

Bhutan Power Corporation Limited



Year of Incorporation : 1st July 2002

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ANNUAL REPORT | 2008



BHUTAN POWER CORPORATION LIMITED

Meeting your energy needs

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Values of BPC

Achieving our Vision & Mission requires dedicated people who are bright, creative, and energetic, and who possess the following values:

- Integrity & honesty
- Care for customers and stakeholders
- Socially and environmentally conscious
- Taking on challenges

VISION

To be Customer Centric, Commercially Viable and Socially Conscious, and to contribute to the Socio-economic Development of the Country

Mission

To Transmit, Distribute and Supply Electricity within the Country, Wheel Electricity for Export, and practice Good Corporate Governance

“Electricity for All by 2013”



Departments





DISTRIBUTION & CUSTOMER SERVICES DEPARTMENT

The Distribution & Customer Services Department (DCSD) is responsible for providing adequate, reliable, good quality, safe and affordable electricity in a customer friendly and efficient manner, throughout the country. The DCSD has its offices, called Electricity Services Divisions (ESD), in all the 19 Dzongkhags except Gasa which is under the jurisdiction of the ESD Punakha presently.

The DCSD operates and maintains the distribution network (33 kV and below) and is responsible for making reliable power available to all customers. The distribution network consists of about 2,804 km of Medium Voltage (MV) lines (33, 11 and 6.6 kV) 6,233.13 km of Low Voltage (LV) lines (three phase 400 Volts and single phase 230 Volts), 1,883 distribution transformers, 19 mini/micro hydro power plants and 23 Diesel Generating (DG) sets. The

DCSD has 780 employees and caters to over 84,241 customers throughout the country. Besides Operation and Maintenance of the distribution network, the ESDs are also responsible for all customer services such as service release, meter reading, billing, handling of customer inquiries and complaints, etc. A no supply call center has been started in Thimphu to receive complaints from all customers within Bhutan, and this will help in serving our customers better.

Besides the 19 ESDs, two other offices- the Central Maintenance & Training Division (CMTD) in Begana, Thimphu which is responsible for providing training to our staff and providing technical support to ESDs and the Urban Electrification Division (UED) which is responsible for implementing improvement and up-gradation projects in urban areas.



TRANSMISSION DEPARTMENT



Roles and Responsibilities

Transmission Department is mandated to ensure reliable availability of transmission network for evacuation of electricity to domestic and export markets from various generating stations.

Important Events in 2008

- a) The 220/66/11kV Malbase Substation and the 66kV Multi Circuit Transmission line from Malbase to Pasakha which was constructed by Development and Construction Department were taken over on 22nd September 2008 by Transmission Department for O&M purpose.
- b) The Re-routing of 66kV Sementokha - Lobeysha transmission line at Dochula was completed.
- c) Carried out the Emergency Restoration works of 220kV Single Circuit Tower Location No.CS-72 & 66kV line tower location No. PC-121 which was damaged by landslide due to road widening works.
- c) Restoration Work of TKS-044 which was damaged by the explosive planted on the tower leg was completed.

Achievements for the year

The achievements of the Department for 2008 vis-a-vis the previous year are as follows:

Parameters	2004	2005	2006	2007	2008
SAIFI	20.57	5.2797	4.417	0.310	0.484
SAIDI	7.65	5.9384	2.885	0.104	0.149
RLIF	99.66	99.88	99.99	99.99	99.99

Current Activities

System Upgradation

Olakha substation is being upgraded from existing 2 x 5 MVA, 66/33/11 kV to 2 x 20 MVA, 66/33 kV. The work is being taken up by M/s. IPPL and shall be completed during 2009.

Leasing of OPGW

The work will be awarded for the replacement of Ground Wire with OPGW in the Eastern and Western Transmission grid to connect all the Dzongkhags wherever the grid connections are available during 2009.



TRANSMISSION DEPARTMENT

Other Works

The contract for the construction of staff quarters at Transmission Colony, Phuentsholing has been awarded and the drawings/approval are under way for the construction of staff quarter at Dechenchholing substation and for construction of Field hostel with conference hall at TMD, Gelephu.

Future plans

Transmission Department plans to augment the Semtokha substation.



DEVELOPMENT & CONSTRUCTION DEPARTMENT



The mandate of the Development & Construction Department (DCD) is to undertake power infrastructure expansion programs in line with the company's approved investment plan. Once the need and feasibility of the transmission project is established, DCD undertakes the projects right from preparation of technical specifications and tender documents till the project is commissioned. Typical activities that are carried out by DCD for any project cover the following:

1. Preparation of tender documents including technical specifications;
2. Tendering process and finalization of contract award;
3. Contractor's design and drawing approvals and clearance;
4. Construction supervision and quality assurance;
5. Project scheduling and monitoring; and
6. Supervision of commissioning and taking over.

DCD is currently involved in the following works/ activities:

1. Closing the projects for Establishment of power



supply arrangement for Pasakha Industrial Estate, covering 3 x 63 MVA, 220/66 kV Malbase Substation, 66 kV quadruple circuit from Malbase to Pasakha, 66 kV terminal gantry and 66 kV underground distribution at Pasakha. The substation was formerly inaugurated on November 9, 2008 by Lyonpo Khandu Wangchuk, Ministry of Economic Affairs.

2. Closing the projects for Extension of power supply to Tsirang and Dagana covering 200 kV Rurichhu - Tsirang transmission line, 2 x 5 MVA, 66/33 kV Substation at Tsirang and 33 kV Substation at Dagapela. The substation and transmission line was inaugurated by Lyonpo Om Pradhan, Chairman of Druk Holding & Investments on November 12, 2008.
3. Closing the projects for the construction of 132 kV Deothang – Rangia single circuit transmission line and Bay Extensions at Deothang and Rangia Substations
4. Construction of 132 kV Tingtibi – Yurmoo transmission line, 66 kV Yurmoo – Bumthang transmission line, 33 kV Substation at Trongsa & Bumthang and 66 kV Yurmoo – Trongsa tower line
5. Construction of 220 kV Dagachhu-Tsirang-Jigmiling-Lodrai transmission system. The contract for the 220 kV Dagachhu-Tsirang-Jigmiling-Lodrai Double Circuit transmission line was awarded on February 2, 2009. 220 kV Substation at Tsirang is expected to be awarded at the end of 2009.
6. Construction of 400 kV Punatsangchhu-I transmission system. Walk over survey for the transmission line has been completed. The work is expected to be awarded by October 2009.
7. Construction of 220 kV Malbase – Samtse transmission line. The work is expected to be awarded by end of 2009.



PROCUREMENT SERVICES DEPARTMENT

With a vision to procure the best value for goods and services in a timely, consistent and transparent manner, the department has carved for itself a niche in procurement function, inventory management and logistics and its roles are increasingly viewed as core functions of the Corporation instead of a mere support role. The vision in essence is the driving force that underpins all the department's goals, priorities, values and culture.

With the institutionalization of effective procurement system, the department's thrust is now on inventory management and control. With proper inventory management and control, non value adding costs in inventory could be curtailed translating into increased bottom line. Towards this effort, the department has in place Inventory Management System (Inventory Manual) outlining the policies and guidelines for inventory management and control. Familiarization training on inventory manual has also been conducted to all the focal persons of the corporation to ensure smooth implementation. The department has also come up with the procedure document for reviewing slow and non moving materials to preclude blockage of scarce funds in stores.

The year 2008 also saw a major achievement in the utilization of past RE project balance materials in planned works. As mandated by the Management, Procurement Service Department took over Rural Electrification project balance materials worth approximately Nu. 95 Million. After disbursements

for planned and deposit works the figure now stands approximately at Nu. 20 Million, which is a substantial utilization. With the current rate of consumption, the RE project balance materials are expected to be fully utilized by the current year end.

As a fully service oriented department, the department takes customer service seriously. And on the customer service front, the department conducted a satisfaction survey for vendors and users. The outcome of the survey has revealed the effectiveness of the departments' programs in achieving its vision and also the areas for improvement.

On-time delivery of materials to users is still a challenge on account of relatively long lead time, poor commitment from vendors and sometimes poor identification of needs. In order to ensure timely delivery, the department has come up with an innovative Vendor Performance Management System (VPMS), a framework for vendor relationship management and development. The VPMS views vendors from a new paradigm as an active partner with potential to add value to the BPC's procurement chain and vendors interested to build long-term relationships with BPC are encouraged. VPMS is also the first step towards the corporate strategic goal of building strategic alliance for sourcing of strategic critical materials.

The department initiated materials purchase for the Asian Development Bank and Japan International Co-operation Agency funded rural electrification projects. The materials handling and transportation activities for these projects of national importance is expected to be phenomenal. Nevertheless, the department has in place a well charted plan of action to ensure timely delivery of materials. As a part these two projects, the department has also taken up the construction of new regional stores division in Gelephu and Samdrupjongkhar each to cater materials to their respective regions.



RURAL ELECTRIFICATION DEPARTMENT



BPC is mandated to take up huge volume of rural electrification activities during the 10th FYP period to cover more than 40,000 households. The projects are being implemented through various sources of funding viz., the Japan International Cooperation Agency (JICA), the Asian Development Bank (ADB) for the JICA RE Project and ADB-IV RE project respectively, BPC for the Fill-in RE Projects and other agencies for the Accelerated Rural Electrification (ARE) Project. ARE project is the rural electrification earmarked for the 11th FYP which has been brought forward to the 10th FYP. While the Fill-in RE is being taken up by D&CSD, rest of the projects will be implemented by the Rural Electrification Department.

During the year 2008, the Rural Electrification Department (RED) completed preparation of the Bill of Materials for the two donor financed RE projects and enabled the Procurement Services Department (PSD) float tenders for procurement of materials and equipment for the Projects. It also carried out detailed survey of the distribution network in 19 Dzongkhags covering about 9000 households that is to be constructed under the Accelerated RE Project.

Having mandated to accelerate rural electrification at an unprecedented speed and vigor during the 10th FYP, and in order to work towards achieving the target, the Department enhanced its institutional and projects implementation capacities by ways of establishing additional offices in various locations, and deploying its field managers for training in Project Management abroad. Additional Divisional offices at three Dzongkhags viz., Samdrupjongkhar, Tsirang and Samtse were set up. In addition, seven more sub-divisions were established at Nganglam, Pemagatshel, Khaling, Trongsa, Tintibi, Dagapela and Dorokha as part of the move towards achieving the target of reaching 'electricity for all by 2013'.

For the purpose of easing the difficulties of transporting the project materials and hence, accelerating RE projects, RED in collaboration with the Consultant for the ADB's TA for Accelerated RE implemented a Pilot Project to test the applicability of such newer technologies as lighter and portable Steel Telescopic Poles, smaller sized Single Phase Transformers and 1-phase to 3-phase converter.





FINANCE AND ACCOUNTS DEPARTMENT

The endeavor of the Finance and Accounts Department is to make the Corporation a financially self-sustainable and profitable entity. Therefore, optimal and efficient use of resources; instituting appropriate management control systems; putting in place an appropriate budgeting system for judicious allocation of resources and reporting mechanisms for proper monitoring of performances; and ensuring proper check and balance in the functioning of the internal control systems are some of the important functions of the department.

