



Meeting Bhutan's Electricity Needs

Annual Report 2018



YEAR IN REVIEW

From CEO's Desk



// together we can build “great teams” to take BPC to the next level - “the utility of the future”.

It has been a privilege for me to be associated with BPC since inception in the year 2002 and an honour to contribute in the capacity of Chief Executive Officer since last year. BPC in the last 16 years has not only achieved in establishing technical excellence in power system operation, management and development but has also been a pioneer in many areas of corporate governance and human capacity development in the country. The dedicated employees with the visionary leadership of the Boards and the Management, over the years, have worked towards its mission, vision and most importantly in meeting the aspirations of the people of Bhutan and shareholders in general. I have been a part of the management of BPC since 2005 and with the experience of the operations and the business of power system management- a strategic resource for the nation, I have no qualms that together we can build “great teams” to take BPC to the next level - “the utility of the future”. I urge for everyone’s support and I stand to provide the guidance and leadership in meeting the challenges and leveraging the opportunities before us.

BPC since its formulation has undergone remarkable evolution and 2018 has been particularly insightful. Many milestones have been achieved in meeting the targets of the COMPACT (performance targets with the shareholder), completion of major investments in transmission and distribution systems and also importantly visioning and documenting the “Corporate Strategic Plan” (CSP) of BPC towards meeting the aspirations of the 10 year roadmap, “into the next decade” set forth by Druk Holding and Investment (DHI).

BPC in its core business of transmission and distribution of electricity within the country today serves 192,859 customers with a coincidental peak demand of 399.35 MW. The employees strive with dedication in maintaining the transmission and distribution assets from the core urban areas to the remotest villages in an endeavour to supply quality and reliable electricity. Considering the unique challenges of our terrain, available technology and resources, our reliability and quality of supply not

only domestically but also for wheeling of power to India is comparable to most utilities in the region. The transmission losses of 1.22% (including wheeling), distribution losses of 9.71% and the global system loss of 6.15% (excluding wheeling) with reliability indices of 0.0416 SAIFI and 0.1501 SAIDI (at transmission level) of last year is a testimony to this fact to a large extent. Having said that, we are cognisant of the opportunities in improvements of the system and we aspire working towards higher targets, global standards and beyond.

One of the challenges utilities face is with the evolution of technology and especially the disruptive technologies poised to impact the fundamental philosophy of operations of systems over the years. At BPC, we commit to stride forward not only to adapt and utilize relevant and optimal technologies for efficiency of systems and operations but also plan to work towards being a part in the development of such technologies. Today, projects such as power system automation/SCADA, Distribution Management System (DMS), Phasor Measurement Units (PMU), Smart-Grid initiatives, ERP and business

intelligence software form a part of the system or are under planning and/or execution. We hope and aspire to utilize the opportunity that the technology provides in improving efficiency and reliability of systems, building human capacity and diversification of business over the years as the economy and the market demands.

BPC's priorities over the next years would be in organizing ourselves with core emphasis on professionalism, financial prudence, corporate governance and innovation in realizing the expectations of the shareholders and importantly the aspirations of the Royal Government and the people of Bhutan.

I thank you all and look forward for your continued support and inspiration!



(Sonam Tobjey)

Chief Executive Officer

COMPANY PROFILE

Bhutan Power Corporation Limited (BPC) was formed as an offshoot of the erstwhile Department of Power, the then Ministry of Trade and Industry and was launched as Public Utility Company on 1st July 2002 with an objective that the corporatization of the utility functions would lead to greater efficiency and better delivery of electricity supply services in the power sector.

Later, the Ownership was transferred to Druk Holding and Investment Limited (DHI), the commercial arm of the Royal Government of Bhutan, established in 2007 upon issuance of Royal Charter in 2007 “to hold and manage the existing and future investments of the Royal Government for the long term benefit of the people of Bhutan”



Our Vision

To be innovative and efficient power utility driving the socio-economic transformation of Bhutan.



Our Mission

To provide affordable, adequate, reliable and quality electricity services to customers.

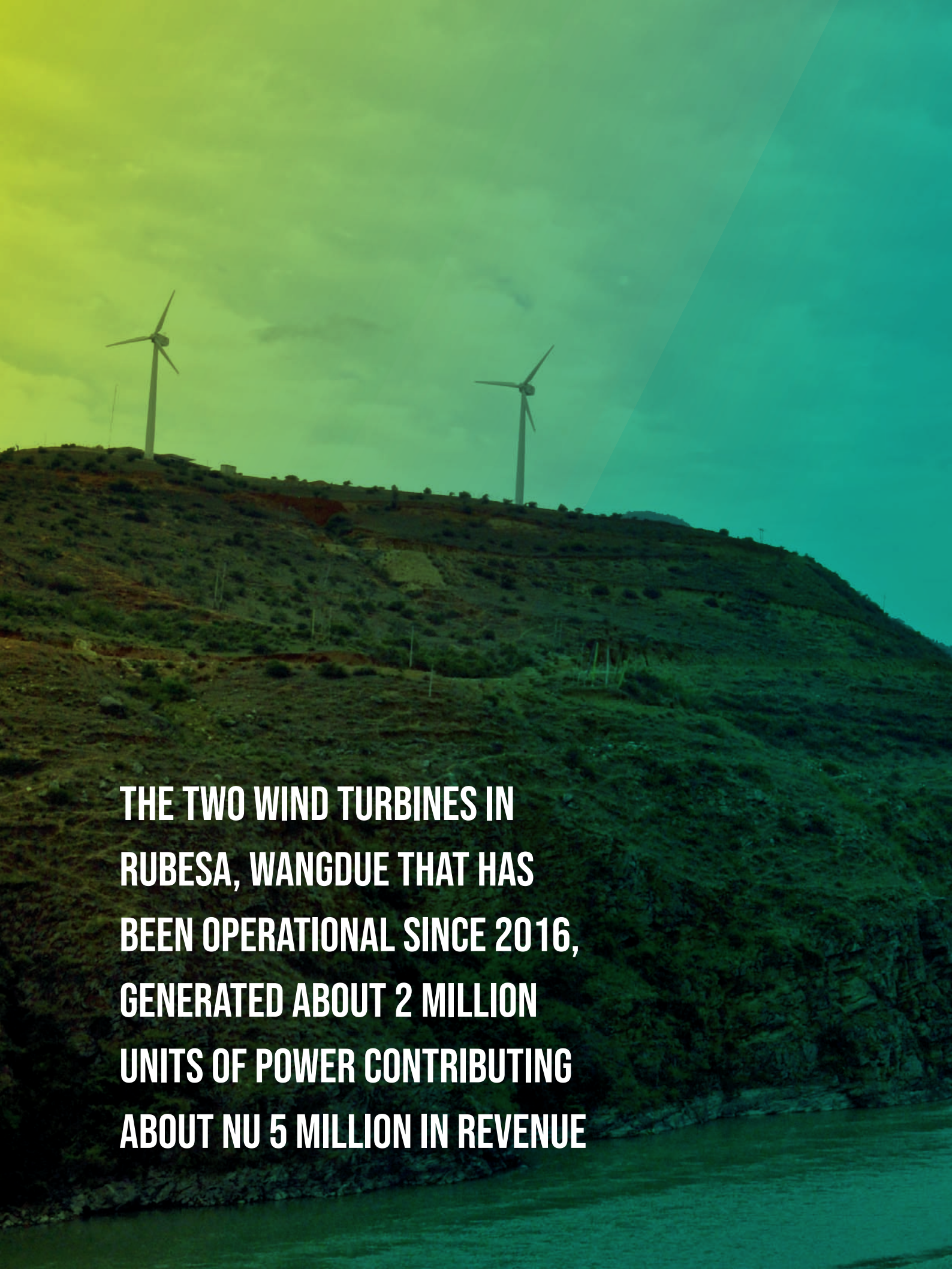


Our Culture & Value

Integrity, mutual respect for each other, professionalism, accountability, care, and “*Tha Dhamtse*”.

Destination Statement

To contribute Nu.5700 million as annual dividend to DHI in 2030.

A photograph of two wind turbines on a grassy hillside. The hillside is covered in low-lying vegetation and has a rocky base. A river is visible in the foreground. The sky is overcast. The image has a greenish-yellow color cast. A diagonal line runs from the top right corner towards the center.

**THE TWO WIND TURBINES IN
RUBESA, WANGDUE THAT HAS
BEEN OPERATIONAL SINCE 2016,
GENERATED ABOUT 2 MILLION
UNITS OF POWER CONTRIBUTING
ABOUT NU 5 MILLION IN REVENUE**

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BOARD OF DIRECTORS



Dasho Ugen Chewang

Chairman

Dasho Ugen Chewang is the current Chairman of DHI and has received Masters in Business Administration in Business Management and Accounting from Syracuse University, New York, USA. He served as Auditor General for more than nine years. He serves as Non-Independent Director on BPC Board.



Sonam Tobjey

CEO

Mr. Sonam Tobjey became the 5th Chief Executive Officer of Bhutan Power Corporation with effect from 23rd August 2018. He received his post graduate studies from University of Canberra, Australia and received Masters of Commerce degree in Accountancy. He served as the Director, Finance, BPC before assuming the current post. He serves as Non Independent Executive Director on BPC Board.



Dasho Kunzang Dorji

Member

Dasho Kunzang Dorji is currently serving as the Zimpon Wongma, Office of the Gyalpoi Zimpon. He has worked close to 25 years as a civil servant in various government agencies and international agency. He earned his professional applied arts specialization degree from Delhi University, India and Social anthropology for his MSc at the University of Oxford, the UK. He serves as Non-Independent Director on BPC Board.



Dechen Yangden

Member

Ms. Dechen Yangden currently serves as Chief Engineer for Water and Sanitation Division under the Department of Engineering Services, MoWHS. She obtained her Masters in Urban Infrastructure Management from University of Yokohama in Japan. She has been working for the Ministry for the last 16 years and was part of various donor funded projects such as World Bank before taking up post of Chief Engineer. She serves as Non-Independent director on BPC Board.


Sherab Namgay

Member

Mr. Sherab Namgay currently serves as Associate Director of Investments at DHI. He obtained Master of Business Administration (MBA) from Curtin University, Australia. He is a Certified Balanced Scorecard Professional focused in strategy formulation and execution from Balanced Scorecard Institute, USA. He serves as Non-Independent Director on BPC Board.


Kinzang Tobgay

Member

As one of the first qualified CPAs in the country, Kinzang has been in leadership positions in various public sector companies in Bhutan for the last 13 years. He has over 17 years of experience in the corporate and financial sector in Bhutan.

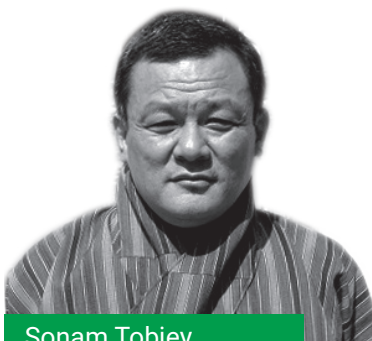
Prior to his move to the private sector, Kinzang worked 7 years with Druk Holding and Investments (DHI) and resigned from DHI while holding the position of Director (Finance). He serves as Independent Director on BPC Board.


Karma P Dorji

Member

Mr. Karma P Dorji is the Director of Department of Hydropower and Power Systems, MoEA. He received his Master's of M.SC in International Development Technology from State University of California, USA. He served as a Chief Engineer, DHPS before assuming the current post. He serves as Non-Independent Director on BPC Board.

MANAGEMENT TEAM



Sonam Tobjey

Chief Executive Officer



Pradeep Pradhan

Associate Director
Corporate Services



Shamsheer Pradhan

Associate Director
CEO



Nim Dorji

Associate Director
HRAS



Kinley Dem

General Manager
Finance & Accounts Services



Drukchu Dorji

General Manager
PSD



Thinley Gyeltshen

General Manager
TCD



Gorab Dorji

General Manager
R&DD



Sandeep Rai

General Manager
DCSD



Dechen Choling

General Manager
RED



Namgay Wangchuk

General Manager
ICD



Kunzang Tobgye

General Manager
TD

A photograph of a server room with a person's hand plugging a cable into a rack. The image has a green and blue color overlay. The hand is wearing a black watch. The rack contains several blue server units. The background shows more racks and cables.

DIRECTORS' REPORT

1. INTRODUCTION

On behalf of the Board of Directors of Bhutan Power Corporation Limited, I have the privilege to present this report on the performance of the Company for the period covering 1st January 2018 to 31st December 2018 to our shareholder, Druk Holding and Investments Ltd. (DHI), and to other relevant stakeholders.

2. SYSTEM PERFORMANCE

The demand for electricity consumption for domestic purpose has been steady and the peak demand recorded was 399.35 MW on 27th December 2018 at 1818 hours as compared to 362.09 MW recorded on 14th November 2017 at 19.00 hours. BPC's customers are categorized into High Voltage (HV), Medium Voltage (MV), Low Voltage Bulk (LV Bulk) and Low Voltage (LV) customers. The 16 HV customers have remained same for the year, whereas, MV customers have increased from 59 in 2017 to 63 in 2018 and LV bulk has reduced from 778 in 2017 to 775 in 2018. The company recorded steady increase in LV customers over the years even after completion of major RE programs. The LV customers increased from 184,277 in 2017 to 191,998 in 2018. There was addition of 7,722 customers during the year, and BPC today serves more than 192,852 customers across the country. The additional customers were mostly a result of connection of rural homes in the countryside brought about by continuing RE programs.

To meet the domestic demand for electricity 2,461.551 Million Units (MU) of energy was purchased from Druk Green Power Corporation Limited (DGPC) during the year, as compared to 2,326.384 MU during the previous year. The internal generation from embedded mini and micro hydel plants owned by the company including generation from Diesel Generation Sets was 19.24 MU during the year. BPC also imported 0.064 MU from Assam State Electricity Board (ASEB) and 0.258 MU from West Bengal State Electricity Board (WBSEB).

The total sale for the year was 2,328.44 MU as compared to 2,185.75 MU in the previous year reflecting an increase of about 6.5 % over the year. The energy wheeled for export to India for DGPC decreased to 4,437.920 MU from 5,306.564 MU in the previous year largely due to lower generation of power by DGPC and some increase in domestic consumption.

I am happy to report that BPC has been maintaining its Transmission and Distribution (T&D) losses at limits comparable within the region. Of the total energy of 6,919.03 MU received by the system during the year, 6,766.36 MU was utilized. This translates the global energy loss for the year to 2.21% as compared to 2.00% in the previous year. The domestic T&D loss (excluding wheeling) in 2018 was 6.15% as compared to 6.54% in 2017. The company has been able to maintain its losses within permissible limits due to timely preventive and planned maintenance and up-gradation of its network system.

The load flow within the system is coordinated and monitored by the Bhutan Power System Operator (BPSO). The BPSO monitors the power systems operations online to effectively dispatch the load by coordinating with generating plants of DGPC and Indian Eastern Region Load Dispatch Center at Kolkatta.

3. THE STATE OF THE COMPANY'S AFFAIRS

3.1 Financial Position

The total value of assets of the Company increased to Nu. 30,056.79 million from Nu. 28,964.16 million in 2017. There is a decrease in the net worth of the company from Nu. 22,984.53 in previous year to Nu. 21,965.80 million in 2018 due to adjustments in investment reserved on transfer of DCCL shares to DHI. The gross assets added during the year is Nu. 3,583.70 million as compared to Nu. 1,262.49 million in 2017.

During the year, the Company availed a domestic loan of Nu. 2 billion from National Pension and Provident Fund at an interest rate of 8.85% p.a. The proceeds were used to finance its capital works. With this loan, the total debt outstanding at the end of year is Nu. 8,090.99 million.

3.2 Results of Operation

The Company's main sources of revenue are from sale of electricity and wheeling charges from export. Ancillary sources include income from construction contracts and from other miscellaneous activities. The total revenue earned for the year is Nu. 9,648.26 million as compared to Nu. 11,507.14 million in 2017. The total revenue decreased by 16.15% compared to 2017 mainly due to reduction in revenue from wheeling and construction contracts.

The revenue from sale of electricity grew by 6.62% from Nu. 6,627.28 million in 2017 to Nu. 7,066.13 million in 2018. The Wheeling revenue decreased by 16.37% from Nu. 1,034.78 million in 2017 to Nu. 865.39 million in 2018. While the increase in revenue from sale of electricity is due to increase in domestic consumption, the decrease in revenue from wheeling charges is due to low generation from the generating stations, on account of poor hydrology during the year. The income from construction contract decreased substantially by 57.85% from Nu. 3,446.41 million in 2017 to Nu. 1,452.71 million in 2018 due to competition of the construction contract works related to transmission. Income from other sources decreased by 33.79% from Nu. 398.77 million in 2017 to 264.02 million in 2018.

Total expense for the year is Nu. 8,495.22 million including depreciation and amortization of Nu. 1,015.10 million as compared to Nu. 1,075.42 million for the previous year. The expenditure has decreased due to reduction in the construction expenditure during the year while expenditure on other accounts has been maintained close to previous year's expenditure.

The current tax has been provisionally assessed at Nu. 320.84 million and deferred tax at Nu. 69.89 million for the year. For the previous year it was Nu. 471.69 million and Nu. 92.91 million respectively.

Profit before income tax is Nu. 1,153.04 million as compared to Nu. 1,845.92 million in the previous year; a decrease by around 37.54%. Net profit for the year is Nu. 762.31 million as compared to Nu. 1,281.33 million in 2017. The basic as well as diluted earnings per share, for the year is Nu. 92.68 as against Nu. 155.78 for the previous year.

The company experienced a decrease in the profit for the year. On the income side, the reduction was mainly due to decrease in income from construction contracts and lower wheeling revenue. On the expenditure front, increase in Finance Costs due to increase in debt, loss from foreign exchange fluctuations on borrowings and BAS adjustments on financial instruments were the main attributing factors.

4. TRANSFER TO RESERVES

In line with the asset risk mitigation policy of the Company, an amount of Nu. 14.33 million, equivalent to 0.4% of the Nu. 3,583.70 million net asset added during the year will be added to the Company's Asset Replacement Reserve. With this transfer, the total cumulative amount under this reserve will stand at Nu. 119.12 million.

5. RECOMMENDATION FOR PAYMENT OF DIVIDEND

The Company is recommending dividend of Nu. 882,555,161 that is equivalent to 81.02% of its total Comprehensive Income for the year and 10.73% of the total pay up capital. This translates to dividend declaration of Nu. 107.30 per share meeting the expectation of the shareholder. In the previous year, dividend of Nu. 1,028,139.750 million equivalent to 78.7% of the total Comprehensive Income and representing dividend of Nu. 125 per share was paid. The company also transferred investment in shares of Dungsam Cement Corporation Ltd. of Nu. 400,000,000 and Group Investment Reserve (GIR) of Nu. 616,601,916 to DHI in 2018.

6. EXPLANATION OR INFORMATION ON EVERY RESERVATION, QUALIFICATION OR ADVERSE REMARKS CONTAINED IN THE AUDITOR'S REPORT

The auditors have issued an unqualified Audit for the year 2018.

7. CORPORATE GOVERNANCE

DHI emphasizes in enhancing good corporate governance and stresses that sound corporate governance is essential for companies in improving their operational efficiency and enhancing shareholder value. Towards this, DHI issued Corporate Governance Code 2013 which is aligned with OECD principles. The code emphasizes the importance of the board and its role played by it in guiding the company. The Company complied with the CG Code issued by DHI and the Companies Act of Bhutan 2016. Amongst other, the Company's Board had 11 meetings and 22 meetings of various Board Committees, primarily Board Tender and Technical Committee, Board Audit and Risk Committee, Board Human Resource Committee and Strategy committee.

