Annual Report
2017

Year in Review

I would like to thank the employees of BPC for their dedication and hard works that has resulted in 90.25% achievement of compact targets in 2017. With the stringent targets set, achievement of 90.25% is a great success and I congratulate all the employees of BPC for the achievement. At this juncture, I would like to urge all the employees for their dedication and hard work for the years to come and strategize for greater success and achievements.

I would also like to thank Board Directors for their guidance and support to achieve the targets. All the contracts that were scheduled for award were successfully awarded. The necessary guidelines and policies were reviewed and approved to streamline the system and processes. I take this opportunity to acknowledge the contributions made by Late Director Lhaba Tshering. During his tenure in BPC as Board Director, he left us towards heavenly abode. BPC prays for his peace.

I am happy that the systems, processes and safety norms are strengthened in BPC to qualify for the award of prestigious certificate of ISO 9001:2015, ISO 14001:2015 and BS OHSAS 18001:2017 from reputed accreditation company, Bureau Veritas, India. I would like to congratulate all for the achievement and working towards fulfilling the requirement. I would like to urge the employees of BPC to work with the same spirit and follow the right processes, safety and quality norms to keep the flag of BPC flying high.

I am happy that my services to the Nation has been recognised by the Asian Institute of Technology, Bangkok, the Institute I completed my Master from. I was honoured to receive the prestigious Asian Institute of Technology Alumni Association Distinguished Alumni Award in the Rural and Community Development category on behalf of BPC. It is the collective effort to electrify the rural houses that has resulted in the overall development and benefits of people and serving reliable electricity to the extent possibility that I was awarded. I am honoured for the Vision of our beloved King the Fourth Druk Gyalpo for the far sighted vision.

I would also like to thank and congratulate all the employees of BPC for their services towards public, which has been recognised by the Central Bureau of Irrigation and Power by awarding the certificate of “Best performing utility having integrated operation in Generation, Transmission and Distribution”. It is the effort and dedicated services of all the present and past employees of BPC that our services are being recognised world wide.

Our distribution and transmission network is increasing, also our customers are increasing and are becoming more demanding in terms of reliability. Our customers want reliable power at low price. Therefore, improving efficiency is important; but with the increasing network and customers, BPC requires more employees, transports and equipment to provide reliable power supply. BPC is flooded with requests for shifting of poles and towers as the land prices are going up. People want reliable power but does not want poles and towers that reaches power to them. Securing public consent for construction of the distribution and transmission lines has become very difficult. In Bhutan, with multiple protected zones and biological corridors, obtaining Environment Clearance is another herculean task.

I would like to urge my fellow employees of BPC to take safety and quality seriously. When I come to know that some of our employees are hurt or have lost their lives while serving the public, it pains me. I urge all to follow the safety norms. I always tell “No emergency can justify disregard for the safety of staff”. We have families to look after and we should follow the safety practices so that we don’t hurt ourself and fellow workers. In order to educate public on the safety aspect, BPC has resorted to broadcast safety messages through live entertainment and debate shows, which public has taken well and has become successful and has good result. Quality is of topmost priority in our industry. Someone said “Quality is not by chance”, we have to strive for quality output. I request all our employees for strict supervisions and adherence to contractual provisions. The infrastructure we construct have to serve the people with reliability and for long period. I would request all the employees to work with financial prudence and not indulge in fraud, adjustments and misappropriations. We should all be accountable for our actions.

I would like to put in record that the Utilities like EGAT and KEPCO with which BPC has institutional tie up have supported BPC in terms of HR development and technology transfer. I am happy that BPC has taken up and successfully commissioned 400 kV GIS substation at Jigmeling. As a MD of the company I am really proud of the technical and administration development of our staff.

BPC has grown from strength to strength till now serving the Nation in right earnest. BPC should continue to deliver good services with efficiency and accountability.

Tashi Delek!

8/5/2018

(Gem Tshering)
Managing Director

Company Profile

Bhutan Power Corporation Limited (BPC) was formed with unbundling 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

The Best power utility in the region committed to quality services, maximization of value, and sustainable socio-economic development in pursuit of GNH.

Our Mission

To transmit, distribute and supply electricity within the country, wheel electricity for export, and practice Good Corporate Governance.

Our Culture & Value

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

CONTENTS

Board of Directors

Dasho Ugen Chewang, Chairman

Position:	Eminent Member, Royal Research and Advisory Council
Education:	Masters in Business Administration in Business Management and Accounting from Syracuse University, New York, USA
Experience:	Auditor General of Bhutan Chief Executive Officer of the National Pension and Provident Fund Chairman of Accounting Standard Board Fellow at Canadian Comprehensive Auditing Foundation

Mr. Gem Tshering

Position: Managing Director, BPC

Education: Masters in Planning and Policy from Asian Institute of Technology, Thailand.

Experience: General Manager of Transmission Department, Executive Director of Development & Construction Department and Director of Transmission Wing in BPC.

Ms. Deki Wangmo, Member

Position: Chief Budget Officer

Education: Master of Business (Applied Finance), Queensland University of Technology, Brisbane, Australia

Experience: Chief Budget Officer, Department of National Budget, Ministry of Finance.

Mr. Om Prakash Nirola, Member

Position: Associate Director, Corporate Performance Department, Druk Holding & Investments

Education: Master of Business Administration, Bachelors of Arts (honors) Economics

Experience: Management consultant, Chief Industries Officers, MOEA, Trainer & Facilitator of Entrepreneurship and Small and Medium Enterprises Development.

Lt. Lhaba Tshering, Member

Position: Chief Planning Officer, Gross National Happiness Commission

Education: Master in Economics, Wakayama University, Japan

Experience: Deputy Chief Planning Officer, Perspective Planning Division, GNHC
Sr. Planning Officer, Planning, Monitoring and Coordination Division, GNHC
Program Officer, Department of Aid &Dept Management, Ministry of Finance.

Mr. Singye Dorji, Member

Position: Chief Executive Officer, Wood Craft Center

Education: Bachelor's Degree in Commerce, Sherubtse College.

Experience: Executive Director, Lhaki Group of Companies,
Managing Director, Bhutan Board Products Limited.

