continues to provide consultancies and training in geothermal. In the Year, the company offered consultancy to National Oil Corporation for gas sampling and analysis, Tulu Moye geothermal operation in Ethiopia and AKIIRA for well air lifting services, and KenGen for well quenching and well cleaning services.

Governance

The company has not recorded any issue of governance and financial probity in the year.

3 Critical accounting estimates and judgements (continued)

Critical judgements in applying accounting policies (Continued)

Classification of leases of land as finance or operating leases (Continued)

- 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.

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 equalling 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 assessed 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.

3 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (Continued)

(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.

The maturity grouping for all these liabilities is less than a year.

	Less than 3 months Shs'000	Between 3 & 12 months Shs'000	Total Shs'000
At 30 June 2023:			
Trade and other payables (Note 15)	2,097,153	-	2,097,153
Bank borrowings	119,949	380,655	500,604
	2,217,102	380,655	2,597,757
At 30 June 2022:			
Trade and other payables (Note 15)	1,845,819	-	1,845,819
Bank borrowings (Note 21)	79,297	278,530	357,827
	1,925,116	278,530	2,203,646

(a) 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 97% of the total trade receivable as at 30 June 2023 (2022: 87%). 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.

4 Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. 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.

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:

Category	Description	Basis for recognizing Expected Credit Losses(ECL)
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 Shs'000	**12 months or Lifetime ECL Shs'000**	**Gross carrying amount Shs'000**	**Loss Allowance Shs'000**	**Net Amount Shs'000**
At 30 June 2023:					
Trade receivables (Note13)	Performing	Lifetime ECL (simplified approach)	2,501,870	(102,532)	2,399,338
Grants receivable (GOK) (Note13)	Performing	Lifetime ECL (simplified approach)	2,041,675	-	2,041,675
Bank Balance (Note 14)	BB	12 months ECL	47,556	-	47,556
Restricted cash (Note 13a)	BB	12 months ECL	235,774	-	235,774
			4,826,875	(102,532)	4,724,343
At 30 June 2022:					
Trade receivables (Note 13a)	Performing	Lifetime ECL (simplified approach)	845,503	(102,064)	743,439
Grants receivable (GOK) (Note13a)	Performing	Lifetime ECL (simplified approach)	-		-
Bank Balance (Note 14)	BB	12 months ECL	1,715,600	-	1,715,600
Restricted cash (Note 13b)	BB	12 months ECL	254,562	-	254,562
			2,815,665	(102,064)	2,713,601

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

4 Financial risk management objectives and policies (continued)

(b)Credit risk (continued)

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 2023 and 30 June 2022

Loss Rates

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

Total exposure as at June 2023

	Current Sh'000	**0-30** Sh'000	**31-60** Sh'000	**61-90** Sh'000	**>90** Sh'000	**Total** Sh'000
KenGen		1,024,151	414,946	427,996	416,348	2,283,441
Others		89,358	-	-	129,071	218,429
Total	**0**	**1,113,509**	**414,946**	**427,996**	**545,419**	**2,501,870**
	========	=======	=======	=======	=======	========

Total impairment as at 30 June 2023

	Current Sh'000	**0-30** Sh'000	**31-60** Sh'000	**61-90** Sh'000	**>90** Sh'000	**Total** Sh'000
KenGen		-	-	-	-	-
Others		-	-	-	102,532	102,532
Total		**-**	**-**	**-**	**102,532**	**102,532**
	========	=======	=======	=======	=======	========

4 Financial risk management objectives and policies (continued)

(b) Credit Risk (Continued)

Total exposure as at 30 June 2022

	Current Sh'000	0-30 Sh'000	31-60 Sh'000	61-90 Sh'000	>90 Sh'000	Total Sh'000
KenGen	-	336,790	361,460	0	32,071	730,321
Others	-	-	-	-	115,183	115,183
Total	**-**	**336,790**	**361,460**	**0**	**147,254**	**845,504**

Total impairment as at 30 June 2022

	Current Sh'000	0-30 Sh'000	31-60 Sh'000	61-90 Sh'000	>90 Sh'000	Total Sh'000
KenGen	-	-	-	-	-	-
Others	-	-	-	-	102,064	102,064
Total	**-**	**-**	**-**	**-**	**102,064**	**102,064**

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 2023, there would be no impact on the loss allowance on trade receivables.