8. CORPORATE SOCIAL RESPONSIBILITY

The initiative towards Corporate Social Responsibility (CSR) is guided by the guidelines on Corporate Social Responsibility 2013 issued by DHI. The CSR represents the obligations of business to align its actions with the objectives and values of society as a whole. It considers the surrounding environment and the communities within and outside of its business premises. In recent times, a commitment to CSR has become an important part for operating businesses.

Considering that the Country's development philosophy is guided by Gross National Happiness (GNH), the company generally make contribution towards promotion of religion, tradition, culture and sports, development of youth, assistance to schools, noble initiatives, preservation of environment and

other needy associations. In 2018, based on the requests received and considering the need, BPC, in total, donated Nu. 997,400 for various causes.

In support towards the health system, BPC continues to organize blood donation campaigns.

9. OPERATIONAL HIGHLIGHTS

The Operational Highlights are summarized below:

9.1 Power System Expansion Programs for Transmission Network

In line with its licensed activities and mandates, the company undertakes continuous investments for transmission system expansion. In addition to ongoing works, during the current year, the company has initiated construction of 66 kV GIS substation at Changgidhaphu, Thimphu, the construction of 66kV GIS substation at Damji, Gasa and the construction 132 kV AIS substation at Phuntshothang, Samdrup Jongkhar. With no new mega hydro power projects in the pipeline, the company for not have construction of new Associated Transmission System (ATS) for the Hydro Electricity Projects Authorities.

To improve the reliability of power supply, the upgradation of 220/66 Singhigaon substation from AIS to GIS substation have been completed, commissioned 10MVA 132/33kV transformer at Kilikhar substation to meet the increasing power demand of Kilikhar including the Bondeyma Industrial Estate, replaced SF6 Breakers with spring operated



66 kV GIS substation at Changgidhaphu



Retrofitting of Isolator at 220kV Semtokha substation

system at 132kV Nangkor, Kilikhar and 220kV Semtokha substation, overhauled of 9 numbers of outdoor VCB at Tintibi substation, installed numerical distance relay MICOM P442 at 132kV Deothang-Nangkor, 132kV Kanglung-Kilikhar, 132kV Kurichu-Kilikhar and 400kV lines at Malbase and retrofitted and replaced electromechanical relays with numerical relays in a phased manner.

9.2 Power System Expansion Programs for Distribution network

In order to improve power reliability and most importantly to meet the increasing load demand, distribution planning and system expansion works are carried out across the country as and when needed. Works for the expansion of primary distribution system is usually carried out as turnkey projects. Some of the noticeable works carried in the current year were the supply and construction of 33/11kv, 2 x 5MVA GIS substation at Tshongdue, Paro and the up-gradation of 33/11 kV, 1x2.5 MV AIS substation to 2x2.5 MVA GIS substation, Phobjikha, Wangduephodrang. Some of the new projects in progress are the supply and construction of 33/11kv, 2x2.5MVA substation at Denchi, Pemagatshel, and

conversion of 33kV AIS to GIS Panels at 33/11kV Changangkha Substation, Thimphu.

9.3 Rural Electrification (RE)

BPC has completed the Rural Electrification works under the electricity for all program initiated by the Royal Government of Bhutan. Under the On-Grid Rural Electrification (RE) of Off-Grid households in the country, 1,429 Off-Grid households in 15 dzongkhags will be connected to On-Grid through the loan savings from Rural Electrification Project (Phase 2) under JICA financing and RGoB as counterpart financier. These works are under advanced stage of implementation.

9.4 System Improvement Works

System improvement is a continuous process. In recent years, utilization of electrical energy increased exponentially and customer requirement and quality definitions of power has changed enormously. As the electricity energy have become an essential part of the daily life, its optimal usage and reliability and safety becomes equally important. To ensure reliable power supply, reduce losses, meet the increasing power demand and provide quality services to

the customers, the network augmentation and upgradation, replacement/re-conductoring of old conductors, replacement/up-gradation of overloaded transformers, conversion of bare conductors to Aerial Bundled Cables (ABC)/All Covered Aluminum Conductor (AAAC), retrofitting of electrical equipment and Right of Way (ROW) clearings are being carried out continuously.

The company realizing the need for real-time network view for quick decisions to optimize resources and managing demands, initiated the establishment of the Distribution Management System (DMS). The work is in advanced stage of completion and once established and operationalized, it will reduce the duration of outages, improve the speed and accuracy of outage predictions. DMS will also reduce crew patrol and drive times through improved outage locating and improve the operational efficiency. Further, the company can determine the crew resources necessary to achieve restoration objectives and lead towards effective utilization of resources between operating regions and determine when best to schedule mutual aid crews. At the end, the company expects increased customer satisfaction. The company has automated around 50 auto re-closers in 2018 to remote control and monitor the existing auto re-closers with common gateway and SCADA system and installed number of Load Break Switches in intermediate lines to improve operational

efficiency and for safety, installed Ring Main Unit (RMU) in various intermediate lines to increase or improve operational efficiency, safety and ring formation of distribution network.

To provide safe, reliable, compact and economical electrical power distribution for industrial plants, commercial buildings and other power distribution applications, the company has installed number of Unitized/Package/Compact Substations (USS/PSS/CSS) in various Dzongkhags and locations. The company has also carried out construction of cable trenches and undergrounding of overhead lines to transmit and distribute power across densely populated areas and environmentally or aesthetically sensitive areas in various Dzongkhag.

10. CORPORATE STRATEGIC PLAN (CSP)

In pursuit of mission “To provide affordable, adequate, reliable and quality electricity services to customers” and with a vision “To be innovative and efficient power utility driving the socio-economic transformation of Bhutan”, BPC has its strategies at policy and operational level- a road map, worked out in the form of the Corporate Strategic Plan (CSP) document aligned to 10 years road map of DHI.

The destination statement for the company is “To contribute Nu. 5,700 million as annual dividend



220kV Singhigaon GIS substation commissioned in 2018



Breaker overhauling at 400kV Malbase substation

to DHI in 2013", which is an increase of around 458% from present. This instills a sense of urgency to understand the underlining challenges and opportunities not only in current business operations but also explore the diversification of businesses towards meeting the shareholders requirement and importantly the expectations within the purview of Article of Incorporation.

Towards achieving the Mission, Vision and Destination statement, four strategic themes namely Customer Services Excellence (CSE); Operational and Resource Optimization Excellence (OROE); Innovation and Technology Excellence (ITE); and Business Growth Excellence (BGE) would be pursuit for the next 10 years.

11. INFORMATION TECHNOLOGY

The R&D (Research & Development) Lab have been established within the IT Division to support and explore opportunities for ICT, assess new technologies and formulates corporate ICT strategy and long-term ICT planning. This R&D Lab aspires to produce ICT tools and innovations in-house for BPC that could bring huge cost saving and system improvement.

The R&D projects were initiated as a result of intensive R&D efforts of our IT personals and were able to introduced Mobile App for Customer Payment and other services and Instant Messenger and VoIP (Voice over Internet Protocol) System. It caters audio, chat and also video services to all the BPC employees. R&D Lab strives to research and market, customer and business needs to develop new or improved viable products or services to stay relevant in the every changing technological world.

12. HUMAN RESOURCES MANAGEMENT

In any organization, human resource is the most important asset and BPC continuously strives to retain, attract and develop its human capital. With the guidance of Board HR Committee, the company

availed services of Royal Institute of Management to train our employees in carrying out Training Need Assessment (TNA) in the company and 27 employees from various offices attended the training on TNA.

The company believes that in order to keep pace with changing market demands, employees have to be equipped with right knowledge, skills, and attitude to achieve a overall objective of the company. The trainings has to be provided on continuous basis to have high standard of professional services to the customers.

Towards this, the company organizes both long term training programs (LTTP) and shot term training programs (STTP) and also facilitates learning and developments to employees to acquire right qualification, knowledge, skills, and abilities required for effective job performance.

During the year, BPC has sponsored 8 employees on full funding, 7 employees on partial funding scholarship and 8 employees under external funding Scholarship under LTTP program. BPC through LTTP program will continually keep on developing the human capital. The company during the year trained around 1540 employees trained which is around 63 % under short term training program through ex-country and in-country. Most of the in-country training was conducted using in-house capacity and facilities.

Recognizing that collective efforts are improved through increasing level of emotional intelligent, solid teamwork, trust and organizational culture that enhances the organizational effectiveness, the company has carried out the Organizational Climate Study (OCI) to provide insights on the state of the organizational climate in BPC. The study was carried out by HRAS in collaboration with National Statistical Bureau (NSB). A total of 2,318 employees were invited to participate in the survey and 2,072 have responded, which accounts for 89.39% response rate. The OCI score for 2018 was 3.55 and the company will strive to address the short comings of the expectations of our employees.

BPC also carried out an Organizational Development (OD) exercise in 2018 using management consultants from Royal Institute of Management (RIM). As part of the study, the consultants conducted several rounds of surveys, focus group discussion, consultations and meetings with employees and Management/Board of BPC. The data analysis of OD was done using McKinsey 7S framework. The final outcome of the OD was presented and approved by the Management and Board HR Committee towards the end of 2018. BPC will soon implement the findings of the OD exercise in line with the recommendations and implementation plan provided in the report. BPC shall make every effort to smoothly implement the changes with minimum disruption to the daily operations of the company.

13. CHALLENGES

Some of the major challenges faced by the Company in its pursuit of expanding its infrastructure network system and to provide uninterrupted and reliable power supply to its customers are as follows:

1. Government in anticipation of providing reliable power supply led to substantial investments to expand the network system both at the Transmission and Distribution Level. Cost recovery and returns expected in these assets will put strain in our effort to providing affordable tariff to the customers.
2. Request for shifting and relocating of the existing lines at all voltage levels.
3. Disruption in supply in the grid network of power system from natural calamities.
4. Right of way and clearance issue for new power infrastructures and their constructions.
5. Rebuilding of aging infrastructure built in the 1980's.

14. WAY FORWARD

With the Corporate Strategic Plan in place to guide the operations in the next 10 years, along with the strategic guidance and direction from our Board, the Shareholders and the strenuous efforts from our employees, the company is optimistic to overcome

the challenges and achieve operational efficiency to provide value based services to our customers. We will also bank the in-house business and technological innovations to improve our services.

ACKNOWLEDGEMENT

On behalf of the Board of Directors of the Company, I would like to place on record our sincere gratitude to the Chairman and officers of Druk Holding & Investments for their continued guidance and support during the year. Our sincere appreciation is also extended to our customers, business partners, vendors, bankers, and financial institutions.

The Board is thankful to the Royal Government of Bhutan, the various Ministries, and Regulatory Authorities in terms of the policy guidance and support. We would also like to duly acknowledge the support and cooperation rendered by all those agencies that have been associated with BPC directly or indirectly. We are also thankful to the international funding agencies for providing funding and technical support towards Rural Electrification works.


The Board would like to place on record our sincere gratitude and acknowledge the valuable contributions made by the Board of Directors who retired in 2018.

The Board would also like to extend its appreciation and acknowledge the services rendered by Mr. Gem Tshering, who served as the Managing Director of BPC from July 2015 to June 2018 for his hard work and personal initiatives.

Finally, we appreciate, commend and value the contributions made by all our employees for making BPC what it is today.

Tashi Delek!

For and on behalf of the BPC Board


 (Dasho Ugen Chewang)
 Chairman



CORPORATE GOVERNANCE REPORT

The Board of Directors of BPC is committed towards ensuring good corporate governance practices are implemented and maintained throughout the Company as a fundamental part of discharging its duties to enhance shareholder's values consistent with the principles and recommendations for best practices as set out in the Corporate Governance code.

The Board is pleased to set out below a statement which describes the manner in which it has applied the principle of the code during the year 2018.

A. THE BOARD

i. Board Charter

The Board charter sets out the principles for the operations of the Board of directors, roles and responsibilities, describes the functions and powers

of the board to ensure all the Board members are aware of their duties and responsibilities. The Board charter is in line with the Corporate Governance code of DHI.

ii. Composition of the Board

Currently, the Board constitutes of seven (7) members, comprising of one Chief Executive officer, one Independent Director and five Non-Independent Director. This composition ensures that there are majority of independent directors at all times as per the Corporate Governance Code Clause 2.4.2.ii.

The Board also ensures there is diversity and balance of skills, competence, knowledge and experience to enhance objective decision making as published in the code.

Table 1: Board Member, 2018

The details of the Board of Directors and the date of appointment

Name	Designation	Appointment Date	Description	Board of Director in other company	Status
Dasho Ugen Chewang	Chairman, Druk Holding and Investments	8 March, 2017	Chairman	BOB	Non-Independent
Mr. Karma P Dorji	Chief Engineer, Dept. of Hydropower & Power System	5 June, 2018	Board of Director		Non-independent
Dasho Kunzang Dorji	Zimpon Wongma, Office of the Gyalpoi Zimpon	5 June, 2018	Board of Director		Non-independent
Ms. Dechen Yangden	Chief Engineer, Dept. of Engineering Services, MoWHS	5 June, 2018	Board of Director		Non-independent
Mr. Sherab Namgay	Associate Director, Dept. of Investments, DHI	5 June, 2018	Board of Director	Dungsam Polymers Ltd., CDCL	Non-independent
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	5 June, 2018	Board of Director		Independent
Mr. Sonam Tobjey	Chief Executive Officer	23 August 2018	Member Secretary	RICBL, WCCL	Executive Director

Table 2: Board Members retired as on June 2018

Name	Designation	Appointment Date	Retired on	Description
Mr. Tshering Dorji	Secretary, MFA	14 March, 2016	8 March, 2017	Chairman
Mr. Karma P Dorji	Chief Engineer, Dept. of Hydropower & Power System	14 March, 2018		Member
Mr. Singye Dorji	CEO, Wood Craft Centre Ltd	14 March, 2016	5 June, 2018	Member
Ms. Deki Wangmo	Chief Budget Officer, Dept. of National Budget, MOF	14 March, 2016	5 June, 2018	Member
Lt. Mr. Lhaba Tshering	Chief Planning Officer, PPD, GNHC	14 March, 2016	September 2017	Member
Mr. Om. P. Nirola	Associate Director, Corporate Planning Department, DHI	14 March, 2016	5 June, 2018	Member
Mr. Gem Tshering	Chief Executive Officer	July 1 2016	July 2018	Member Secretary

iii. Board Responsibilities

The Board's responsibilities are in line with the Corporate Governance code Clause 2.4.1 as follows:

The Board is led by an effective and experienced Board comprising of members who exercises leadership, enterprise, integrity and provides sound judgment in transparent, accountable and responsible manner.

The Board members leads and acts in the best interest of the company and shareholders including practicing high level of good governance. All Board members are expected to protect the company's investment and increase profitability as well as uphold the core values of company with due regard to fiduciary duties.

The Board has the responsibilities in guiding on the company's strategic plans, setting company's values and standards, ensuring appropriate risk management and internal control system is in place and implemented.

The Board collectively ensures obligations to shareholders are understood and met and senior positions in the company are filled by the right person.

iv. Responsibilities of Chairman

The role of a Chairman is to guide and lead the work of the Board. The Chairman of the board shall also not chair any other Board committees.

The responsibilities of the Chairman, amongst others, are as follows:

- Lead the Board to promote high standards of governance and to ensure Board effectiveness and smooth functioning on all aspects of its role in a rims and objective manner.
- Ensure effective accountability and governance of the company, consistent with relevant legislation
- Set the agenda and preside over board meetings to ensure that adequate time is available for discussion of all agenda items, in particular, on the strategic issues
- Conduct effective Board meetings and encourage a culture of openness, active participation and constructive debate.
- Ensure accurate record of Board meetings are taken and verifying that Board decisions are implemented
- Ensure that the directors receive complete, adequate and timely information to enable quality and informed decision-making

- g. Encourage constructive relations within the Board and between the Board and Management to ensure the company is managed effectively
- h. Participate in the selection and appointment of new board directors and the CEO in close collaboration with the shareholder (s)
- i. Approve leave, ex-country travel and training of CEO
- j. Meet shareholder expectations by leading and ensuring effective annual Board and CEO evaluation processes and
- k. Develop and maintain sound relations and communications with shareholders and stakeholders. This may include representing the company's interest in meetings with ministries, foreign company representatives and with other organizations within the country.

v. Responsibilities of Chief Executive Officer

The responsibilities of the Chief Executive Officer, amongst others, are as follows:

- a. Managing the company in accordance with the strategy and performance targets. Policies and directives approved by the Board
- b. Recommending long term vision and strategy for the company to the Board
- c. Leading the Management team in managing day to day operations of the organization, its people and resources
- d. Implementing all Board approved plans, policies and performance targets
- e. Ensuring the authorities delegated from the Board are exercised in a competent manner and within the intent of such delegation and referring all matters outside his delegation to the Board for approval,
- f. Acting as the company's interface with its operating environment and the business community
- g. Protecting and enhancing the image and reputation of the company
- h. Ensuring compliance with legal and regulatory obligation

- i. Promoting leadership development and proper succession planning for key positions in the company
- j. Ensuring ethical standards as established by Board are complied with
- k. Keeping the Board apprised of all matters of significance
- l. Keeping the Board Chairman apprised of all matters of significance that occur between the Board meetings
- m. Providing the Board with accurate, relevant, timely and complete information and
- n. Other responsibilities as designated by the Board from time to time

vi. Board Meetings

In 2018, 10 Board meetings were held. The dates of the meeting and attendance of the Directors are set below:

a) Dates of Board Meetings held in 2018:

Date	Board Meeting No.
14 th February, 2018	109 th Board Meeting
9 th March, 2018	110 th Board Meeting
22 nd March, 2018	111 th Board Meeting
21 st June, 2018	112 th Board Meeting
31 st July, 2018	113 th Board Meeting
11 th October, 2018	114 th Board Meeting
25 th October, 2018	115 th Board Meeting
16 th November, 2018	116 th Board Meeting
18 th December, 2018	117 th Board Meeting
26 th December, 2018	118 th Board Meeting

b) Attendance of ex- Board Directors from 14th February till 22nd March 2018:

Name of the Board Members	Attendance
Dasho Ugen Chhewang	3/3
Mr. Singye Dorji	3/3
Mr. Karma P. Dorji	3/3
Mr. Om P. Nirola	3/3
Ms. Deki Wangmo	3/3
Mr. Gem Tshering	4/4

c) **Attendance of current Board Directors from 21st June till 26th December 2018:**

Name of the Board Members	Attendance
Dasho Ugen Chhewang	7/7
Ms. Dechen Yangden	7/7
Mr. Kunzang Dorji	5/7
Mr. sherab namgay	6/7
Mr. Kinzang Tobgay	5/7
Mr. Karma P Dorji	5/7
Mr. Sonam Tobjey	6/7

The Directors receive notices of meeting, typically at least two working days prior to the date of the meeting along with the agenda complete with full set of board papers to provide sufficient details of matters to be deliberated during the meeting.

The Company Secretary ensures to duly record and properly keep all the minutes of the Board meetings together with the decisions made by way of circular passed resolutions.