Mr. Karma P Dorji, Member

Position: Chief Engineer, DHPS, Ministry of Economic Affairs

Education: M.Sc in International Development Technology, State University of California (HamboltUniveristy) Arcara, United States
Electrical Engineering, PSG College of Technology, Coimbatore, Tamil Nadu

Experience: Executive Engineer, Planning & Coordination Div, DHPS, MOEA.

Management Team

Top row, from Left
Mr. Kuenzang Tobgye, GM, TD, Mr. Thinley Gyeltshen, Offtg. AD, TS, Mr. Nim Dorji, AD, HRAS, Mr. Shamsher Pradhan, AD, TS, Mr. Dechen Choling, GM, RED, Mr. Namgay Wangchuk, GM, ICD.

Bottom row, from Left
Mr. Tashi Penjor, Company Secretary, Mr. Drukchu Dorji, GM, PSD, Mr. Sonam Tobjey, Director, FAS, Mr. Gem Tshering, MD, Mr. Gorab Dorji, GM, R&DD, Mr. Pradeep M. Pradhan, AD, CS, Mr. Sandeep Rai, GM, DCSD.

DIRECTORS' REPORT

1. Introduction

On behalf of the Board of Directors of Bhutan Power Corporation Limited (BPC), I, as the Chairman of the Board of Directors, have the privilege to present the Directors' Report for the period from 1st January 2017 to 31st December 2017 to Druk Holding and Investments Ltd. (DHI), the shareholder. Being the first year of operations as Chairman of the BPC, the year 2017 had been a learning experience for me.

2. Operational highlights

Presently, the BPC is serving 185,130 customers comprising of 16 HV, 59 MV, 778 LV Bulk and 184,277 LV customers. During the year, 7,979 customers were added, which were mostly as a result of connection to rural houses. In 2017, domestic electricity consumption was 2,185.75 Million units (MU) as compared to 2,008.90 MU in 2016, reflecting 8.8% increase in consumption. The peak coincidental load recorded was 362.09 MW in November 14, 2017 as compared to 335.87 MW in September 4, 2016.

To meet the demand, 2,326.38 MU of electricity was purchased from Druk Green Power Corporation Limited (DGPC) in 2017, as compared to 2,084.69 MU in 2016. The internal generation from mini and micro hydels was 12.21 MU in 2017 as compared to 11.22 MU in 2016. BPC also imported 0.12 MU from ASEB and 0.08 MU from WBSEB.

BPC wheeled 5,306.56 MU of electricity generated by Hydro Power Plants under DGPC for export to India in 2017 as compared to 5,779.32 MU in 2016.

The BPC has been maintaining its Transmission and Distribution (T&D) losses comparatively low or better than most of the utility organizations in the region. Of the total energy of 7,645.38 MU received in the system, 7,492.31 MU was utilized. This translates the global energy loss to 2% in 2017 as compared to 1.14% in 2016. The increase in loss was due to the revised tariff policy wherein the power sale to BPC had been considered from gantry of generating plants as compared to the past from the substation switchyards. The domestic T&D loss (excluding wheeling) in 2017 was 6.54% as compared to 4.26% in 2016. The BPC achieved collection efficiency of 98.45%, which was commendable.

The load flow within the system was coordinated and monitored by the Bhutan Power System Operator (BPSO). The BPSO monitors the power systems operations online for carrying out effective dispatching of load and coordination with generating plants of DGPC and the Indian Eastern Region Load Dispatch Center at Kolkata.

Power System Expansion Programs

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. 220kV Substation at Dagapela, Dagana;
b. 132kV Double Circuit transmission line from Kanglung to Phuntshotang and Motanga to Nganglam;

c. 132/33kV substation at Motanga, Samdrup Jongkhar and 132kV bay extension at Kanglung and Nganglam substation;
d. 66kV transmission line from Thimphu to Gasa;
e. 66kV Substation at Pangbesa, Paro and 66kV Double Circuit transmiss ion line (LILO to the substation) at Pangbesa;
f. 66kV transmission line from Jemina to Changidaphu, Thimphu.
g. 132kV Substation at Phuntshothang;
h. 66 kV GIS substation at Changidaphu, Thimphu; and
i. 66 kV GIS substation at Damji, Gasa.

Construction of 132 kV transmission line from Motanga to Phuntshothang under Samdrup Jongkhar dzongkhag was completed and presently charged at 33 kV to reach power to Phuntshothang and areas beyond. The project has substantially improved power reliability within the dzongkhag.

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, which is substantially completed.
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;
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;
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;
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
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 contract for the same was also awarded in 2017.

The construction of 400 kV GIS substation at Jigmeling, Sarpang, (deposit work from MHPA) was successfully completed and inaugurated on 30th December 2017 by Hon’ble Lyonchen Dasho Tshering Tobgay. The 400 kV D/C (Quad) deposit work of MHPA from Jigmeling to Bhutan-India border was also completed.

Rural Electrification (RE)

Bhutan 2020 - A Vision for Peace, Prosperity and Happiness, envisioned to provide electricity for all by 2020. In line with the vision of His Majesty the Fourth Druk Gyalpo, the Company initially targeted to provide electricity for all by 2017. However, the 10th Five Year Plan revised the targets to provide electricity for all by 2013 with the on-grid electrification of 40,257 households.

At the end of the 10th FYP the company achieved 94% coverage. In 2017, electrification of Soe and Lingshi under Thimphu Dzongkhag and Jigmecholing Gewog under Sarpang Dzongkhag were completed. As of today 99.97% households in Bhutan are provided with electricity.

System Improvement Works

System improvement is a continuous activity in the Company. It is necessary in order to improve supply reliability, reduce losses and meet the increasing demand for power. Besides replacement of old conductors, up-gradation of transformers, replacement of overloaded conductors and transformers, conversion of bare conductors to LV ABC, the company carried out following activities:

- Awarded Contract for Distribution Management System (DMS) under Thimphu ESD to achieve the reliability of supply through prompt identification of fault
- A pilot project of 'Supply, Installation and Commissioning of Common Gateway and GUI for control & monitoring of Existing Auto reclosers of various makes over IEC 104 protocol' was initiated to understand and improve the reliability of power supply by effectively isolating the faulty section;
- Construction of 2 X 5 MVA 33/11 kV, GIS substation at Tsongdue, Paro; and
- Completed the Construction of MV Distribution Network in Pangbesa, Paro.

