

REPUBLIC OF KENYA

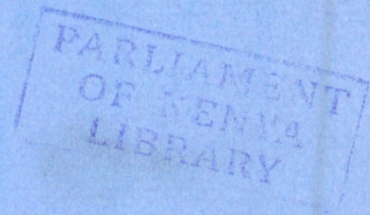


OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 26 FEB 2019	DAY: TUESDAY
TABLED BY: MAJORITY LEADER	
CLERK-AT-THE-TABLE:	

REPORT



OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2018**





GEOHERMAL DEVELOPMENT COMPANY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

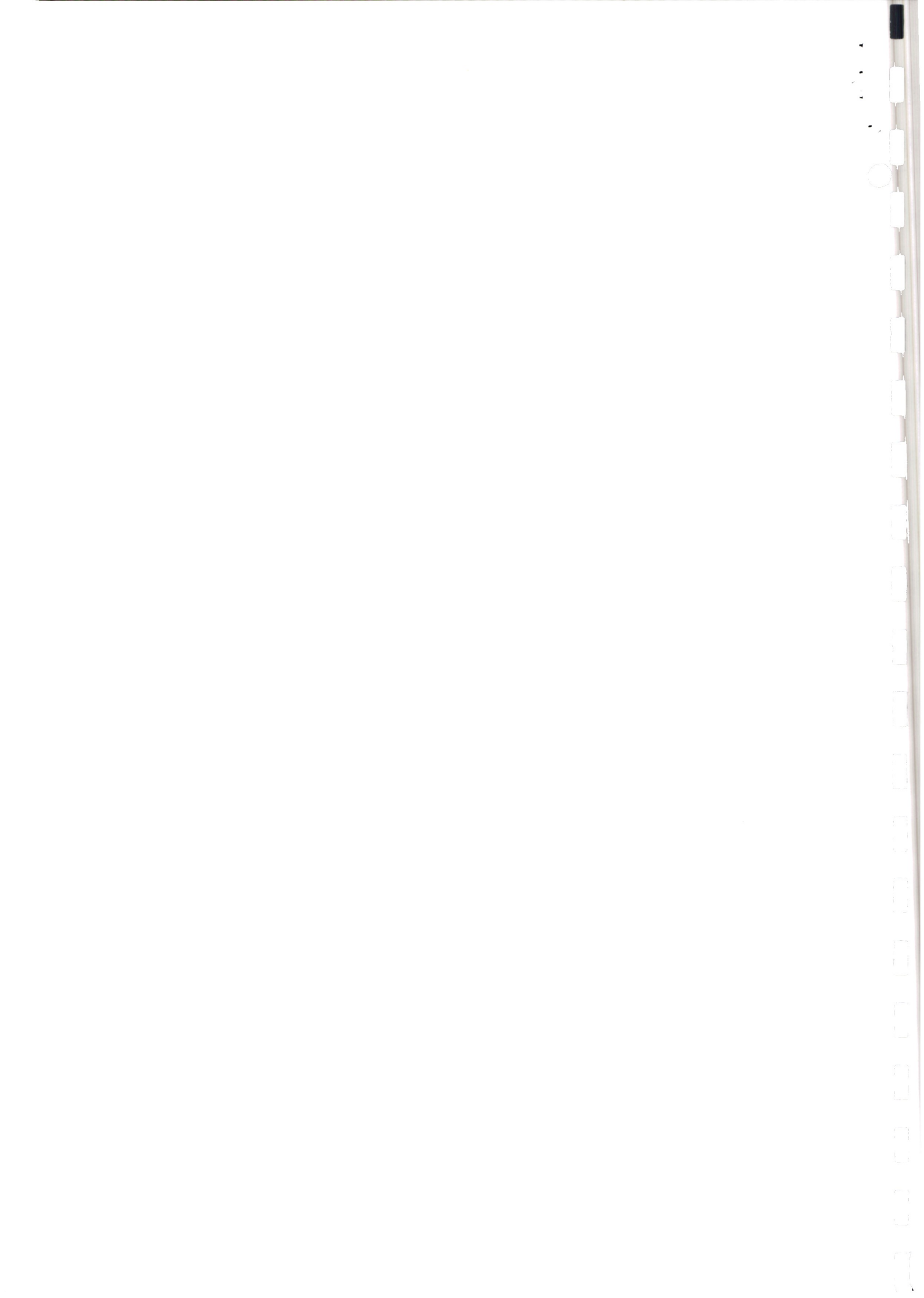


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BACKGROUND INFORMATION

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

PRINCIPAL ACTIVITIES

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

VISION

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

MISSION

Develop green energy for Kenya from geothermal resources.

DIRECTORS

Mr. Gershom Otachi	Chairman
Eng. Johnson P. Ole Nchoe	Managing Director and Chief Executive Officer
Mr. Namada Simoni	Director
Ms. Anne Too	Director (Appointed on 6 June 2018)
Ms. Nelly Yatich	Director (Appointed on 6 June 2018)
Mr. Kamau Kuria	Director (Appointed on 6 June 2018)
Mr. Michael Ogwapit	Director (Resigned on 17 April 2018)
Ms. Caroline Karugu	Director (Resigned on 4 May 2018)
Mr. Michael Mwangi	Alternate Director (Resigned on 28 September 2017)
Mr. Joseph Kariuki	Alternate Director, National Treasury
Mr. Timothy Gakuu	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, Nairobi

Kenya Commercial Bank Limited
Kipande House, Nairobi

AUDITOR

Audit conducted on behalf of the Auditor General by;
PricewaterhouseCoopers CPA
PwC Tower, Waiyaki Way/Chiromo Road
P.O. Box 43963 – 00100 GPO
Nairobi

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Geothermal Development Company (GDC), I am delighted to share the Company's performance report for the year ended 30 June 2018.

GDC is championing the development of green energy for Kenya from geothermal resources. In addition, the Company is striving to maintain Kenya's status as a global leader in the geothermal sector. In January 2018, Kenya was ranked 9th globally, in as far as installed capacity of geothermal production is concerned. This is a position that GDC seeks to retain and improve on.

Revenue

The Government of Kenya and Development partners have continued to support GDC as the Company strives to contribute to the realization of the national blue print, the Vision 2030. In the financial year 2017/18, GDC received Shs 6.6 billion from the Exchequer and Development Partners towards capital expenditure and Shs 4 billion from steam sales and exchequer recurrent budget.

National Geothermal Strategy

Vision 2030 development agenda aims to transform Kenya into an industrialized nation that provides a high quality of life to all of its citizens. To achieve this, the Government of Kenya through the World Bank Energy Sector Management Assistance Program (ESMAP) has since developed a National Geothermal Strategy to identify the means by which to develop 2,936 MW of additional geothermal capacity by 2035. According to the national power development master-plan, geothermal power has been identified as the least cost alternative to base load power component in Kenya. The GDC five (5) year strategic plan is aligned to the National Geothermal Strategy.

Stakeholder Management

GDC has adopted a strategic approach to stakeholder management. The Company works closely with stakeholders, who include the Ministry of Energy, County Governments, local communities and regulators, and assures them of continued working relations. We assure all our stakeholders of our commitment in our work and our adherence to legal requirements as required by the law. Our support to communities living in the project areas through Corporate Social Responsibility initiatives remains steadfast.

Industry Outlook

According to the World Bank, Kenya's medium-term GDP growth should rebound to 5.8% in 2018 and 6.1% in 2019. Electricity access rate stood at 56% in the year that was. The national access rate has grown steadily in the last five years and as it is the government's goal to achieve universal access to electricity by 2020. In addition, the national government has outlined the "Big Four" development agenda for the next five years. The agenda prioritizes manufacturing, universal healthcare, affordable housing and food security. The energy sector will propel the achievement of the Big Four national government agenda. Subsequently, GDC will play a key strategic role in boosting Manufacturing and Food Security.


Board Changes

During this year, new members were appointed to the Board. Dr. Nelly Yatich, Mr. Kamau Kuria and Ms. Ann Too, were appointed to the GDC Board. They will serve for a period of three years. I wish to thank H.E. The President of the Republic of Kenya, Uhuru Kenyatta, for re-appointing me as the Chair of the Board. I welcome the Directors aboard and look forward to their valuable contribution. I also wish to express my gratitude to the Directors who resigned during the year for their immense contribution towards the success of the Company.

Geothermal Development Company Limited
Business review
For the year ended 30 June 2018

Thank you

We, the Board of Directors express gratitude to the Government of Kenya, Development Partners, the management, staff and all our stakeholders for their continued support as we strive to achieve our mandate.



Gershom Otachi
Chairman

28 JANUARY 2019

MANAGING DIRECTOR & CEO'S STATEMENT

Dear Shareholders,

It is with great pleasure that I present the Geothermal Development Company's Limited annual report and financial statements for the year ended 30 June 2018.

In compliance with Section 22(1) of the Kenya Information and Communications Act, 1998 (as amended), the Company has prepared a report of its operations for the financial year 2017/18. This report is based on activities and initiatives implemented within the year. It highlights the Company's performance driven by a professional and committed workforce, steered by the Board of Directors.

Overview

During the year, Geothermal Development Company (GDC) implemented activities geared towards accelerating the development of geothermal resources in Kenya through surface exploration and drilling for steam. This is in line with the Company's mandate. The Menengai geothermal project is on course and is expected to generate 105 MW for the first phase. Extensive infrastructural development is also ongoing at the Bogoria – Silali geothermal project.

Strategic Plan

GDC five (5) year strategic plan seeks to implement the National Geothermal Strategy by: exploring and de-risking all geothermal prospects; developing the geothermal fields; utilizing and marketing geothermal energy resources so as to make electricity affordable and sustain economic growth. The 2018/19 -2022/3 strategic plan is in the finalization stage.

