

ANNUAL REPORT

2010



Bhutan Power Corporation Limited

Website : www.bpc.bt

Bhutan Power Corporation Limited

Meeting your energy needs

Bhutan Power Corporation Limited



Year of Incorporation : 1st July, 2002
Registered Office : P.O Box 580
Thimphu, Bhutan
Tele No : 975 2 325095
Fax No : 975 2 322279
Website : www.bpc.bt

Values of BPC

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

- Integrity and 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

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Director's Report

Director's Report on the Performance of Bhutan Power Corporation Limited for the year 2010

(1st January - 31st December 2010)

Introduction

As the Chairman of the BPC Board of Directors, it gives me great pleasure to present this report to Druk Holding and Investments Ltd. (DHI), the Shareholder of BPC, on the performance of the Bhutan Power Corporation Limited for the period covering 1st January 2010 to 31st December 2010.

Operational Performance

The domestic electricity demand has reached 257 MW in 2010 and the customer base has grown over 108,799. During the year BPC has added 17,029 customers which comprises of 11,868 rural and 994 Fill- in households through Rural Electrification (RE) program, and 4167 normal service connections. BPC purchased 1631.28 Million of units (MU) of energy, mainly from DGPC, to cater to the domestic demand, out of which royalty energy was 1,082.478 MU. Total sale to various categories of customers was 1570.77 MU. Sales growth increased by 14.5% over the previous year. BPC also wheeled 5579.472 MU of energy for export by DGPC to India as against 5404.82 MU in 2009. The global loss for the year was 1.17% whereas the domestic T&D loss was 5.07%.

BPC has been able to efficiently cope up with the expansion of power system and meet the increased load demand with expected reliability of SAIFI and SAIDI of 2.5 interruptions per customer per year and 4.62 hours of interruption per customer per year, respectively. Towards delivery of effective and timely customer services and care, 135 service centers with multi-task staff have been established across the country. In yet another effort to improve the customer services, BPC launched on-line internet billing system in Thimphu and Phuentsholing by which customers can now pay their electricity bills online through internet bank transfer. The Customer Satisfaction survey conducted by the Institute of Management Studies through DHI revealed that 96% of BPC's customers are satisfied.

BPC has been entrusted the role of System Coordinator since 2007. Recognizing the high rate of expansion of power system and growth in network complexity, need was felt by BPC to establish a National Load Dispatch Center (NLDC), so as to enable online monitoring of power systems operations for carrying out effective dispatching of load and coordination with generating plants of DGPC and the Indian Eastern Grid system operator. The establishment of NLDC, which involves an investment of over Nu. 205 million, is currently underway and is expected to be completed by October 2011.

Financial Performance

Assets

The company has achieved huge growth in terms of building its asset base. The asset of the company stands at worth Nu 15,852 million as on 31st December 2010. This corresponds to an average growth rate of 16.3% over the last three years. In the year 2010, the asset has increased by 31% over that of previous year on account of good progress of capital works achieved during the year.

Loan Portfolio

The Company has drawn a loan of Nu 1,026.988 million from JICA and Nu 681.536 million from ADB for Rural Electrification works totaling to Nu 1,708.524 million during the year. The Corporation also made a principal repayment of Nu 126.296 million for the existing loans. The total loan portfolio increased to Nu 4,085.478 million during the year.

Grants

The Company received capital grant of Nu 1,246.07 million for undertaking RE and deposit works. After adjustments and transfer of the grant to paid-up equity capital, the cumulative grant at the end of the year is Nu 2,183.780 million.

Net Worth

The net worth of the company today is Nu 11,751.4 million and the average growth rate of the net worth has been 15.3% for the last three years. For the current year, the net worth has increased by about 22%.

Revenue

BPC earned gross revenue of Nu 3,366.153 million during the year as compared to Nu 2,900.986 million in the previous year. The growth in the overall revenue is about 16.03 % from the previous year. The revenue from sale of electricity grew by 21.53 % from Nu 2,161.087 million in 2009 to Nu 2,626.410 million in 2010. The revenue earnings from wheeling decreased to Nu 651.660 million in 2010 from Nu 675.602 million in 2009 which is on account of reduction in the wheeling tariff from Nu 0.125 per unit to Nu 0.111 per unit with effect from 1st August 2010.

Expenditure

The overall expenses increased from Nu 1,478.108 million in 2009 to Nu 1,569.001 million during the year net of prior period adjustments. The increase in the spending is about 6% as compared to the previous year. The purchase of power cost grew by 15%, employee cost increased by 13%, operation and maintenance cost by 16% and Administrative expenses by - 4% as compared to the previous year. There has been reduction in the purchase rate of royalty energy from Nu 0.30 per unit to Nu 0.13 per unit with effect from 1st August 2010.

The corporation paid interest on loan for RE Project and Tala transmission assets amounting to Nu 78.108 million. The RE projects and Tala transmission assets attract interest rates of 6% and 9 % respectively per annum.

Profit, Tax and Dividend

BPC made a net profit before tax of Nu 1,353.196 million as against Nu 986.452 million in 2009 which is an increase of about 37%. The Corporate Income Tax for the year is assessed at Nu 354.776 million against Nu 254.015 million in 2009.

A dividend of Nu 99.607 million has been proposed for the year after adjustment of Nu 150 million from previous year's payout. For the previous year, dividend of Nu 333.109 million was paid. An amount of Nu 894.974 million is proposed to be retained as Reserve to enable BPC to take up system expansion works.

Capital Expenditure

During the year, the Corporation spent Nu 3,376.19 million towards capital expenditure. Of this, asset worth about Nu 1,009 million has been added and Nu 2,367 million is still under Capital Works in Progress. The capital spending for the year has been 85.53% of the budget, which is the highest achieved till date.

The main source of cash for meeting the expenses of the Company during the year has come from its own operations while the capital expenditures on RE and replacement of ground wire by OPGW were supplemented from the RGoB as Grant. The larger portion of the RE works were financed through Loans. The funds for the construction of 400 kV Punatsangchhu-I transmission lines were received from the Punatsangchhu-I Project Authority.

Power System Expansion Programs

BPC has completed the construction of the 66 kV Yurmo-Bumthang transmission line and reached Kurichhu grid electricity supply to Bumthang during the year. A state-of-art 33 kV GIS substation, the first of its kind in the country, has been commissioned in Garpang for supply of electricity to Bumthang Dzongkhag.

