Green Energy for Kenya

Geothermal Development Company

Green, Reliable, Affordable Energy to Power Kenya's Economy.

ANNUAL REPORT & FINANCIAL STATEMENTS

2015/2016

GDC One - Team

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WHO WE *ARE*

Incorporated in 2008 as a fully government-owned Special Purpose Vehicle (SPV)

Operations started in 2009

Between 2009 and 2010, GDC undertook drilling operations in the Olkaria geothermal field to avail steam for KenGen

From 2011, GDC started drilling operations in the Menengai Geothermal Project and the first 10MW well discharged in May 2011

GDC has contracted 3 Independent Power Producers (IPPs) to generate 105MW of electricity in the Menengai Geothermal Project

GDC is currently opening up two new projects - Baringo-Silali and Suswa Geothermal Projects

CORPORATE *PHILOSOPHIES*

VISION

To be a world leader in the development of geothermal resources

MISSION

Develop green energy for Kenya from geothermal resources

CORE VALUES

Integrity: Subscribe to high ethical standards, openness and honesty

Professionalism: Embrace excellence, quality service and continual improvement

GDC'S MANDATE

Upfront Risks and Costs

- Remove upfront risks
- Reduce costs through own rigs, infrastructural develepment, exploration and production drilling

Direct Use

Promote direct uses of geothermal resources

Capacity Development

- Develop human capacity for geothermal development
- Manage public resources such as rigs
- Provide geothermal consultancy services

Funding

Support the Government of Kenya in fund mobilization for geothermal development

Power Plant

- Support private sector entry into the geothermal sector
- Sell steam to independent power producers for conversion into electricity

OUR *PROJECTS*

Baringo - Silali

Olkaria

Menengai

Suswa

GDC's Ten Year Development Plan

Menengai

Phase I	- 100MW
Phase II	- 100MW
Phase III	- 100MW
Phase IV	- 100MW

Total 400

Baringo - Silali

Korosi I	- 100MW
Paka I	- 100MW
Silali	- 100MW

Total 300

Suswa

Suswa I	- 100MW
Suswa II	- 100MW
Suswa III	- 100MW

Total 300

Total MW availed by GDC by 2026:
1000MW

GDC SCORECARD

GDC Geothermal Development Company
Green Energy for Kenya

Steam in Olkaria

320 Megawatts from GDC's wells at Olkaria added to the national grid

412 Total amount of steam (in megawatts) owned by GDC in Olkaria

3.0B Annual revenue from steam sales in Olkaria

Steam in Menengai

105 Menengai Phase I Steam offered to Independent Power Producers (IPPs) for conversion to electricity

7 Number of Rigs owned by GDC

137 Total amount of steam (in megawatts) drilled by GDC in Menengai

"GDC is proudly helping Kenya achieve energy self-reliance"
Chairman
Mr. Gershom O. Bw'Omanwa

"GDC is leading the path to reliable, affordable and clean energy for the country."
Managing Director & CEO
Eng. Johnson P. Ole Nchoe

www.twitter.com/GDCKenya

www.facebook.com/GDCKenya

www.gdc.co.ke

CORPORATE *INFORMATION*

Mr. Gershom O. Bw'Omanwa	Chairman (Appointed 17th April 2015)
Eng. Johnson P. Ole Nchoe	Managing Director & CEO (Appointed 14th April 2016)
Mr. Godwin Mwawongo	Ag. Managing Director & CEO (Retired 3rd November 2015)
Mr. Paul Ngugi	Ag. Managing Director & CEO (3rd November 2015 to 14th April 2016)
Dr. Stephen Njiru, EBS (Deceased)	Director (Re-appointed 17th April 2015)
Mr. Micahel Ogwapit	Director (Appointed 17th April 2015)
Ms. Florence Bore	Director (Appointed 17th April 2015)
Ms. Caroline Karugu	Director (Appointed 2nd October 2015)
Mr. Namada Simoni	Director (Appointed 2nd October 2015)
Mr. Michael Mwangi, MBS,	Alternate Director, Ministry of Energy & Petroleum
Mr. Kennedy Nyachiro	Alternate Director, National Treasury

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

Menengai

2 BUSINESS REVIEW

- Notice of AGM
- Chairman's Statement
- Managing Director & CEO's Report

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OFF MOMBASA ROAD, RED CROSS ROAD
P.O.BOX 100746-00101, NAIROBI
TEL: (254) 20 2427516/0719036000/7000
info@gdc.co.ke/www.gdc.co.ke

1. The Cabinet Secretary
   National Treasury.

2. The Cabinet Secretary
   Ministry of Energy & Petroleum.

3. The Principal Secretary
   Ministry of Energy & Petroleum.

4. The Principal Secretary
   National Treasury.

5. Chairman Board of Directors
   Geothermal Development Company Limited.

NOTICE IS HEREBY GIVEN THAT THE 5TH ANNUAL GENERAL MEETING FOR YEAR ENDED 30TH JUNE 2016 of the Company will be held at the GDC Boardroom 4th Floor, Kawi House, South C, Nairobi on Tuesday 21st March 2017 at 11.00 a.m. to conduct the following business:-

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To consider and if approved, adopt the Company's audited financial statements for the year ended 30th June 2016, together with the Chairman's, Directors' and Auditors' Reports thereon.
4. To note that the Directors do not recommend payment of a dividend for the period under review.
5. Election of Directors; to note that there will be no election or rotation of Directors for the following reasons:-

   Whereas the company was incorporated under the companies Act, Cap 486 as a private company limited by shares, it is wholly owned by the Government. The company is, therefore governed under the provisions of State Corporations Act Cap 446 by virtue of Section

2(c) of the Act. Further Article 2 of its Memorandum and Articles of Association provides that "the appointment and removal of directors shall be governed by the provisions of the State Corporations Act Cap 446 of the laws of Kenya and as amended from time to time. Each director shall hold office until he is removed or replaced as above provided". GDC has complied with Cap 446 Section 6, which provides for the composition and appointment of Directors. Under the circumstances, there will be no election or rotation of Directors.

6. To approve payment of Directors' fees for the year ended 30th June 2016.
7. Auditors:-
   To note that the audit of the Company's books of accounts will continue to be undertaken by the Auditor-General or an audit firm appointed by him in accordance with Part IV Section 14(3) of the State Corporations Act and Section 39(1) of the Public Audit Act No. 34 of 2015.
   M/s PWC carried out the Audit for the period ended 30th June, 2016.
8. To authorize the Directors to fix the Auditor's Remuneration.

By order of the Board

Ms. Beatrice Kosgei
Company Secretary

27th February 2017

NOTES

A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. A form of proxy is enclosed with this report. To be valid the form of proxy must be duly completed and lodged at the office of the Company Secretary 5th Floor Kawi House or posted in time to be received not less than forty - eight hours before the time appointed for holding the meeting.

Mr. Gershom Otachi
Bw'Omanwa

CHAIRMAN

> "The provision of affordable and reliable energy to support Kenya's strategic vision to become a medium-income industrializing nation remains our core business."

Mr. Gershom Bw'Omanwa - Chairman

At the Geothermal Development Company Limited (GDC) we know that the success of the geothermal sector in Kenya will no doubt be a game-changer. GDC therefore continues to forge strategic partnerships with key stakeholders in order to maximize the benefits presented by Kenya's vast geothermal potential.

We are investing heavily in human capital development and state-of-the-art equipment in line with the requirements of our business, thus increasing our efficiency and productivity. In the year under review, the Board of Directors successfully recruited a new Managing Director & CEO, Eng. Johnson P. Ole Nchoe who joined the Company on 14th April 2016. He is an accomplished professional, with vast knowledge and experience in the energy sector, and is a great asset as the company scales new heights of performance.

At the Menengai Geothermal Project where drilling operations are ongoing, we started the construction of a steam-gathering pipeline that will supply steam from the various wells to power plants. At the close of the 2015/2016 financial year, 80% of the 25 KM steam gathering system was complete.

In line with our mandate of accelerating the development of geothermal resources in Kenya, GDC embarked on the development of key infrastructural components like roads and well-pads at the Baringo-Silali project in readiness for ground breaking. Installation of a water pipeline will commence in the new financial year. Drilling is also set to commence within the 2016/2017 financial year.

Research and Development remain key to our mandate. To this end, GDC entered into a strategic partnership with Power Africa through USAID to develop four pilot projects on the direct utilization of geothermal energy. The four geothermal direct use projects based at the Menengai Geothermal Project are: geothermally heated aqua ponds, a geothermally heated green house, a geothermally heated laundry and a geothermally heated dairy unit. These pilot projects have been a great success and the second phase is being designed.