Performance Overview

In the financial year 2017/18, GDC focused on three major activities in the Menengai Geothermal Field namely; (i) Power plant construction which involved facilitation and supervision of the construction and commencement of the construction of one power plant, (ii) Completion of the steam gathering system which involved completion of the fabrication of the pipeline, lagging/insulation of the pipeline, installation of metering instruments and installation of control room instruments/panels, and (iii) Drilling of geothermal wells.

In the Bogoria-Silali Geothermal Project, GDC carried out the following activities; (i) Supervision of construction of Lake Baringo to Silali Water System involving construction of 120km main water line to support drilling activities, construction of 4 water tanks, construction of 3 pumping stations and project supervision consultancy, (ii) Construction of two Drill Pads, (iii) Construction of Access Roads, and, (iv) Operation and Maintenance of Project Infrastructure.

In the period under review, GDC drilled additional 6 wells in the Menengai Geothermal Field. At the same time, an additional 20MW of steam was produced, bringing the cumulative steam available in Menengai to 170MW.

Vision 2030 Flagship Projects

GDC is developing two (2) fields: Menengai and Bogoria – Silali geothermal projects.

1. Menengai Geothermal Project

The 105MW Menengai Geothermal Project (Phase I) is at an advanced stage of development with the main outstanding component being Power Plant development. Three independent power producers (IPPs), namely QPEA GT Menengai Limited (QPEA), Sosian Menengai Geothermal Power Limited (SMGPL) and Orpower Twenty Two Limited, will undertake power plant development.

The African Development Bank (AfDB) approved loan financing to QPEA GT Menengai Limited (QPEA). Commissioning of the QPEA plant is therefore expected to follow. Phase II (60MW) of the Menengai Geothermal Project is also on course with drilling operations having commenced during the year.

2. Bogoria – Silali Geothermal Project

The Bogoria-Silali Block has an estimated potential of 3,000MW which will be developed in phases. The first three phases target the development of 100MW at Korosi Paka and Silali respectively. Infrastructural activities commenced with construction of over 100km of access roads. The water reticulation system is ongoing, with the first phase to Paka almost complete. Exploration drilling will commence thereafter, followed by feasibility studies, production drilling and early production. The project is currently being funded by the Government of Kenya and KfW.

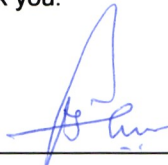
Financial Position

The Company's asset base grew by 14% from Shs 69 billion as at 30 June 2017 to Shs 78.7 billion as at 30 June 2018. The increase is attributable to the development of Phase I and II of the Menengai field and infrastructure works for the Bogoria-Silali Project.

Organizational Sustainability

For sustainability of the Company, GDC continues to receive support from Exchequer and development partners. In addition, the Company has adopted a business model in the sale of steam. In the year under review, GDC earned revenue amounting to Shs 3.6 billion from the sale of steam to Kenya Electricity Generating Company Limited (KenGen) at Olkaria Geothermal Field in Naivasha.

Thank you.



Eng. Johnson Ole Nchoe
Managing Director & CEO

28 JANUARY 2019

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 over 26 years of experience in legal practice, gained both locally and internationally. 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. He is a Corporate Member of the Institution of Engineers of Kenya (IEK). He has over 30 years' experience in the Energy Sector.

He has served in various capacities at the Ministry of Energy & Petroleum, Kenya Power and now GDC. Eng. Nchoe has vast experience in areas of Administration, Telecommunication, Information Communication Technology (ICT), Power Systems Management and Renewable Energy.

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.



Mr. Namada Simoni, Independent Non -Executive Director

Mr. Namada Simoni is the Chairperson to the Board Audit Committee. He is an advocate of the High Court of Kenya with over 20 years of vast experience in legal practice. He is currently the Senior Partner at Namada & Co. Advocates. He is a member of the Law Society of Kenya (LSK) and the East African Law Society (EALS).

BOARD OF DIRECTORS (CONTINUED)



Ms Anne Too, Independent Non -Executive Director

Ms. Anne Too has a Bachelor's Degree in Psychology and Criminology from Keele University, UK. She has worked as an advisor in the office of the Deputy Speaker of the National Assembly. Ms. Too also served as a personal advisor in the office of the Assistant Minister, Home Affairs. She has excellent management and communication skills. She is also self-driven and an astute entrepreneur.



Dr. Nelly Yatich, Independent Non -Executive Director

Dr. Nelly Yatich is a Monitoring, Learning Research and Evaluation Expert. Dr. Yatich holds a Doctorate in Public Health with a concentration in Epidemiology from University of Alabama at Birmingham, USA.

Dr Yatich has extensive experience in epidemiology, monitoring & evaluation, clinical research, programme design & implementation, grant writing, budgeting as well as capacity building. She previously worked as Country Director at the University of Washington, where she oversaw all program and research activities in Kenya. She is a member of the American Public Health Association, International Society for Infectious Diseases, Global Health Council, and Phi Beta Delta Honour Society for International Scholars and the Delta Omega Honorary Society in Public Health.



Mr. Kamau Kuria, Independent Non -Executive Director

Mr. Kamau Kuria is a social entrepreneur and is currently the CEO of Africaqua Limited and Chairman of Ikotoilet Limited. He holds a Bachelor's degree in Architecture from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a Master's Degree in Business Administration from KCA University.

Mr. Kuria is a recipient of numerous awards in social entrepreneurship. The awards include the 2009 Africa Social Entrepreneur of the Year (World Economic Forum Davos, Switzerland) Ashoka Fellowship, Aspen Fellowship and Schwab Fellowship. He is a member of the Global Agenda Council of Entrepreneurship, Project Management Institute, Kenya Private Sector Alliance, Water, Environment and Natural Resources Working Group, East Africa Grain Council and the Kenya Bureau of Standards (KEBS) Standards Committee on Waste Water. Mr. Kuria is also a founder member of the Kenya Schools Alumni Association.

BOARD OF DIRECTORS (CONTINUED)



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

He is a seasoned economist with over 26 years of experience in key government departments. He holds an MA (Economics) from the University of Nairobi. He is currently the Alternate Director to the Cabinet Secretary, National Treasury at the Agriculture and Food Authority (AFA) and Kenya Petroleum Refineries Limited (KPRL).



Mr Timothy Gakuu, Director (Alternate Director to the PS, Ministry of Energy)

He is a Chief Economist in the Ministry of Energy. He has over 25 years' experience having served in various government ministries. He is responsible for the central planning and project monitoring unit support function across the Energy Sector.

MANAGEMENT TEAM

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

MANAGEMENT TEAM (CONTINUED)



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

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



Mr. Cornel Ofwona – General Manager, Geothermal Resource development

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



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

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



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

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

MANAGEMENT TEAM (CONTINUED)



Eng. George Kinyanjui – General Manager, Drilling and Infrastructure

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



Ms. Joanne Wamuyu – General Manager, Corporate Services

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



Mr. Stephen Busieney – General Manager, Finance

Mr. Stephen Busieney has over 15 years of experience in Finance and Accounting. Prior to joining GDC, he was the Chief Financial Officer for CIMERWA Cement Company Limited, Rwanda. Mr. Busieney is a member of the Institutes of Certified Public Accountants of Kenya, and of Rwanda and holds 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 is the exercise of ethical and effective leadership by the governing body towards the achievement of governance outcomes; ethical cultures, good performance, effective control and legitimacy.

The responsibility of governing the company lies with the Board of Directors. GDC has put in place systems to ensure that high standards of corporate governance are maintained at all levels in the company.

This statement of corporate governance provides GDC Governance performance to date.

Statement of Compliance

The Board of Directors in its endeavor to uphold the tenets of good governance is guided inter alia by:-

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

Each Board member has signed the Directors' code of conduct and ethics which govern the conduct of individual Directors when dealing with company business and has also made a commitment to comply with the same. GDC employees have also signed the code of conduct and made a commitment to comply with the same. GDC also abides with all laws as a law abiding corporate citizen.

Board Charter

The Board Charter defines the Boards roles and responsibilities as well as functions and structures which helps Board members in carrying out their strategic functions. The charter also sets out the powers of various Board committees, the separation of roles between the Board and Management and policies and practices of the Board in respect of corporate governance matters.

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

Board Size, Composition and Appointments

GDC Memorandum and Article of Association provides for a maximum of nine (9) Directors of whom eight (8) are non- executive and one (1) executive. Out of the eight (8) non-executives, six (6) are independent Directors. Each Director shall hold office for a term not exceeding three (3) years and are eligible for re-appointment for one more term not exceeding three (3) years.

During the constitution of the Board, the appointing authority ensures that Board composition complies with the Constitution of Kenya; applicable legislation and that at least one member is a financial expert.

Every appointment shall be by name and notice in the Kenya Gazette and the Chairperson shall be appointed by the President while Board members shall be appointed by the Cabinet Secretary Ministry of Energy.

As at 1 July 2017 the Board of Directors comprised of six (6) non – executive Directors and One executive Director, who is the Managing Director & CEO. As at 30 June 2018, the Board of Directors comprised of Eight (8) non-executive Directors (of which five (5) are independent, and two are alternates and one executive Director). The two alternate Directors represent the majority shareholder,

Cabinet Secretary National Treasury and the minority shareholder, Principal Secretary Ministry of Energy respectively. One directorship position is yet to be filled.

Board Changes in the Year

The term of Mr. Gershom Otachi, the Chairman to the Board of Directors, came to an end effective from 19 May 2018 while the term of Mr. Michael Ogwapit came to an end effective from 17 April 2018, and Ms. Caroline Karugu resigned effective from 4 May 2018. The Alternate Director representing Principal Secretary Ministry of Energy, Mr. Michael Mwangi, resigned with effect from 28 September 2017.

Mr. Gershom Otachi was subsequently re-appointed as the Chairman Board Directors with effect from 20 May 2018 for a further period of three (3) years whereas Mr. Michael Mwangi was replaced by Mr. Timothy Gakuu with effect from 30 October 2017. Three (3) independent non- executives Directors namely Dr. Nelly Yatich, Ms. Anne Too and Mr. Kamau Kuria were appointed to the Board with effect from 6 June 2018 for a term of three (3) years.

