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Chunh.*

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
GEOTHERMAL DEVELOPMENT COMPANY  
LIMITED**

**FOR THE YEAR ENDED  
30 JUNE 2017**



**GEOHERMAL DEVELOPMENT COMPANY LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

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**Company information**

**DIRECTORS**

Mr. Gershom Otachi	Chairman
Eng. Johnson P. Ole Nchoe	Managing Director and Chief Executive Officer
Mr. Michael Ogwapit	Director
Ms. Caroline Karugu	Director
Mr. Namada Simoni	Director
Ms. Florence Bore	Director (Resigned 10 May 2017)
Dr. Stephen Njiru	Director (Deceased 9 December 2016)
Mr. Kennedy Nyachiro	Alternate Director, National Treasury ( Resigned 5 May 2017)
Mr. Joseph Kariuki	Alternate Director, National Treasury ( Appointed 5 May 2017)
Mr. Michael Mwangi	Alternate Director, Ministry of Energy and Petroleum

**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

Kenya Commercial Bank Limited  
Kipande House

**AUDITOR**

Audit conducted on behalf of the Auditor General by;

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

## CHAIRMAN'S STATEMENT

Geothermal Development Company continues to forge strategies in attaining world class status in the energy sector. It is no doubt that the company is rising up to be a world leader in green energy. Since its inception, GDC has developed and managed human resource through capacity building geared towards the development of 1000MW under the 5000MW government's initiative.

In the year under review, the Board of Directors successfully recruited new general managers in February. The general managers are seasoned professionals drawn from diverse sectors and have brought a wealth of knowledge and experience key to the realization of GDC's goals.

In line with our mandate of accelerating the development of geothermal resources in Kenya, GDC's operations in Olkaria, Menengai, Bogoria-Silali and Suswa projects continue to gather momentum and ease the cost of power to Kenyans. GDC has 412 MW of steam in Olkaria of which 320MW has been added to the national grid, generating revenue of Kes. 3 billion annually. This great development has contributed in the reduction of cost of electricity by 22% & 35% for domestic and industrial consumers respectively.


At the Menengai Geothermal project, GDC has already realized 160MW of steam. In line with Public Private Partnership model, we have commissioned three Independent Power Producers (IPPs) to develop 105MW from the realized steam. The IPPs, OrPower IV, Sosian Energy, and Quantum Energy, will each set up a 35MW power plant at Menengai. In the next ten years, our target is to have 400MW from the Menengai field.

We have also made significant strides in the Bogoria-Silali Project. Infrastructure works in the field are at an advanced stage and drilling is expected to kick off in 2018. The Bogoria-Silali project has a potential of 3,000MW. Over the next ten years, we expect to produce 300MW from the Bogoria-Silali fields.

We continue to enhance and grow our direct use projects and strategies to replicate the current four (4) projects in other areas. The operational applications of direct use we are working with are geothermal heated fish ponds, a geothermal heated laundry, a geothermal heated dairy unit and a geothermal heated green house. Maji Moto area in Suswa will be next with regard to roll out of direct use projects once drilling in the area commences. We believe that direct uses of geothermal energy will open new frontiers for this country which will include the development of industrial parks powered by geothermal generated electricity in line with Kenya's 2030 vision.

We, the board of directors are grateful to the management and staff for their continued support and prowess in making GDC's mandate realistic and achievable. We have made great strides through the support of the national government and our financial partners in realizing the 572MW. We count on this support in realization of 1000MW in the next ten years.  
Thank you.

GERSHOM OTACHI  
CHAIRMAN

 2018  
25 JANUARY 2018

## **MANAGING DIRECTOR & CEO'S STATEMENT**

It is with great pleasure that I present the report for the financial year ended 30<sup>th</sup> day of June 2017. Since taking up the helm of GDC as the Managing Director & CEO, there have been tremendous milestones that we have marked towards realizing our vision of being a world leader in the development of geothermal resources.

During the year under review, we welcomed our new top management from 1<sup>st</sup> day of February, 2017, after a rigorous and competitive recruitment process that culminated in the appointments that is part of GDC's turnaround strategy. I am confident in the fact that GDC is moving in the right direction towards becoming a vibrant modern organization that will effectively deliver on its mandate to provide affordable and reliable green energy to Kenyans.

From the commencement of my term, I have endeavored to work towards a motivated work force by continuously restructuring and redesigning our internal processes and organizational culture. The management has demonstrated its commitment to a healthy and vibrant staff force by supporting freedom of association through the registration of GDC staff as members of a trade union- Kenya Electrical and Trade Allied Workers Union (KETAWU). Consequently, together with my management team, we will work with the union representatives to develop and implement the Collective Bargaining Agreement (CBA) thereto.

I affirm our commitment to our stakeholders and partners: we have continued to work on our corporate governance procedures to continually deliver services as per our service charter professionally and with integrity.

GDC is the home of green energy in Kenya focusing on geothermal energy, currently having developed 572Megawatts (MW) of steam in both the Olkaria and Menengai Geothermal Projects. In the Olkaria Project, GDC is currently selling 320MW of steam to Kenya Electricity and Generating Company (KenGen) for their two new power plants thus earning Aggregate Sum of Kenya Shillings Three Billion (KES 3,000,000,000) in annual steam sales revenue; On the other hand, Menengai Project has already realized 160Megawatts of steam to date, revenue stream is anticipated to commence pursuant to construction of power plants; The Bogoria- Silali geothermal project is underway- first phase of 300MW- in partnership with Kreditanstalt für Wiederaufbau (KfW) who are funding the project; and GDC has completed detailed surface studies in the Suswa Geothermal Field ,currently the Environmental and Social Impact Assessment (ESIA) is underway. A community engagement framework has also been developed while resource mobilization is ongoing.

### **Menengai Project**

The Menengai field has a potential of 1600MW. GDC is developing this resource in phases. Over the next ten years, we intend to develop 400MW from this field. A total of 160MW of steam is currently available with 105 MMW set aside for the setting up of power plants. The 105MW Project is at advanced stages of development with the main outstanding component of the project being the power plant development. This is being undertaken by three Independent Power Producers (IPPs) each tasked with developing a power plant producing 35MW of electricity through a Build Own Operate (BOO) Public Private Partnership development model. The selected Independent Power Producers are Quantum Power Energy (QPEA) GT Menengai Limited (GTML), Sosian Menengai Geothermal Power Limited (SMGPL) and Orpower 22 Limited (OTT)

A major achievement in the financial close is the issuance of the GoK Letter of Support to the Independent Power Producers (IPPs) to cover for political events. QPEA have finalized the negotiation of the GoK Letter of Support which has already been signed by QPEA, GDC and KPLC.

## **MANAGING DIRECTOR & CEO'S STATEMENT (CONTINUED)**

### **Bogoria-Silali Geothermal Project**

GDC is undertaking steam field development in the Bogoria Silali Geothermal Block which comprises Baringo, Arus, Korosi, Chepchuk, Paka and Silali prospects. Detailed surface studies estimates the Block's potential at 3,000 MW. The first phase of development will entail the construction of 300 MW capacity power plants. The projects are structured on Public Private Partnership framework. GDC will develop the steam jointly with the selected investors and sell it to competitively selected power plant operators for electricity generation.

GDC has secured a loan of Euro Eighty Million (€ 80,000,000.00) from Kreditanstalt für Wiederaufbau (KfW) towards the development of the steam field at the Bogoria-Silali Geothermal Project. The KfW loan facility was signed on 10<sup>th</sup> of July 2014 and became effective in October 2016. Actual disbursements of the loan as at 31<sup>st</sup> day of August 2017 amounts to United States Dollars Six Million, Eight Thousand, Five Hundred Twenty Five and Sixty Eight Cents (USD 6,008,525.68) equivalent to Euros Five Million, Four Hundred Sixty Seven Thousand, One Hundred Fifty Three and Fifty Three Cents (€ 5,467,153.53) representing six point eight percent (6.8%) of the loan amount. Actual amounts disbursed have been advance payments for the contract for Provision of Implementation Consultant Services, Water Supply System Schedule I, and Water Supply System Schedule II & Water Supply System Schedule IV.

So far, we have developed six well pads i.e. three in Paka and three in Silali, 70 Kilometres of access road and a water reticulation system that is eighty percent (80%) complete. The contracts for the provision of drilling services for fifteen (15) to twenty (20) geothermal wells at the Bogoria-Silali Geothermal Prospect was signed on 6<sup>th</sup> day of April 2016. The contract was awarded to Hong Kong Offshore Oil Services Co. Ltd (HOOSL) and the drilling will commence after commissioning of the water supply system.

### **Olkaria Geothermal Project**


At the request of the Government of Kenya, GDC in 2009/10 financial year drilled 36 geothermal wells at Olkaria. GDC also inherited 23 wells drilled by the government prior to GDC incorporation, bringing the total wells owned by GDC in Olkaria to 59. The wells are managed by KenGen.

GDC's 59 geothermal wells in Olkaria have a total yield of 412MW. GDC is selling 320MW of steam to KenGen for electricity generation. The addition of 320MW of geothermal power into Kenya's national grid has driven down the cost of power by twenty two percent (22%) and thirty five percent (35%) for domestic and industrial consumers respectively, thus helping the government to meet its target of providing affordable and reliable green energy.

### **Suswa Geothermal Prospect**

The Suswa geothermal prospect has an estimated potential of 750MW, which will be developed in phases. The first three phases will develop a total of 300MW, and the remainder, as per the Company's strategic plan.

Eng. JOHNSON OLE NCHOE  
MANAGING DIRECTOR AND CEO

  
2018  
25 JANUARY 2018

## BOARD OF DIRECTORS



### **Mr. Gershom Otachi Bw'Omanwa, Chairman GDC Board**

Mr. Gershom Otachi Bw'Omanwa is the Chairman of the Geothermal Development Company effective May 2015.

He is an Advocate of the High Court with 26 years of experience in legal practice, gained both locally and internationally. Mr. Bw'Omanwa was a Defence attorney for over a decade at the International Criminal Tribunal for Rwanda (ICTR), where he served as the Vice President, Defence Lawyers Association. He also served as the Defence Counsel at the International Criminal Court (ICC). He has previously served as the Chairman of the Policyholders Compensation Fund. He is a member of the Law Society of Kenya, the East African Law Society, International Commission of Jurists - Kenya, International Association of Defence Lawyers, International Criminal Bar, and the Association of Defence

Attorneys at the United Nations International Criminal tribunal for Rwanda (ADAD).



### **Eng. Johnson P. Ole Nchoe, Managing Director & CEO**

Eng. Johnson P. Ole Nchoe is the Managing Director & CEO of the Geothermal Development Company.

Eng. Ole Nchoe was appointed after a recommendation by the GDC Board of Directors following a competitive interview process and the subsequent approval by the Cabinet Secretary, Ministry of Energy and Petroleum. Eng. Ole Nchoe served as the Chief Manager, IT and Telecommunications at the Kenya Power Company for over 25 years until 2013. Prior to joining GDC, he had just concluded a two-year tour of duty at the Liberia Electricity Corporation (LEC) where he served as a Director. Together with a team of consultants working in a donor-funded programme geared towards re-building the electricity network in

Liberia, he made a great contribution in helping the Liberian company establish robust systems.