B. BOARD COMMITTEES

The Board may from time to time establish Board Committees as is considered appropriate to assist in carrying out its duties and responsibilities. The Board has delegated certain functions to the following Board Committees to assist in the execution of its responsibilities:

- Board Audit and Risk Committee
- Board Tender and Technical Committee
- Board HR Committee
- Corporate Strategic Committee

The Board appoints the members and Chairperson of each Committee. Each Board Committee operates under clearly defined terms of reference approved by the Board.

a. **Board Audit and Risk Committee**

The Audit and Risk Committee of the company comprises the following members, with one independent and 3 non- independent Directors, with the Chairman identified by the Board.

i. **Attendance of ex-Committee Members from 15th February till 17th March, 2019**

Name of Committee Members	Designation	Attendance
Ms. Deki Wangmo	Chief Budget Officer, MOF	2/3
Mr. Karma P. Dorji	Director, DHPS, MoEA	2/3
Mr. Singye Dorji	CEO, WCCL	3/3
Mr. Om P. Nirola	AD, DHI	2/3
Mr. Chokey Dorji	Chief Internal Auditor	3/3

ii. **Attendance of current Committee Members from 5th July till 25th December, 2019**

Name of Committee Members	Designation	Attendance
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	7/7
Mr. Karma P. Dorji	Director, DHPS, MoEA	6/7
Mr. Sherab Namgay	Director, CPD, DHI	7/7
Mr. Sangay Tenzin	Chief Internal Auditor, BPC	7/7

iii. **Dates of the Meeting**

In 2018, 10 Board Audit and Risk Committee meetings were held. The dates of the meeting held are set below:

Date	Board Meetings No.
15 February, 2018	20 BARC Meeting
2 March, 2018	21 BARC Meeting
17 March, 2018	22 BARC Meeting
5 July, 2018	23 BARC Meeting
20 July, 2018	24 BARC Meeting
10 September 2018	25 BARC Meeting
17 October 2018	26 BARC Meeting
9 November 2018	27 BARC Meeting
7 December, 2018	28 BARC Meeting
25 December, 2018	29 Board Meeting

The objective of the Audit and Risk Committee are, among others, is to provide assurance to the Board by giving an objective and independent review of financial, operational, administrative controls and procedures, establishing and maintaining internal controls and risk management. The detailed Board Audit committee charter can be referred in the DHI Corporate Governance Code Appendix 2, pg.37.

b. Board Tender and Technical Committee

The Tender Committee of the company comprises the following members, two independent Directors, one Non-independent Director and one non-independent Executive Director, with the Chairman identified by the Board

Name of Committee Members	Designation	Attendance
Mr. Karma P. Dorji	Director, DHPS, MoEA	4/5
Mr. Sherab Namgay	Associate Director, Dol, DHI	5/5
Ms. Dechen Yangden	Chief Engineer, DoES, MoWHS	4/5

Pursuant to the terms of reference of the Board Tender Committee, the main responsibilities of Tender Committee are as follows:

- To satisfy itself that proper procurement procedures has been followed as per the norms provided in the Procurement Manual,
- all Bidders have been provided with equal time and opportunity for submission of bids,
- modifications of the bidding documents, if any, have been communicated simultaneously to all Bidders,
- response to any Bidder's query has been sent to all Bidders simultaneously,
- no specific Bidder / Bidders have been put to undue advantage / disadvantage due to actions of BPC,
- that the evaluation committee has carried out the work in strict compliance to the terms of the tender
- In 2018, 6 Board Tender and Technical Committee meeting was held. The dates of the meeting is listed as follows:

Date	BTTC Meeting No.
14 August, 2018	1 st BTTC Meeting
28 August, 2018	2 nd BTTC Meeting
10 Sept. 2018	3 rd BTTC Meeting
15 Nov. 2018	4 th BTTC Meeting
8 December, 2018	5 th BTTC Meeting

C. BOARD HR COMMITTEE

The function of The Board Level Human Resource Committee is to assess the proposals related to the Human Resource (HR) issues recommended by the Management for approval or recommendation to the BPC Board.

The Board HR Committee of the company comprises the following members, all being appointed by the Board from time to time and chairman identified by the Board. The AD, HRAS is the member secretary.

i. Attendance of ex-Committee Members on 12 March, 2018

Name of Committee Members	Designation	Attendance
Mr. Om Prakash Nirola, Chairperson	Associate Director, CPD, DHI	1/1
Dasho Ugen Chewang, Member	Royal Research & Advisory Council	1/1
Mr. Singye Dorji, Member	CEO, Woodcraft Centre	1/1
Mr. Gem Tshering, Member	MD, BPC	1/1
Mr. Nim Dorji, Member Secretary	AD, HRAS	1/1

ii. Attendance of current Committee Members from 16th August till December 2018

Name of Committee Members	Designation	Attendance
Ms. Dechen Yangden	Chief Engineer, MoWHS	3/3

Dasho Kunzang Dorji	Zimpon Wongma	2/3
Mr. Sherab Namgay	AD, Dept. of Investments, DHI	3/3
Mr. Sonam Tobjey	CEO, BPC	3/3
Mr. Nim Dorji, Member Secretary	AD, HRAS	3/3

The roles and responsibilities of Board HR Committee but not limited to are as follows:

- Review proposals submitted by the Management and approve or recommend to the Board.
- Carry out the Selection Interview for Head of Wings/Services.
- Carry out any other responsibility related to HR as assigned or delegated by the BPC Board.

The Board HR Committee may also suggest proposals and direct Management to undertake the study and present the proposal to Committee.

D. BOARD STRATEGIC COMMITTEE

The Board Strategic Committee of the company comprises the following members appointed by the Board.

Name of Committee Members	Designation	Attendance
Mr. Sherab Namgay	AD, Dept. of Investments, DHI	2/2
Mr. Karma P. Dorji	Director, DHPS, MoEA	2/2
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	2/2

E. DIRECTOR'S REMUNERATION

The DHI will determine the sitting fee of the Board members. The fees are fixed sum and not by a commission on or percentage of profits or turnover.

The remuneration of the Board Directors for the year 2018 is as follows:

Directors	Fees
Full Board	Nu. 586,000.00
Board Audit and Risk Committee	Nu. 173,460
Board Tender Committee	Nu. 104,920 (to confirm)
Board HR Committee	Nu. 89,000
Board Strategic Committee	Nu. 51,940
Total	Nu. 941,660

F. ANNUAL GENERAL MEETING

The 15th Annual General Meeting was held on 22 March, 2018 at the Conference Hall, BPC Head Office with the representatives from DHI. The meeting discussed on the consideration of audited accounts for the financial year ended 31st December, 2017 and auditors' report; declaration of dividend and transfer of DCCL shares.

The AGM also discussed on the appointment and retirement of directors and remuneration of the Chief Executive Officer. As per the section 138 of the Companies Act of Bhutan 2016, the Directors need to retire during AGM. Ms. Dechen Yangden, Chief Engineer, MoWHS retired from BPC Board, while Mr. Karma P. Dorji Director, DHPS, MoEA term extension for another 2 years was proposed. The AGM endorsed and extended Mr. Karma P. Dorji's term for 2 years.

G. RISK MANAGEMENT AND INTERNAL CONTROL

The Board continues to provide the necessary drive and oversight function to institutionalize, strengthen and embed Risk Management function across all levels of corporate structure. Similar to the past year, the Board also takes responsibility to oversee the identification, analysis, approval of mitigation strategies, and reporting of risk control activities. As BPC gains maturity in the implementation of Risk Management and Internal Control frameworks, the

Risk Management Division (RMD) has come up with a company-specific Risk Management Manual which is expected to be formally launched in 2019.

The process of identification and management of risks faced by each department continues to be the key aspect of risk management and control improvement functions in BPC. However, the scope of implementation is now expanded to include the Regional Corporate Offices (RCOs) and Divisions under them. The Board has also made the Heads of Departments and Services to be the overall Risk Focal Person of their respective functional and administrative areas, mandating them with the identification of key area-specific risks and implementation of risk mitigation frameworks, including reporting functions in collaboration with RMD.

RMD, with guidance from the Board continues to focus on improving risk assessment tools and templates, as well as providing trainings and conducting meetings with internal stakeholders.

The Management assumes the overall responsibility to implement and embed risk management and internal control processes at the enterprise level and continues to provide assurance to the Board on the satisfactory implementation of due processes to identify, analyze, evaluate, manage and monitor significant risks present in the company's internal and external environments.

The Board shall continue to provide all necessary support to mainstream and 'culturalize' risk management processes within the company, with focus on capacity building and organizational structure.

H. CORPORATE SOCIAL RESPONSIBILITY

In line with the Company's guideline on the CSR of DHI, the company ensures to implement meaningful and sustainable CSR programs under three basic categories viz. legal compliance, operation and charitable contributions.

The objective of CSR is to provide support to government and be responsible for the better environment, improved community and society's lives around which, the company operates. Further, in line with its business operation, the company also aims to minimize and mitigate the impact of its businesses on the environment and society through various programs such as planting trees, donating blood and making charity contribution etc.

In 2018, BPC has contributed Nu. 997,400/- for various activities keeping within the approved CSR budget by DHI.

I. OTHER ACHIEVEMENT

c. *Transmission Construction Department*

In line with its licensed activities and mandates, the Company undertook continuous investments for system expansion. The following construction works were ongoing or initiated during the year for power system expansion:

- a) 220/33 kV Substation at Dagapela, Dagana;
- b) 132 kV Double Circuit transmission line from Kanglung to Phuntshotang and Motanga to Nganglam;
- c) 132/33 kV substation at Motanga, Samdrup Jongkhar and 132 kV bay extension at Kanglung and Nganglam substation;
- d) 66 kV transmission line from Thimphu to Gasa;
- e) 66/33/11 kV Substation at Pangbesa, Paro and 66 kV Double Circuit transmission line (LILO to the substation) at Pangbesa;
- f) 66 kV transmission line from Jemina to Changidaphu, Thimphu.
- g) 132/33 kV Substation at Phuntshothang;
- h) 66/33 kV GIS substation at Changidaphu, Thimphu; and
- i) 66/33 kV GIS substation at Damji, Gasa.
- j) 66 kV Bay extension at 66/33/11 kV Dechencholing substation.

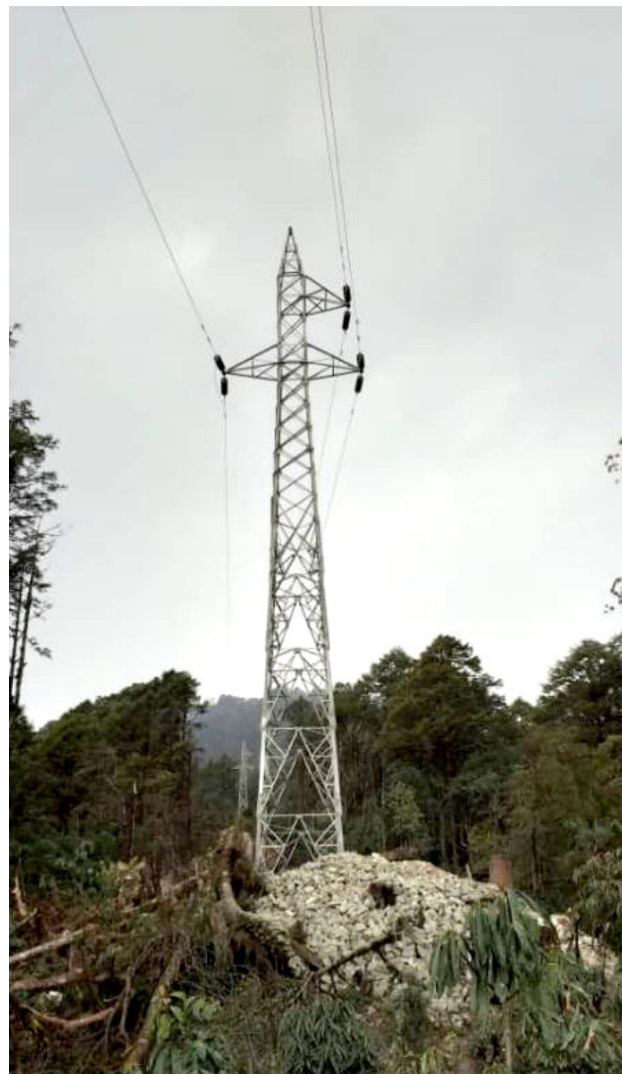
The 66/33/11 kV substation and 66 kV D/C transmission line works at Pangbesa, Paro were completed and successfully test charged on 12th



66/33/11 kV Substation at Pangbesa, Paro



220/33 kV Substation at Dagapela, Dagana



66 kV transmission line from Thimphu to Gasa



Construction of 66/33 kV GIS substation at Damji, Gasa

May, 2018. Power required for the Royal Academy Institutions and nearby areas are fed from this new substation. Further, the substation will also improve the overall power supply reliability of Paro Dzongkhag.

Construction of the 220/33 kV substation at Dagapela is provisionally completed, charged and the load of Dagana dzongkhag is fed from this new substation. The substation will also substantially improve the power supply reliability of Dagana dzongkhag and cater any increased load demand of the area.

On the Associated Transmission System (ATS) for the Hydro Electric Project Authorities the company was engaged in the following construction works for the year:

- a) Two numbers 400 kV D/C transmission lines from pothead yard of Punatsangchhu-I Hydroelectric Project to Lhamoizingkha is taken up by BPC as deposit work for PHPA I for the evacuation of power from Punatsangchhu-I Hydroelectric Project. The line is completed, test charged and ready for evacuation of power.
- b) Two numbers 400kV D/C transmission lines from pothead yard of Mangdechhu Hydroelectric Project to Jigmeling is taken up by BPC as deposit work for MHPA for the evacuation of power from Mangdechhu Hydroelectric Project. The line is completed, test charged and ready for evacuation of power.
- c) One number 400 kV D/C transmission line from pothead yard of Punatsangchhu-II Hydroelectric Project to Jigmeling is taken up by BPC as

deposit work for PHPA II for the evacuation of power from Punatsangchhu-II Hydroelectric Project. The line is completed, test charged and ready for evacuation of power.

- d) One number 132kV Double Circuit transmission line from Merung to Corlung, 132/33kV substation at Corlung in Trashiyangtse and 33 kV Sub-transmission line is taken up by BPC as deposit work for Kholongchhu Hydroelectric Project for providing construction power supply to the Kholongchhu Hydroelectric Project. The works are substantially completed and will be ready for commissioning in first quarter of 2019.
- e) One number 132 kV D/C from Mangdechhu to Yurmoo substation as a deposit work from MHPA. The works is being implemented departmentally and is substantially completed and ready for test charging.
- f) One number 132 kV D/C from pothead yard of Nikachhu HEP to pothead yard of Mangdechhu HEP as a deposit work from THyE. The work is ongoing.
- g) Pile Foundation for 2 Nos. 400 kV D/C dead-end tower for Punatsangchhu-I Hydroelectric Project. The contract for the same was awarded in 2018 and the work is ongoing.

The major works related to the Associated Transmission System (ATS) for the Hydro Electric Project Authorities are successfully completed, final joint inspections carried out, test charged and are now ready for operation.

A photograph of two white wind turbines in a lush green forest. The turbines are positioned in the foreground, with a dense forest of green trees in the background. The text "AUDITORS' REPORT" is overlaid in white, bold, sans-serif font in the bottom right corner.

AUDITORS' REPORT

S.P. CHOPRA & CO.
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BHUTAN POWER CORPORATION LIMITED

Opinion

We have audited the financial statements of **Bhutan Power Corporation Limited** ("the Company"), which comprise the Statement of Financial Position as at December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and of its financial performance its cash flows for the year then ended, in accordance with the Bhutanese Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

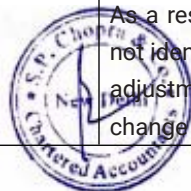
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.



Key Audit Matters	How the matter was addressed in the audit
<p><u>Fair Value measurement of Financial Instruments</u></p> <p>(Refer to Note 3.8 to the financial statements)</p> <p>Fair value of financial assets and financial liabilities has been measured using valuation techniques including the Discounted Cash Flow (DCF) model etc. where the financial instruments are not quoted in active market. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility, which involve high degree of the estimation and judgement and could affect the reported fair value of financial instruments.</p>	<p><u>Our Audit Procedure :</u></p> <p>The Company has carried out the valuation of the Financial Instruments after applying their own judgment and estimates. We have conducted the verification of the data provided to us by the Company with respect to its correctness and completeness, as compared to the financial accounts / records of the Company, and has held closed interaction with the management to understand their process and results and the implementation and usage of valuation models. This included the review of the controls over adjustments to mitigate model limitations and assumptions. We have particularly focused more on the borrowings, grants and retention money (as they constitute 41% of the total liabilities of the Company) by adopting audit programmes and process to ensure the coverage of each of these significant item individually so as to ensure its correct fair valuation by reviewing the assumption and technique model used by the management of the Company.</p> <p><u>Our Results:</u></p> <p>The results of our testing were satisfactory and we considered the fair value of the financial instruments assets and liabilities recognised to be acceptable.</p>
<p><u>Useful lives of Property, Plant & Equipment</u></p> <p>(Refer to Note 3.3 to the financial statements)</p> <p>The property, plant and equipment are depreciated on a straight-line basis over their respective useful lives, as estimated by the management. These estimations are based on changes in the expected level of usage, technological developments, level of wear and tear, which involve high degree of the estimation and judgement and could affect the reported residual value and depreciation of the assets. As the value of property, plant and equipment is substantial i.e. Nu. 23038 million, which is 77% of the total assets of the Company, therefore any change in these estimates or actual results could have a substantial impact on the profit / assets in future years and completeness and accuracy of the financial statements.</p>	<p><u>Our Audit Procedure :</u></p> <p>We obtained, understood and evaluated the management's estimations and specifically performed worked as under:</p> <ul style="list-style-type: none"> - Comparing the key assumptions, use within the impairments models to the historic performance of the respective group of assets and approved estimates. - Benchmarking the key assumptions, use with in the impairment models, including price forecast, inflation and discount rates, industry comparison and past history of the replacement age etc. and repairs requirements / cost etc. <p><u>Our Results:</u></p> <p>As a result of performance of above procedures we have not identified any circumstances that would led to material adjustments to the carrying value of these assets, or change in their useful lives.</p>



<p><u>Reliability and Security of IT System</u></p> <p>The financial reporting process is highly dependent on information technology and the availability of complete and accurate electronic data due to the size and the complexity of the Company. The inadequate / in correct data feeding or inappropriate granting of or ineffective monitoring of access rights to IT systems, or inadequate security of the IT system and electronic data, if any, therefore, could present a risk to the accuracy of financial reporting, and could have a material effect on the completeness and accuracy of the financial statements.</p>	<p><u>Our Audit Procedure :</u></p> <p>We obtained an understanding of the Company's business IT related control environment. Furthermore we conducted a risk assessment and identified IT applications, databases and operating systems that are relevant to our audit. For relevant IT-dependent controls within the financial reporting process (so-called IT application controls) we identified supporting general IT controls and evaluated their design, implementation, and operating effectiveness. We tested key controls particularly in the area of access protection and linkage of such controls to the completeness and accuracy of financial reporting.</p> <p><u>Our Results:</u></p> <p>Based on the results of our key controls testing and substantive audit procedures, we consider the IT access management in the financial reporting process, generally address the requirements for completeness and accuracy of financial reporting relevant data. In cases where we identified control deficiencies, we found that compensating controls were in place and tested other compensating evidence to address the risk of material misstatement over the financial statements.</p>
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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Bhutanese Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate they could reasonably be



expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan, 2016, we enclose in the **Annexure-A** hereto statement on the 'Minimum Audit Examination and Reporting Requirements' to the extent applicable to the Company.

As required by Section 265 of the Companies Act of Bhutan, 2016, we report that;

- i. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii. in our opinion, proper books of accounts have been kept by the Company so far as appears from our examination of those books;
- iii. the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows dealt with by this report are in agreement with the books of account.
- iv. based on the information, explanations and management representations received during the course of our audit, the Company has complied with all the applicable and relevant legal and regulatory requirements.

