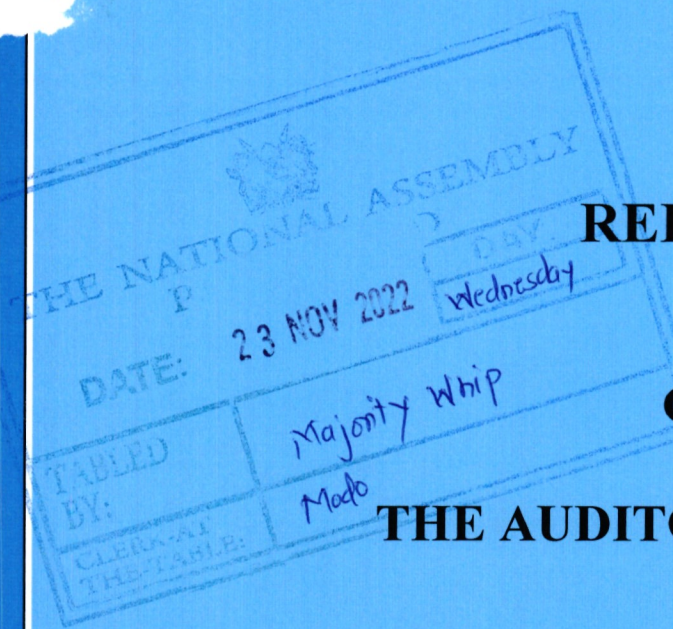
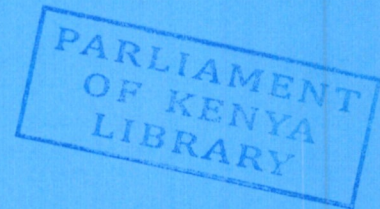


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



REPORT

OF

THE AUDITOR-GENERAL

ON

**GEOHERMAL DEVELOPMENT COMPANY
LIMITED**

**FOR THE YEAR
ENDED 30 JUNE, 2021**



**GEOHERMAL DEVELOPMENT
COMPANY LIMITED**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2021**

Geothermal Development Company Limited

Annual reports and financial statements
For the year ended 30 June 2021

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COMPANY 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 and Energy and Petroleum, 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 selling 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

Mr. John K Njiraini, CBS	Chairman
Eng. Jared O. Othieno	Managing Director and Chief Executive Officer
Mr. Namada Simoni	Director
Mr. Mwendia Nyaga	Director
Ms. Anne Too	Director (Term ended on 6 th June 2021)
Ms. Nelly Yatich	Director (Term ended on 6 th June 2021)
Mr. Kamau Kuria	Director (Term ended on 6 th June 2021)
Mr. Joseph Mucugu	Alternate Director to the PS, (National Treasury)
Mr. Chrispin O. Lupe,	Alternate Director to the PS, (Ministry of Energy- Appointed on 4 th August 2020)

COMPANY SECRETARY

Ms. Beatrice Kosgei
P.O. Box 100746 – 00101
Nairobi

REGISTERED OFFICE

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

COMPANY HEADQUARTERS

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

COMPANY INFORMATION

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




BOARD OF DIRECTORS

	<p>Mr. John K Njiraini, CBS - Chairman GDC Board of Directors</p> <p>Mr John Njiraini is a distinguished technocrat with vast experience in corporates having worked at various strategic levels including as Chief Executive Officer of the Institute of Certified Public Accounts of Kenya (ICPAK), and Commissioner of Domestic Taxes and Large Taxpayers Office at the Kenya Revenue Authority (KRA) where he rose through the ranks to the position of Commissioner General. He holds Bachelor of Commerce (B. Com) and Master of Business Administration degrees from the University of Nairobi.</p>
	<p>Eng. Jared O. Othieno, Managing Director & CEO</p> <p>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</p>
	<p>Ms. Anne Too, Independent Non-Executive Director</p> <p>Ms. Anne Too has a bachelor's degree in Psychology and Criminology from Keele University, UK. She has worked as an advisor in the office of the Deputy Speaker of the National Assembly.</p> <p>Ms. Too also served as a personal advisor in the office of the Assistant Minister, Home Affairs. She has excellent management and communication skills. She is also self-driven and an astute entrepreneur</p>



BOARD OF DIRECTORS (CONTINUED)

	<p>Dr Nelly Yatich, Independent Non -Executive Director</p> <p>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.</p> <p>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.</p>
	<p>Mr. Kamau Kuria, Independent Non -Executive Director</p> <p>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 <i>Jomo Kenyatta University of Agriculture and Technology (JKUAT)</i> and a master's degree in Business Administration from KCA University.</p> <p>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 Schwab Fellowship. He is a member of the Global Agenda Council of Entrepreneurship, Project Management Institute, Kenya Private Sector Alliance, Water, Environment and Natural Resources Working Group, East Africa Grain Council, and the Kenya Bureau of Standards (KEBS) Standards Committee on Wastewater. Mr. Kuria is also a founder member of the Kenya Schools Alumni Association.</p>

BOARD OF DIRECTORS (CONTINUED)

	<p>Mr. Joseph Mucugu Waruiru, Director (Alternate to the PS, National Treasury)</p> <p>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.</p>
	<p>Mr Chrispin O. Lupe, Director (Alternate Director to the PS, Minister of Energy)</p> <p>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.</p>
	<p>Mr. Mwendia Nyaga, Independent Non -Executive Director</p> <p>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.</p>

BOARD OF DIRECTORS (CONTINUED)

 A portrait of Mr. Namada Simoni, a man with short dark hair, wearing a dark suit, a white shirt, and a red tie. He is standing and looking towards the camera.	<p>Mr. Namada Simoni, Independent Non -Executive Director</p> <p>Mr. Namada Simoni is the Chairperson to the Board Audit Committee. He is an advocate of the High Court of Kenya with over 20 years of vast experience in legal practice. He is currently the Senior Partner at Namada & Co. Advocates.</p> <p>He is a member of the Law Society of Kenya (LSK) and the East African Law Society (EALS).</p>
 A portrait of Ms. Beatrice Kosgei, a woman with dark hair, wearing a maroon blazer. She is seated and looking towards the camera.	<p>Ms. Beatrice Kosgei – General Manager, Legal Affairs & Company Secretary</p> <p>Ms. Beatrice Kosgei is an advocate of the High Court of Kenya and a Certified Public Secretary with over 20 years of experience in both legal practice and corporate affairs. She has previously served as the Company Secretary and Head of Legal Affairs for Kenya Trade Network Agency. Ms. Kosgei holds a Master of Laws Degree from University of London and a LLB from University of Nairobi. She is an advocate of the High Court of Kenya and a Certified Public Secretary.</p>

MANAGEMENT TEAM

Eng. Jared O. Othieno	Managing Director & Chief Executive Officer
Ms. Beatrice Kosgei	General Manager, Legal Affairs & Company Secretary
Mr. Cornel Ofwona	General Manager, Geothermal Resource Development
Ms. Joanne Wamuyu	General Manager, Corporate Services
Mr. Stephen Busieney	General Manager, Finance
Ms. Irene Onyambu	General Manager, Human Resource & Administration
Mr. Paul Ngugi	General Manager, Drilling & Infrastructure
Dr. George Muia	General Manager, Strategy, Research & Innovation

MANAGEMENT TEAM (CONTINUED)



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



Ms. Beatrice Kosgei – General Manager, Legal Affairs & Company Secretary

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



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.

MANAGEMENT TEAM (CONTINUED)



Ms. Joanne Wamuyu – General Manager, Corporate Services

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



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.



Mrs. Irene Onyambu- General Manager, Human Resource & Administration

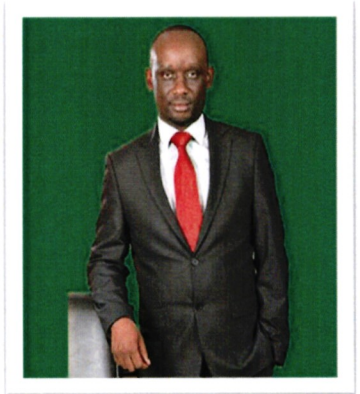
Mrs. Irene Onyambu has over 15 years' experience in administration and Human Resource Management. Prior to her appointment, she was the Regional Manager for GDC's South Rift Region. She is a member of the Institute of Human Resource Management (IHRM).

MANAGEMENT TEAM (CONTINUED)



Mr. Paul Ngugi - General Manager, Drilling & Infrastructure

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



Dr. George Muia – General Manager Strategy, Research, and Innovation

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

Geothermal Development Company Limited

Annual reports and financial statements
For the year ended 30 June 2021

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure and honor to submit to you our books of accounts for the financial year 2020/21.

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 formation relies on revenues from the National Treasury and KenGen from steam charge payments at the Olkaria Geothermal project. In the year, KenGen remitted 4.01 Billion from steam charge payments.

This was a challenging year too has the Covid-19 pandemic continued to interrupt business, work schedules and demand for power. The board resorted to a hybrid system of virtual and physical meetings to conduct its business. Thankfully business progressed uninterrupted.

It is noteworthy that even under the Covid-19 pressure, operations at our Baringo-Silali Project continued well. The progress too has been encouraging. At Paka 4 we even struck a well with a capacity of 17 MW. That is a good sign of the viability of the project area. Now the Company has entered the appraisal drilling phase at the Paka Prospect.

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.

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.



Mr. Mwendia Nyaga
Ag. Chairman, Board of Directors.

MANAGING DIRECTOR & CEO'S STATEMENT

Dear Shareholder,

We are closing the financial year 20/21 with lessons and optimism. In the year, the Management put into place strategic mechanisms to deal with the challenges of Covid-19 pandemic. We decongested the office by allowing staff to work from home, we provided sanitization facilities and offered counselling services to staff.

Our drilling operations in the Baringo Silali Block continued uninterrupted. We drilled two wells at the Korosi Prospect. In the same period, we drilled another well at Paka Project where we started appraisal drilling.