The four pilot projects will open up the geothermal sector to more investors who are interested in taking advantage of geothermal heat for industrial and other uses. Success in direct uses of geothermal energy will also afford benefits to host communities through additional jobs and income generating activities.

My Board is grateful to the government of Kenya and development partners for financial support towards our geothermal development activities. We look forward to continued mutual collaboration.

Thank You,

Mr. Gershom O. Bw'Omanwa

CHAIRMAN

Eng. Johnson P. Ole Nchoe

MANAGING DIRECTOR & CEO

> "The Geothermal Development Company Limited (GDC) is the leading developer of green energy for Kenya from geothermal resources"

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

I take this opportunity to share my report for the financial year ended 30th June, 2016. The Geothermal Development Company Limited (GDC) is the leading developer of green energy for Kenya from geothermal resources. Since inception, GDC has proven 549MW of steam in both Olkaria Geothermal Project and Menengai Geothermal Project. Out of the proven steam, GDC is selling 320MW to the Kenya Electricity Generating Company (KenGen) for electricity generation earning Kshs. 3 Billion in annual steam sale revenues.

The government of Kenya established GDC as a Special Purpose Vehicle to accelerate the development of geothermal resources in Kenya. The Company started operations in 2009 and over the last 7 years, GDC continues to de-risk Kenya's geothermal sector, thus making it attractive to investors.

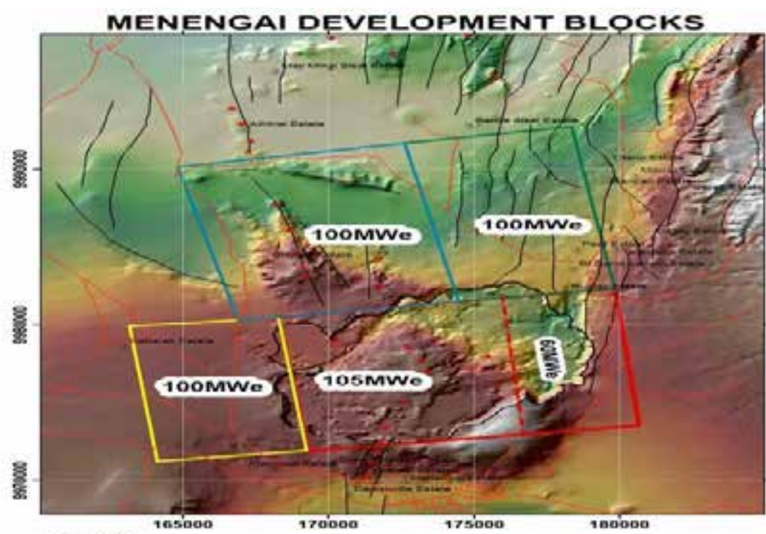
Our core business is to accelerate the development of geothermal resources in Kenya by removing upfront risks associated with geothermal development. We undertake surface exploration of geothermal resources after which we drill geothermal wells and sell steam to private investors and to the Kenya Electricity Generating Company Limited (KenGen) for electricity generation. GDC also manages geothermal reservoirs in order to ensure constant supply of steam for power generation. Over and above electricity generation, GDC is promoting alternative uses of geothermal resources in greenhouse heating, drying of grains, pasteurizing milk, cooling and heating of rooms, among others.

Under the government's 5000MW initiative, GDC is contributing over 1000MW from three geothermal projects: Menengai - 400MW, Baringo-Silali - 300MW and Suswa - 300MW in the next ten (10) years. Regarding assets, GDC has seven (7) 2000 horsepower deep drilling rigs, drilling materials for seventy (70) wells, Kshs 3 Billion annual steam sale revenue, and a workforce of about 1000 staff.

MENENGAI GEOTHERMAL PROJECT

The Menengai Geothermal Project is being developed in phases with a target of 400MW in the next 10 years. The estimated potential of the Menengai Geothermal field is 1600MW. Phase I of the project commenced in February, 2011.

A total of 137MW of steam is currently available and has been contractually offered to three (3) independent power producers (IPPs) who will construct three power plants with a total of 105MW. Based on the time taken, GDC's Menengai Geothermal Project is arguably the fastest-developed geothermal field in Kenya. Drilling started in 2011 and by 2018 about 105MW of electricity will be connected to the national grid within a period of less than 10 years. In the past, geothermal projects in Kenya have taken more than ten (10) years from conceptualization to fruition. Out of the 105MW of steam, GDC will be generating Kshs. 1.7 Billion annually. Drilling in the second phase that targets 60 MW is currently underway.



OLKARIA GEOTHERMAL PROJECT

At the request of the Government of Kenya, GDC in the 2009/10 financial year drilled thirty six (36) geothermal wells at Olkaria. GDC also inherited wells drilled by the government prior to its incorporation, bringing the total wells under GDC in Olkaria to 59, with a total yield of 412MW.

GDC is selling 320MW of steam to KenGen who will use it for the generation of electricity for a period of 25 years under a build, own, operate arrangement (BOO). By providing steam for electricity generation, GDC has helped displace diesel power plants which have generated expensive and environmentally unfriendly power in the past.

The addition of 320MW of geothermal power into Kenya's national grid has tremendously driven down the cost of power by 22% and 35% for domestic and industrial consumers respectively, thus helping the government to meet its target of providing affordable and reliable green energy.

BARINGO-SILALI GEOTHERMAL PROJECT

The Baringo-Silali Block has an estimated potential of 3,000MW which will be developed in phases. The first phase targets 300MW to be developed with funding from the Government of Kenya and Kreditanstalt für Wiederaufbau (KfW). Detailed surface studies were completed in early 2013 and an Environmental and Social Impact Assessment (ESIA) License obtained from the National Environment Management Authority (NEMA). A community engagement framework has been established and the community has given GDC land access rights.

A Section of the Korosi Access Road

The Government of Kenya (GoK) is funding the construction of access roads and community engagement initiatives while KfW has given GDC a concessional loan of Euros 80 Million or approximately Kshs 8 billion for the drilling of 15-20 geothermal wells, undertaking several consultancies and installing a water pipeline to supply water for drilling.

So far, GDC has completed a seventy (70) kilometer access road to open up the Baringo-Silali area for drilling. Additionally, GDC has procured a contractor to drill 15-20 geothermal wells. Drilling is set to begin in the fourth quarter of the 2016/2017 financial year.

SUSWA GEOTHERMAL PROSPECT

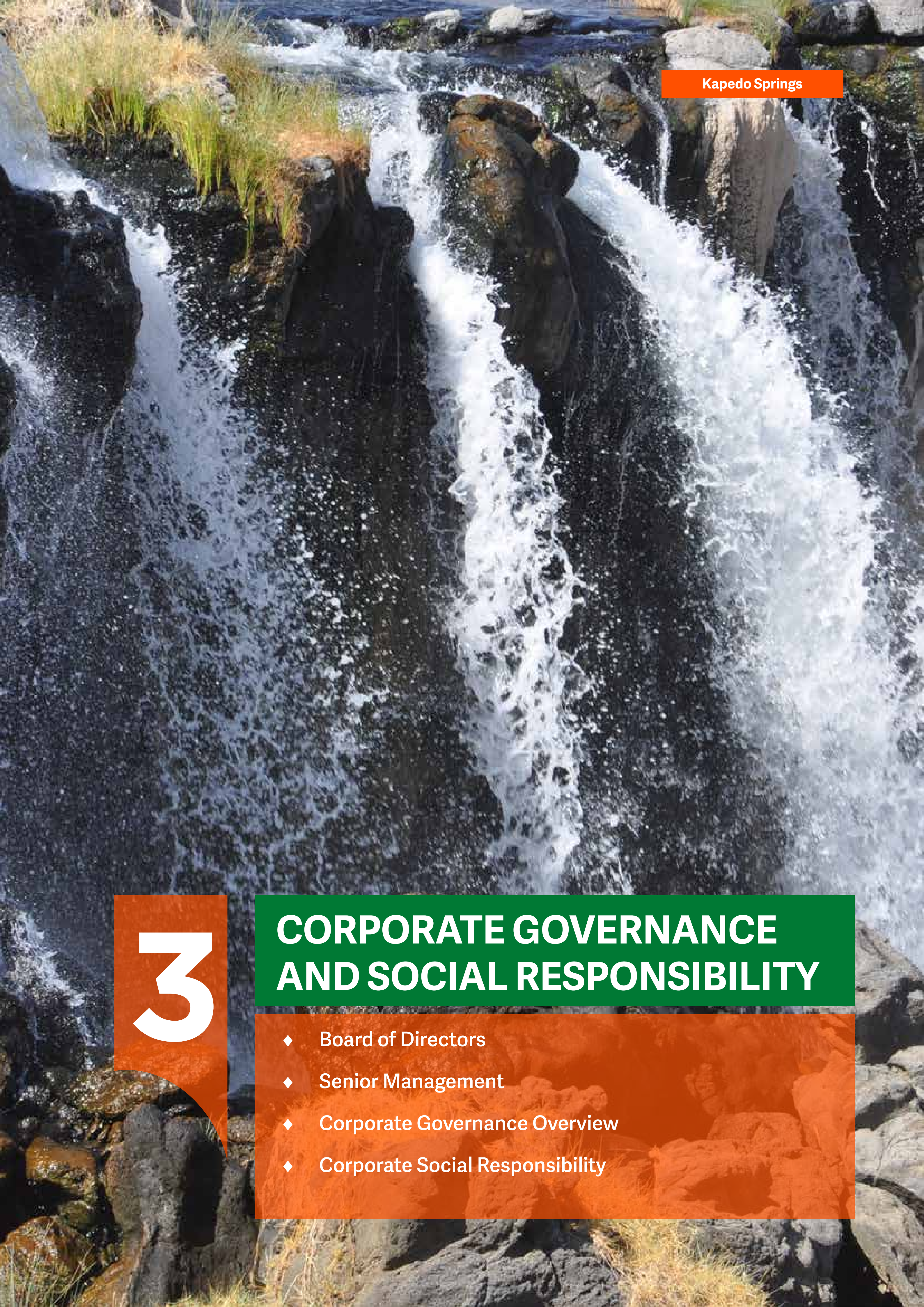
The Suswa Geothermal Prospect has an estimated potential of 750MW which will be developed in phases. The first three phases will develop a total of 300MW. The Suswa project is a low-hanging fruit ready for harvest considering its strategic location near transmission lines and close to Kenya's capital city of Nairobi.