Place: Thimphu
Dated: 11.03.2019



For S.P. CHOPRA & CO.
Chartered Accountants
ICAI Firm Regn. No. 000346N



(Gautam Bhutani)

Partner
M. No. 524485

ANNEXURE - A**TO AUDITOR'S REPORT TO THE MEMBERS OF BHUTAN POWER CORPORATION LIMITED****Report On 'Minimum Audit Examination and Reporting Requirements' for the year 2018**

1. The Company has maintained proper records of the property, plant & equipment in the assets register maintained in SAP to show full particulars including quantitative details and situation of the property, plant & equipment. As explained to us, the assets have been physically verified by the management during the year in a phased/periodical manner which in our opinion is reasonable having regard to the size of Company and nature of its assets. In some cases, the impact of discrepancies noted in the physical verification has not been given in the accounts as the same, as informed, are under reconciliation, however, considering the nature of the discrepancies, as explained to us, there will be no material impact on the accounts.
2. None of the property, plant & equipment have been revalued during the year.
3. As explained to us, the physical verification of stores and spares and ISU material etc. were conducted during the year and as the Company is engaged in transmission and distribution of electricity, there is no stock of raw material and finished goods and as such the question of physical verification of raw materials and finished goods does not arise.
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 reasonable and adequate in relation to the size of the Company and the nature of its business.
5. In the case of some units/divisions, discrepancies were noted on physical verification of the stock, which as informed were under reconciliation and are yet to be adjusted in the accounts and impact, if any, will be taken at the time of reconciliation. However, considering the nature of the discrepancies as explained to us, there will be no material impact on the accounts.
6. In our opinion and according to the information and explanations given to us the Company 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.
7. As the Company is engaged in transmission and distribution of electricity, there is no question of quantitative reconciliation of the raw materials and finished goods, however, quantitative reconciliation is carried out at the end of the accounting year in respect of electricity.
8. Based on our test verification and according to the information and explanations given to us, the Company has the adequate system of identification of the obsolete, damaged, slow / non-moving, and surplus goods / inventory and accordingly has made the necessary provision towards the same in the accounts.
9. Based on our test verification and according to the information and explanations given to us, the Company has the adequate system for disposal of the obsolete and surplus inventories, and the proceeds from such disposals were found to be accounted for properly.
10. Based on our test verification and according to the information and explanations given to us the material losses and discrepancies noted during physical verification of stock wherever written-off/adjusted were as per the approval of the appropriate authorities



11. 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 applicable Accounting Standards issued by the Accounting and Auditing Standard Board of Bhutan (AASBB). Further, there is no deviation in the basis of valuation, as compared to the earlier period/year.
12. The Company has taken secured / unsecured loans from National Pension and Provident Fund and unsecured loans from the Royal Government of Bhutan. The rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the Company. The Company has not taken any loan from any companies under the same management.
13. The Company has not granted any loan to other companies, firms or other parties, except the advances given in the normal course and as per the requirement of the business, therefore the said clause is not applicable.
14. The loans / advances granted by the Company to its officers/staff are as per the provisions of service rules or as per the business requirement. No instance of excessive / frequent advances or accumulation of large advance against particular individual has been noted during our test verification.
15. In our opinion and according to the information and explanations given to us there are 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.
16. There is a reasonable system of authorization at proper levels, and adequate system of internal control commensurate with the size of the Company and nature of its business, on issue of stores and allocation of material and labor to the respective jobs.
17. In our opinion and according to the information and explanations given to us there is adequate system of competitive biddings, commensurate with the size of the Company and nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets. Further, the comments on the system of sale of goods and services are not applicable as the Company is engaged in the transmission, distribution, sale and purchase of electricity which is regulated by the Bhutan Electricity Authority.
18. As per the information and explanations given to us and based on the declarations received from the Directors, there is no transaction for purchases and sale of goods and services made in pursuance of contracts or arrangements entered into with the Director/s or any other party related to the Director/s or with companies or firms in which the Director/s are directly or indirectly interested. However, as the Directors of the Company are all Government nominees, there are some transactions with other Government Companies/Agencies, which were generally found to be as per the directives, sanctions, rules and regulations of the Government.
19. According to the information and explanations given to us, and on the basis of our test verification of the accounts and other records etc. to the best of our knowledge, no personal expenses have been debited to the Statement of Comprehensive Income other than those payable under contractual obligations / service rules.
20. In our opinion and according to the information and explanations given to us, the unserviceable or damaged stores or other items wherever identified have been properly dealt with and accounted for in the accounts.



21. As the Company is engaged in transmission and distribution of electricity, there is no raw material and finished goods and as such this clause is not applicable. However, there are transmission/energy losses in the transmission of the electricity for the control of which the Company has laid down control measures and responsibilities.
22. As the Company is engaged in transmission and distribution of electricity, there is no question of maintenance of records for production of finished goods, by products. However, reasonable records of energy received and energy distributed are maintained by the Company to control transmission and distribution of electricity.
23. In our opinion and according to the information and explanations given to us adequate records are being maintained by the Company in respect of generation and sale/disposal of scrap and unserviceable items. Further, as informed, there are procedures of reporting of the scraps and unserviceable items identified/disclosed at the units to the Management for approval of sale/disposal and are auctioned/dealt with in accordance with the sanctions and laid down procedures.
24. Based on test verification of the records and as per the information and explanations given to us, in our opinion, the Company is regular in depositing its rates and taxes, duties, royalties, provident fund and other statutory dues with the appropriate authorities. Further, the corporation tax was found to be adequately computed and deposited timely in accordance with the current applicable taxation laws, and has been appropriately disclosed in the financial statements.
25. Based on test verification of the records and as per the information and explanations given to us, there was no undisputed amount payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions at the yearend other than tax deducted at source (TDS) which was later on paid within the stipulated time period. During the year, *the Company transferred its investments in equity shares of a company to its Holding Company, DHI, as dividend of Nu. 400 million from Group Investment Reserve (GIR). The TDS of Nu. 44.44 million on the same though provided as liability in the financial statement, has not been paid so far, however, we are informed that the same will be paid in the year 2019, along with the interest on delayed payment, if any required, as per the taxation laws.*
26. Based on our test verification of the records and as per the information and explanations given to us, There is a reasonable system of allocating man-hours utilized to the respective jobs, commensurate with the size of the Company and nature of its business.
27. The Company is engaged in distribution and sale of electricity, prices for which are regulated by the Bhutan Electricity Authority, and therefore the said clause is not applicable.
28. The Company 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.
29. As there is no sale through commission agents, this clause is not applicable to the Company.
30. 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.
31. The Company generally has surplus cash/bank balances and based on future requirements, funds are invested in Fixed Deposits with Banks.



32. According to the information and explanations given to us, and on the basis of test examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Company are lawful and intra vires to the Articles of Incorporation of the Company.
33. On the basis of our test verification and according to the information and explanations given to us, the Company has system and procedures for obtaining the approval of the Board/delegated authority for all capital investment decisions and investments in new projects/ventures are made after considering the technical and economic feasibility of such projects as per the stipulated procedures.
34. The Company has an adequate and effective budgetary control mechanism.
35. As the Company is engaged in transmission and distribution of electricity and in no manufacturing activities, the said clause is not applicable.
36. In our opinion and according to the information and explanations given to us, other than the remunerations and sitting fee to the Chief Executive Officer, and sitting fees to other Directors, no other payments in cash or in kind, has been paid to them or any of their relatives, in the nature of remuneration or commission. The remunerations and sitting fees paid to the Chief Executive Officer, and the Directors, are disclosed in the Financial Statement.
37. As per the information and explanations given to us and based on our review of the transactions the directives of the Board have been found to be complied with by the Company.
38. The Company is engaged in distribution and sale of electricity, the prices for which are fixed/regulated 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 review of the records and documents, price sensitive information, to the best of our knowledge, have not been transmitted by any officer of the Company, unauthorisedly to any other person with intent to benefit themselves.
39. On the basis of test examination of books and records, in our opinion and to the best of our knowledge, proper records are kept for inter unit/branch transactions and services.
40. As per the information and explanations given to us and based on our review, there are no machinery/equipment which are acquired on lease or leased out to other by the Company.
41. Computerized Accounting Environment :
 - a) The organizational and system development controls and other internal controls were generally found to be adequate in relation to the size and the 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) The operational controls were generally found to be adequate to ensure correctness and validity of input data and output information.
 - e) Adequate measures are in place to control unauthorized access over computer installations and files.
 - f) As informed, wherever there is data migration during change over to new system, it is managed effectively to ensure completeness and integrity of data as well as smooth operation of the system.



42. General :

- a) Based on the net asset position reflected by the Statement of Financial Position as at December 31, 2018 and audited by us in accordance with the International Standards on Auditing and on the basis of such other tests as we considered necessary in this regard, we have no reason to believe that the Company is not a going concern on the Statement of Financial Position date.
- b) According to the information and explanations given to us and based on the Compliance Checklist compiled by the Company, the Company has complied with the provisions of The Companies Act of Bhutan, 2016 *except for the remarks/observations mentioned in the checklist therein.*
- c) *The audit of the Company conducted by us is governed by The Companies Act of Bhutan, 2016 and scope of work is limited to the examination and review of the Financial Statements as provided to us by the management. In the course of audit we have considered the compliance of the provisions of the said Companies Act and its Article of Incorporation. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Company, as comprehensive Compliance Reporting and Recording System of the Company 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 is properly impacted / disclosed in the accounts.*
- d) According to the information and explanations given to us, the Company has followed the Corporate Governance, which is in accordance and compliant of the provisions of the Corporate Governance Code and the Ownership Policy developed by the Druk Holding and Investments Ltd., the Companies Act of Bhutan, 2016 and other statutory requirements, to the extent as applicable to the Bank.
- e) Financial and Operational Resume of the Company has been given in enclosed Exhibit-I.

For S.P. CHOPRA & CO.

Chartered Accountants

ICAI Firm Regn. No. 000346N

**(GAUTAM BHUTANI)**

Partner

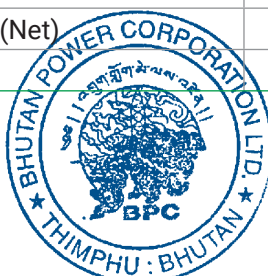
Membership No. 524485

Place: Thimphu**Dated: 11.03.2019**

STATEMENT OF FINANCIAL POSITION

(Amount in Nu.)

	Note	As at December 31, 2018	As at December 31, 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	23,038,202,033	21,992,373,551
Intangible assets	6	65,061,864	14,576,623
Investments	7	-	155,590,324
Long-term loans and advances	8	535,714	459,654
Other receivables	9	199,330	199,330
Other non-current assets	10	505,962,594	947,327,154
Total non-current assets		23,609,961,535	23,110,526,636
Current assets			
Inventories	11	320,200,209	364,370,465
Amounts due from customers for contract work	12	3,879,746,629	3,601,510,071
Trade & other receivables	13	441,616,179	584,547,811
Cash and cash equivalents	14	470,756,785	516,232,504
Short-term loans and advances	15	1,017,493	3,565,132
Other current assets	16	1,333,493,332	783,403,227
Total current assets		6,446,830,627	5,853,629,210
TOTAL ASSETS		30,056,792,162	28,964,155,846
EQUITY AND LIABILITIES			
Shareholder's Equity			
Share Capital	17	8,225,118,000	8,225,118,000
Retained earnings		4,195,068,245	4,865,946,473
Investment Reserve		572,157,472	616,601,916
Asset Replacement Reserve		104,785,492	99,735,543
Other comprehensive income/(loss)		(20,568,299)	(347,528,484)
Total Shareholder's equity		13,076,560,910	13,459,873,448
Liabilities			
Non-current liabilities			
Borrowings	18	7,652,348,999	5,649,761,948
Deferred grants	19	1,407,709,019	1,427,794,029
Deferred Customer's Contribution	20	133,927,982	9,163,793
Other payables	21	588,715,827	1,449,646,292
Employee benefit liabilities	22	414,101,878	456,216,180
Deferred Income Tax liabilities (Net)	23	844,490,834	774,604,080
Total Non-current liabilities		11,041,294,539	9,767,186,322



STATEMENT OF FINANCIAL POSITION (Contd.)

(Amount in Nu.)

	Note	As at December 31, 2018	As at December 31, 2017
Current liabilities			
Borrowings	18	438,639,273	329,861,141
Deferred grants	19	51,514,024	51,514,024
Deferred Customer Contribution	20	10,460,990	864,840
Amounts due to customers for contract work	12	1,212,126,319	1,774,697,779
Trade & other payables	24	3,879,095,627	3,022,379,477
Employee benefit liabilities	22	215,591,468	228,992,124
Income tax payable (net of advances)	25	45,439,794	223,295,945
Other current liabilities	26	86,069,218	105,490,746
Total current liabilities		5,938,936,713	5,737,096,076
Total liabilities		16,980,231,252	15,504,282,398
TOTAL EQUITY AND LIABILITIES		30,056,792,162	28,964,155,846

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



Offtg. General Manager (FAS)



Director



Chief Executive Officer



Chairman

As per our report of even date attached
For S.P. CHOPRA & CO.
Chartered Accountants
ICAI Firm Registration No. 000346N

Place: Thimphu
Dated: 11.03.2019


(GAUTAM BHUTANI)
Partner
Membership No. 524485


STATEMENT OF COMPREHENSIVE INCOME

(Amount in Nu.)

	Note	For the year ended	
		December 31, 2018	December 31, 2017
Revenue			
Income from sale of electricity		7,066,133,188	6,627,181,985
Income from construction contracts	27	1,452,705,402	3,446,408,145
Wheeling charges		865,394,590	1,034,780,005
Other income	28	264,022,181	398,774,526
Total Revenue		9,648,255,361	11,507,144,661
Expenditure			
Purchase of electricity		3,913,866,281	3,699,273,937
Construction material consumed and sub-contracting charges		1,335,246,611	3,132,552,311
Operation and maintenance expenses	29	455,376,894	427,180,870
Employee benefit expenses	30	1,008,990,224	1,011,430,738
Finance costs	31	352,888,675	255,895,343
Loss/(Gain) on foreign currency fluctuation (net)		208,944,269	(76,420)
Depreciation and amortization expenses		1,015,104,952	917,419,650
Other expenses	32	204,800,352	217,548,274
Total Expenditure		8,495,218,258	9,661,224,703



STATEMENT OF COMPREHENSIVE INCOME (Contd.)

(Amount in Nu.)

	Note	For the year ended	
		December 31, 2018	December 31, 2017
Profit before income tax		1,153,037,103	1,845,919,958
Tax expenses	25.1		
- Current tax – current year		262,495,503	471,686,787
- Current tax – earlier year's		58,343,375	-
- Deferred tax		69,886,754	92,905,310
Net Profit for the year		762,311,471	1,281,327,861
Earnings per share ('EPS')	33		
Basic/Diluted EPS (Nu.)		92.68	155.78
Profit for the year		762,311,471	1,281,327,861
Other comprehensive income/(loss):			
Fair Valuation of Investment		244,409,676	(47,368,490)
Actuarial gain		82,550,509	28,865,928
Total comprehensive income for the year		1,089,271,656	1,262,825,299

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.



Offtg. General Manager (FAS)



Director



Chief Executive Officer



Chairman

As per our report of even date attached
For S.P. CHOPRA & CO.
Chartered Accountants
ICAI Firm Registration No. 000346N

Place: Thimphu
Dated: 11.03.2019


(GAUTAM BHUTANI)
Partner
Membership No. 524485


STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

(Amount in Nu.)

	Equity Share capital Refer Note 17	Retained earnings	Investment Reserve	Asset Replacement Reserve	FVOCI- Investment	Actuarial gains/ (losses)	Total Equity
Balance as at January 1, 2018	8,225,118,000	4,865,946,473	616,601,916	99,735,543	(244,409,676)	(103,118,808)	13,459,873,448
Net profit for the year	-	762,311,471	-	-	-	-	762,311,471
Other comprehensive income/(loss):							
Actuarial gain	-	-	-	-	-	82,550,509	82,550,509
Fair valuation of Investment	-	-	-	-	244,409,676	-	244,409,676
Transfer to Investment Reserve	-	(400,000,000)	400,000,000	-	-	-	-
Transfer to Asset Replacement Reserve	-	(5,049,949)	-	5,049,949	-	-	-
Transaction with the owners:							
Payment of Dividends for the year 2017	-	(1,028,139,750)	-	-	-	-	(1,028,139,750)
Adjustment on transfer of investment to DHI (Refer Note 39.b)	-	-	(444,444,444)	-	-	-	(444,444,444)
Balance as at December 31, 2018	8,225,118,000	4,195,068,245	572,157,472	104,785,492	-	(20,568,299)	13,076,560,910

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.



	Equity Share capital	Retained earnings	Investment Reserve	Asset Replacement Reserve	FVOCI-Investment	Actuarial gains/(losses)	Total Equity
	Refer Note 17						
Balance as at January 1, 2017	8,225,118,000	5,231,358,252	616,601,916	93,413,037	(197,041,186)	(131,984,736)	13,837,465,283
Prior period Restatements due to:							
- Actuarial Valuation of Separation Benefits	-	(46,877,000)	-	-	-	-	(46,877,000)
- Adjustment for Interest on Borrowings	-	(144,510,225)	-	-	-	-	(144,510,225)
Restated Balance as at January 1, 2017	8,225,118,000	5,039,971,027	616,601,916	93,413,037	(197,041,186)	(131,984,736)	13,646,078,058
Net profit for the year	-	1,281,327,861	-	-	-	-	1,281,327,861
Other comprehensive income/(loss):							
Actuarial Gain	-	-	-	-	-	28,865,928	28,865,928
Fair valuation of investment	-	-	-	-	(47,368,490)	-	(47,368,490)
Transfer to Asset Replacement Reserve	-	(6,322,506)	-	6,322,506	-	-	-
Transaction with the owners:							
Payment of Dividends for the year 2016	-	(1,449,029,909)	-	-	-	-	(1,449,029,909)
Balance as at December 31, 2017	8,225,118,000	4,865,946,473	616,601,916	99,735,543	(244,409,676)	(103,118,808)	13,459,873,448

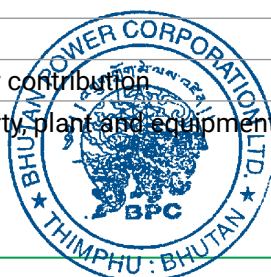
The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.



STATEMENT OF CASH FLOWS

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Cash flows from / (used in) operating activities		
Profit before income tax	1,153,037,103	1,845,919,958
Adjustments for:		
Depreciation and amortization expenses	1,015,104,952	917,419,650
Loss on disposal of property, plant and equipment	35,952,055	43,764,205
Interest expenses on borrowings	274,334,534	155,172,734
Interest income	(93,559,186)	(108,065,843)
Interest Expense on Financial Instruments	136,917,334	100,722,609
Write-back/off of Provision for doubtful debts	(407,865)	(2,328,130)
Provision on Obsolescence of Material	2,902,412	823,522
Liabilities no longer required written back	(16,242,022)	(12,418,703)
Unwinding of Discount on Retention Money	-	(76,389,136)
Amortization of deferred grants	(51,435,010)	(48,000,660)
Amortization of deferred customer contribution	(10,379,549)	(483,094)
Operating profit before working capital changes	2,446,224,758	2,816,137,112
Decrease / (Increase) in inventories	41,267,844	(26,473,391)
Increase in amounts due from customers for contract work	(278,236,559)	(871,380,196)
Decrease / (Increase) in trade and other receivables	143,339,498	(427,208,026)
Decrease / (Increase) in current and non-current assets	4,361,682	(126,879,492)
Increase in long-term and short-term loans and advances	2,471,580	3,869,075
Decrease in amounts due to customers for contract work	(562,571,460)	(701,572,162)
Increase in trade and other payables	872,958,172	1,707,560,631
(Decrease)/ Increase in other current liabilities	(924,796,437)	500,303,378
Increase in employee benefit liabilities	27,035,551	42,959,911
Net cash generated from operating activities before income tax	1,772,054,629	2,917,316,840
Income tax paid, net of refunds received	(498,695,030)	(619,289,982)
Net cash generated from operating activities	1,273,359,599	2,298,026,858
Cash used in investing activities		
Purchase of property, plant and equipment and Intangible assets	(2,256,090,438)	(2,867,240,449)
Receipt of deferred grants	31,350,000	98,280,806
Receipt of deferred customer contribution	144,739,888	7,419,298
Proceeds from sale of property, plant and equipment	50,356,515	3,044,633



(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Redemption of bank term deposits (net)	(73,493,241)	1,337,768,745
Interest received	53,965,200	110,425,893
Net cash used in investing activities	(2,049,172,076)	(1,310,301,074)
Cash flows from financing activities		
Proceeds from Borrowings	2,266,524,606	137,215,054
Repayment of Borrowings	(310,145,680)	(329,861,141)
Interest paid	(197,902,418)	(113,593,822)
Payment of dividend on ordinary shares	(1,028,139,750)	(1,449,029,909)
Net cash generated from/use in financing activities	730,336,758	(1,755,269,818)
Net decrease in cash and cash equivalents	(45,475,719)	(767,544,034)
Cash and cash equivalents at beginning of the year	516,232,504	1,283,776,538
Cash and cash equivalents at end of the year	470,756,785	516,232,504

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.