Pursuing the transmission system, the Company:

- completed the up-gradation of the Olathang Substation in Paro;
- commissioned bay extension at 66kV Lobeysa substation with additional 5MVA, 66/33kV transformer to supply increasing load and improve the reliability of Wangduephodrang and Punakha Dzongkhag;
- completed a pilot project for revival of SCADA system in Deothang;
- installed aviation warning markers along the transmission lines identified by Royal Bhutan Helicopter Services Limited (RBHSL) as a safety measure to helicopter;
- Carried out emergency restorations on 132kV Tintibi-Yurmoo (TY 55 at Khosala), 66kV Yurmoo-Bumthang (YB 46 at Ngadala), 220 kV Malbase – Samtse (MS -12) and 66kV Lobeysa-Basochhu (LB 69); and
- up-gradation of 220 kV Singyegaon substation to GIS.

Rehabilitation of Mini hydel projects

The rehabilitation and automation of the first mini Hydel in Bhutan - Jungshina Mini Hydel, Thimphu was successfully completed. The rehabilitation of Chumey Mini Hydropower Plant is ongoing. Rehabilitation works of other mini hydels (Chenary, Khaling and Gidakom) have been kept in abeyance.

National Broadband Master Plan Project

In 2017, BPC rolled out optical fiber to Laya Gewog as a part of the National Broadband Master Plan Project. As of today, all 20 Dzongkhag administration offices, 201 Gewog offices, 196 Community Centers, have optical fiber connectivity. Additionally, fiber has been extended to 6 BPC offices such as, ESSD Yadi, ESSD Kanglung, ESSD Daifam, ESSD Kalikhola, ESSD Gasa and Damdum Substation, which were subsequently connected to the BPC's CE network.

3. Financial position and key financial performance highlights

The total asset of the Company as of December 31, 2017 was valued at

Nu. 28,964.16 million as compared to Nu.27,766.61 million in 2016. The net worth of the Company was valued at Nu. 23,172.77 million as compared to Nu. 21,806.49 million in 2016. The gross asset added during the year was Nu. 1,262.49 million as compared to Nu. 1,580.63 million in 2016.

The Company's sources of revenue were mainly from sale of electricity, construction contracts and wheeling charges. The gross revenue for the year was Nu. 11,507.14 million as compared to Nu. 11,852.75 million in 2016.

The revenue from sale of electricity grew by 38.1% from Nu. 4,798.75 million in 2016 to Nu. 6,627.18 million in 2017. The previous year's growth was 4.59%. Substantial increase in the revenue from the sale of electricity and wheeling was due to revision in tariff in 2017 and change in the subsidy settlement mechanism whereby the royalty energy amount was paid by Druk Green Power Corporation (DGPC) to Royal Government of Bhutan (RGoB) and RGoB released the subsidy amount to BPC based on the actual consumption of electricity by the targeted customers. Wheeling revenue increased by 57.06% from Nu. 658.84 million in 2016 to Nu. 1,034.78 million in 2017.

Owing to the reduction in the volume of works executed for the Associated Transmission System for Hydro Projects, revenue from construction contracts declined. Income from construction contract decreased substantially by 42.73% from Nu. 6,017.82 million in 2016. The major expenditure heads were on the purchase of electricity, consumption of construction materials

and sub-contracting charges, operation and maintenance expenses, employee benefits expenses, finance costs, depreciation and amortization expenses and other expenses. The purchase of power increased substantially by 162.7% from Nu.1,408.26 million in 2016 to Nu.3,699.27 million in 2017. This was mainly due to tariff revision in 2017 where the power purchase price increased from Nu.1.39/kWh to Nu.1.59/kWh and the change in subsidy settlement mechanism 2017 wherein the BPC gets paid the subsidy in a form of cash by RGOB on a monthly basis from proceeds of royalty

revenue valued at export tariff which was previously provided in form of free royalty energy in lieu of a subsidy. Total expense for the year was Nu. 9,614.59 million as compared to Nu. 9,601.34 million of the total expense for the year was Nu. 9,614.59 million as compared to Nu. 9,601.34 million of the previous year.

Current tax was provisionally assessed at Nu. 471.69 million and deferred tax as Nu 92.91 million for the year. For the previous year, it was Nu. 577.72 million and Nu. 97.09 million respectively.

Profit before tax in 2017 was Nu.1,892.55 million as compared to Nu.2,151.41 million in the previous year; a reduction of profit by 15.94%. Net profit for the year was Nu. 1,327.96 million as compared to Nu. 1,576.59 million in 2016. The earnings per share, for the year, was Nu. 161.45 as against Nu. 191.68 for the previous year. Upon adjustment of actuarial gain and fair valuation of investment, total comprehensive income for the year was Nu. 1,306.36 million as compared to Nu. 1,356.87 million in 2016.

In line with the asset risk mitigation policy of the Company, an amount of Nu. 5.05 million, equivalent to 0.4% of the Nu. 1,262.49 million gross value of asset has been added during the year to the Company's Asset Replacement Reserve. With this transfer, the total cumulative Company's Asset Replacement Reserve stands at Nu. 104.79 million.

4. Human Resources Management

The Company's policy considers human resource as its main asset for its success. Thus, it is imperative for the Company to have the right quality and quantity of people at the right place. With the network spanning over the country, which is mountainous and houses spread thinly in the mountains, the requirement of manpower is crucial as a service provider. In 2017, 137 employees (3 engineers, 68 technicians and 66 non-technical staff) were recruited to meet the requirements. 94 employees left BPC in 2017. BPC's Staff Strength as of 31st December 2017 was 2482.

The Company HR policy states that in order to keep up with the continuing changes and market demands, the Company shall equip employees with the right qualification, knowledge, skills, and attitude to achieve overall objectives of the Company and to provide high standards of professional services to the public. HR development initiatives were designed to attract and retain the best talent and to motivate existing employees.

The year 2017 was a very successful year in terms of HR training and development. The Company provided short term training to 1,328 employees (In country – 791 and Ex country – 537). A total of 10,534 man-days short term training was provided in 2017.

As per Long Term Training policy, 14 employees were approved to purse Masters Degree ((BPC funding – 9, external funding – 5). BPC also took initiative to upgrade to qualification of Diploma Holders, who are excellent performer and entered into MOU with Asian Institute of Technology (AIT) so that the Diploma Holders could pursue Masters Degree. Subsequently, 5 Diploma Holders were sent to pursue Masters Degree in AIT.