Detailed surface studies are complete and the Environmental and Social Impact Assessment (ESIA) Licensing process by the National Environment Management Authority (NEMA) is underway. A community engagement framework has been developed.

Mt. Suswa

By de-risking geothermal fields, GDC continues to open up space for the private sector. Over the years, an increased number of potential private investors are expressing increased interest in investing in the geothermal sector. In response, GDC is looking at expanding the geothermal pie by enhancing opportunities for the private sector to participate in the geothermal value chain at different stages. GDC has developed different geothermal investment models to attract investors at different stages of development, based on their preferences.

The private sector therefore has a golden opportunity to be part of the emerging and exciting geothermal sector which is at the heart of the Kenya's development agenda.



Kapedo Springs

3 CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

- Board of Directors
- Senior Management
- Corporate Governance Overview
- Corporate Social Responsibility

Mr. Gershom Otachi Bw'Omanwa - Chairman, GDC Board

Mr. Gershom Otachi Bw'Omanwa is the Chairman of the Geothermal Development Company Limited effective 17th April, 2015. He is an Advocate of the High Court with 26 years of experience in legal practice, gained both locally and internationally. Mr. Bw'Omanwa was a Defence Attorney for over a decade at the International Criminal Tribunal for Rwanda (ICTR), where he served as the Vice President, Defence Lawyers Association. He also served as the Defence Counsel at the International Criminal Court (ICC).

He has previously served as the Chairman of the Policyholders Compensation Fund. He is a member of the Law Society of Kenya, the East African Law Society, International Commission of Jurists - Kenya, International Association of Defence Lawyers, International Criminal Bar, and the Association of Defence Attorneys at the United Nations International Criminal Tribunal for Rwanda (ADAD).

Eng. Johnson P. Ole Nchoe - Managing Director & CEO

Eng. Johnson P. Ole Nchoe is the Managing Director and CEO of the Geothermal Development Company Limited. Eng. Ole Nchoe was appointed after a recommendation by the GDC Board of Directors following a competitive interview process and subsequent approval by the Cabinet Secretary, Ministry of Energy & Petroleum.

Eng. Ole Nchoe served as the Chief Manager, IT and Telecommunications at the Kenya Power Company for over 25 years until 2013. Prior to joining GDC, he had just concluded a two-year tour of duty at the Liberia Electricity Corporation (LEC) where he served as a Director. Together with a team of consultants working in a donor-funded programme geared towards re-building the electricity network in Liberia, he made a great contribution in helping the Liberian company establish robust systems.

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

Dr. Kamau Thugge, CBS - Principal Secretary, the National Treasury

Dr. Kamau Thugge is the Principal Secretary at the National Treasury. He previously worked as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor at the Ministry of Finance. Earlier, Dr. Thugge worked with the International Monetary Fund (IMF) as an Economist, Senior Economist and Deputy Division Chief. He has played a major role in influencing the design of Kenya's current fiscal decentralization system and has coordinated the formulation of legislation for implementing devolution, including the Public Finance Management Act, 2012.

Dr. Thugge holds a Doctor of Philosophy (PhD) degree in Economics from John Hopkins University, Master's degree in Economics from John Hopkins University, USA and a Bachelor of Arts (Economics) degree from Colorado College, USA. He is widely published.

Eng. Dr. Joseph Njoroge, CBS - Principal Secretary, Ministry of Energy & Petroleum

Eng. Dr. Joseph Njoroge was appointed to his current position of Principal Secretary in the Ministry of Energy & Petroleum in May 2013, and became the PS in the State Department for Energy following reorganization of government in December 2016. He has wide experience in power engineering and management. Prior to his appointment as PS he was the Managing Director of Kenya Power.

Eng. Dr. Njoroge holds a Bachelor of Science degree in electrical engineering and Master of Business Administration with a major in strategic management. He is a Chartered Electrical Engineer, a member of the Institute of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of the Institution of Engineers of Kenya. He is also Chairman of the MBA Chapter of University of Nairobi Alumni Association. He holds a PhD from University of Nairobi's School of Business.

Dr. Stephen Njiru, EBS - Independent Director (Deceased)

Dr. Stephen Njiru, EBS, (Deceased) was appointed to the GDC Board on February 10, 2012 and was re-appointed on 17th April 2015. He was the Chairperson of the Technical Committee and was a member of the Board Finance Committee. He was an Advocate of the High Court of Kenya with over 20 years international experience as a lawyer, and in private practice, with government (Public sector) and in Academia. He undertook all aspects of Legal Practice including Criminal, Civil and Commercial Litigation. His main fields were Constitutional and Public Law, International Economic Law, Legal Systems and Services, Municipal and International Law.

He advised governments (including the Government of Kenya as a State Counsel and also as a Special Consul and Legal Adviser to the Government, public bodies, International Corporations and other firms. He was a lecturer of Law, having taught at the University of Manchester. Dr. Njiru was widely experienced in the areas of Public / Constitutional Law, Legal Systems and Methods, Law of Contract, Torts, Criminal Law, International Economic Law and Human Rights. He worked and conducted research on the Bretton Woods Institutions including the World Bank, International Monetary Fund, World Trade Organization and World Intellectual Property Organization. He was Head of the Technical team on the Constitution of Kenya which oversaw the Constitution Review Process leading to the promulgation of the Constitution in Kenya (2010).

Ms. Florence Bore - Independent Director

Ms. Florence Bore is a career educationist, community and social-mobilizer, and trainer with many years of experience in leadership and management. An alumnus of Moi University where she attained a Bachelor of Arts Degree in Education, Ms. Florence has held various leadership positions, including at the Kenya National Bureau of Statistics, the Kenya Union of Post Primary Education (KUPPET) and the now defunct Electoral Commission of Kenya (ECK).

She also served as a presiding officer for three consecutive general elections and as a census supervisor. Ms. Florence is a champion of workers welfare and at Kenya Union of Post Primary Education Teachers (KUPPET), she was instrumental in effectively representing teachers as well as providing support in the implementation of key programs aimed at improving teachers' welfare.

Her acumen and experience in the education sector saw her serve in various task-forces formed by the Government of Kenya to spearhead quality education in the country. She has attended various professional workshops and trainings; including training on International Climate Challenges and Effective Performance Management, Corporate Governance, and the Institute of certified Public Accountants of Kenya (ICPAK) Executive Seminar on a Global Perspective in Business Excellence. She was appointed to the GDC Board as an Independent Director on 17th April, 2015.

