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THE AUDITOR-GENERAL

ON

**GEOHERMAL DEVELOPMENT COMPANY
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**



**GEOHERMAL DEVELOPMENT
COMPANY LIMITED**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2020**

Geothermal Development Company Limited

Annual reports and financial statements
For the year ended 30 June 2020

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COMPANY INFORMATION

BACKGROUND

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

PRINCIPAL ACTIVITIES

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

VISION

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

MISSION

Develop green energy for Kenya from geothermal resources.

DIRECTORS

Mr. John K Njiraini, CBS	Chairman (Appointed on 16 th October 2019)
Eng. Jared O. Othieno	Managing Director and Chief Executive Officer (Appointed on 18 th April 2020)
Mr. Namada Simoni	Director
Ms. Anne Too	Director
Ms. Nelly Yatich	Director
Mr. Kamau Kuria	Director
Mr. Mwendia Nyaga	Director
Mr. Timothy Gakuu	Alternate Director, Ministry of Energy
Mr. Joseph Mucugu	Alternate Director, National Treasury (Appointed on 19 th August 2019)
Mr. Joseph Kariuki	Alternate Director, National Treasury (Retired on 19 th August 2019)
Mr. Gershom Otachi	Chairman (Retired on 16 th October 2019)
Eng. Johnson P. Ole Nchoe	Managing Director and Chief Executive Officer (Retired on 17 th April 2020)

COMPANY SECRETARY Ms. Beatrice Kosgei

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

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

Kenya Commercial Bank Limited
Kipande House, Nairobi

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COMPANY INFORMATION (CONTINUED)

AUDITOR

Principal Auditor




Auditor General

Office of the Auditor General, Anniversary Towers
P.O Box 30084-00100 | GPO, Nairobi


Audit conducted on behalf of the Auditor General by;
Deloitte & Touche LLP
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 - GPO 00100
Nairobi

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY


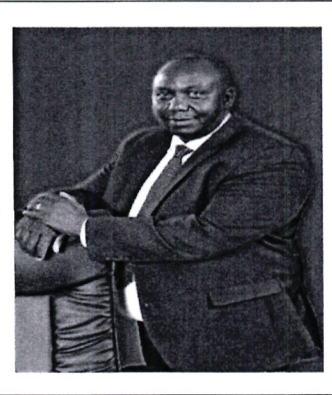


BOARD OF DIRECTORS

	<p>Mr. John K Njiraini, CBS Chairman GDC Board of Directors</p> <p>Mr John Njiraini is a distinguished technocrat with vast experience in corporates having worked at various strategic levels including as Chief Executive Officer of the Institute of Certified Public Accounts of Kenya (ICPAK), and Commissioner of Domestic Taxes and Large Taxpayers Office at the Kenya Revenue Authority (KRA) where he rose through the ranks to the position of Commissioner General. He holds Bachelor of Commerce (B. Com) and Master of Business Administration degrees from the University of Nairobi.</p>
	<p>Eng. Jared O. Othieno, Managing Director & CEO</p> <p>Eng. Jared O. Othieno is the Managing Director & CEO of the Geothermal Development Company. He is a Member of the Institution of Engineers of Kenya (IEK). He has over 25 years' leadership and management experience in the Energy Sector and has served in various capacities at Kenya Power and Lighting Company. Eng. Othieno has vast experience in power engineering, corporate strategy and performance management, business processes, corporate governance, and project management. He is a registered professional engineer who holds a master's degree in business administration (MBA) and a Bachelor of Science (BSc) in Electrical Engineering from the University of Nairobi</p>
	<p>Ms. Anne Too, Independent Non-Executive Director</p> <p>Ms. Anne Too has a bachelor's degree in Psychology and Criminology from Keele University, UK. She has worked as an advisor in the office of the Deputy Speaker of the National Assembly.</p> <p>Ms. Too also served as a personal advisor in the office of the Assistant Minister, Home Affairs. She has excellent management and communication skills. She is also self-driven and an astute entrepreneur</p>

BOARD OF DIRECTORS (CONTINUED)

	<p>Dr Nelly Yatich, Independent Non -Executive Director</p> <p>Dr Nelly Yatich is a Monitoring, Learning Research and Evaluation Expert. Dr Yatich holds a Doctorate in Public Health with a concentration in Epidemiology from University of Alabama at Birmingham, USA.</p> <p>Dr Yatich has extensive experience in epidemiology, monitoring & evaluation, clinical research, programme design & implementation, grant writing, budgeting as well as capacity building. She previously worked as Country Director at the University of Washington, where she oversaw all program and research activities in Kenya. She is a member of the American Public Health Association, International Society for Infectious Diseases, Global Health Council, and Phi Beta Delta Honour Society for International Scholars and the Delta Omega Honorary Society in Public Health.</p>
	<p>Mr. Kamau Kuria, Independent Non -Executive Director</p> <p>Mr. Kamau Kuria is a social entrepreneur and is currently the CEO of Africaqua Limited and Chairman of Ikotoilet Limited. He holds a bachelor's degree in Architecture from <i>Jomo Kenyatta University of Agriculture and Technology (JKUAT)</i> and a master's degree in Business Administration from KCA University.</p> <p>Mr. Kuria is a recipient of numerous awards in social entrepreneurship. The awards include the 2009 Africa Social Entrepreneur of the Year (World Economic Forum Davos, Switzerland) Ashoka Fellowship, Aspen Fellowship and Schwab Fellowship. He is a member of the Global Agenda Council of Entrepreneurship, Project Management Institute, Kenya Private Sector Alliance, Water, Environment and Natural Resources Working Group, East Africa Grain Council, and the Kenya Bureau of Standards (KEBS) Standards Committee on Wastewater. Mr. Kuria is also a founder member of the Kenya Schools Alumni Association.</p>

BOARD OF DIRECTORS (CONTINUED)

	<p>Mr. Joseph Mucugu Waruiru, Director (Alternate to the PS, National Treasury)</p> <p>Mr. Joseph Waruiru is the alternate director to the Cabinet Secretary National Treasury. He is a Certified Public Accountant with more than 12 years auditing experience in the Public Service. Mr. Waruiru is currently working at the Government Investment Public Enterprise Department, National Treasury.</p>
	<p>Mr Timothy Gakuu, Director (Alternate Director to the PS, Ministry Energy)</p> <p>He is a Chief Economist in the Ministry of Energy. He has over 25 years' experience having served in various government ministries. He is responsible for the central planning and project monitoring unit support function across the Energy Sector</p>
	<p>Mr. Mwendia Nyaga, Independent Non -Executive Director</p> <p>He is the founder and lead consultant at Oil and Energy Services Limited with 15 years' experience in the oil and gas industry. A petroleum and finance professional with experience advising the Government of Kenya on upstream matters, Mr. Mwendia has a deep appreciation of investor and government needs in this sector and specializes in assisting clients navigate this nascent sector. He is a local content expert in Kenya having contributed significantly to the dialogue around sustainable local content development in East Africa.</p>
	<p>Mr. Namada Simoni, Independent Non -Executive Director</p> <p>Mr. Namada Simoni is the Chairperson to the Board Audit Committee. He is an advocate of the High Court of Kenya with over 20 years of vast experience in legal practice. He is currently the Senior Partner at Namada & Co. Advocates.</p> <p>He is a member of the Law Society of Kenya (LSK) and the East African Law Society (EALS).</p>

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MANAGEMENT TEAM

Eng. Jared O. Othieno	Managing Director and CEO
Ms. Beatrice Kosgei	General Manager, Legal Affairs & Company Secretary
Mr. Cornel Ofwona	General Manager, Geothermal Resource development
Mr. Simon Kiplang'at	General Manager, Human Resources
Dr. George Muia	General Manager, Strategy, Research & Innovation
Eng. George Kinyanjui	General Manager, Drilling
Ms. Joanne Wamuyu	General Manager, Corporate Services
Mr. Stephen Busieney	General Manager, Finance

MANAGEMENT TEAM (CONTINUED)



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

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



Mr. Cornel Ofwona – General Manager, Geothermal Resource development

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



Mr. Simon Kiplang'at – General Manager, Human Resources

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



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

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

MANAGEMENT TEAM (CONTINUED)



Eng. George Kinyanjui – General Manager, Drilling and Infrastructure

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



Ms. Joanne Wamuyu – General Manager, Corporate Services

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



Mr. Stephen Busieney – General Manager, Finance

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am happy to present these annual books of accounts for the year ending June 30 2020 marking a year of challenges, accomplishments and great opportunities. Indeed, though the year, especially the last half was marked by the challenges of Covid_19 pandemic, still the Company registered impressive performance.

shareholders, I am happy to report that in the year, GDC generated revenues of KES. 3.2 Billion from sale of steam to KenGen from the Company's wells at Olkaria Geothermal Project. The company also earned KES. 4.5 million from external consultancies that the Company regularly offers.

Our revenue on steam sales was slightly affected by the Covid-19 pandemic due to depressed consumption of electricity.

Transition

In this financial year, I became the Chairman of the Board of Directors replacing Mr. Gerishon O'Bwana Otachi who had chaired the Board since April 2015. I want to thank H.E. President Uhuru Kenyatta for appointing me to this position for a period of three years.

At the same time, Eng. Johnson P. Ole Nchoe who had served the Company for four years retired as the Managing Director and CEO. The Company competitively recruited Eng. Jared O. Othieno as the new Managing Director and CEO for a period of three years. Eng. Othieno is a veteran of the energy sector having worked in various positions including as the Ag. Managing Director & CEO of the Kenya Power and Lighting Company. The Board has strong confidence in Eng. Othieno to drive the agenda of this great Company.

Going Concern

I wish to reiterate that GDC is a solid Company as a going concern. Indeed, I want to thank the shareholders for your unwavering support of the Company. I am confident that we are facing the next financial year with vigor as a result of the great insights accrued in the past financial years.



John K Njiraini, CBS
Chairman, Board of Directors.

MANAGING DIRECTOR & CEO'S STATEMENT

Dear Shareholder,

GDC closed the financial year on a triumphant note, the uncertainties of Covid_19 pandemic notwithstanding.

In the year under review, GDC proved steam at Korosi in the Baringo -Silali prospect. The Company went ahead to drill two more successful exploratory wells. The confirmation of steam was a major boost to the profile of the Company's prestige and asset base.

Indeed, our venture into the Baringo-Silali is a confirmation of our fidelity to the promise of being a key economic enabler. We are successfully de-risking the geothermal sector thus enabling the private sector to confidently partake in the geothermal economy. Our model for the Menengai-105 MW where three IPPs is set to invest and generate 35MW each is a case in point. In this project, one IPP reached financial closure and will be breaking ground for power plant construction in the next financial year.

Mindful of the welfare of our staff, the management has continued to operationalize the instruments of Labour Relations as agreed under the Collective Bargaining Agreement (CBA) between the Company the KETAWU, the staff union.

Baringo Silali

In the year under review we drilled three exploratory wells at Paka in the Baringo Silali Project. All the wells discharged steam. We also started site preparations at Korosi Prospect.