For linking the Eastern and Western Grids and to enhance national energy security, BPC is carrying out the construction of the 220 kV double circuit Dagachhu-Tsirang-Jigmeling and 132 kV Jigmeling-Lodrai transmission lines. The construction of the lines is progressing well and scheduled for commissioning by July 2011. The scope of the 400 kV Punatsangchhu-I power evacuation plan was finalized and involves construction of two 400 kV double circuit transmission lines from Punatsangchhu-I to Lhamoizingkha using twin ACSR MOOSE conductors. The contract for construction of the transmission lines was awarded in August 2010. The project is scheduled to be completed by August 2014.

The construction of the 132 kV transmission line from Nganglam substation to Dungsam Cement Project at Nganglam was completed and the line was formally handed over.

BPC is also undertaking ICT connectivity infrastructure projects to implement Broadband Master Plan of the Royal Government. The live - line replacement of ground wire with Optical Ground Wire (OPGW) for achieving national connectivity and creation of three International Gateways are progressing as per schedule. Contract for laying of 'All Dielectric Self Supporting (ADSS) Optical fiber' project, with the objective to achieve ICT connectivity to Trashiyangtse and Gasa Dzongkhag headquarters and 205 Gewogs in the country through optical fiber networks by using low and medium voltage distribution poles, has been signed in December 2010.

During the year, the Engineering and Design services of BPC provided in-house technical services on the engineering and design aspects of all its transmission and distribution projects, except for the 400 kV Punatsangchhu-I Project for which the technical services of Powergrid Corporation of India Limited has been hired. In the field of ICT, BPC is fully involved in the implementation of the SAP-ERP for integrated management of information systems and business operations. The Project 'ilogmey' with its mission to 'create a knowledge based, customer centric efficient corporate environment, through integrated, accurate and accessible information & decision support system' is planning to go live with its 20 modules in April 2011. The implementation of the ERP Project was started from June 24, 2010 with the Implementation Partner (IP), Wipro Ltd, India.

Rural Electrification (RE)

BPC has been entrusted to fulfill one of the most important development priorities for the country, i.e., "Electricity for All by 2013", which involves reaching grid electricity to 40,257 rural households. The entrustment of this mandate posed a huge challenge to BPC, considering that up to end of the 9th FYP, only 52% was the coverage of RE. BPC is however following a well charted plan to achieve the target. During the year, BPC has electrified 11,868 rural homes through various funding sources, i.e. JICA, ADB and ADA. BPC has also, through its own funding, carried out Fill-in RE of 994 households. The rural populace has been very appreciative to the BPC for bringing "Light" and enhancing their quality of Life.

Human Resources Management

In an effort to meet the huge requirement of manpower for the power expansion programs and the various RE Programs, 160 new employees from various academic backgrounds were recruited during the year. Recognizing the importance of developing the human resource capacity in BPC, a total of 9,744 person days of trainings was conducted both in-country and ex-country. Furthermore, BPC provided three full scholarships and two partial scholarships for eligible employees to pursue Masters Degrees in fields relevant to BPC.

Corporate Governance

Seven Board meetings were held during the year and the quorums of these meetings were duly maintained. The Annual General Meeting for the year 2009 was held on 15th April 2010, thereby complying with the Companies Act, 2000. Upon the requisition of the Shareholder, an Extraordinary General Meeting was also held on 10th November 2010 to pass a resolution for the alteration of the Articles of Incorporation of BPC to align it with the DHI Ownership Policy. Since BPC had to undertake huge volume of procurement of goods and services, many Board Level Tender Committee meetings were held and tenders were awarded in timely and transparent manner.

In order to ensure transparent management systems and controls, BPC continually re-assesses the effectiveness of strategies and policies in place. A number of Manuals such as the revised BPC-Service Rules and Regulations 2010, Inventory Manual, Vendor Performance Management System and Inventory Management Manual were framed and implemented during the year. Overall, the company is ensuring that its activities and plans are in line with its Corporate Strategic Plan – 2007.

Compact signed with DHI

The Compact signed with DHI outlines the major activities to be taken up by BPC for the year and accordingly these have been set as targets to be achieved for the year. BPC has achieved most of the targets set in the compact for 2010, including the profit margin. The payout of the 10% Performance Based Variable Allowance to the employees of BPC is based on the achievement of the compact targets. The overall achievement of BPC with respect to Compact targets is 99.86%.

Performance Based Incentive System (PBIS) Achievement

The Corporation has achieved the targets set against most parameters such as the Profit, reliability (SAIFI and SAIDI), system losses and current budget compliance. The overall achievement of the company was 83.42%. As per Board directives, the overall payout for the company against PBIS achievement has been adjusted to maintain at two months of the company's basic salary.

Corporate Social Responsibility and subscription to the Philosophy of Gross National Happiness (GNH)

BPC endeavors to mainstream the principles of GNH in all its plans and operations. It is also enshrined in BPC's vision statement to be socially conscious and contribute to the socio-economic development of the country.

By implementing the RE projects to achieve 'Electricity for All by 2013', BPC is providing access to clean renewable energy to the rural mass to alleviate poverty and uplift their socio-economic condition. The implementation of this noble cause is a direct contribution by BPC to achieve GNH. BPC is, through its own funding and initiative, implementing 'RE fill-in' project in order to electrify the left out or newly built homes in the already electrified rural areas.

During the year, contributions, monetary or in-kind, were made by the corporation to various religious and other institutions in line with the Donation Policy of BPC. The total amount of monetary donation was Nu 1.634 million for the year. On 1st July 2010, BPC celebrated the 'BPC Day' to mark the incorporation of BPC eight years ago on 1st July 2002. In order to commemorate the event, a blood donation campaign was organized in the BPC Corporate Office premises in collaboration with the JDWNR Hospital, Thimphu.

Challenges

In view of the lean flow electricity generation constraints a major challenge for BPC will be to match the supply and demand of electricity in winter when the demand is at its maximum. This problem is likely to continue until additional generation is available with commissioning of the Puna-I HEP and other projects thereafter. Arrangement for re-import of power from India especially to meet the winter peaking shortages is being explored.