Mr. Micahel Ogwapit – Independent Director

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

Micahel currently runs Continuum Africa, a Project & Development Management firm engaged in developing several local and international franchises including KFC, Subway, Naked Pizza, Dominos Pizza, Wadi Degla Sports Clubs, Smart Gyms LLC, Pizza Hut, Burger King, Secret Garden and several residential developments. Micahel is a director on several Boards including Kenyan Alliance Insurance, Leader Logistics, United E.A Warehouses, Lotus Developments and Knighton International. He previously served a term as the Chair of the Rallies Commission of the Kenya Motor Sports Federation and Vice Chair of the Kenya Rally Driver's Association. He was appointed to the GDC Board on 17th April, 2015 as an Independent Director.

Ms. Caroline Karugu – Independent Director

Ms. Caroline Karugu is an award-winning enterprise developer and management guru with experience in leadership and senior management. An alumnus of the prestigious Frankfurt School of Finance and Management in Germany and the University of Leicester in the United Kingdom, she is currently a Senior Investor Relations Manager with the British American Investments Company (Britam). Before joining Britam, Ms. Caroline had a stint at the Nairobi Securities Exchange (NSE) where she worked as the Investor Relations & Communications Manager. Ms. Caroline has over 12 years' experience in the regional capital markets and financial services industry.

At the NSE, she was the pioneering Country Manager of the Securities Industry Training Institute (SITI), an East African securities training organization with the mandate of deepening knowledge within the capital markets sector. She was also in charge of external affairs and government relations for the East African Stock Exchanges Association (EASEA). While working at the NSE, she participated in the listing of several companies, rights issues, bond offers and private placement projects since 2002.

Earlier while working as the Corporate Affairs Manager of the Kenya Union and Saving Cooperatives KUSCCO, Ms. Caroline made an outstanding contribution to the Kenyan cooperative movement where she spearheaded efforts of organizing young people to form SACCOs. In 2010, she won the prestigious World Young Credit Union Professionals (WYCUP) award sponsored by the World Council of Credit Unions (WOCCU) in the United States. This global award is given to the top five (5) individuals who have made significant contributions to their credit union system and have the potential to make a global impact. She is currently pursuing her Doctorate in Finance at United Stated International University (USIU) in collaboration with Columbia Business School in New York. Ms. Karugu was appointed to the GDC Board on 2nd October, 2015 as an Independent Director.

Mr. Namada Simoni – Independent Director

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

He has practiced as an Advocate on a full time basis since admission to the Bar and now serves as the Senior Partner at Namada & Co. Advocates, a middle sized Law firm based in Nairobi. His areas of specialty practice include Commercial and Civil Litigation such as commercial transactions, instruments and consultancy. He also does litigation and consultancy in Labour, Insurance, Energy and Constitutional matters in addition to conveyance and property transactions. Mr. Simoni has worked with other stakeholders in the formulation of legislation in Kenya like the Law Review Commission. He was appointed to the GDC Board as an Independent Director on 2nd October, 2015.

Mr. Michael W. Mwangi, (MBS) - Alternate to the PS, Ministry of Energy & Petroleum

Mr. Michael W. Mwangi (MBS), is the alternate director to the Principal Secretary, Ministry of Energy & Petroleum on the Board of Geothermal Development Company Limited (GDC). He has served for more than thirty (30) years in Public Service and gained a wealth of experience in Public Administration and Management.

Mr. Mwangi is currently serving in the Ministry of Energy & Petroleum as a Director of Administration. He is charged with the coordination of departments as directed by the Principal Secretary in ensuring that the Ministry achieves its performance targets. Mr. Mwangi has risen in the Public Service from a District Officer in 1984 to County Commissioner in 2012.

Mr. Kennedy Nyachiro - Alternate to the PS, The National Treasury

Mr. Kennedy Nyakundi Nyachiro holds a Master of Arts Degree in International Studies from the University of Nairobi and Master of Arts Degree in Economics from the University of Dar-es-Salaam, Tanzania. He has trained in Diplomacy and International Relations at the National Defence College, and in various other trainings internationally and locally.

Mr. Nyachiro has over 25 years' work experience in planning, budgeting, financial, economic, governance, procurement and personnel management in various Ministries including Transport and Communications; Planning and National Development and currently at the National Treasury. Currently, he serves as a Chief Economist and Head of the World Bank Division and Policy Unit, Resource Mobilization Department, Public Debt Management Office at the National Treasury. This position entails liaising with Development Partners on the mobilization of Official Development Assistance (ODA) for public investment, project appraisal, deployment of personnel, financial planning and procurement, integrating of ODA into the national budget, monitoring and evaluation of development projects, guiding and providing feedback on various government policies, among other duties.

SENIOR *MANAGEMENT*

EXECUTIVE COMMITTEE	(APRIL 2016 – JUNE 2016)
Eng. Johnson P. Ole Nchoe	Managing Director & CEO
Mr. Paul Ngugi	Ag. General Manager, Strategy, Research and Innovation
Mr. Christopher Leparan	Ag. General Manager, Corporate Services
Mrs. Irene Onyambu	Ag. General Manager, Human Resources & Administration
Mr. John Lagat	Ag. General Manager, Geothermal Resource Development
Mr. Cornel Ofwona	Ag. General Manager, Drilling & Infrastructure
Mr. Godfrey Shitsama	Ag. General Manager, Finance

EXECUTIVE COMMITTEE	(NOVEMBER 2015 – APRIL 2016)
Mr. Paul Ngugi	Ag. Managing Director & CEO
Mr. Christopher Leparan	General Manager, Corporate Affairs
Mrs. Irene Onyambu	General Manager, Human Resources
Mr. Cornel Ofwona	Ag. General Manager, Technical Services
Mr. Godfrey Shitsama	Ag. General Manager, Commercial Services

EXECUTIVE COMMITTEE	(JULY 2015 – NOVEMBER 2015)
Mr. Godwin Mwawongo	Ag. Managing Director & CEO
Mr. Paul Ngugi	General Manager, Business Development
Mr. Christopher Leparan	General Manager, Corporate Affairs
Mrs. Irene Onyambu	General Manager, Human Resources
Mr. Cornel Ofwona	Ag. General Manager, Technical Services
Mr. Godfrey Shitsama	Ag. General Manager, Commercial Services

CORPORATE GOVERNANCE *OVERVIEW*

Corporate Governance involves a set of relationships between a company's management, its Board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring of performance is determined.

Good Corporate Governance ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. In this regard, GDC is committed to ensuring that its policies and practices in critical areas of operations meet high levels of disclosure and compliance in line with good Corporate Governance principles.

STATEMENT OF COMPLIANCE

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

In its endeavour to uphold the tenets of good governance, the Board is guided by the Code of Governance for State Corporations otherwise known as the ***Mwongozo Code***; the Board Charter, the Public Officers and Ethics Act and the Code of Conduct and Ethics. Each Board member has signed the Directors' Code of Conduct and Ethics.

GDC is also certified for ISO 9001:2008 - Quality Management System since July 2012. The three year certificate was renewed in September 2015 and remains effective until August 2018.

BOARD CHARTER

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

The Board Charter sets out the role, responsibilities, structure and processes of the GDC Board. It does this by providing an overview of: Roles, functions, responsibilities and powers of the Board and individual directors; Composition of Board Committees and their responsibilities; Matters reserved for final decision making by the Board, and Policies and practices of the Board on matters of corporate governance, directors declarations and conflicts of interests, conduct of Board meetings and procedures and the nomination, appointment, induction, training and evaluation of members of the Board.

The Directors' Code of Conduct sets out rules that govern the conduct of individual directors when dealing with company business. The areas covered include the values expected of a Director to have respect for people, be transparent and accountable, provide stewardship and be persons of excellence. The Code also covers conflict of interest and whistleblowing.

BOARD COMPOSITION AND SIZE

The GDC Board is made up of eight (8) non-executive Directors and one (1) executive who is the Managing Director and CEO. The Board is constituted taking into account requirements of the energy sector, diversity of skills, age, value addition, gender, academic qualifications and experience necessary to help achieve GDC's goals and objectives. The appointment and removal of Directors is governed by the provisions of the State Corporations Act Cap 446 of the Laws of Kenya and as amended from time to time. Each Director shall hold office until he/she is removed or replaced as per the law.

BOARD DIVERSITY

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

	Field of Expertise	Numbers
1	Engineering	2
2	Law	3
3	Administration	2
4	Education	1
5	Finance	1

BOARD EFFECTIVENESS

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

ROLE OF THE BOARD

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

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

a) approving GDC annual targets and financial statements and monitoring the financial performance of the company;

b) setting and reviewing the key performance indicators and performance of management;

c) risk management by ensuring that the company has adequate systems of internal controls together with appropriate monitoring of compliance activities;

d) ensuring proper and adequate disclosures in regard to the company's operations thus enhancing transparency and integrity;

e) ensuring ethical behaviour and compliance with all the relevant laws and regulations;

f) audit and accounting principles, corporate policies and procedures, and code of ethics;

g) developing and reviewing succession planning for the management team and approving senior executive appointments, organizational changes and remuneration;

h) constituting and reviewing the composition of Board Committees; and

i) evaluating and approving each committee's report.