In the year too, the Geothermal Risk Mitigation Facility (GRMF) awarded the Government of Kenya a grant volume of KES. 1.9 Billion. GDC is the beneficiary of the funds meant for geothermal exploration in the larger Baringo-Silali Block. This grant is critical boosting our drilling operations in the region.

Beyond electricity

In our quest to diversify the development and utilization of geothermal energy, we have put in mechanism for direct uses that will culminate into the establishment of geothermal resource parks.

At Menengai, in the year under review, GDC acquired and installed a semi-commercial grain drier that will use geothermal steam for drying cereals. The facility is thanks to the Icelandic International Development Agency (ICEDA). GDC received a grant to fabricate the semi-commercial drier, which will have a capacity to handle 20 tons of maize per day. The drier is installed at the Menengai Geothermal Project, the first in Africa. This strategy is critical in the country's desires towards food security. Properly dried grains will prevent massive post-harvest losses and therefore boost grain reserves.

Indeed, the model of Resource Parks is set to be the future of Kenya's manufacturing and food security in line with the presidential strategic Big4 Agenda of Manufacturing, Food Security, Affordable Housing and Universal Healthcare. The utilization of heat geothermal heat will displace massive amounts of wood fuel and heavy diesel normally used in heating industrial boilers. This way, GDC will be offering clean alternative energy an in line with SGD7- Affordable and Clean Energy.

Stakeholder engagement

Aware of the critical role our stakeholders play towards the success of the organization, we have continued to have strategic engagements with our diverse stakeholders. In the year, GDC continued to engage with Governors and other county officials, elected leaders, policymakers and financiers.

MANAGING DIRECTOR & CEO'S STATEMENT (CONTINUED)

For community, in the Baringo-Silali Project, GDC established 20 strategic watering the water system has the capacity to provide 10,000 litres of water per hour for domestic and cattle. The water project has tremendously changed the lifestyle of the community.


In the year, GDC under its consultancy wing offered diverse trainings on geothermal energy to countries in the region. This effort does not only provide another source of revenue for the Company, it also increases our profile among states in the Eastern Africa Rift System. Indeed, GDC also entered into a Memorandum of Understanding (MOU) with the Geological Survey of Comoros (BGC). This is a major milestone where GDC will be the partner of choice for BGC to offer all consultancies on geothermal energy development. GDC is pursuing opportunities with other countries in the region.

Our achievements are possible because of a robust, diverse and passionate employee base. I am proud of the expertise at GDC and the efforts staff put into place towards achieving our goals. Employees are our bedrock. To this end, the Company has put across initiatives for continuous empowerment of our teams.

Covid-19 response

In the last half of the financial year, GDC, just like all corporates around the world, was affected by the vagaries of the Covid-19 pandemic. The company moved with speed to establish a Covid-19 Committee. We also supplied our staff with masks and provided hand-sanitizers at all the offices. Besides, we developed a mechanism of working from home in a bid to decongest the offices. We quickly adopted use of technology especially Microsoft Teams for holding meetings. I'm happy to announce that our strategy paid off and our operations continued unhindered. We shall continue with the strategy in the new financial year.

I remain optimistic that with sound leadership and great employee engagement, we are going to drive the company into the new financial year with confidence.



Eng. Jared O. Othieno
Managing Director & CEO

Geothermal Development Company Limited

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REVIEW OF THE COMPANY'S PERFORMANCE

In the year, the Company recorded a profit before tax of Shs. 410 million compared to previous year's restated loss before tax of Shs. 649 million. The growth is attributed to conclusion of a legal case between GDC and Cluff Geothermal and a reduction in non-productive time expensed during the period.

The overall receipts from steam charge payments decreased marginally to Shs. 3.2 billion from Shs. 3.4 billion mainly due to maintenance of the plant in Olkaria and the effect of the COVID-19 pandemic during the last quarter of the year. The allocation of steam receipts to development activities was Ksh 2.2 billion compared to Ksh 3.0 billion in the previous year.

During the year, an investment of Shs. 3.3 billion (2019: Shs. 3.76 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 1.3 billion (2019(Restated): Shs 2.1 billion) received from/through the Government of Kenya and plough-back of funds received from sale of steam.

The Company continues with exploration and evaluation activities in the Baringo-Silali area. Of the Shs. 550 million grant received from the Government of Kenya, Shs 250 million (2019: Shs. 407 million) was for the Bogoria Silali project.

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

Performance indicator	2020	2019 (Restated)
Revenue (Shs million)	1,001	356
Operating profit	622	(379)
Profit before income tax (Shs million)	410	(650)
Net assets (Shs million)	(1,891)	(2,091)
Current ratio	3:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	3,270	3,757
Additions to property, plant, and equipment (Shs million)	624	982
Grants received (Shs. million)	3,425	5,069

CORPORATE GOVERNANCE

Statement of Corporate Governance

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

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

Statement of Compliance

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

- a) Code of Governance for State Corporations (Mwongozo)
- b) Constitution of Kenya, 2010
- c) Leadership and integrity Act No.19 of 2012
- d) Board Charter
- e) Public Officers and Ethics Act No, 4 of 2003

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

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

Board Charter

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

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

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

Board Size, Composition, Appointments and Tenure

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

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

CORPORATE GOVERNANCE (CONTINUED)

Board Size, Composition, Appointments and Tenure (Continued)

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

As at 30th June 2020, the Board of Directors comprised of eight (8) non-executive directors and one executive director. The two alternate directors represent the majority shareholder, who is the Cabinet Secretary, National Treasury & Planning and the minority shareholder who is the Principal Secretary, Ministry of Energy.

Board Changes in the Year

The term of Eng. Johnson P. Ole Nchoe, the Managing Director & CEO ended on 17th April 2020. Eng. Jared O. Othieno was appointed as the Managing Director & CEO with effect from 18th April 2020 for a period of three (3) years.

Director	Designation	Effective Date
Eng. Johnson P. Ole Nchoe	Managing Director & CEO	17 th April 2020
Eng. Jared O. Othieno	Managing Director & CEO	18 th April 2020

Board Diversity

Board diversity is aimed at advancing businesses to new heights by bringing together diverse experiences. A diverse Board that includes but is not limited to diversity of expertise, experience, age and gender, makes better decisions. GDC Board as currently constituted reflects diversity which helps it perform its role effectively. The areas of expertise of the current Board are: -

Field of Expertise	Numbers
Engineering	2*
Project Management, Corporate Management and Architecture	1
Psychology and Criminology	1
Resource Mobilization, Public Health, Monitoring and Evaluation	1
Law	2
Economics	3*
Finance	1
Total	11

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

CORPORATE GOVERNANCE (CONTINUED)

Board Effectiveness

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

Role of the Board

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

Induction and Capacity Building for the Board

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

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

Board Meetings

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

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

Directors' Remuneration

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

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

The Directors are paid an annual Directors' fee subject to approval by the Ministry of Energy and the National Treasury. There were no loans granted to non-executive Directors during the year. The Directors' remuneration has been disclosed in the books of accounts.

Director's Shareholding

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

Declaration of Conflict of Interest

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

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

CORPORATE GOVERNANCE (CONTINUED)

Declaration of Conflict of Interest (Continued)

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

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

Directors' Evaluation

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

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

Governance Audit

No Governance Audit was undertaken during the period under review.

Legal Compliance Audit

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

General Manager, Legal Affairs & Company Secretary

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

Board Committees

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

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

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

CORPORATE GOVERNANCE (CONTINUED)

Board Committees (Continued)

The Board has four (4) Committees as follows: -

- a) The finance & general-purpose committee
- b) The human resource committee
- c) The strategy committee
- d) The audit committee

Risk Management and Internal Controls

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

To address Risk, GDC Board has approved the risk management policy, risk management framework; established a risk management function; and delegated to Management the responsibility to implement the risk management plan. The Audit Committee of the Board regularly reviews the effectiveness of the internal control system.

Stakeholders' Engagement

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

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

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

Procurement Policies

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

Code of Conduct and Ethics

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

The Board has approved the code of conduct and ethics and corporate gift policies. Every Board member and employee including those on contract have committed to adhere to the values in the Code.

Geothermal Development Company Limited

Annual reports and financial statements
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CORPORATE GOVERNANCE (CONTINUED)

Going Concern

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

7


Eng. Jared O. Othieno
Managing Director & CEO

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and financial performance

The company's performance for the year ended 30th June 2020 is as summarized below

Performance indicator	2020	2019 (Restated)
Revenue (Shs million)	1,001	356
Operating profit	622	(379)
Profit before income tax (Shs million)	410	(650)
Net assets (Shs million)	(1,891)	(2,091)
Current ratio	3:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	3,270	3,757
Additions to property, plant, and equipment (Shs million)	624	982
Grants received (Shs. million)	3,425	5,069

Compliance with statutory requirements

Following the restatement of the financial statements of the company arising from the change in accounting treatment of revenue from sale of steam, the tax liability as at 30th June 2020 amounted to Ksh 198 million which the company has made arrangements with the KRA to settle in instalments. The contingent liability relating to the matter before the Tax Appeals Tribunal has now been extinguished. The Tribunal vide a decision dated and delivered at Nairobi on the 12th April 2021, made a final determination that the decision by the Commissioner of Domestic Taxes dated 2nd December 2013 confirming the assessment and demanding VAT of Ksh 589, 677,993 .00 is hereby set aside. The company has fully complied with all the statutory requirements.

Key projects and investment decisions implemented by the company

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

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

In the year under review three exploratory wells were drilled at Paka in the Baringo Silali Project. All the wells discharged steam. Site preparations were started at Korosi Prospect.

In the year too, the Geothermal Risk Mitigation Facility (GRMF) awarded the Government of Kenya a grant volume of KES. 1.9 Billion. GDC is the beneficiary of the funds meant for geothermal exploration in the larger Baringo-Silali Block. This grant is critical in boosting our drilling operations in the region.

Beyond electricity

In the quest to diversify the development and utilization of geothermal energy, the company has put in place mechanism for direct uses that will culminate into the establishment of geothermal resource parks. During the year, GDC acquired and installed a semi-commercial grain drier that will use geothermal steam for drying cereals. The facility is thanks to the Icelandic International Development Agency (ICEDA). GDC received a grant to fabricate the semi-commercial drier, which will have a capacity to handle 20 tons of maize per day. The drier is installed at the Menengai Geothermal Project, the first in Africa.

Geothermal Development Company Limited

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MANAGEMENT DISCUSSION AND ANALYSIS

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

The model of Resource Parks is set to be the future of Kenya's manufacturing and food security in line with the presidential strategic Big4 Agenda of Manufacturing, Food Security, Affordable Housing and Universal Healthcare.

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

Governance

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

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY

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

Our approach

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

SOCIAL SUSTAINABILITY

Education

GDC is passionate about offering educational support to local communities in the project areas. During the financial year 2019/2020, the Company constructed an Early Childhood Education (ECD) classroom at Kibenos in the Bogoria-Silali project area. Further, the Company provided career guidance talks to students in secondary schools within the Menengai and Bogoria-Silali project areas.

Health

In light of the medical response challenges within the Bogoria-Silali project area, the Company has provided first aid support and ambulance services to the local community. The company also procured sanitary towels for distribution to secondary schools within the financial year.