(b) 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 2023, 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 1,600,623.09 (2022: Shs 49,257,999) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

On 30 June 2023, 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 15,038,883.54 (2022: 15,038,883.54) higher/lower, as a result of Euro denominated trade payables

4 Financial risk management objectives and policies (continued)

(c) Market risk (continued)

(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 2023 the Company's exposure to cash flow and fair value interest rate risk on the term loan was Sh. 676,933,896.85 (2022: 290,106,323).

(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 2023 and 30 June 2022 were as follows:

	30/06/2023 Shs'000	**30/06/2022 Shs'000**
Total borrowings (Note 21)	2,509,882	2,491,508
Less: Cash and cash equivalents (Note 14)	(47,556)	(1,715,600)
Net debt	2,462,326	775,908
Total equity	(888,933)	(1,416,951)
Total debt and equity	1,573,393	(641,043)
Gearing ratio	>100%	>100%

5 Receipts from steam charge payments

	30/06/2023 Shs'000	30/06/2022 Shs'000
Steam charge payments from Olkaria wells	3,754,218	3,029,976
Less: Steam charge payments for development activities	(2,202,195)	(1,788,853)
	1,552,023	1,241,123

6 (a)Other income

Consultancy services on geothermal drilling	5,442	58,973
Gain on disposal of property, plant and equipment	1,409	2,931
Miscellaneous income	26,515	11,085
	33,366	72,989

6 (b)Foreign exchange (losses)/gains

Net foreign exchange (losses)/gains	(140,948)	(112,841)

7 (a)Finance income

Interest income on bank deposits	32,358	22,748

(b) Finance costs

Interest expense on bank loans and overdraft	192,421	190,386

8 Expenses by nature

	30/06/2023	30/06/2022
	Shs'000	Shs'000
Depreciation of property, plant & equipment (Note 17)	1,433,423	1,431,498
Employee benefits expenses (Note 4)	611,917	615,412
Provision for obsolete stock	0	106
Legal expenses	20,878	13,278
Accommodation and subsistence	28,861	25,364
Training and education	3,991	21,772
Director's fees and expenses (Note 24)	21,903	34,299
Transportation expenses	5,717	6,330
Management consultancy	17,196	16,833
Auditor's remuneration	8,053	8,607
Provision for doubtful debts of other receivables	468	741
ICT expenses	3,826	1,658
Advertising and publicity	5,388	3,393
Fuel expenses	4,693	4,697
Operating lease payments	75,506	73,463
Amortisation of intangible assets (Note 19)	4,479	667
Security Expenses	4,007	2,275
Staff Welfare expenses	20,871	26,689
Insurance & Licenses	15,779	16,948
Software support & Maintenance	24,310	35,183
Internet & ISP services	5,525	6,605
Maintenance expenses	1,426	347
Stakeholder management expenses	6,866	7,819
Subscriptions	1,719	5,597
Stock valuation gains/losses	13,773	10,563
Other expenses	25,348	13,139
Asset impairment	0	40,982
	2,365,923	**2,424,265**

9 Other operating expenses

Penalties for non-payment of corporate tax	-	-
Write-off of non-productive drilling staff costs (Note 18)	98,518	50,547
Write-off of non-productive and abandoned wells (Note 18)	-	-
Provision for legal fees	-	-

10 Employee benefits expenses

The following items are included within employee benefits expense.

Salaries and wages	571,007	577,373
Retirement benefits costs:	0	-
-Defined contribution scheme	39,703	37,635
-National Social Security Fund	1,207	404
	611,917	**615,412**

11Income tax

(a) Income tax charge

	30/06/2023 Shs'000	30/06/2022 Shs'000
Current income tax	146,882	183,767
Deferred income tax charge (Note 16)	(71,424)	44,935
Income tax expense	75,458	228,702

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:

	30/06/2023 Shs'000	30/06/2022 Shs'000
Profit/(loss) before income tax	599,273	350,155
Tax calculated at the statutory income tax rate of 30%	179,782	105,047
Tax effects of:		
Income not subject to tax	(628,105)	(488,062)
Expenses not deductible for tax purposes	591,002	566,782
Effect of reduction in tax rate on opening deferred tax assets	(71,424)	44,935
Income tax charge/(credit)	71,255	228,702

(b) Current tax payable/(Receivable)

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

	30/06/2023 Shs'000	30/06/2022 Shs'000
At start of year	(229,668)	(131,501)
Taxation charge (Note 11 (a))	142,679	183,767
Paid during the year	(287,027)	(326,869)
Deferred tax	(71,424)	44,935
At end of year	(445,440)	(229,668)

		30/06/2023 Shs'000	30/06/2022 Shs'000
12	**Inventories**		
	Drilling materials	3,650,903	3,829,538
	Pipes	142,625	144,582
	Fuel	32,565	20,771
	Consumables	22,880	39,939
	Total inventory held for exploration and evaluation activities	3,848,973	4,034,830
	Other inventories	42,867	43,450
	Less:		
	Stock provisions	(60,036)	(60,036)
	Stock borrowings	(8,551)	
		3,823,253	4,018,244
13	**Trade and other receivables**		
	Trade receivables	2,501,870	845,504
	Less: Provision for expected losses	(102,532)	(102,065)
	Net trade receivables	2,399,338	743,439
	Value Added Tax (VAT) recoverable	(6,233)	344,534
	Advance payment to suppliers	80,686	74,916
	Grants Receivable (GOK)	2,041,675	-
	Restricted cash (Note 13a)	235,774	254,562
	Staff receivables (Note 13b)	9,013	13,041
	Other receivables and prepayments	48,745	45,158
		4,808,999	**1,475,650**

Movements for the provision for expected losses of trade receivables are as follows:

	30/06/2023 Shs'000	30/06/2022 Shs'000
At start of year	102,065	101,324
Charge to profit or loss	468	741
At end of year	**102,533**	**102,065**

The fair value of other receivables approximates their carrying value.

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

Less than 30 days	1,113,509	336,790
Between 30 and 60 days	414,946	361,460
Between 61 and 90 days	427,996	-
Over 90 days	545,419	147,254
	2,501,870	845,504

13(a) Restricted cash

	30/06/2023 Shs'000	30/06/2022 Shs'000
Deposit with Development Bank of Kenya	94,568	94,568
Deposit with Cooperative Bank	2,022	2,022
Staff Mortgage Account - KCB	127,518	127,196
Staff Terminal Benefits Account - KCB	11,656	11,786
Co-operative Bank Escrow Account	0	994
Land Compensation	10	17,996
	235,774	254,562

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 for meeting the terminal benefits liability due to contracted staff. Land compensation funds have been set aside as part of KfW's financing requirements for Bogoria Silali project. Their withdrawal is restricted.

13(b) Staff receivables

	30/06/2023 Shs'000	30/06/2022 Shs'000
Net staff advances	9,013	13,042

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

Less than 30 days	5,769
Between 30 and 60 days	34
Between 61 and 90 days	179
Over 90 days	3,031
	9,013

14 Cash and cash equivalents

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

	30/06/2023 Shs'000	30/06/2022 Shs'000
Cash at Bank	47,481	1,715,595
Cash at hand	75	5
	47,556	1,715,600

14 Cash and cash equivalents (Continued)

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

Detailed analysis of cash and cash equivalents by financial Institution and account numbers:

a) Current accounts		**30/06/2023 Shs'000**	**30/06/2022 Shs'000**
Co-operative Bank of Kenya	01136160857600	14,040	46,458
Co-operative Bank of Kenya	01136160857603	-	-
Co-operative Bank of Kenya	02120160857600	15,991	553,562
Co-operative Bank of Kenya	22120160857600	-	-
Co-operative Bank of Kenya	01136350124400	135	183
Co-operative Bank of Kenya	01136115849200	5	34
Co-operative Bank of Kenya	02120160857601	-	5
	01141160857601	10	374,043
Kenya Commercial Bank	1119615208	10	334
Kenya Commercial Bank	1166553671	10	1,237
Bank (KES)	2041818169	13.041	71
ABSA Bank (USD)	2041818193	14	2,537
Co-operative Bank of Kenya	01136160857601	2,756	93,324
NCBA Bank	4761090015	1,468	607,845
Sub- total		**47,480**	**1,679,633**
b) On - call deposits			
Co-operative Bank of Kenya	021501608576	1	35,962
Sub- total		**1**	**35,962**
c) Others			
Cash in hand		75	5
Sub- total		**75**	**5**
Grand total		**47,556**	**1,715,600**