While BPC is actively implementing the RE projects in all Dzongkhags for completion by 2013, the remoteness of the villages in difficult terrains continues to pose challenges to BPC in transporting the materials. Further, with the simultaneous implementation of the hydroelectric power projects under the 10,000 MW development plan, BPC will have to construct the transmission lines and pooling stations for evacuation of power in line with the hydroelectric projects' completion schedules. This is expected to pose a huge challenge


which would stretch the institutional capacity of BPC. Along with the obligation to construct the transmission and distribution infrastructures and establishing National ICT connectivity, BPC has to also simultaneously put in place proper O&M setups to look after the new power and ICT infrastructures. An immediate issue being faced by BPC is the high attrition rate of employees from BPC, particularly at the management and mid-management level, due to more attractive service conditions in other organizations. This issue, which is already a pressing concern, needs to be given priority at the level of the Board and Shareholder, in order to retain and motivate the existing staff and to also attract much more expertise and skills in the near future.

Acknowledgement

On behalf of the Board of Directors, I take this opportunity to extend our sincere gratitude and appreciation to the Ministry of Economic Affairs, Ministry of Finance and the Department of Energy for their timely assistance in terms of policy interventions and other matters. Our appreciation also goes to the Department of Forests, Bhutan Electricity Authority, Land Commission, National Environment Commission, Druk Green Power Corporation Ltd. for their continued support and cooperation. Thanks are also due to Power Grid Corporation of India Ltd, Central Electricity Authority of India, Electricity Generating Authority of Thailand, Provincial Electricity Authority of Thailand and other agencies who have been closely associated with BPC. We remain thankful to the ADB, JICA and ADA for their funding and technical assistance due to which BPC is confident to fulfill the target of 'Electricity for all by 2013'. Our special gratitude goes to Druk Holding & Investments for their invaluable guidance and continued support towards instituting best business practices in BPC.

The Board would like to place on record our appreciation for the dynamic leadership provided by the Managing Director and the dedicated service and hard work put in by the management and employees of BPC which resulted in an exemplary performance of the Company. The Board would like to urge BPC to sustain and improve upon its level of competence to achieve greater heights of success and fulfill the expectations of its stakeholders and customers. Towards this, the Board would like to assure its full support to the management of BPC.

For and on behalf of the BPC Board



(Yeshe Wangdi)

Chairman

Auditor's Report

TO THE MEMBERS OF BHUTAN POWER CORPORATION LIMITED

1. We have audited the attached Balance Sheet of Bhutan Power Corporation Limited (the Corporation) as at 31st December, 2010 and the related Profit and 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, evidences 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 of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure - I 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 purposes 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 on the basis of generally accepted accounting principles and that the financial statements are in agreement with the books of account.

5. *As disclosed in Accounting Policy No. 3 of Schedule 19, the method of accounting for depreciation followed by the Company is based on calculations made at the rates which are different from those prescribed by the Companies Act of the Kingdom of Bhutan, 2000, resulting in short charging of depreciation by Nu. 171,569,964, overstatement of Net Block of Fixed Assets by Nu. 171,569,964 and overstatement of Net Worth by the same amount.*
6. In our opinion and to the best of our information and according to the explanations given to us and subject to our comments in paragraph 5 above, the said accounts together with schedules, significant accounting policies and notes on accounts, give the information 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 of the Corporation as at 31st December 2010;
 - 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.

Dated, the 21 day of March, 2010
Kolkata.

For S. S. KOTHARI & ASSOCIATES
Chartered Accountants
(FRN: 305147E)



(P.K. BHATTACHARYA)
Partner
Membership No. 015899



Balance Sheet

BALANCE SHEET AS AT 31st DECEMBER ,2010

PARTICULARS	Schedules	As at 31st December 2010 Amount (Nu)	As at 31st December 2009 Amount (Nu)
SOURCES OF FUND			
Shareholders' Fund			
Share Capital	1	7,315,673,000	7,258,771,000
Reserves and Surplus	2	4,435,679,272	2,343,672,132
		11,751,352,272	9,602,443,132
Loan Funds	3	4,100,405,277	2,518,789,820
Total		15,851,757,549	12,121,232,952
APPLICATION OF FUNDS			
Fixed Assets	4		
Gross Block		12,720,419,308	11,760,087,034
Less- Depreciation		2,778,312,766	2,354,721,911
Net Block		9,942,106,543	9,405,365,122
Capital Work in Progress		3,754,258,707	1,387,106,350
		13,696,365,250	10,792,471,472
Current Assets, Loans and Advances			
Inventories	5	365,094,070	369,996,149
Debtors	6	102,175,763	199,233,517
Cash and Bank Balances	7	2,231,514,009	1,785,694,297
Other Current Assets	8	754,783,443	337,765,215
Loan and Advances	9	1,031,006,289	359,351,198
Total Current Assets		4,484,573,574	3,052,040,375
Less: Current Liabilities and Provisions			
Current Liabilities	10	1,146,352,511	701,329,446
Provisions	11	1,182,828,764	1,021,949,450
Total current liabilities & Provisions		2,329,181,275	1,723,278,896
Net Current Assets		2,155,392,299	1,328,761,480
Total		15,851,757,549	12,121,232,952

Notes on Accounts 19
Schedule 1 to 11 and Schedule 19 form an integral part of the Balance Sheet
In terms of our separate report of even date

For S. S. Kothari & Associates
Chartered Accountants

21 Old Court House Street
Kolkata-700001
The 2/3.2011



[Signature]
P.K. BHATTACHARYA
Partner

[Signature]
Director

[Signature]
Managing Director

[Signature]
Chairman

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31st DECEMBER 2010


PARTICULARS	Schedules	2010 Amount (Nu)	2009 Amount (Nu)
INCOME			
Electricity Revenue	12	3,278,069,504	2,836,689,369
Other Revenue	13	88,083,333	64,296,345
Total		3,366,152,837	2,900,985,715
EXPENDITURE			
Purchase of Power		897,450,929	779,288,080
Employee Cost	14	489,665,116	434,656,011
Operation and Maintenance Expenses	15	139,712,776	120,862,101
Administration and Other Expenses	16	40,074,306	41,621,512
Finance Charges	17	78,108,094	112,659,178
Prior period adjustments	18	(76,010,178)	(9,480,427)
Total		1,569,001,042	1,479,606,455
Profit before Depreciation		1,797,151,795	1,421,379,260
Depreciation		443,955,868	434,927,367
Profit after Depreciation		1,353,195,927	986,451,893
Provision for Tax		354,766,000	254,015,170
Profit after tax		998,429,927	732,436,722
Proposed Dividend		99,607,482	333,109,181
Transfer to Insurance Reserve		3,848,084	1,832,000
Profit(Loss) for the period		894,974,361	397,495,542
Balance brought forward		1,269,575,377	872,079,836
Balance carried to Balance Sheet		2,164,549,738	1,269,575,377
Notes on Accounts	19		