Employee Redeployment Guideline

In order to ensure appropriate redeployment of employees who are old, in O&M activities, an Employee Redeployment Guideline was developed and implemented.

Building Institutional linkages as an initiative for continuing professional development

The Company has established institutional tie up with the following institutions:

i. Korea Electric Power Corporation (KEPCO) to develop technical and business cooperation, support each other through technical assistance, sharing of knowledge, joint work, exchanges of information and experience in the field of electricity sector and business development;

ii. Electricity Generating Authority of Thailand (EGAT) to develop technical and business cooperation with BPC and share and support each other through technical assistance, sharing of knowledge, training, and exchange programs as well as business development;

iii. Provincial Electricity Authority (PEA), Thailand for exchange of information, exchange of technology, deputation of personnel, on-the-job training & customized training;

iv. Metropolitan Electricity Authority, Thailand (MEA) for exchange of information, exchange of technology, deputation of personnel, on-the-job training & customized training; and

v. Asian Institute of Technology (AIT), Thailand for mutual cooperation in promoting, participating and delivering postgraduate degree programs and short courses and conducting training and building capacity of professionals working in BPC.

5. Audit Issues

It is of an immense pride to note that the auditors have issued an unqualified Audit report for the year 2017. The auditors have also reported that the BPC has complied with all the requirements of the Companies Act of Bhutan 2016.

6. Board's Recommendation of Dividend

I am also happy to report that the Company was able to meet the shareholder's dividend expectation for the year. In line with the shareholder's expectation, as communicated vide letter no. DHI/CEO/BPC/2018/90 dated 19th February 2018, the Board recommends dividend of 12.5% (equivalent to 78.7% of the PAT) of the share capital, which amounts to Nu. 1,028,139,750. This translates to a dividend of Nu. 125 per share. The dividend payout for the previous year was 95% of the total comprehensive income amounting to Nu. 1,449,029,909 with a dividend of Nu. 176.17 per Share.

With respect to the balance under GIR, the investment of Nu 400 million in the Shares of Dungsum Cement Corporation Limited (DCCL) million is to be transferred to DHI by adjustment to Group Investment Reserve (GIR). The investment had been revalued at Nu 155.590 million. The difference has been booked as other comprehensive loss. The balance of Nu 216,601,916 to be transferred in cash thereby making the GIR balance zero.

7. Corporate Governance

The Company complied with the CG Code issued by DHI. Amongst other things, the Company had 9 full board meetings and 15 various Board Committee meetings - Board Tender Committee, Board Audit and Risk Committee, Board Human Resource Committee and specific purpose Board Committee.

Risk Management is an integral part of the management of the company. In line with the framework developed and guided by the shareholder, risks are being identified and actions are being taken to mitigate the same.

8. Meeting Corporate Social Responsibility

In line with the DHI Company Guidelines on Corporate Social Responsibility 2013, the BPC contributed Nu. 10 million for the construction of Chorten at Thrumsingla to commemorate the birth of His Royal Highness the Gyalsey. Based on the decision of the 27th CEO's RTM of DHI a sum of Nu. 726,955 was also contributed to Natural Resources Development Corporation Limited (NRDCL) for the creation and maintaining of 4 (Four) hectares of plantation at Chendebji under Trongsa Dzongkhag. The NRDCL reported that the plantation works have been completed.

The Company donated Nu. 350,000 to Tarayana Foundation for construction of 10 houses for needy people. In addition, a total of Nu. 455,000 was paid to 19 other applicants as donations depending upon their need.

9. Fleet Management Policy 2017

During the year, the company developed Fleet Management Policy 2017. The BPC has to maintain good number of vehicles to provide services and cater to the requirement of the customers. Fleet Management Policy will enable to manage and optimally use the available vehicles and optimize the procurement of new vehicles.

10. Other Achievements

I am happy to report that BPC, through its continuous focus on process, safety and quality over the years, is now a ISO 9001:2015, ISO 14001:2015 and BS OHSAS 18001:2017 certified company. During the year, BPC was also awarded certificate of best performing utility having integrated operation in Generation, Transmission and Distribution by the Central Board of Irrigation and Power (CBIP), India.

The third and final phase of the BAS was successfully implemented in 2017 and statement of financial position was restated as required.

11. 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 were:

1. Right of way and clearance issue for new power infrastructures and their constructions. This remains a critical

challenge not only in improving the reliability but also in achieving the planned works on time.

2. Shifting and relocating of the existing lines at all voltage levels.
3. Disruption in supply in the vast grid network of power system due to force majeure conditions (wind, storm, thunder, lightning, snow, rain and sometimes man made).
4. Challenges in Last Mile RE connectivity were the inaccessibility of work sites and the difficulty of transporting required materials to such sites. This was coupled with harsh weather conditions, difficult geographical terrains and scattered work sites. The severe working conditions made it difficult to recruit and retain laborers at the work sites.
5. The grid connection to the houses in Lunana is found to be not feasible owing to the distance, rugged terrain and harsh weather. Alternative source of electricity is being explored to provide reliable power in Lunana.
6. As mentioned above, the reduction in the income from construction contracts was due to reduction in the volume of works being implemented as major portion of the works have been completed.
7. Non-receipt of committed funds from Mangdechhu Hydro Project Authority for the construction of associated transmission systems has been a major challenge. The completion of Mangdechhu ATS is in the advanced stage. Of the total cost of ATS amounting to Nu. 11.65 billion, BPC has spent Nu.10.54 billion and Mangdechhu has released only Nu. 6.95 billion. BPC spending Nu. 3.59 billion over and above the amount released by Mangdechhu in meeting contractual obligations has severely hampered the liquidity of the company and the non-realization of ATS funds fully from Mangdechhu is going to impact the completion of the ATS on time.

12. Way Forward

BPC as the power utility company will strive to ensure economy, efficiency, and effectiveness in delivering the services.

Looking forward, BPC plans to update the existing Corporate Strategic Plan and prepare a 10 years strategic road map by taking time understand the environment in which we presently operate, take into consideration the changed expectation of the society and set new goals. It is time to revisit and think out of the box for expansion and enhancement of business to the directions of our envisioned status. BPC plan to focus on Risk Management with view to gain efficiency and economy on the investment decisions and work programs.

It is important to stress on productivity of the employees and look at ways of enhancing the Profit after Tax. Therefore, BPC will look at the Human Resource Management itself by conducting the gap analysis through training need assessments.