Offtg. General Manager (FAS) Director Chief Executive Officer Chairman

As per our report of even date attached
For S.P. CHOPRA & CO.
Chartered Accountants
ICAI Firm Registration No. 000346N

Place: Thimphu
Dated: 11.03.2019


(GAUTAM BHUTANI)
Partner
Membership No. 524485


NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bhutan Power Corporation Limited ('Company') is a wholly owned subsidiary of Druk Holding & Investments (DHI), A Royal Government of Bhutan undertaking. The Company has been incorporated and registered under The Companies Act of Bhutan, 2016 with limited liability. The registered office of the Company is located at Thimphu, Bhutan.

The Company is engaged in the supply of electricity to the residents of the Kingdom of Bhutan and wheeling of electricity from the large Hydropower Plants in Bhutan for export to India. The Company also carries out business of construction of electricity project and distribution network system.

The Company owns, operates and maintains the entire electricity transmission and distribution network in the Kingdom of Bhutan including 19 Mini and Micro Hydropower Plants. Apart from construction of distribution network system, the Company is also mandated to construct the associated Transmission Lines and Substations required for evacuation of power from Hydropower Plants to the Bhutan-India border.

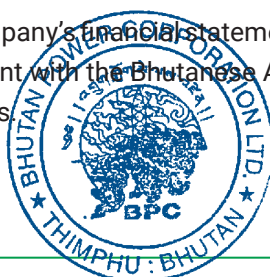
The financial statements of the Company for the year ended December 31, 2018 were authorized for issue in accordance with the resolution of the Board of Directors dated March 05, 2019.

2. BHUTANESE ACCOUNTING STANDARDS (BAS)

2.1 The Ministry of Finance embarked on the process of developing Accounting Standards to promote high quality financial reporting which are consistent with international practices. Pursuant to this development, the Ministry of Economic Affairs of Royal Government of Bhutan had issued the Accounting Standard Rules for Companies in Bhutan, 2012, notifying the Bhutanese Accounting Standards ('BAS') to be implemented by the Companies in Bhutan in three phases (I, II and III) with effect from January 1, 2013. Consequently, the Company had adopted the BAS notified for phase I and had also early adopted the BAS notified for phase II with effect from January 1, 2013 in preparing the financial statements from the year 2013 onwards to the extent as applicable to the Company, and the changes in accounting policies consequent on adoption of BAS (phase I and II) had been accounted for in accordance with the transition provisions of the respective BAS, retrospectively by restating the comparatives from the previous GAAP to BAS with effect from January 1, 2013, and the resultant impact of such changes in accounting policies up to the transition date was adjusted in the retained earnings of January 1, 2012.

2.2 The BAS of Phase- III though applicable to the Company w.e.f. January 1, 2018, had been early adopted with effect from January 1, 2017. Consequent upon first time adoption of these BAS, the accounting policies related to these BAS (of phase III) have been changed and accounted for in accordance with the transition provisions of the respective BAS, retrospectively by restating the comparatives for the year 2017 and the resultant impact of such changes in accounting policies up to the transition date has been adjusted in the retained earnings as of January 1, 2016.

2.3 As detailed above, the Company's financial statements since earlier year of 2017 are prepared in accordance with and are fully compliant with the Bhutanese Accounting Standards (BAS), except as stated otherwise in the financial statements.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These financial statements are general purpose financial statements that have been prepared in accordance and to comply with the Bhutanese Accounting Standards and the relevant provisions of The Companies Act of Bhutan, 2016 including the Accounting Standard Rules for Companies in Bhutan, 2012.

These financial statements have been prepared on the accrual basis of accounting with the historical cost convention and going concern basis except as stated otherwise in the Financial Statements. The preparation of the Financial Statements requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the Company's accounting policies and the reported amounts of revenue, expenses, assets and liabilities may differ from the estimates. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3.2 Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates referred to as the "functional currency". The functional currency and presentation currency of the Company is Bhutanese Ngultrum.

ii) Transactions and balances

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

3.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Property, plant and equipment are initially recognized at historical cost. The historical cost of property, plant and equipment is determined as the fair value of the asset at the date of acquisition and comprises its net purchase price after deducting for any trade discount and rebates, including import duties and non-refundable purchase taxes, any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The cost of self-constructed assets includes the borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets (Refer note 3.14 below for accounting policy of borrowing cost). The cost of self-constructed assets not put to use and advances paid towards the acquisition of property, plant and equipment outstanding at each Statement of Financial Position date, are disclosed as Capital work-in-progress.



Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably.

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

Spare parts and servicing equipment are normally treated as inventory and expensed as consumed. However, major spare parts and stand-by equipments are treated as property, plant and equipment when they are expected to be used during more than one year. Also, where the spares parts or servicing equipment can only be used in connection with an item of property, plant and equipment they are accounted for as property, plant and equipment.

Depreciation on property, plant and equipment is computed using the straight-line method over the estimated useful lives. Freehold land is not depreciated as it has an unlimited useful life whereas leasehold land is depreciated on a straight line method over the primary term of the lease.

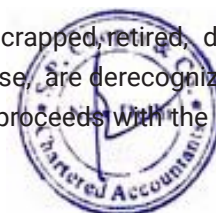
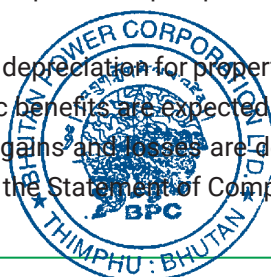
The Company has based on evaluation performed by the technical Department established the estimated range of useful lives of assets for depreciating its property, plant and equipment as follows:

Buildings	30 years
Generation Civil works	30 years
Transmission assets	30 years
Distribution assets	30 years
Computer equipment	5 years
Vehicles	6.67 years
Furniture and Fixtures	10 years
Office equipment	5 years

Significant parts of property, plant and equipment which are required to be replaced at intervals and have specific useful lives are recognized and depreciated separately.

The useful life, residual value and depreciation method are reviewed, and adjusted appropriately, at least at each Statement of Financial Position date to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits. Change in the estimated useful life, residual value and / or depreciation method, if any, is depreciated prospectively over the asset's remaining revised useful life.

The cost and the accumulated depreciation for property, plant and equipment sold, scrapped, retired, disposed of or when no future economic benefits are expected to arise from the continued use, are derecognized from the financial statements. The gains and losses are determined by comparing the proceeds with the carrying amount and are recognized in the Statement of Comprehensive Income.



3.4 Intangible assets

Intangible assets include identifiable capitalized software costs and are recognized at cost of acquisition/ implementation less accumulated amortisation and any other provision for impairment losses. Subsequent costs are included only when it is probable that the item associated with the cost will generate future economic benefits and the cost can be reliably measured.

Internally generated intangible assets are recognized only when the asset created can be identified and it is probable that the asset created will generate future economic benefits and the costs can be measured reliably. Otherwise, the expenditure is charged to profit and loss for the year of incurring the expenditure.

Amortisation is calculated and recognized using the straight-line basis over the estimated useful life as estimated by the management.

The useful lives and the amortization methods are reviewed annually and are adjusted as appropriate at the end of each reporting year, with any changes recognized as a change in the accounting estimate.

An intangible asset is derecognized when disposed of or when no future benefits are expected to arise from the continued use of the asset. The gains and losses are determined by comparing the proceeds with the carrying amount and are recognized in the Statement of Comprehensive Income.

3.5 Impairment of non-financial assets

The Company assesses at each Statement of Financial Position date whether there is any indication that an asset may be impaired based on internal or external factors. If any such indication exists, the Company estimates the recoverable amount of the assets. If the carrying amount of asset/cash generating unit exceeds the recoverable amount on the reporting date, the carrying amount is reduced to the recoverable amount. The recoverable amount is measured as the higher of the net selling price and the value in use determined by the present value of estimated future cash flows.

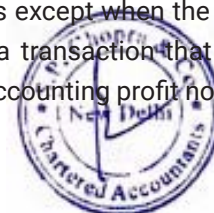
Impairment losses, , are recognized in profit and loss section of Statement of Comprehensive Income except for assets previously revalued, where the revalued amount is taken to Other Comprehensive Income (the 'OCI'). For such assets, the impairment is recognized in OCI upto the amount of previous revaluation.

3.6 Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recoverable from or payable to the Income tax authority based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date by the Income Tax Authority.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.



Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and liabilities on net basis. Management evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation.

The income tax liabilities are recognized when, despite the Company's belief that its income tax return positions are supportable, the Company believes, it is more likely than not, based on the technical merits, that certain positions may not be fully sustained upon review by income tax authorities. Benefits from tax positions are measured at the single best estimate of the most likely outcome.

At each Statement of Financial Position date, the tax positions are reviewed, and to the extent that new information becomes available which causes the Company to change its judgment regarding the adequacy of existing income tax liabilities, such changes to income tax liabilities are duly recognized in income tax expense in the year in which such determination is made.

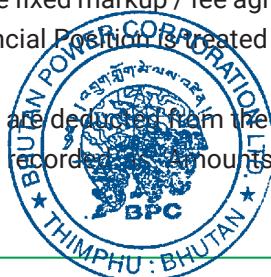
Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax charge for the year in which the assessment is completed.

3.7 Construction Contracts

Construction contract is a contract specifically negotiated for the construction of an asset or of a group of assets, which are interrelated or interdependent in terms of design, technology, function, purpose or use. According to its characteristics, a construction contract can either be accounted for separately i.e. segmented into several components which are each accounted separately or combined with another construction contract in progress to form a single construction contract for accounting purposes.

The Company executes cost plus markup/fee construction contracts. The 'recoverable costs incurred on the contract plus an addition of the fixed markup / fee agreed with the customer under the contractual terms' as at the date of Statement of Financial Position is treated as Work in Progress - 'Construction Contracts'.

Progress billing and advances are deducted from the value of the Work in Progress 'Construction Contracts' for the specific contract and recorded as amounts Due from Customers for Construction Contracts in case



progress billing and advances exceed this value, the same are recorded under liabilities as 'Amounts Due to Customers for Contract Work'.

For the revenue recognition policy on construction contracts, refer note 3.16.

Amounts expected to be recovered or settled within 12 months from the reporting date are classified as current assets/liabilities. If not, they are presented under non-current assets/liabilities.

3.8 Financial Instruments

(i) Financial Assets

(a) Initial recognition and measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(b) Classification and subsequent measurement

For the purpose of subsequent measurement, financial assets of the Company are classified in the following categories:

- a. Financial assets measured at amortized cost;
- b. Financial assets measured at fair value through other comprehensive income (FVTOCI); and
- c. Financial assets measured at fair value through profit and loss (FVTPL)

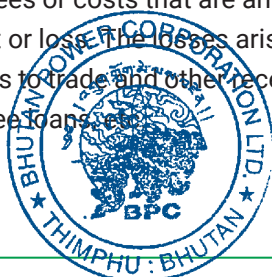
The classification of financial assets depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

a. Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if both the following conditions are met:

- Business Model Test: The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows (rather than to sell the asset prior to its financial maturity to realize its fair value changes); and
- Cash Flow Characteristics Test: Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in Interest income in the profit or loss. The losses arising from impairment are recognized in the profit or loss. This category generally applies to trade and other receivables, bank fixed deposits, cash and cash equivalents and employee loans.



b. Financial instruments measured at fair value through other comprehensive income (FVTOCI):

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- Business Model Test: The objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
- Cash Flow Characteristics Test: The Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in other comprehensive income (OCI). The category generally applies to Unquoted – Other Investments held by the Company.

c. Financial instruments measured at fair value through profit and loss:

Fair value through profit and loss is the residual category. Any financial instrument which does not meet the criteria for categorization as at amortized cost or fair value through other comprehensive income is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of comprehensive income.

(c) Impairment of financial assets

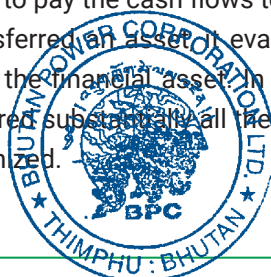
The Company assesses impairment of financial assets, based on the incurred loss model as per 'BAS 39 – Financial Instruments: Recognition and Measurement'. Under the said model, the Company assesses at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired, and in that case the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through Provisions / Allowance for Impairment Loss Account, and the amount of the loss is recognised in the Statement of Comprehensive Income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the Provisions / Allowance for Impairment Loss Account, to the extent the impairment loss was previously recognised on the respective asset. The amount of such reversal is recognised in the Statement of Comprehensive Income.

(d) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Company's statement of financial position) when:

- a. The rights to receive cash flows from the asset have been expired/transferred, or
- b. The Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

When the Company has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized. When the Company has not transferred substantially all the risks and rewards of ownership, the financial asset is not derecognized.



When the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is derecognized if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

(ii) Financial Liabilities

Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated as such at the initial date of recognition, and only if the criteria in BFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/ losses attributable to changes in own credit risk are recognized in other comprehensive income. These gains/ loss are not subsequently transferred to profit and loss. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the statement of comprehensive income. The Company has not designated any financial liability as at fair value through profit and loss.

Borrowings

Any difference between the proceeds (net of transaction costs) and the repayment amount is recognized in profit or loss over the period of the borrowings and subsequently measured at amortized cost using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are obligations incurred by the Company towards purchase of electricity and other goods and availing the services that have been acquired or availed in the ordinary course of business. Trade and other payables are classified under current liabilities, if payment is due within 12 months as at Statement of Financial Position date, if not, they are classified under non-current liabilities. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective in



Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank balances and deposits, other short-term highly liquid investments with original maturities of three months or less and that are readily convertible to known amount of cash and cash equivalent and which are subject to an insignificant risk of changes in value.

3.10 Inventories

Inventory consists of stores and spares held for operation and maintenance and use in construction of an asset.

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost formula and comprises cost of purchases and other incidental expenses incurred in acquiring inventories and bringing them to their existing location and condition.

3.11 Investment and Asset Replacement Reserves

The nature and purpose of these reserves are as follows:

i. Investment Reserve:

The reserve created during the earlier year/s under the 'Group Investment Reserve (GIR) Scheme' as per the DHI Ownership Policy to retain earnings in the DHI owned Companies (DoCs) to finance Projects of strategic importance. The stated objectives of Investment Reserve are as under:

- To build funds for investments.
- To build funds to meet National exigencies.
- To optimize on the limited pool of capital available in the group and maximize returns to the Government and the State.
- To facilitate transfer of capital among the Companies in the group and within the legal framework in Bhutan.
- To enable the DoCs to optimize its capital structure and improve returns.
- To provide predictability in flow of funds from DoCs to DHI and to MoF.

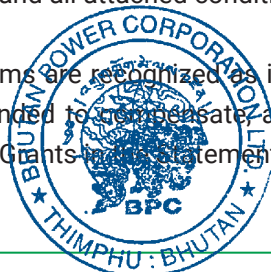
ii. Asset Replacement Reserve:

Reserve created to mitigate the risk of assets of the Company against any damages due to natural calamities.

3.12 Grants

Grants from Government and Non-Government sources are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grants relating to expense items are recognized as income on a systematic basis over the periods that the related costs, which it is intended to compensate, are expensed. The unallocated portion of such grant is presented as part of Deferred Grants in the Statement of Financial Position.



Grants related to non-current assets are treated as Deferred Income in the Statement of Financial Position and are recognized to the Statement of Comprehensive Income on a systematic basis over the useful life of the related assets.

Grant received as compensation for expenses/losses already incurred or with no future related costs is recognized as income in the year it is received or becomes receivable.

3.13 Customer's Contribution for network construction / expansion

Contribution received from customers towards the construction / extension of distribution network / assets at the customer's site is treated as Deferred Customer's Contribution in the Statement of Financial Position and is recognized to the Statement of Comprehensive Income on a systematic basis over the useful life of the related distribution network / assets and the distribution network / assets are capitalised under Property, plant and equipment.

3.14 Borrowing Costs

Borrowing costs consist of interest and other costs that Company incurs in connection with the borrowing of funds.

General and specific borrowing costs (net of investment income on temporary investment of those borrowings) that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the costs of the asset, until such time the assets are substantially ready for their intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, which is two years or more as decided by the Company keeping in view the nature of assets and past trend of time taken for their completion.

All other borrowing costs are charged as expense to Statement of Comprehensive Income in the period they occur.

3.15 Employee benefit liabilities

Contribution to Provident Fund administered by National Pension and Provident Fund is charged to Statement of Comprehensive Income as and when they fall due.

Retirement benefit liabilities are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Gratuity, Travel Allowance, Separation Allowance and Leave encashment are provided for based on actuarial valuation as at the Statement of Financial Position date. Retirement benefit liabilities are discounted to present value applying the pre-tax rate of return on Government bonds of similar tenure and currency. Increase in the liability due to passage of time is recognized as interest expense. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Further, the contribution towards the gratuity liability is invested in fixed deposits with the banks.



The expected cost of Performance Based Incentive and Variable Allowances is recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and a reliable estimate of the obligation can be made.

The employees of the Company are covered under an insurance policy with death claim benefit in the event of death of the employee while in service and within the policy term. The policy has been underwritten through Single premium which will be refunded at the end of policy period/term with pre-decided/fixed policy bonus / benefit and after deduction of death claim paid within the policy term. The Single premium paid has been considered as 'Deposit against Employees Insurance Policy' and the death claims paid/payable are accounted for as expense and are reduced from the same during the year of incurrence / intimation of death claim and the policy bonus / benefit is accounted for as income and added to the same on prorated basis over the Policy period/ term by credit to 'Other Income'.

3.16 Revenue Recognition

Revenue is recognized to the extent that it is probable that the associated economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

The following specific recognition criteria must also be met before revenue is recognized:

i) Electricity Business:

Revenue attributable to sale of electricity is accounted for as per the tariff rates approved by the Bhutan Electricity Authority on the basis of billing to consumers under the billing cycle followed by the Company. Revenue is recognized as electricity is delivered and consumed by customers. Accordingly, Revenue also includes an estimate of unbilled revenue. Unbilled revenue represents an estimate of electricity consumed by customers since the date of each customer's last billed meter reading that has not been billed at the reporting date.

Wheeling charges (transmission charges) are accounted on the basis of periodic billing to the power generating companies at the tariff rates approved by Bhutan Electricity Authority.

ii) Construction Business:

The Company executes cost plus construction contracts for construction of electrical infrastructure. In the case of a cost plus contract, the outcome can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Company and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably. Accordingly revenue from a cost plus contract is recognized by reference to the recoverable costs incurred during the year plus the fixed mark up under the contractual terms.