Towards ensuring optimal and efficient use of resources, the Department is entrusted with the management and investment of the corporate fund, determining both the short term and long term financing requirement, addressing the adequacy of the working capital requirement, ensuring that the financial and contractual obligations and all the liabilities of the corporation are met and also ensuring that the corporate assets are utilized in an efficient and effective manner.

At the operational level, the Department is mandated

to ensure transparency in all its financial dealings; be accountable and responsible for all its financial and quasi-financial transactions including the statutory compliance; and to build professionalism and team spirit for efficient and effective operation for good corporate governance.

Towards achieving these objectives and to streamlining the Finance and Accounting function of the Corporation, the Finance and Accounts Department has finalized and is implementing the BPC Accounting Rules and Regulations 2009. Intensive training on the manual was imparted to Ninety Five Managers and Accounts Personnel of the corporation during 2008. The Finance and Accounts Department shall also be preparing the Budget Manual of the Corporation which shall be ready for implementation beginning financial year 2010.

Finance and Accounts Department also ensures that the reporting systems adopted conform to the best industry practices, so that financial information is reliable and useful for decision making purpose.



HUMAN RESOURCE & ADMINISTRATION DEPARTMENT



BPC has taken corporate governance seriously since the time of its inception and has recognized the importance of developing expertise and excellence of Human Resource and in building strong culture that reinforces dynamism, quality, professionalism and Productivity. During the year 2008, BPC has recruited 246 new employees from various backgrounds such as Engineering, Information Technology, Business Management, etc. At the same time 69 employees left the corporation due to completion of contract period, voluntary resignation, early retirement scheme, death, etc. The total strength of BPC at the end of 2008 was 1651.

The organizational culture of BPC emphasizes learning and everyone in BPC is motivated to excel in their individual capacities as team players. A culture that emphasizes performance, teamwork, leadership and social consciousness coupled with a strong training and performance management system are the hallmark of BPC. Thus, to fill the knowledge, skills and competency gap in the company, 14,409 man-days of training were imparted to employees on a regular basis both in-country and ex-country.

With its constant growth, BPC has revolutionized in its external environment and internal condition in the last few years. The goals of BPC's 10th Five Year Plan demanded a changed approach in making decisions, assigning responsibilities, allocating resources and managing performances. These emerging changes and prospective challenges provided impetus to initiate organizational restructuring of the company. Hence, Organizational Development Exercises has been initiated by BPC for maximizing Organizational Performance.

Human Resources and Administration Department endeavors to build excellent working environment to all our employees, as employees are the most significant asset of the company. As such, HRAD has initiated Employee Satisfaction Survey in November 2008 for the first time wherein all the employees were requested to fill in the survey form. The finding of the Survey Report indicates that 88.85% of BPC's employees are satisfied or very satisfied as a whole. The report shall be published in 2009 and accordingly HR strategies shall be formulated to address key HR weakness area.





BOARD OF DIRECTORS WITH EXECUTIVES FROM DRUK HOLDING AND INVESTMENTS



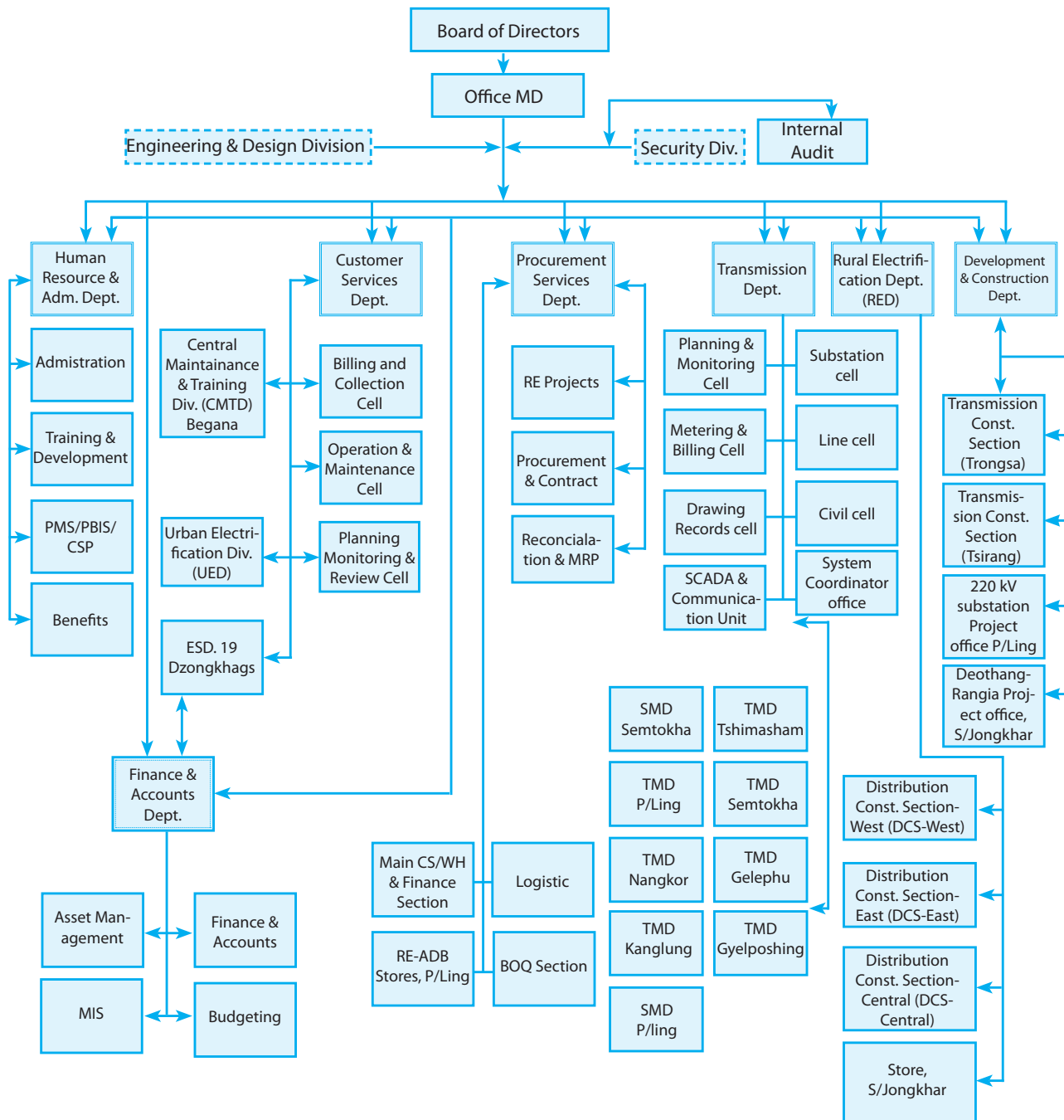
Standing Left to right

- 1** SONAM LHUNDRUP, Company Secretary, DHI
- 2** CHHEWANG RINZIN, Managing Director, DGPC
- 3** BHARAT TAMANG, Managing Director
- 4** KARMA DUKPA, Director, Department of Forest
- 5** PHUB TSHERING, Secretary General, BCCI

Sitting from left to Right

- 6** KUNZANG LHAMU, Director, RED, GNHC
- 7** YESHEY WANGDI, Director General, DoE, Chairman
- 8** KARMA YONTEN, CEO, DHI

ORGANOGRAM





MANAGEMENT TEAM



Standing from Left to right

- 1** KINLAY DORJEE, General Manager
Distribution & Customer Services Department
- 2** NIMA DORJI, Offtg. General Manager,
Transmission Department
- 3** J.D. SHARMA, General Manager, Engineering,
Design and Contract Department
- 4** SONAM TOBJEY, General Manager,
Finance and Accounts Department
- 5** MR. KARMA WANGCHUK TAMANG,
Offtg. General Manager, Procurement Services Department

Sitting from Left to Right

- 6** CHHOMO. D. RINCHEN, General Manager, Human
Resource & Administration Department
- 7** BHARAT TAMANG, Managing Director
- 8** GEM TSHERING, Executive Director, Development
and Construction Department
- 9** GYELTSHEN WANGDI, General Manager,
Rural Electrification Department.

DIRECTORS' REPORT



DIRECTOR'S REPORT ON THE PERFORMANCE OF BHUTAN POWER CORPORATION LIMITED

(1st January -31st December, 2008)

On behalf of the Board of Directors of the Bhutan Power Corporation Limited, I am pleased to present this report on the performance of the Corporation for the period 1st January 2008 to 31st December 2008.

The report includes overviews on the year's audited accounts and financial statements, performance based management system, operations and maintenance, expansion programs and the numerous management initiatives undertaken to consistently improve the performance of the Corporation and provide better services to its customers.

The performance of the Corporation with respect to profitability has improved as compared to the previous years. The company made a profit for the third consecutive year. The profitability trend of the company for the past four years is shown below:

Financial Year Ending	Profit before Tax (Nu. Million)
Dec,05	-129.971
Dec,06	269.139
Dec,07	573.148
Dec,08	927.127

ACHIEVEMENTS WITH RESPECT TO COMPACT SIGNED WITH DHI

As required by the holding company, Druk Holding and Investments Ltd., a Compact was signed with DHI which contains the targets for BPC and major activities to be taken up by BPC during the year.

For 2008, BPC has achieved most of its commitments, particularly on the major projects that BPC was undertaking. BPC has completed the substation works in Malbase to provide power to industries in the Pasakha Industrial Estate and also made grid power available in the four Dzongkhags of Bumthang, Trongsa, Tsirang and Dagana.

The Rural Electrification (RE) projects are also well on track and tendering formalities for the procurement of goods are as per schedule. It is anticipated that the JICA and ADB funded RE works will be completed as per schedule.

A total of 6,808 new customers have been added to BPC's existing customer base taking the total to 84,241 customers.

Financially, BPC has exceeded its profit targets although it did not meet its revenue targets due to the delay in



DIRECTORS' REPORT

drawal of power by High Voltage (HV) industries in the Pasakha Industrial estate. Some industries have also temporarily shut down due to the global economic downturn. The other key Compact targets and achievement of BPC with respect to these targets have been reported under the section on Performance Based Incentive System of this report.

AUDIT AND ACCOUNTS

The accounts of BPC for the period 1st January to 31st December 2008 was audited by the Statutory Auditors of the Corporation, M/s N.C. Mitra & Company of Kolkata, for the third consecutive year. The financial performance of BPC this year increased substantially as compared to last year. The Gross Profit ratio improved from 48 % to 54 % as compared to the previous year. This has resulted from the enhancement of revenue as compared to the operational expenses.