Schedules 12 to 19 form integral part of the Profit and Loss Account
In terms of our separate Report of even date

For S. S. Kothari & Associates
Chartered Accountants

21 Old Court House Street
Kolkata-700001
The 2/3.2011




P.K. BHATTACHARYA
Partner


Director


Managing Director


Chairman

CASH FLOW STATEMENT

	For the period from 1st January to 31st December	For the period from 1st January to 31st December
	Amount (Nu).	Amount (Nu).
Net cash flow from operating activities (Note - 1)	1,595,595,693	1,671,191,048
Returns on investments and servicing of finance (Note 2)	(379,613,317)	(249,958,723)
Tax paid during the year	(254,015,170)	(242,074,346)
Capital expenditure (Note 3)	(3,347,849,646)	(1,312,153,374)
Net cash inflow/(outflow) from investing activities	(3,981,478,134)	(1,804,186,442)
Net cash inflow/(outflow) before financing	(2,385,882,441)	(132,995,394)
Financing (Note 4)	2,831,702,153	759,637,464
Net cash inflow/(outflow) from financing activities	2,831,702,153	759,637,464
Increase/(Decrease) in cash	445,819,712	626,642,070
Opening cash and cash equivalents	1,785,694,297	1,159,052,228
Closing cash and cash equivalents	2,231,514,009	1,785,694,297
Cash Inflow	445,819,712	626,642,070

In terms of our separate report of even date

For S. S. Kothari & Associates
Chartered Accountants

21 Old Court House Street
Kolkata-700001
The 2/3.2011


P.K. BHATTACHARYA
Partner


Director


Managing Director


Chairman



NOTES FOR CASH FLOW STATEMENT

Note - 1. Net Cash flow from Operating Activities

Indirect Method

	For the period from 1st January to 31st December 2010	For the period from 1st January to 31st December 2009
	Amount (Nu).	Amount (Nu).
Net profit before tax/operating profit	1,353,195,927	986,451,893
Add: Increase in Capital Reserve		-
Add back:- Depreciation charges	443,955,868	434,927,367
Interest payable	78,108,094	112,659,178
Prior Period Depreciation	-	-
Loss on sale of fixed assets	522,063,962	547,586,545
Deduct:- Profit on sale of fixed assets	-	4,875,074
Interest receivable	31,603,957	13,920,455
	31,603,957	18,795,529
	1,843,655,931	1,515,242,908
(Increase)/Decrease in stock	4,902,079	(51,840,576)
(Increase)/Decrease in Debtors	97,057,754	(92,908,705)
(Increase)/Decrease in Loans & advances	(913,729,437)	(98,957,738)
(Increase)/Decrease in other current assets	(417,018,228)	(234,020,656)
Increase/(Decrease) in Creditors	980,727,594	633,675,815
Net cash flow from operating activities	1,595,595,693	1,671,191,048

Note - 2 Returns on investments and servicing of finance

Interest received	31,603,957	13,920,455
Interest paid	78,108,094	112,659,178
Dividends paid	333,109,181	151,220,000
Dividend received	-	-
Total	(379,613,317)	(249,958,723)

Note - 3 Capital expenditure

Payments to acquire intangible fixed assets	-	-
Payments to acquire tangible fixed assets	(1,009,032,646)	(473,961,430)
Payments for capital work-in -progress	(2,367,152,357)	(850,705,743)
Receipts from sales of tangible fixed assets	28,335,357	12,513,799
Total	(3,347,849,646)	(1,312,153,374)

Note - 4 Financing

Issue of Shares & Debentures-cash	56,902,000	-
Issue of Shares & Debentures-other than cash	-	1,372,286,000
Increase in Capital reserve	1,193,184,696	(871,011,254)
Loan taken	1,581,615,457	258,362,718
Total	2,831,702,153	759,637,464



Schedules forming part of Balance Sheet as at 31st December 2010

	As at 31st December, 2010 Amount(Nu)	As at 31st December, 2009 Amount(Nu)
Schedule1: Share Capital		
PARTICULARS		
Authorised Share Capital (7,500,000 equity shares of Nu 1000/- each)	<u>7,500,000,000</u>	<u>7,500,000,000</u>
Issued, Subscribed and Paid up		
4,875,828 equity shares fully paid up for consideration other than cash	4,875,828,000	4,875,828,000
2,439,845 equity shares fully paid up in cash (previous year 2,382,943)	2,439,845,000	2,382,943,000
Total	<u>7,315,673,000</u>	<u>7,258,771,000</u>
Schedule2: Reserves and Surplus		
(a) Profit and Loss Account	2,164,549,738	1,269,575,377
(b) Capital Reserve		
As per Last account	30,333,223	45,060,595
Add. Additions during the year	6,869,536	
Less Charged to Depreciation	694,103	691,861
Less Trasfers/Adjustment	47,300	14,035,512
	36,461,356	30,333,223
(c) RGoB Grant Reserve Account	996,723,532	1,853,007,413
Addition during the year		
(a) RGoB	496,072,000	520,462,919
(b) Puna Tshangchu 400 kV	750,000,000	
Less adjustment during the year	59,015,438	1,376,746,800
	2,183,780,094	996,723,532
(d) Insurance Reserve	50,888,084	47,040,000
Total	<u>4,435,679,272</u>	<u>2,343,672,132</u>
Schedule 3:Loan Funds		
Unsecured Loan :		
From Royal Government of Bhutan	3,788,972,168	2,173,799,045
Interest During Construction	296,506,604	329,451,783
Interest accrued & due on unsecured loans	14,926,505	15,538,993
Total	<u>4,100,405,277</u>	<u>2,518,789,820</u>