Board Diversity

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

No.	Field of Expertise	Numbers
1.	Engineering	2*
2.	Project Management, Corporate Management and Architecture.	2
3.	Psychology and Criminology	1
4.	Resource Mobilization, Public Health, Monitoring and Evaluation,	1
5.	Law	2
6.	Economics and Finance	3*
Total		11

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

Board Effectiveness

To achieve board effectiveness there must be a clear distinction between the role of the Chairman and that of the Managing Director & CEO. The Chairman's main responsibility is to provide leadership to the Board while maintaining close but independent working relations with the Managing Director & CEO whose main responsibility is to provide the day to day leadership of the company business affairs.

Role of the Board

The role of the Board is categorized in four functions namely; transformance; performance; conformance and concordance.

Induction and Capacity Building for the Board

In adherence to best practice the Board develops an induction program for new Board members which entail the Directors receiving knowledge about the Company through site visits, informal interactions with Management and staff, regular in-depth reports and presentations.

In compliance with Mwongozo the State Corporation Advisory Committee (SCAC) also undertakes the external induction of new Board members.

The Board has also put in place an annual development program for all its members to improve their individual capacity. Board Members are also encouraged to undertake continuous professional development in their respective professional bodies.

The MD & CEO also ensures that Management updates the Board on matters relevant to GDC's Business, changes in law and regulation including Government accounting policies.

During the year under review, the new Directors were inducted and together with the existing Directors went through various training programs and retreats in order to enhance their knowledge in various facets thus strengthening their role in the Company.

Board Meetings

The Board meetings are constituted in accordance with the constitutive document and are held at least four (4) times a year and not more than four (4) month should elapse between the date of one meeting and the date of the next meeting.

A schedule of meetings is agreed upon by the Board Members and set out in the Board Work plan and almanac.

Each Board member is free to suggest the inclusion of items on the agenda and the agenda for the meetings will be aligned to the Board work plan. Notices of the meeting will be issued by the Company Secretary. The Board papers are circulated in advance to enable the Directors prepare adequately for the meetings. Special Board or Committee meetings are held when critical and urgent matters arise and the meeting will not discuss any matter other than what is specified in the agenda.

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

Senior Managers, other employees and advisors are invited by the MD & CEO to attend Board or Committee meetings whenever deemed appropriate.

Board of Directors Meetings

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

Name of Director	Board Position	Status	Number of Meetings held	Number of meetings attended
Mr. Gershom O. Bw'omanwa	Chairman	Non-independent & non-executive	16	15
Eng. Johnson P. Ole Nchoe	MD & CEO	Executive	16	16
Dr. Eng. Joseph Njoroge, CBS	PS, Ministry of Energy	Non-independent	16	1
Mr. Michael Ogowapit	Director	Independent & non-executive	16	10
Mr. Namada Simoni	Director	Independent & non-executive	16	15
Ms. Caroline Karugu	Director	Independent & non-executive	16	12
Mr. Timothy Gakuu	Alternate Director to PS, Ministry of Energy	Non-independent & non-executive	16	12
Mr. Joseph Kariuki	Alternate Director to Cabinet Secretary National Treasury	Non-independent & non-executive	16	14

Name of Director	Board Position	Status	Number of Meetings held	Number of meetings attended
Dr. Nelly Yatich	Independent Director	Independent & non-executive	16	1
Ms. Anne Too	Director	Independent & non-executive	16	1
Mr. Kamau Kuria	Director	Independent & non-executive	16	1

Notes

- 1) Mr. Michael Mwangi ceased to be an alternate Director, to the Principal Secretary Ministry of Energy with effect from 28 September 2017 and was replaced by Mr. Timothy Gakuu with effect from 30 October 2017.
- 2) Ms. Caroline Karugu ceased to be a Director with effect from 4 May 2018.
- 3) Mr. Michael Ogwapit ceased to be a Director with effect from 17 April 2018.
- 4) Dr. Nelly Yatich, Ms. Anne Too and Mr. Kamau Kuria were appointed as independent Directors with effect from 6 June 2018.

Directors' Remuneration

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

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

The Directors' are paid an annual Directors fee subject to approval by the Ministry of Energy and the National Treasury. The approval is given during the Annual General Meeting (AGM). For financial year 2017/18, it is proposed that each non-executive Independent Director be paid Directors fee of Shs 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.

Directors' Shareholding

No Board Member holds in his/her own capacity shares in the Company. The National Treasury and the Ministry of Energy are the only shareholders.

Report from the Chairperson of the Human Resource Committee

The Board Human Resource Committee is comprised of three (3) non-executive Directors and Managing Director & CEO. It is chaired by a non-executive independent Director. The Human Resource committee is tasked with the responsibility of 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; handling disputes between Management and staff in Job groups GD3 and above all; handling all other matters relating to staff; and dealing with occupational, health and safety issues.

A summary of the Board Human Resource meetings and attendance is shown below:-

Board Member	Date when meeting was held			
	12.01.18	12.02.18	13.02.18	09.03.18
Mr. Michael Ogwapit	√	√	√	√
Eng. Johnson P. Ole Nchoe	√	√	√	√
Mr. Namada Simoni	√	√	√	√
Mr. Joseph Kariuki	√	√	√	√

Note

Mr Michael Ogwapit’s term as a Director ceased with effect from 17 April 2018.

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 independent Director. The Committee considers all matters of financial strategy and policy, financial forecasts, annual budgets and reviewing expenditures/procurements for the quarter.

A summary of the Board Finance meetings and attendance is shown below:-

Board Member	Date when meeting was held					
	28.9.17	7.12.17	23.1.18	26.1.18	13.3.18	15.3.18
Mr. Michael Ogwapit	√	√	√	√	√	√
Eng. Johnson P. Ole Nchoe	√	√	√	√	√	√
Ms. Caroline Karugu	x	√	x	x	√	√
Mr. Timothy Gakuu	x	√	√	√	√	√
Mr. Joseph Kariuki	√	√	√	√	√	√

Notes

- 1) Mr. Michael Mwangi resigned with effect from 28 September 2017 and was replaced by Mr. Timothy Gakuu.
- 2) Mr. Michael Ogwapit’s term as a Director ceased with effect from 17 April 2018.

Risk Management and Internal Controls

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

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

Stakeholders' Engagement

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

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

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

Procurement Policies

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

Code of Conduct and Ethics

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

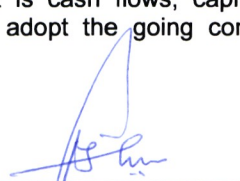
The Board has approved the code of conduct and ethics and corporate gift policies. Every Board member and employee including those on contract have committed to adhere to the values in the Code.

Going Concern

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



Mr. Gershom Otachi
Chairman



Eng. Johnson P. Ole Nchoe
Managing Director & CEO

Declaration of Conflict of Interest

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

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

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

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

Directors' Evaluation

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

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

General Manager, Legal Affairs & Company Secretary

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

Board Committees

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

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

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

Report from the Chairperson of the Audit Committee

The Board Audit committee comprises of three (3) non-executive Directors and is chaired by a non-executive independent 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 & CEO, the General Manager, Finance and at times other key staff members to attend the meetings.

The Committee is appointed by the Board to assist in fulfilling the following key oversight responsibilities among others: - internal control and risk management; External Auditor oversight; disclosure matters and financial reporting and internal audit function.

A summary of the Board Audit meetings and attendance is shown below:-

Board Member	Date when meeting was held				
	17.11.17	8.12.17	19.12.17	23.01.18	8.3.18
Mr. Namada Simoni	√	√	√	√	√
Mr. Timothy Gakuu	√	√	√	√	√
Mr. Joseph Kariuki	√	√	√	√	√

Notes

Mr. Michael Mwangi resigned with effect from 28 September 2017 and was replaced by Mr. Timothy Gakuu with effect from 30 October 2017.

Report from the Chairperson of Technical Committee

The Committee is comprised of five (5) non-executive Directors and the Company's Managing Director & CEO and is chaired by a non-executive independent Director. The Committee considers Management's proposals; provides oversight to Management and recommends to the Board on matters relating to GDC's strategic direction and technical services.

A summary of the Board Technical meetings and attendance is shown below:-

Board Member	Date when meeting was held			
	28.09.17	18.01.18	15.02.18	29.03.18
Ms. Caroline Karugu	√	√	√	√
Eng. Johnson P. Ole Nchoe	√	√	√	√
Mr. Namada Simoni	√	√	√	√
Mr. Michael Ogwapit	√	√	√	√
Mr. Joseph Kariuki	√	√	√	x
Mr. Timothy Gakuu	x	√	√	√

Notes

- 1) Mr. Michael Mwangi resigned with effect from 28 September 2017 and was replaced by Mr. Timothy Gakuu with effect from 30 October 2017.
- 2) Ms. Caroline Karugu resigned with effect from 4 May 2018.
- 3) Mr. Michael Ogwapit's term as a Director ceased with effect from 17 April 2018.

The directors submit their report together with the audited financial statements of Geothermal Development Company Limited (the "Company") for the year ended 30 June 2018.

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. 2.2 billion compared to previous year's profit before tax of Shs. 896 million. The growth is mainly due to a 23% increase in steam sales and a one off charge in the prior year of Shs. 991 million relating to the write-off of unproductive and abandoned wells, which did not recur in the current year.

Revenue increased to Shs. 3.6 billion from Shs. 2.9 billion mainly driven by higher demand of steam by Kenya Electricity Generating Company Limited (KenGen) than in the prior year.

During the year, an investment of Shs. 6.9 billion (2017: Shs. 5.9 billion) was spent on exploration and evaluation activities. This was directed towards drilling of six additional wells in the Menegai field as well as development of infrastructure (road and water systems) in the Bogoria-Silali block. These were funded by capital grants of Shs. 6.6 billion (2017: 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. 6.6 billion grants received from the Government of Kenya, Shs 2.3 billion (2017: Shs. 564 million) was for the Bogoria Silali project.