INDUCTION AND CAPACITY BUILDING FOR THE BOARD

The GDC Board attends trainings on corporate governance and other relevant areas in order to equip them with the knowledge required to effectively discharge their responsibilities.

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

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

BOARD MEETINGS

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

The Board held twenty six (26) meetings during the reporting year which were attended as follows:

	Name of Director	Board Position	Meetings held	Meetings Attended
1.	Mr. Gershom O. Bw'Omanwa	Board Chairman	26	26
2.	Eng. Johnson P. Ole Nchoe	MD & CEO	26	1
3.	Dr. Kamau Thugge, CBS	PS, National Treasury	-	-
4.	Dr. Eng. Joseph Njoroge, CBS	PS, Ministry of Energy and Petroleum	-	-
5.	Mr. Micahel Ogwapit	Director	26	26
6.	Dr. Stephen Njiru, EBS (Deceased)	Director	26	17
7.	Ms. Florence Bore	Director	26	24
8.	Mr. Michael Mwangi, MBS	Alternate Director to PS, Ministry of Energy & Petroleum	26	20
9.	Eng. Stanley Kamau	Alternate Director to CS, National Treasury.	26	6
10	Mr. Kennedy Nyachiro	Alternate Director to CS, National Treasury	26	20
11	Mr. Namada Simoni	Director	26	20
12	Ms. Caroline Karugu	Director	26	20

Notes:

1. Mr. Namada Simoni and Ms. Caroline Karugu were appointed as Directors on 2nd October, 2015.
2. Mr. Kennedy Nyachiro was appointed as Alternate Director to the CS, National Treasury on 2nd October, 2015.
3. Eng. Johnson P. Ole Nchoe was appointed as the Managing Director & CEO on 14th April, 2016.

DIRECTORS' REMUNERATION

Directors' letters of appointment and various Government circulars issued from time to time stipulate what they will be paid. The Directors are paid sitting, lunch and accommodation allowances and mileage reimbursement where applicable. The sitting allowances are taxed and paid for each meeting attended. Lunch allowance is paid in lieu of lunch being provided. Mileage and accommodation allowances are paid while on Company duty for each event or meeting attended.

The Directors' fee is paid annually based on the performance of the company, subject to the approval of the Ministry of Energy and Petroleum and National Treasury, and is approved during the Annual General Meeting (AGM). For financial year 2015/2016, it is proposed that each non-executive Director be paid a fee of KES. 360,000/- or pro rata for any part served thereof. These allowances are within set limits of Government State Corporations. The Chairman is paid a monthly honorarium, landline and telephone expense allowance.

There were no loans granted to non-executive Directors at any time during the year. Directors' remuneration has been disclosed in the books of accounts.

DECLARATION AND CONFLICT OF INTEREST

The duty stipulated by the law to avoid situations where a Director may have interests that conflict with those of the company has been observed by the Board. The Directors are obliged to fully disclose any real or potential conflict of interest to the Board. In a situation where there may be conflict of interest, the Director involved ought to exclude himself/herself from any discussion or decision making over the matter. In any meeting of the Board, there is an agenda item giving an opportunity to Directors to declare any conflict of interest.

BOARD COMMITTEES

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

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

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

REPORT FROM THE CHAIRPERSON OF THE AUDIT COMMITTEE

The Board Audit committee comprises of two (2) independent and non-executive Directors and one (1) Member, representing the Principal Secretary National Treasury; and One (1) member representing the Principal Secretary, Ministry of Energy & Petroleum. When necessary, the committee invites a representative of the external auditors when reviewing annual financial results.

The committee is appointed by the Board of GDC to assist in fulfilling the following oversight responsibilities:

a) obtain assurance from management that all financial and non-financial internal control and risk management functions are operating effectively and reliably;
b) provide an independent review of an entity's reporting functions to ensure the integrity of financial reports;
c) monitor the effectiveness of the entity's performance management and performance information;
d) provide strong and effective oversight of an entity's internal audit function;
e) provide effective liaison and facilitate communication between management and external audit;
f) provide oversight of the implementation of accepted audit recommendations;

g) ensure the entity effectively monitors compliance with legislative and regulatory requirements;

h) review and monitor external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant regulatory guidelines in Kenya.

The Committee held five (5) meetings that were attended as follows:-

	Name	Meetings held	Attendance
1	Ms. Florence Bore	5	5
2	Mr. Michael Mwangi, MBS	5	4
3	Eng. Stanley Kamau	5	2
4	Mr. Kennedy Nyachiro	5	1
5	Dr. Stephen Njiru, EBS (Deceased)	5	1

Notes

Eng. Stanley Kamau retired on 2nd October, 2015 and was replaced by Mr. Kennedy Nyachiro.

REPORT FROM THE CHAIRPERSON OF TECHNICAL COMMITTEE

The Committee is comprised of the Chairman; three (3) non-executive Directors; the Company's Managing Director & CEO; representative of the Principal Secretary, Ministry of Energy & Petroleum and representative of the Principal Secretary, National Treasury. The Committee considers Management's proposals; provides oversight to Management and recommends to the Board on matters relating to GDC's strategic direction and technical services.

The committee held four (4) meetings which were attended as follows:-

	Name	Meetings held	Attendance
1	Dr. Stephen Njiru, EBS (Deceased)	5	4
2	Mr. Micahel Ogwapit	5	4
3	Ms. Florence Bore	5	5
4	Mr. Kennedy Nyachiro	5	1
5	Mr. Michael Mwangi, MBS	5	4
6	Ms. Caroline Karugu	5	2
7	Mr. Namada Simoni	5	2

Notes

Eng. Stanley Kamau retired on 2nd October 2015 and was replaced by Mr. Kennedy Nyachiro.

REPORT FROM THE CHAIRPERSON OF THE HUMAN RESOURCE COMMITTEE

The Board Human Resource Committee is made up of; Chairperson; three (3) Directors and Managing Director & CEO. The Human Resource committee is tasked with the responsibility of reviewing of Human Resource policies and recommending any amendments to the Board for approval; reviewing the terms and conditions of service for employees of the Company; reviewing recommendations for appointment, promotion, confirmation or termination of staff in job groups GD3 and above; handling disputes between Management and staff in Job groups GD3 and above; handling all other matters relating to staff and dealing with occupational, health and safety issues.

The committee held eleven (11) meetings which were attended as follows:

	Name	Meetings held	Attendance
1	Ms. Florence Bore	11	11
2	Mr. Michael Mwangi, MBS	11	10
3	Mr. Namada Simoni	11	9
4	Ms. Caroline Karugu	11	8
5	Dr. Stephen Njiru, EBS (Deceased)	11	6
6	Mr. Micahel Ogwapit	11	6
7	Mr. Kennedy Nyachiro	11	6
8	Eng. Stanley Kamau	11	2

Notes

1. Mr. Namada Simoni and Ms. Caroline Karugu were appointed on 2nd October 2015.
2. Eng. Stanley Kamau retired on 2nd October 2015 and was replaced by Mr. Kennedy Nyachiro.

REPORT FROM THE CHAIRPERSON OF THE FINANCE COMMITTEE

The Board Finance Committee is comprised of: the chairperson; three (3) independent Directors; Managing Director & CEO; representative of the Principal Secretary, Ministry of Energy & Petroleum, and representative of the Principal Secretary, the National Treasury.

The Committee considers all matters of financial strategy and policy, financial forecasts and annual budgets reviewing expenditures/procurements for the quarter and recommends to the Board on financial matters.

The committee held five (5) meetings which were attended as follows:-

	Name	Meetings	Attendance
1	Mr. Micahel Ogwapit	5	5
2	Mr. Michael Mwangi, MBS	5	4
3	Dr. Stephen Njiru, EBS (Deceased)	5	1
4	Eng. Stanley Kamau	5	1
5	Mr. Namada Simoni	5	2
6	Ms. Caroline Karugu	5	4
7	Mr. Kennedy Nyachiro	5	4

Notes

1. Mr. Namada Simoni and Ms. Caroline Karugu joined on 2nd October, 2015.
2. Eng. Stanley Kamau retired on 2nd October, 2015 and was replaced by Mr. Kennedy Nyachiro

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

CORPORATE SOCIAL *RESPONSIBILITY*

The Geothermal Development Company Limited continues to enjoy a healthy relationship with local communities. GDC works closely with host communities to ensure that amicable relationships are created and maintained for mutual benefit. Our support is guided by community felt needs identified through a participatory approach. Currently, GDC's interventions revolve around the areas of education, health, economic empowerment, environmental management as well as art, culture and sports.

