



Geothermal
Development
Company

Powering the Vision

Annual Report

Geothermal Development Company

Financial Year Ended 30 June 2014



Paper Laid by Hon. Katoo ole Metcho, MP
(Majority Whip) on 14.04.2015.
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Geothermal Development Company

Annual Report for the year
ended 30th June 2014

Vision Mission & Core Values

VISION

To be a world leader in the development of geothermal resources

MISSION

To develop 5000MWe from geothermal resources by 2030 and to explore, develop, utilise and market geothermal energy resources to allow for rapid geothermal development and support Kenya's energy needs in the least cost manner, reduce dependence on imported fuel and sustain economic growth.

CORE VALUES

Integrity: Subscribe to high ethical standards, openness and honesty.
Professionalism: Embrace excellence, quality service and continual improvement.



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Mr. Faisal Abbas	Chairman, appointed on 20 May 2014
Dr. Silas M. Simiyu, MBS	Managing Director and Chief Executive Officer
Eng. Kariuki Muchemi	Director
Eng. James Okwero	Director
Mrs. Sally Towett	Director
Dr. Stephen Njiru	Director
Mr. Joseph Kinyua, MBS	Director
Mr. Paul Ngatia	Alternate Director to PS Ministry of Energy and Petroleum
Eng. Stanley Kamau	Alternate Director to PS National Treasury
Mr. Simon Gicharu	Chairman, appointed 10 January 2014, Retired 20 May 2014
Mr. Paul Gondi	Chairman, Retired 10 January 2014

REGISTERED OFFICE

Taj Tower, Upper Hill
P.O.Box 100746 – 00101, Nairobi

COMPANY SECRETARY

Ms Praxidis Saisi
Taj Tower, Upper Hill
P.O. Box 100746 – 00101, Nairobi

BANKERS

Co-operative Bank of Kenya Limited
Upper Hill

Kenya Commercial Bank Limited
Kipande House

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower, Chiromo Road
P.O. Box 43963 – 00100 GPO, Nairobi

On behalf of:-
Auditor General
Anniversary Towers
P.O. Box 30084 – 00100 GPO, Nairobi

The directors submit their report together with the audited financial statements for the year ended 30 June 2014, which disclose the state of affairs of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the company is the development of geothermal resources in Kenya.

RESULTS AND DIVIDEND

The net loss for the year of Shs 115,501,000 (2013: 297,551,000) has been added to accumulated losses. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 6

AUDITOR

The company is audited by the Auditor General in accordance with the provisions of the Public Audit Act 2003.

By order of the Board



SECRETARY

24 NOVEMBER 2014



It is with humble submission and extreme pleasure that I present to you the Annual Report and Financial statements for Geothermal Development Company (GDC) for financial year 2013-2014. This is a major milestone for me, being my first GDC Annual Report since my appointment and the 5th Report for GDC as an institution. It also marks a critical point for the organization with the coming on the grid of the first 70MW from the 280MW plant in Olkaria I and IV. It is with this in mind that for the financial year 2014-2015, GDC has targeted steam sales revenue as an important source of funding for its capital expansion activities.

The Government, as part of the Vision 2030 Strategy, has a target to generate 5000MW+ of electricity by December 2016. As an important player in the sector, GDC's target from this is 810MW, being 460MW in Menengai field, 200 MW in Baringo-Silali Block and 150MW in Suswa. Indeed, the first 100 MW from Menengai are expected to come on

the grid by the second quarter of the next financial year.

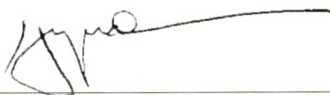
To ensure the overall mandate is attained, the company has invested heavily in development of human resource capacity. To ensure the heavy investment is not lost, effective measures for staff retention are now being planned. In addition, significant investment has been put in the acquisition of drilling Rigs and equipment and on Resource assessment and management equipment.

GDC has continued to receive immense support from the Government and Development Partners. In the Financial Year under review, GDC had a total approved budget of Kshs 13.97 Billion that enabled us move forward with our quest for accelerated development of geothermal resources. This comprised of Exchequer budget allocation of Kshs.6.79 billion and the balance was from our Development Partners.

GDC has continued to benefit from funding provided by Development Partners including the African Development Bank (AfDB), French Development Agency (AFD), European Investment Bank (EIB), the World Bank and USTDA. The African Union (AUC) is also supporting GDC with risk mitigation funds under the Geothermal Risk Mitigation Fund (GRMF). The GRMF fund is a vital insurance provided by AUC to cater for any dry wells drilled in under the first phase of the project. Other Development Partners expected on board are the German Development Agency (KfW), India Exim, US Exim, JICA and the Italian Government.

I take this opportunity to thank my predecessors on this Board and fellow Board Members currently on the Board whose efforts have seen GDC attain this level of growth and performance. I also wish to acknowledge the great sacrifices and contribution that has been given by the Management and staff in achieving these great strides.

On behalf of the GDC Board of Directors, I wish to sincerely thank the Government of Kenya and our financiers for their commitment towards Kenya's dream of realizing affordable, reliable and green power for development. GDC's success means that Kenyans and all those who reside in Kenya have the hope of enjoying the benefits of affordable energy.



Chairman, Board of directors

24 November 2014
Date



GDC continues to take stock of its achievements in this fifth year of its existence. Financial Year 2013-2014 is a significant year for GDC for several reasons. Among them, it marks the first year for generation from Olkaria for GDC's first wells. Also, it saw the culmination of the Menengai dream with the award and start of the development of the Steam Gathering System and the start of the negotiation process with the three (3) independent Power Producers (IPPs) for 100MW from Menengai.

It is worth pointing out that GDC has made this progress within five years of establishment. Usually, geothermal projects are characterized by a long gestation period of about 9 years. The speed that we have developed Menengai is a pointer that the GDC model on fast-tracking the development of geothermal resources is workable.

Four drilling rigs are currently operating in Menengai field. Delivery of three (3) additional rigs is underway. The seven rigs, once in place, will further accelerate our drilling campaign. As per the feasibility study report, the planned 100MW plant is feasible since a total resource capacity of 150MW was proven; the area drilled is expected to accommodate an additional 60MW. GDC now targets to move to the West of Menengai Caldera for realization of the additional 300MW.

Further north, the Baringo-Silali Block is a critical frontier with a resource estimate of 3000MW. GDC will develop the resource in phases, with the first phase targeting 200MW. The Project

has received support from the local Communities, the County and National Government. Significant civil and water works are expected to start in FY 2014-2015. By closure of the year, the German Development Bank (KfW) was ready to commit funding for the development of this field. Further, US Exim has pledged funds for the field. These and many more financiers will facilitate not only the development of this region but also open it up for further investment and development.

In the year under review, GDC undertook more scientific field studies for the Suswa Prospect with geothermal resources estimated at 750MW. As part of its community focus, Community engagement is on-going in the wider Suswa region to ensure that the project is implemented with the support of the community. India Exim has pledged to support the development of this field and an agreement is expected in the course of the next financial year.