15 Trade and other payables

	30/06/2023 Shs'000	**30/06/2022 Shs'000**
Trade payables	1,182,142	973,723
Accrued expenses	362,640	350,810
Retirement benefit obligations	12,273	12,273
Provision for leave pay	60147	57,574
Other payables	479,951	451,439
	2,097,153	1,845,819

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

16 Deferred taxation

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

	30/06/2023 Shs'000	30/06/2022 Shs'000
At start of year	197,871	197,846
Charge/(credit) to profit or loss	(71,424)	-
Effect of reduction in tax rate on opening deferred tax assets	-	
At end of year	269,295	197,846

Deferred tax assets and liabilities and deferred tax charge in the statement of profit or loss are attributable to the following items:

Year ended 30 June 2023	At start of year Shs'000	Effect of change in tax rate Shs'000	Charge/ (credit) to profit or loss Shs'000	At end of year Shs'000
Deferred tax (assets)/liabilities				
Provision for expected credit losses	(25,541)	-	-	(25,541
Unrealised exchange losses	42,492	-	24,975	104,058
Unrealised exchange gains	(40,602)		61,035	(90,850)
Other general provisions	(69,523)	-	(14,586)	(52,738)
Tax losses	(104,697)	-	-	(104,697)
Net deferred income tax asset	(197,871)		71,424	(269,295)

Year ended 30 June 2022	At start of year (Restated) Shs'000	Effect of change in tax rate Shs'000	Charge/ (credit) to profit or loss Shs'000	At end of year Shs'000
Deferred tax (assets)/liabilities				
Provision for expected credit losses	(25,541)	-	-	(25,541)
Unrealised exchange losses	(34,623)	-	77,115	42,492
Unrealised exchange gains	-	-	(40,602)	(40,602)
Other general provisions	(77,945)	-	8,422	(69,523)
Tax losses	(104,697)	-	-	(104,697)
Net deferred income tax asset	(242,806)	-	44,935	(197,871)

17. Property Plant & Equipment

	Land & Buildings	Rigs and water supply infrastructure	Roads	Wells	Plant machinery, power substation, small tools and equipment	Motor vehicles	Furniture, fittings and equipment	Work In Progress	Total
Year ended 30 June 2022	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost as at 1st July 2021	238,666	18,918,480	1,330,869	37,403,578	2,974,764	2,669,962	610,631	5,103,387	69,250,337
Additions	12,297	5,066	901,597	-	33,280	-	44,606	(729,967)	266,879
Disposal						(51,198)			(51,198)
As at June 2022	**250,963**	**18,923,546**	**2,232,466**	**37,403,578**	**3,008,044**	**2,618,764**	**655,237**	**4,373,420**	**69,466,018**
Depreciation									
Depn as at 1st July 2021	(15,753)	(8,923,444)	(1,136,046)	(9,933,807)	(1,960,952)	(2,081,079)	(557,765)	-	(24,608,846)
Depreciation Charge for the year to P&L	-	-	-	(1,421,336)	-	(3,422)	(6,741)	-	(1,431,499)
Depreciation for the year capitalized to E&E	(5,611)	(1,202,847)	(265,105)	(74,357)	(183,908)	(105,276)	(22,336)	-	(1,859,440)
Eliminated on disposal									
As at June 2022	**(21,364)**	**(10,126,291)**	**(1,401,151)**	**(11,429,500)**	**(2,144,860)**	**(2,189,777)**	**(586,842)**	**-**	**(27,899,785)**
Net book amount	**229,599**	**8,797,255**	**831,315**	**25,974,078**	**863,184**	**428,987**	**68,395**	**4,373,420**	**41,566,233**