Some of the activities GDC has undertaken for the benefit of host communities and the environment include:

ENVIRONMENTAL MANAGEMENT INITIATIVES

EDUCATION INITIATIVES

Donation of classroom construction materials at Kiamunyi Primary School

Education Career Fair at Nakuru High School

Education Career Fair

HEALTH INITIATIVES

Bahati Hospital Ambulance donated by GDC

H.E. Deputy President Hon. William Ruto, CBS commissioning the Bahati Hospital Ambulance

PROVISION OF WATER TO THE COMMUNITY

Community Water Services at the Baringo-Silali Project

SPORTS AND ARTS

GDC staff participating in H.E. the First Lady's Beyond Zero marathon

Mt. Suswa

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FINANCIAL REVIEW

- Directors' Report
- Statement of Directors' Responsibility
- Report of the Auditor General
- Financial Statements
- Notes

DIRECTORS' *REPORT*

The directors submit their report together with the audited financial statements for the year ended 30 June 2016, which disclose the state of affairs of the Company. The annual report and financial statements have been prepared in accordance with sections 147 to 163 of the repealed Companies Act - Cap 486, which remain in force under the transition rules contained in the Sixth Schedule, the Transitional and Saving Provisions of the Companies Act 2015.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Shs. 287,653,000 (2015: Shs. 1,603,927,000) 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 8

AUDITOR

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

By order of the Board

DIRECTOR

14th December 2016

STATEMENT OF DIRECTORS' *RESPONSIBILITY*

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

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

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

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

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

Approved by the board of directors on 14th December 2016 and signed on its behalf by:

Mr. Gershom Otachi
Chairman

Eng. Johnson P. Ole Nchoe
Managing Director & CEO

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON GEOTHERMAL DEVELOPMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Geothermal Development Company Limited set out on pages 12 to 42, which comprise the statement of financial position as at 30 June 2016, 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.

Directors' Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Geothermal Development Company Limited as at 30 June, 2016, 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 of the Laws of Kenya.

Other Matter

I draw attention to the following significant matters arising from the audit:

1. Corporation Tax and Related Penalties

GDC being a state corporation is required to comply with tax laws and other related regulations. Amongst others, it should remit taxes to Kenya Revenue Authority (KRA) as per the prescribed due dates. The statement of financial position as at 30 June 2016 reflects current tax liabilities of Kshs1,656,555,000 (2015 Kshs 724,236,000) Which includes a balance of Kshs. 1.4 billion, on account of unpaid corporate income tax for the financial year ending 30 June 2015 and quarterly instalments due as at 30 June 2016 of Kshs.724,236,000 and Kshs.675,764,000 respectively. A charge on revenue of Kshs.405,572,000 on account of penalties has been effected in this years' financial statements with the continued delay, the unpaid amounts continue to attract interest and penalties.

2. Procurement of Rig Move Services

As noted in the audit report for the financial year 2014/2015 , the Company entered into a rig move service contract on 4 May 2011, for twelve rig moves covering a period of one year at a rate of Kshs.19,550,000 (Nineteen Million five hundred and fifty thousand) per move of estimated 50 loads. The contract further provided, for prorated incremental charge levy where the loads per move exceeded 50 loads. The services were re-tendered in 2012 and re-awarded to the previous contractor with a contract date of 2 October 2012 for a period of two years or 40 rig moves on a need basis and at a price of Kshs.42,746,000 (forty two million, seven hundred and forty six thousand) per move estimated to constitute 100 loads.

Amongst other clauses, the new contract provided for: constant payout rate when the load is 100 loads or below but prorated incremental payment for loads exceeding 100; constant payout rate when the distance covered is 11 (eleven) kilometers or less but prorated incremental payment for distances exceeding 11 kilometers; and penalties on GDC in the event of delays occasioned by its staff at the rate of Kshs. 50,000 (fifty thousand) per truck and Kenya Shillings160,000 (one hundred and sixty thousand) per crane day but on the other hand, if the contractor was to cause the delays, it would only be liable to a penalty of

0.001% of the unit contract price, amounting to Kshs.427 (four hundred and twenty seven).

Further, and as reported in 2014/2015 financial year, the above contract has been under investigation by the Ethics and Anti-Corruption Commission (EACC) for possible irregularities. In consequence, the Company's management stopped usage of the contracted services, resulting in the contractor threatening to commence legal proceedings for breach of contract. At the time of concluding this audit, GDC issued notice to terminate the contract pursuant to contractual provisions Clause 19 vide a letter dated 13 September, 2016. Upon receipt of the termination notice, the contractor issued an invoice for Kshs.13,350,000 for works done and a claim for Kshs.1,025,904,000 on account of loss of revenue on the remaining 24 rig moves for which management has disputed. Subsequently and pursuant to the dispute resolution mechanism in the contract, the Management convened a meeting with the contractor with the aim of reaching an amicable resolution. Under the circumstances, it has not however been possible to ascertain the extent of the liability that may arise as a result of the contractor's claim on termination of the contract.

3. Vesting of Geothermal Wells Developed by KENGEN

As reported in prior years, included in the statement of financial position in assets exploration and evaluation figure of Kshs.24,853,442,000 are costs totaling Kshs.8,377,275,157 in regard to the drilling of 26 wells out of a total of 59 sunk using funds from the Government of Kenya. GDC in the year under review sold steam worth Kshs.3,160,664,000 (2015 Kshs. 2,534,774,000) from the 59 wells at Olkaria to KENGEN and recognized as revenue. However, as at 30 June 2016, only the cost of 26, out of the 59 wells have been recognized in these financial statements. The Government has authorized recognition of the 26 wells drilled in the Olkaria as assets in the GDC books of account pending completion of Government vesting procedures.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my audit, that;

(i) I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit;

(ii) In my opinion, proper books of account have been kept by the Company, so far as appears from my examination of those books; and

(iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

FCPA Edward R. O. Ouko, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

10 February 2017

STATEMENT OF COMPREHENSIVE *INCOME*

	Notes	2016 Shs'000	2015 Shs'000
		Year ended 30 June	
Revenue	5	3,160,664	2,534,774
Government grants	19	1,570,795	1,570,795
Other income	6	35,107	106,530
Administrative expenses	8	(1,561,905)	(1,685,850)
Other expenses	9	(1,701,295)	-
Operating profit		1,503,366	2,526,248
Finance income	7(a)	319	1,567
Finance costs	7(b)	(335,699)	(210,496)
Profit before tax		1,167,986	2,317,319
Income tax expense	11	(880,333)	(713,393)
Profit for the year		287,653	1,603,927
Other comprehensive income		-	-
Total comprehensive income for the year		287,653	1,603,927

STATEMENT OF FINANCIAL *POSITION*

	Notes	Year ended 30 June 2016 Shs'000	 2015 Shs'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	31,854,194	31,854,854
Exploration and evaluation asset	18	24,853,442	20,060,663
Intangible assets	19	25,522	73,319
Deferred income tax	16	69,163	17,177
		56,802,321	52,006,013
Current assets			
Inventories	11	3,969,484	4,078,487
Trade and other receivables	12	2,721,004	4,006,795
Cash and bank balances	13	2,251	2,700
		6,692,739	8,087,982
TOTAL ASSETS		63,495,060	60,093,995
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	22	2,000	2,000
Retained earnings		405,014	117,361
Total equity		407,014	119,361
Non- Current liabilities			
Capital grants	20	56,662,970	54,141,400
Current liabilities			
Borrowings	21	2,690,467	3,491,381
Trade and other payables	15	2,078,054	1,617,617
Current income tax		1,656,555	724,236
Total liabilities		63,088,046	59,974,634
TOTAL EQUITY AND LIABILITIES		63,495,060	60,093,995

The financial statements on pages 41 to 66 were approved for issue by the board of directors on 14th December 2016 and signed on its behalf by

Mr. Gershom O. Bw'Omanwa
Chairman

Eng. Johnson P. Ole Nchoe
Managing Director & CEO

STATEMENT OF CHANGES IN *EQUITY*

	Share Capital Shs'000	Retained Earnings Shs'000	Total Equity Shs'000
Year ended 30 June 2015			
At start of year	2,000	(1,486,566)	(1,484,566)
Total comprehensive income for the year	-	1,603,927	1,603,927
At end of year	2,000	117,361	119,361
Year ended 30 June 2016			
At start of year	2,000	117,361	119,361
Total comprehensive income for the year	-	287,653	287,653
At end of year	2,000	405,014	407,014