I am happy to announce that in the year under review, GDC received USD 5,162,910 from GRMF. The funds were set to finance the drilling and testing programme as well as infrastructure upgrade for Paka Project. GDC is the first public developer to sign the grant contract with AUC. The Funding helped to boost our operating liquidity.

The company also commissioned the Steam Gathering System at the Menengai Geothermal Project. The completion and commissioning of the pipeline was a milestone critical to any geothermal project. In the same year, we started the processes of ISO 9001:2015 certification. I am happy to report that the processes, though demanding, yielded results. Now, GDC ISO certified.

At the same time, we engaged in numerous stakeholder engagement. We signed a CFA with the County Government of Nakuru that will allow GDC and the County to pursue direct utilization of geothermal steam. This will lead into the establishment of a geothermal resource park near the Menengai Geothermal Project. Further, the Company ramped up the direct use project at Menengai and started to pastuerise milk, albeit for internal use. The process utilizes a mini pasteurizer processing 1,200 liters of milk per month. This is a percussor for future milk pasteurization using geothermal energy.

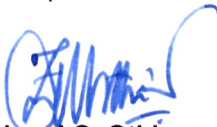
GDC also initiated talks with the County Governments of Kajiado, Narok, Baringo and Turkana that's geared towards more collaboration towards holistic development of geothermal resources.

Community Engagement

As part of continuous stakeholder management, the company also supported host communities during the pandemic. Our CSR efforts geared towards provision of water, water tanks and soap. We also provided food stuff to mitigate against the challenges of restricted movement and depressed social economic activities.

Future outlook

The year ahead looks promising as we start appraisal drilling at Paka and prepare for operations at the Silali Prospect.



Eng. Jared O. Othieno
Managing Director & CEO

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

In the year, the Company recorded a profit before tax of Shs. 439 million compared to previous year's profit before tax of Shs. 410 million. The growth is attributed to cost containment measures during the period.

The overall receipts from steam charge payments decreased marginally to Shs. 3.01 billion from Shs. 3.18 billion due to the effect of the COVID-19 pandemic. The allocation of steam charge receipts to development activities was Ksh 2.0 billion compared to Ksh 2.2 billion in the previous year.

During the year, an investment of Shs. 3.1 billion (2020: Shs. 3.3 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 1.3 billion (2020: Shs 1.3 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 Baringo-Silali area. During the year, the company received Ksh 137.5 million (2020: Shs. 250 million) as grant from the Government of Kenya for the Bogoria Silali project.

The table below highlights the performance for the year compared to the restated performance for the previous year:

Performance indicator	2021	2020
Steam charge payments (Shs million)	1,033	1,001
Operating profit	638	622
Profit before income tax (Shs million)	439	410
Net assets (Shs million)	(1,538)	(1,891)
Current ratio	3.2:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	2,911	3,270
Additions to property, plant, and equipment (Shs million)	359	624
Grants received (Shs. million)	3,339	3,425

CORPORATE GOVERNANCE

State Corporations in Kenya are established under the State Corporation Act; Chapter four hundred and forty six (Cap. 446) of the laws of Kenya by the order of the President to perform and deliver certain critical services which the private sector may find constraining and powers are provided for in the Act which also establishes the office of the inspector general (Corporations) to monitor and evaluate the performance of the State Corporations (State Corporation Act, 1987).

Corporate Governance involves a set of relationships between a company's management, its Board, its shareholders and other stakeholders, Corporate Governance also provides the structure through which the objective of the company are set, and the means of attaining those objectives and monitoring of performance is determined.

Statement of Compliance

The Board of Directors have committed themselves to the services of GDC and 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; Board Charter, Constitution of Kenya, 2010, Leadership and integrity Act No. 19 of 2012, Board Charter, Public Officers and Ethics Act No. 4 of 2003, and the Director Code of Conduct and Ethics. GDC is also certified for ISO 9001:2008- Quality Management system since July 2012.

The Conduct of individual directors when dealing with company business is governed by the Directors Code of conduct and Ethics. Each director has signed the Directors' code of Conduct and ethics and has also made a commitment to comply with the same. The areas covered include the values expected of the Director to have respect for people, be transparent and accountable, provide stewardship and be persons of excellence. The Code also covers conflict of interest and whistleblowing.

Board Charter

The Board Charter is a commitment by member 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 role, responsibilities, 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 and procedures and the nomination, appointment, induction, training and evaluation of members of the Board. The GDC Board Charter was first develop and approved in the year 2012. This charter has been reviewed by the Board in line with Mwongozo and copies of the same 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 and CEO. Out of the eight (8) non-executives, six (6) are six 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.

CORPORATE GOVERNANCE (continued)

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

Board appointments are by name and notice in the Kenya Gazette. The Board chairperson is appointed by the president while Board members are appointed by the Cabinet Secretary in the Ministry of Energy. As at 30th June 2021, the Board of Directors was made up to eight (6) non-executive directors and one-executive director. The two alternate directors represent the majority shareholder, who is the Cabinet Secretary, National Treasury & Planning and the minority shareholder who is the Principal Secretary, Ministry of Energy.

As at 30th June 2021, the GDC Board was made up to of Six (6) members as shown below;

No.	Name	Position	Date of Appointment
1.	Mr. John Njiraini	Chairman	17 th October 2019
2.	Mr. Jared O. Othieno	Managing Director & CEO	19 th April 2020
3.	Mr. Chrispin Lupe	Alternate Director, Ministry of Energy	4 th August 2020
4.	Mr. Joseph Waruiru	Alternate Director, National Treasury	19 th August 2019
5.	Mr. Namada Simoni	Member	8 th February 2019
6.	Mr. Mwendia Nyaga	Member	8 th February 2019
7.	Mr. Kamau Kuria	Member	6 th June 2018(Term came to an end)
8.	Dr. Nelly Yatich	Member	6 th June 2018(Term came to an end)
9.	Ms. Anne Too	Member	6 th June 2018(Term came to an end)

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 decision. The GDC Board as currently constituted reflects diversity which helps to perform its role effectively. The areas of expertise of the current Board are:-

No	Field of Expertise	Numbers
1.	Law	1
2.	Finance	2
3.	Engineering	1
4.	Economist	1
6.	Psychology & Criminology	1 (Term came to an end) 6 th June, 2021
7.	Architecture & Project Management Social Entrepreneur	1. (Term came to an end) 6 th June, 2021.
8	Monitoring Learning Research & Evaluation Expert	1 (Term came to an end) 6 th June, 2021.

CORPORATE GOVERNANCE (continued)

Board Effectiveness

The separation of roles and Duties of the Chairman, Managing Director and 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 for 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 regards 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 GDC Board attends trainings on corporate governance and other relevant areas in order to equip them with knowledge required to effectively discharge their responsibilities.

Upon appointment, the Board members go through an internal induction programme to familiarize themselves with GDC operations and areas 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 which entails the directors receiving knowledge about the Company through site visits, informal interactions with Management and Staff, regular in-depth reports and presentations. The MD & CEO ensures that Management updates the Board on matters relevant to GDC's business, changes in law and regulation including Government accounting policies.

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

Board Meetings

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

The agenda for the meetings is aligned to the Board work plan with each Board member being free to suggest the inclusion of items on the agenda. Notices of meetings are issued by the General Manager

CORPORATE GOVERNANCE (continued)

Legal Services & Company Secretary. The Board papers are circulated in advance to enable director prepare adequately for the meetings only carter for the specified agenda matters.

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 MD & CEO to attend Board or Committee meetings whenever considered necessary.

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

No.	Name of Director	Board Position	Status	Number of Meetings Held	Number of Meetings Attended
1.	Mr. John Njiraini	Chairman	Independent & Non executive	16	16
2.	Mr. Jared O. Othieno	MD & CEO	Executive	16	16
3.	Mr. Namada Simoni	Director	Independent & Non-executive	16	16
4.	Mr. Chrispin Lupe	Alternate Director Ministry of Energy	Non-Independent & Non executive	16	13
5.	Mr. Joseph Waruiru	Alternate Director National Treasury	Non-Independent & Non executive	16	16
6.	Dr. Nelly Yatich	Director	Independent & Non executive	16	13
7.	Ms. Anne Too	Director	Independent & Non executive	16	13
8.	Mr. Kamau Kuria	Director	Independent & Non executive	16	13
9.	Mr. Mwendia Nyaga	Director	Independent & Non executive	16	16

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 allowances 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 and Petroleum and National Treasury, and is approved during the Annual General Meeting (AGM). For financial year 2020, it is 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.

CORPORATE GOVERNANCE (continued)

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. 20,00/- 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,	
8.	Personal Accident Cover ('Not Life')	Procured competitively	
9.	Medical Expenses	Inpatient Kes. 2 Million per annum; Outpatient Kes.100,000/- per annum and Last expense (self) Kes.100,000/-	

Director's Shareholding

No Board Member holds in his/her capacity shares in the Company. The National Treasury & Planning owns 19,999 shares while the Ministry of Energy 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 may 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) Result are collated by State Corporation Advisory Committee
- e) Result 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

CORPORATE GOVERNANCE (continued)

Governance Audit

No governance audit was undertaken during the period under review.

Legal Compliance Audit

External legal compliance audit was undertaken by the Kenya School of Law

General Manager Legal Services & Company Secretary

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

Board Committees

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

The Board is required to provide terms of reference for each committee; review the mandate of the committees periodically; determine the frequency of committee meetings; appoint the Chairperson of each Committee; and annually review the effectiveness and performance of its committees. The Board also provides the committees with all necessary resources to enable them undertake their duties in an effective manner. The Chairperson of the Board is not a member of any Committee except an Adhoc Committee. 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 Director Kamau Kuria
- b) Strategy Committee chaired by Director Mwendia Nyaga
- c) Finance & General Purpose Committee chaired by Director Ms. Anne Too
- d) Human Resource Committee chaired by Director Namada Simoni

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 and 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 Liason 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.