The table below highlights the performance for the year:

Performance indicator	2018	2017
Revenue (Shs million)	3,557	2,902
Operating profit %	69%	43%
Profit before income tax (Shs million)	2,161	896
Net assets (Shs million)	2,065	635
Current ratio	1.08:1	0.98:1
Expenditure on exploration and evaluation assets (Shs million)	5,210	3,865
Additions to property, plant and equipment (Shs million)	2,002	2,818
Grants received (Shs. million)	6,605	4,886

Dividend

The net profit for the year of Shs 1,429,741,000 (2017: Shs 228,531,000) 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.

Disclosure to Auditor

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

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

Terms of Appointment of Auditor

PricewaterhouseCoopers were nominated by the Auditor General to carry out the audit of Geothermal Development Company Limited for the year ended 30 June 2018 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

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

Employees

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

Approval of Financial Statements

The financial statements were approved by the Board of Directors on 28 JANUARY 2019.

By order of the Board



Ms. Beatrice Kosgei
Company Secretary

Geothermal Development Company Limited
Statement of director's responsibilities
For the year ended 30 June 2018

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

The Directors are responsible for the preparation and presentation of the Company's financial statements, which give a true and fair view of the state of affairs of the Company for and as at the end of the financial year ended on 30 June 2018. This responsibility includes:

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

The Directors accept responsibility for the Company's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012, the State Corporations Act and the Kenya Companies Act, 2015. The Directors are of the opinion that the Company's financial statements give a true and fair view of the state of Company's transactions during the financial year ended 30 June 2018, and of the Company's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Company, which have been relied upon in the preparation of the Company's financial statements as well as the adequacy of the systems of internal financial control.

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


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

Approval of the financial statements

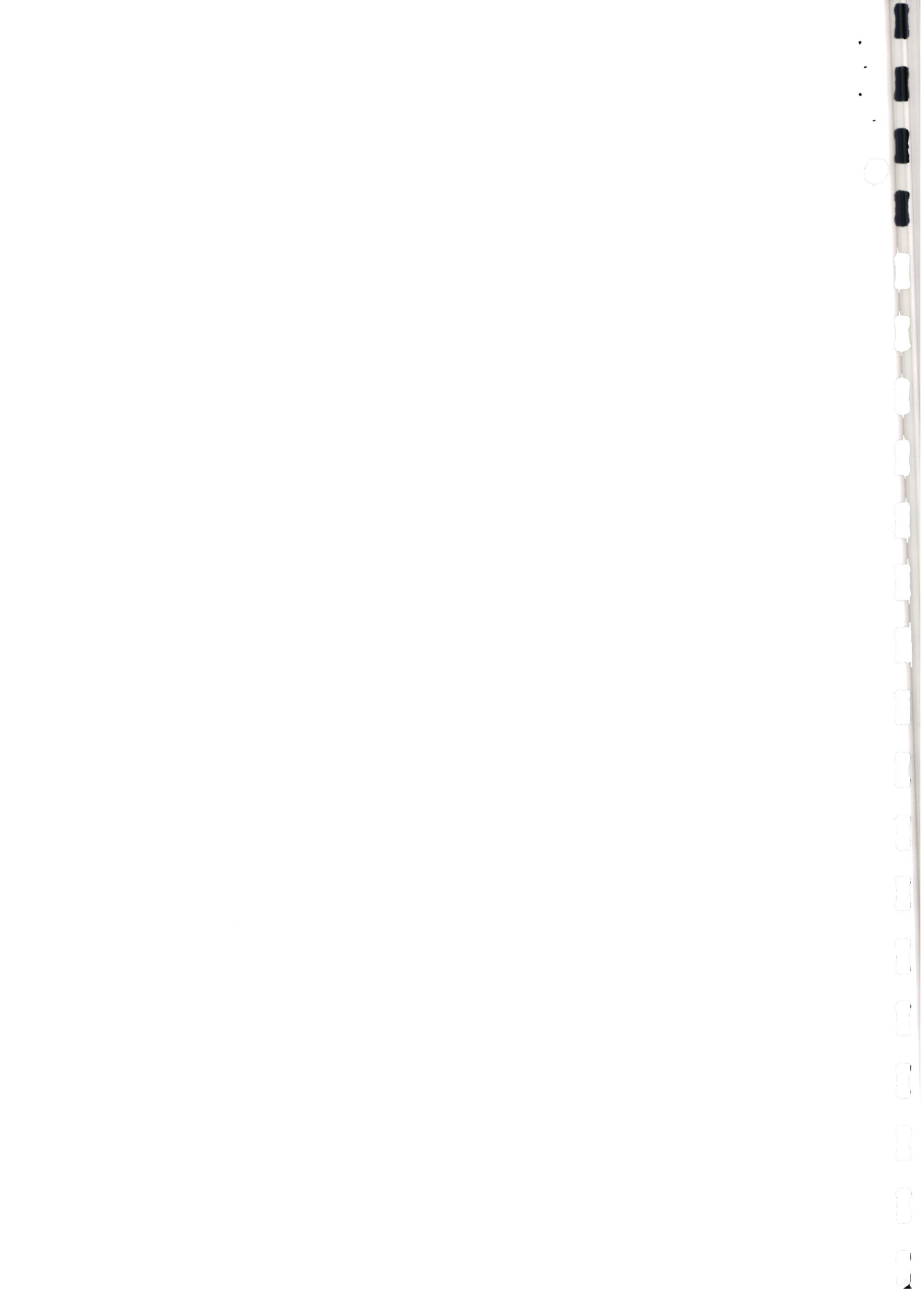
The Company's financial statements were approved by the Board on 28 JANUARY 2019 and signed on its behalf by:



Mr. Gershom Otachi
Chairman



Eng. Johnson P. Ole Nchoe
Managing Director & CEO



REPUBLIC OF KENYA

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



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 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Geothermal Development Company Limited, set out on pages 31 to 78 which comprise the statement of financial position as at 30 June 2018, 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 2018, 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.

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 audit of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Corporation Tax and Related Penalties

The Company 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.3,220,274,000 (2017: Kshs.2,409,858,000) for the years ended 30 June 2015, 2016 and 2017, and quarterly instalments due as at 30 June 2018. The financial statements further reflect other payables amounting to

Report of the Auditor-General on the Financial Statements of Geothermal Development Company Limited for the year ended 30 June 2018

Kshs.1,832,400,000 as per note15, which include interest and penalties of Kshs.1,114,508,658 (2017: Kshs.710,097,000), arising from non-payment of income taxes. Although the Company has in the past requested for budgetary allocation by the National Treasury to enable it offset the liability, this 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.

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 period under review.

Other Information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The directors are responsible for the other information. 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 identified above 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, 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) In my opinion, the information given in the report of the directors on pages 20 to 21 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the directors' remuneration report on page 15 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of Management and those Charged with Governance

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors are aware of any intension to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

Directors are also responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

Report of the Auditor-General on the Financial Statements of Geothermal Development Company Limited for the year ended 30 June 2018

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

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



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

Nairobi

14 February 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME


	Notes	Year ended 30 June	
		2018 Shs'000	2017 Shs'000
Revenue	5	3,557,069	2,901,862
Government grants	20	1,381,795	1,548,477
Other (expenses)/income	6	(47,521)	64,837
Administrative expenses	8	(1,769,939)	(1,686,536)
Other operating expenses	9	(659,791)	(1,574,206)
Operating profit		2,461,613	1,254,434
Finance income	7(a)	1,436	4,736
Finance costs	7(b)	(302,235)	(363,239)
Profit before income tax		2,160,814	895,931
Income tax expense	11	(731,073)	(667,400)
Profit for the year		1,429,741	228,531
Other comprehensive income		-	-
Total comprehensive income for the year		1,429,741	228,531

STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June	
		2018 Shs'000	2017 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	31,088,333	31,705,451
Exploration and evaluation assets	18	36,260,423	29,610,870
Intangible assets	19	18,175	14,451
Deferred income tax	16	234,990	155,647
		<hr/>	<hr/>
		67,601,921	61,486,419
		<hr/>	<hr/>
Current assets			
Inventories	12	4,783,140	3,764,534
Trade and other receivables	13	6,288,276	3,765,615
Cash at hand	14	1,103	2,068
		<hr/>	<hr/>
		11,072,519	7,532,217
		<hr/>	<hr/>
TOTAL ASSETS		78,674,440	69,018,636
		<hr/>	<hr/>
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	22	2,000	2,000
Retained earnings		2,063,286	633,545
		<hr/>	<hr/>
Total equity		2,065,286	635,545
		<hr/>	<hr/>
Non-current liabilities			
Capital grants	20	66,390,868	60,667,521
		<hr/>	<hr/>
Current liabilities			
Borrowings	21	2,560,033	2,607,511
Trade and other payables	15	4,437,979	2,698,201
Current income tax		3,220,274	2,409,858
		<hr/>	<hr/>
		10,218,286	7,715,570
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		78,674,440	69,018,636
		<hr/>	<hr/>

The financial statements on pages 31 to 67 were authorized and approved for issue by the board of directors on ~~28~~ 28 JANUARY 2019 and signed on its behalf by:


 Mr. Gershom Otachi
 Chairman


 Eng. Johnson P. Ole Nchoe
 Managing Director & CEO

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total equity
	Shs'000	Shs'000	Shs'000
Year ended 30 June 2017			
At start of year	2,000	405,014	407,014
Total comprehensive income for the year	-	228,531	228,531
	<hr/>	<hr/>	<hr/>
At end of year	2,000	633,545	635,545
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Year ended 30 June 2018			
At start of year	2,000	633,545	635,545
Total comprehensive income for the year	-	1,429,741	1,429,741
	<hr/>	<hr/>	<hr/>
At end of year	2,000	2,063,286	2,065,286
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF CASH FLOWS