The revenue from the sale of electricity grew by 32% to Nu 1,572.250 million from Nu 1,193.792 million as compared to 2007. The corresponding sale of energy increased to 1,072.438 MU from 902.466 MU in 2007. The internal generation of power from company owned micro and mini hydropower stations increased to 22.824 MU from 21.200 MU in 2007. However, energy from diesel generating sets saw a decrease to 1.236 MU from 1.655 MU during the previous year. The decrease has been on account of extending grid supply to Lhamoizingkha under Sarpang Dzongkhag and to Trongsa and Bumthang Dzongkhags during the later part of the year. The increase in the electricity revenue is also due to the average electricity tariff revision of 10 % effective from 1st July 2008. The weighted tariff for the year increased to Nu 1.455 per unit from Nu 1.31 per unit in 2007.

On the energy purchase side, the quantity purchased during the year increased to 1,127.597 MU as compared to 950.172 MU for the year 2007. The increase is on account of growth in the Industrial Load, which was projected as 1367.89 MU for the year. The projected growth of consumption by industries did not take place due to non-drawal of power as per their contracted demand by the high voltage industrial customers based in Pasakha industrial estate. The growth in the domestic consumption is minimal at 1072.44 MU from last year's 902.46 MU.

The quantitative figures for purchase and sale of power as compared to that of 2007 are summarized below:

	2008		2007	
	Units (MU)	Amount (Nu.)	Units (MU)	Amount (Nu.)
Purchase	1,127.597	457.506	950.172	422.333
Hydel Generation	22.824		21.199	
Diesel Generation	1.236		1.655	
Total Supply	1,151.657		973.027	
Total Sale	1,072.439	1,560.570	902.466	1,183.325

During the year, BPC wheeled 5,922 MU as compared to 4,531.988 MU of the previous year from Chukha, Tala

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and Kurichhu hydro generating plants for export to India. Consequently, the revenue earnings from wheeling increased to Nu 740.297 million from Nu 566.652 million of the previous year. The growth in the energy wheeled is about 31% and is attributable to the export of energy from Tala Hydroelectric Project for the full 2008 year as compared to six months for the previous year.

The growth trend in the energy wheeled over the years is tabulated below:

Financial Year	2008	2007	2006	2005
Energy Wheeled (MU)	5,922	4,532	2,027	1,777

On the whole, the revenue of BPC grew by 33.80 % with the total revenue earning of Nu 2,388.702 million as against the revenue earning of Nu 1,785.235 in 2007. There has also been a growth in revenue earnings from other sources mainly on account of the interest earned on fixed deposit reserves, collection of liquidity damage charges imposed for late completion of contract works and the revenue grant (diesel subsidy for Panbang) received from RGoB during the year. On the expenditure side, the overall expenses increased from Nu 926.052 million in 2007 to Nu 1,093.611 million during the year. The increase in expenditure is about 18.09% as compared to the previous year. At an individual level, the expenditure increase on account of purchase of power was 8.33%, the employee costs increased by 14.23% (due to intake of additional man power during the year), operation and maintenance increased by 6.2% and administrative expenses increased by 9.3%.

The interest payment on Loan increased from Nu 23.913 million in 2007 to 121.176 million during the year. The increase is on account of interest on RE –II Loan attracting 6% interest starting from this year. Till last year, the RE-II loan was under grace period. Further, interest on the Tala transmission asset loan amounting to Nu 70.554 million became due starting from financial year 2008.

The current expenditure of Construction Department and Units has been capitalized as part of project's overhead costs since the financial year 2006. Such costs amounting to Nu 31.592 million have been charged to capital works during the year as well.

BPC made a profit of Nu 1,295.091 million before depreciation expenses. The increase in the profitability is about 50.74 % as compared to last year. The net profit after depreciation is Nu 927.127 million. The Corporate Income Tax for the year is provisionally assessed at Nu 242.074 million. The company also paid excess tax assessed for the earlier years right from incorporation amounting to Nu 15.441 million. The Company therefore made a profit after tax of Nu 669.612 million for the year. From this profit, a dividend of Nu 151.22 million has been proposed for the year. The dividend payment is 51.22 % higher from the dividend of Nu 100 million paid during 2007. An amount of Nu 22.460 million has also been transferred to Insurance Reserve. With these appropriations of profit, the company will be retaining Nu 495.932 million for funding the capital infrastructure works.



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The Profit and Loss Account for the year is as under:

	2008 Amount (Nu. in Million)	2007 Amount (Nu. in Million)
INCOME		
Electricity Revenue	1,572.250	1,193.792
Wheeling	740.297	566.652
Other Revenue	76.156	24.791
Total	2,388.702	1,785.235
EXPENDITURE		
Purchase of Power	457.506	422.333
Employee Cost	370.334	323.252
Operation and Maintenance Expense	127.321	119.811
Administration and Other Expenses	36.013	34.179
Finance Charges	121.176	23.913
Prior period adjustments	(18.739)	2.565
Total	1,093.611	926.052
Profit before Depreciation	1,295.091	859.183
Depreciation	367.964	286.028
Profit/(Loss) after Depreciation	927.127	573.155
Provision for Tax	242.074	117.538
Excess assessed Tax for earlier years	15.441	-
Profit (Loss) after tax	669.612	455.617
Proposed Dividend	151.220	100.000
Transfer to Insurance Reserve	22.460	22.748
Profit (Loss) for the period	495.932	332.869
Balance brought forward	376.148	43.279
Balance carried to Balance Sheet	872.080	376.148

The Company has also prepared the financial reporting by line of business as supplementary information. The profitability of the Corporation by its three core business functions are given below.

	Generation	Transmission	Distribution	Others	Total
REVENUE	-	740.30	1,572.25	76.16	2,388.70
EXPENDITURES	40.58	199.95	708.74	144.34	1,093.61
PROFIT	(40.58)	540.35	863.51	(68.19)	1,295.09

With regard to capital works undertaken during the year, the Corporation has spent Nu 984 million. The company has completed some of the major Transmission works during the year and has added assets worth Nu 1,745 million. The asset addition also includes the amount spent during the previous years and Nu 536 million is still under Capital Works in Progress.

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The main asset additions were from the following works:

Works	Amount (Nu. in Million)
220 kV Substation at Malbase	526.543
220 kV Rurichu -Trongsa Transmission Line and Substations	663.942
132/33 kV Tingtibi-Trongsa-Bumthang Lines	232.426
RE Works	94.649,
Distribution Asset of ESD	81.575
	1,599.134*

*The balance asset addition of Nu. 146 Million were from miscellaneous capital procurement such as land, building, office equipment, computers, vehicles, electrical equipment, tools etc.

The main source of cash for meeting the expenses of the corporation during the year has come from its own operations. However, BPC received equity contribution/grant of Nu 485.886 million from RGoB for RE and Transmission expansion works. The Corporation also received a diesel subsidy of Nu 8 million for Panbang Dungkhag and Nu 0.831 million for ADB Pilot Study for RE on Telescopic Poles.

The Corporation has taken a new Loan through JICA during the year for Rural Electrification works. An amount of Nu 6.041 million worth of JICA loan has been spent for pre-award of RE consultancy works.

During the year, the cash inflow from operations increased by Nu 278.466 million from the previous year. The increased inflow was attributable to the growth in revenue income of the company. The Corporation's net cash inflow increased by Nu 356.350 million as compared to the negative inflow of Nu 235.662 million in the previous year. The cash balance as on 31.12.2008 stands at Nu 1,159.052 million as compared to Nu 802.702 million of the previous year. BPC has therefore, adequate cash resources and working capital at present to service its debts, meet its current liabilities and all of its capital commitments during 2009.

Performance Based Incentive System

The concept of Performance Based Incentive System (PBIS), which was introduced in the year 2006 is an integral part of the corporation's performance management system. The performance parameters and targets for 2008 were finalized as presented in the PBIS 2008 document.

The main focus of the PBIS, as always, is to ensure that the levels of past achievement which have already



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reached the ceiling are maintained and targets for other performance indicators which have scope of improvement are raised to reasonable levels. Non-achievement of any of the performance parameters which have reached the ceiling in the past years is reflected in the respective unit's performance by reducing the overall achievement of the unit by 25% in 2008.

The Compact targets have also been included in the PBIS Targets 2008. The evaluation of the performance and achievements for the year was carried out in line with the procedures enumerated in the PBIS-2008 document. The Corporation has fully achieved targets for parameters such as the profit and system losses and the achievement of other targets were prorated according to the level of achievement.

Table 1: Corporate Targets				
Sl. No.	Parameter	Target	Weightage	Measure
1.	Profit	Nu 768 million	25%	Prorated 576 m to 768 m
2.	Capital Works	As per DCD, TD and UED schedules	35%	70%, 20% and 10% for capital works of DCD, TD and UED respectively.
3.	Reliability SAIFI SAIDI	7 14 hrs	15% 5% 10%	Prorated 12 to 7 Prorated 20 to 14 hrs
4.	System Losses	1.30%	15%	Within limit full score; otherwise zero
5.	Budgetary Control (Current)	72.709 m	10%	Within limit full score; otherwise zero score

BPC follows a stringent procedure while setting the targets for the PBIS so that the targets of parameters do not become easily achievable. For instance, the overall reliability figures of SAIFI (interruptions per customer per year) and SAIDI (hours per customer per year), were targeted at 7 for SAIFI and 14 hrs for SAIDI during the year. While the target for SAIFI (6.544) has thus been fully achieved, the achievement against SAIDI worked out to be 14.713 only.

BPC has also scored in other important areas such as the profit parameter and the system losses. The profit from audited accounts for 2008 is Nu 927 million, which is higher than the targeted value of Nu 768 million, resulting in full score against this parameter. In terms of system losses, the total energy received by the system during the year 2008 was 7074.033 MU and the total utilization of energy (internal sales plus the energy wheeled) was 6994.815 MU. Thus the global loss in the system works out to 1.12% against the target of 1.30%.

It is a priority for BPC to ensure that the system performance is not endangered due to inadequate resource mobilizations and therefore full resource support is made available for the operation and maintenance of the

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system, while strict monitoring of the controllable costs ensures that BPC does not overspend its controllable current budget. Since the inception of the PBIS, the trend has been that the actual expenditure under the controllable current budget is lower than the budget. For this year, the actual expenditure under controllable current budget is Nu. 55.767 million, against the budgetary provision of Nu 72.709 million, which resulted in a full score against this parameter.

Operation and Maintenance

BPC continuously strives to provide safe reliable and efficient power supply to all its consumers by improving and expanding its service infrastructure and carrying out systematic system up-gradation in a timely manner, both at the transmission and distribution levels. The Corporation is also responsible for a reliable transmission network for the evacuation of electricity from the various generating stations to domestic and export markets. In its endeavor to improve supply reliability and supplement growing domestic power demand, Chumey power supply was successfully synchronized to the Eastern Grid to enable injection of unutilized power to the grid. Construction of 33/11 kV Substation at Chenary along with installation of 11 kV breakers and replacement of 33 kV breakers at Rangjung power house was taken up on priority to mitigate the poor power reliability under Trashingang Dzongkhag. Similarly, a DG set installed at Panbang will light up houses otherwise deprived of electricity. Electricity Services Division (ESD) office established at Zhemgang will help deliver better and faster service to customers in Zhemgang Dzongkhag. Service Centers manned with multitasking personnel are now available in all Dzongkhags for providing prompt service whenever required. During the special occasion of Centenary & Coronation Celebration, BPC was successful in providing uninterrupted power supply in all Dzongkhags for which BPC officials were commended by the Government with award of medals.