CORPORATE GOVERNANCE (continued)

The Committee held Nine (9) meetings that were attended as follows:-

No.	Name	Meetings held	Attendance
1.	Mr. Kamau Kuria	9	9
2.	Mr. Namada Simoni	9	9
3.	Mr. Joseph Waruiru	9	9

Notes

Director Kamau Kuria was the chair of the committee. His term came to an end on 6th June, 2021.

Report from the Chairperson Board Strategy Committee

The Committee is comprised of four (4) 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 Nine (9) meetings which were attended as follows:-

No	Name	Meetings held	Attendance
1.	Mr. Kamau Kuria	9	8
2.	Mr. Mwendia Nyaga	9	9
3.	Dr. Nelly Yatich	9	8
4.	Mr. Chrispin Lupe	9	9

Notes

Both Director Kamau Kuria and DR. Nelly Yatich their terms came to an end on 6th June 2021.

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. It is chaired by Namada Simoni. 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 Nine (9) meetings which were attended as follows:-

No	Name	Meetings held	Attendance
1.	Mr. Namada Simoni	9	9
2	Dr. Nelly Yatich	9	6
3.	Mr. Chrispin Lupe	9	9

Notes

Dr. Nelly Yatich term came to an end on 6th June, 2021.

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; 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.

CORPORATE GOVERNANCE (continued)

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

No.	Name	Meetings held	Attendance
1.	Ms. Anne Too	8	6
2.	Mr. Mwendia Nyaga	8	7
3.	Mr. Joseph Waruiru	8	7

Notes

Ms. Anne Too was the Chair of Board Finance Committee. Her term came to an end on 6th June, 2021.

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, measure and manage the risks that GDC faces. These policies have also been integrated into the overall management reporting structure. The Audit and Risk Management 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 enhance 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.

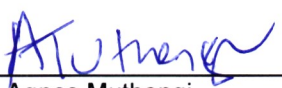
Code of Conduct and Ethics

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 Concerns

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.



Ms. Agnes Muthengi

Ag. General Manager, Legal Affairs. Company Secretary

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and financial performance

The company's performance for the year ended 30th June 2021 is as summarized below

Performance indicator	2021	2020
Steam charge payments (Shs million)	1,033	1,001
Operating profit	638	622
Profit before income tax (Shs million)	439	410
Net assets (Shs million)	(1,573)	(1,891)
Current ratio	3.2:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	2,911	3,270
Additions to property, plant, and equipment (Shs million)	359	624
Grants received (Shs. million)	3,339	3,425

Compliance with statutory requirements

The contingent liability relating to the matter that was before the Tax Appeals Tribunal was extinguished during the year. The Tribunal vide a decision dated and delivered at Nairobi on the 12th April 2021, made a final determination that the decision by the Commissioner of Domestic Taxes dated 2nd December 2013 confirming the assessment and demanding VAT of Ksh 589, 677,993 .00 is hereby set aside.

Following the correction of error regarding treatment of steam charge payments, the company's corporation tax asset for the year ending 30th June 2021 was Ksh 97.216 million. These amount shall be offset against future tax liabilities.

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 **1065MW** from the following fields;

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

In the year under review four (4) wells were drilled at Paka and three (3) wells in Koros in the Baringo Silali Project. All the wells discharged steam. Site preparations were started at Korosi Prospect.

In the year too, the company received the first tranche of the KfW funds meant for geothermal exploration in the larger Baringo-Silali Block. In addition, Ksh 279 million in grants was received from the European Investment Bank for geothermal development activities in Menengai Field. These grants are a huge boost to our drilling operations.

Beyond electricity

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 in line with the presidential strategic Big4 Agenda of Manufacturing, Food Security, Affordable Housing and Universal Healthcare.

The utilization of heat 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 in line with SGD7- Affordable and Clean Energy.

Additionally, the company continues to provide consultancies and training in geothermal. During the year, the company provided consultancy services to EMPAKA Energy and Milmet farm. Training was offered to ODEC from Djibouti.

Governance

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING

GDC has a deeply rooted tradition of acting in a responsible and ethical manner, and of being actively and positively present in the communities where it is established. It continues to emphasize the need for sustainable relationships with communities in and around its project areas. The value conferred to social acceptance continues to top the Company's agenda as project success is anchored on this important aspect.

Our approach

GDC's approach to corporate social responsibility (CSR) replicates the steps that we are taking as a company to ensure we are, and remain, a good corporate citizen. Social responsibility embraces everything we do that has an impact on society around us – it is our values and behaviour as an organisation. The company continues to emphasize social, economic, and environmental sustainability.

SOCIAL SUSTAINABILITY

In the year under review GDC invested heavily in support for the host communities in the project areas of influence; in areas of employment, water, road infrastructure, education and economic empowerment initiatives.

Water

Baringo Silali block is characterised by inadequate access to water and sanitation. The main water sources in the region are unprotected water pans and dams. The existing high morbidity and mortality from communicable diseases in households in these area can partly be attributed to inadequate access to sanitation.

GDC is alive to this fact and continues to play a crucial role in the maintenance, repairs and managing operations of L. Baringo-Silali community water project in North Rift Region; the water system comprises of twenty (20) community water points that supply potable water for human consumption and water troughs for community livestock. The impacts have been significant and include the following:-

- Increased enrolment in the local schools and reduced drop outs
- Improved the hygiene standards
- Improved health and sanitation conditions
- Reduction of water borne diseases
- Promotion of peace as pressure for water for livestock has been minimized

ECONOMIC SUSTAINABILITY

Reserved Tender Opportunities

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

Road Infrastructure

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (continued)

Employment Opportunities

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

Corporate Sponsorship

GDC's commitment to sustainable harmonious relationships with the host communities has created an enabling environment leading to the successful opening-up of Baringo-Silali region for geothermal energy development and continued operations in Menengai geothermal development project. This has been achieved through robust community and stakeholder engagement initiatives in compliance with legal requirement for public participation, provision of employment opportunities for locals and support for community development projects in a bid to uplift socio-economic status of the host communities.

ENVIRONMENTAL SUSTAINABILITY

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

Compliance with Applicable Environmental Laws and Regulations

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

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

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

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

Stakeholder Management

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

REPORT OF THE 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 2021.

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. 439 million compared to previous year's profit before tax of Shs. 410million.

The overall receipts from steam charge payments decreased marginally to Shs. 3.0 billion from Shs. 3.2 billion mainly due to maintenance of the plant in Olkaria and the effect of the COVID-19 pandemic during the last quarter of the year. The allocation of steam receipts to development activities was Ksh 2.0 billion compared to Ksh 2.2 billion in the previous year.

During the year, an investment of Shs. 2.9 billion (2019: Shs. 3.1 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 1.3 billion (2019 Shs 1.3 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 Baringo-Silali area. The company received Shs. 150 million (2019: Shs. 550 million) from the Government of Kenya during the year. The entire amount of Shs. 150 million (2019: Shs. 250 million) was expended toward development activities for the Bogoria Silali project.

The table below highlights the performance for the year compared to the restated performance for the previous year:

Performance indicator	2021	2020
Revenue (Shs million)	1,033	1,001
Operating profit	638	622
Profit before income tax (Shs million)	439	410
Net assets (Shs million)	(1,538)	(1,891)
Current ratio	3.2:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	2,911	3,270
Additions to property, plant, and equipment (Shs million)	359	624
Grants received (Shs. million)	3,339	3,425

Dividend

The net profit for the year of Shs 352,456,573 (2020:Shs 199,787,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

REPORT OF THE DIRECTORS (CONTINUED)

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.

Terms of Appointment of Auditor

The Auditor General is responsible for the audit of Geothermal Development Company Limited for the year ended 30 June 2021 in line with the governing laws and legislation.

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

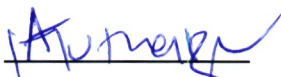
Employees

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

Approval of Financial Statements

The financial statements were approved by the Board of Directors on _____ 2022.

By order of the Board



Ms. Agnes Muthengi
Ag. General Manager, Legal Affairs & Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on 30 June 2021. This responsibility includes:

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

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the State Corporations Act and the Kenya Companies Act, 2015. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended 30 June 2020, 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 _____ 2022 and signed on its behalf by:



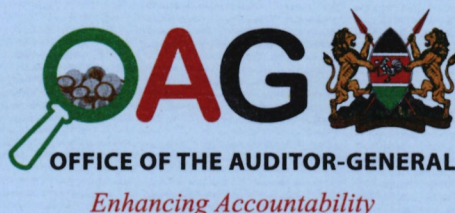
Mr. Mwendia Nyaga
Ag. Chairman, Board of Directors.



Eng. Jared O. Othieno
Managing Director & CEO

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

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 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 STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Geothermal Development Company set out on pages 30 to 70, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income,

statement of changes in equity, statement of cash flows and 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, 2021, and of its financial performance and its cash flows for the year then ended, and do not comply with the Public Finance Management Act, 2012, the International Financial Reporting Standards (IFRS) and the Companies Act, 2015..

Basis for Adverse Opinion

1.0 Misrepresented Balances

1.1 Trading Revenue Recognized as Capital Grants

The statement of profit or loss and other comprehensive income reflects steam charges revenue totalling Kshs.1,033,399,000, as detailed in Note 5 to the financial statements. The Note indicates that the Company earned Kshs.3,028,849,000 from steam-charges during the year under review but, in with its accounting policy, reported Kshs.1,995,450,000 of the earnings as capital grants applied to fund development projects.

However, no satisfactory explanation was provided by Management for capitalization of a portion of revenue.

In the circumstances, the accuracy, completeness and validity of the revenue totaling Kshs.1,033.399,000 could not be confirmed.