	Notes	Year ended 30 June	
		2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Profit before tax		2,160,814	895,931
Adjustments:			
Depreciation of property, plant and equipment	17	924,066	962,187
Amortisation of intangible asset	19	101	6,073
Write-off of unproductive and abandoned wells	18	-	991,359
Provision for impairment of exploration & evaluation assets	18	206,293	-
Amortisation of capital grants	20	(881,747)	(881,747)
Write off of non-productive time	18	49,087	125,390
Gain on disposal of property, plant and equipment	6	-	(256)
Changes in working capital:			
- Trade and other receivables		(2,522,661)	64,024
- Inventories		(1,018,606)	204,950
- Trade and other payables		1,739,777	(474,288)
Income tax paid		-	(581)
Net cash generated from operating activities		657,124	1,893,042
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(2,002,159)	(2,818,403)
Expenditure on exploration and evaluation assets	18	(5,209,722)	(3,864,533)
Purchases of intangible assets	19	(3,825)	-
Proceeds from disposal of property, plant and equipment		-	569
Net cash used in investing activities		(7,215,706)	(6,682,367)
Cash flows from financing activities			
Proceeds from capital grants	20	6,605,095	4,886,298
Net cash generated from financing activities		6,605,095	4,886,298
Net increase in cash and cash equivalents		46,513	96,973
Cash and cash equivalents at start of year		(2,605,443)	(2,702,416)
Cash and cash equivalents at end of year	14	(2,558,930)	(2,605,443)

NOTES

1 General information

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

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

2 Significant accounting policies

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

(a) Statement of compliance and basis of preparation

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

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

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

Application of new and revised International Financial Reporting Standards (IFRS)

(i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2018*

The following standards and amendments have been applied by the Company for the first time for the financial year beginning 1 July 2017:

Amendment/ Interpretation to a standard	Effective date	Impact
Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)	Effective for annual periods beginning on or after 1 January 2017	Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
		The standard did not have a material impact on the Company's financial statements.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) Statement of compliance and basis of preparation (continued)

- (i) *Relevant new standards and amendments to published standards effective for the year ended 30 June 2018 (continued)*

Amendment/ Interpretation to a standard	Effective date	Impact
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) <i>(Issued 19 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017	Amends IAS 12 <i>Income Taxes</i> to clarify the following aspects: <ul style="list-style-type: none">• Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.• The carrying amount of an asset does not limit the estimation of probable future taxable profits.• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard did not have a material impact on the Company's financial statements.

There are no IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2017 that have a material impact on the Company's financial statements.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) Statement of compliance and basis of preparation (continued)

- (ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018*

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.

Amendment/ Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments (Issued 24 July 2014)	Effective for annual periods beginning on or after 1 January 2018	Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .

The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39

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

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) Statement of compliance and basis of preparation (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018 (continued)*

Amendment/ Interpretation to a standard	Effective date	Impact
IFRS 15: Revenue from Contracts with Customers (Issued 28 May 2014)	Effective for annual periods beginning on or after 1 January 2018	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p> <p>The directors do not anticipate the standard to have a significant impact on the Company.</p>
Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)	Effective for annual periods beginning on or after 1 January 2018	Amends IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The directors do not anticipate the amended 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 and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018 (continued)*

Amendment/ Interpretation to a standard	Effective date	Impact
IFRS 16: Leases (Issued 13 January 2016)	Effective for annual periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Company is still assessing the impact of IFRS 16.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (Issued 8 December 2016)	Effective for annual periods beginning on or after 1 January 2018	The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.
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The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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) Statement of compliance and basis of preparation (continued)

- (ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018 (continued)*

Amendment/ Interpretation Effective date Impact to a standard

IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)	Effective for annual periods beginning on or after 1 January 2019	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
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- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Company is still assessing the impact of IFRIC 23.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Company's financial statements.

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

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

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

The annual depreciation rates in use are:

Buildings	2.5%
Wells	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)

(o) 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.

(p) 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.

(q) 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)

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.

(m) 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.

(n) 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)

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.

4 Financial risk management objectives and policies

(a) Liquidity risk

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

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

NOTES (CONTINUED)

4 Financial risk management objectives and policies (continued)

(a) Liquidity risk (continued)

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

	Less than 3 months Shs'000	Between 3 & 12 months Shs'000	Total Shs'000
At 30 June 2018:			
Trade and other payables (Note 15)	4,437,979	-	4,437,979
Bank borrowings (Note 21)	-	1,959,710	1,959,710
Bank overdraft (Note 21)	-	600,323	600,323
	<u>4,437,979</u>	<u>2,560,033</u>	<u>6,998,012</u>
At 30 June 2017:			
Trade and other payables (Note 15)	2,698,201	-	2,698,201
Bank borrowings (Note 21)	-	1,959,710	1,959,710
Bank overdraft (Note 21)	-	647,801	647,801
	<u>2,698,201</u>	<u>2,607,511</u>	<u>5,305,712</u>

(b) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

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

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Company has significant concentration of credit risk on amounts due from Kenya Electricity Generating Company (KenGen), which represent 94% of the total trade receivable as at 30 June 2018 (2017: 86%).

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

NOTES (CONTINUED)

4 Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

	Total amount	Fully performing	Past due	Impaired
	Shs'000	Shs'000	Shs'000	Shs'000
At 30 June 2018:				
Trade receivables (Note 13a)	1,958,901	321,558	1,534,560	102,783
Staff and other receivables	63,873	63,873	-	-
Restricted cash (Note 13b)	221,475	221,475	-	-
Grants receivable (GOK)	381,500	381,500	-	-
	2,625,749	988,406	1,534,560	102,783
At 30 June 2017:				
Trade receivables (Note 13a)	1,035,638	328,814	609,666	97,158
Staff and other receivables	72,931	72,931	-	-
Restricted cash (Note 13b)	108,768	108,768	-	-
	1,217,337	510,513	609,666	97,158

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. The Company does not grade the credit quality of receivables.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(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 2018, 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 91,762,652 (2017: Shs 177,204,984) higher/lower, mainly as a result of US dollar denominated trade receivables, trade payables and bank balances.

NOTES (CONTINUED)

4 Financial risk management objectives and policies (continued)

c) Market risk (continued)

(i) Foreign exchange risk (continued)

On 30 June 2018, 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 457,488 (2017: 3,976,742) higher/lower, as a result of Euro denominated trade payables

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. The Company was not exposed to cash flow and fair value interest rate risk at 30 June 2018 (2017: Nil).

(d) Capital risk management

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

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

The gearing ratios as at 30 June 2018 and 2017 were as follows:

	2018 Shs'000	2017 Shs'000
Total borrowings (Note 21)	2,560,033	2,607,511
Less: Cash and cash equivalents (Note 14)	(1,103)	(2,068)
	<hr/>	<hr/>
Net debt	2,558,930	2,605,443
Total equity	2,065,286	635,545
	<hr/>	<hr/>
Total debt and equity	4,624,216	3,240,988
	<hr/>	<hr/>
Gearing ratio	55.3%	80.4%
	<hr/>	<hr/>

NOTES (CONTINUED)

5 Revenue	2018 Shs'000	2017 Shs'000
Sale of steam from Olkaria wells	3,557,069	2,901,862
6 Other income		
Consultancy services on geothermal drilling	16,596	32,538
Gain on disposal of property, plant and equipment	-	256
Miscellaneous income	3,333	3,576
Net foreign exchange (loss)/gain	(67,450)	28,467
	(47,521)	64,837
7 (a) Finance income		
Interest income on bank deposits	1,436	4,736
7 (b) Finance costs		
Interest expense on bank loans and overdraft	302,235	363,239
8 Expenses by nature		
Depreciation of property, plant & equipment (Note 17)	924,066	962,187
Employee benefits expenses (Note 10)	485,952	492,783
Provision for obsolete stock	30,367	-
Legal expenses	48,116	6,370
Accommodation and subsistence	47,173	20,738
Training and education	40,658	21,566
Tax penalties and interest	17,852	-
Director's remuneration (Note 24)	17,235	26,710
Transportation expenses	12,728	5,730
Management consultancy	12,007	8,391
Auditor's remuneration	7,669	8,206
Provision for doubtful debts of other receivables	5,625	667
ICT expenses	5,016	6,011
Advertising and publicity	4,850	2,852
Fuel expenses	3,759	3,784
Operating lease payments	162	-
Amortisation of intangible assets (Note 19)	101	6,073
Waiver of staff medical bills	-	11,728
Other expenses	106,603	102,740
	1,769,939	1,686,536

NOTES (CONTINUED)

9 Other operating expenses

	2018 Shs'000	2017 Shs'000
Penalties for non-payment of corporate tax	404,411	304,525
Penalties for late remission of statutory deductions	-	46,814
Write off of unproductive and abandoned wells (Note 18)	-	991,359
Impairment of exploration and evaluation assets	206,293	-
Write off of non-productive drilling staff costs (Note 18)	49,087	125,390
Write off of withholding tax not recoverable	-	39,542
Provision for legal fees	-	66,576
	<hr/>	<hr/>
	659,791	1,574,206
	<hr/>	<hr/>

10 Employee benefits expenses

The following items are included within employee benefits expense

	2018 Shs'000	2017 Shs'000
Salaries and wages	456,451	462,697
Retirement benefits costs:		
- Defined contribution scheme	29,097	29,659
- National Social Security Fund	404	427
	<hr/>	<hr/>
	485,952	492,783
	<hr/>	<hr/>

11 Income tax expense

Current income tax	810,416	753,884
Deferred income tax (Note 16)	(79,343)	(86,484)
	<hr/>	<hr/>
Income tax expense	731,073	667,400
	<hr/>	<hr/>

NOTES (CONTINUED)