Eng. Ole Nchoe is a registered engineer and has 30 years of leadership and management experience. He holds a Master in Business Administration (MBA) and a BSc (Eng, Electrical) both from the University of Nairobi.

**BOARD OF DIRECTORS (Continued)**



**Mr. Michael W. Mwangi (MBS; OGW), Director (Alternate to the PS, Ministry of Energy & Petroleum)**

Mr. Michael W. Mwangi (MBS; OGW) is the alternate director to the Principal Secretary Ministry of Energy and Petroleum for Geothermal Development Company (GDC). He has served for more than thirty (30) years in the Public Service and gained a wealth of experience in Public Administration and Management. He is currently serving in the Ministry of Energy and Petroleum as a Director of Administration. He is charged with Coordination of departments as directed by the Principal Secretary in ensuring that the Ministry achieves its Performance targets. Mr. Mwangi has risen in the Public Service from a District Officer in 1984 to County Commissioner in 2012.

He was involved in coordinating security and general development in the stations he has served. He played a coordinating role in ensuring that Government departments uphold optimal utilization of resources without comprising quality service delivery. He was also charged in ensuring timely completion of projects/programmes in the areas. He achieved the objectives to the satisfaction of the stakeholders/beneficiaries. He has attended Administrative and Managerial Courses/Seminars locally and abroad to enhance skills and competences. He has been honoured with Moran of the Burning Spear (MBS) and Order of the Golden Heart of Kenya (OGW) in recognition of dedicated public service to the Nation. He holds a Bachelor of Arts Degree (B.A Hons.) from University of Nairobi and a Master in Business Administration from Moi University.

**Mr. Joseph Kariuki, Director (Alternate to the PS, National Treasury)**

Mr. Joseph Kariuki is the alternate director to the Principal Secretary National Treasury for Geothermal Development Company (GDC). He is an economist by profession with over 26 years' experience working in various Departments of Government. He holds an MA (Economics) from the University of Nairobi.

For the last 10 years he has been working at the National Treasury where part of his key job description included monitoring performance of public enterprises and investments of the national government as well as providing advice on the public investment policy.

He has in the past served as an Alternate Director to the Principal Secretary National Treasury for various corporations including Kenya Power and Lighting Company (KPLC), Kenya Meat commission (KMC) and Kenya Plant Health Inspectorate Services (KEPHIS). Currently he is the Alternate Director at Agriculture and Food Authority (AFA) and Kenya Petroleum Refineries Limited (KPRL).

**BOARD OF DIRECTORS (Continued)**

**Mr. Michael Ogwapit, Independent Non -Executive Director**



Michael was appointed as a member of the GDC Board of Directors effective 17<sup>th</sup> April 2015 for a period of three years and is currently the Chairperson of the Board Finance Committee.

Michael attained a Bachelor's degree in Building Surveying & Engineering Structures and an MBA from University of Leicester, U.K. He has worked at Citibank N.A and Barclays Africa where he established and led the Financial Institutions & Non-Presence business (FI & NPC). He has been involved in several complex -transactions such as the syndicated € 14M loan facility for Scada/EMS system for Electrogaz (Rwanda), syndicate lead on US\$ 20m Boeing 777-200 ER Pre-delivery facility for Kenya Airways, sole financier of US\$ 140m fuel import facility

for Ministry of Energy & Mining, Zambia. He currently runs Continuum Africa, a Project & Development Management firm engaged in developing for several local and international franchises including KFC, Subway, Naked Pizza, Dominos Pizza, Wadi Degla Sports Clubs, Smart Gyms LLC, Pizza Hut, Burger King, Secret Garden and several residential developments. Michael is a director on several Boards including Kenyan Alliance Insurance, Leader Logistics, United E.A Warehouses, Lotus Developments and Knighton International. He previously served a term as the Chair of the Rallies Commission of the Kenya Motor Sports Federation and Vice Chair of the Kenya Rally Driver's Association.

**Ms. Carol Karugu, Independent Non -Executive Director**



Ms. Caroline Karugu was appointed to the GDC Board of Directors on 2<sup>nd</sup> October 2015.

She is an award-winning enterprise developer and management guru with experience in leadership and senior management. An alumnus of the prestigious Frankfurt School of Finance and Management in Germany and the University of Leicester in the United Kingdom, she is currently a Senior Investor Relations Manager with the British American Investments Company (Britam). Before joining Britam, Carol had a stint at the Nairobi Securities Exchange (NSE) where she worked as the Investor

Relations & Communications Manager. Carol has over 12 years' experience in the regional capital markets and financial services industry. At the NSE, she was the pioneering Country Manager of the Securities Industry Training Institute (SITI), an East African securities training organization with the mandate of deepening knowledge within the capital markets participants. She was also in charge of external affairs and government relations for the East African Stock Exchanges Association (EASEA).

While working at the NSE, she participated in the listing of several companies, rights issues, bond offers and private placement projects since 2002. Earlier while working as the Corporate Affairs Manager of the Kenya Union and Saving Cooperatives KUSCCO, Carol made an outstanding contribution to the Kenyan cooperative movement where she spearheaded efforts of organizing young people to form SACCOs. In 2010, she won the prestigious World Young Credit Union Professionals (WYCUP) award sponsored by the World Council of Credit Unions (WOCCU) in the United States. This global award is given to the top 5 individuals who have made significant contributions to their credit union system and have the potential to make a global impact. She is currently pursuing her Doctorate in Finance at USIU in collaboration with Columbia Business School in New York.

**BOARD OF DIRECTORS (Continued)**



**Mr. Namada Simoni, Independent Non -Executive Director**

Mr. Namada Simoni was appointed as a member of the GDC Board of Directors effective October 2, 2015 for a period of three years and is currently the Chairperson to the Board Audit Committee.

Mr. Namada Simoni is a lawyer by Profession and a Practicing Advocate by occupation. He is an Honours Graduate of the University of Nairobi and the Kenya School of Law where he qualified with a Bachelor of Laws (LLB) Degree and a Postgraduate Diploma in Law, respectively. Simoni is an Advocate of the High Court of Kenya admitted to the Bar in 1998. He is a member of the

Law Society of Kenya (LSK) and the East African Law Society (EALS). He has practiced as an Advocate on a full time basis since Admission to the Bar and now serves as the Senior Partner at Namada & Co. Advocates, a middle size Law firm based in Nairobi. Areas of Specialty Practice include Commercial and Civil Litigation including commercial transactions, instruments and consultancy. He also does litigation and consultancy in Labour, Insurance, Energy and Constitutional matters in addition to Conveyance and Property transactions. Simoni has worked with other stakeholders in the formulation of legislation in Kenya like the Law Review Commission.

Mr. Simoni is a Volunteer of the Law Society of Kenya's Probono Programme offering free legal service for promotion of common interest causes in the Country. He has served in various other Boards including as a Member of the Board of Governors, Butula Girls High School, Buhuyi Secondary School and St. Catherine's' Special School. He is the founding Chairperson of Umande Trust, an NGO which has for the last 10 years been working in the Urban Water and Sanitation Sector providing solutions to the under privileged urban communities in Kibera and other slums of Nairobi, Nyalenda and other slums of Kisumu, and other towns and in select schools in Kenya. Namada has a passion for delivery and commitment to purpose and service to people and communities. He is also the Secretary of Christian Partners Development Agency, an NGO which has for the last 10 years been working with communities to provide water and sanitation solutions in Vihiga and Narok Counties in Kenya. Namada is married and has a family.

**MANAGEMENT TEAM**

Eng. Johnson P. Ole Nchoe	Managing Director and CEO
Mr. Simon Kiplang'at	General Manager, Human Resources
Mr. Cornell Ofwona	General Manager, Geothermal Resource development
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
Ms. Beatrice Kosgei	Company Secretary

**MANAGEMENT TEAM (CONTINUED)**



**Ms. Beatrice Kosgei-Company Secretary**

Ms. Kosgei is the Company Secretary. Prior to joining GDC she was the Corporation Secretary and Head of Legal Affairs for the Kenya Trade Network Agency (Kentrade). Previously, Ms. Kosgei worked for the Agricultural Development Corporation of Kenya as the Corporation Secretary. Other roles she has previously held include: Managing Advocate at Kosgei & Company, In-House Counsel at Liberty Assurance, Associate Advocate at Jim Choge & Company, Legal Officer at Kenya Industrial Estates, and State Counsel at Attorney General Chambers.

She joined the Company with over 20 years' experience as an advocate of the High Court, as Company Secretary, and Head of Legal Services. 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. Ofwona is the General Manager, Geothermal Resources Development. Prior to this appointment, Mr. Ofwona was the Ag. General Manager, Drilling & Infrastructure, and earlier on, the Ag. General Manager, Technical Services at GDC. Previously, he was GDC's Manager in charge of Geothermal Resource Management, as well as the Area Manager, North Rift. 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. He is experienced in Reservoir Engineering, analysis, and modeling as well as in consultancy, research and training. He is widely published in geothermal reservoir engineering.



**Mr. Simon Kiplang'at -General Manager, Human Resources**

Mr. Kiplang'at is the General Manager, Human Resource & Administration. He joins GDC from the Kenya Trade Network Agency (Kentrade) where he was the General Manager Support Services in charge of HR, Administration and Finance departments, and a member of the executive management team. Previously, Mr. Kiplang'at worked at the Kenya Bureau of Standards as the Chief Manager, Employee Relations and Change Management. He previously worked as a Human Resource Manager at Orange, Telkom and Kenya Post and Telecommunications.

He has over 20 years corporate management and leadership experience in both public and private sectors. 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).

## MANAGEMENT TEAM (CONTINUED)

Mr. Kiplang'at is a PhD Candidate at the Management University of Africa pursuing a PhD in Management and Leadership. He holds a Masters in Human Resource Management from Open University of Tanzania (OUT,) Executive Master of Science degree in applied Management and Leadership from Management University of Africa (MUA), a Post Graduate Higher Diploma in Human Resource Management from the Institute of Human Resource Management (IHRM), and Bachelor of Arts (Hons) degree from University of Nairobi.



### **Dr. George Muia - General Manager Strategy, Research and Innovation**

Dr. Muia is the General Manager Strategy, Research and Innovation. Previously, he was the Deputy Director at Kenya Pipeline Company's Training Centre (Morendat Institute of Oil and Gas) where he was in charge of research and innovation. Dr. Muia comes on-board with a wealth of experience in strategic management and business development having worked as the Upstream Business Venture Manager/Petroleum Geologist at the National Oil Corporation Kenya prior to joining the Kenya Pipeline Company.

Dr. 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). He is an earth scientist with over 12 years' experience working in both hard and soft rock geological environments. His published research work has predominantly focused on the East African Tertiary Rift, which is the source of geothermal energy in the Kenya.