1.2 Pending Grants Recognized as Revenue

The trade and other receivables balance includes grants totalling Kshs.82,680,000 listed in the general ledger as receivable from the National Government. No explanation was provided why the grants, which had not been received by the end of the year under review on 30 June, 2021, was recognized as income in the year under review contrary to requirements of International Accounting Standards (IAS) 20 - Accounting for Government Grants and Disclosure of Government Assistance, and the prudence concept of accounting.

In the circumstance, the financial statements do not comply with International Financial Reporting Standards on Government grants and Government assistance, and further, the other receivables balance totalling Kshs.2,396,127,000 is not fairly stated.

2. Unconfirmed Balances

Several balances reflected in the financial statements were not supported with sufficient appropriate records or information, as explained in the following paragraphs:

Report of the Auditor-General on Geothermal Development Company Limited for the year ended 30 June, 2021

2.1 Administration Expenses

The statement of profit or loss and other comprehensive income reflects administration expenses totalling Kshs.2,133,856,000, as further disclosed in Note 8 to the financial statements. However, the following anomalies were noted in regard to the balance:

2.1.1 Unexplained Apportionment of Employees Benefits Expenditure

Administrative expenses on employee benefits totalling Kshs.523,473,000 reflected in Note 8 to the financial statements were comprised of salaries and wages totalling Kshs.491,772,000 and retirement benefits totalling Kshs.31,701,00, as indicated in Note 10. However, examination of the payroll data indicated that salaries and allowances paid to employees totaled Kshs.651,224,010, out of which only Kshs.491,544,000 or 75% was expensed as recurrent expenditure. Management did not provide documentary evidence, including accounting policies, to explain the basis for the apportionment of 25% of the costs totalling Kshs.162,806,003 to capital expenditure.

In the circumstance, the accuracy, completeness and fair statement of employee benefits expenses totalling Kshs.523,473,000 reported to have been incurred in the year under review could not be confirmed.

2.1.2 Unsupported Overtime Allowance

Examination of monthly payrolls indicated that the Company paid overtime allowances totalling Kshs.6,232,390 to employees in the year under review. However, the Company's policy on payment of overtime allowances, approvals for the payments, timesheets completed by the payees and the payment rates applied were not provided for audit.

As a result, the occurrence, validity and measurement of overtime allowances totalling Kshs.6,232,390 could not be confirmed.

2.2 Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents totalling Kshs.887,789,000 held in various bank accounts as at 30 June, 2021. However, examination of bank reconciliation statements indicated that the balance included an un-presented cheque totalling Kshs.1,804,659 drawn on 13 January, 2014 and which had since become stale. In view of the failure to reverse the cheque in the cashbook, the cash and cash equivalents balance was not fairly stated.

In the circumstances, the accuracy and completeness of bank and cash balances totalling Kshs.886,289,000 could not be confirmed.

2.3 Trade and Other Receivables

The statement of financial position reflects trade and other receivables totalling Kshs.2,396,127,000 as further disclosed in Note 13 to the financial statements. However, the following anomalies were noted in relation to the balance:

2.3.1 Long Standing Interest on Receivables

The trade and other receivables balance includes Kshs.31,658,983 being interest receivable on late payment of invoices by Kenya Electricity Generating Company Limited

(KenGen) for steam power sales made in the year 2018. In view of the failure to collect the long-standing debt, its recoverability is doubtful.

Further, the receivables balance includes additional debts totalling Kshs.1,144,866,125 owed by KenGen. However, KenGen's financial statements for the year under review reflect debts totalling Kshs.1,059,884,000 as owed to the Company. No reconciliation was provided by Management for the difference of Kshs.84,982,125 and as a result, the actual amount owed by KenGen could not be confirmed.

2.3.2 Value Added Tax Recoverable

The trade and other receivables balance further includes Value Added Tax (VAT) receivable totalling Kshs.598,671,000. However, no supporting records were provided for withholding VAT totalling Kshs.31,298,573 included in the balance.

In view of these anomalies the accuracy and extent of recoverability of the trade and other receivables balance totalling Kshs.2,396,127,000 could not be confirmed.

2.4 Current Income Tax Liability

The statement of financial position reflects a Nil current income tax liability . However, the audited financial statements for 2018/2019 financial year, indicated there were unpaid taxes totalling Kshs.4,042,976,000 that had accrued from 2014/2015 to 2018/2019 financial years. However, change in the Company's accounting policy on steam charges revenue in the year 2019/2020 reduced the outstanding corporation tax and related penalties outstanding as at 30 June, 2019 by Kshs.2,512,581,000 to Kshs197,853,000.The balance had, however, not been agreed with the Kenya Revenue Authority (KRA) as at 30 June, 2021.

In the circumstance, the accuracy of the Nil current tax liability balance reflected in the financial statements could not be confirmed.

2.5 Current Income Tax

The statement of financial position reflects current income tax recoverable totalling Kshs.131,501,000. However, records on tax payments indicated that withholding taxes paid included Kshs.42,045,806 for the months of July, August, December, 2019 which therefore related to the 2019/20 financial year and not the year under review.

In the circumstance, the current income tax balance totalling Kshs.131,501,000 may not be fairly stated.

2.6 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book values totalling Kshs.44,641,491,000, as further disclosed in Note 17 to the financial statements. However, the following anomalies were noted in relation to the balance:

2.6.1 Material Differences Between Fair Value of Assets and the Carrying Amounts

The assets totalling Kshs.44,641,491,000 are stated at historical cost less depreciation in line with the Company's policy on valuation of property, plant, and equipment. However,

the Company's assets reflected carrying amounts that were materially different from their fair values. Further several assets that were fully depreciated were in use and in good working condition but were, contrary to International Accounting Standard No.16-Accounting for Property, Plant and Equipment, not revalued and their wear and tear charged against revenues for the year.

In addition, the Company's assets register reflected freehold land and buildings located in Nakuru County acquired more than ten years earlier. Although their market values had since risen, the assets had neither been revalued nor the variance between their fair and book values disclosed in the financial statements as required by IAS 16.

In the circumstances, the valuation of the property, plant and equipment net book balance totalling Kshs.44,641,491,000 could not be confirmed.

2.6.2 Work-in-Progress

The property, plant and equipment balance includes work in progress costed at Kshs.5,103,387,000. In addition, the work-in-progress balance included works costing Kshs.815,701,000 which had been completed but not capitalized as at 30 June, 2021. Further, projects costed at Kshs.751,740,000 included in the work-in progress balance were unchanged from the previous year which implied that their execution may have stalled. No explanation was provided for the anomaly.

In the circumstances, disclosures made in respect to the work-in-progress balance are not sufficient.

2.6.4 Stalled Fuel Management System Project

The work-in-progress balance further includes works costing Kshs.59,433,640 on design, supply, installation, and commissioning of an information management system.

Examination of records on the project indicated that the Company contracted an international company in December, 2014 to install a fuel management system at a cost of Kshs.344,523,712. However, implementation of the project stalled in 2015 after the first works certificate valued at Kshs.59,433,640 was paid to the contractor. The procurement execution of the contract was thereafter put under investigation by the Ethics and Anti-Corruption Commission (EACC).

In view of the lapse of the contract period and delay in execution of the project whose completion has since become doubtful, the expenditure totalling Kshs.59,433,640 incurred on the unused assets of the stalled project ought to have been impaired in accordance with International Accounting Standard No. 36 - Impairment of Assets.

In the circumstance, the work-in progress balance totalling Kshs.5,103,387,000 may not be fairly stated.

In view of these matters, the valuation, completeness and fair presentation of the property plant and equipment balance totalling Kshs.44,641,491,000 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.

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

Prior Year Issues

The audit report for the year ended 30 June, 2020 raised several issues in relation to the balances reflected in the financial statements, lawfulness and effectiveness in use of resources and effectiveness of internal control, risk management and governance. Management's report on progress made in following up on the Auditor's recommendations indicates that some of the issues had been resolved as at 30 June, 2021. The actual status of the issues shall be confirmed after they are discussed by Parliament.

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.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Losses Related to Drilling Rigs

1.1 Vandalized Drilling Rigs

In the year under review, an arbitrator appointed by the Nairobi Centre for International Arbitration awarded a security services firm Kshs.50,027,187 comprised of Kshs.46,518,501 for unpaid claims for services rendered to the Company and Kshs.3,508,686 for arbitration costs. Review of documents provided for audit indicated that assorted electric cables, batteries, and electronic components for four (4) of the Company's rigs were stolen between 31 December, 2017 and 01 January, 2020. The Company had put the aggregate value of the vandalized items at Kshs.51,038,525 and attributed the loss to laxity by the security firm which it had contracted to secure the rigs.

Management had withheld payments due to the firm and thereafter lodged a claim against it citing losses totalling Kshs.2,896,488,313. The claim cited the stolen parts and loss of business after the four rigs were reportedly put out of service for two years. However, the Arbitrator dismissed the compensation claim after ruling that the Company withheld the firm's payments without following due process.

Audit inspections at the locations of the rigs in February, 2022 indicated that Management had not established new measures to prevent similar losses.

In the circumstances, failure to establish effective security measures for the Company's key assets may have resulted in the losses totalling Kshs.2,896,488,31 cited by the Company.

1.2 Under Used Drilling Rigs

Fixed assets records indicated that the Company owned seven geothermal drilling rigs with a net book value of Kshs.7,732,797,598 as at 30 June, 2021. The rigs were bought at an aggregate cost of Kshs.15,937,787,572 several ago. However, review of records on their use indicated that four (4) of the rigs years with a net year book value of Kshs.4,249,024,110 as at 30 June, 2021 and purchase cost of Kshs.8,963,025,527 had not been used in the previous four financial years.

One of the rigs was acquired and used to drill two wells in 2016 and had been idling ever since. Further, records on the rigs indicated each could drill one standard well in one hundred and twenty days (six months), or two wells per year. However, the Company's rigs averaged less than one (1) well per year, which implied that they were not used efficiently, or were idling for much of the time.