In case of construction contracts, Company recognises revenue, if one of the following criteria as enunciated in BFRS 15, "Revenue from contract with customers" is met:

- i. the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- ii. the Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or



- iii. the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

iii) Liquidated damages and penalties

Liquidated damages and penalties occur when contractors/suppliers fail to meet the key performance indicators set out in their contract with the Company. Income resulting from claims for liquidated damages and penalties are recognized as other income when all performance obligations are met (including when a contractual entitlement exists), it can be reliably measured and it is probable that the economic benefits will flow to the Company.

iv) Other items of revenue

Other items of revenue which arise from the provision of services incidental to the core activities of the business are recognized when the services are provided and it is probable that economic benefits associated with the transaction will flow to the Company and amount can be measured reliably.

v) Bilateral contracts

Bilateral contracts between two entities in the same line of business for non-monetary exchange of goods and services to facilitate sales to its customers or potential customers are not accounted for as sales (revenue) as per BFRS 15. Any balance against such exchange contracts not settled during the same financial year are accounted for as payable/receivable and included under other current assets/liabilities in statement of financial position.

vi) Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

Interest income from debt instruments is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses.

3.17 Earnings per share ('EPS')

The Company presents the basic and diluted EPS data for its ordinary shares. Basic EPS is computed by dividing the net profit for the year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by adjusting the net profit for the year attributable to the ordinary shareholders and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

3.18 Dividends

Dividends (including interim dividends) to ordinary shareholders is recognized as a liability and deducted from shareholders' equity in the period in which the dividends are recommended by the Board of Directors and approved by the ordinary shareholders at the Annual General Meeting.



3.19 Provisions and contingent liabilities

- a) The Company creates a provision when there is a present obligation arising as result of past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation, at the balances sheet date and are not discounted to its present value.
- b) A disclosure for a contingent liability is made when there is a present obligation arising as a result of past event that probably will not require an outflow of resources or where a reliable estimate of the obligation cannot be made.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the year in which they become known.

Actual results may differ from management's estimates if these results differ from historical experience or other assumptions do not turn out to be substantially accurate, even if such assumptions were reasonable when made.

The said estimates are based on the facts and events, that existed as at the date of statement of financial position, or that occurred after that date but provide additional evidence about conditions existing as at the statement of financial position date.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below.

i) Useful lives of property, plant and equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over their respective useful lives. Management estimates the useful lives of these assets as detailed in the accounting policy vide note 3.3. Changes in the expected level of usage, technological developments, level of wear and tear could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised and could have an impact on the profit in future years.

ii) Fair Value measurement of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model etc. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

iii) Retirement benefit obligations

The costs of retirement benefits and present value of the retirement benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual



developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, retirement benefit obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

iv) Unbilled revenue

The unbilled revenue is calculated using average of last three months consumption for the Low voltage consumer and the actual consumption for the Medium and High Voltage consumer. This is consistent with the revenue recognition methodology adopted in prior years and reflects the billing profile of the customers. Actual electricity usage could differ from those estimates.



5. PROPERTY, PLANT AND EQUIPMENT

Particulars	Freehold Land	Building and Civil Structures	Generation equipment's	Network system	Others	Capital Advances and Construction work in progress	(Amount in Nu.)	
							Total	
Balance as at January 1, 2018								
Cost	67,820,029	2,647,897,164	980,632,586	20,153,021,410	1,401,046,119	4,416,945,849	29,667,363,157	
Accumulated depreciation	-	(639,346,632)	(508,458,401)	(5,615,430,190)	(911,754,382)	-	(7,674,989,605)	
Book Value	67,820,029	2,008,550,532	472,174,185	14,537,591,220	489,291,737	4,416,945,849	21,992,373,551	
Changes in book value during the year								
Additions	2,613,600	333,096,958	164,392,360	2,685,457,803	332,106,459	1,840,760,554	5,358,427,734	
Disposals and sales	-	(55,634,791)	(225,601)	(77,236,787)	(75,331,063)	(3,226,741,523)	(3,435,169,765)	
Depreciation on disposals/ adjustments	-	4,522,487	225,600	47,801,244	69,577,581	-	122,126,912	
Depreciation	-	(98,742,009)	(46,547,532)	(724,651,365)	(129,615,493)	-	(999,556,399)	
Total changes	2,613,600	183,242,645	117,844,827	1,931,370,895	196,737,484	(1,385,980,969)	1,045,828,482	
Balance as at December 31, 2018								
Cost	70,433,629	2,925,359,331	1,144,799,345	22,761,242,426	1,657,821,515	3,030,964,880	31,590,621,126	
Accumulated depreciation	-	(733,566,154)	(554,780,333)	(6,292,280,311)	(971,792,294)	-	(8,552,419,093)	
Book value	70,433,629	2,191,793,177	590,019,012	16,468,962,115	686,029,221	3,030,964,880	23,038,202,033	



PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(Amount in Nu.)

Particulars	Freehold Land	Building and Civil Structures	Generation equipment's	Network System	Others	Capital Advances and Construction work in progress	Total
Balance as at January 1, 2017							
Cost	63,020,029	2,463,628,967	944,505,053	19,348,510,318	1,293,673,858	2,814,924,698	26,928,262,923
Accumulated depreciation	-	(550,287,745)	(484,927,422)	(4,991,372,582)	(820,007,831)	-	(6,846,595,580)
Book Value	63,020,029	1,913,341,222	459,577,631	14,357,137,736	473,666,027	2,814,924,698	20,081,667,343
Changes in book value during the year							
Additions	4,800,000	191,091,595	50,873,122	869,826,803	143,965,781	1,602,021,151	2,862,578,452
Disposals and sales	-	(6,823,398)	(14,745,589)	(65,315,711)	(36,593,520)	-	(123,478,218)
Depreciation on disposals/ adjustments	-	1,417,540	14,112,813	29,651,914	34,219,051	-	79,401,318
Depreciation	-	(90,476,427)	(37,643,792)	(653,709,522)	(125,965,602)	-	(907,795,343)
Total changes	4,800,000	95,209,310	12,596,554	180,453,484	15,625,710	1,602,021,151	1,910,706,208
Balance as at December 31, 2017							
Cost	67,820,029	2,647,897,164	980,632,586	20,153,021,410	1,401,046,119	4,416,945,849	29,667,363,157
Accumulated depreciation	-	(639,346,632)	(508,458,401)	(5,615,430,190)	(911,754,382)	-	(7,674,989,605)
Book value	67,820,029	2,008,550,532	472,174,185	14,537,591,220	489,291,737	4,416,945,849	21,992,373,551



5.1 Capital work-in-progress as at December 31, 2018 and December 31, 2017 comprise the following:

(Amount in Nu.)

Particulars	As at December 31, 2018	As at December 31, 2017
Generation equipment	4,999,648	160,269,821
Transmission lines	2,170,394,586	3,255,921,025
Distribution Assets	518,970,782	614,781,518
Buildings	123,335,627	82,000,404
Other Civil Structures	84,212,551	54,326,848
Others	2,319,972	549,645
Advance for capital works	126,731,714	249,096,588
Total	3,030,964,880	4,416,945,849

5.2 Borrowing costs amounting to Nu. 58,363,193 and Nu. 1,521,539 has been capitalized by the Company for the year ended December 31, 2018 and December 31, 2017 respectively on qualifying assets at a nominal interest rate as defined in the respective Loan agreement.

5.3 Gross carrying value includes Property, plant and equipment transferred from erstwhile Department of Power, Royal Government of Bhutan at a written down value of Nu 1,760.89 million against issue of Share Capital to DHI.

5.4 Certain Property, plant and equipment are pledged as securities against borrowings. (Refer Note 18.1)

6. INTANGIBLE ASSETS

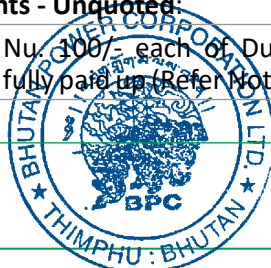
(Amount in Nu.)

Computer Software	As at December 31, 2018	As at December 31, 2017
Opening gross carrying value (i)	219,106,646	217,176,585
Additions	66,033,794	1,930,061
Closing gross carrying value (ii)	285,140,440	219,106,646
Opening accumulated amortization (iii)	(204,530,023)	(194,905,716)
Additions	(15,548,553)	(9,624,307)
Closing accumulated amortization (iv)	(220,078,576)	(204,530,023)
Net carrying value (ii-iv)	65,061,864	14,576,623

7. INVESTMENTS

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Long Term - Other Investments - Unquoted:		
4,000,000 Equity Shares of Nu. 100/- each of Dungsam Cement Corporation Limited, fully paid up (Refer Note 39.b)	-	155,590,324
Total	-	155,590,324



8. LONG-TERM LOANS AND ADVANCES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Advance to employees:		
- Bike loan	-	11,874
- Welfare loan	107,171	84,659
- Mobile phone loan	428,543	363,121
Total	535,714	459,654

9. OTHER RECEIVABLES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Security Deposit for Land Lease	199,330	199,330
Total	199,330	199,330

10. OTHER NON-CURRENT ASSETS

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Deposit against Employee Insurance Policies (Refer Note 40 (vi))	-	484,376,423
Interest accrued on Employee Insurance Policies	-	151,561,221
Fixed deposits with Banks having original tenure of more than twelve months:		
- for Gratuity liability (Refer Note 40 (i))	423,677,244	183,338,597
- for Depreciation funds for OPGS/ADSS assets	22,558,799	89,490,115
Interest accrued on Fixed Deposits:		
- for Gratuity Liability	29,480,811	14,017,527
- for Depreciation funds for OPGS/ADSS assets	1,381,340	5,792,340
Prepaid Expenses	19,194,662	14,595,274
Advance to Suppliers	3,125,588	3,158,996
Advance to Others	6,544,150	996,661
Total	505,962,594	947,327,154



11. INVENTORIES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Stores and spare parts	273,053,052	310,966,839
Stock - ISU	46,461,178	51,512,065
Stock - Uniform	461,301	553,638
Stock - Infocom Spares	4,198,782	2,409,615
Less: Provision for obsolete inventory	(3,974,104)	(1,071,692)
Total	320,200,209	364,370,465

12. AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
<u>Amounts due from customers for contract work</u>		
Work in progress - Construction Contracts	11,418,359,609	10,652,760,692
Less: Progress billing and advances received	7,538,612,980	7,051,250,621
Total	3,879,746,629	3,601,510,071
<u>Amounts due to customers for contract work</u>		
Work in progress - Construction Contracts	10,529,417,076	9,958,711,989
Less: Progress billing and advances received	11,741,543,395	11,733,409,768
Total	(1,212,126,319)	(1,774,697,779)
<u>Recognized and included in financial statements as:</u>		
Amounts due from customers for construction contracts		
- Current portion	3,879,746,629	3,601,510,071
- Non-current portion	-	-
Amounts due to customers for construction contracts		
- For short term contract	23,104,908	43,299,755
- For long term contract	1,189,021,411	1,731,398,024
Total	(1,212,126,319)	(1,774,697,779)



13. TRADE & OTHER RECEIVABLES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Receivables against transmission and supply of electricity	112,038,044	136,987,705
Less: Provision for doubtful debts	(4,115,844)	(4,523,709)
Net Receivables	107,922,200	132,463,996
Subsidy receivable on Electricity from RGOB	323,979,810	446,377,168
Other receivables	9,714,169	5,706,647
Total	441,616,179	584,547,811

13.1 Provision for doubtful debts on outstanding receivables from customers are provided for on the basis of ageing analysis for each of the customers as on the reporting date with increasing percentages on each ageing category. The table below gives the information on the movement of the provision during the year.

(Amount in Nu.)

Particulars	As at January 1, 2018	Amount written back and credited to 'Other Income'	As at December 31, 2018
Provision for doubtful Debts	4,523,709	407,865	4,115,844

14. CASH AND CASH EQUIVALENTS

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Cash in hand	3,099,722	2,896,446
Bank balances in current accounts	446,657,006	495,610,418
Balance with bank towards staff welfare fund	21,000,057	17,725,640
Total	470,756,785	516,232,504

14.1 There are no restricted cash and cash equivalents.

15. SHORT-TERM LOANS AND ADVANCES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
- Bike loan	59,072	2,710,546
- Welfare loan	357,188	365,078
- Mobile phone loan	601,233	489,508
Total	1,017,493	3,565,132



16. OTHER CURRENT ASSETS

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Deposit against Employee Insurance Policies (Refer Note 40 (vi))	494,034,658	-
Interest accrued on Employee Insurance Policies	202,526,339	-
Fixed deposits with Banks having original tenure of more than twelve months:		
- for Gratuity liability (Refer Note 40 (i))	48,885,580	238,289,785
- for Depreciation funds for OPGS/ADSS assets	89,490,115	-
Interest accrued on Fixed Deposits:		
- for Gratuity liability	10,119,048	45,046,562
- for Depreciation funds for OPGS/ADSS assets	12,504,098	-
Accrued Unbilled Trade Receivables	457,085,537	463,535,149
Prepaid Expenses	17,078,515	17,717,508
Advance to Suppliers	1,372,395	280,992
Advance to employees:		
- Travel and salary advance	-	2,800
- Expenses	120,000	305,000
Advance to Others	277,047	18,225,431
Total	1,333,493,332	783,403,227

17. SHARE CAPITAL

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Authorized:		
15,000,000 Equity Shares of Nu. 1,000/- each	15,000,000,000	15,000,000,000
Total	15,000,000,000	15,000,000,000
Issued, Subscribed and fully Paid up:		
8,225,118 Equity Shares of Nu. 1,000/- each	8,225,118,000	8,225,118,000
Total	8,225,118,000	8,225,118,000

- 1.1 All Equity shares are Ordinary shares and are ranked equally. Fully paid shares carry one vote per share and carry the right to dividends. There are no restrictions on the transfer of shares in the Company or on voting rights between holders of shares. Entire share capital is held by the holding Company M/s Druk Holding & Investments (A Royal Government of Bhutan Undertaking)
- 1.2 4,910,755 equity shares were allotted for consideration other than cash and 3,314,363 equity shares were allotted pursuant to conversion of grant of Royal Government of Bhutan in some of the earlier years.



1.3 Reconciliation of Equity shares Outstanding

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
At the beginning of the year		
- Number of shares	8,225,118	8,225,118
- Amount (in Nu.)	8,225,118,000	8,225,118,000
At the end of the year		
- Number of shares	8,225,118	8,225,118
- Amount (in Nu.)	8,225,118,000	8,225,118,000

18. BORROWINGS

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
i) Secured borrowings:		
Term loan from 'National Pension and Provident Fund' (Refer Note 18.1.i) - for Transmission Lines Project	251,565,000	293,492,500
ii) Unsecured borrowings:		
Term loan from 'National Pension and Provident Fund' (Refer Note 18.1.ii) - for Transmission Lines Project	2,000,000,000	-
Term loans from 'Royal Government of Bhutan' (Refer Note 18.2) - for Rural Electrification Projects	5,468,603,727	5,360,325,563
- for Tala Hydroelectric Project	-	109,971,738
Interest accrued but not due on borrowings	370,819,545	215,833,288
	8,090,988,272	5,979,623,089

Borrowings analyzed as follows

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Current portion	438,639,273	329,861,141
Non-current portion	7,652,348,999	5,649,761,948
Total	8,090,988,272	5,979,623,089



Nature of Security, Interest Rate and terms of repayments:

18.1 Term loan from NPPF:

- i) Term loan of Nu. 251,565,000 from National pension and provident fund has been obtained for setting up of the project “220 kV Double Circuit Transmission Lines from Dagapela-Tsirang- Gelephu to Lodrai” and is secured by first mortgage charge on project assets and carry fixed rate of interest of 9% per annum and is repayable within 12 years in 24 half yearly equal installments with last installment due on September 01, 2024.
- ii) Term loan of Nu. 1,500,000,000 & Nu. 500,000,000 from National pension and provident fund has been obtained for setting up of the various transmission lines projects and are secured by the Guarantee provided by the Druk Holding and Investments (DHI) Limited for a Guarantee Fee of 0.85% per annum and carry fixed rate of interest of 8% per annum and are repayable within 12 years including moratorium period of 1 year and first installment will start on April 01, 2019 and July 01, 2019 respectively.

18.2 Other Term Loans:

- i) Rural electrification Loan I (RE-I) of Nu.141,169,161 has been obtained from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 30 years at an interest rate of 6% in 60 semi-annually equal installments with last installment due on August 15, 2035.
- ii) Rural electrification Loan II (RE-II) of Nu. 238,235,891 has been obtained from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 24 years at an interest rate of 6% in 48 semi-annually equal installments with last installment due on August 15, 2031.
- iii) Rural electrification Loan III (RE-III) of Nu. 309,881,247 has been obtained from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 24 years at an interest rate of 6% in 48 semi-annually equal installments with last installment due on March 15, 2036.
- iv) Rural electrification Loan IV (RE-IV) of Nu 1,057,334,692 has been obtained from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 24 years at an interest rate of 0% in 48 semi-annually equal installments with last installment due on March 15, 2041.
- v) Rural electrification Loan V (RE-V) of Nu 817,403,894 has been obtained from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 32 years at an interest rate of 6% in 48 semi-annually equal installments with last installment due on March 15, 2043.
- vi) Rural electrification Loan JICA- Phase 1 of Nu.1,729,093,116 (net of BAS adjustment) has been obtained from Royal Government of Bhutan for Rural Electrification Works and is repayable within 30 years at an interest rate of 0.01% on Japanese Yen in 61 semi-annually equal installments with last installment due on May 20, 2047.
- vii) Rural electrification Loan ADA of Nu. 313,974,033 has been obtained from Royal Government of Bhutan for Rural Electrification Works and is repayable within 12 years at an interest rate of 0.7% on EURO in 12 semi-annually equal installments with last installment due on December 31, 2029.
- viii) Rural electrification loan – JICA Loan II of Nu. 861,511,693 has been obtained from the Royal Government of Bhutan is still effective and not closed. The rate of interest and the loan tenure shall be determined by the Royal Government of Bhutan.

18.3 Refer Note 40 (vii) for transaction wise detail under each borrowing.



19. DEFERRED GRANT

Grants are received from the Royal Government of Bhutan as counterpart financing to the Rural Electrification Loan to carry out the rural electrification works for the civil component and establishment expenses. The material costs are financed through the loan. There are no unfilled conditions and contingencies attached to this grant.

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
As at January 1	1,479,308,053	1,429,027,907
Addition/Received	31,350,000	98,280,806
Less: Transferred to 'Other Income'	(51,435,010)	(48,000,660)
As at December 31	1,459,223,043	1,479,308,053

Deferred grant analyzed as follows:

	As at December 31, 2018	As at December 31, 2017
Current portion	51,514,024	51,514,024
Non-current portion	1,407,709,019	1,427,794,029
Total	1,459,223,043	1,479,308,053

20. DEFERRED CUSTOMER'S CONTRIBUTION

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
As at January 1	10,028,633	3,092,428
Received during the year	144,739,888	7,419,299
Less: Transferred to 'Other Income'	(10,379,549)	(483,094)
As at December 31	144,388,972	10,028,633

Deferred customer's contribution analyzed as follows:

	As at December 31, 2018	As at December 31, 2017
Current portion	10,460,990	864,840
Non-current portion	133,927,982	9,163,793
Total	144,388,972	10,028,633



21. OTHER PAYABLES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Security deposits		
- Energy meters	268,996,014	243,094,910
- Others (Refer Note 21.1)	14,722,420	13,506,807
Performance security	-	20,000
Retention money	304,880,870	1,192,874,038
Payable to employees	116,523	150,537
Total	588,715,827	1,449,646,292

21.1 Include the deposit received from Punatshangchhu-I Hydroelectric Project Authority as compensation for BPCL assets at Wangdue Phodrang which will be adjustable after the assets being transferred to the PHPA-I on completion of the project.