STATEMENT OF CASH *FLOWS*

	Notes	2016 Shs'000	2015 Shs'000
		Year ended 30 June	
Cash flows from operating activities			
Profit before tax		1,167,986	2,317,319
Adjustments:			
Depreciation of property, plant and equipment	8	912,766	916,284
Amortisation of intangible asset	19	21,509	24,648
Write off of abandoned and unproductive wells	18	876,845	-
Provision for impairment of Exploration & Evaluation asset	18	418,878	-
Amortisation of capital grants	20	(868,795)	(868,795)
Changes in working capital:			
- receivables		1,285,791	237,618
- inventories		109,003	(166,436)
- trade and other payables		460,437	544,204
Current income tax paid		-	(6,334)
Net cash generated from operating activities		4,384,420	2,998,508
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(2,036,277)	(4,082,805)
Expenditure on exploration and evaluation assets	18	(4,949,187)	(4,891,883)
Proceeds from disposal of property, plant and equipment	17	11,144	-
Net cash used in investing activities		(6,974,320)	(8,974,688)
Cash flows from financing activities			
Proceeds from grants	20	3,390,365	4,643,076
Net cash generated from financing activities		3,390,365	4,643,076
Net increase /(decrease) in cash and cash equivalents		800,465	(1,333,104)
Cash and cash equivalents at start of year		(3,488,681)	(2,155,577)
Cash and cash equivalents at end of year	14	(2,688,216)	(3,488,681)

1 General information

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

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

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

2 Summary of significant accounting policies

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

(a) Basis of Preparation

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

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

Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted.
The following standards and amendments have been applied by the company for the first time for the financial year beginning 1 July, 2015:

- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.

- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IFRS 16, Leases, Effective date - 1 January 2019. After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

(b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(c) Property, plant and equipment

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

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

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

The annual depreciation rates in use are:

Wells	6.67%
Drilling rigs	6.67%
Computers & Computer Accessories	33.33%
Plant & Machinery	12.5%
Furniture, fittings and Office equipment	20%
Motor Vehicles	20%
Prime Movers & Tractors	12.5%

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

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

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

(d) Exploration and evaluation assets

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

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

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

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

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

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

Once productive, geothermal wells will be capitalized in property, plant and equipment when connected and will be depreciated over their useful lives. The useful life is estimated to be fifteen (15) 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 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.

(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 a 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 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.

(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 scheme.

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

(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) Comparatives

Where necessary comparatives have been adjusted to conform to changes in presentation in the current year.

(r) Income tax

(i) Current income tax

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

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

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

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

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

3 Critical accounting estimates and judgements

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

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

(i) Useful lives of plant and equipment
The Company's management determines the estimated useful lives and related depreciation charges for its plant and equipment. The Company depreciates its assets over their estimated useful lives, as more fully described in the accounting policies for property, plant and equipment. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a degree of judgement 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.

(b) Critical accounting judgements
In the process of applying the Company's accounting policies, Directors have made the following judgements:

(i) Going concern
Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has resources to continue in business for the foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Moreover, being a state corporation, they are expected to continue receiving government support until the Company starts generating revenue. Therefore the financial statements continue to be prepared on the going concern basis.

(ii) Income taxes

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

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

(iii) 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

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

Management perform cash flow forecasting and monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unnecessary losses or risking damage to the Company's reputation. Surplus cash held by the Company, over and above the amounts required for working capital management are invested in interest bearing call accounts.

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

	2016 Shs'000	2015 Shs'000
Trade and other payables (Note 15)	2,078,054	1,617,617
Bank borrowings (Note 21)	2,028,067	2,119,654
Bank overdraft (Note 21)	662,400	1,371,727
	4,768,521	5,108,998

(b) *Credit risk*

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

The amount that best represents the Company's maximum exposure to credit risk at 30 June 2016 was made up as follows:

	2016 Shs'000	2015 Shs'000
Trade receivables (Note 13)	880,116	1,962,553
Other receivables (Note 13)	143,643	392,461
	1,023,759	2,355,014

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

(c) *Market risk*

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

(i) Foreign exchange risk

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

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

On 30th June 2016, 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 85,116,700 (2015: Shs 45,355,393) higher/lower, mainly as a result of US dollar denominated trade payables and bank balances.

On 30th June 2016, 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 8,917,854 (2015: 50,677,365) higher/lower, as a result of Euro denominated trade payables.

On 30th June 2016, if the Kenya Shilling had weakened/strengthened by 10% against the Great Britain Pound with all other variables held constant, there would have been no impact on the profit for the year (2015: 28,298) higher/lower, as a result of GBP denominated trade payables.

(ii) Price risk
The Company does not hold any financial instruments subject to price risk.

(iii) Cash flow and fair value interest rate risk
The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. The Company regularly monitors financing options available to ensure optimum interest rates are obtained. At 30 June 2016, the Company had short term borrowings at a variable rate at 91 days Treasury Bill rate (currently at 8.65% per annum) plus 1.5% margin per annum, with a floor rate of 11% pa (2015: 11% pa). The Company is therefore not subject to material fair value interest rate risk as the borrowings are short term.

On 30th June 2016, if interest rates had increased/ decreased by 100 basis points, profit for the year and equity would have been Shs 3,411,060 (2015: 3,603,900) higher/lower.

(d) Capital risk management
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may limit the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt. The Company is currently reliant on grants from its shareholder, the government of Kenya.

5 Revenue

GDC started generating revenue from sale of steam from Olkaria wells in 2015.

	2016 Shs'000	2015 Shs'000
Sale of steam	3,160,664	2,534,774
	3,160,664	2,534,774

6 Other income/ (loss)

	2016 Shs'000	2015 Shs'000
Consultancy services	33,653	11,895
Sale of tender documents	128	200
Miscellaneous income	8,187	24,752
Net foreign exchange (loss)/ gain	(6,861)	69,683
	35,107	106,530

7 (a) Finance income

	2016 Shs'000	2015 Shs'000
Interest income on bank deposits	319	1,567

7 (b) Finance Costs

	2016 Shs'000	2015 Shs'000
Interest expense on bank borrowings	335,699	210,496

8 Expenses by nature

	2016 Shs'000	2015 Shs'000
Employee benefits expense (Note 10)	425,034	460,430
Depreciation of property, plant & equipment (Note 17)	912,766	916,284
Director's remuneration (Note 24)	30,713	35,648
Amortisation of intangible assets (Note 19)	21,509	24,648
Accommodation and subsistence	13,702	21,252
Operating lease payments	5,503	10,452
Auditor's remuneration	4,500	4,300
Training and education	8,013	39,150
Transportation expenses	4,067	7,852
Fuel expenses	3,768	4,437
Provision for doubtful debts on receivables (consultancy services)	26,743	69,470
Tax assessment	-	23,590
ICT consumables	5,552	5,454
Advertising and publicity	1,901	5,479
Management consultancy	24,005	8,215
Other expenses	74,129	49,189
	1,561,905	1,685,850

9 Other operating expenses

	2016 Shs'000	2015 Shs'000
Penalties for non-payment of corporate tax	405,572	-
Write off of unproductive and abandoned wells	876,845	-
Impairment provision for 105MW Menengai project E&E asset (Note 18)	418,878	-
	1,701,295	-

10 Employee benefits expense

The following items are included within employee benefits expense

	2016 Shs'000	2015 Shs'000
Salaries and wages	395,814	421,428
Retirement benefits costs:		
- Defined contribution scheme	28,858	29,230
- National Social Security Fund	362	9,772
	425,034	460,430

11 Income tax expense

	2016 Shs'000	2015 Shs'000
Current income tax	932,319	730,570
Deferred income tax (Note 16)	(51,986)	(17,177)
Income tax expense	880,333	713,393
Profit before income tax	1,167,986	2,317,319
Tax calculated at the statutory income tax rate of 30% (2015: 30%)	350,396	695,196
Tax effects of:		
Expenses not deductible for tax purposes	570,611	40,915
Deferred income tax not recognized	-	-
Under provision of deferred income tax in prior years	(40,674)	(22,718)
Income tax expense	880,333	713,393

12 Inventories

	2016 Shs'000	2015 Shs'000
Drilling materials	3,498,507	3,255,691
Pipes	235,826	2,712
Fuel	78,664	37,032
Consumables	17,764	53,156
Inventories in transit	117,070	699,496
Total inventory held for exploration and evaluation activities	3,947,831	4,048,087
Other inventories	21,653	30,400
	3,969,484	4,078,487

13 Trade and other receivables

	2016	2015
Trade receivables-gross	1,096,607	2,032,300
Less: Provision for doubtful debts	(216,491)	(69,747)
Trade receivables-net	880,116	1,962,553
Net Value Added Tax (VAT) recoverable	1,679,188	1,628,237
Prepayments	18,057	23,544
Other receivables	143,643	392,461
	2,721,004	4,006,795

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

	2016 Shs'000	2015 Shs'000
At start of year	69,747	-
Provision in the year	146,744	(69,747)
At end of year	216,491	69,747

The fair value of other receivables approximates their carrying value.