In view of the low utilization of the rigs, the Company may not have obtained value for money on public funds totalling Kshs.15,937,787,572 spent on their purchase.

2. Irregularities in Payment of Employee Expenses and Benefits

2.1 Non-Compliance with Salary Deductions Rule

Examination of payrolls for the year under review indicated that , contrary to Section 19(3) of the Employment Act, 2007 and Section C.1(3) of the Public Service Commission (PSC)

Human Resource Policies, 2016, net monthly salaries paid to sixty-eight (68) employees were less than one-third (1/3) of their basic monthly pay.

As a result, Management breached the law and may have exposed the staff to financial embarrassment.

2.2 Over Extended Acting Appointments

Further review of the payroll data indicated that acting allowances totalling Kshs.7,168,205 were paid to thirteen (13) employees appointed in acting capacity for periods lasting more than six months. The appointments were contrary to Section C 14(1) of the Human Resource Policies and Procedures Manual for the Public Service issued in May, 2016 which provides that acting appointments should not last for more than six months.

Therefore by allowing the extended appointments, Management acted in breach of the law.

3. Irregular Procurement of Goods and Services

3.1 Failure to Implement e-Procurement

Regulation 49(2) of the Public Procurement and Asset Disposal Act Regulations, 2020 requires public entities to procure goods, works and services through the e-procurement system integrated to the State Portal. However, none of the Company's procurements in the year under review was done through the state portal.

Therefore, Management was in breach of the law and the procurements done may not have been competitive enough to ensure value for money on the public funds spent on the resulting contracts.

3.2 Irregular Procurement of Legal Services

The Company's legal records indicated that in the year under review, Management hired a private law firm to represent it in a constitutional petition filed before the Employment and Labor Relations Court by five (5) senior managers. Management used Direct Procurement Method to contract the firm on grounds that it was impractical to apply other methods as the matter was urgent. However, the direct procurement method applied did not meet the conditions set out in Section 103 of Public Procurement and Asset Disposal Act, 2015 as the Company had a list of prequalified lawyers from which a restricted tender could have been considered.

In the circumstances, the legal services were hired irregularly and may not have been competitive in price and quality.

4. Overstocking of Drilling Supplies and Equipment

The inventories movement schedule provided for audit indicated that the company held inventories of drilling supplies and equipment valued at Kshs.4,421,799,100 as at 30 June, 2021. These supplies and equipment were worth Kshs.4,248,317,567 and Kshs.173,481,581 respectively.

However, in the year under review the Company only utilized items valued at Kshs.347,921,814 or 8% of the stock. The low rate of use implied that the Company's stock management system was not economical as it had resulted in a large portion of the Company's capital being invested in slow moving stock that faced the risk of loss from obsolescence.

Further, examination of inventories records indicated that the Company did not have a comprehensive inventory management system. For example, stores records did not indicate the dates items were received in the stores and did not mark out those rendered obsolete. As a result, usability of the items in the stores could not be confirmed from the stores records and economy and efficiency in management of the stores was doubtful.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Commingling of Company Funds

Review of bank accounts and various donor funded projects indicated that that funds for the Menengai and Bogoria Silali geothermal projects were banked together with other Company funds in spite of Management having indicated in the prior year that he funds would be separated. The comingling hampered timely reconciliation of revenue and expenditure and therefore elevated the risk of inaccurate reporting and loss of cash.

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.

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 been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are 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 overall 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 applicable 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 financial reporting process, reviewing the effectiveness of how the Project 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 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 control 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 control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

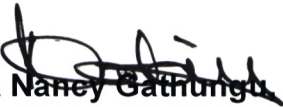
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

07 October, 2022

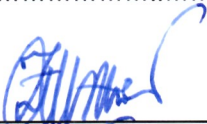
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 30 June	
		2021 Shs'000	2021 Shs'000
Revenue	5	1,033,399	1,000,781
Government grants	20	1,796,111	2,960,157
Other income	6(a)	18,585	26,291
Net foreign exchange (loss)/gain	6(b)	(1,210)	(74,828)
Administrative expenses	8	(2,133,856)	(2,260,556)
Other operating expenses	9	(75,438)	(1,029,524)
Operating profit		637,591	622,321
Finance income	7(a)	8,433	18,526
Finance costs	7(b)	(206,933)	(230,515)
Profit before income tax		439,091	410,332
Income tax (charge)/credit	11(a)	(86,635)	(210,545)
Profit for the year		352,456	199,787
Other comprehensive income		-	-
Total comprehensive income for the year		352,456	199,787

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

ASSETS	Notes	2021 Shs'000	2020 Shs'000
Non-current assets			
Property, plant and equipment	17	44,641,491	47,491,582
Exploration and evaluation assets	18	49,446,304	44,855,738
Intangible assets	19	17,243	15,903
Deferred income tax	16	242,806	197,846
		94,347,844	92,561,069
Current assets			
Inventories	12	4,440,373	4,632,070
Trade and other receivables	13	2,396,127	3,215,050
Cash and cash equivalents	14	887,789	24,661
Current income tax	11(b)	131,501	
		7,855,790	7,871,781
TOTAL ASSETS		102,203,634	100,432,850
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	22	2,000	2,000
Retained earnings		(1,540,405)	(1,892,861)
Total equity		(1,538,405)	(1,890,861)
Non-current liabilities			
Capital grants	20	99,028,238	97,110,677
Borrowings	21	2,269,818	2,449,735
		101,298,056	99,560,412
Current liabilities			
Borrowings	21	357,827	357,827
Trade and other payables	15	2,086,156	2,207,619
Current income tax	11(b)	-	197,853
		2,443,983	2,788,718
TOTAL EQUITY AND LIABILITIES		102,203,634	100,432,850

The financial statements on pages 30 to 70 were authorized and approved for issue by the board of directors on 2022 and signed on its behalf by:



Eng. Jared O. Othieno
Managing Director & CEO.



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



Mr. Hillary Koech
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs'000	Retained earnings Shs'000	Total equity Shs'000
At 1 July 2019	2,000	(2,092,648)	(2,090,648)
Total comprehensive income for the year		199,787	199,787
At 30 June 2020	2,000	(1,892,861)	(1,890,861)
At 1 July 2020	2,000	(1,892,861)	(1,890,861)
Total comprehensive loss for the year		352,456	352,456
At 30 June 2021	2,000	(1,540,405)	(1,538,405)

STATEMENT OF CASH FLOWS

		Year ended 30 June	
		2021	2020
	Notes	Shs'000	Shs'000
Cash flows from operating activities			
Profit/(loss) before tax		439,091	410,332
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	17	1,433,145	1,459,234
Write-off of unproductive and abandoned wells	18	-	964,045
Write off of non-productive time	18	75,438	32,173
Amortisation of intangible asset	19	953	961
Amortisation of capital grants	20	(1,421,336)	(2,385,381)
Deferred tax charge	16	(44,960)	
Unrealised foreign exchange loss on borrowings	21	167,825	121,341
Finance income	7(a)	(8,433)	(18,526)
Finance costs	7(b)	206,933	230,515
Loss on disposal of property, plant and equipment			-
<i>Changes in working capital:</i>			
- Trade and other receivables	13	818,923	1,812,189
- Inventories	12	217,116	218,907
- Trade and other payables	15	(146,882)	(96,292)
		<u>1,737,813</u>	<u>2,749,498</u>
Income tax paid	11	(415,989)	(337,174)
Interest paid	21	(206,898)	(239,245)
Interest received	7 (a)	8,433	18,526
		<u>1,123,360</u>	<u>2,191,605</u>
Net cash generated from/(used in) operating activities			
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(358,974)	(623,656)
Expenditure on exploration and evaluation assets	18	(2,910,632)	(3,270,317)
Purchases of intangible assets	19	(2,588)	(220)
Proceeds from disposal of property, plant and equipment	17	20,842	
		<u>(3,251,352)</u>	<u>(3,894,193)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from capital grants	20	3,338,897	3,424,615
Refunds of capital grants	20	-	(1,516,994)
Proceeds from term loan	21	-	-
Repayment of term loan	21	(347,777)	(283,044)
		<u>2,991,1205</u>	<u>1,624,577</u>
Net cash generated from financing activities			
Net increase in cash and cash equivalents		863,128	(78,011)
Cash and cash equivalents at start of year		24,661	102,672
Cash and cash equivalents at end of year		<u>14</u> <u>887,789</u>	<u>24,661</u>

Geothermal Development Company Limited
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 TH JUNE 2021						
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
Revenue						
Steam charge payments	5	1,347,000	-	1,347,000	1,033,399	-313,601
Government grant	20	374,775		374,775	374,775	0
Amortization of revenue grant	20			-	1,421,336	1,421,336
Other income	6	-	-	-	22,597	22,597
Total revenue		1,721,775	-	1,721,775	2,852,107	1,130,332
Expenses						
Depreciation of property, plant & equipment	17	-	0	-	1,433,145	1,433,145
Employee benefits expenses (Note 4)	8	711,997	14,077	726,074	523,473	(202,601)
Provision for obsolete stock	8	-	-	-	8,753	8,753
Legal expenses	8	20,000	56,000	76,000	23,563	(52,437)
Accommodation and subsistence	8	14,947	1,015	15,962	10,923	(5,039)
Training and education	8	10,965	548	11,514	10,669	(845)
Tax penalties and interest	8	-	5,103	5,103	-	(5,103)
Director's fees and expenses	24	28,000	-	28,000	26,677	(1,323)
Transportation expenses	8	7,158	127	7,284.96	1,751	(5,534)
Management consultancy	8	8,500	-	8,500.00	7,252	(1,248)
Auditor's remuneration	8	8,350	-	8,350	1,507	(6,843)
ICT expenses	8	5,775	-	5,775	2,391	(3,384)
Advertising and publicity	8	7,200	-	7,200	6,398	(802)
Fuel expenses	8	8,424	-	8,424	4,252	(4,172)
Operating lease payments	8	10,720	-	10,720	-	(10,720)
Amortisation of intangible assets (Note 19)	8	-	-	-	953	953
Security Expenses	8	6,048	-	6,048	2,448	(3,600)
Staff Welfare expenses	8	11,120	38	11,158	10,740	(418)