On the distribution and customer services front, BPC conducted a customer satisfaction (CS) survey through the College of Science and Technology in order to evaluate and improve its service quality. The survey, carried out in 2008, depicted that a majority of its customers were satisfied with the services of BPC. Considering the hazards associated with use of electricity, the Corporation practices high safety and construction standards. Extensive awareness campaigns were carried out during the year to educate and inform the general public of the risks associated with electricity and its usage. Wherever possible, BPC also assists the implementation of power infrastructure installation for other agencies on deposit work basis, in order to maintain the quality of works. The preliminary construction power supply to the Punatshangchu Project which is completed and the construction power supply to the Dagachhu Project, which is under progress, are examples of deposit works executed by BPC.

At the transmission level, the operations of the 220/66/11kV Malbase substation and the 66kV Multi circuit transmission line from Malbase–Pasakha started after completion of the construction of these two projects on September 22, 2008. BPC also undertook the re-routing work of 66kV Semtokha - Lobeysa line passing through the Druk Wangyel Lhakhang, Dochula in order to improve the aesthetic look of the pass. In order to enhance the capacity of supply to meet the growing load of the capital, the construction of 2 x 20 MVA, 66/33kV substation at Olakha was commenced by M/s Indo Power Projects Limited. The Corporation plans to augment the 220/66 kV Semtokha substation and replace the Ground Wire with OPGW in the Eastern and Western Transmission grid to provide ICT connectivity to all the Dzongkhags through its transmission lines.



DIRECTORS' REPORT

Power System Expansion Programs

Expansion of the existing electrical grid network is an important mandate of BPC in order to reach electricity to all parts of the country. Construction of 220/66/11 kV Substation at Malbase along with 66 kV terminal gantry and 66 kV underground distribution at Pasakha was completed in September 2007 while the 3rd bay transformer was installed in August 2008. The construction of 66 kV quadruple circuit line was completed in March 2008. The Malbase substation was formerly inaugurated by H.E. Lyonpo Khandu Wangchuk, Ministry of Economic Affairs on December 9, 2008. The project was completed at an overall cost of Nu. 558.407 million.

The construction of 220 kV Rurichhu-Tsirang transmission line along with 66 kV substation at Tsirang and 33 kV substation at Dagapela has been completed and charged on November 10, 2008. The substations and transmission line were formerly inaugurated by H.E. Lyonpo Om Pradhan, Chairman of DHI on December 12, 2008. The project was completed at a cost of Nu. 623.604 million (including the construction of infrastructures at Tsirang and Dagapela).

The construction of 132 kV Deothang – Rangia transmission line along with bay extensions was financed through a grant of Nu. 312.7 million from the Government of India. The work was awarded to POWERGRID of India for the construction on turnkey basis. The section of line in the Bhutanese territory was completed and commissioned in January 2007 while the section of line in the Indian territory and bay extensions at Rangia were completed by May 2008.

The construction of 132 kV Tingtibi-Yurmoo, 66 kV Yurmoo-Bumthang and 132 kV Yurmoo-Trongsa lines has been funded through GoI grant assistance. The 132 kV Tingtibi -Yurmoo and Yurmoo - Trongsa lines have been completed and charged in October 2008. The progress of the 66 kV Yurmoo-Bumthang line is 69% and the line is targeted for completion by April 2009. The construction of 132 kV Yurmoo-Trongsa line and 33 kV substations at Trongsa and Bumthang have been awarded to POWERGRID as deposit works. The progress of the substations is 50% and targeted for completion by May 2009.

Human Resource Development and Management

BPC gives utmost importance to developing the professional skills and expertise of its human resource. With the growing importance of human capital in driving modern business operations, BPC is committed to building a strong human resource and infuse a work culture that brings out dynamism, quality, professionalism and productivity in the organization. Thus, for the continuous development of the human resource, BPC had conducted a total of 14,409 man-days long term and short term training during the year. In order to cope up with the increased transmission expansion and RE works, the year 2008 saw BPC recruiting a total of 246 employees for engineering, finance & accounts and Information Technology services. BPC has a total of 1651 regular employees as of 2008.

To meet the growing challenges and tasks of providing electricity for all by 2013 as well as expansion of the Power Transmission grid network for the evacuation of power from the envisaged 10,000 MW capacity hydro generation plants to major load centres, an Organizational Development exercise has been initiated by BPC for

DIRECTORS' REPORT



development of an efficient organization with proper manning structure to implement and operate the various power transmission and distribution infrastructure projects and programmes initiated by the Royal Government.

The management of BPC believes in leveraging and garnering employees' team work in driving the company forward. It is the employees who play a key role in providing timely and quality electricity services and customer care to BPC's valued customers spread over the 20 Dzongkhags and also in taking care of the Company's physical assets for optimal performance and utilization. Employee satisfaction is therefore of paramount importance in BPC. Accordingly, an employment satisfaction survey was conducted for the first time in November 2008 where all the employees were asked to respond by filling in the survey questionnaire. The Survey Report indicates that 88.85% of BPC's employees are well satisfied in the company. The Survey Report shall be used to improve the HR strategies aimed towards enhancement of motivation level of employees, and build conducive work atmosphere so as to get optimal output from the employees.

Procurement Services of BPC

Centralized procurement services play an important role in BPC in standardizing machineries, equipment, spares and services in BPC's transmission and distribution system that is spread over the country. With a centralized procurement system in place, efforts are now being focused on Inventory Management and Control. An Inventory Management System (Inventory Manual) outlining the policies and guidelines for inventory management and control will be put in place from 2009. Another important review conducted in 2008 was the procedures and guidelines for slow and non moving materials to ensure that funds were not being blocked at the BPC stores. The current asset inventory of BPC could be reduced to Nu 318 million in 2008 from Nu 412 million in 2007.

A major achievement in 2008 was the utilization of Rural Electrification (RE) balance materials. The balance materials, worth Nu 95 million were substantially reduced to Nu. 20 million, through disbursement for deposit and planned works of BPC and are expected to be fully utilized by the end of 2009. With this BPC would be in a better position to streamline and optimize the inventory management practice in its main stores.

In order to ensure timely delivery of materials to the user departments, an innovative Vendor Performance Management System (VPMS), a framework for vendor relationship management and development, has been devised. The VPMS is the first of its kind, which encourages vendors who intend to build long-term relationships with BPC and is a first step towards the corporate strategic goal of building strategic alliance for sourcing strategic security materials.

Currently, BPC is involved in the material purchase and delivery through international bidding for the ADB-IV and JICA funded RE projects, which are of national importance in order to achieve the target of "Electricity for all by 2013."

Engineering, Design and Contract Services

The primary objective of the Engineering, Design and Contract Services in BPC is to make the Corporation self-reliant in all engineering and design aspects. Owing to the need to develop in-house technical and engineering



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capacity of BPC and provide technical support to the other Departments, the Engineering and Design Division in BPC was upgraded to the Engineering, Design and Contracts Department.

The in-house expertise has already been used to carry out the drawing and design for the Construction of 66/33kV Substation at Olakha and 33/11kV Substation at Wamrong & Chenary. The Staff quarters, Transit Camps & Office buildings and the plinth areas have been standardized. The Electrical Schedule of Rates for distribution lines, pole mounted substations and underground lines have been revised.

Detailed surveys of the new transmission lines, realignment of transmission lines and topological survey of ESD colonies and RE stores at various locations were undertaken. The Medium Voltage (MV) and Low Voltage (LV) network under 20 Districts were mapped in GIS. The environmental clearances for Rural Electrification Project of 10 FYP were obtained and the Environmental Impact Assessment (EIA) of new hydropower projects is on-going. Besides this, the Engineering and Design Services have been involved in power system studies, load sanctioning to industries, and load and revenue projections.

BPC plans to design 220 kV transmission lines from Dagana-Tsirang-Gelephu without the dependency on external consultancies.

Information and Technology Services

The IT services in BPC have implemented spot billing in seven Electricity Services Divisions and four sub-divisions. A Bar code feature in the collection module of BPC and an online billing system in the BPC website have been installed.

Future plans for the IT services include the implementation of spot billing and collection in all the Dzongkhags, the integration of an Enterprise Resource Planning (ERP) into the BPC system and setting up Data Centre in the corporate building, Thimphu.

Other Management Initiatives

BPC has obtained an ICT Facility License in July 1, 2007. The power transmission and distribution infrastructure provides reliable and cost-effective 'Right of Way' (RoW) for optical fibers and other ICT infrastructure. In consideration of the increasing role that BPC can play for facilitating the growth of ICT services in the country, resources and manpower have been specifically allocated for this purpose and a new division for ICT services, InfoComm Services Division (ICSD), has been formed in BPC.

The immediate works being undertaken by this Division are:

- i. The replacement of the conventional ground wire by Optical Ground Wire (OPGW). At the end of this project, all district headquarters will have reliable optical fiber connectivity.
- ii. To optimize on the usage of optical fibers and to

DIRECTORS' REPORT



cater to businesses which require lesser band width, Optical terminal equipment will be installed in the existing High Voltage substations.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to commend the management team and all employees of BPC for the achievements made during the year. The achievements show the commitment and hard work displayed by the employees of the Corporation. The Board would also like to take this opportunity to thank the Statutory Auditors M/s N.C. Mitra & Co., Chartered Accountants from Kolkata who had audited the BPC books of accounts for the past three years successfully.

With the ever changing scenario of business and enhanced business targets, BPC is bracing up to meet the challenges by carrying out corresponding internal organizational changes and adoption of modern business strategies. The main challenge that BPC faces now is to gear up for the implementation of Transmission and Rural Electrification projects during the 10th FYP, which would have a huge impact on the socio-economic development of the country. A major target for the corporation is the achievement of "Electricity for all by 2013". Though the target poses huge challenges, BPC is fully committed to realize this noble objective set by the government by following a well charted implementation plan.

The Board has full confidence that, with under the able leadership of Mr. Bharat Tamang, Managing Director and continued dedicated hard work of its employees, BPC would continue to grow and contribute to the socio-economic development of the country. Towards this, the Board would like to assure its full support to the management.

Tashi Delek

For and on behalf of the Board

Yeshe Wangdi
(Chairman)



AUDITORS' REPORT

TO THE MEMBERS OF BHUTAN POWER CORPORATION LIMITED

1. We have audited the attached Balance Sheet of M/s Bhutan Power Corporation Limited as at 31st December, 2008 and the related Profit & Loss Account and Cash Flow statement of the Corporation for the year ended on that date annexed thereto all of which we have signed under reference to this report. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the generally accepted auditing standards and in keeping with the "General Terms of Reference and Minimum Audit Examination and reporting Requirements" issued by the Royal Audit Authority, as given in Schedule XIV of the Companies Act of The Kingdom of Bhutan, 2000. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes

examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II schedule XIV thereto (the Minimum Audit Examination and reporting requirements) we enclose in the Annexure a statement on the matters specified therein to the extent applicable.