22. EMPLOYEE BENEFIT LIABILITIES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Provision for:		
- Gratuity (Refer Note 40(i))	393,272,158	435,741,084
- Separation Benefits	47,983,000	46,687,000
- Leave encashment	35,701,995	52,038,922
- Performance Based Incentive Scheme	80,342,775	79,405,493
- Performance Based Variable Allowance	72,393,418	71,335,805
Total	629,693,346	685,208,304

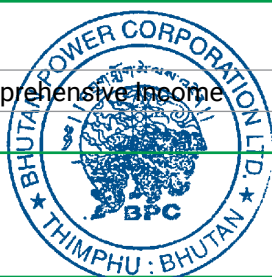
Employee benefit liabilities analyzed as follows:

	As at December 31, 2018	As at December 31, 2017
Current portion	215,591,468	228,992,124
Non-current portion	414,101,878	456,216,180
Total	629,693,346	685,208,304

23. DEFERRED INCOME TAX LIABILITIES (NET)

The analysis of deferred income tax assets and liabilities and gross movement is as under:

	As at December 31, 2018	As at December 31, 2017
Particulars		
Opening balance	774,604,080	681,698,770
Charged to Statement of Comprehensive Income	69,886,754	92,905,310
Closing Balance	844,490,834	774,604,080



Note 23.1: The movement in deferred income tax assets and liabilities during the year ended December 31, 2018 and December 31, 2017 are as under:

For the year December 31, 2018

Deferred income tax liabilities	As at January 1, 2018	Adjustment to Statement of Comprehensive Income	As at December 31, 2018
Property, plant and equipment	759,850,468	106,696,614	866,547,082
Security deposit & retention money	50,301,537	(36,138,030)	14,163,507
Total	810,152,005	70,558,584	880,710,589

Deferred income tax assets	As at January 1, 2018	Adjustment to Comprehensive Income	As at December 31, 2018
Provision for doubtful debts	1,357,113	(122,359)	1,234,754
Training	24,257,048	2,286,337	26,543,385
Provision for obsolete inventories	321,508	870,723	1,192,231
Borrowings	9,612,255	(2,362,870)	7,249,385
Total	35,547,925	671,830	36,219,755

For the year December 31, 2017

Deferred income tax liabilities	As at January 1, 2017	Adjustment to Statement of Comprehensive Income	As at December 31, 2017
Property, plant and equipment	662,300,835	97,549,633	759,850,468
Security deposit and retention money	49,781,733	519,804	50,301,537
Total	712,082,568	98,069,437	810,152,005

Deferred income tax assets	As at January 1, 2017	Adjustment to Statement of Comprehensive Income	As at December 31, 2017
Provision for doubtful debts	2,055,552	(698,439)	1,357,113
Training	23,876,479	380,569	24,257,048
Provision for obsolete inventories	74,451	247,057	321,508
Borrowings	4,377,315	5,234,940	9,612,255
Total	30,383,798	5,164,127	35,547,925



24. TRADE & OTHER PAYABLES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Trade payables:		
- electricity	682,637,123	652,559,554
- suppliers & contractors	826,258,671	696,573,795
- services	31,028,652	377,029,160
Security deposits		
- Energy meter	6,247,390	3,946,381
- Capacity reserve charges	11,408,012	4,516,137
Performance security	5,249,983	13,579,278
Retention money	2,272,997,670	1,258,546,618
Payable to employees	2,218,548	1,765,131
Accrued expenses	15,229,568	10,868,320
Other liabilities	25,820,010	2,995,103
Total	3,879,095,627	3,022,379,477

25. INCOME TAX PAYABLE (NET OF ADVANCES)

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Provision for corporate income tax	263,448,377	472,000,205
Less: Advance tax and income tax deducted at source	(218,008,583)	(248,704,260)
	45,439,794	223,295,945

25.1 Details of Income Tax is as under:

	As at December 31, 2018	As at December 31, 2017
Current income tax		
Current tax on profits for the year	262,495,503	471,686,787
Total Current income tax	262,495,503	471,686,787
Deferred income tax		
Origination and reversal of temporary differences	106,024,784	92,385,506
Security Deposit, Retention Money & Borrowings	(36,138,030)	519,804
Total Deferred income tax	69,886,754	92,905,310
Income tax expense	332,382,257	564,592,097



25.2 Reconciliation between the provisions for income tax to the amount computed by applying the statutory income tax rate to the income before provision for income tax is summarized below:

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Profit before tax	1,153,037,103	1,845,919,958
Tax calculated at domestic tax rates	345,911,131	567,765,695
Income tax effect due to:		
- Donations	279,720	234,000
- PBIS and PBVA	14,781,389	-
- Fines and Penalties	93,534	-
- Depreciation on disposal	36,635,931	23,820,395
- Reversal on disposal of asset	(36,153,281)	(27,227,993)
- Rebate @ 10%	(29,166,167)	-
Income tax charge	332,382,257	564,592,097

25.3 The applicable corporate income tax rate was same, i.e. 30% for the current year and earlier year ended on December 31, 2018 and December 31, 2017 respectively. However, 10% rebate on current year tax has been availed as per Section 12 of Fiscal Incentives Act of Bhutan, 2017 for employing 100% Bhutanese Nationals in the year 2018.

26. OTHER CURRENT LIABILITIES

(Amount in Nu.)

	As at December 31, 2018	As at December 31, 2017
Statutory liabilities	65,109,161	20,519,106
Welfare grant fund	20,960,057	17,685,640
Other payables	-	67,286,000
	86,069,218	105,490,746

27. INCOME FROM CONSTRUCTION CONTRACTS

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Value of contracts performed and service charges	1,452,353,100	3,445,857,856
Estimation charges for works	352,302	550,289
Total	1,452,705,402	3,446,408,145



28. OTHER INCOME

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Interest income on:		
- Fixed deposits	8,093,099	18,046,722
- Benefit Accrued on Employee Insurance Policies (Refer Note 40 (v))	51,315,117	50,157,787
- Fixed Deposit on Investment Reserve	-	8,582,574
- Fixed Deposits on Gratuity Liability	34,150,970	31,278,760
Unwinding of discount on Retention money	-	76,389,136
Penalties and liquidated damages	4,119,591	43,094,360
Revenue Grant	49,250	56,626
Amortization of deferred grants (Refer Note 19)	51,435,008	48,000,660
Amortization of deferred customer's contribution (Refer Note 20)	10,379,549	483,094
Liabilities no longer required written back	16,242,022	12,418,703
Write-back/off of Provision for doubtful debts	407,865	2,328,130
Scrap Sales	18,094,869	5,487,019
Tender form sales	2,941,000	1,814,200
Hire and lease charges	2,807,176	3,138,082
Other miscellaneous income	63,986,665	97,498,673
Total	264,022,181	398,774,526

29. OPERATION AND MAINTENANCE EXPENSES

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Repairs and maintenance:		
- Material/Stores	104,204,362	114,609,978
- Services	183,773,219	161,131,324
- Meter Equipment	3,540,961	2,762,578
- Vehicle running expenses (POL)	27,657,656	29,327,180
- Consumables	23,855,877	18,265,080
- Others	112,344,819	101,084,730
Total	455,376,894	427,180,870



30. EMPLOYEE BENEFIT EXPENSES

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Salaries, wages, bonus and allowances	788,473,423	787,672,572
Contribution to provident and pension fund	47,957,786	48,124,622
Contribution for gratuity and leave encashment	77,941,376	91,250,030
Workmen and staff welfare expenses	94,617,639	84,383,514
Total	1,008,990,224	1,011,430,738

31. FINANCE COST

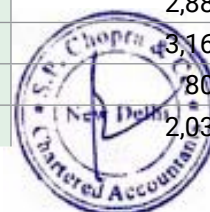
(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
<u>Interest on long term borrowings from:</u>		
Royal Government of Bhutan for:		
- Rural electrification Projects	92,685,855	92,657,454
- Tala Hydro Electric Project	34,365,345	35,945,361
National Pension and Provident fund for:		
- Transmission Lines Project	135,011,959	27,888,348
Guarantee fee	12,121,233	-
Interest expenses on Financial Instruments	136,917,334	100,722,609
Other finance charges	150,142	203,110
Total	411,251,868	257,416,882
Less: Amounts capitalized on qualifying assets	58,363,193	1,521,539
Total	352,888,675	255,895,343

32. OTHER EXPENSES

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Travelling expenses	40,219,751	42,089,828
Rent charges	10,076,222	10,053,726
Rates and taxes	4,425,978	869,187
Printing and stationary	10,087,175	11,357,490
License and registration fees	21,204,599	20,350,455
Audit fees and expenses	1,246,808	1,006,095
Office expenses	7,962,392	8,324,205
Consultancy fees	1,857,710	734,500
Entertainment expenses	7,113,687	6,835,267
Publicity and Advertisement expenses	5,184,013	2,888,037
Insurance charges	2,592,279	3,169,127
CSR expenses	997,400	805,000
Vehicle Hire charges	1,890,195	2,031,163



	For the year ended	
	December 31, 2018	December 31, 2017
Loss on disposal of property, plant and equipment	35,952,055	43,764,205
Provision/Write-back of Provision on Obsolescence of Material	2,902,412	823,522
Board meeting expenses and sitting fees	1,746,280	1,172,508
Management Fee for holding Company	30,837,277	32,425,501
Miscellaneous expenses	18,504,119	28,848,458
Total	204,800,352	217,548,274

33. EARNINGS PER SHARE ('EPS')

(Amount in Nu.)

	For the year ended	
	December 31, 2018	December 31, 2017
Basic EPS attributable to Ordinary shares		
Net Profit attributable to the owners of the Company	762,311,471	1,281,327,861
Issued and outstanding ordinary shares at the beginning/end of the year	8,225,118	8,225,118
Weighted average number of ordinary/diluted shares	8,225,118	8,225,118
Basic/Diluted EPS attributable to ordinary/diluted shares	92.68	155.78

34. FAIR VALUE MEASUREMENT

Financial instruments by category:

Particulars	As at December 31, 2018			As at December 31, 2017		
	FVTPL	FVTOCI	Amortized cost	FVTPL	FVTOCI	Amortized cost
Financial assets						
Investments	-	-	-	-	155,590,324	-
Long-term loans and advances	-	-	535,714	-	-	459,654
Other receivables	-	-	199,330	-	-	199,330
Amount due from customers for contract work	-	-	3,879,746,630	-	-	3,601,510,071
Trade & other receivables	-	-	441,616,178	-	-	584,547,811
Cash and cash equivalents	-	-	470,756,785	-	-	516,232,504
Short-term loans and advances	-	-	1,017,493	-	-	3,565,132
Total financial assets	-	-	4,793,872,130	-	155,590,324	4,706,514,502

Particulars	As at December 31, 2018			As at December 31, 2017		
	FVTPL	FVTOCI	Amortized cost	FVTPL	FVTOCI	Amortized cost
Financial liabilities						
Borrowings	-	-	8,090,988,272	-	-	5,835,112,864
Other payables	-	-	588,715,827	-	-	1,449,646,292
Amount due to customers for contract work	-	-	1,212,126,319	-	-	1,774,697,779
Trade & other payables	-	-	3,879,095,627	-	-	3,022,379,477
Total financial liabilities	-	-	13,770,926,045	-	-	12,081,836,412

(i) Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are (a) recognized and measured at fair value and (b) measured at amortized cost and for which fair values are disclosed in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the BAS.

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities included in level 3.

(ii) Valuation technique used to determine fair value

The carrying amounts of loans and advances, trade and other receivables, cash and cash equivalents and trade and other payables are considered to be the same as their fair values, due to their short-term nature.

The fair values for financial instruments such as borrowings, retention money and security deposits were calculated based on cash flows discounted using current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Financial assets at fair value - recurring fair value measurements

Investment in equity share of DGCL was measured at fair value through other comprehensive income. Since the investment company was unlisted company, fair value is measure using level 3. The investment was transferred during the year to DPH.



Significant estimates

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see (ii) above.

35. CAPITAL MANAGEMENT

(a) Risk management

The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI).

The Company manages its funds / capital so as to ensure that funds are available to meet future commitments, working capital requirements and also the dividend and tax expectations of its holding Company Druk Holding & Investments and Royal Government of Bhutan. Capital expenditure is mostly met from operating cash flows and fixed term borrowing are made only for major capital projects and such borrowings are repaid when the project is completed and is generating positive cash flows.

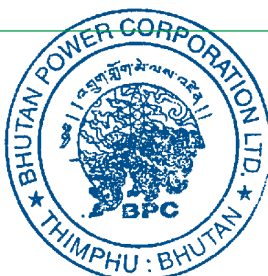
Capital expenditure is mostly met from operating cash flows. Fixed term borrowings are made mainly for capital projects. Such borrowings are repaid based on applicable terms and conditions. The amount mentioned under total equity in balance sheet is considered as Capital.

(b) Financial risk management

The Company's activities expose it to credit risk, liquidity risk and market risk (i.e. foreign currency risk, interest rate risk and price risk).

This note explains the sources of risk which the entity is exposed to and how the entity manages the risk and the impact of it in the financial statements.

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade & other receivables, financial assets measured at amortised cost	Aging analysis	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk – foreign exchange	Future commercial transactions and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Cash flow forecasting Sensitivity analysis	Diversification of liability
Market risk – interest rate	Long-term borrowings at fixed rates	Sensitivity analysis	Portfolio of loan contains fixed interest loans from financial institutions
Market risk – price risk	Investments in equity securities	Sensitivity analysis	Continuous monitoring of Company's performance



(1) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

i) Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Trade receivables are of two categories:- electricity consumers and construction consumers.

Electricity consumers:- Initially 30 days credit period is given to the Consumers. For defaulting consumers, 2% of the billed amount is charged as penalty. If the consumer further fails to pay the bill within 3 months or 90 days from the billing date the supply is disconnected until clearing of the dues. The Company has no concentration of credit risk as the customer base is widely distributed both economically and geographically. Further being a sole distributor of electricity, the Company expects to recover all its dues from the customers.

Construction consumers:- Generally for all the construction contracts executed by the Company, the clients deposit the amount estimated for construction of the project in advance. Any excess deposit over the final value of work executed by the Company would be refunded upon completion of the work. However, for the mega projects the payments are received based on the work progress bills/reports submitted by the Company to the clients since the amount involved in such projects are quite significant. Trade receivables of construction consumers are non-interest bearing and are generally on credit term of 30-45 days or term as per the contract. The Company regularly monitors its outstanding customer receivables.

The requirement for impairment is analysed at each reporting date based on the Company's laid down policies. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 34.

ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's finance department. Deposits of surplus funds are made only with approved counterparties in accordance with the Company's policy. Counterparty credit limits are reviewed by the Companies' Board of Directors on an annual basis. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through counterparty's potential failure to make payments. For banks and financial institutions, only high rated banks/institutions are accepted.

Loans are given to employees as per the Company policy and the receipt of repayment are reviewed on regular basis. The maximum tenure of each employee loan fixed by the management is of 36 months.

Financial Assets are considered to be of good quality and there is no significant credit risk.

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.



Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is generally performed in accordance with practice and limits set by the Company.

(i) Maturities of financial liabilities

The tables below analyze the Company's financial liabilities into relevant maturity groupings based on the contractual maturities for all financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities as at December 31, 2018	Less than 1 year	More than 1 year	Total
Trade and Other Payables	3,879,095,627	588,715,827	4,467,811,454
Borrowings	438,639,273	7,652,348,999	8,090,988,272
Total financial liabilities	4,317,734,900	8,241,064,826	12,558,799,726
Contractual maturities of financial liabilities as at December 31, 2017	Less than 1 year	More than 1 year	Total
Trade and Other Payables	3,022,379,477	1,449,646,292	4,472,025,769
Borrowings	329,861,141	5,649,761,948	5,979,623,089
Total financial liabilities	3,352,240,618	7,099,408,240	10,451,648,858

* for borrowings where the rate of interest, loan tenure etc are yet to be determined by the Royal Government of Bhutan, no interest component has been considered in the contractual maturities.

(3) Market risk

(i) Foreign currency risk

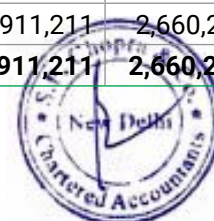
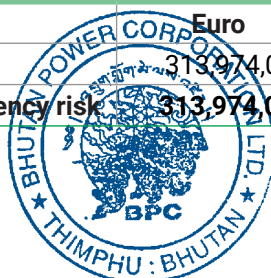
Foreign Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign currency exposure through its borrowings which are in foreign currency. The risk is measured through a forecast of highly probable foreign currency cash flows. Further the Company manages its foreign currency risk by maintaining its foreign currency exposure.

Foreign currency risk exposure

The Company's exposure to foreign currency risk at the end of the reporting period expressed in Nu. are as follows:-

Particulars	As at December 31, 2018		As at December 31, 2017	
	Euro	Yen	Euro	Yen
Financial liabilities	313,974,033	2,793,718,429	300,911,211	2,660,247,363
Net exposure to foreign currency risk	313,974,033	2,793,718,429	300,911,211	2,660,247,363



Sensitivity

The sensitivity of profit or loss to changes in the exchange rates arises mainly from foreign currency denominated financial instruments.

Particulars	Impact on profit before tax	
	As at December 31, 2018	As at December 31, 2017
<i>YEN sensitivity</i>		
Nu. depreciate by 5% (2017: 5%)	139,685,921	133,012,368
Nu. appreciate by 5% (2017: 5%)	(139,685,921)	133,012,368
<i>EURO sensitivity</i>		
Nu. depreciate by 5% (2017: 5%)	15,698,702	15,045,561
Nu. appreciate by 5% (2017: 5%)	(15,698,702)	15,045,561

* Holding all other variables constant

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations and bank deposits.

The Company has only fixed rate borrowings and bank deposits which are carried at amortized cost. Interest expenses and income, are therefore not subject to interest rate risk as defined in BFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

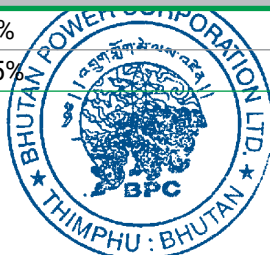
(iii) Price Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. Investment is done in accordance with the limits set by the Company.

Sensitivity

The Company's exposure to equity securities price risk arises from investments held by the Company in equity securities and classified in the balance sheet as at fair value through other comprehensive income. The Company's investment in the equity shares is a part of the Company's overall business strategy and policy. The Company's Board of Directors reviews and approves all investment decisions.

	Impact on total other comprehensive income before tax	
	As at December 31, 2018	As at December 31, 2017
Increase in equity share by 5%	-	7,779,516
Decrease in equity share by 5%	-	(7,779,516)



36. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Druk Holding & Investments (a Royal Government of Bhutan undertaking). The Company has no subsidiary Company. The Company considers that for the purpose of BAS 24 the Royal Government of Bhutan is in a position of control over it, and therefore regards the Royal Government of Bhutan and its controlled companies/corporations as related parties for the purpose of the disclosures required by BAS 24.