11 Income tax expense (continued)

	2018	2017
	Shs'000	Shs'000
Profit before income tax	2,160,814	895,931
Tax calculated at the statutory income tax rate of 30% (2017: 30%)	648,244	268,779
Tax effects of:		
Income not subject to tax	(264,524)	(265,945)
Expenses not deductible for tax purposes	348,792	692,877
Under provision of deferred income tax in prior years	(1,439)	(28,311)
Income tax expense	731,073	667,400

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

At start of year	2,409,858	1,656,555
Income tax charge for the year	810,416	753,884
Under/(over) provision in prior year	-	-
Income tax paid during the year	-	(581)
At end of year	3,220,274	2,409,858

12 Inventories

Drilling materials	4,366,400	3,391,289
Pipes	234,225	236,373
Fuel	34,879	61,025
Consumables	93,632	47,029
Total inventory held for exploration and evaluation activities	4,729,136	3,735,716
Other inventories	54,004	28,818
	4,783,140	3,764,534

NOTES (CONTINUED)

13a Trade and other receivables

	2018 Shs'000	2017 Shs'000
Trade receivables	1,958,901	1,035,638
Less: Provision for impairment losses	(102,783)	(97,158)
	<hr/>	<hr/>
Net trade receivables	1,856,118	938,480
Value Added Tax (VAT) recoverable	1,269,690	1,503,634
Advance payment to suppliers	2,479,226	1,126,702
Grants receivable (GOK)	381,500	-
Restricted cash (Note 13b)	221,475	108,768
Staff receivables (Note 13c)	20,864	32,072
Other receivables and prepayments	59,403	55,959
	<hr/>	<hr/>
	6,288,276	3,765,615
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Grants receivable from GOK represents the capital grant tranche for the fourth quarter of the financial year ended 30 June 2018, which was disbursed to the Company by the Ministry of Energy on 3 July 2018.

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

	2018 Shs'000	2017 Shs'000
At start of year	97,158	216,491
Charge to profit or loss	5,625	667
Receivables written off in the year as uncollectible	-	(120,000)
	<hr/>	<hr/>
At end of year	102,783	97,158
	<hr/> <hr/>	<hr/> <hr/>

The fair value of other receivables approximates their carrying value.

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

Less than 30 days	321,558	328,814
Between 30 and 60 days	343,743	2,739
Between 61 and 90 days	354,463	312,754
Between 91 and 120 days	364,967	318,312
Over 120 days	574,170	73,019
	<hr/>	<hr/>
	1,958,901	1,035,638
	<hr/> <hr/>	<hr/> <hr/>

NOTES (CONTINUED)

13b. Restricted cash

	2018 Shs'000	2017 Shs'000
Deposit with Development Bank of Kenya	94,568	94,568
Deposit with Cooperative Bank	15,841	14,200
Staff Mortgage Account - KCB	100,196	-
Staff Terminal Benefits Account - KCB	10,870	-
	221,475	108,768
	221,475	108,768

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

13c. Staff receivables

	2018 Shs'000	2017 Shs'000
Gross staff loans and advances	20,864	32,072
Less: Provision for impairment loss	-	-
	20,864	32,072
Amounts due within one year	20,864	32,072

14 Cash and cash equivalents

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

	2018 Shs'000	2017 Shs'000
Short term bank loans (Note 21)	(1,959,710)	(1,959,710)
Bank overdraft (Note 21)	(600,323)	(647,801)
Cash at hand	1,103	2,068
	(2,558,930)	(2,605,443)
	(2,558,930)	(2,605,443)

NOTES (CONTINUED)

14 Cash and cash equivalents (continued)

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

Detailed analysis of cash and cash equivalents

Financial institution	Account number	2018 Shs '000	2017 Shs '000
a) Current accounts			
Co-operative Bank of Kenya	01136160857600	(1,000,271)	(903,557)
Co-operative Bank of Kenya	01136160857603	4,955	39,079
Co-operative Bank of Kenya	02120160857600	(42,091)	(15,095)
Co-operative Bank of Kenya	22120160857600	(1)	(1)
Co-operative Bank of Kenya	01136350124400	8,692	727
Co-operative Bank of Kenya	01136115849200	375	377
Kenya Commercial Bank	1119615208	3,635	2,854
Kenya Commercial Bank	1166553671	2,323	468
Sub- total		(1,022,383)	(875,148)
b) On - call deposits			
Co-operative Bank of Kenya	021501608576	422,060	227,347
Sub- total		422,060	227,347
c) Others			
Co-operative Bank of Kenya (PIF facility)		(1,959,710)	(1,959,710)
Cash in hand		1,103	2,068
Sub- total		(1,958,607)	(1,957,642)
Grand total		(2,558,930)	(2,605,443)

NOTES (CONTINUED)

15 Trade and other payables

	2018 Shs'000	2017 Shs'000
Trade payables	2,318,420	1,064,218
Accrued expenses	287,159	198,497
Other payables	1,832,400	1,435,486
	<hr/>	<hr/>
	4,437,979	2,698,201
	<hr/> <hr/>	<hr/> <hr/>

Other payables include accrued interest and penalties arising from non-payment of income taxes of Shs. 1,114,508,658 (2017: Shs. 710,097,000).

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% (2017:30%). The movement of the deferred income tax account is as follows:

	2018 Shs'000	2017 Shs'000
At start of year	155,647	69,163
Credit to profit or loss	79,343	86,484
	<hr/>	<hr/>
At end of year	234,990	155,647
	<hr/> <hr/>	<hr/> <hr/>

NOTES (CONTINUED)

16 Deferred income tax (continued)

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

Year ended 30 June 2018	1.7.2017	Charged/ (credited) to P&L	30.6.2018
	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities			
Property, plant and equipment	(10,528)	(8,713)	(19,241)
	(10,528)	(8,713)	(19,241)
Deferred income tax assets			
Other temporary differences	(80,938)	(135,952)	(216,890)
Unrealised exchange losses	(64,181)	65,322	1,141
	(145,119)	(70,630)	(215,749)
Net deferred income tax asset	(155,647)	(79,343)	(234,990)
Year ended 30 June 2017	1.7.2016	Charged/ (credited) to P&L	30.6.2017
	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities			
Property, plant and equipment	(3,212)	(7,316)	(10,528)
	(3,212)	(7,316)	(10,528)
Deferred income tax assets			
Other temporary differences	(56,545)	(24,393)	(80,938)
Unrealised exchange losses	(9,406)	(54,775)	(64,181)
	(65,951)	(79,168)	(145,119)
Net deferred income tax asset	(69,163)	(86,484)	(155,647)

NOTES (CONTINUED)

17 Property, plant and equipment

	Land & Buildings	Rigs and water supply infrastructure	Roads	Wells	Plant machinery, power substation, and equipment	Motor vehicles	Furniture, fittings and equipment	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Year ended 30 June 2017									
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
At 30 June 2017									
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 comprises steam gathering system at Menengai site and water supply system being constructed at the Baringo site.

NOTES (CONTINUED)

17 Property, plant and equipment (continued)

	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
Year ended 30 June 2018										
Opening 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	
Additions	80	53,121	162,956	-	151,484	63,272	16,875	1,554,371	2,002,159	
Transfer from WIP	47,816	320,035	-	-	31,211	-	-	(399,062)	-	
Depreciation:										
-charge to profit or loss	-	-	-	(881,747)	-	-	(4,151)	(38,168)	-	(924,066)
-capitalised to exploration and evaluation assets	(826)	(1,077,936)	(140,302)	-	(169,572)	(294,004)	(12,571)	-	-	(1,695,211)
Disposals	-	-	-	-	-	-	-	-	-	-
Closing net book amount	161,838	12,017,934	655,776	10,421,245	580,151	1,252,273	132,690	5,866,426	31,088,333	
At 30 June 2018										
Cost	165,020	17,428,171	1,330,870	13,922,329	1,889,057	2,635,452	588,043	5,866,425	43,925,367	
Accumulated depreciation	(3,181)	(5,410,236)	(675,094)	(3,501,084)	(1,308,906)	(1,383,180)	(455,353)	-	(12,737,034)	
Net book amount	161,838	12,017,934	655,776	10,421,245	580,151	1,252,273	132,690	5,866,426	31,088,333	

Work in progress comprises 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. The movement in the year is as follows:

	2018 Shs'000	2017 Shs'000
At start of year	29,610,870	24,853,442
Additions	6,904,933	5,874,177
Write off of unproductive and abandoned wells	-	(991,359)
Provision for impairment	(206,293)	-
Write off of non-productive time expenses	(49,087)	(125,390)
	<hr/>	<hr/>
At end of year	36,260,423	29,610,870
	<hr/> <hr/>	<hr/> <hr/>

The additions in the year comprise the following:

Depreciation of property, plant and equipment (Note 17)	1,695,211	2,004,646
Amortisation of intangible assets (Note 19)	-	4,998
Staff costs capitalised	1,808,025	1,537,554
Drilling materials and consumables	3,401,697	2,326,979
	<hr/>	<hr/>
	6,904,933	5,874,177
	<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 2018 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.

Based on the value in use model developed by management, the carrying amount exceeded the recoverable amount of the 105MW Menengai project at 30 June 2018 by Shs 206.3 million (2017: Headroom of Shs 88 million).

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:

Assumption	2018	2017
Pre-tax discount rate	9.62%	9.06%
Production period	25 years	25 years
Sales volume	105 MW	105 MW
Budgeted average gross margin	22%	22%
Average annual capital expenditure	USD 1.03 million	USD 2.6 million
Annual resource decline rate	3%	3%

The reduction in average annual capital expenditure is as a result of management's decision to drill some of the required make up wells upfront.

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

Assumption	Approach used to determine values:
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.

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 2018 with all other assumptions unchanged, an impairment charge of Shs 310 million would have been recognized in the statement of profit or loss (2017: Shs 15 million).