Sports

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

ECONOMIC SUSTAINABILITY

Reserved Tender Opportunities

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

Road Infrastructure

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

Employment Opportunities

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

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

ECONOMIC SUSTAINABILITY (CONTINUED)

Corporate Sponsorship

GDC sponsored and participated in the Nakuru International Investment Conference (NIICO) held in Naivasha between the 29th November and 1st December 2019. Key issues discussed at the conference include the place of geothermal energy as a natural source of reliable power and its importance to the national economy. The Company also sponsored and participated in the Fifth Africa Engineering Week and Third Africa Engineering Conference held between the 17th and 21st September 2019.

ENVIRONMENTAL SUSTAINABILITY

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

Compliance with Applicable Environmental Laws and Regulations

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

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

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

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

Stakeholder Management

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

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Geothermal Development Company Limited (the "Company") for the year ended 30 June 2020.

Business Review

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

Restatement of prior year results

The Company's financial statements include a restatement of the opening balances as at 01 July 2018 and the statement of profit or loss and other comprehensive income figures for the year ended 30th June 2019 to correct prior period errors. These are covered in note 26 of the financial statements.

The Company's Performance

In the year, the Company recorded a profit before tax of Shs. 410 million compared to previous year's restated loss before tax of Shs. 649 million. The growth is attributed to conclusion of a legal case between GDC and Cluff Geothermal and a reduction in non-productive time expensed during the period.

The overall receipts from steam charge payments decreased marginally to Shs. 3.2 billion from Shs. 3.4 billion mainly due to maintenance of the plant in Olkaria and the effect of the COVID-19 pandemic during the last quarter of the year. The allocation of steam receipts to development activities was Ksh 2.2 billion compared to Ksh 3.0 billion in the previous year.

During the year, an investment of Shs. 3.3 billion (2019: Shs. 3.76 billion) was spent on exploration and evaluation activities in the Menengai field and Bogoria-Silali fields. These were funded by capital grants of Shs. 1.3 billion (2019(Restated): Shs 2.1 billion) received from/through the Government of Kenya and plough-back of funds received from sale of steam.

The Company continues with exploration and evaluation activities in the Baringo-Silali area. Of the Shs. 550 million grant received from the Government of Kenya, Shs 250 million (2019: Shs. 407 million) was for the Bogoria Silali project.

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

Performance indicator	2020	2019 (Restated)
Revenue (Shs million)	1,001	356
Operating profit	622	(379)
Profit before income tax (Shs million)	410	(650)
Net assets (Shs million)	(1,891)	(2,091)
Current ratio	3:1	3:1
Expenditure on exploration and evaluation assets (Shs million)	3,270	3,757
Additions to property, plant, and equipment (Shs million)	624	982
Grants received (Shs. million)	3,425	5,069

Dividend

The net profit for the year of Shs 199,787,000 (2019 – Restated loss: (Shs 536,596,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

REPORT OF THE DIRECTORS (CONTINUED)

Directors

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

Disclosure to Auditor

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

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

Terms of Appointment of Auditor

Deloitte & Touche LLP were appointed by the Auditor General to carry out the audit of Geothermal Development Company Limited for the year ended 30 June 2020 in accordance with section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

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

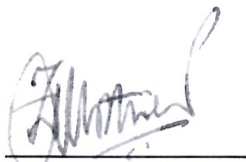
Employees

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

Approval of Financial Statements

The financial statements were approved by the Board of Directors on 4 February 2022.

By order of the Board



Eng. Jared O. Othieno
Managing Director & CEO

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on 30 June 2020. This responsibility includes:

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

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the State Corporations Act and the Kenya Companies Act, 2015. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended 30 June 2020, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

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

Directors clarification on Audit Opinion

The Directors note the qualified opinion issued by the Auditor General in respect of monies received by GDC for the supply of steam to Kenya Electricity Generating Company PLC (KenGen) and wish to provide the clarification below.

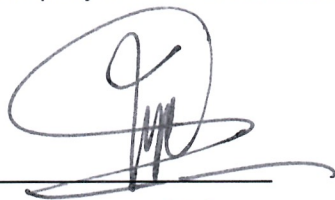
Directors clarification on Audit Opinion (Continued)

Based on professional advice, the Board took the view that a portion of the receipts from KenGen, does not qualify for treatment as revenue because the amounts have been appropriated by Parliament for Development Expenditure in accordance with the Appropriations Act. The Board's position was informed by consideration of the "Substance-Over-Form" concept, which in this particular instance, would dictate that such amounts be excluded from revenue since they are not available to finance recurrent expenditure. This treatment is also consistent with the "Matching" concept, which dictates that recognition of revenue be aligned to expenditures incurred in the earning of such revenue.

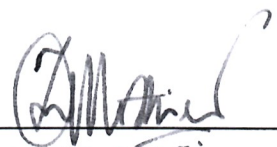
The treatment adopted is consistent with how Geothermal Development Company (GDC) treats amounts received as Development Grants from financiers including the Government of Kenya and Development Partners, which in the Financial Statements are treated as Capital Grants and not as Revenue. The Board is convinced that its application of the "Substance-Over-Form" and "Matching" concepts, in respect of the treatment of amounts received from KenGen and appropriated for Development Expenditure, is consistent with Generally Accepted Accounting Practice and the provisions of IFRS 15, Revenue from Contracts with Customers.

Approval of the financial statements

The Company's financial statements were approved by the Board on th 4th February 2022



Mr. John K Njiraini, CBS
Chairman, Board of Directors.



Eng. Jared O. Othieno
Managing Director & CEO

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Geothermal Development Company Limited set out on pages 31 to 72, which comprise the statement of financial position as at 30 June, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 23 of the Public Audit Act, 2015.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Geothermal Development Company Limited as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Qualified of Opinion

1. Impact of Accounting Policy Changes on the Financial Statements

1.1 Steam Revenue

The statement of profit or loss and other comprehensive income reflects revenue amounting to Kshs.1,000,781,000, which according to Note 5 to the financial statements, was realised from sale of steam from Olkaria wells. Previously, all revenues from sale of steam were recognised in the statement of profit or loss and other comprehensive income in the period which the Company supplied the steam and collectability of revenue was reasonably assured.

However, during the year under review, Management changed the accounting policy on revenue from sale of steam, as disclosed in Note 26 to the financial statements. Arising from this change, the portion of steam revenue appropriated for recurrent expenditure in the national budget is recognized as revenue in the statement of profit or loss and other comprehensive income, while the portion appropriated for development expenditure is recognized in the statement of financial position as capital grants.

The above change also resulted in restatement of amounts reported in prior years as capital grants and revenue where part of revenue from sale of steam are now accounted for as capital grants in the statement of financial position, instead of being reported as revenue in the statement of profit or loss and other comprehensive income as before.

The accounting policy adopted by the Management constitutes a departure from the requirements of the International Financial Reporting Standards (IFRS) 15, on revenue from contracts with customers. According to the standard, proceeds from sale of steam constitutes revenue from contracts with customers and should therefore be recognized in the statement of profit or loss and other comprehensive income, and not as a capital grant in the statement of financial position.

Had the Management accounted for revenue from steam sales in accordance with IFRS 15, the Company would have recognized additional revenue of Kshs.2,167,000,000 in the statement of profit or loss and other comprehensive income, and the carrying amount of the capital grants in the statement of financial position would have been reduced by a similar amount and all the prior year adjustments disclosed in Note 26 to the financial statements would have been reversed. Further, the income tax and profit after tax for the year under review would have increased by Kshs.541,700,000 and Kshs.1,625,250,000 respectively, while shareholders' equity would have increased by Kshs.1,625,250,000.

In the circumstances, the financial statements were not prepared in accordance with International Financial Reporting Standards, with respect to revenue.

1.2 Long Outstanding Corporation Tax and Related Penalties

A change of the Company's accounting policy on revenue from sale of steam impacted on the outstanding corporation tax and related penalties. As reported in the prior year, the Company is required to comply with tax laws and other related regulations, including remission of taxes to Kenya Revenue Authority (KRA), as per the prescribed rates and remittance dates. The statement of financial position reflects current tax liability of Kshs.197,853,000 (2019: Kshs.530,395,000, restated). According to the audited financial statements for 2018/2019 financial year, the outstanding taxes amounted to Kshs.4,042,976,000 accruing from 2014/2015 to 2018/2019 financial years.

Further, Note 15 to the financial statements reflect other payables amounting to Kshs.1,145,516,000 (2019: Kshs.1,415,125,000 - restated). Included in the amount are accrued interest and penalties amounting to Kshs.364,516,000 (2019: Kshs.333,759,000 - restated), which arose from non-payment of income taxes. According to the audited financial statements for the year ended 30 June, 2019, the outstanding interest and penalties amounted to Kshs.1,440,807,350. However, it is not clear how the tax obligation from prior years was settled.

Consequently, change of the accounting policy on proceeds from sale of steam resulted in reduction in taxes payable by the company to KRA. It is also not clear whether the application of the policy and its impact on taxes payable by the Company, from 2014/2015 to 2019/2020 financial years, was approved by The National Treasury and agreed with KRA. In the event that this matter is not resolved with KRA, the

Company is at risk of litigation and other tax recovery measures regarding the outstanding taxes, interest and penalties.

2. Offsetting of Assets and Liabilities

The statement of financial position reflects cash and cash equivalents amounting to Kshs.24,661,000 as further disclosed in Note 14 to the financial statements. However, according to the Note, a credit balance of Kshs.3,000 in one of the accounts held with Co-operative Bank of Kenya was offset against the debit balances. This is contrary to Paragraph 32 of the international Accounting Standards (IAS) 1 – Presentation of Financial Statements which prohibits offsetting of assets and liabilities.

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

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

I draw attention to the statement of financial position which discloses that the Company's retained earnings for the year under review amounted to negative Kshs.1,892,861,000 (2019: negative Kshs.2,092,648,000 - restated). Further, statement of changes in equity reflects a negative equity balance of Kshs.1,890,861,000 (2019: negative Kshs.2,090,648,000 - restated). According to this information, the Company's liabilities exceeded its assets by Kshs.1,892,861,000 (2019: Kshs.2,092,648,000 - restated). The Company has remained in a net liability position for the third consecutive year, indicating that a material uncertainty exists, which may cast significant doubt on the Company's ability to continue as a going concern.

2. Unproductive and Abandoned Wells

As reported in the prior year, the statement of profit or loss and other comprehensive income reflects other expenses amounting to Kshs.1,029,524,000, as disclosed in Note 9 to the financial statements. Included in the amount is Kshs.964,045,000 (2019: Kshs.917,002,000) which relates to expenditure on unproductive and abandoned wells, written off during the year under review. According to Management's past responses, success rates for geothermal wells increase as more wells are drilled to provide surface information. The cost of unproductive and abandoned wells written off by the Company are significant and requires enhanced management attention, with the aim of minimizing drilling losses.

My opinion is not qualified in respect of the effect of these matters.