Included in other receivables balance is a deposit of Shs 64,568,446 (2015: Shs 63,880,419) held with Development Bank of Kenya as a guarantee for staff car loans.

14 Cash and bank balances

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

	2016 Shs'000	2015 Shs'000
Short term bank loans	(2,028,067)	(2,119,654)
Bank overdraft (Note 20)	(662,400)	(1,371,727)
Cash at hand	2,251	2,700
	(2,688,216)	(3,488,681)

15 Trade and other payables

	2016 Shs'000	2015 Shs'000
Trade payables	682,844	733,837
Accrued expenses	437,188	473,934
Other payables	958,022	409,846
	2,078,054	1,617,617

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% (2015:30%). The movement of the deferred income tax account is as follows:

	2016 Shs'000	2015 Shs'000
At the beginning of year	17,177	-
Charge to income statement	51,986	17,177
At end of year	69,163	17,177

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

16 Deferred income tax *(continued)*

	1.7.2015 Shs'000	Charged/ (credited) to P&L Shs'000	30.6.2016 Shs'000
Deferred income tax liabilities			
Property, plant and equipment	4,824	(8,036)	(3,212)
	4,824	(8,036)	(3,212)
Deferred income tax assets			
Provisions	(42,338)	(14,207)	(56,545)
Unrealised exchange losses	20,337	(29,743)	(9,406)
	(22,001)	(43,950)	(65,951)
Net deferred income tax asset	(17,177)	(51,986)	(69,163)

	1.7.2014 Shs'000	Charged/ (credited) to P&L Shs'000	30.6.2015 Shs'000
Deferred income tax liabilities			
Property, plant and equipment	-	4,824	4,824
Unrealised exchange gains	(227)	227	-
	(227)	5,051	4,824
Deferred income tax assets			
Provisions	(23,713)	(17,951)	(41,664)
Interest payable	(1,710)	1,036	(674)
Unrealised exchange losses	2,932	17,405	20,337
	(22,491)	490	(22,001)
Net deferred income tax asset calculated	(22,718)	5,541	(17,177)
Deferred income tax asset not recognised	22,718	(22,718)	-
Net deferred income tax asset	-	(17,177)	(17,177)

NOTES *cont'd*

17 Property, plant and equipment

	Land & Buildings	Rigs and water supply infrastructure	Wells	Plant machinery, power substation, and equipment	Motor vehicles and equipment	Furniture, fittings	Work In Progress	Total
Year ended 30 June 2015								
Opening net book amount	114,775	9,323,772	-	828,147	985,835	146,360	4,724,814	16,123,703
Additions	-	13,379	-	47,094	14,534	26,223	3,981,575	4,082,805
Transfer from WIP	-	85,926		6,093	-	-	(92,019)	-
Capitalised wells (Note 17)	-	-	13,717,811	-	-	-	-	13,717,811
Depreciation:								
- charge to profit or loss	-	-	(868,795)	-	(6,788)	(40,701)	-	(916,284)
- capitalised to exploration and evaluation assets	(446)	(713,028)	-	(249,121)	(172,022)	(18,564)	-	(1,153,181)
Closing net book amount	114,329	8,710,049	12,849,016	632,213	821,559	113,318	8,614,370	31,854,854
At 30 June 2015								
Cost	115,795	11,344,560	13,717,811	1,379,861	1,445,455	362,132	8,614,370	36,979,984
Accumulated depreciation	(1,466)	(2,634,511)	(868,795)	(747,648)	(623,896)	(248,814)	-	(5,125,130)
Net book amount	114,329	8,710,049	12,849,016	632,213	821,559	113,318	8,614,370	31,854,854

17 Property, plant and equipment

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

18 Exploration and evaluation assets

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

	2016 Shs'000	2015 Shs'000
At start of year	20,060,663	27,706,360
Additions	6,088,502	6,072,114
Transfer to PPE (Olkaria Wells)	-	(13,717,811)
Write off of unproductive and abandoned wells	(876,845)	-
Provision for impairment	(418,878)	-
At end of year	24,853,442	20,060,663

The additions in the year comprise the following:

	2016 Shs'000	2015 Shs'000
Depreciation of plant and equipment (Note 17)	1,113,027	1,153,181
Amortisation of intangible assets (Note 19)	26,288	27,052
Staff cost capitalised	1,413,223	1,540,309
Drilling materials and consumables	3,535,964	3,351,572
	6,088,502	6,072,114

Impairment provision 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 2016 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 (25) years.

Impairment provision for 105MW Menengai project wells (continued)

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

Assumption	**2016**
Pre-tax discount rate	9.67%
Production Period	25 years
Sales volume	105 MW
Budgeted average gross margin	22%
Annual capital expenditure	USD 2.4 million
Annual resource decline rate	3%

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 expenditure.
Annual resource decline rate	Based on industry experience.

Based on the above assumptions, the carrying amount exceeded the recoverable value of the 105 MW Menengai project at 30 June 2016 by Shs 419 million. An impairment provision for this amount has been recognized in the financial statements.

19 Intangible assets

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

	2016 Shs'000	**2015 Shs'000**
Opening net book amount	73,319	125,019
Amortisation:		
Charge to profit or loss	(21,509)	(24,648)
Capitalised as exploration and evaluation assets	(26,288)	(27,052)
Closing net book amount	25,522	73,319
Cost	289,011	289,011
Accumulated amortisation	(263,489)	(215,692)
Net book amount	25,522	73,319

20 Government grants

	2016 Shs'000	2015 Shs'000
Revenue grants and amortisation of capital grants		
Revenue grants issued by Government of Kenya	702,000	702,000
Capital grants amortised	868,795	868,795
	1,570,795	1,570,795
Capital grants		
At start of year	54,141,400	50,367,119
Grants received in the year:		
- Grants from Government of Kenya	2,548,363	2,702,400
- Grants from European Investment Bank	69,031	-
- Grants from AfDB	772,971	1,544,873
- Grants from AFD	-	395,803
Total grants received in the year	3,390,365	4,643,076
GOK grant amortised (Olkaria wells)	(868,795)	(868,795)
	56,662,970	54,141,400

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 2016.

21 Borrowings

	2016 Shs'000	2015 Shs'000
Bank overdraft	662,400	1,371,727
Short term bank loans	2,028,067	2,119,654
	2,690,467	3,491,381

At 30 June 2016, the Company had an overdraft facility at 91 days Treasury Bill rate plus 1.5% margin per annum variable rate with a floor rate of 11% pa (2015: 11% pa). The unused overdraft facility at year end was Shs. 337,600,000.

Short term loans relate to a credit facility with Cooperative Bank of Kenya to finance imports through letters of credit.

22 Share capital

	Number of shares	Shs'000
Balance at 30 June 2015 and 30 June 2016	20,000	2,000

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

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

	Number of shares 2016	Number of shares 2015
Permanent Secretary to the National Treasury Patrick Nyoike (PS, Ministry of Energy & Petroleum),	19,999	19,999
In 2015 Eng. Joseph Njoroge, MBS (PS, Ministry of Energy & Petroleum)	1	1
	20,000	20,000

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

Capital commitments

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

	2016 Shs'000	2015 Shs'000
Authorized and contracted	12,895,027	11,754,674
Authorized but not contracted	1,215,000	-
	14,110,027	11,754,674

24 Related party transactions

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

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:

	2016 Shs'000	2015 Shs'000
Salaries and other short-term employment benefits	62,629	70,238

ii) Directors' remuneration

	2016 Shs'000	2015 Shs'000
Remuneration as management	6,714	13,093
Fees and allowances for services as director	30,713	35,648
	37,427	48,741

iii) Grants received in the year

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

NOTES

PROXY *FORM*

ANNUAL GENERAL MEETING OF THE GEOTHERMAL DEVELOPMENT COMPANY TO BE HELD ON 21ST MARCH, 2016

APPOINTMENT OF PROXY

I, ..., being a member of the above named Company, hereby appoint .... of .... as my Proxy to vote on my behalf at the Annual General Meeting of the Company to be held on the 21st day of March 2017 and any adjournment thereof.

Signed this .... Day of 2017


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