

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
GEOHERMAL DEVELOPMENT COMPANY
LIMITED

FOR THE YEAR ENDED
30 JUNE 2014

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**GEOHERMAL DEVELOPMENT COMPANY
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2014**

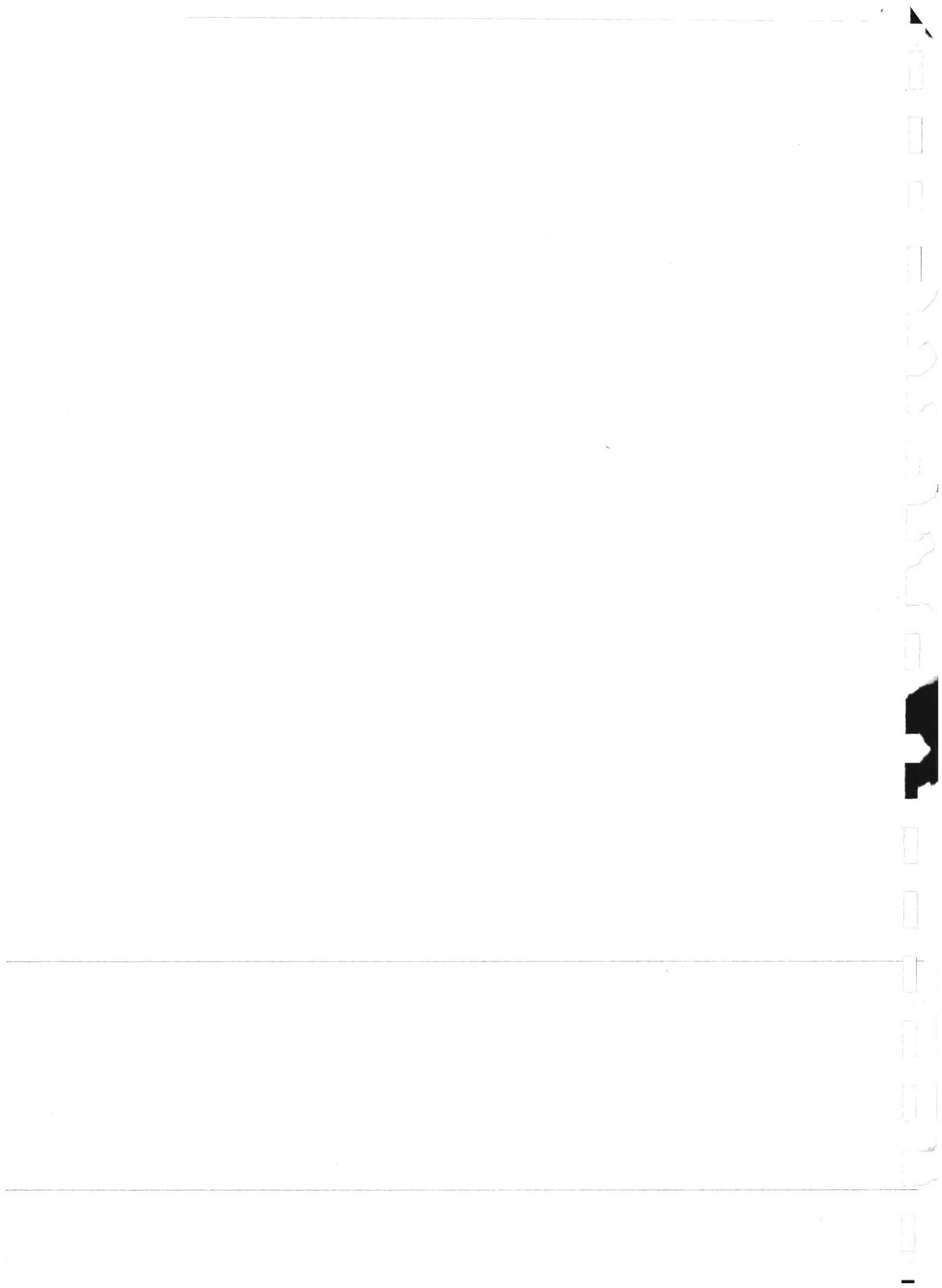


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COMPANY INFORMATION

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
Simon Gicharu	Chairman, appointed 10 January 2014, Retired 20 May 2014
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

DIRECTORS' REPORT

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 1

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

Bawa

SECRETARY

24 NOVEMBER 2014

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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.

Geothermal Development Company Limited
Statement of Directors' Responsibility
For the year ended 30 June 2014

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.