### **Eng. George Kinyanjui- General Manager, Drilling and Infrastructure**

Eng. Kinyanjui is the General Manager, Drilling & Infrastructure. Prior to this appointment, Eng. Kinyanjui served as the Manager Infrastructure Development at GDC. Earlier on, he was the Manager Quality Assurance and Safety at GDC.

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). He has vast experience spanning more than 15 years in the energy sector having previously worked with Chevron Kenya Limited.

Eng. Kinyanjui is committed to professional development and maintains affiliation with the Institution of Engineers of Kenya, Non Destructive Testing Society of Kenya, and the Kenya Institute of Management.

**MANAGEMENT TEAM (CONTINUED)**



**Ms. Joanne Wamuyu-General Manager, Corporate Services**

Ms. Wamuyu is the General Manager, Corporate Services. She joins GDC from IBM where she was initially in charge of Marketing in Eastern Africa before taking up a role of Technical Skills Enhancement across Africa. Previously, Ms. Wamuyu worked at McKinney Rogers where she supported a diverse range of industries and government institutions across Africa, United States, Europe and Middle East.

She has 25 years of progressive experience in commercial, corporate and strategy settings in the Eastern Africa region and overseas. She brings on board experience that spans a spectrum of fast moving consumer goods (FMCG) industries, the energy sector, utilities and information technology solutions.

Ms. Wamuyu's breadth of expertise spans Commercial Management, Turnaround Management, Corporate Value Enhancement, Enabling Technology, Project Management and Corporate Strategy Consultancy. 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. Busieney is the General Manager Finance. Prior to joining GDC, he was the Chief Financial Officer for CIMERWA Cement Company Ltd, a Rwanda-based subsidiary of Pretoria Portland Cement Company where he was responsible for providing leadership to the Finance, ICT, Procurement and Legal functions of the organization. At CIMERWA, he coordinated and managed the financial, legal and funding aspects for a \$160 million cement plant project.

He has over 15 years' experience in Finance and Accounting, and has previously worked for Total Kenya Ltd and for East African Portland Cement Company as Corporate Performance Manager and Finance Manager.

Mr. Busieney is a member of the Institutes of Certified Public Accountants of Kenya, and of Rwanda and holds Masters 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.

## **STATEMENT OF CORPORATE GOVERNANCE**

Corporate Governance encompasses rules, practices and processes by which an organization, more specifically GDC, is controlled and directed. It further provides the framework through which the objectives of the company are set, the means through which monitoring is done to ensure attainment of the objectives while balancing the interests of GDC's Stakeholders

GDC is committed to maintaining the highest standards of corporate governance, consequently, this statement describes GDC's governance principles, which forms the basis for management and continuous refinement of the practices , processes and the governance framework in place to ensure they meet the interests of its shareholders and stakeholders- the parent ministry and other government agencies, the management, the financiers, the customers, the suppliers, the community on the environs of the project areas *et al.*

### **Statement of Compliance**

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

In its endeavor to uphold the tenets of good governance, the Board is guided by the Code of Governance for State Corporations which is detailed in various articles in the Constitution of Kenya, 2010 and further reiterated in 'Mwongozo' – The Code of Governance for State Corporations; the Board Charter; and the Public Officers and Ethics Act No, 4 of 2003 that details the Code of Conduct and Ethics; and various policies including the Conflict of Interest Policy and Declaration of gifts Policy. Each Board member has signed the Directors' Code of Conduct and Ethics. The Directors' Code of Conduct sets out rules that govern the conduct of individual directors when dealing with company business.

### **Board Charter**

The Board Charter is a commitment by members of the Board to discharge the mandates of GDC. It seeks to ensure the effectiveness of each director's contribution in the governance of the company by facilitating full and free exercise of independent judgment, objectivity and professional competence. It outlines the structure, roles of each of the Board member, their respective responsibilities, the processes to be followed, rules that guide the Board, the methodologies of receiving and deliberating on information relating to Board business and decision making. The charter does not in any way purport to replace, or supersede any laws and regulations that govern the Company.

The Charter has been reviewed by the Board in line with the Mwongozo guidelines and copies of the same circulated to the Board members for their reference and records.

### **Board Composition and Size**

At the beginning of the year under review, the GDC Board comprised of eight (8) non-executive Directors and one (1) executive Director who is the Managing Director and CEO. The Board is constituted taking into account requirements of the diversity in terms of skills required, gender, academic qualifications and experience necessary to help achieve GDC's goals and objectives. The appointment and removal of Directors is governed by the provisions of the State Corporations Act, Cap 446 of the Laws of Kenya. Each Director shall hold office until he/she is removed or replaced as per the law.

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

As at 30 June 2017, the GDC Board was comprised of seven (7) members as detailed herein below:

No.	Name	Position	Date of Appointment
1.	Mr. Gershom Otachi B'Omanwa	Chairman	17 April 2015
2.	Eng. Johnson Ole Nchoe	Managing Director & CEO	18 April 2016
3.	Mr. Namada Simoni	Member	2 October 2015
4.	Mr. Michael Ogwapit	Member	17 April 2015
5.	Ms. Caroline Karugu	Member	2 October 2015
6.	Mr. Michael Mwangi	Alternate Director – Ministry of Energy & Petroleum	13 November 2014
7.	Mr. Joseph Kariuki	Alternate Director – National Treasury	7 June 2017

**Board Diversity**

The Board comprises of members with a diverse set of skills for the purpose of steering GDC towards sustainable growth, development and excellence.

**Field of Expertise**

No	Field of expertise	Numbers
1.	Law	2
2.	Finance	1
3.	Administration	1
4.	Economics	2
5.	Engineering	3

**Board Effectiveness**

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

## **STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

### **Role of the Board**

The role of the Board is to provide leadership and strategic guidance for GDC, in addition to overseeing management's implementation of the company's strategic initiatives.

It does this through the establishment of GDC's short and long-term goals and coming up with strategies to achieve these goals thus;

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

### **Induction and Capacity Building for the Board**

Upon appointment, Board members go through an internal induction programme to familiarize themselves with GDC operations. An external induction is undertaken by State Corporations Advisory Committee (SCAC) while an internal induction is undertaken by the office of the Managing Director & Chief Executive Officer in liaison with the Company Secretary's Office.

During the year, the Directors go through various training programmes and retreats in order to enhance their knowledge in various facets thus strengthening their role in the company. In addition, the Board conducts an evaluation exercise in order to gauge their performance and reflect on ways to increase their effectiveness.

### **Board Meetings**

Board meetings for the year are decided upon in advance and a Board calendar developed and approved. The meetings occur as per the Board Calendar more specifically once every quarter or as and when necessary, depending on the requirements of the business. The Board receives adequate notices of meetings and agenda to be discussed in good time. The Board papers are circulated in advance to enable the Directors prepare for the meetings.

## STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

### Board Meetings (continued)

The Board held Thirty-five (35) meetings during the period under review which were attended as follows:

No.	Name of Director	Board Position	Number of Meetings held	Number of meetings attended
1.	Mr. Gershom O. Bw'Omanwa	Chairman	35	33
2.	Eng. Johnson P. Ole Nchoe	MD & CEO	35	35
3.	Dr. Kamau Thugge, CBS	PS, National Treasury	35	1
4.	Dr. Eng. Joseph Njoroge, CBS	PS, Ministry of Energy and Petroleum	35	1
5.	Mr. Michael Ogowapit	Director	35	33
6.	Dr. Stephen Njiru, EBS	Director	35	2
7.	Mr. Namada Simoni	Director	35	33
8.	Ms. Caroline Karugu	Director	35	34
9.	Ms. Florence Bore	Director	35	33
10.	Mr. Michael Mwangi, MBS	Alternate Director to PS, Ministry of Energy & Petroleum	35	28
11.	Mr. Kennedy Nyachiro	Alternate Director to CS, National Treasury	35	27
12.	Mr. Joseph Kariuki	Alternate Director to CS, National Treasury	35	1

### Notes

1. Dr. Stephen Njiru deceased on the 9 December 2016.
2. Mrs. Florence Bore resigned as a Board member on the 9 May 2017.
3. Mr. Joseph Kariuki was appointed as Director on 17 June 2017.
4. Dr. Kamau Thugge, CBS is represented in the Board by his alternate, Mr. Kennedy Nyachiro and later Mr. Joseph Kariuki.
5. Dr. Eng. Joseph Njoroge, CBS is represented in the board by his alternate, Mr. Michael Mwangi

### Directors' Remuneration

The Directors are paid allowances as per the government circulars issued from time to time. The Chairman is also paid a monthly honorarium.

The Directors' fee is paid annually based on the performance of the company, subject to the approval of the Ministry of Energy and Petroleum and National Treasury. The approval is given during the Annual General Meeting (AGM). For financial year 2016/2017, it is proposed that each non-executive Director be paid a fee of KES. 360,000/- or pro rata for any part served thereof. There were no loans granted to non-executive Directors during the year. The Directors' remuneration has been disclosed in the books of accounts.

### Declaration of Conflict of Interest

The Directors are obliged to fully disclose any real or potential conflict of interest to the Board. In a situation where there may be conflict of interest, the Director involved ought to exclude himself/herself from any discussion or decision making over the matter. In any meeting of the Board, there is an agenda item giving an opportunity to Directors to declare any conflict of interest.

## **STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

### **Board Committees**

Board committees have been established in order to assist the Board in discharging duties that require specific expertise subsequently providing recommendations and advice on the same. The Board has established four (4) committees each headed by a non-executive Director. An Ad hoc committee may be established as and when necessary to handle pertinent issues.

During the year under review, the Board constituted the following Committees:

- a) Audit Committee;
- b) Technical Committee;
- c) Human Resource Committee;
- d) Finance Committee.

### **Report from the Chairperson of the Audit Committee**

The Board Audit committee comprises of four non-executive Directors and is chaired by a non-executive director. When necessary, the committee invites a representative of the external auditors when reviewing annual financial reports. The Committee also periodically invites the Managing Director, the General Manager, Finance and at times the other key staff to attend the meetings.

The Committee comprises four non-executive directors and is chaired by a non-executive director. The committee is appointed by the Board to assist in fulfilling the following oversight responsibilities:

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

The Committee held five (5) meetings during the period under review that were attended as follows:-

<b>No.</b>	<b>Name</b>	<b>Meetings held</b>	<b>Attendance</b>
1.	Mr. Namada Simoni	5	5
2.	Ms. Florence Bore	5	3
3.	Mr. Michael Mwangi	5	4
4.	Mr. Kennedy Nyachiro	5	3
5.	Mr. Joseph Kariuki	5	2

### **Notes**

Mr. Kennedy Nyachiro retired on 17 June 2017 and was replaced by Mr. Joseph Kariuki.

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

**Report from the Chairperson of Technical Committee**

The Committee is comprised of six (6) non-executive Directors and the Company's Managing Director & CEO and is chaired by a non-executive director. The Committee considers Management's proposals; provides oversight to Management and recommends to the Board on matters relating to GDC's strategic direction and technical services.