4. We report that:

4.1 Our examination was made in accordance with the generally accepted accounting standards and accordingly included such tests of accounting records and such other auditing procedures as we considered appropriate for the purpose of our audit.

4.2 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

4.3 In our opinion proper books of account as required by law have been kept by the Corporation so far as appears from our examination of the books.

4.4 The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt within this report have been prepared



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on the basis of generally accepted accounting principles and that the financial statements are in agreement with the books of account.

4.5 The management has carried out physical verification of fixed assets in 2008 for 9 Units and the report is pending for finalization. Provision of losses which may arise out of impairment or any other discrepancies has not been made in the accounts.

4.6 The discrepancies noticed in physical verification of stocks as compared to book records have been adjusted in the books of account as follows.

(a) Excess of Nu 30,274,923 has been transferred to Capital Reserve Account.

(b) Shortage of Nu 23,169,502 has been written off.

5 In our opinion and to the best of our information and according to the explanations given to us and subject to our comments in para 4.5 and 4.6 above, the said accounts together with schedules, significant accounting policies and notes on accounts give the information as required by the Companies Act of the Kingdom of Bhutan, 2000, in the manner so required and give a true and fair view:-

a) In the case of Balance Sheet, of the state of affairs as at 31st December 2008 and

b) In the case of Profit and Loss Account of the Corporation's profit for the year ended on that date and

c) In the case of the Cash Flow Statement, of the movement of cash during the year ended on that date.

The 17th March 2009

Place: Kolkata

For N.C.Mitra & Co.
Chartered Accountants

(U.K.Basu)
Partner





ANNEXURE

ANNEXURE REFERRED TO OUR AUDIT REPORT OF EVEN DATE MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENT

- 1.1 The Corporation has maintained proper records to show the full particulars including quantitative details of the fixed assets.

The Corporation carries out physical verification of fixed assets on rotational basis and during this year , assets of 9 Units have been verified. However, the report is pending for finalization. Provision of losses which may arise out of impairment or any other discrepancies has not been made in the accounts.

- 1.2 None of the fixed assets have been revalued during the year.

- 1.3 The physical verification of stores and spares at Central Stores and R.E Stores, Phuentsholing were conducted in the year.

Independent physical verification of stores and spares in other units have been conducted.

As the Corporation is engaged in transmission and distribution of electricity, the question of physical verification of finished goods and raw materials does not arise.

- 1.4 In our opinion and according to information and explanation given to us, the procedures of physical verification of stock followed by the management are adequate in relation to the size of the Corporation and the nature of its business.

Stores at all the units should be physically verified at periodic interval.

- 1.5 The discrepancies noticed in physical verification of stocks as compared to book records have been adjusted in the books of account as follows.

(a) Excess of Nu 30,274,923 has been transferred to Capital Reserve Account.

(b) Shortage of Nu 23,169,502 has been written off.

- 1.6 On the basis of our examination of stock records, we are of the opinion that the valuation of the stock is fair and proper and in accordance with the normally accepted accounting principles and as per the policy of the Corporation except for the fact that provision requirement based on slow & non-moving items for the year has not been ascertained in every unit. However, the Corporation has a system of identifying the obsolete items on a yearly basis.

The basis of valuation of stock is same as in the preceding year.

- 1.7 The Corporation has taken unsecured loans from the Royal Government of Bhutan and the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Corporation.

The Corporation has not taken any loan from any Companies under the same management.



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- 1.8 The Corporation has not granted loans under the same Management.
- 1.9 The Corporation, wherever it has given any loan and advances to its staff or other parties against purchases orders/Work orders has generally ensured that repayments/ adjustments are made promptly and as per the stipulations.
- 1.10 The loans/advances granted by the Corporation to officers/staff are in keeping with the provisions of its service rules. We have not come across instances of excessive/frequent advances or any accumulation of large advances against particular individual.
- 1.11 The Corporation has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the company as well as to ensure adherence to the rules/regulations and system and procedures.

However, the system of maintenance of records regarding stores and spares (capital and revenue) needs to be adequately organized and further improved to generate periodical list of items with appropriate locational references and highlighting the specific status such as moving, non-moving, obsolete and scraps.

- 1.12 There is a system of competitive bidding commensurate with the size of the Corporation and nature of its business, for the purchase of goods and services including stores, raw materials, plant and machinery, equipment and other assets.

The Corporation is engaged in transmission and distribution of electricity and purchase and sales of electricity is regulated by the Bhutan Electricity Authority.

- 1.13 There are no transactions for purchases and sales of goods and services made in pursuance of contracts or arrangements entered into with the director(s) or any other party(ies) related to the director(s) or with companies or firms in which the director(s) are directly or indirectly interested. The Directors of the Corporation are all Government nominees and there may or may not be transactions with other government companies but in our opinion such transactions are not prejudicial to the interest of the Corporation.

- 1.14 The damaged items have been identified and auctioned off during the year. No further provision is required.

- 1.15 As the Corporation is mainly engaged in transmission and distribution of electricity, this clause is not applicable.

With regard to stores items, transformers and other project items directly transported by the Corporation, there are no insurance policies for handling/transit losses within Bhutan.

- 1.16 The Corporation is engaged in transmission and distribution of electricity, and so there is no question of breakage/loss in transit to its raw materials, finished goods and packing materials. However, reasonable records of energy received and energy distributed are maintained by the Corporation.

- 1.17 The Corporation maintains scrap register to record sale and disposal of scraps. However, scraps and unserviceable items as disclosed by the Units were reported to the Board for approval of disposal and





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accordingly, based on Board's approval, they were auctioned at Phuntsholing.

- 1.18 According to the records of the Corporation examined by us and according to the information and explanations given to us, in our opinion, the corporation is regular depositing its provident fund, salary tax and health tax, contract tax, Bhutan sales tax dues with the appropriate authorities.
- 1.19 There was no undisputed amount payable in respect of tax deducted at source.
- 1.20 According to the information and explanations given to us, and on the basis of our checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Profit & Loss account other than those payable under contractual obligations/ service rules.
- 1.21 The Corporation has reasonable system of recording receipts, issues and consumption of stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.
- 1.22 Quantitative reconciliation is carried out at the end of the accounting year in respect of electricity.
- 1.23 Board approval has been obtained for all write offs of losses in the books.
- 1.24 There is a reasonable system of authorization at proper levels and adequate system of internal control commensurate with the size of the Corporation and nature of its business, on issue of stores and allocation of labour to jobs.
- 1.25 The price for sale of electricity is fixed by the Bhutan Electricity Authority.
- 1.26 The Corporation is engaged in transmission and distribution of electricity and the due dates of bills raised on the customers are fixed based on the category of the customers and the region. In our opinion, the credit allowed to the customers is reasonable.
- 1.27 As there is no sale through commission agents, hence the said clause is not applicable to the Corporation.
- 1.28 In our opinion, the system for follow-up with debtors and other parties for recovery of outstanding amounts are reasonable.

Age-wise analysis of outstanding amounts is carried for the management as and when required for information and follow-up action.
- 1.29 The Corporation generally has surplus cash/bank balances and based on future requirement, funds are invested in Fixed Deposit with Banks and in RMA Bills.
- 1.30 According to the information and explanations given to us, and on the basis of examination of books and records, in our opinion, to the best of our knowledge, the activities carried out by the Corporation are lawful and intra vires to the Articles of Incorporation of the Corporation.
- 1.31 On the basis of our verification and according to the information and explanations given to us, the Corporation has a regular system of approval of the Board for all capital investment decision. Investments in new projects are made after considering the technical and economic feasibility of such projects.



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The Corporation has not made any financial investments of its funds in securities except occasional investments of surplus fund in Fixed Deposits with Banks and in secured bonds of Royal Monetary Authority of Bhutan.

- 1.32 The Corporation has an adequate budgetary control system.
- 1.33 The details of remunerations paid to the Managing Director and sitting fees paid to other directors are disclosed in the Notes to the Accounts.
- 1.34 According to the information and explanations given to us, the directives of the Board have been complied with.
- 1.35 Price fixation is done by the Bhutan Electricity Authority, set up by the Royal Government of Bhutan. On the basis of information received from the management, and on the basis of our verification of records and documents, Price sensitive information, to the best of our knowledge, have not been transmitted by any officer of the Corporation, unauthorisedly to any other person with intent to benefit themselves.
- 1.36 The Corporation has not identified slow-moving and non-moving goods and as such we have not been able to determine the extent of provision required for the year.

The Corporation should adopt a policy of identifying such in the course of the bi-annual physical verifications conducted by its management.

- 2
 - a) The organizational and system development controls and other internal controls are adequate relative to size and nature of computer installations.
 - b) Adequate safeguard measures and backup facilities exist in the organization.
 - c) Adequate backup facilities and disaster recovery measures including keeping the files in different and remote locations is in place.
 - d) There is an adequate operational control to ensure correctness and validity of input and output data information.
 - e) Adequate measures are in place to control unauthorized access over computer installations and files.
- 3. Based on the net asset position reflected by the Corporation's Balance Sheet as at 31st December, 2008 and audited by us in accordance with the generally accepted auditing standards and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Corporation is not a going concern on the Balance Sheet date.
- 4. According to the information and explanation given to us by the management and based on a Compliance Checklist completed by the Corporation Officials, the Corporation has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000. Details given in the separate checklist attached.
- 5. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Corporation, as comprehensive Compliance Reporting and Recording System of the Corporation in this regard is currently not in place. However, any non compliance or





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departure from accepted practice and approved system/ procedures having effect on financial statements that came to our notice during the course of our audit have been indicated by the way of notes on accounts and appropriately dealt with in our Management Reports.