Beyond the electricity, GDC is encouraging the utilization of other Direct Use technologies from geothermal resources. Currently, a pilot study to identify commercially viable direct use projects that will directly utilize geothermal heat and steam for industrial purposes and other applications is underway.

As part of the wider mandate to enhance capacity in geothermal technology in the region, and as per the Northern Corridor Integration Projects, GDC is planning to develop a Geothermal Centre of Excellence in Nakuru. Currently, GDC supports training initiatives in liaison with the United Nations University (UNU), but this will be expanded once the Centre is fully operational.

May I take this opportunity to thank the Board of Directors for the wise counsel, staff for their dedication and focus, the Government for its lead role in prioritizing geothermal development and low-cost energy and the development Partners for their continued confidence. From this tremendous support from the Government and development Partners, the future is indeed green, not only for GDC but for the country at large.



Managing Director & Chief Executive Officer

24 November 2014
Date

Mr. Faisal Abbas, Chairman GDC



Mr. Faisal Abbas has gained massive experience and insight in public service and especially in the energy sector. Mr. Abbas has experience spanning over 30 years having held various senior positions in the private and public sector. He is currently the Managing Director, Interpel Investments Limited. Previously, he held directorship positions at the Agriculture Development Corporation (ADC) and the Kenya Electricity Generating Company (KenGen). Before being appointed to GDC, he was the Chairman of the Rural Electrification Authority (REA). He holds an MBA Degree from the University of Nairobi (UoN) and a Bachelor of Arts Degree in Economics.

Dr. Silas M. Simiyu (MBS), MD and CEO



Dr. Silas Masinde Simiyu, PhD, is the founding CEO and the Managing Director of Geothermal Development Company (GDC). He is a renowned geothermal expert, a distinguished scholar and an accomplished manager. He has over 25 years' experience in developing and implementing major geothermal projects, which are thriving in Kenya.

He has a post-doctorate degree in Seismology from Duke University (Durham, North Carolina-USA) and a PhD in Applied Geophysics from the University of El Paso – USA where he was honoured with an Outstanding Doctorate Student Award. Dr. Simiyu also holds an MSc in Applied Geophysics from University of Nairobi (UoN) and BSc Physics/ Geology from the same university. He is the author of Reflections: A CEO's Treatise

Mrs. Sally Towett



Mrs. Towett was appointed on the GDC Board as an Independent Director on January 16, 2009 and re-appointed in February 2012 for a second three-year term. She chairs the Board Staff and Remunerations Committee and is a member of Legal and Regulatory Committee.

Mrs. Sally Chelangat Towett graduated with a Honours in Bachelor of Education Studies from Sterling University, Scotland in the United Kingdom(U.K)

She has a distinguishing career as a principal and teacher in many schools in Kenya for almost forty years. She is a Member of the Board of Governors of Sosiot Girls Secondary School and Moi Kipsitet Girls Secondary School and she heads several committees.

Eng. Kariuki Muchemi



Eng. Kariuki was appointed on the GDC Board as an Independent Director on January 16, 2009, and re-appointed on 10th February 2012. He chairs the Board Finance Committee and is a member of the Staff Remuneration Committee and the Legal and Regulatory Committee.

Eng. Kariuki Muchemi has a wide experience in Project Management, Contract Administration, Design of Civil Engineering projects, and site supervision in the East Africa region. He has worked for over 10 years with Interconsult Engineers on a wide range of projects.

Eng. Kariuki is a member of several professional societies which include, among others, Institution of Engineers of Kenya (IEK), Association of Consulting Engineers of Kenya (ACEK), and Engineers Registration Board of Kenya and Tanzania.

He is a Council member of the Kenya Institute of Management (KIM) and Association of Consulting Engineers of Kenya.

Eng. Stanley K. Kamau (Alternate to PS , National Treasury)



Eng. Stanley K. Kamau was appointed to the GDC Board on March 7, 2011. He is a member of the Board Finance Committee, Audit Committee & the Strategy Committee.

He is the Director/Head of Public Private Partnership (PPP) Unit, since February 2010. He serves on the GDC Board of Directors as the alternate to the Principal Secretary, Ministry of National Treasury.

He graduated with a B.Sc Degree in Civil Engineering (Upper Second Class Honors) from the University of Nairobi in 1985. Currently, he is pursuing a Master's Degree in Sociology at the University of Nairobi. Eng. Kamau is a registered engineer with Engineers Registration Board of Kenya and a member of the Institution of Engineers of Kenya. He has a wealth of experience in funding, development and management of infrastructure facilities and services as well as institutional reforms in the public sector.

Eng. Kamau has attended several finance, management and leadership courses in Europe, Asia, Africa and America. He also serves as an alternate Director at the National Oil Corporation of Kenya and the National Biosafety Authority.

Dr Stephen Njiru



Dr. Stephen Njiru was appointed to the GDC Board on February 10, 2012. He is the Chairperson, Board Legal and Regulatory Committee and is a member of the Board Finance Committee. He is an Advocate of the High Court of Kenya with over 20 years international experience as a lawyer, and in private practice, with government (Public sector) and in Academia. He has undertaken all aspects of Legal Practice including Criminal, Civil and Commercial Litigation. His main fields have been Constitutional and Public Law, International Economic Law, Legal Systems and Services, Municipal and International Law.

Dr. Njiru who is the Chairman of the Legal and Regulatory Committee of the GDC Board of Directors, is also a member of the Finance Committee of the Board.

He has advised governments (including the Government of Kenya as a State Counsel and also as a Special Consul and Legal Adviser to the Government), public bodies, International Corporations and other firms. He has also been a lecturer of Law, having taught at the University of Manchester. Njiru is also widely experienced in the areas of Public / Constitutional Law, Legal Systems and Methods, Law of Contract, Torts, Criminal Law, International Economic Law and Human Rights. He has Worked and conducted research on the Bretton Woods Institution including the World Bank, International Monetary Fund, World Trade Organization and World Intellectual Property Organization. He was the Head of the Technical team on the Constitution of Kenya which oversaw the Constitution Review Process leading to the promulgation of the New Constitution in Kenya. He was appointed to the GDC Board as an Independent Director on the 10th day of February 2012.

Mr. Joseph Ichunge Kinyua, MBS, HSC



Mr. Joseph Kinyua was appointed to the GDC Board as an Independent Director on the January 25, 2013. He chairs the Board Audit Committee and is a member of the Staff and Remuneration Committee and the Strategy Committee.

He is an alumni of the prestigious Alliance High School and the University of Nairobi, Mr. Kinyua is a career educationist with an experience spanning over three decades. His outstanding service to the nation in public and private, saw him awarded two esteemed State Honours: Head of State Commendation (HSC), 1994 and Moran of the Burning Spear (MBS), 2011.