The committee held seven (7) meetings which were attended as follows:-

No.	Name	Meetings held	Attendance
1.	Ms. Caroline Karugu	7	7
2.	Mr. Namada Simoni	7	6
3.	Mr. Michael Mwangi	7	1
4.	Mr. Kennedy Nyachiro	7	6
5.	Mr. Michael Ogwapit	7	4
6.	Dr. Stephen Njiru, EBS	7	1
7.	Mr. Joseph Kariuki	7	0

**Notes**

1. Mr. Kennedy Nyachiro retired on 17 June 2017 and was replaced by Mr. Joseph Kariuki.
2. Dr. Stephen Njiru passed away on the 9 December 2016.

**Report from the Chairperson of the Human Resource Committee**

The Board Human Resource Committee is comprised of four (4) non-executive Directors and Managing Director & CEO. It is chaired by a non-executive director. The Human Resource committee is tasked with the responsibility of reviewing of Human Resource policies and recommending any amendments to the Board for approval; reviewing the terms and conditions of service for employees of the Company; reviewing recommendations for appointment, promotion, confirmation or termination of staff in job groups GD3 and above; handling disputes between Management and staff in Job groups GD3 and above; handling all other matters relating to staff; and dealing with occupational, health and safety issues.

The committee held seven (7) meetings which were attended as follows:

No.	Name	Meetings held	Attendance
1.	Ms. Florence Bore	7	7
2.	Mr. Namada Simoni	7	7
3.	Mr. Michael Mwangi	7	5
4.	Mr. Kennedy Nyachiro	7	6

**Note**

Mr. Kennedy Nyachiro retired on 17 June 2017 and was replaced by Mr. Joseph Kariuki.

## STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

### Report from the Chairperson of the Finance Committee

The Board Finance Committee is comprised of four (4) non-executive directors and the Managing Director & CEO. It is chaired by a non-executive director. The Committee considers all matters of financial strategy and policy, financial forecasts, annual budgets and reviewing expenditures/procurements for the quarter.

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

No.	Name	Meetings held	Attendance
1.	Mr. Michael Ogwapit	8	8
2.	Ms. Caroline Karugu	8	8
3.	Mr. Michael Mwangi	8	6
4.	Mr. Kennedy Nyachiro	8	7
5.	Mr. Joseph Kariuki	8	0

#### Note

Mr. Kennedy Nyachiro retired on 17<sup>th</sup> June, 2017 and was replaced by Mr. Joseph Kariuki.

### Internal Control and Risk Management

Risk management is a critical part of corporate governance and ensures long term viability and sustainability of the company. GDC's system of financial control ensures that adequate systems are maintained.

The Board has come up with policies on risk management which identifies, measure and manages the risks that GDC faces. These policies have also been integrated into the overall management reporting structure. The Audit and Risk Management Committee of the Board regularly reviews the effectiveness of the internal control system.

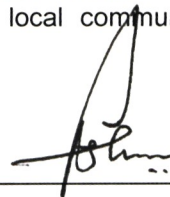
### Communication with Stakeholders

Communication with our stakeholders is key. Effective communication ensures that our stakeholders receive information that is relevant to their needs and builds positive attitudes to our company and projects.

The company has put in place a robust Community Relationship department and Corporate Communication and Marketing department to handle stakeholder engagements. Communication with our stakeholders has helped the company to attract the much needed funding for geothermal explorations and foster good working relationship with the local communities in our areas of operations.



Mr. Gershom Otachi  
Chairman



Eng. Johnson P. Ole Nchoe  
Managing Director and CEO

## **STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY**

GDC is committed to the maintenance of cordial relations with its host communities. The good relations are achieved and maintained through consultations, partnerships with respective communities and in implementation of corporate social responsibility interventions. Through the CSR programs, GDC's social investment continues to grow and bring positive impact to the host communities. GDC's focus areas and CSR pillars are: health, water, education and empowerment for youth, women and Persons with Disabilities (PWDS) as well as the vulnerable groups which have been identified through community involvement and participation.

Community support during times of need is critical to build acceptance and continue to enhance immediate stakeholder relationships as well as lay a foundation for the future, thereby ensuring a social license for GDC operations.

In the year under review, GDC provided water to the Menengai community in Central Rift, as well as tankering of water to North Rift and South Rift Schools and health centres during the drought/dry seasons.

At the same time, GDC supported the host communities through the 'Jirani-wa-Karibu' food drive. The areas covered for the food drive were Bogoria-Silali, Suswa and Menengai. Food support was critical to ensure the retention of pupils in schools thereby supporting learning. The food also helped in mitigating the effects of drought on the communities.

GDC supported the Bahati Sub-county hospital with an ambulance for referral cases. Over 1,380 refer cases were transferred using the GDC ambulance. GDC additionally gave financial donation to Nakuru Hospice towards palliative care to patients with chronic non-communicable diseases.

Article 10 of the Constitution of Kenya, 2010, enshrines public participation in the national values and principles of governance. GDC ensures continuous public participation and consultations with host communities and stakeholders. GDC has a robust community and stakeholder engagement strategy that ensures engagement throughout the year for the host communities and stakeholders. The engagement ensures that issues of concern are raised and addressed.

We are happy that GDC's community engagement is paying dividends. The GDC projects are now rolling on without glitches because of the cordial relationship the company has developed with the host communities.

Eng. JOHNSON OLE NCHOE  
MANAGING DIRECTOR AND CEO

  
2018

25 JANUARY 2018

## DIRECTOR'S REPORT

The directors submit their report together with the audited financial statements of Geothermal Development Company Limited (the 'Company') for the year ended 30 June 2017.

### Business Review

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

### The company's performance

The company recorded profit before tax of Shs. 896 million compared to previous year's profit before tax of Shs. 1.17 billion. The decrease is mainly due to one off charge relating cost of non-productive time of shs. 125 million and additional payroll costs for payment of final dues to former employees. There was also a one off charge of Shs. 991 million (2016: Shs. 876 million) relating to write off of unproductive and abandoned wells.

Revenue declined marginally to Shs. 2.9 billion from Shs. 3.2 billion mainly driven by lower demand of steam by Kenya Electricity Generating Company Limited (Kengen) than in the prior year

During the year, an investment of Shs. 5.9 billion was spent on exploration and evaluation assets. This was directed towards drilling of five additional wells in the Menegai field. These were funded by capital grants of Shs. 4.9 billion received from/through the Government of Kenya and plough back of funds received from sale of steam.

The Company has also started exploration and evaluation activities in the Baringo area. Of the Shs. 4.9 billion grants received from the Government of Kenya, Shs. 564 million was for the Bogoria Silali project.

The table below highlights the performance for the year:

Performance indicator	2017	2016
Revenue (Shs million)	2,902	3,161
Operating profit %	43%	48%
Profit before income tax (Shs million)	896	1,168
Net assets (Shs million)	635	407
Current ratio	0.98:1	1.04:1
Expenditure on exploration and evaluation assets ( Shs million)	5,874	6,089
Additions to property, plant and equipment ( Shs million)	2,818	2,036
Grants received ( Shs. Million)	4,886	3,390

### Dividend

The net profit for the year of Shs 228,531,000 (2016: Shs 287,653,000) has been added to retained earnings. The directors do not recommend the payment of a dividend.

### Directors

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

**DIRECTOR'S REPORT (continued)**

**Disclosure to Auditors**

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 Auditors**

The Auditor General is mandated by law to audit Geothermal Development Company Limited. This mandate was delegated to PricewaterhouseCoopers for the audit of financial year ended 30 June 2017.

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 25 JANUARY 2018.

**BY ORDER OF THE BOARD**



Ms. Beatrice Kosgei

**COMPANY SECRETARY**

Date: 25 JANUARY 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Company's Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Companies Act, 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgements and accounting estimates that are reasonable in the circumstances

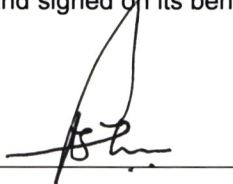
In preparing the financial statements, the directors have assessed the company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate 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.

Approved by the Board of Directors on 25 JANUARY 2018 and signed on its behalf by:



Mr. Gershom Otachi  
Chairman



Eng. Johnson P. Ole Nchoe  
Managing Director and CEO

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

The accompanying financial statements of Geothermal Development Company Limited, set out on pages 35 to 78, which comprise the statement of financial position as at 30 June 2017, and the 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 PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Geothermal Development Company Limited as at 30 June 2017, 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 Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Emphasis of Matter section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Geothermal Development Company Limited in accordance with ISSAI 30 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 audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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*Report of the Auditor-General on the Financial Statements of Geothermal Development Company Limited for the year ended 30 June 2017*

## **Emphasis of Matter**

I draw attention to the following matters:

### **1. Negative Net Current Assets**

The financial statements of the Company reflect current assets of Kshs.7,532,217,000 against current liabilities of Kshs.7,715,570,000, resulting in a net liability position of Kshs.183,353,000. Unless this condition is reversed, the Company may find it difficult to service its short term obligations as and when they fall due.

### **2. Procurement of Rig Move Services**

As reported in 2015/2016 report, the Company entered into a rig move service contract on 4 May 2011, for 12 rig moves covering a period of one year at a rate of Kshs.19, 550,000 per move of estimated 50 loads. The contract further provided, for prorated incremental charge levy where the loads per move exceeded 50 loads. The services were re-tendered in 2012 and re-awarded to the previous contractor in October 2012 for a period of two years or 40 rig moves on a need basis, at a price of Kshs.42,746,000 per move estimated to constitute 100 loads.

Amongst other clauses, the new contract provided for: constant payout rate when the load is 100 loads or below but prorated incremental payment for loads exceeding 100; constant payout rate when the distance covered is 11 kilometers or less but prorated incremental payments for distances exceeding 11 kilometers; and penalties on GDC in the event of delays occasioned by its staff at the rate of Kshs.50,000 per truck and Kshs. 160,000 per crane day but on the other hand, if the contractor was to cause the delays, he would only be liable to a penalty of 0.001% of the unit contract price, amounting to Kshs.427.

Further, as reported in 2016/2017 financial year, the above contract was investigated by the Ethics and Anti-Corruption Commission for possible irregularities. Consequently, the Company stopped using the contracted services, and the contractor threatened to commence legal proceedings for breach of contract. On 13 September 2016, GDC issued a notice to terminate the contract, following which the contractor put in a claim for Kshs.13, 350,000 for works done and Kshs.1, 025,904,000 for loss of revenue on the remaining 24 rig moves. The matter was subsequently referred to arbitration, with the contractor claiming Kshs. 3,334,125,195 for work done, loss of business and damages. The arbitrator, according to management, dismissed the claimant's claim save for a provable amount of Kshs 38,494,710. This legal suit has since been referred to the High Court by the claimant,

who felt dissatisfied with the Award given by the Arbitrator. By the time of concluding this report, the matter was pending hearing at the High Court.