A summary of the Company's transactions with the Royal Government of Bhutan and its related entities is included below:

Name of Related Party	Relationship	Nature of transaction with related party	Amount outstanding as on December 31, 2018	Transactions during the year
			(Amount in Nu.)	(Amount in Nu.)
Royal Government of Bhutan	Ultimate holding	a) Borrowings for rural electrification project	Cr.5,671,717,347	Disbursement(Cr.)37,205,012 Repayment (Dr.)158,246,442
		b) Borrowings for Tala hydroelectric project	-	Repayment (Dr.)109,971,738
		c) Grants received for rural electrification.	Cr.1,502,041,699	Received (Cr.)144,739,888
		d) Interest Paid/ payable on Borrowings	Cr.134,721,312	Dr.44,825,894
Druk Holding & Investments	Holding Company	a) Issue of Share Capital	Cr.8,225,118,000	
		b) Payment of dividend		Dr. 1,644,741,666
		c) Brand Management Fee paid		Dr. 30,837,277
Druk Green Power Corporation Limited	Fellow Subsidiary	(a) Purchase of electricity for transmission and distribution.	Cr.696,544,505	Dr.3,913,866,281
		(b) Wheeling charges	Dr.24,407,547	Cr.796,167,712
		(c) Electricity charges		Cr.10,447,113
Dagachhu Hydro Power Corporation	Fellow Subsidiary	(a) Wheeling charges	Dr.3,055,722	Cr. 69,226,879
Druk Air Corporation Limited	Fellow Subsidiary	Air Travel Service		Dr.16,225,304



Dungsam Cement Corporation Limited	Fellow Subsidiary	a. Investment in Equity Shares	-	
		b Electricity charge received		Cr.214,938,236
		c. Trade receivable	Dr.18,069,086	
		d. Non-Trade receivable	Dr.517,986	
Royal Insurance Corporation of Bhutan Ltd	Government undertaking	a) Insurance Premium paid		Dr.9,658,236
		b) Deposit against Employees Insurance Policy (including interest)	Dr.696,560,997	
		a) Benefits accrued on Insurance Policies		Cr.51,315,117
		b) Death Benefit Claims under Employees Insurance Policies adjusted		Dr.350,000

Key management personnel ('KMP')

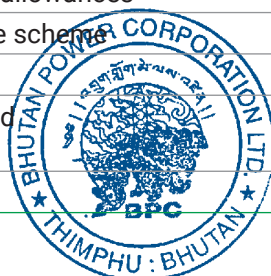
KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly including any director whether executive or otherwise. Key management personnel of the company for the purpose of disclosure of compensation include the Managing Director as required by the Companies Act of Bhutan, 2016.

Summary of compensation paid to the KMP, Mr. Gem Tshering, Former Managing Director.

	For the year ended	
	December 31, 2018	December 31, 2017
Basic Salary and contract allowance	814,770	1,605,810
Performance based variable allowances	130,372	161,545
Performance based incentive scheme	177,272	170,238
Sitting fees	58,000	140,000
Contribution to provident fund	56,016	110,400
Total	1,236,430	2,187,993

Summary of compensation paid to the KMP, Mr. Sonam Tobjey, Current Chief Executive Officer.

	For the year ended	
	December 31, 2018	December 31, 2017
Basic Salary and contract allowance	686,452	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	81,000	-
Contribution to provident fund	37,775	-
Other allowances	-	-
Total	805,227	-



As the liabilities for gratuity and leave encashment are provided on actuarial basis for the Company as a whole, the amounts pertaining to KMP are not ascertainable separately and as such could not be included above.

Note:

- i) Reimbursement of expenses incurred by related parties for and on behalf of the Company and vice-versa, and the related outstanding amounts have not been included in the above disclosures.
- ii) The disclosures given above have been reckoned on the basis of information available with the Company and relied upon by the Auditors.

37. EMPLOYEE BENEFITS

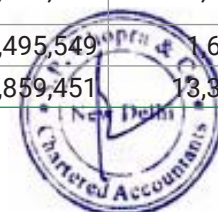
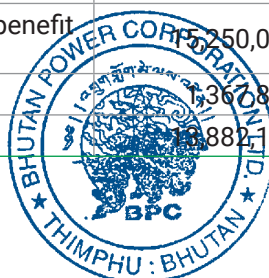
(a) Disclosures as required under BAS-19 "Employee Benefits" are as under: -

i) Change in present value of obligation:

(in Nu.)

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Present Value of obligation at the beginning of year	435,741,084	451,100,565	52,038,922	41,370,828
Interest cost	1,069,569	31,557,040	3,945,000	2,895,958
Current Service Cost	24,941,000	46,108,938	9,611,000	10,668,094
Benefit Paid	(20,872,478)	(29,277,806)	(38,481,196)	(40,891,994)
Net actuarial (Gain) / Loss on obligation	(98,541,458)	(63,767,653)	-	37,996,036
Present value of the defined benefit at the end of period/year	393,272,158	435,741,084	35,701,995	52,038,922
Current Liability	22,565,111	21,244,904	-	-
Non-current Liability	370,707,047	414,496,180	-	-

Particulars	Transfer Grant		Separation Allowance	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Present Value of obligation at the beginning of year	14,814,000	14,900,000	14,937,000	14,949,000
Interest cost	1,065,824	987,840	1,070,751	990,185
Current Service Cost	1,382,403	1,457,340	1,472,770	1,529,030
Benefit Paid	(1,179,864)	(1,576,847)	1,179,864	1,576,847
Net actuarial (Gain) / Loss on obligation	(832,363)	(954,333)	(945,657)	(954,368)
Present value of the defined benefit at the end of period/year	14,250,000	14,814,000	15,355,000	14,937,000
Current Liability	13,360,862	1,506,000	1,495,549	1,622,000
Non-current Liability	13,882,138	13,308,000	13,859,451	13,315,000



Particulars	Carriage Charges	
	Year ended 31st December, 2018	Year ended 31st December, 2017
Present Value of obligation at the beginning of year	16,936,000	17,028,000
Interest cost	1,214,051	1,128,015
Current Service Cost	1,766,464	1,832,910
Benefit Paid	1,332,474	1,867,315
Net actuarial (Gain) / Loss on obligation	(1,206,041)	(1,185,610)
Present value of the defined benefit at the end of period/year	17,378,000	16,936,000
Current Liability	1,724,758	1,839,000
Non-current Liability	15,653,242	15,097,000

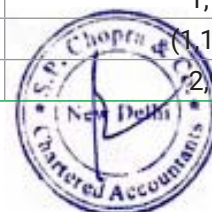
ii) Expense recognized in the Statement of Comprehensive Income.

(in Nu.)

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Current Service Cost	24,941,000	46,108,938	9,611,000	10,668,094
Interest cost	1,069,569	31,577,040	3,945,000	2,895,958
Net actuarial (Gain) / Loss recognized in the year	(98,541,458)	(63,767,653)	-	37,996,036
Expenses recognized in Statement of Profit and Loss	57,678,145	(48,639,195)	17,719,710	51,560,088

Particulars	Transfer Grant		Separation Allowance	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Current Service Cost	1,382,403	1,457,340	1,472,770	1,529,030
Interest cost	1,065,824	987,840	1,070,751	990,185
Net actuarial (Gain) / Loss recognized in the year	(832,363)	(954,333)	(945,657)	(954,368)
Expenses recognized in Statement of Profit and Loss	2,448,227	2,445,180	2,543,521	2,519,215

Particulars	Carriage Charges	
	Year ended 31st December, 2018	Year ended 31st December, 2017
Current Service Cost	1,766,464	1,832,910
Interest cost	1,214,051	1,128,015
Net actuarial (Gain) / Loss recognized in the year	(1,206,041)	(1,185,610)
Expenses recognized in Statement of Profit and Loss	2,980,515	2,960,925



iii) Actuarial Assumptions:

Principal assumptions used for actuarial valuation are:

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2018	Year ended 31st December, 2017	Year ended 31st December, 2018	Year ended 31st December, 2017
Method used	Projected unit credit method			
Discount rate	7.58%	7.58%	7.58%	7.58%
Rate of Increase in Compensation levels	4.00% p.a.	4.00% p.a.	4.00% p.a.	4.00% p.a.
Rate of return on plan assets	0.00%	0.00%	0.00%	0.00%
Expected Average remaining working lives of employees (years)	9 years	21 years	10 years	21 years

Particulars	Transfer Grant Separation Allowance Carriage Charges	
	Year ended 31st December, 2018	Year ended 31st December, 2017
Method used	Projected unit credit method	
Discount rate	7.58%	7.58%
Rate of Increase in Compensation levels	4.00% p.a.	4.00% p.a.
Rate of return on plan assets	0.00%	0.00%
Expected Average remaining working lives of employees (years)	8 years	8 years

38. CAPITAL COMMITMENTS

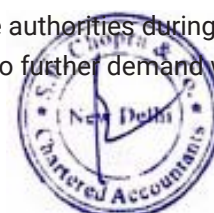
The Company has contractual commitments of Nu. 2,070,332,717 and Nu. 2,472,660,637 as at December 31, 2018 and December 31, 2017 respectively; on account of capital expenditures relating to acquisition of Property, plant and equipment, but not recognized as liabilities as on the reporting date.

39. CONTINGENT LIABILITIES

The contingencies where the probability of future payments is assessed not remote as well as those contingencies assessed as remote are disclosed.

- a) For the pending appeal against demand raised for the assessment year 2014 & 2015, Company has paid the additional demand during the year; however final assessment order is still not received by the Company.

Further, field assessment for the year 2016 & 2017 has been conducted by the authorities during the year; however assessment is still not made. Management is of the view that no further demand will be raised in the final assessment order.



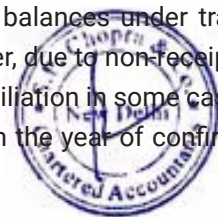
- b) During the year, the Company has transferred its investments in equity shares of a company to its Holding Company, DHI, in the form of dividend of Nu. 400 million from Investment Reserve (GIR), in terms of approval given by its Shareholders in the General Meeting held on March 22, 2018. The TDS of Nu. 44.44 million on the said payment of dividend, has been provided as liability in the financial statement, and will be paid in the year 2019. However, no provision towards interest on the said delay in payment has been made as the same in view of the management is not required considering the appeal to be filed by the company for the waiver of the same, and in case the delayed interest is paid the same will be accounted for in the year of payment.

40. OTHER NOTES TO ACCOUNTS

i. Gratuity:

The liability towards Gratuity is funded through fixed deposits with the banks. As on December 31, 2018 there is balance of Nu. 512,162,683 in the fixed deposits (including interest of Nu. 39,599,859 accrued thereon) earmarked towards gratuity liability of Nu. 393,272,158 as on December 31, 2018; hence gratuity liability is fully covered against the fixed deposits held with the banks. Further, during the year, a reversal (net of actuarial gain) of Nu. 42,468,926 (Previous year: a reversal (net of actuarial gain) of Nu. 15,359,481) has been made in the accounts.

- ii. As per the technical assessment of the slow and non-moving material identified based on ageing and usage level of the inventory generated from ERP (SAP) System and also based on identification/segregation of obsolete stock at the time of physical verification, the adequate provision has been made in the accounts towards obsolete material.
- iii. In the opinion of the management, the value of assets other than property, plant and equipment, on realization in the ordinary course of business, will not be less than the value at which these are stated in the Statement of Financial Position.
- iv. The Company had availed the loans (RE V and JICA II) of Nu. 1641,710,574 from Royal Government of Bhutan towards Rural Electrification Works till earlier year, however, as the terms of these loans regarding the rate of interest were not finalized, no payment / provision towards interest was made on account of these loans till earlier year. Consequent upon the finalization of the terms/rate of interest in respect of one of these loan RE V, during the current year, interest of Nu. 236,098,234 payable on the said loan from the date of inception of the loan to the year end i.e. December 31, 2018, has been provided as liability, and though the said interest also included the interest for the period/s during which the various projects (for which the said loan was taken / utilized) were under construction, however, as these projects have already been completed and capitalized and also as the loan was utilized for various projects and the segregation of the same within these various projects is not feasible, therefore the interest for the current year (Nu. 47,859,961) and earlier year (Nu. 43,728,048) has been charged to the Statements of the Comprehensive Income for the current and previous year respectively and the interest for the earlier periods i.e. upto January 01, 2017 (Nu. 144,510,225) has been adjusted with the retained earnings. Further, as the terms / rate of interest in respect of the other loan JICA II (Nu. 861,511,693 as at the yearend) have not been finalized so far, the interest payable thereon could not be ascertained presently, and therefore, the impact of the same will be taken in the year the rate of interest is finalized / communicated.
- v. The letters have been sent to most of the parties for confirmation of the balances under trade and other receivables, loans and advances and trade and other payables, however, due to non-receipt of the response from few parties, the balances are subject to confirmation / reconciliation in some cases. The impact, if any, subsequent to the confirmation/reconciliation will be taken in the year of confirmation/



reconciliation, which in the view of the management will not be material keeping in view the past experience.

- vi. The Company has taken single premium insurance policies with Royal Insurance Corporation of Bhutan Limited (RICB), for coverage of its employees with death claim benefit in the event of death while in service and within the respective policy term. The policies have been underwritten through Single premium, which will be refunded at the end of respective policy period/term with pre-decided/fixed policy bonus/benefit and after deduction of death claims paid within the respective policy term. The policy premiums paid and bonus/benefit accrued thereon aggregating to Nu. 696,560,997 (after deducting death claims of Nu. 5,450,000 paid/payable under the policies) as on the reporting date have been considered as 'Deposit against Employees Insurance Policy' under 'Other Non-Current/Current Assets' in the Statement of Financial Position. The death claim benefits of Nu. 350,000 paid/payable during the year have been reduced from the same and accounted for as 'Employee Benefit Expense' and the policies bonus / benefit of Nu. 51,315,117 (Previous year Nu. 50,157,787) accrued under the policies during the year have been added in the same on prorated basis by credit to 'Other Income'.
- vii. The detail of Loans Funds for the year is as under:

(Amount in Nu.)

Particulars	Loan outstanding as on 01.01.2018	Disbursement during the year	Foreign Exchange difference ((gain)/loss)	Repayment / Adjustment during the year	Loan Outstanding as on 31.12.2018	Interest Paid/ provided for during the year
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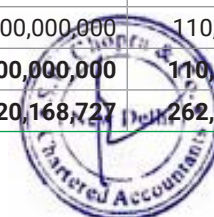
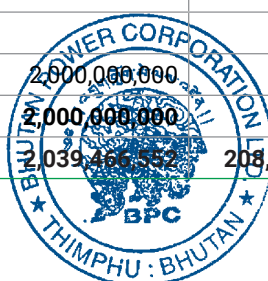
From Royal Government of Bhutan (Unsecured)

A. For Rural Electrification works						
ADB-RE I	149,473,230	-	-	8,304,068	141,169,161	8,652,839
ADB-RE II	256,561,728	-	-	18,325,838	238,235,891	14,697,322
ADB-RE III	328,109,556	-	-	18,228,309	309,881,247	19,088,077
ADB-RE IV	1,104,327,345	-	-	46,992,653	1,057,334,692	-
ADB-RE V	781,998,661	37,666,773	(2,261,540)	-	817,403,894	47,859,961
ADA	300,911,221	-	13,062,813	-	313,974,033	2,193,464
JICA-I	1,579,231,910	-	198,066,861	48,205,655	1,729,093,116	194,192
JICA-II	859,711,913	1,799,779	-	-	861,511,693	-
	5,360,325,564	39,466,552	208,868,134	140,056,523	5,468,603,727	92,685,855

B. For Tala Transmission Lines						
THP	76,238,154	-	-	76,238,154	-	34,365,345
THP- IDC	33,733,584	-	-	33,733,584	-	-
	109,971,738	-	-	109,971,738	-	34,365,345

From National Pension and Provident Fund.

Secured	293,492,500	-	-	41,927,500	251,565,000	24,217,439
	293,492,500	-	-	41,927,500	251,565,000	24,217,439
Unsecured	-	-	-	-	2,000,000,000	110,794,520
	-	-	-	-	2,000,000,000	110,794,520
Total	5,763,789,802	2,039,466,552	208,868,134	291,955,761	7,720,168,727	262,063,159



viii. Quantitative detail of purchase, generation and sales of power for the year is as under.

	2018		2017	
	Units (kWh)	Amount	Units (kWh)	Amount
Purchase	2,461.55	3,913.87	2,326.38	3,699.27
Hydel	19.21	-	12.21	-
DG	0.04	-	0.03	-
Sale	2,328.44	7,066.13	2,185.75	6,554.74

41. Subsequent events

- The Board of Directors has proposed a final dividend of Nu. 107.30 per share for the financial year ended December 31, 2018. The total dividend of Nu. 882,555,161 is subject to approval of the members in the General Meeting to be held to adopt the financial statements for the year ended December 31, 2018. These financial statements do not reflect this dividend payable.
- In line with the Asset replacement policy of the Company, the Board of Directors has proposed an amount of Nu. 14,334,804 to be transferred to Asset Replacement Reserve for the financial year ended December 31, 2018, which is calculated at 0.4% on the gross asset additions during the year. This is subject to approval of the members in the General Meeting to be held to adopt the financial statements for the year ended December 31, 2018. These financial statements do not reflect this transfer.

Signatures to 'Notes 1 to 41' of the Financial Statements For and on behalf of the Board of Directors

Offtg. General Manager (FAS)



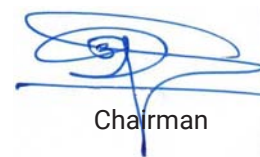
Director



Chief Executive Officer



Chairman



As per our report of even date attached

For S.P. CHOPRA & CO.

Chartered Accountants

ICAI Firm Registration No. 000346N

Place: Thimphu

Dated: 11.03.2019

(GAUTAM BHUTANI)

Partner
Membership No. 524485



Bhutan Power Corporation Limited (A Royal Government of Bhutan Undertaking)

All amount in Bhutanese Ngultrum ('Nu') unless stated otherwise)

RATIO ANALYSIS

Particulars	2018	2017
NP ratio	0.079	0.111
Fixed Assets Turnover Ratio (Sales/ Average Net Block)	0.512	0.658
Debtors Turnover Ratio (Energy Sales/Average Debtors)	15.540	20.408
Current Ratio (Current Assets/Current Liabilities)	1.086	1.020
Quick Ratio (Current Asset-Inventory/Current Liabilities)	1.032	0.957
Interest Coverage Ratio (Profit before interest & tax/Interest)	4.267	8.214
Debt Service Coverage Ratio (PAT+Dep+Interest/(Interest + Principal Repayment)	2.691	4.191
Gearing Ratio (Debt /Gross Value of PPE)	28.05%	23.48%
Gearing on net Fixed asset	40.3%	34.0%
Debt Equity Ratio (Debt/average Equity)	60.98%	44.12%
Return on Capital Employed (EBIT/(Capital+Reserve+long term liability)	7.11%	10.81%
Return on asset (Profit after tax)/average net total assets	4.05%	7.33%
Return on equity (Return available /Average Equity)	5.75%	9.45%

For S.P. Chopra & Co.
Chartered Accountants
ICAI Firm Regn. No. 000346N



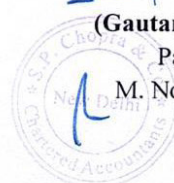
(Gautam Bhutani)

Partner

M. No. 524485

Place: Thimphu

Dated: 11.03.2019





**YEAR IN
REVIEW**

Contract Signing with Ms Gandara Design

March 2018

Re-commissioning of Chumey Mini Hydel, Bumthang

May 2018

CBIP Award 2018

January 2018



Recommissioning of Thimphu Mini Hydel Plant

February 2018



Handing-taking of site const. of RCO building, Phuentsholing

April 2018



**Official handing -taking of
responsibility to the interim
MD by outgoing MD**

July 2018



**Bureau Veritas
award ISO
certificate to BPC**

November 2018



**Tree plantation
program on Social
Forestry day**

June 2018



**Research and
Development
conference**

September 2018



**Winner of the
Departmental football
tournament**

December 2018