Key Audit Matters

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

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Late Submission of Financial Statements

Section 81(3) and 81(4)(a) of the Public Finance Management Act, 2012 provides that the Accounting Officer of a National Government entity is responsible for the preparation and fair presentation of financial statements in accordance with the relevant accounting standards prescribed and published by the Accounting Standards Board. The Act requires those financial statements to be submitted to the Auditor-General for audit, not later than three months after the end of each financial year, which should be by 30 September, 2020 in respect of the year under review. However, the Management of Geothermal Development Company Limited did not submit signed financial statements of the Company to the Auditor-General on time as required by law. The financial statements were forwarded to the directors for signature by the appointed auditors, Deloitte & Touche, on 26 August, 2020 but were signed on 4 February, 2022 which was over 18 Months later.

2. Cost of Non-Productive Time

As similarly reported in the prior year, the statement of financial position further reflects other operating expenses amounting to Kshs.1,029,524,000 which includes an amount of Kshs.32,173,000 (2019: Kshs.116,288,000), in respect of non-productive time (NPT) on drilling activities written off during the year. According to Management's past responses, NPT costs were mainly caused by operational and drilling program, and logistical challenges. The Management has in the past committed to develop a formal policy on what should constitute acceptable levels of NPT based on international best practices. However, by the time of concluding the audit for the year under review, no such policy had been developed to guide the management on NPT costs. These are avoidable costs which increase the cost of drilling wells and ought not to have been incurred by the Company.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Commingling of Company Funds

The statement of financial position reflects cash and cash equivalents amounting to Kshs.24,661,000, as disclosed in note 14 to the financial statements. However, review of cashbooks and bank records revealed that the Company funds were commingled with Project funds for the Menengai Geothermal Development and Bogoria Silali Geothermal Projects. Management had previously indicated that the process of separating the Company's and projects' bank accounts was underway. However, the separation had not been done as at 30 June, 2020. Further, negative bank balances for Menengai Geothermal Development Project were netted off against the Company bank accounts. In the absence of separate bank accounts for the projects, it was difficult to reconcile funds received and spent in relation to the Company, which may have led to inaccurate reporting.

In the circumstances, it was not confirmed whether there was sound custody and reporting systems regarding the Company's funds.

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

REPORT ON OTHER LEGAFL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall

governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 March, 2022

Report of the Auditor-General on Geothermal Development Company Limited for the year ended 30 June, 2020

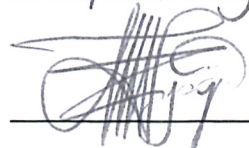
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 30 June	
		2020	2019
		Shs'000	Restated Shs'000
Revenue	5	1,000,781	355,986
Government grants	20	2,960,157	2,973,114
Other income	6(a)	26,291	12,159
Net foreign exchange (loss)/gain	6(b)	(74,828)	33,293
Administrative expenses	8	(2,260,556)	(2,317,293)
Other operating expenses	9	(1,029,524)	(1,436,335)
		<hr/>	<hr/>
Operating profit		622,321	(379,076)
Finance income	7(a)	18,526	872
Finance costs	7(b)	(230,515)	(271,301)
		<hr/>	<hr/>
Profit/(loss) before income tax		410,332	(649,505)
Income tax (charge)/credit	11(a)	(210,545)	112,909
		<hr/>	<hr/>
Profit/(loss) for the year		199,787	(536,596)
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income/(loss) for the year		<u>199,787</u>	<u>(536,596)</u>

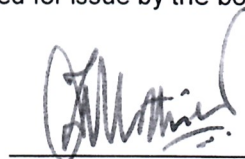
STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June		
		2020 Shs'000	2019 Restated Shs'000	2018 Restated Shs'000
ASSETS				
Non-current assets				
Property, plant and equipment	17	47,491,582	50,222,111	31,088,333
Exploration and evaluation assets	18	44,855,738	40,686,368	36,260,423
Intangible assets	19	15,903	16,964	18,175
Deferred income tax	16	197,846	403,759	290,589
		<u>92,561,069</u>	<u>91,329,202</u>	<u>67,657,520</u>
Current assets				
Inventories	12	4,657,489	4,876,396	4,783,140
Trade and other receivables	13	3,215,050	5,027,239	6,288,276
Cash and cash equivalents	14	24,661	102,672	1,103
		<u>7,897,200</u>	<u>10,006,307</u>	<u>11,072,519</u>
TOTAL ASSETS		<u>100,458,269</u>	<u>101,335,509</u>	<u>78,730,039</u>
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	22	2,000	2,000	2,000
Retained earnings		(1,892,861)	(2,092,648)	(1,556,052)
Total equity		<u>(1,890,861)</u>	<u>(2,090,648)</u>	<u>(1,554,052)</u>
Non-current liabilities				
Capital grants	20	97,110,677	97,588,437	73,545,355
Borrowings	21(a)	2,449,735	2,632,120	-
		<u>99,560,412</u>	<u>100,220,557</u>	<u>73,545,355</u>
Current liabilities				
Borrowings		357,827	345,875	2,560,033
Trade and other payables	15	2,233,038	2,329,330	3,598,569
Current income tax	11(b)	197,853	530,395	580,134
		<u>2,788,718</u>	<u>3,205,600</u>	<u>6,738,736</u>
TOTAL EQUITY AND LIABILITIES		<u>100,458,269</u>	<u>101,335,509</u>	<u>78,730,039</u>

The financial statements on pages 31 to 72 were authorized and approved for issue by the board of directors on 14 February 2022 and signed on its behalf by:



Mr. Mwendia Nyaga
Director.



Eng. Jared O. Othieno
Managing Director & CEO

STATEMENT OF CHANGES IN EQUITY

	Share capital Shs'000	Retained earnings Shs'000	Total equity Shs'000
At 1 July 2018	2,000	2,063,286	2,065,286
Prior year adjustments (note 26)	-	(3,619,338)	(3,619,312)
At 1 July 2018 - restated	2,000	(1,556,052)	(1,554,052)
Total comprehensive loss for the year	-	(536,596)	(536,596)
At 30 June 2019 – restated	2,000	(2,092,648)	(2,090,648)
At 1 July 2019 – restated	2,000	(2,092,648)	(2,090,648)
Total comprehensive income for the year		199,787	199,787
At 30 June 2020	2,000	(1,892,861)	(1,890,861)

STATEMENT OF CASH FLOWS

		Year ended 30 June	
		2020	2019
	Notes	Shs'000	Restated Shs'000
Cash flows from operating activities			
Profit/(loss) before tax		410,332	(649,505)
<i>Adjustments:</i>			
Depreciation of property, plant and equipment	17	1,459,234	1,459,151
Write-off of unproductive and abandoned wells	18	964,045	917,002
Write off of non-productive time	18	32,173	116,288
Amortisation of intangible asset	19	961	909
Amortisation of capital grants	20	(2,385,381)	(2,338,338)
Unrealised foreign exchange loss on borrowings	21	121,341	11,070
Finance income	7(a)	(18,526)	(872)
Finance costs	7(b)	230,515	271,301
Loss on disposal of property, plant and equipment		-	17
<i>Changes in working capital:</i>			
- Trade and other receivables		1,812,189	1,261,037
- Inventories		218,907	(93,256)
- Trade and other payables		(96,292)	(1,269,239)
Cash generated from/(used in) operations		2,749,498	(314,435)
Income tax paid	11	(337,174)	(50,000)
Interest paid	21	(239,245)	(215,269)
Interest received		18,526	872
Net cash generated from/(used in) operating activities		2,191,605	(578,832)
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(623,656)	(981,953)
Expenditure on exploration and evaluation assets	18	(3,270,317)	(3,757,392)
Purchases of intangible assets	19	(220)	-
Net cash used in investing activities		(3,894,193)	(4,739,345)
Cash flows from financing activities			
Proceeds from capital grants	20	3,424,615	5,068,886
Refunds of capital grants	20	(1,516,994)	-
Proceeds from term loan	21	-	2,958,839
Repayment of term loan	21	(283,044)	(47,946)
Net cash generated from financing activities		1,624,577	7,979,779
Net increase in cash and cash equivalents		(78,011)	2,661,602
Cash and cash equivalents at start of year		102,672	(2,558,930)
Cash and cash equivalents at end of year	14	24,661	102,672

1 General information

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

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

2 Significant accounting policies

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

(a) Statement of compliance and basis of preparation

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

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

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

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

(i) Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that became effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Company was 1 July 2019.

Impact of new definition of a lease

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

2 Significant accounting policies (Continued)

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2020 (Continued)

(i) *Impact of initial application of IFRS 16 Leases (continued)* **Impact of new definition of a lease (Continued)**

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

Impact on Lessee Accounting

Former operating leases

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

Applying IFRS 16, for all leases (except as noted below), the Company:

- a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

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

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

The Company is not a lessor in any lease arrangement therefore there is no impact on lessor accounting

2 Significant accounting policies (Continued)

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2020 (Continued)

(i) *Impact of initial application of IFRS 16 Leases (continued)*

Financial Impact of the initial application of IFRS 16

Other than the impacts on the overall accounting policy implemented by the Company as described above, the initial application of IFRS 16 did not have any impact on the Company's statement of financial position as at 30 June 2020 or the statement of profit or loss for the year then ended. The Company's leases are mainly incurred for the exploration of geothermal resources and are accounted for under IFRS 6 *Exploration for and Evaluation of Mineral Resources*. IFRS 16 includes a scope exception for such leases and they continue to be accounted for under IFRS 6 on a straightline basis.

(ii) *Amendments to IFRS 9 Prepayment Features with Negative Compensation*

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(iii) *Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation. Adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2 Significant accounting policies (Continued)

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

Relevant new standards and amendments to published standards effective for the year ended 30 June 2020 (Continued)

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

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

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended.

The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

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

(v) IFRIC 23 Uncertainty over Income Tax Treatments

The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - ✓ If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - ✓ If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

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

2 Significant accounting policies (Continued)

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

Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020.

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IAS 1 and IAS 8- <i>Definition of material</i>	1 January 2020, with earlier application permitted
Conceptual Framework: <i>Amendments to References to the Conceptual Framework in IFRS standards</i>	1 January 2020, with earlier application permitted
Amendments to IFRS 9, IAS 39 and IFRS 7- <i>Interest rate benchmark reform</i>	1 January 2020, with earlier application permitted
Amendment to IFRS 16 - <i>Covid-19 related rent concessions</i>	1 June 2020, with earlier application permitted
Amendments to IAS 1 - <i>Classification of liabilities as current or non-current</i>	1 January 2023, with earlier application permitted
Amendments to IAS 16 - <i>Property, plant and equipment-Proceeds before intended use</i>	1 January 2022, with earlier application permitted
Annual improvements to IFRS standards 2018-2020	1 January 2022, with earlier application permitted

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

Early adoption of standards

The company did not early adopt any new or amended standards in the year ended 30 June 2020.