17. Property, Plant & Equipment

	Land & Buildings	Rigs and water supply infrastructure	Roads	Wells	Plant machinery, power substation, small tools and equipment	Motor vehicles	Furniture, fittings and equipment	Work In Progress	Total
Year ended 30 June 2023	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Cost as at 1st July 2022	250,964	18,923,547	2,232,467	37,403,578	3,008,044	2,639,609	655,236	4,373,420	69,486,865
Additions	-	-	-	-	5,731	26,940	6,164	43,790	82,625
Disposal	-	-	-	-	-	(5,472)	-	-	(5,472)
As at June 2023	**250,964**	**18,923,547**	**2,232,467**	**37,403,578**	**3,013,775**	**2,661,077**	**661,400**	**4,417,210**	**69,564,018**
						-			-
Depreciation									
Depreciation as at 1st July 2022	(21,365)	(10,126,292)	(1,401,152)	(11,429,500)	(2,144,860)	(2,215,820)	(586,841)	-	(27,925,830)
Depreciation Charge for the year to P&L	-	-	-	(1,421,336)	-	(445)	(11,642)	-	(1,433,423)
Depreciation for the year capitalized to E&E	(5,612)	(1,202,847)	(247,674)	-	(161,781)	(150,839)	(3,711)	-	(1,772,463)
Eliminated on disposal						5,198			5,198
As at June 2023	**(26,977)**	**(11,329,139)**	**(1,648,826)**	**(12,850,836)**	**(2,306,641)**	**(2,361,905)**	**(602,194)**	**-**	**(31,126,518)**
Net book amount	**223,987**	**7,594,408**	**583,641**	**24,552,742**	**707,134**	**299,172**	**59,206**	**4,417,210**	**38,437,500**

NOTE: Assets with a cost of Ksh 4,511,488,035 are fully depreciated

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:

	30/06/2023 Shs'000	30/06/2022 Shs'000
At start of year	55,080,165	49,446,304
Additions	5,718,373	5,684,408
Write off of non-productive time expenses	(98,518)	(50,547)
At end of year	60,700,020	55,080,165
The additions in the year comprise the following:		
Depreciation of property, plant, and equipment (Note 17)	1,772,464	1,859,440
Amortisation of intangible assets (Note 19)	204	222
Staff costs capitalised	1,856,483	2,146,139
Drilling materials and consumables	2,089,222	1,678,607
	5,718,373	5,684,408

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.

	30/06/2023 Shs'000	30/06/2022 Shs'000
Opening net book amount	16,354	17,243
Additions	13,431	
Disposals	(10,400)	
Amortisation:		
Charge to profit or loss	(4,479)	(667)
Capitalised as exploration and evaluation assets	(204)	(222)
Armortisation on disposal	9,879	
Closing net book amount	24,581	16,354
Cost	298,676	295,645
Accumulated amortization	(274,095)	(279,291)
Net book amount	24,581	16,354

20 Government grants

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prescribes the accounting for government grants and other assistance. 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 2023. The company has recognised Government grants as appropriated in line with the provisions of IAS 20.

	30/06/2023 Shs'000	30/06/2022 Shs'000
Revenue grants and amortisation of capital grants		
Revenue grants issued by Government of Kenya	358,000	370,000
Capital grants amortised:		
- Depreciation of wells	1,421,336	1,421,336
	1,421,336	1,421,336
	1,779,336	1,791,336
The movement in the capital grant balance is for the year is as summarized below:		
At 1 July	101,379,410	99,028,238
Grants received in the year:		
- Grants from Government of Kenya	252,000	225,000
- Grant from Government of Kenya (from steam charges)	2,202,195	1,788,853
- Grants from KfW	2,423,931	1,308,648
- Grants from GRMF	0	383,160
- European Investment Bank (EIB)	0	66,847
- Grant asset (JICA)	2,340	
	4,880,466	3,772,508
GOK grant amortised (Olkaria wells) –Current year	(1,421,336)	(1,421,336)
At 30 June	104,838,540	101,379,410

21 Borrowings

	30/06/2023 Shs'000	30/06/2022 Shs'000
Term Loan		
The movement in bank borrowings is as summarized below		
At 1 July	2,491,508	2,627,645
Additions		
Interest charge	192,421	190,386
Repayments - principal	(378,481)	(360,286)
Repayments – interest	(219,111)	(190,386)
Unrealised foreign exchange losses	423,545	224,149
At 30 June	2,509,882	2,491,508

The Company has a term loan facility with the Co-operative Bank of Kenya which is repaid on a Yearly basis. The facility is secured by a letter of negative pledge over assets of the Company, and an assignment of all steam charge proceeds from KenGen.