4. Financial and Operational Resume of the Corporation has been given in Exhibits to this Annexure.

For N.C. Mitra & Co.
Chartered Accountants

Place: Kolkata
The 17th day March 2009


U.K. Basu
Partner



EXHIBIT TO THE ANNEXURE



PROFIT VARIANCE ANALYSIS FOR THE YEAR ENDED 31.12.2008

PARTICULARS	2008 Amount (Nu)	2007 Amount (Nu)	Variance	Remarks
INCOME				
Electricity Revenue	2,312,546,610	1,760,443,646	552,102,963	F
Other Revenue	76,155,534	24,791,266	51,364,268	F
Total	2,388,702,144	1,785,234,913	603,467,231	
EXPENDITURE				
Purchase of Power	457,505,726	422,332,627	35,173,099	A
Employee Cost	370,334,231	324,205,267	46,128,963	A
Operation and Maintenance Expenses	127,321,280	120,087,486	7,233,795	A
Administration and Other Expenses	36,012,540	32,949,253	3,063,287	A
Finance Charges	121,175,732	23,912,557	97,263,175	A
Prior period adjustments	(18,738,547)	2,565,079	(21,303,626)	F
Total	1,093,610,962	926,052,270	167,558,693	
Profit before Depreciation	1,295,091,181	859,182,643	435,908,539	F
Depreciation	367,963,781	286,028,133	81,935,648	A
Profit/(Loss) after Depreciation	927,127,400	573,154,510	353,972,891	F

NOTE

F= Favourable

A= Adverse





EXHIBIT TO THE ANNEXURE

FINANCIAL HIGHLIGHTS OF OPERATION DURING 2008

PARTICULARS	2008 Nu.in millions	2007 Nu. In millions
INCOME		
Gross earning from sale of Electricity	2,313	1760
Other Revenue	76	25
Power Purchase	1,128	950
Cost Per unit (Nu.)	0.406	0.306
Power Sale	1,072	902
S.P. per unit (Nu.)	1.46	1.31
Employee cost	370	323
Employee cost per unit sold (Nu.)	0.35	0.36
Operation & Maintaimance Expenses	127	120
Operation & Maintaimance Expenses per unit (Nu.)	0.113	0.130
Profit before Depreciation and Tax (PBDT)	1,295	859
Profit Before Tax (PBT)	927	573
RATIO ANALYSIS		
GP ratio	54.22%	48%
Fixed Assets Turnover Ratio (Sales/Average Net Block)	0.275	0.287
Inventory Turnover Ratio (Sales/Average Inventory)	6.54	3.80
Debtors Turnover Ratio (Sales/Average Debtors)	17.24	18.03
Current Ratio (Current Assets/Current Liabilities)	2.17	1.93
Quick Ratio (Current Asset-inventory/current Liabilities)	1.82	1.45



BALANCE SHEET



BALANCE SHEET AS AT 31ST DECEMBER 2008

PARTICULARS	Schedules	As at 31st December 2008 Amount (Nu)	As at 31st December 2007 Amount (Nu)
SOURCES OF FUND			
Shareholders' Fun			
Share Capital	1	5,886,485,000	5,884,991,000
Reserves and Surplus	2	2,815,355,845	1,786,432,244
		8,701,840,845	7,671,423,244
Loan Funds	3	2,260,427,102	2,416,977,932
Total		10,962,267,947	10,088,401,176
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross Block		11,302,037,304	9,573,729,024
Less- Depreciation		1,928,067,519	1,571,417,216
Net Block		9,373,969,785	8,002,311,808
Capital Work in Progress		536,400,606	1,297,593,539
		9,910,370,392	9,299,905,347
Current Assets , Loans and Advances			
Inventories	5	318,155,573	412,005,091
Debtors	6	106,324,812	162,008,493
Cash and Bank Balances	7	1,159,052,228	802,702,385
Other Current Assets	8	103,744,558	26,800,087
Loan and Advances	9	260,393,460	230,189,598
Total Current Assets		1,947,670,631	1,633,705,653
Less: Current Liabilities and Provisions			
Current Liabilities	10	895,773,076	845,209,824
Net Current Assets		1,051,897,555	788,495,829
Total		10,962,267,947	10,088,401,176
Notes on Accounts	18		

Schedule 1 to 10 and Schedule 18 form an integral part of the Balance Sheet

In terms of our separate report of even date

For N.C. Mitra & Co.

10 Old Post Office Street,
Kolkata-700001
17th March 2009

 U.K. Basu
Partner
 Director
 Managing Director
 Chairman



PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2008

PARTICULARS	Schedules	2008 Amount (Nu)	2007 Amount (Nu)
INCOME			
Electricity Revenue	11	2,312,546,610	1,760,443,646
Other Revenue	12	76,155,534	24,791,266
Total		2,388,702,144	1,785,234,913
EXPENDITURE			
Purchase of Power		457,505,726	422,332,627
Employee Cost	13	370,334,231	324,205,267
Operation and Maintenance Expenses	14	127,321,280	120,087,486
Administration and Other Expenses	15	36,012,540	32,949,253
Finance Charges	16	121,175,732	23,912,557
Prior period adjustments	17	(18,738,547)	2,565,079
Total		1,093,610,962	926,052,270
Profit before Depreciation		1,295,091,181	859,182,643
Depreciation		367,963,781	286,028,133
Profit/(Loss) after Depreciation		927,127,400	573,154,510
Provision for Tax		242,074,346	117,537,863
Excess assessed Tax for earlier years		15,441,090	
Profit(Loss) after tax		669,611,965	455,616,647
Proposed Dividend		151,220,000	100,000,000
Transfer to Insurance Reserve		22,460,000	22,748,000
Profit(Loss) for the period		495,931,965	332,868,647
Balance brought forward		376,147,871	43,279,224
Balance carried to Balance Sheet		872,079,836	376,147,871

Notes on Accounts 18

Schedule 11 to 18 form an integral part of the Profit & Loss Account

In terms of our separate report of even date

For N.C. Mitra & Co.

10 Old Post Office Street,
Kolkata-700001
17th March 2009


 U.K. Basu
 Partner


 Director


 Managing Director


 Chairman



SCHEDULES



SCHEDULES FORMING PART OF BALANCE SHEET AS AT 31ST DECEMBER 2008

	As at 31st December, 2008 Amount(Nu)	As at 31st December, 2007 Amount(Nu)
Schedule 1: Share Capital		
PARTICULARS		
Authorised Share Capital (7,500,000 equity shares of Nu 1000/- each)	7,500,000,000	7,500,000,000
Issued, Subscribed and Paid up		
3,503,542 equity shares fully paid up for consideration other than cash	3,503,542,000	3,502,048,000
2,382,943 equity shares fully paid up in cash	2,382,943,000	2,382,943,000
Total	5,886,485,000	5,884,991,000
Schedule 2: Reserves and Surplus		
(a) Profit and Loss Account	872,079,836	376,147,871
(b) Capital Reserve		
As per Last account	20,234,828	19,356,904
Add. Additions during the year	25,517,628	1,309,350
Less charged to Depreciation	691,861	431,426
	45,060,595	20,234,828
(c) RGoB Grant Reserve Account	1,367,301,545	1,367,301,545
Addition during the year	485,886,395	
Less adjustment during the year	180,526	
	1,853,007,413	
(d) Insurance Reserve	45,208,000	22,748,000
Total	2,815,355,845	1,786,432,244
Schedule 3: Loan Funds		
Unsecured Loan :		
From Royal Government of Bhutan	2,244,275,621	2,409,848,638
Interest accrued & due on unsecured loans	16,151,481	7,129,294
Total	2,260,427,102	2,416,977,932





SCHEDULES

Schedule 4 : Fixed Assets

Particulars	Gross Block					Prior Year	Depreciation				
	Gross Block as on 31/12/07 (Nu)	Additions during the year (Nu)	Disposal during the year (Nu)	Balance as on 31/12/08 (Nu)	Accumulated Depreciation as on 31/12/07 (Nu)		For the year (Nu)	On disposal	Accumulated Depreciation as on 31/12/08 (Nu)	Net Block as on 31/12/08 (Nu)	Net Block as on 31/12/07 (Nu)
Land	42,818,978	16,299,660		59,118,638	-	-			-	59,118,638	42,818,978
Buildings	370,757,769	50,596,082		421,353,842	54,806,120	12,397,231			67,203,351	354,150,491	315,951,640
Other Civil Structures	427,499,201	26,276,477		453,775,677	61,107,524	41,276,780			102,384,304	351,391,373	366,391,676
Generation Equipments	711,501,125	-		711,501,125	219,640,967	33,983,300			253,624,267	457,876,858	491,860,158
Transmission Lines and Equipments	4,861,953,812	1,325,437,412	20	6,187,391,203	546,824,499	152,335,192		2	699,159,690	5,488,231,514	4,315,129,313
Distribution Lines	2,886,707,197	247,560,338	3,867,395	3,130,400,141	501,112,259	67,201,744			568,314,003	2,562,086,137	2,385,594,938
Other Equipments	147,874,176	42,096,486	3,870,685	186,099,977	115,202,733	49,257,591		3,808,291	160,652,033	25,447,944	32,671,443
Vehicles	107,967,186	34,790,903	8,755,486	134,002,603	65,334,289	9,955,522		7,345,265	67,944,546	66,058,057	42,632,897
Furniture and Fixtures	16,649,589	1,949,365	204,857	18,394,098	7,388,825	1,556,421		159,921	8,785,325	9,608,773	9,260,764
Total	9,573,729,024	1,745,006,723	16,698,442	11,302,037,304	1,571,417,216	367,963,781	-	11,313,478	1,928,067,519	9,373,969,785	8,002,311,808



SCHEDULES



Schedule 5: Inventories

Stores and spares in hand	297,833,143	384,688,152
Stores & Spares at Site	20,322,430	27,316,939
	318,155,573	412,005,091
Less: Provision for obsolescence	-	-
Total	318,155,573	412,005,091

Schedule 6: Sundry Debtors (Unsecured)

Debts outstanding for more than 90 days	3,629,953	2,031,872
Other Debts	107,405,788	162,267,595
	111,035,741	164,299,467
Less: Provision for doubtful debts	-	-
Other Debts		
Considered Good	106,324,812	162,008,493
Considered Doubtful	4,710,929	2,290,974
	111,035,741	164,299,467
Less: Provision for doubtful debts	4,710,929	2,290,974
Total	106,324,812	162,008,493

Schedule 7: Cash and Bank Balances

Cash in hand	4,197,748	4,162,456
Bank Balances in Current Account with BoB	178,936,813	175,458,682
RMA Bills	120,593,550	458,072,480
Fixed Deposit	742,786,496	53,685,988
Fixed Deposit -Gratuity fund	112,537,622	111,322,779
Total	1,159,052,228	802,702,385

Schedule 8: Other Current Assets

Pre-Paid Expenses	73,979,461	2,780,382
BST refund	3,157,401	4,196,201
Welfare loan	131,636	166,662
Misc. current asset	8,590,015	7,989,947
Interst income receivable	7,841,836	2,960,153
Prepaid tax (TDS)	10,044,209	8,706,741
Total	103,744,558	26,800,087





SCHEDULES

Schedule 9: Loans and Advances

Unsecured,considered good Personal Advances	101,609	141,147
Advances to Suppliers/Contractors	256,244,590	207,792,645
Travel advance to employees	87,249	210,920
Advance to employees for expenses	248,669	417,719
Advance to employess for cap. Works	106,632	33,221
Other advance	3,604,712	21,593,947
Total	260,393,460	230,189,598

Schedule 10: Current Liabilities

Sundry Creditors - Suppliers	1,915,742	20,745,905
Sundry Creditors - Contractors	4,941,039	167,562,781
Sundry Creditors - Power	46,640,180	40,038,090
Capacity Reserve charge	5,994,225	2,555,550
Provision for Expenses	11,761,529	1,616,363
Energy & Meter Security	71,416,439	56,597,877
Security deposit from Suppliers/Contractor	5,922,470	4,528,477
EMD from supplier/contractor	204,394	75,081
Other employee related liabilities	1,761,325	1,289,084
Leave Encashment - Payable	24,367,227	21,805,690
Bonus Payable	31,127,906	27,936,684
Provision for gratuity	160,504,918	136,137,128
Retention Money - Contractors	52,448,987	74,109,079
Deposit receipt-deposit work	83,458,097	72,660,018
Unpaid cheques	14,252	14,157
Provision for tax	242,074,346	117,537,863
Dividend Payable	151,220,000	100,000,000
Total	895,773,076	845,209,824