(c) Basis of preparation

Foreign currency translation

(i) Functional and presentation currency

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Foreign currency translation (continued)

(ii) Transactions and balances

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

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

Property, plant and equipment

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

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

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

The annual depreciation rates in use are:

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

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

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

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Exploration and evaluation assets

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

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

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

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

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

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

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

Impairment – exploration and evaluation assets

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

Intangible assets

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

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

Inventories

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial instruments

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

Financial assets

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

(i) Classification of financial assets

The Company classifies financial instruments into three categories as described below.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

(ii) De-recognition

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial Instruments (Continued)

Financial Assets (Continued)

(ii) De-recognition (Continued)

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

Offsetting of financial assets and liabilities

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

Impairment

(i) Financial assets

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

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

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

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

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

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Financial Instruments (Continued)

Financial Assets (Continued)

Impairment (Continued)

(ii) *Non-financial assets*

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial liabilities

Recognition and measurement

Bank borrowings

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

Trade and other payables

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

Derecognition of financial liabilities

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Cash and cash equivalents

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

Share capital

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

Trade payables

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

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

Government Grants

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

(i) Revenue Grants

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

(ii) Capital Grants

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

(iii) Non-monetary Grants

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

Borrowings

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

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

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Provisions

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

Employee benefits

(i) Retirement benefit obligations

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

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

(ii) Other entitlements

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

Revenue recognition

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

Revenue is recognised as follows:

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

Income tax

(i) Current income tax

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

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

2 Significant accounting policies (Continued)

(c) Basis of preparation (continued)

Income tax (Continued)

(ii) Deferred income tax

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

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

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

3 Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies

Equipment

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

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Classification of leases of land as finance or operating leases

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

- The lease transfers ownership of the asset to the lessee by the end of the lease term;

3 Critical accounting estimates and judgements (continued)

Critical judgements in applying accounting policies (Continued)

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

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

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

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

Key sources of estimation uncertainty

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

(i) Going concern

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

(ii) Income taxes

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

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

3 Critical accounting estimates and judgements (continued)**Key sources of estimation uncertainty (Continued)***(iii) Impairment of exploration and evaluation expenditure*

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

4 Financial risk management objectives and policies**(a) Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the Company's directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

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

	Less than 3 months Shs'000	Between 3 & 12 months Shs'000	Total Shs'000
At 30 June 2020:			
Trade and other payables (Note 15)	2,173,315	-	2,173,315
Bank borrowings	79,297	278,530	357,827
	<hr/> 2,252,612	<hr/> 278,530	<hr/> 2,531,142
At 30 June 2019: Restated			
Trade and other payables (Note 15)	2,328,093	-	2,328,093
Bank borrowings (Note 21)	74,216	271,659	345,875
	<hr/> 2,402,309	<hr/> 271,659	<hr/> 2,673,968

(b) Credit risk

Credit risk refers to the risk that customers will default on their contractual obligations resulting in financial loss to the company. The Company has significant concentration of credit risk on amounts due from Kenya Electricity Generating Company (KenGen), which represent 95% of the total trade receivable as at 30 June 2020 (2019: 94%). The carrying amount of financial assets recorded in the financial statements, which are stated net of impairment losses, represents the company's maximum exposure to credit risk.

4 Financial risk management objectives and policies (continued)

(a) Credit risk (continued)

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

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

The Company's current credit risk grading framework comprises the following categories:

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

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

	Internal/ external rating Shs'000	12 months or Lifetime ECL Shs'000	Gross carrying amount Shs'000	Loss Allowance Shs'000	Net Amount Shs'000
At 30 June 2020:					
Trade receivables (Note 13a)	Performing	Lifetime ECL (simplified approach)	2,114,390	102,163	2,012,227
Grants receivable (GOK) (Note 13a)	Performing	Lifetime ECL (simplified approach)	-	-	-
Bank Balance (Note 14)	BB	12 months ECL	24,661	-	24,661
Restricted cash (Note 13b)	BB	12 months ECL	288,907	-	288,907
			2,427,958	102,163	2,325,795
At 30 June 2019:					
Trade receivables (Note 13a)	Performing	Lifetime ECL (simplified approach)	1,595,867	101,906	1,493,961
Grants receivable (GOK) (Note 13a)	Performing	Lifetime ECL (simplified approach)	307,683	-	307,683
Bank Balance (Note 14)	BB	12 months ECL	102,251	-	102,251
Restricted cash (Note 13b)	BB	12 months ECL	391,194	-	391,194
			2,396,995	101,906	2,295,089

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

4 Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

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

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

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

Expected credit loss as at 30 June 2020 and 30 June 2019

Loss Rates

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

Total exposure as at June 2020

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

Total impairment as at June 2020

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

4 Financial risk management objectives and policies (continued)

(b) Credit Risk (Continued)

Total exposure as at June 2019

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

Total impairment as at June 2019

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

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

If the ECL rates on trade receivables had been 10% higher (lower) as of 30 June 2020, there would be no impact on the loss allowance on trade receivables.

(b) Market risk

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

(i) Foreign exchange risk

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

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

On 30 June 2020, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit for the year and equity would have been Shs 101,583,357 (2019: Shs 91,762,652) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

On 30 June 2020, if the Kenya Shilling had weakened/strengthened by 10% against the Euro with all other variables held constant, profit for the year and equity would have been Shs 3,525,263 (2019: 457,488) higher/lower, as a result of Euro denominated trade payables

4 Financial risk management objectives and policies (continued)

(c) Market risk (continued)

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. As at 30 June 2020 the Company's exposure to cash flow and fair value interest rate risk on the term loan was Sh.7,851,315 (2019: Nil).

(d) Capital risk management

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

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

The gearing ratios as at 30 June 2020 and 2019 as restated were as follows:

	2020	2019
	Shs'000	Restated Shs'000
Total borrowings (Note 21)	2,807,562	2,977,995
Less: Cash and cash equivalents (Note 14)	(24,661)	(102,672)
Net debt	2,782,901	2,875,323
Total equity	(1,890,861)	(2,090,648)
Total debt and equity	892,040	784,675
Gearing ratio	>100%	>100%

5 Revenue

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

	2020	2019
	Shs'000	Restated Shs'000
Sale of steam from Olkaria wells	3,167,781	3,355,069
Less: Steam revenue for development activities	<u>(2,167,000)</u>	<u>(3,000,000)</u>
	<u>1,000,781</u>	<u>355,069</u>
6 (a) Other income		
Consultancy services on geothermal drilling	4,496	6,934
Loss on disposal of property, plant and equipment	-	(17)
Miscellaneous income	<u>21,795</u>	<u>5,242</u>
	<u>26,291</u>	<u>12,159</u>
6 (b) Foreign exchange (losses)/gains		
Net foreign exchange (losses)/gains	<u>(74,828)</u>	<u>33,293</u>
7 (a) Finance income		
Interest income on bank deposits	<u>18,526</u>	<u>872</u>
(b) Finance costs		
Interest expense on bank loans and overdraft	<u>230,515</u>	<u>271,301</u>

8 Expenses by nature

	2020 Shs'000	2019 Shs'000
Depreciation of property, plant & equipment (Note 17)	1,459,234	1,459,151
Employee benefits expenses (Note 10)	554,110	533,536
Provision for obsolete stock	3,481	-
Legal expenses	29,910	118,009
Accommodation and subsistence	21,593	29,028
Training and education	17,709	28,039
Director's fees and expenses (Note 24)	32,770	42,172
Transportation expenses	4,549	6,919
Management consultancy	3,002	9,036
Auditor's remuneration	6,027	7,337
Provision for doubtful debts of other receivables	258	(877)
ICT expenses	2,280	3,573
Advertising and publicity	2,541	3,680
Fuel expenses	3,422	4,065
Amortisation of intangible assets (Note 19)	961	909
Security expenses	3,024	2,498
Staff welfare expenses	8,827	14,982
Insurance & Licenses	8,078	4,117
Software support & Maintenance	24,395	12,941
Internet & ISP services	9,107	5,175
Maintenance expenses	6,523	5,677
Stakeholder Management	9,464	4,428
Subscriptions	5,009	2,368
Stock valuation gain/loss	26,480	(3,885)
Other expenses	17,802	24,415
	2,260,556	2,317,293

9 Other operating expenses

Penalties for non-payment of corporate tax	33,306	64,357
Write-off of non-productive drilling staff costs (Note 18)	32,173	116,288
Write-off of non-productive and abandoned wells (Note 18)	964,045	917,002
Provision for legal fees	-	338,688
	1,029,524	1,436,335

10 Employee benefits expenses

The following items are included within employee benefits expense

Salaries and wages	522,940	502,016
Retirement benefits costs:		
- Defined contribution scheme	30,900	31,110
- National Social Security Fund	270	410
	554,110	533,536

	2020 Shs'000	2019 Shs'000
11 Income tax		
(a) Income tax charge/(credit)		
Current income tax	4,632	261
Deferred income tax charge/(credit) (Note 16)	138,665	(113,170)
Effect of reduction in tax rate on opening deferred tax assets	67,248	-
	<hr/>	<hr/>
Income tax expense/(Refund)	210,545	(112,909)
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of tax based on accounting profit to tax charge

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

	2020 Shs'000	2019 Restated Shs'000
Profit/(loss) before income tax	410,332	(649,505)
	<hr/>	<hr/>
Tax calculated at the statutory income tax rate of 25% (2019: 30%)	102,583	(194,852)
Tax effects of:		
Income not subject to tax	(596,345)	(701,501)
Expenses not deductible for tax purposes	637,059	783,444
Effect of reduction in tax rate on opening deferred tax assets	67,248	-
	<hr/>	<hr/>
Income tax charge/(credit)	210,545	(112,909)
	<hr/> <hr/>	<hr/> <hr/>

(b) Current tax payable

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

	2020 Shs'000	2019 Restated Shs'000
At start of year	530,395	580,134
Taxation charge (Note 11 (a))	4,632	261
Paid during the year	(337,174)	(50,000)
	<hr/>	<hr/>
At end of year	197,853	530,395
	<hr/> <hr/>	<hr/> <hr/>

	2020	2019
	Shs'000	Restated Shs'000
12 Inventories		
Drilling materials	4,248,318	4,424,240
Pipes	286,662	305,145
Fuel	26,376	32,575
Consumables	52,892	56,363
	<hr/>	<hr/>
Total inventory held for exploration and evaluation activities	4,614,248	4,818,323
Other inventories	43,241	58,073
	<hr/>	<hr/>
	4,657,489	4,876,396
	<hr/> <hr/>	<hr/> <hr/>
13 Trade and other receivables		
Trade receivables	2,114,390	1,595,867
Less: Provision for expected losses	(102,163)	(101,906)
	<hr/>	<hr/>
Net trade receivables	2,012,227	1,493,961
Value Added Tax (VAT) recoverable	790,930	1,079,515
Advance payment to suppliers	80,277	1,678,499
Grants receivable (GOK)	-	307,683
Restricted cash (Note 13b)	288,907	391,194
Staff receivables (Note 13c)	1,513	8,830
Other receivables and prepayments	41,196	67,557
	<hr/>	<hr/>
	3,215,050	5,027,239
	<hr/> <hr/>	<hr/> <hr/>

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

	2020	2019
	Shs'000	Shs'000
At start of year	101,906	102,783
Charge to profit or loss	257	(877)
	<hr/>	<hr/>
At end of year	102,163	101,906
	<hr/> <hr/>	<hr/> <hr/>

The fair value of other receivables approximates their carrying value.