Geothermal Development Company Limited
Annual reports and financial statements
For the year ended 30 June 2021

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2021

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
Insurance & Licenses	8	8,041	-	8,041	5,145	(2,897)
Software support & Maintenance	8	22,740	2,278	25,018	22,575	(2,443)
Internet & ISP services	8	11,640	69	11,709	7,541	(4,168)
Maintenance expenses	8	7,935	-	7,935	3,467	(4,468)
Stakeholder management expenses	8	2,600	-	2,600	512	(2,088)
Subscriptions	8	122	-	122	1,921	1,798
Stock valuation gains/losses	8	-	-	-	2,333	2,333
Other expenses	8	23,722	669	24,391	15,469	(8,922)
Finance costs	7	218,769	257,076	475,845	206,933	(268,913)
Tax expense	11	120,000	110,000	230,000	86,635	(143,365)
Non productive time	9	-	-	-	75,438	75,438
<i>Total expenses</i>		1,274,775	447,000	1,721,775	2,596,963	781,086
Surplus/(deficit)		3,048,000	(3,048,000)	-	352,456	352,456

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2021 (CONTINUED)

Details	Notes	Final budget	Actual comparable basis	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
		Shs'000	Shs'000	Shs'000		
Revenue						
Steam charge payments	5	1,347,000	1,033,399	(313,601)	-23%	Impact of Covid 19 on uptake
Government grant	20	374,775	374,775	0	0%	
Amortization of revenue grant	20	-	1,421,336	1,421,336	0%	
Other income	6	-	22,597	22,597	0%	
Total revenue		1,721,775	2,852,107	1,133,542	(0)	
Expenses						
Depreciation of property, plant & equipment (Note 17)	8	-	1,433,145	1,433,145	0%	
Employee benefits expenses (Note 4)	8	726,074	523,473	(202,601)	-28%	
Provision for obsolete stock	8	-	8,753	8,753	0%	
Legal expenses	8	76,000	23,563	(52,437)	-69%	Less litigations
Accommodation and subsistence	8	15,962	10,923	(5,039)	-32%	Reduced Activities
Training and education	8	11,514	10,669	(845)	-7%	
Tax penalties and interest	8	5,103	-	(5,103)	-100%	
Director's fees and expenses (Note 24)	8	28,000	26,677	(1,323)	-5%	
Transportation expenses	8	7,285	1,751	(5,534)	-76%	Reduced Activities
Management consultancy	8	8,500	7,252	(1,248)	-15%	Reduced Activities
Auditor's remuneration	8	8,350	1,507	(6,843)	-82%	Audit services not outsourced
ICT expenses	8	5,775	2,391	(3,384)	-59%	Reduced Activities
Advertising and publicity	8	7,200	6,398	(802)	-11%	Reduced Activities
Fuel expenses	8	8,424	4,252	(4,172)	-50%	Reduced Activities

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Details		Final budget	Actual comparable basis	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
Operating lease payments	8	10,720	-	(10,720)	-100%	
Amortisation of intangible assets (Note 19)	8	-	953	953	0%	
Security Expenses	8	6,048	2,448	(3,600)	-60%	
Staff Welfare expenses	8	11,158	10,740	(418)	-4%	
Insurance & Licenses	8	8,041	5,145	(2,897)	-36%	
Software support & Maintenance	8	25,018	22,575	(2,443)	-10%	
Internet & ISP services	8	11,709	7,541	(4,168)	-36%	
Maintenance expenses	8	7,935	3,467	(4,468)	-63%	
Stakeholder management expenses	8	2,600	512	(2,088)	-80%	
Subscriptions	8	122	1,921	1,798	1469%	
Stock valuation gains/losses	8	-	2,333	2,333	0%	
Other expenses	8	24,391	15,469	(8,922)	-37%	
Finance costs	7	475,845	206,933	(268,913)	-57%	
						Error correction in treatment of steam charge payments
Tax expense	11	230,000	86,635	(143,365)	-62%	
Other operating expenses	9	-	75,438	75,438		
Total expenses		1,721,775	2,502,861	781,086	51%	
Surplus/(deficit)		(0)	352,456	352,456	0	

NOTES

1 General information

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

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

2 Significant accounting policies

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

(a) Statement of compliance and basis of preparation

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

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

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

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

(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 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.

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 ended 30 June 2021.

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 2021 (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.

Early adoption of standards

The company did not early adopt any new or amended standards in the year ended 30 June 2021.

(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)

(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.

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)

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)

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 (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 amortised 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 derecognised and the consideration paid and payable is recognised in profit or loss.

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)

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
- (ii) recognised in the period in which the Company has delivered the steam, the customer has accepted the product; and collectability is reasonably assured. Quantity of steam delivered is measured by the amount of power generated using the steam by use of meters. The portion appropriated to development in the national budget is treated as development grant.
- (iii) 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).
- (iv) 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)

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;

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 equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Key sources of estimation uncertainty

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

(i) Going concern

Management has 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 2021:			
Trade and other payables (Note 15)	2,086,156	-	2,086,156
Bank borrowings	79,297	278,530	357,827
	2,165,453	278,530	2,443,983
At 30 June 2020:			
Trade and other payables (Note 15)	2,173,315	-	2,173,315
Bank borrowings (Note 21)	79,297	278,530	357,827
	2,252,612	278,530	2,531,142

(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 92% of the total trade receivable as at 30 June 2021 (2020: 95%). 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 recognising 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	12 months or Lifetime ECL	Gross carrying amount	Loss Allowance	Net Amount
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 30 June 2021:					
Trade receivables (Note13a)	Performing	Lifetime ECL (simplified approach)	1,264,690	(101,324)	1,163,366
Grants receivable (GOK) (Note13a)	Performing	Lifetime ECL (simplified approach)	82,680	-	82,680
Bank Balance (Note 14)	BB	12 months ECL	887,789	-	887,789
Restricted cash (Note 13b)	BB	12 months ECL	421,335	-	421,335
			2,656,494	(101,324)	2,555,170
At 30 June 2020:					
Trade receivables (Note 13a)	Performing	Lifetime ECL (simplified approach)	2,114,390	(102,163)	2,012,227
Grants receivable (GOK) (Note13a)	Performing	Lifetime ECL (simplified approach)	-	-	-
Bank Balance (Note 14)	BB	12 months ECL	24,661	-	24,661
Restricted cash (Note 13b)	BB	12 months ECL	288,907	-	288,907
			2,427,958	(102,163)	2,325,795

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 2021 and 30 June 2020

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 2021

	Current Sh'000	0-30 Sh'000	31-60 Sh'000	61-90 Sh'000	>90 Sh'000	Total Sh'000
KenGen		276,753	257,681	281,422	332,562	1,148,418
Others					116,272	116,272
Total		276,753	257,681	281,422	448,834	1,264,690
	=====	=====	=====	=====	=====	=====

Total impairment as at June 2021

	Current Sh'000	0-30 Sh'000	31-60 Sh'000	61-90 Sh'000	>90 Sh'000	Total Sh'000
KenGen		-	-	-	-	-
Others		-	-	-	101,324	101,324
Total		-	-	-	101,324	101,324
	=====	=====	=====	=====	=====	=====

4 Financial risk management objectives and policies (continued)

(b) Credit Risk (Continued)

Total exposure as at June 2020

	Current	0-30	31-60	61-90	>90	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
KenGen	-	336,257	256,635	271,741	1,139,752	2,004,385
Others	-	-	-	-	110,005	110,005
Total	-	336,257	256,635	271,741	1,249,757	2,114,390

Total impairment as at June 2020

	Current	0-30	31-60	61-90	>90	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
KenGen	-	-	-	-	-	-
Others	-	-	-	-	101,711	101,711
Total	-	-	-	-	101,711	101,711

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 2021, 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 2020, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit for the year and equity would have been Shs 101,583,357 (2019: Shs 91,762,652) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

On 30 June 2020, if the Kenya Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, profit for the year and equity would have been Shs 3,525,263 (2019: 457,488) 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 2021 the Company's exposure to cash flow and fair value interest rate risk on the term loan was Sh.7,851,315 (2019: Nil).

(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 2021 and 2020 as restated were as follows:

	2021 Shs'000	2020 Shs'000
Total borrowings (Note 21)	2,627,645	2,807,562
Less: Cash and cash equivalents (Note 14)	(887,789)	(24,661)
Net debt	1,739,856	2,782,901
Total equity	(1,538,405)	(1,890,861)
Total debt and equity	201,451	892,040
Gearing ratio	>100%	>100%

5 Revenue

IFRS 15 Revenue from Contracts with Customers requires disclosure of useful information to users of financial statements about the nature, timing, amount and uncertainty of revenue and cashflows arising from a contract with a customer. The Company has determined that the disaggregation of the revenues are appropriate for its circumstances.