Schedules forming part of the Balance Sheet as at 31st December, 2010

Schedule-4 : Fixed Assets

Particulars	Gross Block				Depreciation				Net Block as on 31/12/2010	Net Block as on 31/12/09
	Gross Block as on 31/12/09	Additions during the year	Disposal during the year	Balance as on 31/12/10	Accumulated Depreciation as on 31/12/009	For the year	On disposal	Accumulated Depreciation as on 31/12/2010		
	(Nu)	(Nu)	(Nu)	(Nu)	(Nu)	(Nu)		(Nu)	(Nu)	(Nu)
Land	59,764,505	2,893,872		62,658,377	-			-	62,658,377	59,764,505
Buildings	538,226,818	119,771,329	615,868	657,382,279	81,753,545	20,164,055	125,633	101,791,967	555,590,312	456,473,273
Other Civil Structures	463,871,715	78,777,040	30,461	542,618,296	150,224,672	49,375,039	30,460	199,569,251	343,049,045	313,647,043
Generation Equipments	712,085,925	-	226,487	711,859,438	287,607,565	33,971,975	135,891.65	321,443,648	390,415,790	424,478,360
Transmission Lines and Equipments	6,315,244,432	469,534,468	29,239,344	6,755,539,556	877,587,555	177,334,359	3,796,242	1,051,125,672	5,704,413,884	5,437,656,877
Distribution Lines	3,243,476,769	233,478,382	3,916,713	3,473,038,438	638,805,084	75,764,541	3,925,249	710,644,376	2,762,394,062	2,604,671,686
Other Equipments	233,852,766	74,104,655	7,559,604	300,397,817	223,334,765	63,444,760	6,133,068	280,647,007	19,750,810	10,518,001
Vehicles	166,880,443	23,686,825	4,990,242	185,577,026	79,209,878	20,687,020	4,485,761	95,411,137	90,165,889	87,670,564
Furniture and Fixtures	26,683,661	6,786,076	2,121,656	31,348,081	16,198,846	3,214,119	1,733,258	17,679,708	13,668,373	10,484,814
Total	11,760,087,034	1,009,032,646	48,700,376	12,720,419,308	2,354,721,911	443,955,868	20,365,563	2,778,312,766	9,942,106,542	9,405,365,122
Figures for previous year	11,302,037,304	473,961,430	15,911,700	11,760,087,034	1,928,067,519	434,927,367	8,272,975	2,354,721,911	9,405,365,122	



	As at 31st December Amount(Nu)	As at 31st December Amount(Nu)
Schedule 5: Inventories		
Stores and Spares	343,849,536	341,614,278
Stores & Spares at Site	21,244,534	28,381,871
Total	365,094,070	369,996,149
Schedule 6: Sundry Debtors (Unsecured)		
Debts outstanding for more than six months	2,203,666	28,010,508
Other Debts	105,012,958	177,390,962
	107,216,624	205,401,471
Sundry Debtors		
Considered Good	102,175,763	199,233,517
Considered Doubtful	5,040,861	6,167,954
	107,216,624	205,401,471
Less: Provision for doubtful debts	5,040,861	6,167,954
Total	102,175,763	199,233,517
Schedule 7: Cash and Bank Balances		
Cash in hand	5,572,653	3,095,489
Bank Balances in Current Account with BoB	738,509,334	1,522,727,735
RMA Bills	300,000,000	-
Fixed Deposit	988,461,258	82,373,520
Fixed Deposit -Gratuity fund	198,970,764	177,497,553
Total	2,231,514,009	1,785,694,297
Schedule 8: Other Current Assets		
Pre-Paid Expenses	42,821,940	73,140,814
Prepaid Loan	109,183,332	-
BST refund	869,242	968,760
Welfare loan	389,515	120,357
Miscellaneous current asset	66,455,339	6,789,286
Interst income receivable	29,839,973	5,731,132
Prepaid tax (TDS)	505,224,102	251,014,866
Total	754,783,443	337,765,215
Schedule 9: Loans and Advances		
Unsecured,considered good		
Personal Advances	49,910	51,184
Advances to Suppliers/Contractors	1,023,894,566	351,959,476
Travel advance to employees	45,465	366,366
Advance to employees for expenses	390,911	265,200
Advance to employees for Capital Works	10,321	760
Other advance	6,615,115	6,708,211
Total	1,031,006,289	359,351,198



	As at 31st December Amount(Nu)	As at 31st December Amount(Nu)
Schedule 10: Current Liabilities		
Sundry Creditors - Suppliers	92,605,949	74,225,336
Sundry Creditors - Contractors	187,895,844	36,289,671
Sundry Creditors - Power	428,748,326	289,531,561
Capacity Reserve charge	7,653,375	7,683,898
Energy & Meter Security	95,359,302	78,410,079
Security deposit from Suppliers/Contractor	7,342,870	6,048,944
EMD from supplier/contractor	117,247	378,483
Income Tax deducted from Contractors/Suppliers	-	70,271
Other employee related liabilities	2,101,951	3,869,606
Leave Encashment - Payable	30,183,563	27,600,620
Bonus Payable	41,914,587	38,345,492
PBVA payable	24,806,866	
Retention Money - Contractors	139,250,547	67,022,324
Deposit receipt-deposit work	88,248,281	71,822,508
Unpaid cheques	123,803	30,654
Total	<u>1,146,352,511</u>	<u>701,329,446</u>
Schedule 11: Provisions		
Provision for Expenses	30,438,480	15,071,137
Provision for gratuity	201,927,286	177,679,616
Provision of Corporate Income tax	850,855,516	496,089,516
Proposed Dividend	99,607,482	333,109,181
Total	<u>1,182,828,764</u>	<u>1,021,949,450</u>



Schedules forming part of the Profit and Loss Account for the year ended 31st December 2010

Schedule 12: Electricity Revenue

	2010 Amount (Nu)	2009 Amount (Nu)
Electricity Revenue	2,391,842,785	1,947,732,336
Sundries	19,995,084	22,534,329
Demand Charges	214,571,893	190,820,725
Wheeling charges	651,659,742	675,601,979
Total	<u>3,278,069,504</u>	<u>2,836,689,369</u>

Schedule 13: Other Revenue

Lease of OPGW optical	3,303,397	-
Revenue grant	-	305,337
Interest on FDR	31,603,957	13,920,455
Income from deposit works	6,750,629	4,072,129
Tender form sales	1,747,500	2,923,700
Sale and repair of Transformer	1,251,025	923,836
Profit on sale/disposal/ of Assets	-	4,875,074
Rental income	10,008,629	9,641,825
Hire charges	920,397	957,294
Liquidated damages	20,495,884	12,488,573
Other misc. income	11,807,478	12,689,795
Audit recoveries	194,437	1,498,326
Total	<u>88,083,333</u>	<u>64,296,345</u>