Before joining GDC, he was a Director at Kenya Pipeline Company (KPC) where he served between 2007 and early 2013. Previously, he was a Commissioner at the Teachers Service Commission (TSC) and a principal at Kenya Science Teachers College. Mr. Kinyua is currently serving as the Treasurer of Athletics Kenya (AK) where he has worked since 1996. He is also the current Chairman of the Board of Management at Mount Kenya University's Nkubu Campus in Meru County.

Mr. Paul G. Ngatia, MBS



Mr. Paul G. Ngatia was appointed to the GDC Board on May 14, 2013. He is a member of the Finance committee and the Audit Committee

He is the alternate Director to the Principal Secretary Ministry of National Treasury & Petroleum. He holds a Bachelor of Arts (Honors) graduate from the University of Nairobi, has more than thirty years of experience working in the Office of the President, Ministry of National Treasury and currently the Ministry of Energy & Petroleum. He is an expert in performance contracting and strategic planning and has attended many courses and workshops both locally and internationally on public administration, governance, government policy, finance and budgeting. Mr. Ngatia has amassed knowledge on diverse fields from courses attended in the UK, Germany, Italy and Harvard (USA). As Deputy Secretary in the Ministry of Energy & Petroleum, he was a member of the committee that developed the Policy Framework that midwived the sale of Kenya Government's 30% stake in KenGen. Earlier in his career, he was part of the United Nations Team that supervised the national elections in Namibia in 1988.

Mr. Ngatia is currently the Senior Deputy Secretary at the Ministry of Energy & Petroleum, a position he has held since the year 2006. He also sits on the board of the National Oil Corporation of Kenya (NOCK).

Eng. James Owino Okwero, Director



Engineer James Owino Okwero was appointed to the GDC Board of Directors on November 13, 2012. He chairs the Board Strategy Committee and is a member of the Audit Committee.

He has a wide experience in the areas of standardization, quality management system, corporate governance, civil engineering, institutional management and project planning. From 2003 - 2006, he served as the Chairman and Board Member of the National Standards Council, at the Kenya Bureau of Standards Board of Directors, where he oversaw the implementation of policies and critical governance issues.

A BSc graduate in Civil Engineering from the University of Nairobi, Mr. Okwero is also widely experienced in design and supervision of infrastructure, having worked before in both public and private sectors. He was instrumental in developing and supervising several standards and code of practice for the construction and manufacturing industries in Kenya. A former Commissioner at the Poverty Eradication Commission (PEC) in the Ministry of State for Planning, National Development and Vision 2030, and the CEO of Lake Victoria Fish Ltd in Kisumu, Eng. Okwero's successful sojourn in both the mainstream government, private sector and leading international organizations, saw him being seconded to attend various seminars and conferences in Europe, United States of America, Asia, and Africa. Previously, he served as a Director and a Board Member at the Kenya Pipeline Company (KPC) and had a brief stint at the Ministry of Public Works.



Management Team



Dr. Peter Omenda
General Manager



Paul Ngugi
Chief Manager, Business Development



Karume Weke
Chief Manager, Systems & Quality Assurance



Bruno Linyiru
Chief Manager, Commercial Services



Praxidis Saisi
Chief Manager, Legal Affairs/Company Secretary



Godwin Mwawongo
Chief Manager, Technical Services

Dr. Peter Omenda	General Manager
Mr. Christopher Leparan	Manager –Corp. Performance Mgt, Security & PA to MD
Ms. Rosemary Olonde	Manager – Audit Risk & Compliance

LEGAL AFFAIRS

MS. Praxidis Saisi	Chief Manager – Legal Services
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TECHNICAL SERVICES

Mr. Godwin Mwawongo	Chief Manager – Technical Services
Mr. John Lagat	Manager – Resource Assessment
Mr. Cornel Ofwona	Manager – Resource Management & North Rift
Mr. Johnson Mungania	Manager – Infrastructure

DRILLING OPERATIONS

Mr. Michael Mbevi	Manager – Drilling Operations
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COMMERCIAL SERVICES

Mr. Bruno Linyiru	Chief Manager- Commercial Services
Mr. Abraham Saat	Manager – Supply Chain
Ms. Rose Ougo	Manager – Property Management
Mr. Godfrey Shitsama	Manager- Finance

CORPORATE COMMUNICATION & MARKETING

Ms.Ruth Musembi	Manager- Corporate Communications & Marketing
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HUMAN RESOURCE

Ms Irene Onyambu	Manager- Human Resource
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SYSTEMS MANAGEMENT

Mr. Nicholas Weke	Chief Manager- Systems Management
Ms. Grace Mwai	Manager- Community Relations
Mr. Charles Sitonik	Manager- Information & Communication Technology
Mr. George Kinyanjui	Manager- Quality Assurance & Safety

BUSINESS DEVELOPMENT

Mr. Paul Ngugi	Chief Manager- Business Development
Mr. Benjamin Kubo	Manager- Environment & Central Rift
Ms. Martha Mburu	Manager- Direct Use & South Rift
Mr. Caleb Indiatasi	Manager- Corporate Planning & Projects

Community empowerment key priority at GDC



At GDC, the fundamental philosophy is community empowerment and strengthening cordial relations for sustainable geothermal development.

GDC has been very consistent in its advocacy for community-related programmes which are meant to empower the residents living near its areas of operation.

The company has developed a three pronged approach in its Corporate Social Responsibility (CSR) programmes, which are geared towards supporting neighbouring communities.

These three approaches encompass water, health and education. Social afforestation programmes is another area where youths from the nearby communities have benefited immensely, whereby GDC buys seedlings from youth groups and employ some youth on casual basis to care for the seedlings.

Recently, the company donated ambulances to Bahati community dispensary and earlier, the management of Osembo Primary School near Menengai Geothermal Project was all smiles when GDC rehabilitated part of the school.

At GDC, the fundamental philosophy is community empowerment and strengthening cordial relations for sustainable geothermal development.

Over the years, GDC has been sponsoring participants from host communities and especially schools in areas such as Turkana and Baringo Counties to participate in the Annual Menengai Geothermal Half-Marathon, which has now become one of the biggest events in Central Rift.

The company has also sponsored several women groups from the North and Central Rift as well as the youth from the six registered youth Saccos in the North Rift that are in partnership with GDC in driving the youth empowerment agenda.

Other future critical areas of community empowerment will be capacity building for Sacco officials, skills upgrade, rehabilitation of more schools, construction of dispensaries, and cattle dips.

Community Information is also another instrumental pillar as far as empowerment is concerned.

Environment

GDC considers sustainable and workable environmental conservation as one of the greatest pillars required in achieving the Vision 2030 blueprint. GDC is committed to implementing this project in the most environmentally sustainable manner.

Since inception, GDC has been a great campaigner, mobilizer and a crucial partner in conserving the environment by clearly demonstrating this commitment through the social afforestation program and the continued implementation of the Environmental management plan.

This has seen the company achieve great milestones in environmental conservation even as it focuses on its core business of geothermal steam generation. As a way of ensuring a better world for future generations, the company has re-affirmed its commitment to responsible environmental practices.