13. Acknowledgement

On behalf of the Board of Directors of the Company, I would like to place on record our sincere gratitude to the Chairman, CEO 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 – both international and domestic, bankers, and financial institutions.

The Directors are 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 ADB, JICA and ADA for providing funding and technical support towards Rural Electrification works.

Finally, we appreciate 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 2017.

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 Executive Director, one Independent Director and five Non-Independent Directors. 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: Board member, 2017

The details of the Board of Director & the date of appointment

Sl. No.	Name	Designation	Appointment Date	Retired on	Description	Board Director in other company	Status
1	Dasho Ugen Chewang	Former Auditor General, Royal Research & Advisory Council	8 March, 2017		Chairman		Independent
2	Mr. Singye Dorji	Chief Executive Officer, Wood Craft Centre	14 March, 2016	23 March, 2018 on 15 AGM	Board of Director		Non-Independent
3	Mr. Karma P Dorji	Chief Engineer, Dept. of Hydropower & Power System	14 March, 2016	24 March, 2018 on 15 AGM	Board of Director		Non-Independent
4	Ms. Deki Wangmo	Chief Budget Officer, Dept. of National Budget, MoF	14 March, 2016	25 March, 2018 on 15 AGM	Board of Director		Non-Independent
5	Mr. Om P Nirola	Associate Director, Corporate Planning Division, DHI	14 March, 2016	26 March, 2018 on 15 AGM	Board of Director		Non-Independent
6	Lt. Lhaba Tshering	Chief Planning Officer, PPD, GNHC	14 March, 2016	September 2017	Board of Director		Non-Independent
7	Mr. Gem Tshering	Managing Director, BPC	1 June, 2016	till date	Member Secretary	Bhutan Broadcasting Service (BBS)	Executive Director

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:

a. 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.
b. Ensure effective accountability and governance of the company, consistent with relevant legislation
c. 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
d. Conduct effective Board meetings and encourage a culture of openness, active participation and constructive debate.
e. Ensure accurate record of Board meetings are taken and verifying that Board decisions are implemented
f. 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 Managing Director

The responsibilities of the Managing Director, 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 2017, 9 Board meetings and 10 Board Tender Committee meetings were held. The dates of the meeting and attendance of the Directors are set below:

a. Dates of Board Meetings held:

Sl. No	Date	Board Meetings No.
1	2 February, 2017	100th Board Meeting
2	2 March, 2017	101st Board Meeting
3	22 March, 2017	102nd Board Meeting
4	9 May, 2017	103rd Board Meeting
5	26 July, 2017	104th Board Meeting
6	28 September, 2017	105th Board Meeting
7	24 October, 2017	106th Board Meeting
8	27 October, 2017	107th Board Meeting
9	26 December, 2017	108th Board Meeting

b. Attendance of Board Directors:

Name of the Board Members	Attendance
Dasho Ugen Chhewang	8/8
Ms. Deki Wangmo	7/9
Mr. Om Prakash Nirola	8/9
Mr. Lhaba Tshering	2/5
Mr. Singye Dorji	9/9
Mr. Karma P Dorji	8/9
Mr. Gem Tsherimg	9/9

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:

i. Board Audit and Risk Committee
ii. Board Tender Committee
iii. Board HR 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.

i. Board Audit and Risk Committee

The Audit and Risk Committee of the company comprises the following members, all being independent Directors, with the Chairman identified by the Board

Name of Committee Members	Designation	Attendance
Lt. Lhaba Tshering, Chairperson (from Jan- Sept, 2017)	Chief Planning Officer, PPD, GNHC	2
Ms. Deki Wangmo (from Oct-Dec, 2017)	Dy. Chief Budget, Dept. National Budget, MOF	4/4
Mr. Karma P. Dorji	Chief Engineer, DHPS, MOEA	4/4
Mr. Singye Dorji	CWO, Wood Craft Centre	4/4

a. Dates of the Meeting held:

Sl. No	Date	Board Meetings No.
1	1 March, 2017	16th BAC Meeting
2	7 April, 2017	17th BAC Meeting
3	24 August, 2017	18th BAC Meeting
4	21 December, 2017	19th BAC 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.

ii. Board Tender 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, Chairperson	Chief Engineer, DHPS, MOEA	10/10
Ms. Deki Wangmo, Member	Dy. Chief Budget, Dept. National Budget, MOF	7/10
Mr. Om Prakash Nirola, Member	Associate Director, CPD, DHI	10/10
Mr. Gem Tshering, Member	MD, BPC	10/10

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

a. To satisfy itself that proper procurement procedures has been followed as per the norms provided in the Procurement Manual,
b. all Bidders have been provided with equal time and opportunity for submission of bids,
c. modifications of the bidding documents, if any, have been communicated simultaneously to all Bidders,
d. response to any Bidder's query has been sent to all Bidders simultaneously,
e. no specific Bidder / Bidders have been put to undue advantage / disadvantage due to actions of BPC,
f. that the evaluation committee has carried out the work in strict compliance to the terms of the tender
g. In 2017, 10 Board Tender Committee meeting was held. The dates of the meeting is listed as follows:

Sl. No	Date	Department
1	1 January, 2018	Distribution & Customer Services Department
2	17 January, 2017	Transmission Construction Department
3	9 March, 2017	Distribution & Customer Services Department
4	12 April, 2017	Distribution & Customer Services Department
5	13 June, 2017	Distribution & Customer Services Department
6	20 June, 2017	Distribution & Customer Services Department
7	23 August, 2017	Renewable Energy Department
8	29 September 2017	Transmission Construction Department
9	18 October, 2017	Procurement Services Department
10	16 November, 2017	Transmission Construction Department

iii. 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.

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

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

a. Review proposals submitted by the Management and approve or recommend to the Board.
b. Carry out the Selection Interview for Head of Wings/Services.
c. Carry out any other responsibility related to HR as assigned or delegated by the BPC Board.
d. In 2017, only 1 Board HR committee

meeting was held on December 23, 2017 with all the members present at the meeting.

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

C. 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 2017 is as follows:

Directors	Fees
Full Board	Nu. 460,000.00
Board Audit Committee	Nu. 95,000.00
Board Tender Committee	Nu. 330,500.00
Board Level HR Committee	Nu. 25,000
Board Level Committee	Nu. 44,500
Total	**Nu. 955,000.00**

D. 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 MD. As per the section 138 of the Companies Act of Bhutan 2016, the Directors need to retire during AGM. All the directors but Chairman retired from BPC Board and request for some of the reappointment was also proposed.