SCHEDULES



SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2008

	For the year 2007 Amount (Nu)	Amount (Nu)
Schedule 11: Electricity Revenue		
Electricity Revenue	1,440,091,570	1,108,996,811
Meter Rent	-	3,153,493
Sundries	11,679,977	7,312,948
Demand Charges	120,478,021	74,328,593
Wheeling charges	740,297,041	566,651,801
Total	2,312,546,610	1,760,443,646
Schedule 12: Other Revenue		
Revenue grant	8,831,512	11,500,000
Interest from FDR	20,384,387	11,280,738
Income from deposit works	9,965,709	3,636,739
Tender form sales	1,992,368	879,850
Sale and repair of Transformer	893,937	1,145,111
Profit /(loss) on sale/disposal/impairment of Assets	2,099,359	2,059,971
Rental income	9,572,674	9,115,167
Hire charges	297,191	376,645
Liquidated damages	15,144,084	(21,288,168)
Other misc. income	6,974,314	6,085,214
Total	76,155,534	24,791,266
Schedule 13: Employee Cost		
Salary	205,667,139	179,219,994
PF Contribution	14,027,910	11,701,627
Staff Training	32,946,517	26,737,254
Gratuity	27,119,035	28,458,551
Medical expenses reimbursements	1,559,518	1,882,410
TA/DA (In Country)	19,311,037	16,118,467
TA/DA (Outside Country)	2,116,115	1,218,151
Leave travel Concession	13,485,119	12,559,791





SCHEDULES

Leave Encashment	16,697,158	17,717,930
Bonus	33,257,528	27,638,163
Uniforms	4,147,155	952,929
	370,334,231	324,205,267

Schedule 14: Operation and Maintenance costs

Repair and maintenance of building	2,205,245	3,384,364
R&M of vehicles and transport equipment	17,965,092	15,560,551
R&M of Distribution system	29,310,171	36,884,691
R&M of other civil structures	3,247,566	3,374,363
R&M of Transmsiion system	10,833,746	14,068,531
R&M of Hydels	387,503	2,089,062
R&M of DG Sets	19,362,267	25,864,256
R&M of office equipment	1,625,515	2,432,073
R&M of other electrical equipment	367,381	443,387
R&M of plant and machineries	8,018,468	3,443,767
R&M of meter and metering equipment	3,212,237	3,095,339
R&M of furniture	35,984	702,364
R&M of other assets	687,031	-
Consumables	30,015,166	7,904,387
Lubricants	47,907	840,353
Total	127,321,280	120,087,486

Schedule 15: Administrative and Other Expenses

Bank charges	2,119,305	1,945,721
Rent on Buildings Hired	1,911,377	1,632,755
Rent on Other Properties Hired/ Lease Line Rent	625,780	450,020
Rates and Taxes	817,608	847,770
Water Cess/ Sewerage Charges	128,902	94,590
Rental Vehicle	9,650	413,331
Telephone/Fax/Internet Expenses	4,278,316	4,343,063
Postage/ Courier/ Telegram	356,652	385,479
Printing and Stationery	7,202,905	5,580,282
Meeting Fees	632,560	675,577



SCHEDULES



Consultancy Fees / Charges	383,520	292,834
Registration Charges	-	113,000
License Fess	3,894,428	2,041,428
Auditors Fees / Expenses	389,789	361,237
Hospitality and Entertainment Expenses	2,753,181	2,189,971
Publicity and Advertisement	1,744,983	2,224,973
Books , Periodicals and Newspapers	113,111	202,736
Electricity Charges	2,991,212	2,368,101
Misc. Administration and General expenses	1,607,346	162,417
Insurance Charges on Fixed Assets	662,949	751,879
Donations and Contributions	1,010,000	5,362,757
Transportation charges	181,215	-
Writeoffs	73,622	-
Bad Debts Expense	2,693,710	295,675
Audit Recoveries	(569,580)	213,660
	36,012,540	32,949,253
Schedule 16: Finance Charges		
Interest on RGOB unsecured loan RE	50,621,659	23,912,557
Interest on RGOB unsecured loan on THPA asset	70,554,074	-
	121,175,732	23,912,557
Schedule 17: Prior period expenses		
Prior period energy Charge	(18,398,218)	(6,071)
Adjustment to past billing	48,803	(2,485,402)
Other misc income	(1,906,468)	(79,309)
Purchase of Power	2,821,706	5,171,064
Establishment Expenses	(240,740)	(10,762)
Adm & General expenses	2,734,091	(10,110)
Repair and Maintenance	(2,878,845)	(5,806)
Current liab. No longer required	(644,402)	-
Excess pro.for doubtful debts	(273,755)	(8,525)
Consumer dues written off	(720)	-
	(18,738,547)	2,565,079





CASH FLOW STATEMENT

	For the period from 1st January to 31st December 2008	For the period from 1st January to 31st December 2007
	Amount (Nu).	Amount (Nu).
Net cash flow from operating activities (Note - 1)	1,310,974,801	1,032,509,226
Returns on investments and servicing of finance (Note 2)	(200,791,345)	(12,631,820)
Tax paid during the year	(132,978,953)	-
Capital expenditure (Note 3)	(976,329,466)	(4,099,269,693)
Net cash inflow/(outflow) from investing activities	(1,310,099,765)	(4,111,901,513)
Net cash inflow/(outflow) before financing	875,037	(3,079,392,286)
Financing (Note 4)	355,474,806	2,843,729,797
Net cash inflow/(outflow) from financing activities	355,474,806	2,843,729,797
Increase/(Decrease) in cash	356,349,842	(235,662,489)
Opening cash and cash equivalents	802,702,385	1,038,364,875
Closing cash and cash equivalents	1,159,052,228	802,702,385
Cash Inflow	356,349,842	(235,662,489)

In terms of our separate report of even date

For N.C.Mitra & Co.
Chartered Accountants



U.K. Basu
U.K. Basu
Partner

[Signature]
Director

[Signature]
Managing Director
5/3/09

[Signature]
Chairman

The 17th March 2009

NOTES FOR CASH FLOW STATEMENT



Note - 1. Net Cash flow from Operating Activities

		For the period from 1st January to 31st December 2008	For the period from 1st January to 31st December 2007
		Amount (Nu).	Amount (Nu).
Indirect Method			
Net profit before tax/operating profit		927,127,400	573,154,510
Add: Increase in Capital Reserve			-
Add back:- Depreciation charges	367,963,781		286,028,133
Interest payable	121,175,732		23,912,557
Prior Period Depreciation	-		-
Loss on sale of fixed assets		489,139,513	-
			309,940,690
Deduct:- Profit on sale of fixed assets	2,099,359		2,059,971
Interest receivable	20,384,387		11,280,738
		22,483,746	13,340,708
		1,393,783,168	869,754,492
(Increase)/Decrease in stock		93,849,518	114,513,432
(Increase)/Decrease in Debtors		55,683,681	(128,741,302)
(Increase)/Decrease in Loans & advances		(30,203,862)	17,148,353
(Increase)/Decrease in other current assets		(76,944,472)	(19,127,786)
Increase/(Decrease) in Creditors		(125,193,232)	178,962,038
Net cash flow from operating activities	Total	1,310,974,801	1,032,509,226
Note - 2 Returns on investments and servicing of finance			
Interest received		20,384,387	11,280,738
Interest paid		121,175,732	23,912,557
Dividends paid		100,000,000	-
Dividend received		-	-
	Total	(200,791,345)	(12,631,820)





NOTES FOR CASH FLOW STATEMENT

Note - 3 Capital expenditure

Payments to acquire intangible fixed assets	-	-
Payments to acquire tangible fixed assets	(1,745,006,723)	(3,837,691,202)
Payments for capital work-in -progress	761,192,933	(264,036,784)
Receipts from sales of tangible fixed assets	7,484,323	2,458,293
Total	(976,329,466)	(4,099,269,693)

Note - 4 Financing

Issue of Shares & Debentures-cash	-	171,662,000
Issue of Shares & Debentures-other than cash	1,494,000	-
Increase in Capital reserve	510,531,636	1,368,178,924
Loan taken	(156,550,830)	1,303,888,873
Total	355,474,806	2,843,729,797



Schedule 18



NOTES ON ACCOUNTS FORMING PART OF BALANCE SHEET AS AT 31ST DECEMBER 2008 AND THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED ON THAT DATE.

A. Nature of Operations

Bhutan Power Corporation Limited is engaged in providing electricity to all residents of the Kingdom of Bhutan. It is involved in construction and erection of transmission towers, transmission power lines and substations for procurement of power from the power generation corporations in Bhutan and in transmission and distribution of the same both within the country and in export of power to India.

B. Significant Accounting Policies

1. Basis of Preparation

The financial statements have been prepared to comply in all material respects with the generally accepted accounting principles and the relevant provisions of the Companies Act of the Kingdom of Bhutan, 2000. The financial statements have been prepared under the historical cost convention on an accrual basis except as stated otherwise. The accounting policies have been consistently applied by the Corporation and except for the changes in accounting policy discussed more fully below, are consistent with those used in the previous year.

The preparation of financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

2. Fixed Assets

- (a) Fixed Assets are stated at cost of acquisition, including any costs attributable for bringing the assets to their working condition for their intended use less accumulated depreciation and impairment losses. The date of capitalization is the actual date when the particular asset has been put to use. Capital work in progress is stated at amount expended up to the date of the Balance Sheet.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

- (b) Indirect Expenses and overheads relating to projects incurred during the construction period are capitalized.





Schedule 18

3. Depreciation

Depreciation on fixed assets is provided on straight line method at the rates prescribed by the management on the basis of the economic life of the Assets. No depreciation is provided on fixed assets sold or retired during the year.

Leasehold Land is amortized over the period of its lease.

4. Grants & Subsidies

Capital Receipts including Grants and Subsidies from the Government related to depreciable assets are treated as Capital Reserves, unless otherwise specified by the Government, and to be apportioned over the life of the asset by way of depreciation charge.

Grants and subsidies from Government are recognized on cash basis. Grant/subsidy relating to an expense is recognized as income over the periods necessary to match them with the related cost which they are intended to compensate.

5. Inventory

- i. Inventories are valued at lower of cost or net realizable value.
- ii. Cost is calculated on FIFO basis and comprises expenditure incurred in the normal course of business in bringing such inventories to its location.
- iii. Obsolete, slow moving and defective stocks are identified at the time of physical verification of inventories and where necessary, adjustment is made for the same.
- iv. As the Corporation is engaged in the distribution of electricity, there are no finished goods or raw materials.
- v. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale.
- vi. Loose tools are charged off to consumption on purchase.