This has been witnessed every year when GDC joins the global families in celebrating the World Environment Day by rallying its staff in planting thousands of trees in its areas of operation.

By doing this, GDC has been a key player in stimulating global awareness on good environmental practices as well as advocating for political and opinion leadership involvement in environmental matters.

GDC has also continuously partnered with several stakeholders when it comes to environmental matters.

Recently, the company teamed up with the Nakuru County Government to rehabilitate the Gioto Dump

site situated along Nakuru – Kabarak road. Part of rehabilitation is to clear waste dumped on the road reserve and plant trees on it. At least 1,400 trees have been planted in this area and they have so far registered over 80% survival.

Tree planting has also been done in Naivasha and North Rift areas, with the company organizing sports events like 'Mazingira Cup' to create awareness about good environmental practices.

GDC has also participated in clean-up exercises in Nakuru Town, Marigat market centre in North Rift, tree planting exercise at Chemolingot High and Primary schools in East Pokot, North Rift, tree planting at the Menengai Geothermal Project and at the Kabarak farm.

The company has also ensured that all degraded areas in its project sites are rehabilitated. Site rehabilitation is mainly carried after civil and drilling activities to ensure that these activities meet environmental requirements and minimize any effects on the environment.

In Menengai Project, rehabilitation of all disturbed areas has been carried out in various ways i.e., fencing of sump ponds, filling up of gullies, clearing of opportunistic weeds and re-vegetation.

This will also be applicable to other upcoming project sites like the Baringo-Silali Block, Suswa Prospect and others.



Keeping it green with green energy

The members of the Board of Directors have committed themselves to the service of GDC and to uphold the tenets of good corporate governance by being responsible, transparent, accountable, efficient, effective, persons of integrity and exercise fairness in all their dealings.

Board Charter

The Board Charter is a commitment by the members of the Board to discharge the mandates of GDC. It seeks to ensure the effectiveness of each director's contribution in the governance of the company by facilitating full and free exercise of independent judgment and professional competencies. It outlines the rules that guide the Board and does not in any way purport to replace or supersede any laws and regulations that govern the Company.

The Board

The Board consists of eight non-executive members and an executive Managing Director.

Board Responsibilities

The independence of GDC's Board from the Company's corporate management is ensured by the separation of the functions of the Chairman and Managing Director and a clear definition of their responsibilities. This helps in achieving an appropriate balance of power, increased accountability, improved capacity for decision making, and independence of the management. The Board has been assigned a clear mandate and retains ultimate responsibility for the Company's performance.

The Board takes on the primary responsibility of determining the Company's vision, mission and values; deciding its strategic objectives and key elements of the governance processes underpinning the operation of the Company. The Board provides the leadership and vision of the Company in a way that maximises shareholder value and ensures long-term sustainable development and growth of GDC. It

retains full and effective control over the Company by monitoring the management in its implementation of Board plans and strategies, review of management accounts and major capital expenditure. The Board strives to act above and beyond the minimum requirements and benchmarks Company performance against international best practice. It delegates other matters with the necessary written authority to management and institutes effective mechanisms that ensure implementation of its directives by the management.

The Board reviews and adopts business plans, specific financial and non-financial objectives and policies proposed by management. It reviews processes for the identification and management of business risk as well as those concerning compliance with key regulatory and legal areas. It delegates authority for capital expenditure.

The Board also reviews the Company's succession plans for the management team and endorses senior executive appointments, organizational changes and remuneration matters. Further to this, the Board not only evaluates the Company's performance but also oversees the direction, governance and performance reporting processes as well as other disclosure requirements. The Board of Directors exercises diligence in carrying out its role, with emphasis on strategic issues and policy matters. On a quarterly basis, Board evaluates an operational report from the Managing Director which includes management accounts for the past quarter; reports from each Board Committee; specific proposals for capital expenditure and acquisitions; as well as strategic opportunities for the Company.

Board Committees

The Board Committees facilitate decision-making to assist the Board in the execution of its duties, powers and authority, however delegation of authority to the Committees does not in any way mitigate or

dissipate the discharge by the Board of its duties and responsibilities. Board Committees have been established with formal written terms of reference and observe the same rules of conduct and procedures as the Board. The Board has set up five Committees:

Strategy Committee

This Committee reviews, monitors and evaluates the company's strategy and investment policies and makes recommendations to the Board on issues of strategy adjustment; the progress of the Company's strategy execution plans through identification of priority areas and the overall operational performance and organizational health. It comprises of:

Eng. James Okwero	Chairperson
Mr. Joseph Kinyua	Member
Eng. Stanley Kamau	Member

Finance Committee

Its functions are to assess and advise on the integrity of the Company's financial statements, financial plans and budgets. The committee constitutes of:

Eng Kariuki Muchemi	Chairperson
Dr. Stephen Njiru	Member
Eng. Stanley Kamau	Member
Mr. Paul Ngatia	Member

Audit Committee

It reviews the scope and effectiveness of internal controls and management systems which guide and monitor financial and non-financial risks. It also receives the internal audit reports, reviews independence, objectivity and effectiveness of external auditors and monitors the Company's compliance with the Code of Conduct and Ethics. The committee comprises of:

Mr. Joseph Kinyua	Chairperson
Mr. Paul Ngatia	Member

Eng. Stanley Kamau	Member
Eng. James Okwero	Member

Staff Committee

The Committee scrutinizes and advises the Board on the organizational structure, core functions and staff establishment. It provides guidance on human resource policies, and also makes recommendations that promote operational efficiency and capacity enhancement. The committee comprises of:-

Mrs. Sally Towett	Chairperson
Eng. Kariuki Muchemi	Member
Mr. Joseph Kinyua	Member

Legal & Regulatory Policy (L&R) Committee

This committee monitors the Legal and Regulatory governance of the company. It develops, implements and manages emerging legal policy issues of direct relevance to GDC. This committee carries out annual review of the regulatory compliance. The committee comprises of:-

Dr. Stephen Njiru	Chairperson
Mrs. Sally Towett	Member
Eng. Kariuki Muchemi	Member

Directors Remuneration

In accordance with guidelines provided in the State Corporations Act the directors are paid taxable sitting allowance for every meeting attended, as well as travel and accommodation allowance while on company duty. The Chairman is also paid monthly honorarium. GDC does not grant personal loans or guarantees to its Directors.

Business Ethics

Our core values of integrity, professionalism, team spirit and emphasis on safety culture steer GDC's organizational health and decision-making processes. Our business is conducted in compliance with relevant legal principles and high ethical

standards of business practice. We apply these standards in all dealings with employees, customers, suppliers and other stakeholders. The Company also ascribes to the ethical standards prescribed by the Public Officer Ethics Act.

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Company's profit or loss. It also requires the directors to ensure that the Company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

- (ii) Selecting and applying appropriate accounting policies; and
- (iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 30 June 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of approval of the financial statements.