Interest on the term loan (US Dollar denominated) is the applicable 3 months USD LIBOR plus 6% p.a (floor rate of 7.5% p.a).

22 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2021,30 June 2022 and 30 June 2023	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 & Economic Planning. All issued shares are fully paid for by:

	Number of shares 30/06/2022	Number of shares 30/06/2022
Permanent Secretary, The National Treasury & Economic Planning	19,999	19,999
Permanent Secretary, Ministry of Energy & Petroleum	1	1
	20,000	20,000

23 Commitments and contingent liabilities

Contingent liabilities

The Company's tax dispute with Kenya Revenue Authority is being resolved. Appropriate provisions relating to the dispute where applicable have been incorporated in the financial statements. Additionally, the Company is subject to several 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:

23 Commitments and contingent liabilities (continued)

a) Linksoft Communications Limited vs GDC

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

The matter was partly heard on 23rd July 2021 and fixed for a further hearing on 24th September 2021 where GDC testified. Parties closed their cases and submissions was filed by 23rd February 2022.

The Arbitral Tribunal issued an award on termination of the arbitration proceedings on 6th December 2022, save as to costs upon finding that the continuance of the same had become impossible.

Based on the legal advice received, the Directors believe that the matter has since been terminated by the Arbitral Tribunal with little or no chances of being reinstated in future thus closed. No provisions have been made in the financial statements in respect of this matter.

b) Bonfide Clearing Company Limited vs GDC

The Company entered a contract with Bonfide Clearing and Forwarding Company Limited for provision of rig moves services. The Company terminated the contract on 13th 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 No 1 in September 2017 which dismissed the bulk of Bonafide claim leaving a balance of Kshs. 38,494,710.00 million which the Hon. Arbitrator deemed "provable" and was to proceed to determination of the same.

Bonafide elected to abandon the prosecution of the balance of their claim as per Interim Award No. 1 and filed an appeal at the High Court against the award in October 2017 resulting to a mention of the appeal in the High Court (Misc Application No. 431 of 2017) took place on 6th November 2019 and further on 18th November 2021.

The ruling on the High Court (Misc Application No. 431 of 2017) was delivered on the 24th of June 2022 where the Court found that the application by Bonfide C & F was unmerited and dismissed the same with costs.

GDC received a Notice of Appeal from Bonfide C & F dated 28th June 2022 and shall be responding as and when the substantive memorandum is filed before the court of appeal.

GDC anticipates 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.

c) Lantech Africa Limited vs GDC

Dispute over alleged un invoiced payments from a contract for provision of manpower services which lapsed by effluxion of time in 2015. Arbitral Tribunal heard the matter, delivered its ruling which was unfavourable to GDC. GDC moved to appeal the decision of the High Court at the Court of Appeal vide Civil Application No. E029 of 2021 which is pending directions at the court of appeal.

The ruling on this matter was delivered on 16th December 2020. GDC has since moved to appeal the decision of the High Court at the Court of Appeal vide Civil Application No. E029 of 2021 which was admitted and is pending directions at the court of appeal.

A formal application for stay of execution was filed in the High Court and consolidated with an application for enforcement filed by Lantech Ltd. The Court delivered a ruling on the matter on the 23rd of June 2022 in which it dismissed GDC's application. GDC filed an Appeal before the Court of Appeal as Civil Application No. NAI E230 of 2022.

On the 26th of July 2022, following a request for review of the decision of the Hon. Judge delivered on the 23rd of July 2022, the Office of the Attorney General & Department of Justice on 31st October 2022 made an application to be enjoined in the matter as principal legal advisor to the Government. The application was rejected on 17th February 2023 and the Court made the Garnishee orders nisi to be Garnishee orders absolute. She further directed that the sums held in the accounts save for the KfW Project funds be released to the Judgement Debtors Advocates pending a ruling on 24th February 2023 on the application for Stay by GDC and the Objector Proceedings by the Hon. Attorney General on behalf of the National Treasury.