### **3. Unproductive and Abandoned Wells**

The financial statements of the Company reflect Other Expenses amounting to Kshs. 1,574,206,000, as disclosed in Note 9. Included in these is Kshs.991, 359,000 (2016: Kshs.876, 845,000), which relates to the cost of three unproductive and abandoned wells, written off during the year under review. Although, according to management, success rates for geothermal wells all over the world increase as more wells are drilled to provide surface information, the upward trend in the cost of unproductive and abandoned wells as well as the cumulative costs written off by the Company, are significant and requires review of the Company's technical evaluation and drilling processes with the aim of minimizing drilling losses.

### **4. Cost of Non-Productive Time**

The Other Expenses of Kshs.1, 574,206,000 disclosed in Note 9 to the financial statements include Kshs.125, 390,000, relating to the cost of non-productive time (NPT) during drilling activities, which was written off during the year under review. According to Management, the causes of the NPT were mainly operational and part of the drilling program, as well as logistical delays, particularly the long procurement processes, attributable to delayed funding. Costs of NPT are avoidable costs which have increased the cost of drilling wells, and these costs should not have been incurred by the Company.

### **5. Corporation Tax and Related Penalties**

GDC being a state corporation is required to comply with tax laws and other related regulations, including remission of taxes to Kenya Revenue Authority (KRA), as per the prescribed due dates. The statement of financial position reflects current tax liability of Kshs.2, 409,858,000 (2016: 1,656,555,000), for the year ended 30 June 2015, 30 June 2016 and quarterly instalments due as at 30 June 2017. The financial statements further reflect other payables amounting to Kshs.1,435,486,000, as per note 15, which include interest and penalties of Kshs.710,097,000 (2016: 405,572,000), arising from non-payment of income taxes. Although, according to management, the Company has requested for budgetary allocation by the National Treasury to enable it offset the liability, the liability is yet to be settled. The delayed payment of income taxes has exposed the Company to penalties and interest, which continues to increase with the continued delay.

### **6. Vesting of Olkaria Geothermal Wells**

The financial statements reflect exploration and evaluation assets of Kshs.29, 610,870,000, as disclosed in note 18. Included in these assets are costs totalling Kshs.8, 377,275,157 in regard to the drilling of 26 wells out of a total of 59, sunk

using funds from the Government of Kenya. During the year under review, GDC sold steam worth Kshs.2, 901,862,000 (2016 Kshs.3, 160,664,000) from the 59 wells at Olkaria to Kenya Electricity Generating Company (Kengen), and recognized it as revenue. However, as at 30 June 2017, only the cost of 26 out of the 59 wells, have been recognized in these financial statements, with the balance of 33 wells not recognized due to delay in completion of vesting procedures. According to management, this delay is due to challenges relating to some of the wells which are located on land used by Kengen, to secure financing for their projects. Under the circumstances, it is not possible to confirm when the vesting of the wells will be completed.

My opinion is not qualified in respect to these matters.

### **Key Audit Matters**

Key audit matters are those matters which, in my professional judgment, were 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 Included in the Annual Report**

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my 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 my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information which I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **Responsibilities of Directors and Those Charged with Governance for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting assumption. The directors are responsible for overseeing the Company's financial reporting process.

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 which 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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

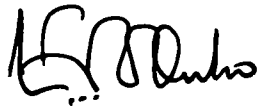
I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

#### REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

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

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the accounting records; and
- (iv) In my opinion, the information given in the report of the directors is consistent with the financial statements.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**01 February 2018**


**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**


	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
Revenue	5	2,901,862	3,160,664
Government grants	20	1,548,477	1,570,795
Other income	6	64,837	35,107
Administrative expenses	8	(1,686,536)	(1,561,905)
Other expenses	9	(1,574,206)	(1,701,295)
<b>Operating profit</b>		<b>1,254,434</b>	<b>1,503,366</b>
Finance income	7(a)	4,736	319
Finance costs	7(b)	(363,239)	(335,699)
<b>Profit before income tax</b>		<b>895,931</b>	<b>1,167,986</b>
Income tax expense	11	(667,400)	(880,333)
<b>Profit for the year</b>		<b>228,531</b>	<b>287,653</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>228,531</b>	<b>287,653</b>

**STATEMENT OF FINANCIAL POSITION**

	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	31,705,451	31,854,194
Exploration and evaluation assets	18	29,610,870	24,853,442
Intangible assets	19	14,451	25,522
Deferred income tax	16	155,647	69,163
		61,486,419	56,802,321
<b>Current assets</b>			
Inventories	12	3,764,534	3,969,484
Trade and other receivables	13	3,765,615	3,829,639
Cash at hand		2,068	2,251
		7,532,217	7,801,374
<b>TOTAL ASSETS</b>		69,018,636	64,603,695
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	22	2,000	2,000
Retained earnings		633,545	405,014
<b>Total equity</b>		635,545	407,014
<b>Non- Current liabilities</b>			
Capital grants	20	60,667,521	56,662,970
<b>Current liabilities</b>			
Borrowings	21	2,607,511	2,704,667
Trade and other payables	15	2,698,201	3,172,489
Current income tax		2,409,858	1,656,555
		7,715,570	7,533,711
<b>TOTAL EQUITY AND LIABILITIES</b>		69,018,636	64,603,695

The financial statements on pages 35 to were approved for issue by the board of directors on  
~~25~~ **JANUARY** 2018 and signed on its behalf by:

  
 Mr. Gershom Otachi  
 Chairman

  
 Eng. Johnson P. Ole Nchoe  
 Managing Director and CEO

**STATEMENT OF CHANGES IN EQUITY**

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Year ended 30 June 2016</b>			
At start of year	2,000	117,361	119,361
Total comprehensive income for the year	-	287,653	287,653
	-----	-----	-----
At end of year	2,000	405,014	407,014
	=====	=====	=====
<b>Year ended 30 June 2017</b>			
At start of year	2,000	405,014	407,014
Total comprehensive loss for the year	-	228,531	228,531
	-----	-----	-----
At end of year	2,000	633,545	635,545
	=====	=====	=====

**STATEMENT OF CASH FLOWS**

	Notes	Year ended 30 June	
		2017 Shs'000	2016 Shs'000
<b>Cash flows from operating activities</b>			
Profit before tax		895,931	1,167,986
Adjustments:			
Depreciation of property, plant and equipment	17	962,187	912,766
Amortisation of intangible asset	19	6,073	21,509
Write-off of unproductive and abandoned wells	18	991,359	876,845
Provision for impairment of exploration & evaluation assets	18	-	418,878
Amortisation of capital grants	20	(881,747)	(868,795)
Write off of non-productive time	18	125,390	-
Gain on disposal of property, plant and equipment	6	(256)	-
Changes in working capital:			
- Receivables		64,024	1,285,791
- Inventories		204,950	109,003
- trade and other payables		(474,288)	460,437
Income tax paid		(581)	-
<b>Net cash generated from operating activities</b>		<b>1,893,042</b>	<b>4,384,420</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	17	(2,818,403)	(2,036,277)
Expenditure on exploration and evaluation assets	18	(3,864,533)	(4,949,187)
Proceeds from disposal of property, plant and equipment		569	11,144
<b>Net cash used in investing activities</b>		<b>(6,682,367)</b>	<b>(6,974,320)</b>
<b>Cash flows from financing activities</b>			
Proceeds from capital grants	20	4,886,298	3,390,365
<b>Net cash generated from financing activities</b>		<b>4,886,298</b>	<b>3,390,365</b>
<b>Net increase in cash and cash equivalents</b>		<b>96,973</b>	<b>800,465</b>
Cash and cash equivalents at start of year		(2,702,416)	(3,502,881)
<b>Cash and cash equivalents at end of year</b>	14	<b>(2,605,443)</b>	<b>(2,702,416)</b>

## NOTES

### 1 General information

Geothermal Development Company Limited is incorporated in Kenya under the Companies Act as a state owned corporation, and is domiciled in Kenya. The principal activity of the company is the development of geothermal resources 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. These policies have been consistently applied to all years presented, unless otherwise stated.

#### (a) Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated. All values are shown in thousands of Kenya Shillings, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

#### Changes in accounting policy and disclosures

##### (i) *New standards, amendments and interpretations adopted.*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1, 'presentation of Financial Statements'

The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, provide clarifications on a number of issues, including:

- **Materiality** – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- **Disaggregation and subtotals** – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(a) Basis of Preparation (continued)**

*(i) New standards, amendments and interpretations adopted (continued)*

Amendments to IAS 1, 'presentation of Financial Statements'

The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, provide clarifications on a number of issues, including:

(Continued)

- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle

The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de-recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

Amendments to IAS 16 and IAS 38  
Clarification of Acceptable Methods of Depreciation and Amortisation

The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either:

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

As these amendments merely clarify the existing requirements, they do not affect the company's accounting policies or any of the disclosures.

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(a) Basis of Preparation (continued)**

(ii) *New standards, amendments and interpretations not yet effective and not early adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

**IFRS 9  
Financial  
instruments'** Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The amendment is not expected to have a significant impact on the company's financial statements.

**IFRS 15  
Revenue from  
Contracts with  
Customers** The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(a) Basis of Preparation (continued)**

*(ii) New standards, amendments and interpretations not yet effective and not early adopted (continued)*

IFRS 15  
Revenue from  
Contracts with  
Customers

A new five-step process must be applied before revenue can be recognised:

(Continued)

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to the current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licences, warranties, non-refundable upfront fees and, consignment arrangements, to name just a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

The new standard is effective for annual periods beginning on or after 1 January 2018. The directors do not anticipate the standard to have a significant impact on the company.

## Notes (Continued)

### 2 Summary of significant accounting policies (continued)

#### (a) Basis of Preparation (continued)

##### (ii) *New standards, amendments and interpretations not yet effective and not early adopted (continued)*

IFRS 16  
'Leases'

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

The directors do not anticipate the standard to have a significant impact on the company.

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

##### (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'.

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(c) Property, plant and equipment**

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

The annual depreciation rates in use are:

Wells	6.67%
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	10%

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.

## Notes (Continued)

### 2 Summary of significant accounting policies (continued)

#### (d) Exploration and evaluation assets

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

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

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

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

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of expenditure. The carrying values of capitalised evaluation amounts are reviewed 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 tangible or intangible assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

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

#### *Impairment – exploration and evaluation assets*

Exploration and evaluation assets are tested for impairment when reclassified to development 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.

#### (e) Intangible assets

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

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

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(f) 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.

**(g) Trade receivables**

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

**(h) Cash and cash equivalents**

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

**(i) 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.

**(j) 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.

## Notes (Continued)

### 2 Summary of significant accounting policies (continued)

#### (k) 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.

#### (l) 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.

#### (l) 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.

#### (m) 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.

**Notes (Continued)**

**2 Summary of significant accounting policies (continued)**

**(n) Leases**

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

The company holds operating leases for its office premises and geothermal exploration fields.