Approved by the board of directors on 24 November 2014 and signed on its behalf by:



Director



Director

The Companies ACT requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its statement of comprehensive income. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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



Director



Director

Date..... 24 November 2014

Date..... 24 November 2014



KENYA NATIONAL AUDIT OFFICE

Report of the auditor general on the financial statements of Geothermal Development Company Limited for the year ended 30th June 2014

The accompanying financial statements of Geothermal Development Company Limited set out at pages 26 to 53, which comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and the explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

Management of Geothermal Development Company Limited is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit report and in accordance with the provisions of section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

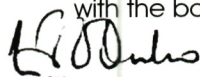
Emphasis of Matter

Without qualifying my opinion, I draw attention to the following matter on which I do not express a qualified opinion: Included in the Exploration and Evaluation assets is an amount of Ksh. 8.1 billion relating to the costs of drilling 26 wells out of the 59 wells in OI Karia directly financed by the Government. This situation is indicative of significant impairment on some of the assets as these wells are owned by the Government as per the drilling contract. Management has received a letter from the Ministry of Energy indicating that GDC is allowed to recognize the cost of the 26 wells as exploration and evaluation assets in its books of account pending completion of on-going Government vesting procedures.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the 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, proper books of account have been kept by the company, so far as appears from the examination of those books; and
- iii. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS

AUDITOR GENERAL

Nairobi

7 January 2015

Statement of comprehensive income

Year ended 30 June	Notes	2014 Shs'000	2013 Shs'000
Revenue grants	19	578,750	917,635
Other income	6	101,334	12,824
Administrative expenses	8	(787,551)	(1,249,452)
Finance income	7(a)	7,051	24,459
Finance costs	7(b)	<u>(12,467)</u>	<u>(3,017)</u>
Loss before tax		(112,883)	(297,551)
Income tax expense	10	<u>(2,618)</u>	<u>-</u>
Loss for the year		(115,501)	(297,551)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(115,501)</u>	<u>(297,551)</u>

Statement of financial position

As at 30 June	Notes	2014 Shs'000	2013 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	16,123,703	14,538,777
Exploration and evaluation asset	17	27,706,413	22,088,897
Intangible Assets	18	<u>125,019</u>	<u>167,452</u>
		<u>43,955,135</u>	<u>36,795,126</u>
Current assets			
Inventories	11	3,912,051	3,827,218
Receivables and prepayments	12	4,314,160	1,498,557
Cash and bank balances		<u>1,495</u>	<u>481,453</u>
		<u>8,227,706</u>	<u>5,807,228</u>
TOTAL ASSETS		<u><u>52,182,841</u></u>	<u><u>42,602,354</u></u>

Statement of financial position


EQUITY AND LIABILITIES Equity attributable to owners	Notes	2014 Shs'000	2013 Shs'000
Share capital	21	2,000	2,000
Accumulated losses		<u>(1,486,566)</u>	<u>(1,371,065)</u>
Total equity		<u>(1,484,566)</u>	<u>(1,369,065)</u>
Non-Current liabilities			
Capital grants	19	<u>50,367,119</u>	<u>40,125,461</u>
Current liabilities			
Borrowings	20	2,155,288	736,110
Trade and other payables	14	1,143,161	3,109,848
Current income tax		<u>1,839</u>	<u>-</u>
		<u>3,300,288</u>	<u>3,845,958</u>
Total liabilities		<u>53,667,407</u>	<u>43,971,419</u>
TOTAL EQUITY AND LIABILITIES		<u>52,182,841</u>	<u>42,602,354</u>

The notes on pages 32 to 53 are an integral part of these financial statements

The financial statements on pages 26 to 53 were approved for issue by the board of directors

on 24 November 2014 and signed on its behalf by 

Director



Director

Statement of changes in equity

Year ended 30 June 2013	Share capital Shs'000	Accumulated losses Shs'000	Total Equity Shs'000
At start of year	2,000	(1,073,514)	(1,071,514)
Loss for the year	-	<u>(297,551)</u>	<u>(297,551)</u>
At end of year	<u>2,000</u>	<u>(1,371,065)</u>	<u>(1,369,065)</u>
Year ended 30 June 2014			
At start of year	2,000	(1,371,065)	(1,369,065)
Loss for the year	-	<u>(115,501)</u>	<u>(115,501)</u>
At end of year	<u>2,000</u>	<u>(1,486,566)</u>	<u>(1,484,566)</u>

Statement of cash flows

Year ended 30 June	Notes	2014 Shs'000	2013 Shs'000
Cash flows from operating activities			
Loss for the period		(112,883)	(297,551)
Depreciation of property plant and equipment	8	71,708	236,352
Amortisation of intangible asset	18	50,793	53,948
Loss on disposal of property, plant and equipment		1,405	-
Changes in working capital:			
-receivables		(2,815,603)	(697,600)
-other inventories		(13,351)	(12,062)
-trade and other payables		(1,966,687)	1,000,302
Current income tax paid		<u>(779)</u>	<u>-</u>
Net cash generated from operating activities		<u>(4,785,399)</u>	<u>283,389</u>

Statement of cash flows (cont)

Year ended 30 June	Notes	2014 Shs'000	2013 Shs'000
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(2,733,676)	(2,584,747)
Staff cost expended on exploration and evaluation assets	17	(1,016,031)	(727,934)
Purchase of inventories for exploration and evaluation activities	11	(3,601,041)	(5,869,268)
Purchase of intangible asset	18	(8,360)	(26,522)
Changes in working capital:		<u>3,713</u>	<u>-</u>
Net cash used in investing activities		<u>(7,355,395)</u>	<u>(9,208,471)</u>
Cash flows from financing activities			
Capital grants received	19	10,241,658	7,397,883
Proceeds from borrowings	20	<u>887,320</u>	<u>8,133,993</u>
Net cash generated from financing activities		<u>11,128,978</u>	<u>8,133,993</u>
Net decrease in cash and cash equivalents		(1,011,816)	(791,089)
Cash, cash equivalents at start of year		<u>481,453</u>	<u>1,272,542</u>
Cash and cash equivalents at end of year	13	<u>(530,363)</u>	<u>481,453</u>

1 General information

Geothermal Development Company is incorporated in Kenya in 2008 under the Companies Act as a state owned corporation, and is domiciled in Kenya. The principal activity of the company is the development of geothermal resources in Kenya. The address of its registered office is:

Geothermal Development Company Limited
Taj Tower's, Upper Hill
P.O box 100746-00101
Nairobi.

For purposes of reporting under the Kenyan Companies Act, in these financial statements the balance sheet is represented by the statement of financial position and the profit or loss account is presented in the statement of profit or loss and other comprehensive income.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for land and buildings, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain

critical accounting estimates. It also requires the directors 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.

For the purposes of the Kenyan Companies' Act, the balance sheet is represented by the statement of financial position while the profit and loss account is represented by the statement of comprehensive income.

(i) **New and amended standards adopted**

The following standards have been adopted by the company for the first time for the financial year beginning on or after 1 July 2013 and none of them have a material impact on the company:

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the company until 1 January 2014, however the company has decided to early adopt the amendment as of 1 July 2013. This amendment does not have a material impact.