E. Risk Management and Internal Control

The Board also takes responsibility to identify, isolate and manage significant risks within the company's business environment. Risk Management Division (RMD) in BPC completed its second year on August 2017. As advised in many Risk Management Manuals, Risk Management in BPC started off with the identification of key risks faced by each department. While some risks were specific to a particular Department, many were common to most Departments. These risks are compiled as Risk Register at two levels – Departmental Risk Register and Corporate Risk Register. Some of the significant risks flagged in the Risk Registers are those related to ICT/SAP, aging T&D networks, performance/underperformance of ESDs, etc.

The Management is responsible to provide assurance to the board that RMD implements the processes to identify, evaluate, monitor and report risks and take timely appropriate corrective measures.

The Board is also aware of its responsibility to ensure the company's internal control system is effective to address management, financial, operational and compliance risks within the jurisdiction of applicable law, regulations, directives and guideline. The Board Audit and Risk Committee ensures to monitor and review the internal and external auditor's review of internal controls, significant findings and recommendations together with management's response.

Recognizing the importance of effective internal control and risk management system, the Board shall continue to strengthen both the systems.

F. 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 2017, BPC has contributed Nu. 805,000 for various activities keeping within the approved CSR budget as approved by the DHI.

G. Other achievements

i. Information and Communication Department

In order to improve BPC's internal network reliability, Lobesa, Sephu, Tangsibji & Kewathang locations were identified, connected and network equipments installed for formation of the Central region ring network. From Kewathang the link gets connected to Tintibi substation, which has an existing link coming from Gelephu.

As a part of R&D initiative, the Department developed an in-house Network & server Monitoring System. BPC has over more than 15 Application Servers (mail, web, SMS, Sap, file server etc..), 10 Server hardwires hosted in the Data Center. Recent CE Network expansion and operation entails to about more than 30 fibers and 30 Networking devices (Switch & router) installed in Head Office and other regional offices. This Network & Server Monitoring System maps all these devices and monitors the health, real-time statistics, events and other activities on the display screen. This system constantly monitor network devices and servers for slow or failing components and shall notify the network/server administrator (via email, SMS or other alarms) in case of outages. Network monitoring is part of network management tool.

The Department has also put in place a User Application Control & URL Filtering system. With growing BPC's ICT users across the country, it is highly imperative and prudent to control user activities to safeguard ICT system and network against high-risk Application such as proxy tools, torrent for movie/song downloading and other malicious program. This task was timely in the wake of security threats that's becoming prevalent in Bhutan and outside.

The Department has installed UPS and Rack in all the location where Optical fiber modems are located. The network reliability considerably improved since most of the network downtime were caused by power outage in absence of proper backup supply. UPS were installed in the following stations:

SL No	Location	SL No	Location
1	Olakha SS	8	Kilikhar
2	Simtokha	9	Kanglung
3	Rurichu	10	Chukha
4	Gelephu TMD	11	Malbase
5	Kewathang	12	66KV Pling
6	Nangkhor	13	Gedu
7	Deothang	14	Samtse

These locations host high-capacity ETX5300 modems which will be backed up for 4-5 hours by the newly installed UPS.

BPC's Mail Server was running on Linux version 6.6, 2015 released. The latest Linux OS, which is most, secure, fast and reliable was installed along with the latest Mail Server with proper backup.

It has been pointed out by most of the SAP users that the module-wise End User Manuals with detailed processes shall enable them to easily transact in the SAP system. Hence, the Department has decided and developed an end user Manuals for Materials Management (MM), Project Systems (PS), Plant Maintenance (PM), Human Capital Management (HCM), Finance & Controlling (FICO)/ Funds Management (FM) and ISU (Billing & Invoicing and Device Management) modules. All the manuals and important documents pertaining to the ICD were uploaded in the E-Library developed by the Department.

Finally, the Department aspires to come up with product & process innovations as well as ICT tools with the potential to bring cost savings and system improvements.

ii. Transmission Department

In the transmission system, Transmission Department carried out the following works:

a. Bay extension at 66kV Lobeysa substation with additional 5MVA, 66/33kV transformer to supply increasing load and improve the reliability of Wangduephodrang Punakha and Gasa. The transformer and associated 33kV switchgears were successfully commissioned on 15th July 2017.

b. Revival of SCADA system in Deothang substation as a pilot project and same will be replicated in all the substations in eastern Bhutan from 2018.

c. Retrofitting, testing and commissioning of numerical relays at Gelephu, Gomtu and Lobeysa.

d. Installation of Advanced Metering Infrastructure (AMI) system at Semtokha substation offered as a grant by KEPCO under the 220kV Singhigaon up-gradation project. A total of five terminal servers were installed in four different substations in Thimphu, Paro and Phuentsholing

e. Emergency restoration of the lines at 220kV Malbase-Samtse (MS 12), 132kV Tintibi-Yurmoo (TY 55 at Khosala), 66kV Yurmoo-Bumthang (YB 46 at Ngadala) and 66kV Lobeysa-Basochhu (LB 69).

f. Joint inspection of 132kV Phuntshothang-Motanga line. The line was charged at 33kV on 8th July, 2017.

>> Figure 1: Bay Extension at Lobeysa Substation.

>> Figure 2: Emergency Restoration of TY55 (132kV Tintibi-Yurmoo transmission line)

>> Figure 3. : Retrofitting of MiCOM P14 relays

Distribution & Customer Services Department

1. AWARD OF WORK AND CONTRACT SIGNING WITH M/S. OSI, INC.

Distribution & Customer Services Department had successfully awarded ESTABLISHMENT OF DISTRIBUTION MANAGEMENT SYSTEM (DMS) UNDER THIMPHU ESD to M/s. Open Systems International, Inc. (OSI) on 26th June, 2017 at Nu.248, 416,806.10.