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

Less than 30 days	336,257	674,768
etween 30 and 60 days	256,635	2,291
Between 61 and 90 days	271,741	681,548
Over 90 days	1,249,757	237,260
	<hr/>	<hr/>
	2,114,390	1,595,867
	<hr/> <hr/>	<hr/> <hr/>

	2020 Shs'000	2019 Shs'000
13(b) Restricted cash		
Deposit with Development Bank of Kenya	94,568	94,568
Deposit with Cooperative Bank	21,232	28,340
Staff Mortgage Account - KCB	126,573	101,067
Staff Terminal Benefits Account - KCB	46,534	37,729
Co-operative Bank Escrow Account	-	129,490
	<u>288,907</u>	<u>391,194</u>

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

13(c) Staff receivables

	2020 Shs'000	2019 Shs'000
Net staff loans and advances	1,513	8,830
	<u>1,513</u>	<u>8,830</u>

14 Cash and cash equivalents

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

	2020 Shs'000	2019 Shs'000
Cash at Bank	24,369	102,251
Cash at hand	292	421
	<u>24,661</u>	<u>102,672</u>

14 Cash and cash equivalents (Continued)

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

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

a) Current accounts		2020 Shs'000	2019 Shs'000
Co-operative Bank of Kenya	01136160857600	20,615	1,327
Co-operative Bank of Kenya	01136160857603	2	-
Co-operative Bank of Kenya	02120160857600	533	(44,923)
Co-operative Bank of Kenya	22120160857600	102	111
Co-operative Bank of Kenya	01136350124400	164	(10,625)
Co-operative Bank of Kenya	01136115849200	105	527
Co-operative Bank of Kenya	02120160857601	(3)	-
Kenya Commercial Bank	1119615208	816	(1,428)
Kenya Commercial Bank	1166553671	242	1,342
ABSA Bank (KES)	2041818169	95	-
ABSA Bank (USD)	2041818193	97	-
Sub- total		22,768	(53,669)
b) On - call deposits			
Co-operative Bank of Kenya	021501608576	1,601	155,920
Sub- total		1,601	155,920
c) Others			
Cash in hand		292	421
Sub- total		292	421
Grand total		24,661	102,672
		2020 Shs'000	2019 Shs'000
15 Trade and other payables			
Trade payables		840,922	745,450
Accrued expenses		247,082	168,755
Other payables		1,145,034	1,415,125
		2,233,038	2,329,330

Other payables include accrued interest and penalties arising from non-payment of income taxes of Shs. 364,516,000 (2019-Restated: Shs. 333,759,000).

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

16 Deferred taxation

Deferred income tax is calculated using the enacted income tax rate of 25% (2019:30%). The movement of the deferred income tax account is as follows:

	2020 Shs'000	2019 Restated Shs'000
At start of year	(403,759)	(290,589)
Charge/(credit) to profit or loss	138,665	(113,170)
Effect of reduction in tax rate on opening deferred tax assets	67,248	-
	<u>(197,846)</u>	<u>(403,759)</u>

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

Year ended 30 June 2020	At start of year (Restated) Shs'000	Effect of change in tax rate Shs'000	Charge/ (credit) to profit or loss Shs'000	At end of year Shs'000
Deferred tax (assets)/liabilities				
Provision for expected credit losses	(30,572)	5,095	(64)	(25,541)
Unrealised exchange losses	14,688	(2,448)	(36,313)	(24,073)
Other general provisions	(156,575)	26,095	86,945	(43,535)
Tax losses	(231,300)	38,506	88,097	(104,697)
	<u>(403,759)</u>	<u>67,248</u>	<u>138,665</u>	<u>(197,846)</u>

Year ended 30 June 2019	At start of year (Restated) Shs'000	Charge/ (credit) to profit or loss Shs'000	At end of year (Restated) Shs'000
Deferred tax (assets)/liabilities			
Provision for expected credit losses	(30,835)	263	(30,572)
Unrealised exchange losses	1,141	13,547	14,688
Other general provisions	(50,688)	(105,887)	(156,575)
Tax losses	(210,207)	(21,093)	(231,300)
	<u>(290,589)</u>	<u>(113,170)</u>	<u>(403,759)</u>

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17 Property, plant and equipment

	Land & Buildings	Rigs and water supply infrastructure	Roads	Wells	Plant machinery, power substation, and equipment	Motor vehicles	Furniture, fittings and equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2020									
Opening net book amount	159,917	10,909,779	510,905	30,312,443	481,637	1,001,929	101,256	6,744,245	50,222,111
Additions	62,596	319,110	-	-	138,177	27,866	3,529	72,378	623,656
Transfer from WIP	11,051	1,171,199	-	-	884,632	-	-	(2,066,882)	-
Depreciation:									
-charge to profit or loss	-	-	-	(1,421,336)	-	(3,422)	(34,476)	-	(1,459,234)
-charge to E & E and Grants)	(5,327)	(1,202,526)	(158,041)	-	(268,046)	(249,472)	(11,539)	-	(1,894,951)
Disposals	-	-	-	-	-	-	-	-	-
Closing net book amount	228,237	11,197,562	352,864	28,891,107	1,236,400	776,901	58,770	4,749,741	47,491,582
At 30 June 2020									
Cost	238,666	18,918,480	1,330,869	37,403,578	2,974,694	2,690,805	605,372	4,749,741	68,912,205
Accumulated depreciation	(10,429)	(7,720,918)	(978,005)	(8,512,471)	(1,738,294)	(1,913,904)	(546,602)	-	(21,420,623)
Net book amount	228,237	11,197,562	352,864	28,891,107	1,236,400	776,901	58,770	4,749,741	47,491,582

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17 Property, plant and equipment (continued)

	Land & Buildings	Rigs and water supply infrastructure	Roads	Wells	Plant machinery, power substation, and equipment	Motor vehicles	Furniture, fittings and equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2019									
Opening net book amount	161,838	12,017,934	655,776	10,421,245	580,151	1,252,273	132,690	5,866,426	31,088,333
Additions	-	-	-	-	62,828	27,487	13,800	877,838	981,953
Olkaria wells vested during the year (note 20)	-	-	-	23,481,249	-	-	-	-	23,481,249
Transfer from VIP	-	-	-	-	-	-	-	-	-
Depreciation:									
-charge to profit or loss	-	-	-	(1,421,336)	-	(4,045)	(33,770)	-	(1,459,151)
-charge to E & E and Grants)	(1,921)	(1,108,155)	(144,871)	(2,168,715)	(161,342)	(273,788)	(11,464)	-	(3,870,256)
Disposals	-	-	-	-	-	-	-	(17)	(17)
Closing net book amount	159,917	10,909,779	510,905	30,312,443	481,637	1,001,927	101,256	6,744,247	50,222,111
At 30 June 2019									
Cost	165,019	17,428,170	1,330,870	37,403,578	1,951,885	2,662,940	601,843	6,744,247	68,288,552
Accumulated depreciation	(5,102)	(6,518,391)	(819,965)	(7,091,135)	(1,470,248)	(1,661,013)	(500,587)	-	(18,066,441)
Net book amount	159,917	10,909,779	510,905	30,312,443	481,637	1,001,927	101,256	6,744,247	50,222,111

18 Exploration and evaluation assets

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

	2020 Shs'000	2019 Shs'000
At start of year	40,686,368	36,260,423
Additions	5,165,588	5,459,235
Write-off of unproductive and abandoned wells	(964,045)	(917,002)
Write-off of non-productive time expenses	(32,173)	(116,288)
	<hr/>	<hr/>
At end of year	44,855,738	40,686,368
	<hr/> <hr/>	<hr/> <hr/>

The additions in the year comprise the following:

Depreciation of property, plant, and equipment (Note 17)	1,894,951	1,701,541
Amortisation of intangible assets (Note 19)	320	302
Staff costs capitalised	2,065,020	1,966,312
Drilling materials and consumables	1,205,297	1,791,080
	<hr/>	<hr/>
	5,165,588	5,459,235
	<hr/> <hr/>	<hr/> <hr/>

Impairment assessment for 105MW Menengai project wells

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

19 Intangible assets

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

	2020 Shs'000	2019 Shs'000
Opening net book amount	16,964	18,175
Additions	220	-
Amortisation:		
Charge to profit or loss	(961)	(909)
Capitalised as exploration and evaluation assets	(320)	(302)
	<hr/>	<hr/>
Closing net book amount	15,903	16,964
	<hr/> <hr/>	<hr/> <hr/>
Cost	293,056	292,836
Accumulated amortization	(277,153)	(275,872)
	<hr/>	<hr/>
Net book amount	15,903	16,964
	<hr/> <hr/>	<hr/> <hr/>

20 Government grants

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prescribes the accounting for government grants and other assistance. Revenue grants relate to grants received to cover operating expenses or for the purpose of giving immediate support to the Company. Capital grants relate to grants received for financing the exploration and drilling of geothermal wells. There are no unfulfilled conditions relating to the government grants recognised as income at 30 June 2020. The company has recognised Government grants as appropriated in line with the provisions of IAS 20.

	2020 Shs'000	2019 Restated Shs'000
Revenue grants and amortisation of capital grants		
Revenue grants issued by Government of Kenya	574,776	634,776
Capital grants amortised:		
- Depreciation of wells	1,421,336	1,421,336
- Write-off of unproductive and abandoned wells	964,045	917,002
	<u>2,385,381</u>	<u>2,338,338</u>
	<u>2,960,157</u>	<u>2,973,114</u>
The movement in the capital grant balance is for the year is as summarized below:		
At 1 July	97,588,437	73,545,355
Grants received in the year:		
- Grants from Government of Kenya	550,000	658,000
- Grant from Government of Kenya (from steam charges)	2,167,000	3,000,000
- Grants from KfW	637,406	851,870
- Grants from AfDB	27,616	558,018
- NDF	42,593	998
- Olkaria wells vested during the year	-	23,481,249
	<u>3,424,615</u>	<u>28,550,135</u>
GOK grant amortised (Olkaria wells) –Current year	(1,421,336)	(1,421,336)
GOK grant amortised (Olkaria wells)- Prior years	-	(2,168,715)
Well write-off against grant	(964,045)	(917,002)
KfW- Grant Refund	(1,516,994)	-
	<u>97,110,677</u>	<u>97,588,437</u>

21 Borrowings

	2020 Shs'000	2019 Shs'000
Term Loan		
Bank borrowings	2,760,260	2,921,963
Accrued interest	47,302	56,032
	<u>2,807,562</u>	<u>2,977,995</u>
Current portion of borrowing	(357,827)	(345,875)
Non-current portion	<u>2,449,735</u>	<u>2,632,120</u>

The movement in bank borrowings is as summarized below

At 1 July	2,977,995	-
Additions	-	2,958,839
Interest charge	230,515	271,301
Repayments - principal	(283,044)	(47,946)
Repayments – interest	(239,245)	(215,269)
Unrealised foreign exchange losses	121,341	11,070
At 30 June	<u>2,807,562</u>	<u>2,977,995</u>

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

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

22 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2017, 30 June 2019 and 30 June 2020	20,000	2,000

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

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

	Number of shares 2020	Number of shares 2019
Permanent Secretary, The National Treasury	19,999	19,999
Permanent Secretary, Ministry of Energy & Petroleum	1	1
	<u>20,000</u>	<u>20,000</u>

23 Commitments and contingent liabilities

Contingent liabilities

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

a) Linksoft Communications Limited vs GDC

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

The matter has been referred to the Chartered Institute of Arbitration. The hearing is set for the 21 November 2020.