(ii) New standards and interpretations not yet adopted

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact.

The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Company is not currently subjected to significant levies so the impact on the Company is not material.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(b) Foreign currency translation

- (a) Functional and presentation currency*
Items included in the financial statements are measured using the currency of

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

(b) 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'.

(c) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. 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:

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%

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.

(d) 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 for impairment 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, evaluation and exploration assets are tested for impairment and transferred to development tangible or intangible assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

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

(e) Intangible assets

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

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

(f) Inventories

Inventories are valued at the lower of cost and 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.

(g) Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(i) Cash and cash equivalents

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

(j) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the

par value of the shares is classified as government grants and is accounted for under IAS 20.

(k) 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 financing the purchase of property, plant and equipment and the exploration and drilling of geothermal wells are included in non-current liabilities as deferred government grants to be amortised 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.

(l) Borrowings

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their

intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

(m) 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.

(n) Provisions

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

(o) Employee benefits

(i) Retirement benefit obligations

The Company has registered a defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions

from both the company at 14.5% and employees at 7.5% of basic salary. Benefits are paid to retiring staff in accordance with the scheme's rules. The Company and all its employees also contribute to the National Social Security Fund which is a defined contribution schemes.

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

(ii) Other entitlements

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

(p) Leases

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

(q) Revenue Recognition

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

Revenue is recognised as follows:

- (i) GDC has not started generating revenue from sale of steam.
- (ii) Interest income is recognised on a time proportion basis using effective interest rate method (that is the rate that exactly discounts estimated future cash receipts through the expected life of financial instrument to the net carrying amount of the financial asset).
- (iii) Income from consultancy services is recognised on an accrual basis, when the service has been provided

(r) Income tax

(i) Current income tax

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

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

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts

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

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 estimates and judgements

The preparation of financial statements in conformity with IFRS also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and

other factors, including experience of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) *Useful lives of plant and equipment*

The Company's management determines the estimated useful lives and related depreciation charges for its plant and equipment. The Company depreciates its assets over their estimated useful lives, as more fully described in the accounting policies for property, plant and equipment. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a degree of judgment to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

In the process of applying the company's accounting policies, directors have made the following judgment;

(b) Critical accounting judgments

(i) *Going concern*

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

(ii) *Income taxes*

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

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

(iii) *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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash balances, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the finance department maintains flexibility in funding by maintaining availability under committed credit lines.

Management perform cash flow forecasting and monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or

risking damage to the Company's reputation. Surplus cash held by the Company, over and above the amounts required for working capital management are invested in interest bearing call accounts.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	2014	2013
	Shs'000	Shs'000
Trade and other payables	1,143,161	3,109,848
Bank borrowings	1623,43	736,110
	<u>2,766,591</u>	<u>3,845,958</u>

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and outstanding receivables and committed transactions. Credit risk is the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The amount that best represents the company's maximum exposure to credit risk at 30 June 2014 was made up as follows:

	2014	2013
	Shs'000	Shs'000
Cash at bank	-	480,183
Other receivables	2,970,516	580,867
	<u>2,970,516</u>	<u>1,061,050</u>

No collateral is held for any of the above assets. All receivables are neither past due nor impaired. Further, no receivables have had their terms renegotiated.

(c) Market risk

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

(i) Foreign exchange risk

The company makes purchases in foreign currency, holds cash in dollars 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 2014, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, loss for the year and equity would have been Shs 26,025,000 (2013: Shs 2,287,000) higher/lower, mainly as a result of US dollar denominated trade payables and bank balances.

On 30 June 2014, if the Kenya Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, loss for the year and equity would have been Shs 27,753,000 (2013: 173,000) higher/lower, as a result of Euro denominated trade payables.

On 30 June 2014, if the Kenya Shilling had weakened/strengthened by 10% against the Great Britain Pound with all other variables held constant, loss for the year and

equity would have been Shs 35,000 (2013: 1,495,000) higher/lower, as a result of GBP denominated trade payables.

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 30 June 2014, the company had short term borrowings at a variable rate at 91 days Treasury Bill rate plus 1.5% margin per annum, with a floor rate of 11% pa (2013: 10.5% pa). The Company is therefore not subject to material fair value interest rate risk.

(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 is currently reliant on grants from its shareholder, the government of Kenya as it has not yet commenced generating revenue.

5 Revenue

GDC has not started generating revenue from sale of steam.

6 Other income

	2014	2013
	Shs'000	Shs'000
Consultancy services	94,202	11,365
Sale of tender documents	1,172	7,234
Miscellaneous income	4,254	6,711
Net foreign exchange gain	<u>1,706</u>	<u>(12,486)</u>
	<u>101,334</u>	<u>12,824</u>

7 (a) Finance income

	2014	2013
	Shs'000	Shs'000
Interest income on bank deposits	<u>7,051</u>	<u>24,459</u>

7 (b) Finance Costs

Interest expense on borrowings	<u>12,467</u>	<u>3,017</u>
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8 Expenses by nature

	2014	2013
	Shs'000	Shs'000
Employee benefits expense (Note 9)	509,031	599,740
Depreciation of property, plant & equipment (Note 16)	71,708	236,352
Amortisation of intangible assets (Note 18)	50,793	53,948
Accommodation and subsistence	21,670	16,614
Operating lease payments	10,569	36,739
Auditor's remuneration	1,578	4,155
Training and education	41,107	32,342
Transportation expenses	8,177	11,137
Board expenses	30,421	34,055
Fuel expenses	4,187	3,787
Other expenses	31,894	220,583
	<u>781,135</u>	<u>1,249,452</u>

9 Employee benefits expense

The following items are included within employee benefits expense

	2014	2013
	Shs'000	Shs'000
Salaries and wages	492,788	557,183
Retirement benefits costs:		
- Defined contribution scheme	15,898	42,044
- National Social Security Fund	345	513
	<u>509,031</u>	<u>599,740</u>

10 Income tax expense

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate with the resultant tax payable being nil.