**(o) 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.
- (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.

**(p) 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.

## **Notes (Continued)**

### **2 Summary of significant accounting policies (continued)**

#### **(q) 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 estimates and judgements**

The preparation of financial statements in conformity with IFRS also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

#### **(a) Critical accounting estimates and assumptions**

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

##### **(i) Useful lives of property, plant and equipment**

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

**Notes (Continued)**

**3 Critical accounting estimates and judgements (continued)**

**(b) Critical accounting judgments**

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

**(i) Going concern**

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

**(ii) Income taxes**

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

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

**(iii) 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.

**Notes (Continued)**

**4 Financial risk management objectives and policies**

**(a) Liquidity risk**

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

Management perform cash flow forecasting and monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The Company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unnecessary losses or risking damage to the Company's reputation. Surplus cash held by the Company, over and above the amounts required for working capital management are invested in interest bearing call accounts.

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

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

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Trade and other payables (Note 15)	2,698,201	3,172,489
Bank borrowings (Note 21)	1,959,710	2,028,067
Bank overdraft (Note 21)	647,801	676,600
	5,305,712	5,877,156
	5,305,712	5,877,156

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

**Notes (Continued)**

**4 Financial risk management objectives and policies (continued)**

**(b) Credit risk**

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

The amount that best represents the company's maximum exposure to credit risk at 30 June 2017 was made up as follows:

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Trade receivables (Note 13a)	938,480	880,116
Other receivables (Note 13a)	72,931	79,075
Restricted cash (Note 13b)	108,768	78,768
	<u>1,120,179</u>	<u>1,037,959</u>

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

**(c) Market risk**

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

**(i) Foreign exchange risk**

The company makes purchases in foreign currency, holds cash in dollars, 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 2017, 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 177,204,984 (2016: Shs 85,116,700) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

On 30 June 2017, 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 3,976,742 (2016: 8,917,854) higher/lower, as a result of Euro denominated trade payables

**Notes (Continued)**

**4 Financial risk management objectives and policies (continued)**

**c) Market risk (continued)**

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. The company was not exposed to cash flow and fair value interest rate risk at 30 June 2017.

**(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 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
	<b>Shs '000</b>	<b>Shs'000</b>
Total borrowings ( Note 21)	2,607,511	2,704,667
Less: Cash and cash equivalents (Note 14)	(2,068)	(2,251)
	<hr/>	<hr/>
Net debt	2,605,443	2,702,416
	<hr/>	<hr/>
Total equity	635,545	407,014
	<hr/>	<hr/>
Total debt and equity	3,240,988	3,109,430
	<hr/>	<hr/>
<b>Gearing ratio</b>	<b>80.4%</b>	<b>86.9%</b>
	<hr/>	<hr/>

**Notes (Continued)**

**5 Revenue**

GDC continues to generate revenue from sale of steam from the Olkaria wells.

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Sale of steam	2,901,862	3,160,664
<b>6 Other income</b>		
Consultancy services on geothermal drilling	32,538	33,653
Gain on disposal of property, plant and equipment	256	-
Miscellaneous income	3,576	8,315
Net foreign exchange gain/(loss)	28,467	(6,861)
	<u>64,837</u>	<u>35,107</u>
<b>7 (a) Finance income</b>		
Interest income on bank deposits	4,736	319
<b>7 (b) Finance costs</b>		
Interest expense on bank borrowings and overdrafts	363,239	335,699
<b>8 Expenses by nature</b>		
Employee benefits expenses (Note 10)	492,783	425,034
Depreciation of property, plant & equipment (Note 17)	962,187	912,766
Director's remuneration (Note 24)	26,710	30,713
Amortisation of intangible assets (Note 19)	6,073	21,509
Accommodation and subsistence	20,738	13,702
Operating lease payments	-	5,503
Auditor's remuneration	8,206	4,500
Training and education	21,566	8,013
Transportation expenses	5,730	4,067
Fuel expenses	3,784	3,768
Provision for doubtful debts of other receivables	667	26,743
ICT consumables	6,011	5,552
Advertising and publicity	2,852	1,901
Management consultancy	8,391	24,005
Waiver of staff medical bills	11,728	-
Other expenses	109,110	74,129
	<u>1,686,536</u>	<u>1,561,905</u>

**Notes (Continued)**

**9 Other operating expenses**

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Penalties for non-payment of corporate tax	304,525	405,572
Penalties for late remission of statutory deductions	46,814	-
Write off of unproductive and abandoned wells (Note 18)	991,359	876,845
Provision for impairment of exploration and evaluation assets	-	418,878
Costs of non-productive time during drilling activities (Note 18)	125,390	-
Write off of withholding tax not recoverable	39,542	-
Provision for legal fees	66,576	-
	<hr/>	<hr/>
	1,574,206	1,701,295
	<hr/>	<hr/>

**10 Employee benefits expenses**

The following items are included within employee benefits expense

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Salaries and wages	462,697	395,814
Retirement benefits costs:		
- Defined contribution scheme	29,659	28,858
- National Social Security Fund	427	362
	<hr/>	<hr/>
	492,783	425,034
	<hr/>	<hr/>

**11 Income tax expense**

Current income tax	753,884	932,319
Deferred income tax (Note 16)	(86,484)	(51,986)
	<hr/>	<hr/>
Income tax expense	667,400	880,333
	<hr/>	<hr/>

**Notes (Continued)**

**11 Income tax expense (continued)**

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Profit before income tax	895,931	1,167,986
Tax calculated at the statutory income tax rate of 30% (2016: 30%)	268,779	350,396
Tax effects of:		
Income not subject to tax	(265,945)	(260,638)
Expenses not deductible for tax purposes	672,904	831,249
Under provision of deferred income tax in prior years	(28,311)	(40,674)
Income tax expense	667,400	880,333

**12 Inventories**

Drilling materials	3,391,289	3,498,507
Pipes	236,373	235,826
Fuel	61,025	78,664
Consumables	47,029	17,764
Inventories in transit	-	117,070
Total inventory held for exploration and evaluation activities	3,735,716	3,947,831
Other inventories	28,818	21,653
	3,764,534	3,969,484

**Notes (Continued)**

**13a Trade and other receivables**

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Trade receivables	1,035,638	1,096,607
Less: Provision for impairment losses	(97,158)	(216,491)
	<u>938,480</u>	<u>880,116</u>
Value Added Tax (VAT) recoverable	1,503,634	1,679,188
Advance payment to suppliers	1,126,702	1,094,435
Restricted cash	108,768	78,768
Other receivables and prepayments	88,031	97,132
	<u>3,765,615</u>	<u>3,829,639</u>

Movements for the provision of impairment of trade receivables are as follows;

At start of year	216,491	69,747
Provision during the year	667	146,744
Receivables written off in the year as uncollectible	(120,000)	-
	<u>97,158</u>	<u>216,491</u>

The fair value of other receivables approximates their carrying value.

**13b. Restricted cash**

Deposit with Development Bank of Kenya	94,568	64,568
Deposit with Cooperative bank	14,200	14,200
	<u>108,768</u>	<u>78,768</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.

**Notes (Continued)**

**14 Cash and cash equivalents**

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

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Short term bank loans (Note 21)	(1,959,710)	(2,028,067)
Bank overdraft (Note 21)	(647,801)	(676,600)
Cash at hand	2,068	2,251
	<hr/>	<hr/>
	(2,605,443)	(2,702,416)
	<hr/>	<hr/>

A detailed analysis of cash and cash equivalents is presented in Appendix 4.

**15 Trade and other payables**

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Trade payables	1,064,218	1,932,417
Accrued expenses	198,497	323,621
Other payables	1,435,486	916,451
	<hr/>	<hr/>
	2,698,201	3,172,489
	<hr/>	<hr/>

Other payables include accrued interest and penalties arising from arising from non-payment of income taxes of Shs. 710,097,000 (2016: Shs. 405,572,000).

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

**16 Deferred income tax**

Deferred income tax is calculated using the enacted income tax rate of 30% (2016:30%). The movement of the deferred income tax account is as follows:

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
At start of year	69,163	17,177
Credit to profit or loss	86,484	51,986
	<hr/>	<hr/>
At end of year	155,647	69,163
	<hr/>	<hr/>

Deferred income tax asset and liabilities and deferred income tax charge in the statement of comprehensive income (SOC) are attributable to the following items:

**Notes (Continued)**

**16 Deferred income tax (continued)**

	<b>1.7.2016</b>	<b>Charged/ (credited) to P&amp;L</b>	<b>30.6.2017</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Deferred income tax liabilities</b>			
Property, plant and equipment	(3,212)	(7,316)	(10,528)
	(3,212)	(7,316)	(10,528)
<b>Deferred income tax assets</b>			
Other temporary differences	(56,545)	(24,393)	(80,938)
Unrealised exchange losses	(9,406)	(54,775)	(64,181)
	(65,951)	(79,168)	(145,119)
<b>Net deferred income tax asset</b>	(69,163)	(86,484)	(155,647)
	<b>1.7.2015</b>	<b>Charged/ (credited) to P&amp;L</b>	<b>30.6.2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>	<b>Shs'000</b>
<b>Deferred income tax liabilities</b>			
Property, plant and equipment	4,824	(8,036)	(3,212)
	4,824	(8,036)	(3,212)
<b>Deferred income tax assets</b>			
Other temporary differences	(42,338)	(14,207)	(56,545)
Unrealised exchange losses	20,337	(29,743)	(9,406)
	(22,001)	(43,950)	(65,951)
<b>Net deferred income tax asset</b>	(17,177)	(51,986)	(69,163)

**Notes (Continued)**

**17 Property, plant and equipment**

	Land & Buildings	Rigs and water supply infrastructure	Wells	Plant machinery, power substation, and equipment	Motor vehicles	Furniture, fittings and equipment	Work in Progress	Total
<b>Year ended 30 June 2016</b>								
Opening net book amount	114,329	8,710,049	12,849,016	632,213	821,559	113,318	8,614,370	31,854,854
Additions	314	-	-	9,493	-	6,392	2,020,078	2,036,277
Transfer from WIP	1,015	-	-	60,688	-	-	(61,703)	-
Depreciation:								
-charge to profit or loss	-	-	(868,795)	-	(4,167)	(39,804)	-	(912,766)
-capitalised to exploration and evaluation assets	(445)	(718,501)	-	(223,734)	(155,837)	(14,510)	-	(1,113,027)
Disposals	-	-	-	-	(10,821)	(323)	-	(11,144)
Closing net book amount	115,213	7,991,548	11,980,221	478,660	650,734	65,073	10,572,745	31,854,194
<b>At 30 June 2016</b>								
Cost	117,124	11,344,560	13,717,811	1,450,042	1,434,634	368,201	10,572,745	39,005,117
Accumulated depreciation	(1,911)	(3,353,012)	(1,737,590)	(971,382)	(783,900)	(303,128)	-	(7,150,923)
Net book amount	115,213	7,991,548	11,980,221	478,660	650,734	65,073	10,572,745	31,854,194

**Notes (Continued)**

**17 Property, plant and equipment (continued)**

Year ended 30 June 2017	Shs'000	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	Shs'000
Opening net book amount	115,213	7,991,548	-	11,980,221	478,660	650,734	65,073	10,572,745	31,854,194	
Additions	-	1,786,336	-	204,518	255,594	8,873	18,387	544,695	2,818,403	
Transfer from WIP	-	3,924,118	1,167,914	-	726	1,128,673	184,892	(6,406,323)	-	
Depreciation:										
-charge to profit or loss	-	-	-	(881,747)	-	(3,969)	(76,471)	-	(962,187)	
-capitalised to exploration and evaluation assets	(445)	(979,288)	(534,792)	-	(167,952)	(297,155)	(25,014)	-	(2,004,646)	
Disposals	-	-	-	-	-	-	(313)	-	(313)	
Closing net book amount	114,768	12,722,714	633,122	11,302,992	567,028	1,487,156	166,554	4,711,117	31,705,451	
<b>At 30 June 2017</b>										
Cost	117,124	17,055,014	1,167,914	13,922,329	1,706,362	2,572,180	571,167	4,711,117	41,823,207	
Accumulated depreciation	(2,356)	(4,332,300)	(534,792)	(2,619,337)	(1,139,334)	(1,085,024)	(404,613)	-	(10,117,756)	
Net book amount	114,768	12,722,714	633,122	11,302,992	567,028	1,487,156	166,554	4,711,117	31,705,451	

Work in progress constitutes of the steam gathering system at Menengai site and water supply system being constructed at the Baringo site.