Schedule 14: Employee Cost

Salary	313,090,080	276,366,396
PF Contribution	22,013,686	17,275,808
Staff Training	37,841,409	35,849,370
Gratuity	21,180,217	13,042,078
Medical expenses reimbursements	1,299,590	1,004,132
TA/DA (In Country)	13,728,783	23,396,545
TA/DA (Outside Country)	2,679,168	3,006,821
Leave travel Concession	15,923,046	14,216,809
Leave Encashment	17,242,683	16,195,361
Performance Based Incentive system	41,856,118	33,431,559
Uniforms	2,810,336	871,132
	<u>489,665,116</u>	<u>434,656,011</u>



Schedule 15: Operation and Maintenance costs

Repair and Maintenance of

	2010 Amount (Nu)	2009 Amount (Nu)
Building	5,781,198	4,049,116
Vehicles and transport equipment	21,484,889	19,929,857
Distribution system	48,745,397	35,645,932
Other civil structures	10,546,643	5,175,289
Transmission system	7,764,633	22,063,838
Hydels	901,551	1,972,895
Diesel Generators	5,673,297	3,957,426
Office equipment	2,523,441	1,709,187
Other electrical equipment	974,587	128,159
Plant and machineries	6,269,567	7,283,789
Meter and metering equipment	5,661,285	4,480,619
Furniture	319,895	397,487
Other assets	198,685	909,054
Distribution system (Travel)	9,245,986	
Transmission system (Travel)	9,149,728	
Consumables	3,855,978	11,563,286
Lubricants	616,016	258,395
Provision of obsolescence of material	-	1,337,773
Total	139,712,776	120,862,101

Schedule 16: Administrative and Other Expenses

Bank charges	1,135,631	1,550,301
Rent on Buildings Hired	291,587	1,482,336
Rent on Other Properties Hired/ Lease Line Rent	1,483,295	967,580
Rates and Taxes	894,528	424,317
Water Cess/ Sewerage Charges	145,849	108,054
Rental Vehicle	25,000	-
Rental of land	6,483	12,140
Telephone/Fax/Internet Expenses	2,900,706	3,458,057
Postage/ Courier/ Telegram	318,033	320,298
Printing and Stationery	8,299,812	8,504,921
Meeting Fees	1,373,415	1,334,540
Consultancy Fees / Charges	-	713,371
Registration Charges	-	-
License Fess	5,951,676	5,469,279
Auditors Fees / Expenses	377,227	452,723
Hospitality and Entertainment Expenses	4,136,270	2,629,251
Publicity and Advertisement	2,493,134	1,990,648
Books , Periodicals and Newspapers	119,764	153,843
Electricity Charges	4,270,141	3,683,112
Misc. Administration and General expenses	1,274,749	720,739



	2010 Amount (Nu)	2009 Amount (Nu)
Insurance Charges on Fixed Assets	617,167	893,321
Donations and Contributions	1,633,887	4,410,565
Transportation charges	78,672	577,915
Writeoffs	21,896	125,008
Provision for doubtful debts (Net)	514,937	1,502,274
Bad Debts written off	413,047	136,919
Loss on sale/disposal of asset	1,297,398	
	40,074,306	41,621,512
Schedule 17: Finance Charges		
Interest on RGOB unsecured loan RE	7,554,020	42,105,104
Interest on RGOB unsecured loan on THP asset	70,554,074	70,554,074
	78,108,094	112,659,178
Schedule 18: Prior period expenses		
Prior period energy Charge	(450,989)	(10,355,100)
Adjustment to past billing	28,891	66,032
Other misc income	(1,604,250)	(181,896)
Purchase of Power	32,365	-
Establishment Expenses	94,202	(22,050)
Adm & General expenses	(65,567,600)	(86,008)
Repair and Maintenance	1,547,863	1,223,434
Current liab. No longer required	(3,758,886)	(9,122)
Excess pro.for doubtful debts	(1,641,638)	(45,250)
Depreciation	(4,690,136)	(70,468)
	(76,010,178)	(9,480,427)



Schedule 19

Notes on accounts forming part of the Balance Sheet as at 31st December, 2010 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, except in the cases and to the extent stated elsewhere. 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 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 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 conditions for their intended use less accumulated depreciation. 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.

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, which are different from the rates prescribed under Section 66(3) of the Companies Act of the Kingdom of Bhutan, 2000. No depreciation is provided on fixed assets sold or retired during the year.

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 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 of expenditure incurred in the normal course of business in bringing such inventories to its location.
- iii. Obsolete, slow moving and defective stocks are generally 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 on 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 on the consumers.
- iii. Delayed payment surcharge is determined and recognized on receipt of overdue payments from the consumers.
- 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. are 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 as and 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 rates. 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 are disclosed by way of note.

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.

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 are 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 erst-while Department of Power was taken at written down value of Nu 1,760.89 million. Subsequently, Bhutan Power Corporation Limited became a subsidiary company of Druk Holding & Investments Limited (a Royal Government of Bhutan Undertaking) consequent upon transfer of shares from the Ministry of Finance, Royal Government of Bhutan to Druk Holding & Investments Ltd., and currently all the shares are held by the Holding Company.
- 2) (a) Provision for Taxation has been made in the accounts after the following adjustment :-



Amount in Nu

	2010	2009
Book profit for the year	1,353,195,928	986,451,893
Less difference between maximum allowable depreciation as per Income Tax Act and Depreciation charged in the Accounts (Nu 615,525,831.04-Nu 443,955,867.18)	(171,569,964)	(142,574,707)
Taxable Profit (loss) after adjustment	1,181,625,964	843,877,186
Add Provision for Doubtful Debts (Net)	927,984	1,502,274
Provision for obsolescence of material	-	1,337,773
Taxable Profit	1,182,553,948	846,717,234
Provision for Corporate Income tax @ 30%	354,766,000	254,015,170

(b) The final tax liability is subject to assessment by the concerned Authority.

3) Gratuity:

- a) Gratuity liability has been computed on the assumption that all the employees ceased to be employed as on 31st December 2010.
- 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".