	2014	2013
	Shs'000	Shs'000
Current income tax	2,618	-
Deferred income tax	-	-
Income tax expense	<u>2,618</u>	<u>-</u>

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:

	2014	2013
	Shs'000	Shs'000
Loss before income tax	(112,883)	(297,551)
Tax calculated at the statutory income tax rate of 30% (2013 – 30%)	(33,865)	(89,265)
Tax effects of:		
Expenses not deductible for tax purposes	46,896	19,166
Deferred income tax not recognized	(13,031)	70,099
Income tax expense	<u>2,618</u>	<u>-</u>

11 Inventories

	2014	2013
	Shs'000	Shs'000
Inventories held for exploration and evaluation activities		
Drilling materials	2,248,141	1,018,782
Pipes	10,216	13,246
Fuel	61,451	37,154
Consumables	24,313	4,752
Inventories in transit	<u>1,535,545</u>	<u>2,734,250</u>
Total inventories held for exploration and evaluation activities	3,879,666	3,808,184
Other inventories	<u>32,385</u>	<u>19,034</u>
	<u>3,912,051</u>	<u>3,827,218</u>

For the purpose of the statement of cash flows, inventory held for exploration and evaluation activities movement is as follows:

	2014	2013
	Shs'000	Shs'000
At start of the year	3,808,184	644,344
Purchases in the year	3,601,041	5,869,268
Charged to exploration and evaluation assets (note 17)	<u>(3,529,559)</u>	<u>(2,705,428)</u>
At end of year	<u>3,879,666</u>	<u>3,808,184</u>

12 Receivables and prepayments

	2014	2013
	Shs'000	Shs'000
Value Added Tax (VAT) recoverable	1,343,644	917,690
Other receivables and prepayments	<u>2,970,516</u>	<u>580,867</u>
	<u><u>4,314,160</u></u>	<u><u>1,498,557</u></u>

The fair value of other receivables approximates their carrying value.

Included in other receivables balance is a deposit of Shs 62,551,206 (2013: Shs 61,585,146) held with Development Bank of Kenya as a guarantee for staff car loans.

13 Cash and cash equivalent

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

	2014	2013
	Shs'000	Shs'000
(Bank overdraft)/ bank balance (note 20)	(531,858)	480,183
Cash at hand	<u>1,495</u>	<u>1,270</u>
	<u><u>(530,363)</u></u>	<u><u>481,453</u></u>

14 Trade and other payables

	2014	2013
	Shs'000	Shs'000
Trade payables	319,932	2,941,132
Other payables and accrued expenses	280,255	46,486
Provision for liabilities & charges	<u>542,974</u>	<u>122,230</u>
	<u><u>1,143,161</u></u>	<u><u>3,109,848</u></u>

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

15 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%). The movement on the deferred income tax account is as follows:

	31.7.2013 Shs'000	Charged/ (credited) to SOCI Shs'000	30.6.2014 Shs'000
Year ended 30 June 2014			
Deferred income tax liabilities			
Unrealised exchange gains	<u>53</u>	<u>2,879</u>	<u>2,932</u>
Deferred income tax assets			
Provisions	(28,667)	3,243	(25,424)
Unrealized exchange loss	(2,564)	2,337	(227)
Tax losses carried forward	<u>(4,572)</u>	<u>4,572</u>	<u>-</u>
Net deferred income tax liability/ (asset)	(35,803)	10,152	(25,651)
Deferred income tax asset not recognised	<u>35,750</u>	<u>13,031</u>	<u>22,719</u>
Deferred income tax liability/ (asset) as per B/S	<u>-</u>	<u>-</u>	<u>-</u>

Deferred income tax (cont)

	31.7.2013 Shs'000	Charged/ (credited) to SOCI Shs'000	30.6.2014 Shs'000
Year ended 30 June 2013			
Deferred income tax liabilities			
Unrealised exchange gains	-	53	53
Deferred income tax assets			
Provisions	(24,727)	(3,940)	(28,667)
Unrealised exchange loss	(10,504)	7,940	(2,564)
Tax losses carried forward	-	4,572	4,572
Net deferred income tax liability/ (asset)	(35,231)	10,152	(25,651)
Deferred income tax asset not recognised	35,750	(572)	(35,803)
Deferred income tax liability/ (asset) as per B/S	-	-	-

16 Property, plant and equipment

	Land & Buildings	Rigs and water supply infrastructure	Plant machinery, power substation, 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
Year ended 30 June 2013 investing activities							
Opening net book amount	107,587	5,385,575	234,980	528,907	136,607	6,550,803	12,944,459
Additions	6,537	68,273	247,588	226,275	65,015	2,196,670	2,810,358
Transfer from WIP	-	5,231,457	272,162	454,914	12,473	(6,196,617)	(225,611)
Depreciation charge	(315)	(655,736)	(139,574)	(138,540)	(56,264)	-	(990,429)
Closing net book amount	<u>113,809</u>	<u>10,029,569</u>	<u>615,156</u>	<u>1,071,556</u>	<u>157,831</u>	<u>2,550,856</u>	<u>14,538,777</u>
At 30 June 2013 Cost	114,398	11,238,625	931,156	1,331,651	282,195	2,550,856	16,448,881
Accumulated depreciation	(589)	(1,209,056)	(316,000)	(260,095)	(124,364)	-	(1,910,104)
Net book amount	<u>113,809</u>	<u>10,029,569</u>	<u>615,156</u>	<u>1,071,556</u>	<u>157,831</u>	<u>2,550,856</u>	<u>14,538,777</u>

Property, plant and equipment (cont)

	Land & Buildings	Rigs and water supply infrastructure	Plant machinery, power substation, 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
Year ended 30 June 2013 investing activities							
Opening net book amount	113,809	10,029,569	615,156	157,831	2,550,856	6,550,803	14,538,777
Additions	1,396	6,631	395,518	53,960	2,173,958	2,196,670	2,733,676
Disposal	-	-	-	(278)	-	(6,196,617)	(3,220)
Depreciation charge	(430)	(712,428)	(182,527)	(65,153)	-	-	(1,145,530)
Closing net book amount	<u>114,775</u>	<u>9,323,772</u>	<u>828,147</u>	<u>146,360</u>	<u>4,724,814</u>	<u>2,550,856</u>	<u>16,123,703</u>
At 30 June 2014 Cost	115,795	11,245,256	1,430,921	335,910	4,724,814	2,550,856	19,179,370
Accumulated depreciation	<u>(1,020)</u>	<u>(1,921,484)</u>	<u>(445,086)</u>	<u>(189,550)</u>	-	-	<u>(3,055,667)</u>
Net book amount	<u>114,775</u>	<u>9,323,772</u>	<u>985,835</u>	<u>146,360</u>	<u>4,724,814</u>	<u>2,550,856</u>	<u>16,123,703</u>

17 Exploration and evaluation assets

These are expenses incurred by the company in exploration and drilling of geothermal wells.

The movements for the year was as follows:

	2014	2013
	Shs'000	Shs'000
At start of year	22,088,897	17,901,458
Additions	5,617,516	4,187,439
At end of year	<u>27,706,4133</u>	<u>22,088,897</u>

The additions in the year comprise the following:

Depreciation of property plant and equipment	1,071,926	754,077
Staff cost capitalised	1,016,031	727,934
Consumable inventories (note 11)	3,529,559	2,705,428
	<u>5,617,516</u>	<u>4,187,439</u>

18 Intangible assets

Computer software.