6. Revenue Recognition

Electricity Revenue

- i. Revenue from the Sale of Electricity within Bhutan is recognized on the basis of bills raised to the consumers net of discount for prompt payment of bills and do not include any duty payable to the Government.
- ii. Revenues from Demand charges, Connection charges, Wheeling charges or any other amounts recoverable from the consumers, except delayed payment surcharge, are also recognized on the basis of bills raised to the consumers.
- iii. Delayed payment surcharge is determined and recognized on receipt of overdue payments from the consumers.



Schedule 18



- iv. Rates for electricity and wheeling charges are as approved by the Bhutan Electricity Authority.
- v. Doubtful debts are provided for in the accounts based on the policy of the Corporation as decided by the Board from time to time.

Other Revenue

Revenues other than electricity revenue, as mentioned above, are recognized and accounted for on accrual basis, except where stated otherwise.

Penalty claims etc. is recognized on cash basis.

Interest

Revenue is recognized on a time proportion basis taking into account the amount outstanding and the rate applicable.

7. Retirement benefits

- i) The Corporation contributes to Provident Fund administered by National Pension and Provident Fund and such contributions are charged to revenue every year on the basis of when the contribution to the Fund becomes due.
- ii) Gratuity is provided on the basis of entitlement of each employee as per the Corporation's Service Rules at the end of the year without doing actuarial valuation.
- iii) Leave encashment and medical benefits are provided for in the financial statements on accrual basis without doing actuarial valuation.

8. Foreign Currency Transactions

Transactions in foreign currency are recorded using the exchange rate prevailing at the date of transactions. At the Balance Sheet date monetary assets and liabilities denominated in foreign currency are recorded using the closing exchange rates. All other foreign currency assets and liabilities are stated at the rates ruling at the year end other than those covered by forward contracts, which are stated at the contracted rate. Exchange differences arising on foreign currency transactions are recognized in the Profit & Loss Account.

9. Contingent Liabilities

Liabilities are provided if there are reasonable prospects of such liabilities maturing. Other contingent liabilities barring frivolous claims not acknowledged as debt are disclosed by way of note, if any.

10. Income Tax

Current Tax is determined in respect of taxable income for the year based on applicable rates & laws. Deferred tax is not recognized in the books.





Schedule 18

11. Expenditure on new projects and substantial expansion:

Expenditure on material, labour and contractors appointed for executing the project are capitalized. Indirect expenditure and overheads relating to projects incurred during construction period is capitalized.

All direct capital expenditure on expansion is capitalized. Direct expenditure is capitalized only if they increase the value of the asset beyond its original standard of performance.

C. Notes on accounts.

1. Bhutan Power Corporation Limited was incorporated on 1st July 2002 as wholly owned company of the Royal Government of Bhutan and Fixed Assets transferred from erstwhile Department of Power was taken at written down value of Nu.1, 760.89 million. Subsequently, Bhutan Power Corporation Limited has become a subsidiary company of Druk Holding & Investments consequent upon transfer of all shares from the Ministry of Finance, RGoB to Druk Holding & Investments.
2. a) Provision for Taxation has been made in the accounts after the following adjustment:-

	Amount in Nu.	
	2008	2007
Book profit for the year	927,127,400	573,154,510
Less set off carried forward losses	-	(93,561,723)
Less difference between maximum allowable depreciation as per Income Tax Act and Depreciation charged in the Accounts as per the provision of rule 4.1 of the Income Tax Act (Nu 490,870,405-Nu 367,963,781)	(122,906,624)	(87,799,910)
Taxable Profit (loss) after adjustment	804,220,776	391,792,877
Add Provision for Bad Debts	2,693,710	
Taxable Profit (loss)	806,914,486	
Provision for Corporate Income tax @ 30%	242,074,346	117,537,863

- b) The final tax liability is subject to assessment by the concerned Authority.
3. a) Gratuity liability has been computed on the assumption that all the employees ceased to be employed as on 31st December 2008.
- b) In respect of Gratuity the Corporation has been depositing the difference between opening and closing liability in fixed deposit specifically marked as "Investment towards Gratuity Liability".



Schedule 18



As on December 2008 value of such Investment is Nu.112,537,622 as against the total Gratuity liability of Nu. 160,504,918 indicating a shortfall of Nu.47,967,296 which shall be invested in the year 2009.

- c) In accordance with the Generally Accepted Accounting Principle and provision of section 12.2 of Income Tax Act of Kingdom of Bhutan 2001 interest income of Nu. 3,607,500 pertaining to such Investment have been credited to Gratuity Liability.
- 4) There has been a domestic tariff revision from July 2008. The revised weighted average tariff is Nu.1.455 /unit as compared to Nu.1.311/unit before the revision.
- 5) Particulars of Subsidy received during the year.

Sl.no	Source	Amount	Purpose
1	Department of Energy	8,000,000	Diesel subsidy for Panbang Dungkhag
2	Asian Development Bank, Technical Assistance	831,512	Material received for ADB Pilot Project.

The above subsidies have been utilised for the purposes envisaged in the respective memorandum of Grants.

- 6) Details of capital grant received during the year.

Sl.no	Source	Amount	Purpose
1	Department of Energy	297,228,000	Tingtibi - Trongsa - Bumthang Trans. Lines
2	Department of Energy	19,000,000	ADB III
3	Department of Energy	2,620,000	ACB V
4	Department of Energy	114,856,000	Deothang - Rangia Project
5	Department of Energy	3,960,000	SDA (Electrification of Tangsibi village under Trongsa Dzonglhag)
6	Department of Energy	2,622,395	Rehabilitation of Rangjung Hydel
7	Department of Energy	8,000,000	RE Works under Pangbang Dungkhag
8	Department of Information Technology	10,000,000	Purchase of Terminal equipment for International connectivity
9	Bhutan Information Communication Media Authority	27,600,000	Laying of OPGW Lines
	Total	485,886,395	



Schedule 18

7) During the year, the CHP Distribution Asset estimated at Nu 3,389,921.10 (Written down Value Nu 1.494,618/-) has been transferred to the Corporation on June 1, 2008 vide executive order no 27/BPC/ DCSD/ESD-PLG/Gen/2008/270 by way of credit to Equity share Capital. The asset has been recorded at WDV value.

8) Increase in capital Reserve of Nu 25,517,628 is on account of following transactions.

Particulars	Amount Nu
Excess found during physical verification of inventories	30,274,923
Less Adjustment on account of RE II loan	4,757,295
Total	25,517,628

9) Particulars of Unsecured Loan from Royal Government of Bhutan.

Particulars	Opening Balance as on 1.1.2008	Received during the year	Repaid during the year	Interest	Balance as on 31.12.2008
RE I	232,513,913	-	8,304,068	13,539,784	224,209,844
RE II	435,062,810	4,757,295	18,325,838	23,127,207	421,494,268
Total	435,298,286	2,181,122	-	13,954,668	437,479,408
THPA Asset Loan	1,306,973,630		151,922,359	70,554,074	1,155,051,271
RE JICA		6,040,831			6,040,831
Total	2,409,848,639	12,979,248	178,552,265	121,175,733	2,244,275,622

10) Movement of Capital work in progress during the year are as stated below:-

Amount in Nu.

CWIP as on 1st January 2008	1,297,593,539
Add: - Addition During the year	841,609,279
	<u>2,139,202,818</u>
Less - Capitalized During the year	1,602,802,212
Balance CWIP as on 31st December 2008	<u>536,400,606</u>



Schedule 18



11) O&M expenditure pertaining to the following units have been capitalized during the year:-

Sl.No	Units	Amount (Nu)
1)	DCS East Trashigang	3,524,608
ii)	DCS Central	2,522,409
iii)	UED	4,485,333
iv)	D&CD	3,483,700
v)	TCS Tsirang	4,692,113
vi)	TCS Trongsa	3,670,370
vii)	TCS Pasakha	2,970,883
viii)	Deothang Rangia Project	1,016,882
ix)	RED Current	1,751,943
x)	DCS west Current	3,474,252
	Total	31,592,493

12) The Corporation has procured an Emergency Restoration System (ERS) in the year 2006 (included in the Asset schedule under Transmission Lines and Equipments) for which Chukha Hydro Power Corporation and Kurichu Hydro Power Corporation had contributed Nu.8.60 million & Nu.4.30 million respectively the balance of the cost (Nu 4.30 million) is borne by the Corporation. Such contribution was credited to the capital reserve. Proportionate amount of depreciation of Nu 429,991 pertaining to cost borne by the above two agencies has been deducted from the capital reserve during the year.

The Corporation has procured Inventory Management Software amounting to Nu 1.310 million in 2007 which was funded by Asian Development Bank. Such contribution has been credited to the Capital Reserve and proportionate amount of Nu 261,870 have been adjusted from depreciation.

13) A reserve fund of Nu 22.460 million has been appropriated from retained earning to mitigate the risk of BPC assets against any damages due to natural calamities. This is not funded separately.





Schedule 18

14) Director's payments during the year was as follows:

	2008	2007
Managing Director's remuneration	Nu.1,152,000/-	Nu 1,032,497/-
Directors' sitting fees	Nu. 322,000/-	Nu 223,000/-

15) Quantitative Information of purchase and sales of power were as follows:

	2008		2007	
	Units (kWh)	Amount	Units (kWh)	Amount
Purchase	1,127,596,699	457,505,726	950,172,172	422,332,627
Hydel	22,824,375		21,199,553	
Diesel Generation	1,235,638		1,655,482	
Sale	1,072,438,818	1,560,569,591	902,466,115	1,183,325,404

16) Cost of Energy purchase from the Generating company was as follows:-

Unit	Energy Drawn (MU.)	Director's			Non-Royalty Energy			Total (M. Nu)
		Quantity (MU.)	Rate (Nu.)	Amount (M. Nu)	Quantity (MU.)	Rate (Nu.)	Amount (M. Nu)	
CHP	237.961	316.872	0.300	95.062	(78.911)	1.200	(94.693)	0.369
THPA	698.742	683.339	0.300	205.002	15.403	1.200	18.484	223.485
KHP	188.329	57.248	0.300	17.174	131.081	1.200	157.297	174.471
Total	1,125.032	1,057.459		317.238	67.573		81.088	398.325





Schedule 18

- 17) The Corporation is contingently liable for unexecuted Capital commitment contracts amounting to Nu. 141.5 million.
- 18) Segment Results for the year 2008 are given below:-

	Generation	Transmission	Distribution	Others	Total
REVENUE	-	740.30	1,572.25	76.16	2,388.70
EXPENDITURES	40.58	199.95	708.74	144.34	1,093.61
PROFIT	(40.58)	540.35	863.51	(68.19)	1,295.09

- 19) Previous year figures have been regrouped /rearranged wherever necessary.

Signature for Schedule 1 to 18.

For N.C.Mitra & Co.
Chartered Accountants




U.K. Basu
Partner


Director


Managing Director
5/3/09


Chairman

The 17th March 2009



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BHUTAN POWER CORPORATION LIMITED

Website: www.bpc.bt