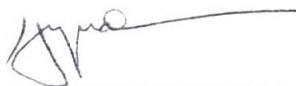
The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 30 June 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of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

MANAGEMENT TEAM

Dr. Silas M Simiyu, MBS	Managing Director and CEO
Dr. Peter Omenda	General Manager
Bruno Linyiru	Chief Manager, Commercial Services (Retired on 31 Aug 2014)
Abraham Saat	General Manager, Commercial Services (Appointed on 28 Oct 2014)
Paul Ngugi	Chief Manager, Business Development
Praxidis Saisi	Chief Manager, Legal Affairs/Company Secretary
Karume Weke	Chief Manager, Systems & Quality Assurance
Godwin Mwawongo	Chief Manager, Technical Services

REPUBLIC OF KENYA

Telephone +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Geothermal Development Company Limited set out at pages 12 to 39, 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 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 and report 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 judgement, 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

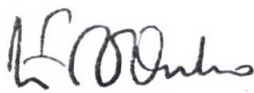
Without qualifying my opinion, I draw attention to the following matter on which I do not express a qualified opinion:

Included in the Exploration and Evaluation assets is an amount of Kshs.8.1 billion relating to the costs of drilling 26 wells out of the 59 wells in Ol 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 the 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

	Notes	Year ended 30 June	
		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)	(12,467)	(3,017)
Loss before tax		(112,883)	(297,551)
Income tax expense	10	(2,618)	-
Loss for the year		(115,501)	(297,551)
Other comprehensive income		-	-
Total comprehensive loss for the year		(115,501)	(297,551)

Statement of financial position

	Notes	As at 30 June	
		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	125,019	167,452
		<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		1,495	481,453
		<u>8,227,706</u>	<u>5,807,228</u>
TOTAL ASSETS		<u>52,182,841</u>	<u>42,602,354</u>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	21	2,000	2,000
Accumulated losses		(1,486,566)	(1,371,065)
Total equity		<u>(1,484,566)</u>	<u>(1,369,065)</u>
Non-Current liabilities			
Capital grants	19	50,367,119	40,125,461
Current liabilities			
Borrowings	20	2,155,288	736,110
Trade and other payables	14	1,143,161	3,109,848
Current income tax		1,839	-
		<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 financial statements on pages 12 to 39 were approved for issue by the board of directors on2014 and signed on its behalf by

Director

Director

Statement of changes in equity

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

	Notes	Year ended 30 June	
		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		(779)	-
Net cash generated from operating activities		(4,785,399)	283,389
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)
Proceeds from disposal of property plant and equipment		3,713	-
Net cash used in investing activities		(7,355,395)	(9,208,471)
Cash flows from financing activities			
Capital grants received	19	10,241,658	7,397,883
Proceeds from borrowings	20	887,320	736,110
Net cash generated from financing activities		11,128,978	8,133,993
Net decrease in cash and cash equivalents		(1,011,816)	(791,089)
Cash, cash equivalents at start of year		481,453	1,272,542
Cash and cash equivalents at end of year	13	(530,363)	481,453

NOTES

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of Preparation (continued)

(i) New and amended standards adopted (continued)

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(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%

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Property, plant and equipment (continued)

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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(n) Provisions

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

(o) Employee benefits

(i) Retirement benefit obligations

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

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

(ii) Other entitlements

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

(p) Leases

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

(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

Notes (continued)

2 Summary of significant accounting policies (continued)

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

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.

Notes (continued)

(b) Critical accounting judgments (continued)

(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.

Notes (continued)

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 Shs'000	2013 Shs'000
Trade and other payables	1,143,161	3,109,848
Bank borrowings	1623,430	736,110
	<hr/>	<hr/>
	2,766,591	3,845,958
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

(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 Shs'000	2013 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.

Notes (continued)

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. 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 Shs'000	2013 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	1,706	(12,486)
	101,334	12,824
	101,334	12,824

Notes (continued)

7 (a) Finance income

	2014 Shs'000	2013 Shs'000
Interest income on bank deposits	7,051	24,459

7 (b) Finance Costs

Interest expense on borrowings	12,467	3,017
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8 Expenses by nature

	2014 Shs'000	2013 Shs'000
Employee benefits expense (Note 9)	509,031	599,740
Depreciation of property, plant & equipment (Note16)	71,708	236,352
Amortisation of intangible assets (Note18)	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>

Notes (continued)

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	-	-
	<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
	<u>2,618</u>	<u>-</u>

Notes (continued)

11 Inventories

	2014 Shs'000	2013 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	1,535,545	2,734,250
	<hr/>	<hr/>
Total inventories held for exploration and evaluation activities	3,879,666	3,808,184
Other inventories	32,385	19,034
	<hr/>	<hr/>
	3,912,051	3,827,218
	<hr/> <hr/>	<hr/> <hr/>

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

	2014 Shs'000	2013 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)	(3,529,559)	(2,705,428)
	<hr/>	<hr/>
At end of year	3,879,666	3,808,184
	<hr/> <hr/>	<hr/> <hr/>
12 Receivables and prepayments		
Value Added Tax (VAT) recoverable	1,343,644	917,690
Other receivables and prepayments	2,970,516	580,867
	<hr/>	<hr/>
	4,314,160	1,498,557
	<hr/> <hr/>	<hr/> <hr/>

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.