At start of year	167,452	194,878
Additions	8,360	26,522
Amortisation charge	<u>(50,793)</u>	<u>(53,948)</u>
At end of year	<u>125,019</u>	<u>167,452</u>

At 30 June 2013

Cost	272,968	264,608
Accumulated amortisation	<u>(147,949)</u>	<u>(97,156)</u>
Net book amount	<u>125,019</u>	<u>167,452</u>

19 Grants

Revenue grants	2014 Shs'000	2013 Shs'000
Grants from Government of Kenya	578,750	763,111
Africa Development Bank (AfDB)	-	125,655
Agence Française de Développement (AFD)	-	28,869
	<u>578,750</u>	<u>917,635</u>
Capital grants		
At start of year	40,125,461	32,727,578
Received in the year:		
Government of Kenya	5,145,150	4,505,000
Africa Development Bank (AfDB)	3,684,031	2,529,403
Agence Française de Développement (AFD)	-	363,480
European Investment Bank	<u>1,412,477</u>	<u>-</u>
	<u>10,241,658</u>	<u>7,397,883</u>
At end of year	<u>50,367,119</u>	<u>40,125,461</u>

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 to specifically finance the ongoing exploration and drilling of geothermal wells.

There are no unfulfilled conditions relating to the government grants recognised at 30 June 2014.

20 Borrowings

	2014 Shs'000	2013 Shs'000
Bank overdraft	531,858	-
Short term bank borrowings	<u>1,623,430</u>	<u>736,110</u>
	<u>2,155,288</u>	<u>736,110</u>

At 30 June 2014, the company had short term borrowings at 91 days Treasury Bill rate plus 1.5% margin per annum variable rate with a floor rate of 11% pa (2013: 10.5% pa).

The company holds a credit facility with Cooperative Bank of Kenya to finance imports through letters of credit.

21 Share capital

	Number of shares	Shs'000
Balance at 30 June 2012, 30 June 2013 and 30 June 2014	20,000	2,000

The total authorised number of ordinary shares is 20,000 with a par value of Shs 100 per share. Shares held by the Ministry of Energy & Petroleum are held in trust by the sitting Principal Secretary of the ministry. All issued shares are fully paid for by:

	Number of shares 2014	Number of shares 2013
Permanent Secretary to the National Treasury Eng. Joseph Njoroge, MBS (PS, Ministry of Energy & Petroleum)	19,999 <u>1</u>	19,990 <u>10</u>
	<u>20,000</u>	<u>20,000</u>

22 Commitments and contingent liabilities

The company does not hold any finance leases rather it holds operating leases for its office premises and geothermal exploration fields. GDC is not allowed to sublease such property and has been given no option to purchase such property.

The total future minimum operating lease payments are as follows:

	2014 Shs'000	2013 Shs'000
Not later than 1 year	174,632	183,945
Later than 1 year and not later than 5 years	541,199	589,499
Later than 5 years	2,643,160	2,771,007
	<u>3,358,991</u>	<u>3,544,451</u>

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

23 Related party transactions

The company is wholly owned and controlled by the Government of Kenya. 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:

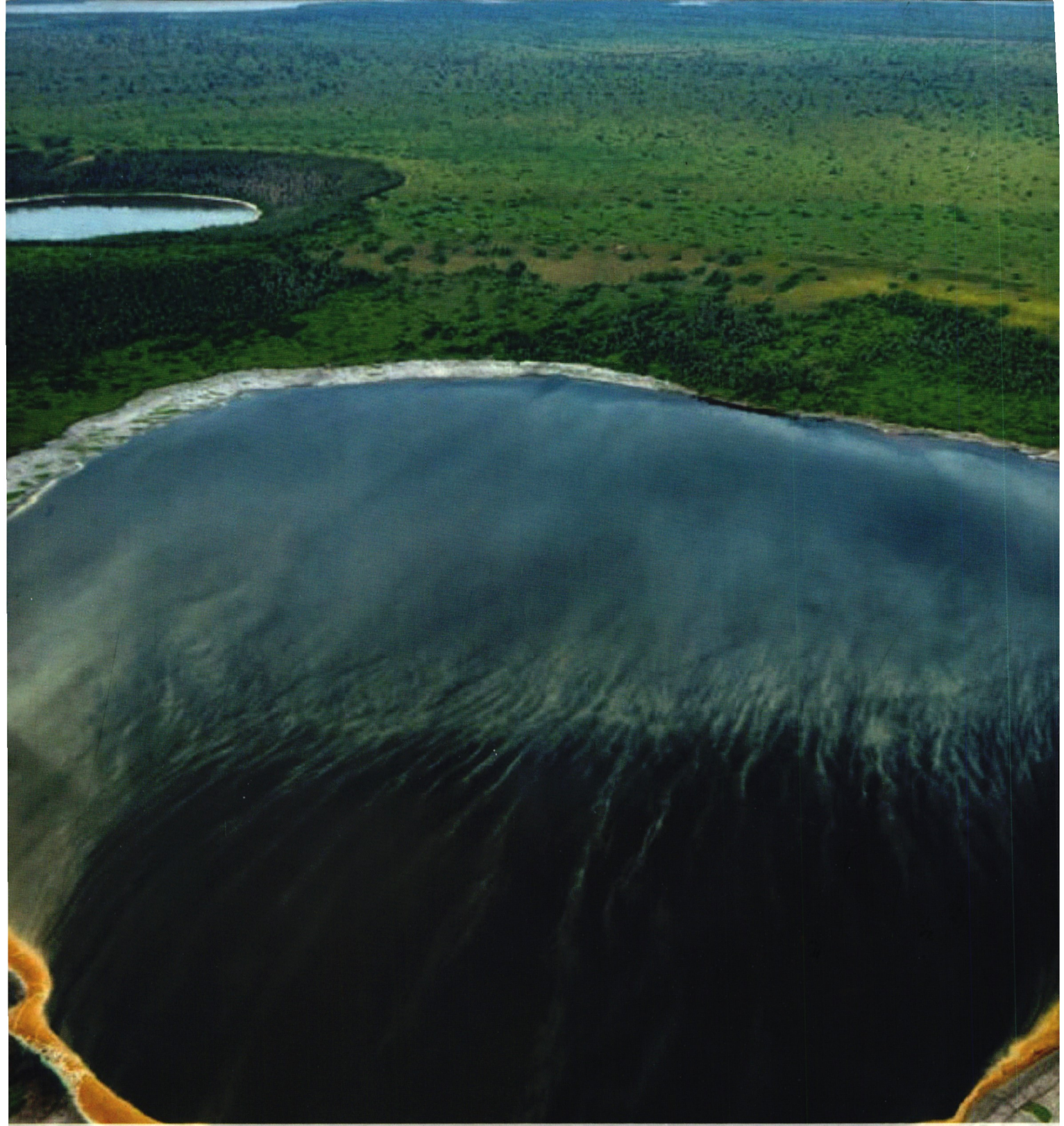
	2014 Shs'000	2013 Shs'000
Salaries and other short-term employment benefits	<u>55,344</u>	<u>46,341</u>
ii) Directors' remuneration		
Fees for services as a director	46,172	33,385
Other emoluments (included in key management compensation above)	<u>-</u>	<u>671</u>
	<u>46,172</u>	<u>34,056</u>

iii) Grants received in the year

The grants issued by the government of Kenya in the year are set out in Note 19.

NOTES

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