	2021 Shs'000	2020 Shs'000
Steam charge payments from Olkaria wells	3,028,849	3,167,781
Less: Steam charge payments for development activities	<u>(1,995,450)</u>	<u>(2,167,000)</u>
	<u>1,033,399</u>	<u>1,000,781</u>
6 (a) Other income		
Consultancy services on geothermal drilling	11,960	4,496
Gain on disposal of property, plant and equipment	2,973	-
Miscellaneous income	<u>3,652</u>	<u>21,795</u>
	<u>18,585</u>	<u>26,291</u>
6 (b) Foreign exchange (losses)/gains		
Net foreign exchange (losses)/gains	<u>(1,210)</u>	<u>(74,828)</u>
7 (a) Finance income		
Interest income on bank deposits	<u>8,433</u>	<u>18,526</u>
(b) Finance costs		
Interest expense on bank loans and overdraft	<u>206,933</u>	<u>230,515</u>

8 Expenses by nature

	2021 Shs'000	2020 Shs'000
Depreciation of property, plant & equipment (Note 17)	1,433,145	1,459,234
Employee benefits expenses (Note 10)	523,473	554,110
Provision for obsolete stock	8,753	3,481
Legal expenses	23,563	29,910
Accommodation and subsistence	10,923	21,593
Training and education	10,669	17,709
Director's fees and expenses (Note 24)	26,677	32,770
Transportation expenses	1,751	4,549
Management consultancy	7,252	3,002
Auditor's remuneration	1,507	6,027
Provision for doubtful debts of other receivables	0	258
ICT expenses	2,391	2,280
Advertising and publicity	6,398	2,541
Motor vehicle operating expenses	4,252	3,422
Amortisation of intangible assets (Note 19)	953	961
Security expenses	2,448	3,024
Staff welfare expenses	10,740	8,827
Insurance & Licenses	5,145	8,078
Software support & Maintenance	22,575	24,395
Internet & ISP services	7,541	9,107
Maintenance expenses	3,467	6,523
Stakeholder Management	512	9,464
Subscriptions	1,921	5,009
Stock valuation gain/loss	2,333	26,480
Other expenses	15,467	17,802
	2,133,856	2,260,556

9 Other operating expenses

Penalties for non-payment of corporate tax	-	33,306
Write-off of non-productive drilling staff costs (Note 18)	75,438	32,173
Write-off of non-productive and abandoned wells (Note 18)	-	964,045
Provision for legal fees	-	-
	75,438	1,029,524

10 Employee benefits expenses

The following items are included within employee benefits expense

Salaries and wages	491,772	522,940
Retirement benefits costs:		
- Defined contribution scheme	31,343	30,900
- National Social Security Fund	358	270
	523,473	554,110

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	2021 Shs'000	2020 Shs'000
11 Income tax		
(a) Income tax charge/(credit)		
Current income tax	131,595	4,632
Deferred income tax charge/(credit) (Note 16)	(44,960)	138,665
Effect of reduction in tax rate on opening deferred tax assets	-	67,248
	<hr/>	<hr/>
Income tax expense/(Refund)	86,635	210,545
	<hr/>	<hr/>

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:

	2021 Shs'000	2020 Shs'000
Profit/(loss) before income tax	439,091	410,332
	<hr/>	<hr/>
Tax calculated at the statutory income tax rate of 30% (2020: 25%)	131,727	102,583
Tax effects of:		
Income not subject to tax	(500,237)	(596,345)
Expenses not deductible for tax purposes	500,105	637,059
Effect of reduction in tax rate on opening deferred tax assets	(44,960)	67,248
	<hr/>	<hr/>
Income tax charge/(credit)	86,635	210,545
	<hr/>	<hr/>

(b) Current tax (Asset)/ Liability

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

	2021 Shs'000	2020 Shs'000
At start of year	197,853	530,395
Taxation charge (Note 11 (a))	86,635	4,632
Paid during the year	(415,989)	(337,174)
	<hr/>	<hr/>
At end of year	(131,501)	197,853
	<hr/>	<hr/>

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	2021 Shs'000	2020 Shs'000
12 Inventories		
Drilling materials	4,072,983	4,248,318
Pipes	261,759	286,662
Fuel	29,330	26,376
Consumables	62,150	52,892
	<hr/>	<hr/>
Total inventory held for exploration and evaluation activities	4,426,222	4,614,248
Other inventories	48,324	43,241
Less: provision for obsolete stock	(34,173)	(25,419)
	<hr/>	<hr/>
	4,440,373	4,632,070
	<hr/>	<hr/>

13 Trade and other receivables

Trade receivables	1,264,690	2,114,390
Less: Provision for expected losses	(101,324)	(102,163)
	<hr/>	<hr/>
Net trade receivables	1,163,366	2,012,227
Value Added Tax (VAT) recoverable	598,671	790,930
Advance payment to suppliers	83,534	80,277
Grants receivable (GOK)	82,680	-
Restricted cash (Note 13b)	421,335	288,907
Staff receivables (Note 13c)	5,442	1,513
Other receivables and prepayments	41,099	41,196
	<hr/>	<hr/>
	2,396,127	3,215,050
	<hr/>	<hr/>

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

	2021 Shs'000	2020 Shs'000
At start of year	102,163	101,906
Charge to profit or loss	(839)	257
	<hr/>	<hr/>
At end of year	101,324	102,163
	<hr/>	<hr/>

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	541,008	336,257
Between 30 and 60 days	272,747	256,635
Between 61 and 90 days	313,321	271,741
Over 90 days	137,614	1,249,757
	<hr/>	<hr/>
	1,264,690	2,114,390
	<hr/>	<hr/>

	2021 Shs'000	2020 Shs'000
13(b) Restricted cash		
Deposit with Development Bank of Kenya	94,568	94,568
Deposit with Cooperative Bank	17,632	21,232
Staff Mortgage Account - KCB	126,864	126,573
Staff Terminal Benefits Account - KCB	47,463	46,534
Co-operative Bank Escrow Account	134,808	-
	421,335	288,907
	421,335	288,907

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. Their withdrawal is restricted.

13(c) Staff receivables

	2021 Shs'000	2020 Shs'000
Net staff loans and advances	5,442	1,513
	5,442	1,513
	5,442	1,513

14 Cash and cash equivalents

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

	2021 Shs'000	2020 Shs'000
Cash at Bank	887,767	24,369
Cash at hand	22	292
	887,789	24,661
	887,789	24,661

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:

		2021 Shs'000	2020 Shs'000
a) Current accounts			
Co-operative Bank of Kenya	01136160857600	60,949	20,615
Co-operative Bank of Kenya	01136160857603	-	2
Co-operative Bank of Kenya	02120160857600	539	533
Co-operative Bank of Kenya	22120160857600	-	102
Co-operative Bank of Kenya	01136350124400	352	164
Co-operative Bank of Kenya	01136115849200	49	105
Co-operative Bank of Kenya	02120160857601	13	(3)
Kenya Commercial Bank	1119615208	56,401	816
Kenya Commercial Bank	1166553671	2,211	242
ABSA Bank (KES)	2041818169	13,924	95
ABSA Bank (USD)	2041818193	66	97
Co-operative Bank of Kenya	01136160857601	209,266	-
NCBA Bank	4761090015	490,139	-
Sub- total		833,909	22,768
b) On - call deposits			
Co-operative Bank of Kenya	021501608576	53,858	1,601
Sub- total		53,858	1,601
c) Others			
Cash in hand		22	292
Sub- total		22	292
Grand total		887,789	24,661
		2021 Shs'000	2020 Shs'000
15 Trade and other payables			
Trade payables		1,142,868	840,922
Accrued expenses		296,476	247,082
Retirement benefit obligations		12,287	20,769
Provision for leave pay		66,095	79,909
Other payables		568,430	1,018,937
		2,086,156	2,207,619

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% (2020: 30%). The movement of the deferred income tax account is as follows:

	2021 Shs'000	2020 Restated Shs'000
At start of year	(197,846)	(403,759)
Charge/(credit) to profit or loss	(44,960)	138,665
Effect of reduction in tax rate on opening deferred tax assets	-	67,248
	<hr/>	<hr/>
At end of year	(242,806)	(197,846)
	<hr/>	<hr/>

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 2021	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	(24,073)	-	(10,550)	(34,623)
Other general provisions	(43,535)	-	(34,410)	(77,945)
Tax losses	(104,697)	-	-	(104,697)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax asset	(197,846)		(44,960)	(242,806)
	<hr/>	<hr/>	<hr/>	<hr/>

Year ended 30 June 2020	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	(30,572)	5,095	(64)	(25,541)
Unrealised exchange losses	14,688	(2,448)	(36,313)	(24,073)
Other general provisions	(156,575)	26,095	86,945	(43,535)
Tax losses	(231,300)	38,506	88,097	(104,697)
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred income tax asset	(403,759)	67,248	138,665	(197,846)
	<hr/>	<hr/>	<hr/>	<hr/>

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17	Property, plant and 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	
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2021										
Opening net book amount	228,237	11,197,562	352,864	28,891,107	1,236,399	776,901	58,771	4,749,740	47,491,581	
Additions	-	-	-	-	70	-	5,259	353,647	358,976	
Depreciation (Charge to P&L)	-	-	-	(1,421,336)	-	(3,422)	(8,383)	-	(1,433,141)	
Depreciation to E&E	(5,324)	(1,202,526)	(158,041)	-	(222,657)	(163,754)	(2,781)	-	(1,755,083)	
Disposal						(20,842)			(20,842)	
Closing net book amount	222,913	9,995,036	194,823	27,469,771	1,013,812	588,883	52,866	5,103,387	44,641,491	
As at 30 June, 2021										
Cost	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	
Accumulated depreciation	(15,753)	(8,923,444)	(1,136,046)	(9,933,807)	(1,960,952)	(2,081,079)	(557,765)	-	(24,608,846)	
Net book amount	222,913	9,995,036	194,823	27,469,771	1,013,812	588,883	52,866	5,103,387	44,641,491	

NOTE

Assets worth Ksh 1,711,888,076 have been fully depreciated for the year

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17 Property, plant and 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
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2020									
Opening net book amount	159,917	10,909,779	510,905	30,312,443	481,637	1,001,929	101,256	6,744,245	50,222,111
Additions	62,596	319,110	-	-	138,177	27,866	3,529	72,377	623,655
Transfer From WIP	11,051	1,171,199			884,632			(2,066,882)	(1)
Depreciation (Charge to P&L)	-	-	-	(1,421,336)	-	(3,422)	(34,474)	-	(1,459,232)
Depreciation (capitalized to E&E)	(5,327)	(1,202,526)	(158,041)	-	(268,046)	(249,472)	(11,539)	-	(1,894,951)
Closing net book amount	228,237	11,197,562	352,864	28,891,107	1,236,399	776,901	58,771	4,749,740	47,491,582
At 30 June 2020									-
Cost	238,666	18,918,480	1,330,869	37,403,578	2,974,694	2,690,805	605,372	4,749,740	68,912,204
Accumulated depreciation	(10,429)	(7,720,918)	(978,005)	(8,512,471)	(1,738,294)	(1,913,904)	(546,600)	-	(21,420,623)
Net book amount	228,237	11,197,562	352,864	28,891,107	1,236,399	776,901	58,771	4,749,740	47,491,582

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:

	2021 Shs'000	2020 Shs'000
At start of year	44,855,735	40,686,368
Additions	4,666,007	5,165,588
Write-off of unproductive and abandoned wells	-	(964,045)
Write-off of non-productive time expenses	(75,438)	(32,173)
	<hr/>	<hr/>
At end of year	49,446,304	44,855,738
	<hr/> <hr/>	<hr/> <hr/>

The additions in the year comprise the following:

Depreciation of property, plant, and equipment (Note 17)	1,755,079	1,894,951
Amortisation of intangible assets (Note 19)	295	320
Staff costs capitalised	2,083,215	2,065,020
Drilling materials and consumables	827,418	1,205,297
	<hr/>	<hr/>
	4,666,007	5,165,588
	<hr/> <hr/>	<hr/> <hr/>

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.