If the budgeted expenditure had been 1% higher than management's estimate at 30 June 2018 with all other assumptions unchanged, an impairment charge of Shs 244 million would have been recognised in the statement of profit or loss (2017: Shs 56 million).

NOTES (CONTINUED)

19 Intangible assets

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

	2018 Shs'000	2017 Shs'000
Opening net book amount	14,451	25,522
Additions	3,825	-
Amortisation:		
Charge to profit or loss	(101)	(6,073)
Capitalised as exploration and evaluation assets	-	(4,998)
Closing net book amount	18,175	14,451
Cost	292,836	289,011
Accumulated amortization	(274,661)	(274,560)
Net book amount	18,175	14,451

20 Government grants

Revenue grants and amortisation of capital grants

Revenue grants issued by Government of Kenya	500,048	666,730
Capital grants amortised	881,747	881,747
	1,381,795	1,548,477

Capital grants

At start of year	60,667,521	56,662,970
Grants received in the year:		
- Grants from Government of Kenya	2,670,500	2,647,000
- Grants from KfW	2,335,328	564,395
- Grants from AfDB	1,599,267	1,674,903
	6,605,095	4,886,298
GOK grant amortised (Olkaria wells)	(881,747)	(881,747)
	66,390,868	60,667,521

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 2018.

NOTES (CONTINUED)

21 Borrowings

	2018 Shs'000	2017 Shs'000
Bank overdraft	600,323	647,801
Short term bank loans	1,959,710	1,959,710
	<hr/>	<hr/>
	2,560,033	2,607,511
	<hr/>	<hr/>

At 30 June 2018, the Company had an overdraft facility with a limit of Shs. 1 billion. The effective interest on the facility was 13.5% p.a. (2017: 14% p.a.). The unused overdraft facility at year end was Shs 399,678,000 (2017: Shs 352,199,000).

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.

The above borrowings are secured by an executed letter of negative pledge over assets of the Company and An undertaking for payment from AfDB, a partner of the World Bank, for LC'S and SBLC's issued under World Bank funded projects. At 30 June 2018, Cooperative Bank held cash in lien of Shs 15,840,000 as a security for bank guarantees and letter of credit facilities (2017: Shs 14,200,000).

The above facilities are for a period of one year, renewable at the end of the tenor, with the next renewal date due on 31 March 2019.

22 Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 July 2016, 30 June 2017 and 30 June 2018	20,000	2,000
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The total authorised number of ordinary shares is 20,000 with a par value of Shs 100 per share.

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

	Number of shares 2018	Number of shares 2017
Permanent Secretary, The National Treasury	19,999	19,999
Permanent Secretary, Ministry of Energy & Petroleum	1	1
	<hr/>	<hr/>
	20,000	20,000
	<hr/>	<hr/>

NOTES (CONTINUED)

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 Ltd vs GDC

The Company entered into a contract with the Cluff Geothermal Ltd for provision of Top holding services at Menengai field. In December 2016, 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 Geothermal Ltd is USD 26,177,935. The matter is under arbitration in the London Court of International Arbitration with the court expected to issue its ruling.

The matter was heard in July 2018. The parties are preparing their post-trial brief and awaiting the notice from the tribunal when the ruling will be ready. 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 Shs 361 million being unutilised balance of the contract price as well as a claim in certain reimbursements incurred in the orderly termination of the contract.

The matter has been referred to the Chartered Institute of Arbitration. GDC put in an objection to the jurisdiction of the arbitral tribunal on grounds that the claim falls outside the contract and as such the tribunal cannot entertain the same.

The application was heard and the interim award on the jurisdiction challenge is ready for issue subject to settlement of arbitrator's fees. The Company has paid its share of the fees. However, the claimants in the matter are yet to pay their share. On 16 November 2018, the tribunal issued a notice of default against the Claimant for failure to honour its obligations in paying their share of the arbitrator's fees. 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.

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 13 September 2016. Bonfide referred the matter for arbitration claiming an amount of Shs 3,334,124,194 for work done, loss of business, interest and damages. The arbitrator issued an interim award in September 2017 and Bonfide filed an application in the High Court against the award in October 2017.

NOTES (CONTINUED)

23 Commitments and contingent liabilities (continued)

Contingent liabilities (continued)

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

A mention of the appeal in the High Court Misc Application No. 431 of 2017 took place on 6 November 2018 where the appellant requested for more time. A further mention is slated for 5 December 2018.

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

Capital commitments

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

	2018 Shs'000	2017 Shs'000
Authorized and contracted	6,095,912	9,528,266
Authorized but not contracted	1,052,830	870,321
	<hr/>	<hr/>
	7,148,742	10,398,587
	<hr/>	<hr/>

24 Related party transactions

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

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

i) Key management compensation

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

	2018 Shs'000	2017 Shs'000
Salaries and other short-term employment benefits	103,465	56,535
	<hr/>	<hr/>

NOTES (CONTINUED)

24 Related party transactions (continued)

ii) Directors' remuneration

Remuneration as management	12,934	12,343
Fees and allowances for services as director	17,235	26,710
	<hr/>	<hr/>
	30,169	39,053
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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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APPENDIX I: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Details	Notes	Original budget Shs'000	Adjustments (Supplementary budget cuts) Shs'000	Final budget Shs'000	Actual comparable basis Shs'000	Performance difference Shs'000
Revenue						
Sale of steam	5	3,000,000	-	3,000,000	3,557,069	557,069
Government grant	20	666,730	(123,000)	543,730	500,048	(43,682)
Amortization of revenue grant	20	-	-	-	881,747	881,747
Other income	6	-	-	-	(47,521)	(47,521)
Total revenue		3,666,730	(123,000)	3,543,730	4,891,343	1,347,613
Expenses						
Staff costs	8	642,350	(123,000)	519,350	485,952	(33,398)
Depreciation of property, plant & equipment	8	-	-	-	924,066	924,066
Directors remuneration	8	39,260	-	39,260	17,235	(22,025)
Accommodation & subsistence	8	31,025	16,148	47,173	47,173	-
Auditors remuneration	8	14,292	(6,623)	7,669	7,669	-
Training expenses	8	37,597	3,061	40,658	40,658	-
Transport expenses	8	8,598	4,130	12,728	12,728	-
Fuel expenses	8	6,250	-	6,250	3,759	(2,491)
Provision of bad debt	8	-	-	-	5,625	5,625
ICT expenses	8	14,500	(9,484)	5,016	5,016	-
General administration expenses	8	76,141	(40,000)	36,141	35,078	(1,063)
Publicity expenses	8	26,940	(22,090)	4,850	4,850	-
Management consultancy	8	31,500	(19,493)	12,007	12,007	-
Finance expenses	7	291,600	10,635	302,235	302,235	-
Tax expense	11	-	-	-	731,073	731,073
Other administrative expenses	8	163,267	65,706	228,973	166,687	(62,286)
Other operating expenses	9	-	-	-	659,791	659,791
Total expenses		1,383,320	(121,010)	1,262,310	3,461,602	2,199,292
Surplus/(deficit)		2,283,410	(1,990)	2,281,420	1,429,741	(851,679)

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

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

Details	Final budget		Actual comparable basis 2018	Performance difference	Variance	Explanation of differences between actual and budgeted amounts (10% over/ under)
	2018	2018				
	Shs'000	Shs'000	Shs'000	Shs'000	%	
Revenue						
Sale of steam	3,000,000	3,557,069	3,557,069	557,069	19%	Increase in net electrical output driven by higher demand of steam by KenGen
Government grant	543,730	500,048	500,048	(43,683)	-8%	Not applicable
Amortization of revenue grant	-	881,747	881,747	881,747	100%	Not a budget item.
Other income	-	(47,521)	(47,521)	(47,521)	100%	Not a budget item.
Total revenue	3,543,730	4,891,343	4,891,343	1,347,613	38%	
Expenses						
Staff cost	519,350	486,196	486,196	(33,398)	-6%	Not applicable.
Depreciation of property, plant & equipment	-	924,066	924,066	924,066	100%	Depreciation is not a budget item.
Directors remuneration	39,260	17,235	17,235	(22,025)	-56%	Fewer board meetings (16) held in the year compared to 35 meetings held in the prior year
Accommodation & subsistence	47,173	47,173	47,173	-	0%	Not applicable.
Auditors remuneration	7,669	7,669	7,669	-	0%	Not applicable.
Training expenses	40,658	40,658	40,658	-	0%	Not applicable.
Transport expenses	12,728	12,728	12,728	-	0%	Not applicable.
Fuel expenses	6,250	3,759	3,759	(2,491)	-40%	A large portion of the fleet is utilized on the project activities hence costs are capitalized to exploration and evaluation assets
Provision of bad debt	-	5,625	5,625	5,625	100%	Not a budget item.
ICT expenses	5,016	5,016	5,016	-	0%	Not applicable.
General administration expenses	36,141	35,078	35,078	(1,063)	-3%	Not applicable
Publicity expenses	4,850	4,850	4,850	-	0%	Not applicable.
Management consultancy	12,007	12,007	12,007	-	0%	Not applicable.

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

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)
	2018 Shs'000	2018 Shs'000			
Expenses (continued)					
Finance expenses	302,235	302,235	-	0%	Plans to convert the Post Import Financing facility to a term loan which would have reduced the interest charges significantly did not materialise in the financial year under review as envisaged
Tax expense	-	731,073	731,073	100%	Tax expense was not included in the budget
Other administrative expenses	228,973	166,687	(62,286)	-27%	Reduction in scope on software support and maintenance services, internet and IST services, and stakeholder management.
Other operating expenses	-	659,791	659,791	100%	Write-off of idle drilling time and the provision for impairment of E&E assets had not been budgeted for
Total expenses	1,262,310	3,461,602	2,199,292	174%	
Surplus/(deficit)	2,281,420	1,429,741	(851,679)	-37%	

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS

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.