The Court delivered its ruling on the KfW funds on 24th February in which the court declined to have the sums garnished thereby releasing the KfW Project funds.

On 27th February 2023, a second garnishee application was filed, and the application was still outstanding in the High Court as at balance sheet date.

On 20th September 2023 a ruling on the Garnishee application dated February 27, 2023 by Lantech and the Review application dated May 31, 2023 by GDC was delivered.
The Court dismissed the Review application with costs and allowed the Garnishee application in the following terms:

a) Co-operative Bank pays to Lantech all the sums of money that stand in credit in all the accounts held by it on behalf of GDC save for Account No. 021201600857600(Steam receivable Account).

b) KenGen having admitted indebtedness to GDC but failed to disclose the extent of such indebtedness in respect of the Steam Sale Receivables, was to pay over to Lantech the decretal sum of US$ 26,687,017.47, less any sums received by the Lantech from the Cooperative Bank on behalf of GDC.

c) In order to effect order (b), an order directed at all banks within Kenya maintaining any account(s) for and on behalf of KenGen, to pay over to Lantech all such sums of money as shall be available in those accounts to satisfy the decree in the sum of US$ 26,687,017.47 less sums paid over by Cooperative Bank on behalf of GDC. The matter will be mentioned on October 27, 2023, for further directions.

A court mention on the above was scheduled for 27th October 2023

Additionally, GDC's application on review of the arbitral award is set to be heard on 6th October 2023.

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

23 Commitments and contingent liabilities (continued)

Capital commitments

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

	30/06/2023 Shs'000	30/06/2022 Shs'000
Authorized and contracted	656,130	362,967
Authorized but not contracted	2,397,624	1,607,248
	3,053,754	1,970,215

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 and Petroleum, The National Treasury, 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.

24 Related party transactions (Continued)

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:

	30/06/2023 Shs'000	30/06/2022 Shs'000
Salaries and other short-term employment benefits	59,706	107,337

ii) Directors' fees and expenses

	2023 Shs'000	2022 Shs'000
Remuneration as management	12,437	12,706
Fees and allowances for services as director	21,903	29,161
	34,340	41,867

25 Events After the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

26 CURRENCY

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

APPENDIX I: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS

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)	June 2012	145	Yes	Yes
2	Bogoria - Silali	1152100500	German Development Bank (KfW)	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	72,848	85% (105MW)	1,050	1,050	GoK
				32% (60MW)			Steam charge payments
				2%(300MW)			AfDB
2	Bogoria – Silali Project	78,029	12,779	25%	4,148	4,005	GoK
							KfW
3	Suswa Project	78,029	651	2%	102	66	GoK
							Steam charge payments

APPENDIX III: INTER-ENTITY TRANSFERS

Entity Name: Geothermal Development Company Limited
Break down of Transfers from the Ministry of Energy
Financial year 2022/23

a.	**Recurrent Grants**	**Bank statement date**	**Amount (Shs'000)**
		06.10.2022	30,834
		27.10.2022	30,833
		23.11.2022	30,833
		27.03.2023	88,500
		05.04.2023	29,500
		27.04.2023	59,000
		07.06.2023	29,500
		29.06.2023	59,000
		Total	**358,000**
b.	**Development Grants**	**Bank statement date**	**Amount (Shs'000)**
		12.10.2022	198,500
		30.06.2023 Grants receivable	53,500
			252,000
		Total	**610,000**
c.	**Direct Payments**	**Bank statement date**	**Amount (Shs'000)**
		Nil	-
		Total	-
d.	**Donor Receipts**	**Payments through donors**	**Amount (Shs'000)**
		KfW	435,756
		KfW Grants receivable	1,988,175
		Total	**2,423,931**

The above amounts have been communicated to and reconciled with the parent Ministry.

Mr. Stephen Busieney (ICPAK No.4880)
General Manager Finance

Rose Baraza
Head of Accounting Unit
Ministry of Energy