	2021 Shs'000	2020 Shs'000
Opening net book amount	15,903	16,964
Additions	2,588	220
Amortisation:		
Charge to profit or loss	(953)	(961)
Capitalised as exploration and evaluation assets	(295)	(320)
	<hr/>	<hr/>
Closing net book amount	17,243	15,903
	<hr/> <hr/>	<hr/> <hr/>
Cost	295,645	293,056
Accumulated amortization	(278,402)	(277,153)
	<hr/>	<hr/>
Net book amount	17,243	15,903
	<hr/> <hr/>	<hr/> <hr/>

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 2020. The company has recognised Government grants as appropriated in line with the provisions of IAS 20.

	2021 Shs'000	2020 Shs'000
Revenue grants and amortisation of capital grants		
Revenue grants issued by Government of Kenya	374,775	574,776
Capital grants amortised:		
- Depreciation of wells	1,421,336	1,421,336
- Write-off of unproductive and abandoned wells	-	964,045
	<u>1,421,336</u>	<u>2,385,381</u>
	<u>1,796,111</u>	<u>2,960,157</u>

The movement in the capital grant balance is for the year is as summarized below:

At 1 July	97,110,677	97,588,437
Grants received in the year:		
- Grants from Government of Kenya	150,000	550,000
- Grant from Government of Kenya (from steam charges)	1,995,450	2,167,000
- Grants from KfW	900,646	637,406
- Grants from AfDB	13,354	27,616
- NDF	-	42,593
- European Investment Bank (EIB)	279,447	-
	<u>3,338,897</u>	<u>3,424,615</u>
GOK grant amortised (Olkaria wells) –Current year	(1,421,336)	(1,421,336)
Well write-off against grant	-	(964,045)
KfW- Grant Refund		(1,516,994)
	<u>99,028,238</u>	<u>97,110,677</u>
At 30 June		

21 Borrowings

	2021 Shs'000	2020 Shs'000
Term Loan		
Bank borrowings	2,807,562	2,760,260
Interest & repayments	(179,917)	47,302
	<u>2,627,645</u>	<u>2,807,562</u>
Current portion of borrowing	(357,827)	(357,827)
Non-current portion	<u>2,269,818</u>	<u>2,449,735</u>

The movement in bank borrowings is as summarized below

At 1 July	2,807,562	2,977,995
Additions		-
Interest charge	206,933	230,515
Repayments - principal	(347,777)	(283,044)
Repayments – interest	(206,898)	(239,245)
Unrealised foreign exchange losses	167,825	121,341
At 30 June	<u>2,627,645</u>	<u>2,807,562</u>

The Company has a term loan facility with the Co-operative Bank of Kenya which is repaid on a quarterly 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 paid at 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 2019, 30 June 2020 and 30 June 2021	2,000	2,000

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

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

	Number of shares 2021	Number of shares 2020
Permanent Secretary, The National Treasury	19,999	19,999
Permanent Secretary, Ministry of Energy & Petroleum	1	1
	<u>20,000</u>	<u>20,000</u>

23 Commitments and contingent liabilities

Contingent liabilities

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

a) Linksoft Communications Limited vs GDC

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

The matter was partly heard on 23rd July 2021 and fixed for a further hearing on 24th September 2021 for the respondents to testify. Respondents closed their case and parties are to file submissions in 21 days.

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

b) Bonfide Clearing Company Limited vs GDC

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

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

A mention of the appeal in the High Court Misc Application No. 431 of 2017 took place on 6 November 2019 where the appellant requested for more time. The Arbitration matter is in abeyance after the claimant elected to abandon the prosecution of the balance of their claim as per Interim Award No. 1 pending the conclusion of the appeal filed at the High Court.

GDC proceeded to request the court to make its final judgement in the matter which is pending. The matter is in abeyance after the claimant elected to abandon the prosecution of the balance of their claim as per Interim Award No. 1 pending the conclusion of the appeal filed at the High Court. The matter will be mentioned on 18th November 2021 for further directions.

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

23 Commitments and contingent liabilities (continued)

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 has since 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.

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

Capital commitments

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

	2021 Shs'000	2020 Shs'000
Authorized and contracted	362,967	580,092
Authorized but not contracted	1,607,248	105,576
	<u>1,970,215</u>	<u>685,668</u>

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.

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:

	2021 Shs'000	2020 Shs'000
Salaries and other short-term employment benefits	107,337	106,171
	<u>107,337</u>	<u>106,171</u>

24 Related party transactions (Continued)

	2021	2020
	Shs'000	Shs'000
ii) Directors' fees and expenses		
Remuneration as management	12,706	12,539
Fees and allowances for services as director	26,677	32,770
	<u>39,383</u>	<u>45,309</u>

iii) Grants received in the year

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

25 CURRENCY

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

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p>Litigations There are three litigations that could potentially result in significant financial obligations hence have adverse impact on the going concern of the company. These matters are:</p> <ul style="list-style-type: none"> i. Bonfide Clearing & Forwarding Company Limited vs GDC ii. Lantech Africa Limited vs GDC iii. Linksoft Communications Limited vs GDC <p>Closed cases Hydra Industrial Limited vs GDC</p>	<p>The matters are still pending in the Courts. In management's assessment, the said matters are unlikely to crystalize into any liabilities beyond the provisions already made save for legal and professional costs, which have already been accrued.</p>	<p>General Manager, Legal Affairs</p>	<p>Ongoing</p>	<p>Ongoing</p> <p>Bonfide Clearing & Forwarding Company Limited vs GDC – <i>Awaiting ruling by the High Court.</i></p> <p>Lantech Africa Limited vs GDC - <i>GDC made an application before the Court of Appeal for leave to appeal, which is pending directions.</i></p> <p>Linksoft Communications Limited vs GDC - <i>The matter was partly heard on 23rd July 2021 and fixed for a further hearing on 24th September 2021 for the</i></p>

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (CONTINUED)

					respondents to testify.
3	<p>Compliance with laws and regulations</p> <p>Management should enhance compliance in respect of remittance of taxes including other statutory deductions to avoid penalties and potential litigations</p>	<p>Save for the corporation tax, the company has fully complied and remitted all taxes and other statutory deductions.</p> <p>On the corporation tax matter, the GDC Board resolved to review the treatment of steam charge payments from Kengen in line with the provisions of the PFM Act 2012 where the portion allocated to development expenditure as per the national budget is charged to capital grants while the portion allocated to recurrent expenditure is charged to revenue in the income statement. They also resolved to restate the financial statements for the years ended 30th June 2015 to 30th June 2019 in line with IAS 8.</p> <p>This has effectively had an impact on the outstanding corporation tax liability. The company will file amended self-assessment tax returns upon conclusion of the audit.</p>	General Manager Finance	Ongoing	<p>Ongoing</p> <p>The Company will amend self-assessments tax returns upon conclusion of the audit by the Auditor General.</p>

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APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS (CONTINUED)

		Open	30 th June 2022
<p>5.2 Capitalisation of head office staff costs</p> <p>Management should review the capitalisation policy to establish the correlation between the drilling operations and the head office costs.</p>	<p>The capitalisation policy has been revised and is awaiting Board approval</p>	<p>General Manager Finance</p>	



Eng. Jared O. Othieno
Managing Director & CEO

Date: _____

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)	March 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	80,705	84% (105MW) 32% (60MW) 2%(300MW)	2,308	2,349	GoK
							Steam charge payments
2	Bogoria – Silali Project	78,029	5,395	24%	1,271	1,061	AfDB
							GoK KfW

APPENDIX III: INTER-ENTITY TRANSFERS

Entity Name: Geothermal Development Company Limited
Break down of Transfers from the Ministry of Energy
Financial year 2020/21

a. Recurrent Grants	Bank statement date	Amount (Shs'000)
	04.09.2020	93,694
	04.12.2020	93,694
	27.04.2021	93,694
	11.06.2021	93,694
	Total	374,776
b. Development Grants	Bank statement date	Amount (Shs'000)
	18.09.2020	62,500
	27.04.2021	62,500
	27.04.2021	12,500
		137,500
	Accrued	
	06.07.2021	12,500
	Total	524,776
c. Direct Payments	Bank statement date	Amount (Shs'000)
	Nil	-
	Total	-
d. Donor Receipts	Payments through donors	Amount (Shs'000)
	KfW	900,646
	European Investment Bank (EIB)	279,447
	Total	1,180,093

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


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

Moses Gitari
Head of Accounting Unit
Ministry of Energy (confirmation as annexed)