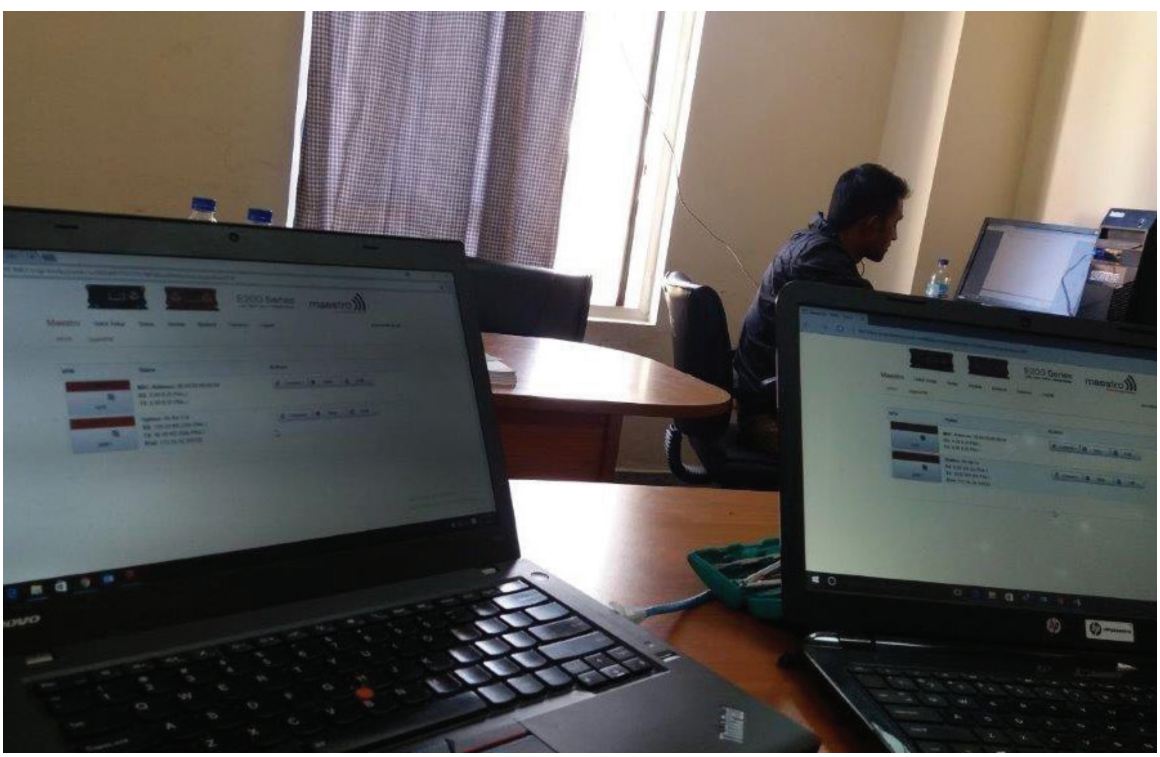
The DMS project for Thimphu Distribution Network is envisioned to improve the overall electrical power reliability, quality and operational efficiency of the distribution network in Thimphu thereby improving customer satisfaction apart from modernization of the electrical grid. About 467 plus numbers of Substations, Distribution Transformers (DTs), Ring Main Units(RMUs), Sectionalizers and Auto Reclosure Circuit Breakers (ARCBs) spread in about 300km of 11 and 33 kV lines are planned to be adapted to be monitored and controlled from state of the art DMS Control Centers which will be located in Chubachu in Thimphu.

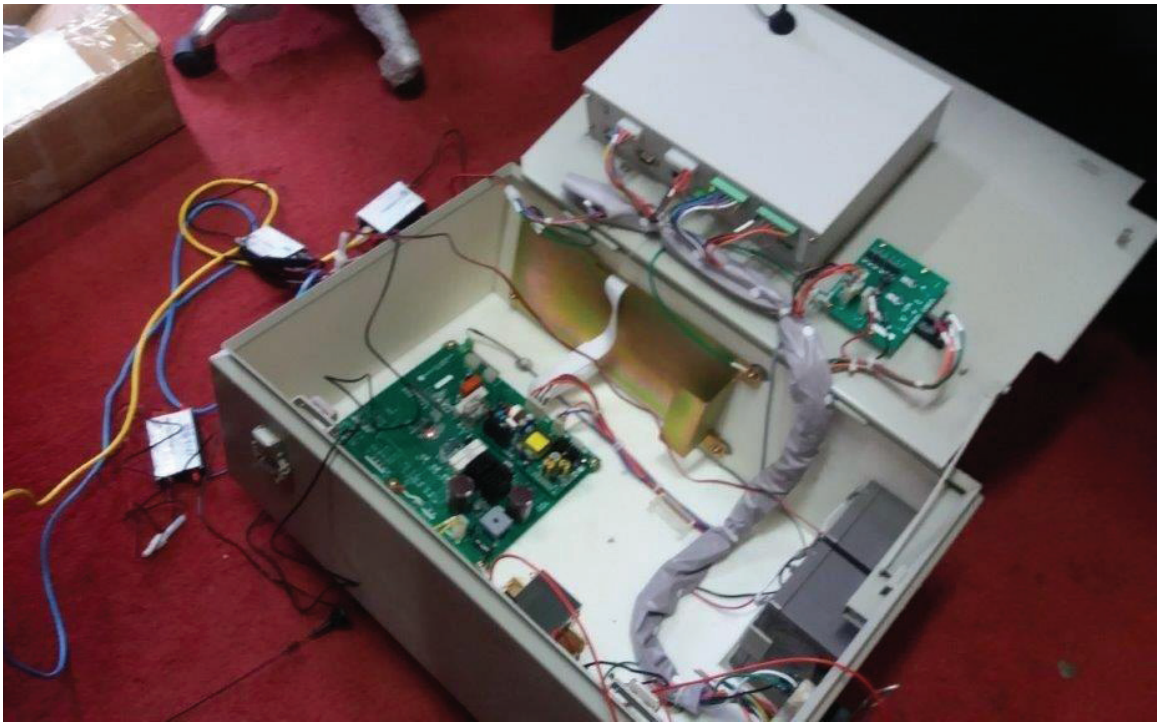
On successful implementation of the project, BPC intends to replicate such projects in other regions of the country in the future.
The project is scheduled to be completed in eighteen (18) months of time.