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

b) Bonfide Clearing Company Limited vs GDC

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

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

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

GDC proceeded to request the court to make its final judgement in the matter which is pending.

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

c) Hydra Industrial Limited vs. GDC

Dispute over alleged termination of contract amounting to Kshs. 1,194,022,324 resulting from fraud on the part of Hydra Industrial Limited.

23 Commitments and contingent liabilities (continued)

c) Hydra Industrial Limited vs. GDC (Continued)

The matter came up for hearing on 28th & 29th March 2020 whereby the Claimant failed to turn up nor send his lawyers on the 1st day of the hearing leading to an adjournment. On the second day of hearing he sought an adjournment which was granted subject to the payment of costs of the tribunal and the respondents counsel of Kshs. 1,500,000/=. The claimant has since paid the costs. The matter is fixed for hearing. The matter was thereafter heard in May 2020. The Arbitral Tribunal have notified the parties that the ruling is ready and requested for payment of the arbitral fees which were invoiced to pave way for publishing of the award.

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

d) Lantech Africa Limited vs GDC

Dispute over alleged un invoiced payments from a contract for provision of manpower services which lapsed in 2015. Arbitral Tribunal heard the matter, delivered its ruling which was unfavourable to GDC. GDC made an application to set aside the Arbitral Award and the matter is set for hearing on 8th October 2020.

Capital commitments

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

	2020 Shs'000	2019 Shs'000
Authorized and contracted	580,092	584,487
Authorized but not contracted	105,576	328,090
	<u>685,668</u>	<u>912,577</u>

24 Related party transactions

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

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

i) Key management compensation

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

	2020 Shs'000	2020 Shs'000
Salaries and other short-term employment benefits	106,171	105,168
	<u>106,171</u>	<u>105,168</u>

24 Related party transactions Continued)

	2020 Shs'000	2020 Shs'000
ii) Directors' fees and expenses		
Remuneration as management	12,539	13,147
Fees and allowances for services as director	32,770	42,172
	<u>45,309</u>	<u>55,319</u>

iii) Grants received in the year

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

25 CURRENCY

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

26 PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to the correction of prior year error in accounting for steam payments appropriated in the national budget as Development Estimates.

The company receives steam payments from wells vested to it by the Government of Kenya in the financial year 2014/2015. The national budget has over the years designated the entire or part of the receipts as appropriations-in-aid to be utilised for development of specific projects. The company has erroneously been recognizing the entire steam payments as revenue. This has resulted in inconsistent treatment of capital grants allocated by the National Budget.

In the current year, the Company has processed adjustments to recognize the portion of steam payments allocated to National Developments Estimates as deferred income. Correction of the prior period error has been applied retrospectively in line with IAS 8 "Accounting policies, change in accounting estimates and errors".

The impact of the adjustments as well as the tax consequences on the statement of profit or loss and other comprehensive income and the statement of financial position for the respective periods is detailed below:

a) Restatement of audited statement of profit or loss and other comprehensive income for the year ended 30 June 2019

	As previously reported	Prior year adjustment	As restated
Revenue	3,355,986 =====	(3,000,000) =====	355,986 =====
Government grants	2,056,112 =====	917,002 =====	2,973,114 =====
Other operating expenses	(1,703,973) =====	267,638 =====	(1,436,335) =====
Income tax (charge)/(credit)	(675,222) =====	788,131 =====	112,909 =====
Profit/(loss) for the year	490,633 =====	(1,027,229) =====	(536,596) =====

26 PRIOR YEAR ADJUSTMENTS (Continued)

b) Restatement of audited statement of financial position for the year ended 30 June 2019

	As previously reported	Prior year adjustment	As restated
ASSETS			
Deferred taxation	432,470	(28,711)	403,759
	=====	=====	=====
LIABILITIES			
Capital grants	88,350,952	9,237,485	97,588,437
Trade and other payables	3,492,410	(1,163,080)	2,329,330
Income tax	4,042,976	(3,512,581)	530,395
	=====	=====	=====
EQUITY			
Retained earnings/(Accumulated deficit)	2,553,919	(4,646,567)	(2,092,648)
	=====	=====	=====

c) Restatement of audited statement of financial position for the year ended 30 June 2018

	As previously reported	Prior year adjustment	As restated
ASSETS			
Deferred taxation	234,990	55,599	290,589
	=====	=====	=====
LIABILITIES			
Capital grants	66,390,868	7,154,487	73,545,355
Trade and other payables	4,437,979	(839,410)	3,598,569
Income tax	3,220,274	(2,640,140)	580,134
	=====	=====	=====
EQUITY			
Retained earnings/(Accumulated deficit)	2,063,286	(3,619,338)	(1,556,052)
	=====	=====	=====

Presented below is the detailed analysis of the adjustments for each of the account balances:

1. Revenue

	Year ended 30 June				
	2015	2016	2017	2018	2019
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
As previously reported	2,534,774	3,160,664	2,901,862	3,557,069	3,355,986
To adjust for steam revenue appropriated for development activities	(1,470,000)	(2,276,000)	(2,901,862)	(3,000,000)	(3,000,000)
As restated	1,064,774	884,664	-	557,069	355,986

26 PRIOR YEAR ADJUSTMENTS (Continued)

1. Revenue (Continued)

(i) Additional amortization of capital grants

	Year ended 30 June				
	2015 Shs'000	2016 Shs'000	2017 Shs'000	2018 Shs'000	2019 Shs'000
To adjust for write off of unproductive and abandoned wells to grant	-	876,845	991,359	-	917,002
To adjust for impairment provision write off to grant (105 MW Menengai Project)	-	418,878	-	206,293	-
As restated	-	1,295,723	991,359	206,293	917,002

2. Other operating expenses

(ii) Penalties for non-payment of corporate tax

As previously reported	-	405,572	304,525	398,715	331,995
Adjusted penalties and interest on reduced corporate tax	-	(265,140)	(245,885)	(328,385)	(267,638)
As restated	-	140,432	58,640	70,330	64,357

3. Income tax charge/(credit)

As previously reported:

Current income tax - as reported	733,790	932,319	753,884	810,416	872,702
Deferred income tax - as reported	(17,177)	(51,986)	(86,484)	(79,343)	(197,480)

Income tax charge	716,613	880,333	667,400	731,073	675,222
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Changes related to impact of prior year adjustments above

Current Income Tax	(438,909)	(636,931)	(753,884)	(810,416)	(872,441)
Deferred income tax	(4,824)	8,036	(100,186)	41,375	84,310
	(443,733)	(628,895)	(854,070)	(769,041)	(788,131)

Restated:

Current income tax	294,881	295,388	-	-	261
Deferred income tax	(22,001)	(43,950)	(186,670)	(37,968)	(113,170)

Income tax charge/(credit)	272,880	251,438	(186,670)	(37,968)	(112,909)
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26 PRIOR YEAR ADJUSTMENTS (Continued)

4. Profit/(loss) for the year

	Year ended 30 June				
	2015	2016	2017	2018	2019
Profit/(Loss) for the year					
As previously reported	1,603,927	287,653	228,531	1,429,741	490,633
<i>Adjustments:</i>					
To adjust for steam Revenue appropriated for development activities	(1,470,000)	(2,276,000)	(2,901,862)	(3,000,000)	(3,000,000)
To adjust for amortization of capital grants	-	1,295,723	991,359	206,293	917,002
To adjust for penalties for non payment of corporation tax	-	265,140	245,885	328,385	267,638
To adjust for reduction in income tax charge as a result of the adjustments	443,733	628,895	854,070	769,041	788,131
<i>Total adjustments</i>	(1,026,267)	(86,242)	(810,548)	(1,696,281)	(1,027,229)
As restated	577,660	201,411	(582,017)	(266,540)	(536,596)

5. Deferred Tax

As previously reported	17,177	69,163	155,647	234,990	432,470
Prior year adjustment	4,824	(3,212)	96,974	55,599	(28,711)
As restated	22,001	65,951	252,621	290,589	403,759

26 PRIOR YEAR ADJUSTMENTS (Continued)

	Year ended 30 June				
	2015 Shs'000	2016 Shs'000	2017 Shs'000	2018 Shs'000	2019 Shs'000
6. Capital Grants					
As previously reported	54,141,400	56,662,970	60,667,521	66,390,868	88,350,952
To adjust for steam Revenue appropriated for development activities (cumulative)	1,470,000	3,746,000	6,647,862	9,647,862	12,647,862
To adjust for additional amortization related to impairment of wells under construction (cumulative)	-	(1,295,723)	(2,287,082)	(2,493,375)	(3,410,377)
As restated	55,611,400	59,113,247	65,028,301	73,545,355	97,588,437
7. Trade payables					
As previously reported	1,617,617	2,078,054	2,698,201	4,437,979	3,436,378
To adjust for penalties for non payment of corporation tax	-	(265,140)	(511,025)	(839,410)	(1,107,048)
As restated	1,617,617	1,812,914	2,187,176	3,598,569	2,329,330
8. Current Tax					
As previously reported	724,236	1,656,555	2,409,858	3,220,274	4,042,976
Resultant taxes on adjustments In the P&L (cumulative)	(434,085)	(1,075,840)	(1,829,724)	(2,640,140)	(3,512,581)
Current tax as restated	290,151	580,715	580,134	580,134	530,395

27 EVENTS AFTER THE REPORTING DATE

The Tax Laws (Amendment) (No.2) Bill, 2020 proposed change in corporate tax rate to 30% from 25% effective 1 January 2021. The Company's tax charge (current and deferred tax expense) for financial year ended 30 September 2020 was arrived at using the current corporate tax rate of 25%. The deferred opening tax balance will be adjusted accordingly for the financial year ending 30 June 2021.

Except for the above non-adjusting event, there were no further significant events subsequent to the period end that required adjustment or disclosure in these financial statements.