As on 31st December 2010 value of such Investment is Nu 198,970,764 as against the total Gratuity liability of Nu 201,927,285 indicating a shortfall of Nu 2,956,521 which shall be invested in the year 2011.

- 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. 8,874,877.63 pertaining to such Investment have been credited to Gratuity Liability.
- 4) There has been a domestic tariff revision from 1st August 2010. The revised weighted average tariff is Nu.1.659 /unit as compared to Nu. 1.561 /unit before the revision.
- 5) Details of Capital Grants received during the year.

Sl.No.	Source	Amount	Purpose
1	Punatsangchu Hydro Electric Project Authority	750,000,000	Construction of 400kV transmission line
2	Department of Energy	66,469,000	RE ADB IV
3	Department of Energy	157,570,000	RE JICA
4	Department of Energy	73,952,000	RE JICA
5	DIT, MoIC	103,000,000	Implementation of National Broadband Master plan
6	Department of Energy	19,615,000	ADB RE III
7	Department of Energy	28,784,000	RE ADB IV
8	Department of Energy	122,000	SDA grant for RE-Tangsibji,
9	Department of Energy	46,560,000	RE ACB VI
	Total	1,246,072,000	



7) Particulars of Unsecured Loans from Royal Government of Bhutan.

Particulars	Balance as on 1.1.2010	Received during the year	Repaid during the year	Interest	Balance as on 31.12.2010
RE I	215,905,776		8,304,068	12,638,792	207,601,708
RE II	403,168,430		18,325,838	23,493,724	384,842,592
RE III	437,479,408		-	4,374,794	437,479,408
THP	686,974,312		830,924	37,600,784	686,143,388
THP IDC	395,342,139		98,835,535		296,506,604
RE JICA	180,669,992	1,026,988,060			1,207,658,052
RE IV- ADB	183,710,770	681,536,250			865,247,020
Total	2,503,250,827	1,708,524,310	126,296,365	78,108,094	4,085,478,772

9) Movement of Capital work in progress during the year is as stated below:-

Particulars	Amount in Nu
CWIP as on 1.1.2010	1,387,106,350
Addition during the year	3,267,330,141
Total	4,654,436,491
Capitalized /Adjustment during the year	900,177,784
Balance as on 31.12. 2010	3,754,258,707

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

Sl.No	Divisions	Amount (Nu)
i)	D&CD	4,795,307
ii)	TCS Tsirang	9,644,251
iii)	TCS Trongsa	4,099,962
iv)	TCS Deothang	1,180,561
v)	400 KV Punatahngchu Transmission Line	12,687,950
vi)	RED , HQ	5,100,973
vii)	RECD Thimphu	7,256,263
viii)	RECD Tsirang	7,981,834
ix)	RECD Samtse	5,546,616
x)	RECD S Jongkhar	5,978,818
xi)	RECD Gelephu	9,899,849
xii)	RECD Mongar	10,920,287
xiii)	Urban Electrification	4,616,334
xiv)	NLCD Project	753,406
xv)	OPGW Project	319,667
	Total	90,782,079

11) Adjustment of assets transferred to Capital Reserve

- 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 and 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 for the year Nu 429,991 pertaining to cost borne by the above two agencies has been deducted from the capital reserve during the year.

- ii. 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 depreciation for the year Nu 261,870 have been adjusted from capital reserve.
 - iii. The Corporation has received Tools and Plants amounting to Nu 6,687,800 from Japan International Cooperation Agency during the year which has been credited to Capital Reserve. Out of the total amount received, Tools and Plants worth Nu 6,640,500 has been capitalized and balance amounting to Nu 47,300 being in the nature of consumables has been expensed during the year. Depreciation for the year for the capitalized items amounting to Nu 2,241.67 and the amount expensed has been deducted from Capital reserve.
- 12) A reserve fund of Nu 3.848 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.
- 13) Remunerations paid/payable to the Managing Director (excluding gratuity) during the year.

	2010	2009
Remuneration	Nu. 1,258,044/-	Nu. 1,207,760/-
Sitting fees	Nu. 142,000/-	Nu. 151,000/-

14) Quantitative Information of purchase and sales of power:

	2010		2009	
	Units (MU)	Amount in Nu million	Units (MU)	Amount in Nu million
Purchase	1,631.283	897.451	1,416.994	779.288
Hydel	23.211		25.278	
DG	0.246		0.138	
Sale	1,570.772	2,606.415	1,371.915	2,138.553

15) Cost of Energy purchased from the Generating companies:



Unit	Energy Drawn	Royalty Energy				Additional Energy			Total (Million Nu)
		Available (MU)	Paid at Royalty charge (MU)	Rate (Nu)	Amount (Million Nu)	Quantity (MU)	Rate (Nu)	Amount (Million Nu)	
CHP	182.983	999.439	149.916	0.30	44.975	33.07	1.20	39.681	84.655
	147.467	1173.804	176.071	0.13	22.889	-28.60	1.20	-34.324	-11.435
THP	651.715	2065.259	309.789	0.30	92.937	341.93	1.20	410.311	503.248
	455.219	2604.866	390.730	0.13	50.795	64.49	1.20	77.387	128.182
KHP	104.466	189.573	28.436	0.30	8.531	76.03	1.20	91.236	99.767
	86.184	183.586	27.538	0.13	3.580	58.65	1.20	70.376	73.956
Total	1628.034	7216.526	1082.479		223.706	545.556		654.667	878.373

16) The Corporation is contingently liable for unexecuted Capital commitment contracts amounting to Nu. 11,140 million and claims against the Company not acknowledged as debts Nu. 7,336 million.

17) Segment Results for the year 2010 are given below:-

	Generation	Transmission	Distribution	Others	Total
REVENUE	-	651.660	2,626.410	88.083	3,366.153
EXPENDITURES	31.343	247.771	1,211.780	78.108	1,569.001
PROFIT	(31.343)	403.889	1,414.630	9.975	1,797.152

18) Previous year's figures have been regrouped /rearranged wherever necessary.

Signatures to Schedules 1 to 18.

For S. S. KOTHARI & ASSOCIATES

Chartered Accountants

(P. K. BHATTACHARYA)

Director

Managing Director

Chairman

Partner

The 21 March, 2011



ANNEXURE – I

REFERRED TO IN OUR AUDIT REPORT OF EVEN DATE

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

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

In accordance with a phased programme adopted by the Company to complete physical verification all fixed assets within a cycle of 3 years, certain fixed assets have been physically verified during the year. Physical verification of all the Units have been completed during the year as per the phased programme and discrepancies noticed on such verification, which were not material, have been adjusted.