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
4.1	<p>Non-productive time levels (NPT)</p> <p>In the prior year, it was noted that management had capitalised all drilling costs including the NPT. The cost of the NPT has been calculated to be Shs. 125 million based on the drilling crew staff costs capitalised.</p> <p>We recommended that management should develop a formal policy of what should constitute acceptable levels of NPT based on international best practices and how NPT should be dealt with; analysis of NPT should be done regularly and corrective actions taken; and NPT cost should not be capitalized.</p>	<p>A number of the reasons for NPT as listed are operational in nature. Drilling string getting stuck, fishing time taken or extended cement plugging time are largely as a result of the geological formation. However, there were delays caused by the long process of procuring a new cement supplier under the AfDB funding.</p>	<p>1. General Manager, Drilling</p> <p>2. General Manager, Geothermal Resource Development</p> <p>3. General Manager, Finance</p>	<p>Issue open.</p> <p>See Section 4.4 of the current year post audit report.</p>	<p>Continuously up to 30 June 2019</p>

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS (CONTINUED)

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
4.2	<p>Write off of abandoned wells</p> <p>The financial statements prepared by management for the year ended 30 June 2017 included a well write off amounting to Shs. 991 million for three wells that were considered unsuccessful.</p> <p>We recommended that management should develop a comprehensive policy to guide in the decision on which wells/costs should be written off and at what stage, and that the drilling team should consider increasing the rigor of predrilling activities to improve chances of success.</p>	<p>We will do more studies but as we expand out of the current drilled area to the undrilled, it will be more of exploration and higher success rates will increase after getting the discovery wells.</p>	<p>1. General Manager, Geothermal Resource Development</p> <p>2. General Manager, Finance</p>	<p>Issue partially closed.</p> <p>Draft policy is yet to be approved by the Board.</p> <p>There were no new abandoned or unproductive wells noted in the year.</p> <p>Management should continue to monitor the wells that are currently heating up for appraisal purposes.</p>	30 June 2019
4.3	<p>Contingent liabilities</p> <p>In the prior year, the Company was a respondent on several legal matters that arose during the year and were being handled by the Company's lawyers. The significant potential exposures arising out of contractual arrangements entered into by the Company included: Cluff Geothermal vs GDC, Linksoft Communications Limited vs GDC and Bonfide Clearing & Forwarding vs GDC.</p> <p>We recommended that contingent liability disclosure should be made in the financial statements.</p>	<p>Appropriate provisions and disclosures have been made in the financial statements based on the opinion of the lawyers on the cases.</p>	<p>1. General Manager, Finance</p> <p>2. General Manager, Legal Affairs & Company Secretary</p>	<p>Issue open.</p> <p>See Section 4.7 of the current year post audit report and Note 23 of this financial statements.</p>	30 June 2019

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS (CONTINUED)

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
4.4	<p>Matching of revenues and expenses- Vesting of Olkaria wells</p> <p>In the prior year, there was currently a mismatch between the revenue being generated from the 59 wells investment and the costs which account for only 26 of the wells.</p> <p>Management has faced challenges in progressing the vesting process as some of the wells to be vested are drilled on land that has been used by KenGen to secure financing for their projects. Management is in the process of addressing the challenges through the Ministry of Energy.</p> <p>We had recommended that management should continue pursuing the completion of the vesting process.</p>	<p>The Company will continue to engage with KenGen with a view to concluding the vesting by end of the new financial year.</p>	<p>1. General Manager, Legal Affairs & Company Secretary</p>	<p>Issue open.</p> <p>Management continues to pursue the resolution of this matter.</p> <p>Correspondences provided by management confirmed that:</p> <ul style="list-style-type: none"> • French Development Agency (AFD), the financier that had charged the land where the wells are located, had given written consent for vesting to proceed. • GDC had requested the National Treasury to forward the vesting documents to the Office of the Attorney General for finalisation. 	30 June 2019

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS (CONTINUED)

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
4.5	<p>Compliance with laws and regulations</p> <p>a) In the prior year, we noted that GDC has not paid corporate income tax (CIT) on the taxable profits for the years ended 30 June 2015, 30 June 2016 and 30 June 2017 amounting to Shs. 2.4 billion. We further noted that the penalties and interest payable as at 30 June 2017 amounting to Shs 304 million had not been accrued for.</p> <p>b) We noted that the payments for PAYE and NHIF for the months of October to December 2016, and NSSF for the months of October 2016 to February 2017 were remitted late.</p>	<p>The Company has not previously been given a budgetary allocation to cater for corporate income tax. A request for funding will be made through a supplementary budget request in the financial year 2017/18. The Board has instructed Management to budget for CIT in future.</p>	<p>1. General Manager, Finance</p>	<p>a) Issue open. See Section 4.6 of the current year post audit report. b) Issue closed. Timelines for remittance of statutory deductions (PAYE, NHIF & NSSF) now adhered to.</p>	<p>30 June 2019</p>
4.6	<p>Timely capitalisation of items in work in progress (WIP)</p> <p>From review of the composition of the work in progress account within property, plant and equipment, we noted that costs of constructing access roads and for partitioning of Kawi House offices were still sitting in WIP despite the assets being already in use.</p> <p>We recommended that management should continually review the costs included in the work in progress account and transfer them to the appropriate classes when commissioned.</p>	<p>The partitioning work was supervised by the Government of Kenya. The delay in capitalization was occasioned by delay in issuance of a completion certificate by the relevant department.</p>	<p>1. General Manager, Finance</p>	<p>Issue closed. No such issues noted from our review of WIP.</p>	

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS (CONTINUED)

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
5.1	<p>Appropriateness of ICT policy</p> <p>The ICT policy currently being used by GDC is out dated and has not been reviewed since April 2013. In addition, some key clauses are missing from the documented policy based on our benchmarking with best practice standards.</p>	<p>Management has already taken steps to implement the recommendation.</p>	<p>1. General Manager, Finance 2. Manager, ICT</p>	<p>Issue partially closed. Management has drafted the ICT policy and ICT strategy. The policy is awaiting approval by the Board. See matter under Section 5.3 of the current year post audit report.</p>	30 June 2019
5.2	<p>Inappropriate excessive rights to system administration role</p> <p>System access rights to manage SAP change control settings, run database programs, and delete background jobs have been granted to users who are not system administrators. Such access rights can be used to perform unauthorized activities on the SAP system.</p>	<p>Management has already taken steps to implement the recommendation on restriction of users with access to super-user rights.</p>	<p>1. General Manager, Finance 2. Manager, ICT</p>	<p>Issue open. Management has subsequently taken steps to implement recommendations on restriction of users with access to super-user rights. See matter under Section 5.1 of the current year post audit report.</p>	30 November 2018
5.3	<p>Activities of users with administrative and super-user rights in the SAP system</p> <p>Audit logs were enabled on the SAP system. However, there was no evidence that they were reviewed in the period to assess the activities of users with excessive rights (super-users) in the system. Super-user or administrative profiles grant users excessive rights on IT systems which could be used to perform unauthorized activities.</p>	<p>Management is in the process of putting in place a plan for quarterly review of all SAP users with super user rights.</p>	<p>1. General Manager, Finance 2. Manager, ICT</p>	<p>Issue open. Management is in the process of putting in place a plan for quarterly review of all SAP users with super user rights. See Section 5.3 of the current year post audit report.</p>	30 June 2019

APPENDIX II: PROGRESS ON FOLLOW UP ON AUDITOR RECOMMENDATIONS (CONTINUED)

Reference No. in Post Audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe
5.4	<p>System inaccurately computes foreign exchange gains and losses</p> <p>Our review of system computation of foreign exchange gains and losses, we noted that the system was inaccurately computing exchange gains and losses differences due to inappropriate configuration. Lack of correct configuration of automated controls can lead to overstatement and/or understatement of financial statements.</p>	<p>Management will engage an external SAP consultant to review and rectify the problem.</p>	<p>1. General Manager, Finance</p>	<p>Issue closed.</p> <p>An external consultant has been engaged to review and rectify the misalignment. No new incidences noted in the year.</p>	
5.5	<p>Inventory count settings</p> <p>SAP system is not configured to allow freezing of book inventory balances at the time of physical inventory count. Consequently, there is a risk of posting inventory movements during inventory counts, which may result to difficulties in reconciling count results with system values.</p>	<p>Configuration are been done in line with the recommendation.</p>	<p>1. Manager, Supply Chain</p>	<p>Issue closed.</p> <p>The configuration has been effected.</p>	



Mr. Gershom Otachi
 Chairman

Date: 28... JANUARY 2019



Eng. Johnson P. Ole Nchoe
 Managing Director and CEO

Date: 28... JANUARY 2019

APPENDIX III: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the Company funded by development partners

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

Status of projects completion

	Project	Total project cost (Shs millions)	Total expended to date (Shs millions)	Completion % to date	Budget (Shs millions)	Actual (Shs millions)	Sources of funds
1	Menengai Project	115,926	74,958	64%	5,556	6,172	GoK Steam Sales AfDB
2	Bogoria – Silali Project	78,029	3,711	5%	1,550	2,619	GoK KfW

Limited

LIABILITY TRANSFERS

Oil Development Company Limited
Transfers from the Ministry of Energy & Petroleum
2017/18

Grant	Bank statement date	Amount (Shs'000)
a. Development Grants	01.09.2017	166,683
	07.12.2017	166,683
	11.04.2018	166,683
	Total	500,049
b. Development Grants	Bank statement date	Amount (Shs'000)
	18.10.2017	763,000
	30.01.2018	381,500
	20.02.2018	381,500
	04.04.2018	763,000
		2,289,000
	Accrued	
	03.07.2018	381,500
	Total	2,670,500
c. Direct Payments	Bank statement date	Amount (Shs'000)
	Nil	-
	Total	-
d. Donor Receipts	Payments through donors	Amount (Shs'000)
	KfW	2,335,328
	African Development Bank (AfDB)	1,599,267
	Total	3,934,595