APPENDIX I: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Details	Notes	Original budget		Adjustments (Supplementary budget cuts /reclassification)	Final budget		Actual comparable basis		Performance difference
		Shs'000	Shs'000		Shs'000	Shs'000	Shs'000	Shs'000	
Revenue									
Sale of steam	5	3,000,000	1,186,000	(1,814,000)	1,186,000	1,000,781	(185,219)		
Government grant	20	574,775	574,775	-	574,775	574,775	(0)		
Amortization of revenue grant	20	-	-	-	-	2,385,382	2,385,382		
Other income	6	-	-	-	-	(30,011)	(30,011)		
Total revenue		3,574,775	1,760,775	(1,814,000)	1,760,775	3,930,927	2,170,152		
Expenses									
Staff costs	8	725,890	606,314.08	(119,576)	606,314.08	554,110	(52,204)		
Depreciation & amortization of property, plant & equipment & intangible assets	8	-	-	-	-	1,460,195	1,460,195		
Directors remuneration	8	42,000	41,250.00	(750)	41,250.00	32,770	(8,480)		
Accommodation & subsistence	8	33,509	33,508.85	-	33,508.85	21,593	(11,916)		
Auditors remuneration	8	11,180	6,027.00	3,835	6,027.00	6,027	-		
Training expenses	8	17,973	26,915.00	8,942	26,915.00	17,709	(9,206)		
Transport expenses	8	14,272	9,601.89	(4,670)	9,601.89	4,549	(5,053)		
Fuel expenses	8	5,650	5,775.40	125	5,775.40	3,422	(2,354)		
Provision of bad debt	8	-	-	0	-	258	258		
Legal expense	8	235,000	111,781.90	(123,218)	111,781.90	29,910	(81,872)		
ICT expenses	8	51,891	43,104.57	(8,786)	43,104.57	2,280	(40,825)		
Publicity expenses	8	16,025	10,100.92	(5,924)	10,100.92	2,541	(7,559)		
Management consultancy	8	10,200	2,869.74	(7,330)	2,869.74	3,002	132		
Finance expenses	7	225,826	422,787.04	196,961	422,787.04	230,515	(192,272)		
Tax expense	11	0	286,000.00	286,000	286,000.00	210,545	(75,455)		
Other administrative expenses	8	85,359	154,739.00	69,380	154,739.00	122,190	(32,549)		
Other operating expenses	9	-	-	-	-	1,029,524	1,029,524		
Total expenses		1,474,775	1,760,775	294,988	1,760,775	3,731,139	1,970,364		
Surplus/(deficit)		2,100,000	0	(2,108,988)	0	199,788	199,788		

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

Explanation of differences between actual and budgeted amounts (10% over/ under)						
Details	Notes	Final budget Shs'000	Actual comparable basis Shs'000	Performance difference Shs'000	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
Revenue						
Sale of steam	5	1,186,000	1,000,781	(185,219)	-16%	Impact of COVID 19 in the last quarter of the year
Government grant	20	574,775	574,775	-	0%	
Amortization of revenue grant	20	-	2,385,382	2,385,382	0%	
Other income	6	-	(30,011)	(30,011)	0%	
Total revenue		1,760,775	3,930,927	2,170,152	(0)	
Expenses						
Staff costs	8	606,314	554,110	(52,204)	-9%	
Depreciation of property, plant & equipment	8	-	1,460,195	1,460,195	0%	
Directors remuneration	8	41,250	32,770	(8,480)	-21%	Reduced number of meetings
Accommodation & subsistence	8	33,509	21,593	(11,916)	-36%	Aderence to the government's circular on austerity measures & reduced activities
Auditors remuneration	8	6,027	6,027	-	0%	
Training expenses	8	26,915	17,709	(9,206)	-34%	Aderence to the government's circular on austerity measures & reduced activities
Transport expenses	8	9,602	4,549	(5,053)	-53%	Aderence to the government's circular on austerity measures & reduced activities

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Explanation of differences between actual and budgeted amounts (10% over/ under)						
Details	Notes	Final budget Shs'000	Actual comparable basis Shs'000	Performance difference Shs'000	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
Fuel expenses	8	5,775	3,422	(2,354)	-41%	Aderence to the government's circular on austerity measures & reduced activities
Provision of bad debt	8	-	258	258	0%	
Legal expense	8	111,782	29,910	(81,872)	-73%	Conclusion of Cluff matter
ICT expenses	8	43,105	2,280	(40,825)	-95%	Aderence to the government's circular on austerity measures
Publicity expenses	8	10,101	2,541	(7,559)	-75%	Aderence to the government's circular on austerity measures
Management consultancy	8	2,870	3,002	132	5%	Not applicable
Finance expenses	7	422,787	230,515	(192,272)	-45%	Conversion of term loan
Tax expense	11	286,000	210,545	(75,455)	0%	Not applicable
Other administrative expenses	8	154,739	122,190	(32,549)	-21%	Aderence to the government's circular on austerity measures
Other operating expenses	9	-	1,029,524	1,029,524	0%	Not applicable
Total expenses		1,760,775	3,731,139	1,970,364	112%	Not applicable
Surplus/(deficit)		-	199,788	199,788		

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company funded by development partners

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

Status of projects completion

	Project	Total project cost (Shs millions)	Total expended to date (Shs millions)	Completion % to date	Budget (Shs millions)	Actual (Shs millions)	Sources of funds
1	Menengai Project	115,926	80,705	84% (105MW) 32% (60MW) 2%(300MW)	2,308	2,349	GoK Steam Sales AfDB
2	Bogoria – Silali Project	78,029	5,395	24%	1,271	1,061	GoK KfW

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APPENDIX III: INTER-ENTITY TRANSFERS

Entity Name: Geothermal Development Company Limited
Break down of Transfers from the Ministry of Energy & Petroleum
Financial year 2019/19

a. Recurrent Grants	Bank statement date	Amount (Shs'000)
	05.09.2019	143,694
	15.11.2019	143,694
	20.01.2020	143,694
	22.05.2020	143,694
	Total	574,776
b. Development Grants	Bank statement date	Amount (Shs'000)
	13.12.2019	387,500
	04.02.2020	100,000
	26.05.2020	62,500
		550,000
	Accrued	
	Total	1,124,776
c. Direct Payments	Bank statement date	Amount (Shs'000)
	Nil	-
	Total	-
d. Donor Receipts	Payments through donors	Amount (Shs'000)
	KfW	637,406
	African Development Bank (AfDB)	27,616
	Nordic Development Fund	37,294
	Total	702,316

APPENDIX IV: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2	<p>Litigations</p> <p>There are four litigations that could potentially result in significant financial obligations hence have adverse impact on the going concern of the company. These matters are:</p> <ol style="list-style-type: none"> Bonfide Clearing & Forwarding Company Limited vs GDC Hydra Industrial Limited vs GDC Lantech Africa Limited vs GDC Linksoft Communications Limited vs GDC <p>Closed cases Cluff geothermal vs GDC</p>	<p>The matters are still pending in the Courts. In management's assessment, the said matters are unlikely to crystallize into any liabilities beyond the provisions already made save for legal and professional costs, which have already been accrued.</p> <p>The matter of Cluff Geothermal vs GDC was arbitrated at the London Court of International Arbitration (LCIA). The related costs were disclosed in prior year. The matter has since been closed.</p>	<p>General Manager, Legal Affairs and Company Secretary</p>	<p>Ongoing</p>	<p>Ongoing</p> <p>Bonfide Clearing & Forwarding Company Limited vs GDC – Awaiting ruling by the High Court.</p> <p>Hydra Industrial Limited vs GDC- The Arbitral Tribunal have notified the parties that the ruling is ready to be issued by way of publishing of the award after payment of the arbitration fee. The Petitioner has not paid the fee due from them.</p> <p>Lantech Africa Limited vs GDC - GDC made an application before the Court of Appeal for leave to appeal, which is pending directions.</p> <p>Linksoft Communications Limited vs GDC - The matter has been referred to the Chartered Institute of Arbitration. The hearing is set for the 28 May 2021.</p>
3	<p>Compliance with laws and regulations</p> <p>Management should enhance compliance in respect of remittance of taxes including other statutory deductions to avoid penalties and potential litigations</p>	<p>Save for the corporation tax, the company has fully complied and remitted all taxes and other statutory deductions. On the corporation tax matter, the GDC Board resolved to review the treatment of steam charge payments from Kengen in line with the provisions of the</p>	<p>General Manager Finance</p>	<p>Ongoing</p>	<p>Ongoing</p> <p>The Company will amend self-assessments tax returns by 30 June 2021.</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>PFM Act 2012 where the portion allocated to development expenditure as per the national budget is charged to capital grants while the portion allocated to recurrent expenditure is charged to revenue in the income statement. They also resolved to restate the financial statements for the years ended 30th June 2015 to 30th June 2019 in line with IAS 8. This has effectively had an impact on the outstanding corporation tax liability. The company will file amended self-assessment tax returns upon conclusion of the audit.</p> <p>Meanwhile, the company continues to make payments in instalments to KRA besides the 5 % withholding tax on steam charge payments by KenGen.</p>			
4.	<p>Commingling of funds</p> <p>Receipts for different projects should be transacted through separate bank accounts to avoid difficulties in reconciliation an enhance accountability in reporting.</p>	<p>Management has effected separation of the bank accounts for its projects and for the company. The Bogoria-Silali project bank account is maintained at the KCB Kipande Branch account number 1119615208. The Menengai project account is maintained at Co-operative Bank Upper Hill Branch account number 01136160857600. The</p>	General Manager Finance	Resolved	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5	<p>Recoverability of down payments and guarantees</p> <p>Management should recognise impairment of the down payments to Tekno International Ltd of Ksh 86 million to avoid overstating the financial statements with assets that may not be recovered.</p>	<p>Company's account is maintained at ABSA Bank Plaza Corporate Service Centre account number 2041818169.</p> <p>There is a dispute between the company and the supplier on the goods supplied as a result the supplier's claim of Ksh131 million has not been settled. The down payment will be offset against the invoiced amount once the dispute is resolved hence no impairment has been effected.</p>	General Manager Finance	Open	Ongoing
6	<p>6.1 Non –Productive wells</p> <p>The vested wells should be assessed for impairment to ensure that the carrying values represent the recoverable amounts</p> <p>6.2 Capitalisation of head office staff costs</p> <p>Management should review the capitalisation policy to establish the correlation between the drilling operations and the head office costs.</p>	<p>The challenges posed by the pandemic hindered the assessment exercise. Management plans to carry out the assessment in FY 2021/2022</p> <p>The capitalisation policy has been revised and is awaiting Board approval</p>	General Manager, Geothermal Resource Development & General Manager Finance	Open	30 June 2022
			General Manager Finance	Open	30 June 2021

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
7	<p>7.1 Inventory Management</p> <p>All inventory should be arranged in an orderly manner to enable easy and safe access to inventory items</p> <p>7.2 Variance between physical count and recorded quantities</p> <p>Management to investigate and adjust the inventory variances to reflect the correct quantities in the accounting system.</p>	<p>Additional store was constructed and inventory arranged in the respective stores</p> <p>Reasons for the variances were reviewed and addressed</p>	<p>Manager Supply Chain</p> <p>Manager Supply Chain</p>	<p>Resolved</p> <p>Resolved</p>	
8	<p>8.1 Management of Employee leave entitlement</p> <p>Management should ensure proper leave plans</p> <p>8.2 Supplier Reconciliations</p> <p>Management should ensure reconciliation of supplier statements to balances in trade payables ledger and disputed balances resolved</p>	<p>Leave management has now been configured in SAP</p> <p>Supplier reconciliation has been effected and disputed balances resolved</p>	<p>General Manager Human Resource and Administration</p> <p>General Manager Finance</p>	<p>Resolved</p> <p>Resolved</p>	