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

- 1.3 The physical verifications of stores and spares at all locations except for TMD, Thimphu, TMD, Phuentsholing and TMD, Gyelposhing were conducted during the year.

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 explanations 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. However, efforts should be made to complete physical verification of stores and spares at all locations within the year.

- 1.5 The discrepancies noticed on physical verification of stocks as compared to book records in respect of all Units where physical verification have been conducted except in ESD, Thimphu, ESD, Samdrup Jongkhar and ESD, Tsirang, have been adjusted in the books of accounts and the discrepancies were not material. In respect of ESD, Thimphu, ESD Samdrup Jongkhar and ESD, Tsirang, shortage / excess have not been adjusted pending ascertainment of the same on compilation and finalization of the physical verification reports and also discrepancies, if any, remain unadjusted pending completion of physical verification of TMD, Thimphu, TMD, Phuentsholing and TMD, Gyelposhing.

- 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. During the year the Company has ascertained the extent of slow-moving and non-moving items at RSD, Gelephu at Nu. 312,749 and Nu. 609,329 respectively. Pending technical assessment of the items and ascertainment of the extent of obsolescence, no provision has been made for the same. Slow moving and non-moving items of other Regional Stores and O&M Stores are in the process of being ascertained.

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.

- 1.8 The Corporation has not granted loans to any company under the same Management.

- 1.9 The Corporation, wherever it has given any loans 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 and 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, based on the Units visited by us we are of the opinion that the system of documentation (such as Goods Receipt Notes and Completion Certificates) for maintenance of records and accounting of fixed assets and stores and spares (capital and revenue) needs to be further strengthened. Also effective steps should be taken for completing reconciliation of Inventory balances at the earliest.

- 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, plant and machinery, equipment and other assets.

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

- 1.13 In absence of declarations received from the Directors, we are unable to specifically ascertain whether there is any transaction 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. However, the Directors of the Corporation are all Government nominees and there may or may not be transactions with other Government Companies.

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



- 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 is no insurance policy 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 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 in 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, this 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 out by 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 requirements, funds are invested in Fixed Deposit with Banks and in Royal Monetary Authority 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 and 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 decisions. Investments in new projects are made after considering the technical and economic feasibility of such projects.
- The Corporation has not made any financial investments of its funds in securities except occasional investments of surplus funds 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 During the year the Corporation has identified the slow-moving and non-moving items of stores and spares at Central Stores and based on technical assessments of the items, provision has been made.



2 Computerized Accounting Environment

- a) The organizational and system development controls and other internal controls should be adequately strengthened by introducing on-line recording of transactions. However the Management has already taken effective steps to introduce ERP system shortly.
 - 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, 2009 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 explanations given to us by the management and based on a Compliance Checklist compiled by the Corporation Officials, the Corporation has complied with all the provisions of the Companies Act of the Kingdom of Bhutan, 2000, except in case of charging of Depreciation in Accounts as disclosed in Accounting Policy No. 3 of Schedule 19.
 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 departure from accepted practice and approved systems / 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.
 6. Financial and Operational Resume of the Corporation has been given in Exhibits to this Annexure – I.

Place: Kolkata
Dated, the 21 day March 2011

For S. S. KOTHARI & ASSOCIATES
Chartered Accountants
(FRN: 305147)

(P. K. BHATTACHARYA)
Partner
Membership No: 015899



PROFIT VARIANCE ANALYSIS FOR THE YEAR ENDED 31.12.2010

PARTICULARS	2010 Amount (Nu)	2009 Amount (Nu)	Variance	Ramarks
INCOME				
Electricity Revenue	3,278,069,504	2,836,689,369	441,380,135	F
	0	0		
Other Revenue	88,083,333	64,296,345	23,786,988	F
Total	<u>3,366,152,837</u>	<u>2,900,985,715</u>	<u>465,167,123</u>	
EXPENDITURE				
Purchase of Power	897,450,929	779,288,080	118,162,849	
				A
Employee Cost	489,665,116	434,656,011	55,009,105	
				A
Operation and Maintenance Expenses	139,712,776	120,862,101	18,850,674	
				A
Administration and Other Expenses	40,074,306	41,621,512	(1,547,206)	
				F
Finance Charges	78,108,094	112,659,178	(34,551,084)	
				F
Prior period adjustments	(76,010,178)	(9,480,427)	(66,529,751)	
				F
Total	<u>1,569,001,042</u>	<u>1,479,606,455</u>	<u>89,394,588</u>	
Profit before Depreciation	1,797,151,795	1,421,379,260	375,772,535	
				F
Depreciation	443,955,868	434,927,367	9,028,501	
				A
Profit after Depreciation	1,353,195,927	986,451,893	366,744,034	
				F

NOTE

F= Favourable

A=Adverse



EXHIBIT TO THE ANNEXURE

FINANCIAL HIGHLIGHTS OF OPERATIONS

DURING 2010

Particulars	2010 Nu in millions	2009 Nu in millions
Gross earning from sale of Electricity	3,278.07	2,836.69
Other Revenue	88.08	62.80
Power Purchase (Gwh)	1,631.28	1,414.44
Cost Per unit(Nu.)	0.55	0.55
Power Sale (Gwh)	1,570.77	1,371.91
S.P. per unit(Nu.)	1.66	1.56
Employee cost	489.67	434.66
Employee cost per unit sold(Nu.)	0.31	0.32
Operation & Maintenance expenses	139.71	120.86
Expenses per unit (Nu.)	0.09	0.09
Profit before Depreciation and Tax(PBDT)	1,797.15	1,421.38
Profit Before Tax(PBT)	1,353.20	986.45
RATIO ANALYSIS		
GP ratio	0.53	0.49
Fixed Assets Turnover Ratio (Sales/ Average Net Block)	0.35	0.31
Inventory Turnover Ratio (Sales/Average Inventory)	9.16	8.43
Debtors Turnover Ratio (Sales/Average Debtors)	21.75	18.57
Current Ratio (Current Assets/Current Liabilities)	1.93	1.77
Quick Ratio (Current Asset-Inventory/Current Liabilities)	1.77	1.56