**Notes (Continued)**

**18 Exploration and evaluation assets**

These are expenses incurred by the company in exploration and steam development. Movements for the year were as follows:

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
At start of year	24,853,442	20,060,663
Additions	5,874,177	6,088,502
Write off of unproductive and abandoned wells	(991,359)	(876,845)
Provision for impairment	-	(418,878)
Write off of non-productive time expenses	(125,390)	-
	<hr/>	<hr/>
At end of year	29,610,870	24,853,442
	<hr/> <hr/>	<hr/> <hr/>

The additions in the year comprise the following:

Depreciation of plant and equipment (Note 17)	2,004,646	1,113,027
Amortisation of intangible assets (Note 19)	4,998	26,288
Staff costs capitalised	1,537,554	1,413,223
Drilling materials and consumables	2,326,979	3,535,964
	<hr/>	<hr/>
	5,874,177	6,088,502
	<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.

The recoverable amount of the Menengai field earmarked for the production of the first 105 Mega Watts was determined as at 30 June 2017 based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the management and the signed steam sales contract covering the estimated useful life and contracted period of twenty five years.

**Notes (Continued)**

**18 Exploration and evaluation assets (continued)**

**Impairment assessment for 105MW Menengai project wells (continued)**

The following table sets out the key assumptions used by management in the value in use calculations:

<b>Assumption</b>	<b>2017</b>	<b>2016</b>
Pre-tax discount rate	9.06%	9.67%
Production period	25 years	25 years
Sales volume	105 MW	105 MW
Budgeted average gross margin	22%	22%
Average annual capital expenditure	USD 2.6 million	USD 2.4 million
Annual resource decline rate	3%	3%

Management has determined the values assigned to each of the key assumptions used as follows:

<b>Assumption</b>	<b>Approach used to determine values:</b>
Pre-tax discount rate	Based on specific risks relating to the industry and country for USD denominated cash flows. Factors considered for the industry include regulatory environment, market competition, and barriers to entry.
Sales volume	This is the contracted sales volume. Management is obliged to maintain at least a 20% buffer/ spare capacity.
Budgeted average gross margin	Based on past performance/ cost experience and management expectations of the future.
Annual capital expenditure	Expected cash costs in the project. This is based on the historical experience of management, or sustaining expenditure required to cover for the expected resource decline rate. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this experience.
Annual resource decline rate	Based on industry experience.

Based on the above assumptions, the recoverable amount exceeded the carrying amount of 105 MW Menengai project at 30 June 2017 by Shs. 88 million.

**Impact of possible changes in key assumptions**

If the pre-tax discount rate applied on the cash flow projections had been 10 basis points higher than management's estimate at 30 June 2017 with all other assumptions unchanged, an impairment charge of Shs. 15 million would have been recognized in the statement of profit or loss.

If the budgeted expenditure had been 1% higher than management's estimate at 30 June 2017 with all other assumptions unchanged, an impairment charge of Shs. 56 million would have been recognized in the statement of profit or loss.

**Notes (Continued)**

**19 Intangible assets**

Intangible assets relates to SAP, the company's accounting software, GIS software and ICT security software.

	<b>2017</b> <b>Shs'000</b>	<b>2016</b> <b>Shs'000</b>
Opening net book amount	25,522	73,319
Amortisation:		
Charge to profit or loss	(6,073)	(21,509)
Capitalised as exploration and evaluation assets	(4,998)	(26,288)
Closing net book amount	14,451	25,522
Cost	289,011	289,011
Accumulated amortization	(274,560)	(263,489)
<b>Net book amount</b>	<b>14,451</b>	<b>25,522</b>

**20 Government grants**

**Revenue grants and amortisation of capital grants**

Revenue grants issued by Government of Kenya	666,730	702,000
Capital grants amortised	881,747	868,795
	1,548,477	1,570,795

**Capital grants**

At start of year	56,662,970	54,141,400
Grants received in the year:		
- Grants from Government of Kenya	2,647,000	2,548,363
- Grants from European Investment Bank	-	69,031
- Grants from KFW	564,395	-
- Grants from AfDB	1,674,903	772,971
	4,886,298	3,390,365
GOK grant amortised (Olkaria wells)	(881,747)	(868,795)
	60,667,521	56,662,970

**Notes (Continued)**

**20 Government grants (continued)**

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 2017.

**21 Borrowings**

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Bank overdraft	647,801	676,600
Short term bank loans	1,959,710	2,028,067
	<u>2,607,511</u>	<u>2,704,667</u>

At 30 June 2017, the company had an overdraft facility with a limit of Shs. 1 billion. The effective interest on the facility was 14% p.a (based on the Kenya Bankers Reference Rate (KBRR) of 10% plus a margin of 4%) (2016:14% pa). The unused overdraft facility at year end was Shs 352,199,000 (2016: Shs. 337,600,000).

Short term loans relate to a credit facility with Cooperative Bank of Kenya to finance imports through letters of credit. The interest rate charged for the short term loan facility is the same as that for the overdraft disclosed above.

At 30 June 2017, Cooperative Bank held cash in lien of Shs. 15,840,000 as a security for the above loans.

The above facilities are for a period of one year, renewable.

**22 Share capital**

	<b>Number of</b>	<b>Shs'000</b>
	<b>shares</b>	
Balance at 30 June 2015, 30 June 2016 and 30 June 2017	<u>20,000</u>	<u>2,000</u>

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

**Notes (Continued)**

**22 Share capital (continued)**

Shares held by the Ministry of Energy & Petroleum are held in trust by the sitting Principal Secretary of the ministry. All issued shares are fully paid for by:

	<b>Number of shares 2017</b>	<b>Number of shares 2016</b>
Permanent Secretary to the National Treasury	19,999	19,999
Patrick Nyoike ((PS, Ministry of Energy & Petroleum)	1	1
	<hr/>	<hr/>
	20,000	20,000
	<hr/>	<hr/>

**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) Cluff Geothermal Vs GDC

The company entered into a contract with the Cluff Geothermal Ltd for provision of Top holing services at Menengai field. During the year, the Company was served with a notice of declaration of dispute by Cluff alleging breach of contract for non-payment of services. The total claim by Cluff is shs 1.24 billion. The matter has been filed with the London Court of International Arbitration. In the opinion of the Directors, the matter is unlikely to result into a loss to the company beyond the legal and other professional costs.

b) Linksoft Communications Limited Vs GDC

The Company entered into 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 sh. 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. 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.

**Notes (Continued)**

**23 Commitments and contingent liabilities (continued)**

c) 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 13th September 2016. Bonfide referred the matter for arbitration claiming an amount of Sh. 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. Based on the legal advice received, the Directors believe that the probability of an unfavourable outcome is remote particularly on the claim for loss of business, interest and damages hence no provision has been accrued for in the financial statements. An amount of Ksh 13 Million relating to a claim for work done has been provided for in the financial statements.

The company continues to vigorously defend its position. The Directors continues to monitor the development of these matters and to the extent those developments may have a major impact on its financial position, or may significantly affect its ability to meet its commitments, the company shall disclose those developments as required.

**Capital commitments**

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

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Authorized and contracted	9,528,266	12,895,027
Authorized but not contracted	870,321	1,215,000
	<hr/>	<hr/>
	10,398,587	14,110,027
	<hr/>	<hr/>

**24 Related party transactions**

The company is wholly owned and controlled by the Government of Kenya. IAS 24, 'Related party disclosures' clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

**Notes (Continued)**

**i) Key management compensation**

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

	<b>2017</b>	<b>2016</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Salaries and other short-term employment benefits	56,535	62,629
	<hr/>	<hr/>

**Notes (Continued)**

**24 Related party transactions (continued)**

**ii) Directors' remuneration**

Remuneration as management	12,343	6,714
Fees and allowances for services as director	26,710	30,713
	<hr/>	<hr/>
	39,053	37,427
	<hr/>	<hr/>

**iii) Grants received in the year**

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

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**APPENDICES**

**Appendix I: Statement of comparison of budget and actual expenditure**

Details	Original budget Ksh'000	Final Budget Ksh'000	Actual Comparable Basis Ksh'000	Performance Difference Ksh'000
<b>Revenue</b>				
Sale of Steam	3,000,000	3,000,000	2,901,862	(98,138)
Government Grant	666,730	666,730	666,730	-
Amortization of revenue grant	-	-	881,747	881,747
Other Income	-	-	69,573	69,573
<b>Total revenue</b>	<b>3,666,730</b>	<b>3,666,730</b>	<b>4,519,912</b>	<b>(853,182)</b>
<b>Expenses</b>				
Staff costs	539,044	539,044	492,783	(46,261)
Depreciation of Property Plant & Equipment	-	-	962,187	962,187
Directors remuneration	30,798	30,798	26,710	(4,088)
Amortization of intangible Asset	6,073	6,073	6,073	-
Accommodation &Subsistence	8,893	8,893	20,738	11,845
Auditors Remuneration	12,000	12,000	8,206	(3,794)
Training expenses	22,418	22,418	21,566	(852)
Transport expenses	4,214	4,214	5,730	1,516
Fuel Expenses	16,191	16,191	3,784	(12,407)
Provision of Bad Debt	-	-	667	667
ICT expenses	6,081	6,081	6,011	(2,207)
Publicity expenses	7,650	7,650	2,852	(4,798)
Management Consultancy	12,750	12,750	8,391	(4,359)
Finance expenses	218,000	218,000	363,240	145,240
Tax expense	-	-	667,400	667,400
Other administrative expenses	144,049	150,122	109,110	(32,733)
Waiver of staff medical bills	11,728	11,728	11,728	-
Other operating expenses	-	-	1,574,206	1,574,206
<b>Total expenses</b>	<b>1,039,889</b>	<b>1,039,888</b>	<b>4,291,381</b>	<b>3,251,493</b>
<b>Surplus/(deficit)</b>	<b>2,626,841</b>	<b>2,626,842</b>	<b>228,531</b>	<b>2,398,311</b>

There were no changes between original and final budget.