Notes (continued)

13 Cash and cash equivalent

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

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

14 Trade and other payables

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

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

Notes (continued)

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:

Year ended 30 June 2014	31.7.2013	Charged/ (credited) to SOCI Shs'000	30.6.2014
	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities			
Unrealised exchange gains	53	2,879	2,932
Deferred income tax assets			
Provisions	(28,667)	3,243	(25,424)
Unrealized exchange loss	(2,564)	2,337	(227)
Tax losses carried forward	(4,572)	4,572	-
Net deferred income tax liability/ (asset)	(35,803)	10,152	(25,651)
Deferred income tax asset not recognised	35,750	13,031	22,719
Deferred income tax liability/ (asset) as per B/S	-	-	-
Year ended 30 June 2013	31.7.2012	Charged/ (credited) to SOCI	30.6.2013
Deferred income tax liabilities			
Unrealised exchange gains	-	53	53
Deferred income tax assets			
Provisions	(24,727)	(3,940)	(28,667)
Unrealized exchange loss	(10,504)	7,940	(2,564)
Tax losses carried forward	-	(4,572)	(4,572)
Net deferred income tax liability/ (asset)	(35,231)	(572)	(35,803)
Deferred income tax asset not recognised	35,231	572	35,750
Deferred income tax liability/ (asset) as per B/S	-	-	-

Deferred income tax has not been recognized as the company has not started generating revenue from sale of steam.

Notes (continued)

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
Year ended 30 June 2013	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Opening net book	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	113,809	10,029,569	615,156	1,071,556	157,831	2,550,856	14,538,777
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	113,809	10,029,569	615,156	1,071,556	157,831	2,550,856	14,538,777

Notes (continued)

16 Property, plant and equipment (Continued)

	Land & Buildings	Rigs and water supply infrastructure	Plant machinery, power substation, tools and equipment	Motor vehicles	Furniture, fittings and equipment	Work In Progress	Total
Year ended 30 June 2014	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Opening net book amount	113,809	10,029,569	615,156	1,071,556	157,831	2,550,856	14,538,777
Additions	1,396	6,631	395,518	102,213	53,960	2,173,958	2,733,676
Disposal	-	-	-	(2,942)	(278)	-	(3,220)
Depreciation charge	(430)	(712,428)	(182,527)	(184,992)	(65,153)	-	(1,145,530)
Closing net book	114,775	9,323,772	828,147	985,835	146,360	4,724,814	16,123,703
At 30 June 2014							
Cost	115,795	11,245,256	1,326,674	1,430,921	335,910	4,724,814	19,179,370
Accumulated depreciation	(1,020)	(1,921,484)	(498,527)	(445,086)	(189,550)	-	(3,055,667)
Net book amount	114,775	9,323,772	828,147	985,835	146,360	4,724,814	16,123,703

Depreciation amounting to Shs 1,071,926,000 (2013: Shs 754,077,000) was capitalised to exploration and evaluation asset during the year.

Notes (continued)

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

18 Intangible assets

Computer software.

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

At 30 June 2013

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

Notes (continued)

19 Grants

Revenue grants	2014	2013
	Shs'000	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	1,412,477	-
	<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 2013.

20 Borrowings

	2014	2013
	Shs'000	Shs'000
Bank overdraft	531,858	-
Short term bank borrowings	1,623,430	736,110
	<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.

Notes (continued)

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	19,999	19,990
Eng. Joseph Njoroge, MBS (PS, Ministry of Energy & Petroleum)	1	10
	<hr/>	<hr/>
	20,000	20,000
	<hr/> <hr/>	<hr/> <hr/>

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
	<hr/>	<hr/>
	3,358,991	3,544,451
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

22 Commitments and contingent liabilities (continued)

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	55,344	46,341
	<hr/>	<hr/>
ii) Directors' remuneration		
Fees for services as a director	46,172	33,385
Other emoluments (included in key management compensation above)	-	671
	<hr/>	<hr/>
	46,172	34,056
	<hr/> <hr/>	<hr/> <hr/>

iii) Grants received in the year

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