**Explanation of differences between actual and budgeted amounts (10% over/ under)**

Details	Final Budget	Actual Comparable Basis	Performance Difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
	Ksh'000	Ksh'000	Ksh'000		
<b>Revenue</b>					
Sale of Steam	3,000,000	2,901,862	(98,138)	-3%	Lower demand of steam by KENGEN.
Government Grant	666,730	666,730	-	0%	Not applicable
Amortization of revenue grant	-	881,747	881,747	100%	Not applicable.
Other income	-	69,573	69,573	100%	Not applicable.
<b>Total revenue</b>	<b>3,666,730</b>	<b>4,519,912</b>	<b>(98,138)</b>	<b>(2%)</b>	
<b>Expenses</b>					
Staff cost	539,044	492,783	(46,261)	-9%	Not applicable.
Depreciation of Property Plant & Equipment	-	962,187	962,187	100%	Depreciation was not included in the budget.
Directors Remuneration	30,798	26,710	(4,088)	-13%	Few activities in the year than had been planned.
Amortization of Intangible Asset	6,073	6,073	-	0%	
Accommodation & Subsistence	8,893	20,738	11,845	133%	Expansion in company activities in the year to other project areas (L.Baringo and Silali )
Auditors Remuneration	12,000	8,206	3,794	32%	Extended ICT Audit was not done.
Training expenses	22,418	21,566	(852)	-4%	Not applicable.
Transport expenses	4,214	5,730	1,516	36%	Expansion in company activities in the year to other project areas (L.Baringo and Silali )
Fuel Expenses	16,191	3,784	(12,407)	-77%	A large portion of the fleet is utilized on the project activities hence costs are capitalized to projects
Provision of Bad Debt	-	667	667	0%	Not applicable.

**Explanation of differences between actual and budgeted amounts (10% over/ under)**

Details	Final Budget	Actual Comparable Basis	Performance Difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
	Ksh'000	Ksh'000	Ksh'000		
ICT expenses	6,081	6,011	(70)	-1%	Not applicable
Publicity expenses	7,650	2,852	(4,798)	-63%	Reduced advertisement activities
Management Consultancy	12,750	8,391	(4,359)	-34%	Fewer consultancy activities
Finance expenses	218,000	363,239	145,239	67%	Plans to convert the Post Import Financing facility to a term loan which would have reduced the interest charges significantly did not happen in the financial year under review as envisaged
Tax Expense	-	667,400	667,400	100%	Tax expense was not included in the budget
Other administrative expenses	144,049	109,110	41,012	27%	Expenditure in the year were project specific hence costs were capitalized to projects
Waiver of Staff Medical Bills	11,728	11,728	-	0%	Not applicable
Other operating expenses	-	1,574,206	1,574,206	100%	No write off of expenses had been budgeted.
<b>Total expenses</b>	<b>1,039,889</b>	<b>4,291,381</b>	<b>3,251,493</b>	<b>313%</b>	
<b>Surplus/Deficit</b>	<b>2,626,841</b>	<b>228,531</b>	<b>(2,398,311)</b>		

**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

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)	From March 2012- December 2017	145	YES	YES
2 Bogoria - Silali	1152100500	German Development Bank (KfW)	From July 2014	100	YES	YES

Projects implemented by the State Corporation/ SAGA Funded by development partners

**Status of Projects completion**

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1 Menengai Project	115,926	71,154	60%	7,859	6,432	GoK Steam Sales AFDB
2 Bogoria - Silali	78,029	1,077	19%	2,652	767	GoK KfW

**APPENDIX III: INTER-ENTITY TRANSFERS**

**ENTITY NAME: GEOTHERMAL DEVELOPMENT COMPANY LIMITED**

**Break down of Transfers from the Ministry of Energy & Petroleum**

**FY 2016/2017**

**a. Recurrent Grants**

<b>Bank Statement Date</b>	<b>Amount (KShs'000)</b>
28.09.2016	166,681
04.11.2016	166,683
06.02.2017	166,683
07.04.2017	166,683
<b>Total</b>	<b>666,730</b>

**b. Development Grants**

<b>Bank Statement Date</b>	<b>Amount (KShs'000)</b>
15.09.2016	511,750
15.10.2016	511,750
07.02.2017	511,750
19.04.2017	1,111,750
<b>Total</b>	<b>2,647,000</b>

**c. Direct Payments**

<b>Bank Statement Date</b>	<b>Amount (KShs'000)</b>
NIL	-
<b>Total</b>	<b>-</b>

**d. Donor Receipts**

<b>Accruals</b>	<b>Amount (KShs'000)</b>
KFW	564,395
African Development Bank (AFDB)	1,674,903
<b>Total</b>	<b>2,239,298</b>

**Appendix IV: Detailed analysis of cash and cash equivalents**

		2017	2016
Financial Institution	Account number	Shs '000	Shs '000
<b>a) Current accounts</b>			
Co-operative Bank of Kenya	01136160857600	(903,557)	(784,421)
Co-operative Bank of Kenya	01136160857603	39,079	39,083
Co-operative Bank of Kenya	02120160857600	(15,096)	(167,630)
Co-operative Bank of Kenya	22120160857600	(1)	(1,569)
Co-operative Bank of Kenya	01136350124400	727	1,836
Co-operative Bank of Kenya	01136115849200	377	819
Kenya Commercial Bank	1119615208	2,854	738
Kenya Commercial Bank	1166553671	468	2,846
<b>Sub- total</b>		<b>(875,148)</b>	<b>(908,298)</b>
<b>b) On - call deposits</b>			
Co-operative Bank of Kenya	021501608576	227,347	225,604
<b>Sub- total</b>		<b>227,347</b>	<b>225,604</b>
<b>c) Fixed deposits account</b>			
Kenya Commercial bank		-	6,095
<b>Sub- total</b>		<b>-</b>	<b>6,095</b>
<b>e) Others</b>			
Co-operative Bank of Kenya (PIF facility)		(1,959,710)	(2,028,067)
Cash in hand		2,068	2,251
<b>Sub- total</b>		<b>(1,957,642)</b>	<b>(2,025,816)</b>
<b>Grand total</b>		<b>(2,605,443)</b>	<b>(2,702,415)</b>

**Appendix V:**

**Progress on follow up on Auditor Recommendation**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

The matters have been classified as:

- **Issues closed:** This could either mean that management has carried out and completed the action called for by the audit recommendation or based on the nature of the issue, no recurrence has been noted during the current year.
- **Issue partially closed:** Management has made efforts to address the issue although the entire matter is yet to be completely closed.
- **Issue open:** Management has not initiated steps or made notable efforts to satisfy the action called for by the audit recommendation.

<b>Matter</b>	<b>Status of implementation</b>
<p><b>1. Potential impairment of Menengai field</b></p> <p>In the prior year, there was an impairment charge of shs. 419 million being the excess of carrying amount over the recoverable amount of the exploration and evaluation assets.</p> <p>A recommendation was made that management should explore ways to be more cost effective in incurring exploration and evaluation expenditure.</p>	<p>Issue partially closed. See matter described under section 4.1 and 4.2 of the post audit report.</p>
<p><b>2. Accounting for import finance charges</b></p> <p>In the prior year, import finance charge amounting to Shs. 120 million had been incorrectly recorded as a receivable from Cooperative Bank.</p> <p>It was recommended that there should be a timely reconciliation and review of loan/interest and import finance facilities. Further, management should have an independent way of determining interest accrued on these facilities and compare it with the bank statement.</p>	<p>Issue closed.</p>
<p><b>3. Vesting of Olkaria Geothermal Wells</b></p> <p>The contractual agreement signed between GDC and KENGEN for the utilisation, operation and maintenance of Geothermal wells indicates that there are 59 wells that are to be under control of GDC.</p> <p>The 59 wells were sunk using funds from the Government of Kenya. A decision was made by the government that the wells be vested in GDC as capital grants.</p> <p>As was the case as at 30 June 2015, only 26 wells out of the 59 have been recognized in GDC's financial statements. We had recommended that management continues pursuing the completion of the vesting process.</p>	<p>Issue open. See matter reported under section 4 of the post audit report.</p>

**Progress on follow up on Auditor Recommendation (continued)**

<b>Matter</b>	<b>Status of implementation</b>
<p><b>4. Compliance with laws and regulations</b></p> <p>It was noted that GDC has not paid corporate income tax on the taxable profits for the year ended 30 June 2015 amounting to Shs. 724 million and the corporate income tax instalments payable on a quarterly basis for the year ended 30 June 2016. The total principal corporate income tax unpaid as at 30 June 2016 amounts to Shs. 1.4 billion. This exposes the company to risk of penalties and interest on unpaid amounts.</p> <p>It was further noted that the penalties and interest payable as at 30 June 2016 amounting to Shs 406 million had not been accrued for.</p> <p>Payments of NSSF for the months of November 2015 and May 2016 were made past the due date.</p>	<p>Issue open. See matter reported under section 4.3 of the post audit report.</p>
<p><b>5. Errors in updating of physical inventory count results in SAP</b></p> <p>From review of a sample count, it was noted that the SAP system had not been updated with the actual physical quantities counted for the Menengai rig spares. The differences noted amounted to a net inventory overstatement of Shs 28,271,000.</p> <p>It was recommended that management should ensure timely update and review of the inventory subledger with actual count results.</p>	<p>Issue open. See matter reported under section 4.4 of the post audit report.</p>
<p><b>6. Timely update of bank signatories</b></p> <p>The independent auditor noted that the bank signatories as confirmed by the bank as at 30 June 2016 included individuals who had left the Company.</p> <p>A recommendation was made that update of bank signatories should be done in a timely manner.</p>	<p>Issue closed.</p>
<p><b>7. Bonfide Clearing and Forwarding V GDC</b></p> <p>GDC entered into a contract with Bonfide Clearing and Forwarding Company Limited for provision of rig moves services for two years or forty (40) rig moves whichever comes first. GDC terminated the contract in September 2016. Bonfide was claiming Shs. 13 million for work done, loss of business of 24 Rig moves amounting to Shs. 1.09 billion and interest &amp; damages amounting to Shs. 3.3 billion.</p> <p>The Arbitral Tribunal gave its Interim Award No. 1 on 22 September 2017 in which it dismissed the Claimants claim save for Shs. 40 million which, according to management, will be subjected to further trial by the Arbitral Tribunal. Bonfide felt dissatisfied and appealed the decision of the Arbitrator. The matter is pending before the High Court.</p>	<p>Issue open. See matter reported under section 6.7 of the post audit report.</p>