2. COMPLETION OF PILOT PROJECT ON AUTOMATION OF THE AUTORECLOSER CIRCUIT BREAKERS (ARCB)

With the aim to bring in efficiency and improve the customer services especially in terms of reliability,DCSD had been procuring ARCBs and installing them in the distribution system. Over the period of years and procurement, there are currently 120 numbers of ARCBs of makes viz Nulec, Entec, Jimkong,Noja and Cooper. The ARCBs have been very effective in isolating the temporary faults and auto reclosing it upon clearance of the faults. However, during the permanent fault conditions, the ARCB gets locked and this translates to sending a lineman to put on the ARCB manually. DCSD opined that if the control on the ARCB is made remote,there is no requirement of sending the lineman for putting on the ARCB and cost saving of not deputing the lineman is envisaged. The remote control provisions is present on all the ARCBs,but the different makes of ARCBs communicate in different communication protocol and hence the need to consolidate all these communication protocol is felt very critical.

SITC of ARCB to setup common gateway and SCADA system for control & monitoring of existing ARCB of various make over IEC 104 protocol.





A temporary automation lab was set up at Chubachu Substation, Thimphu for the Pilot Project as follows:

1. With support from ICD, BPC, the public IP: 119.2.120.113 was used and created a VPN connection on Sharikas Cyber roam (IP: 172.16.16.16).
2. Configuration of modems connected to individual ARCB controller had been done and further communication with VPN server had been done.
3. All ARCB controllers had been communication on IEC 104 protocol with IEC simulator with the control server.

The individual Recloser for the ARCBs are successfully communicated and operated:

1. Nu-Lec serial communication was successful, we could control and monitor the controller data with the software WSOS. The serial Ethernet converter had been used for further communication with the server on IEC 104 protocol and it had been successfully operated.
2. Jin Kwang recloser had been successfully communicated and operated over IEC 104 protocol.
3. Entec recloser had been successfully operated and controlled over IEC 104 protocol both with recloser software and IEC 104 simulator.
4. Noja recloser had been communicated and operated over IEC 104 protocol at the server level but the controller at the LAB was malfunctional.

With the successful completion of Pilot Project in 2017, DCSD will roll out the automation and remote control of all

ARCBs throughout the country in 2018 to automate and remote control of 120 ARCBs.

3. Electrification of Soe and Lingzhi Gewogs

Soe & Lingzhi Gewogs are located at very high altitude approximately 4000 meters above sea level. Soe and Lingzhi are two remotest Gewogs under Thimphu. The electrification of these two gewogs was carried out under Rural Electrification VII project by Bhutan Power Corporation Limited (BPC) through the extension of grid from Paro under ADA funding. It is first of its kind that BPC has constructed distribution lines and substations at this altitude.

For the electrification of these two far flung Gewogs, the initial plan was to construct Micro Hydro Power Plants by the Department of Renewable Energy (DRE), Ministry of Economic Affairs. However, the plan could not be materialized as the quoted contract price was more than the available fund. The plan was therefore revised and grid extension proposal was considered.

Accordingly, Soe and Lingzhi Gewogs were electrified under Rural Electrification VII project by Bhutan Power Corporation Limited (BPC) through the extension of grid from Paro. A total of 87.93 KM of MV lines and 16.085 KM of LV lines were constructed along with 33 Numbers of Distribution Substations to electrify 202 households at a cost of Nu. 201.802 Million.The project was funded by Austrian Development Agency.

AUDITORS' REPORT

S.P. CHOPRA & CO.
Chartered Accountants

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

1. *Opinion*

We have audited the financial statements of **Bhutan Power Corporation Limited,** which comprise the Statement of Financial Position as at December 31, 2017, 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 and other explanatory notes and information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and of its financial performance, its changes in equity and its cash flows for the year then ended, in accordance with the requirements of the 'Bhutanese Accounting Standards' and the Companies Act of Bhutan, 2016'.

2. *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 as per the Auditor General's Standing Instruction issued by the Royal Audit Authority of 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.

3. *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

The Company's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 'Bhutanese Accounting Standards' and the provisions of the Companies Act of Bhutan, 2016 (the Act'), 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.

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S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

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4. ***Auditor's Responsibilities for the audit of the Financial Statements***

a. 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.

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

c. We also:

i. 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.

ii. 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.

iii. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

iv. 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.

v. 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.

vi. 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.

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

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5. *Report on Other Legal and Regulatory Requirements*

a. As required by Section 255 (e) of the Companies Act of Bhutan, 2016, we enclose in the Annexure hereto statement on the 'Minimum Audit Examination and Reporting Requirements' to the extent applicable to the Company.

b. 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.

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

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

Place: Thimphu
Dated: 14-03-2018

(Pawan K. Gupta)
Partner
M. No. 092529

ANNEXURE TO AUDITOR'S REPORT

(Referred to in paragraph 5.a of our Report of even date)

1. The Company has maintained proper records of the fixed assets in the fixed assets register maintained in ERP to show full particulars including quantitative details and situation of the fixed assets. As explained to us, the fixed 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. On the basis of our examination of stock records, we are of the opinion that the valuation of the stock is fair and proper and in accordance with the normally accepted accounting principles and as per the accounting policy of the Company.

7. The Company has taken secured loan 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.

8. The Company has not granted any loan to other companies, firms or other parties and/or to the companies under the same management, therefore, the said clause is not applicable.

9. The Company has not granted any loan or advances to other parties, except the loans and advances given to its employees or suppliers/other parties in the normal course of business for which the recovery/adjustments are being made generally as per the agreement / contract / purchase orders except where stated otherwise in the Financial Statements.

10. The loans and 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.

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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 provident fund, salary tax, health tax, contract tax, Bhutan sales tax and other applicable 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.

19. 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.

S.P. CHOPRA & CO.
CHECKED
CHARTERED ACCOUNTANTS

20. 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.

21. 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.

22. 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.

23. Based on our 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.

24. 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.

25. 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 labour to the respective jobs.

26. The Company is engaged in distribution and sale of electricity, prices for which are regulated by the Bhutan Electricity Authority.

27. 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.

28. As there is no sale through commission agents, this clause is not applicable to the Company.

29. 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.

30. The Company generally has surplus cash/bank balances and based on future requirements, funds are invested in Fixed Deposits with Banks.

31. 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.

32. 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.

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

33. The Company has an adequate and effective budgetary control mechanism.

34. As the Company is engaged in transmission and distribution of electricity and in no manufacturing activities, the said clause is not applicable.

35. In our opinion and according to the information and explanations given to us, other than the remunerations and sitting fees to the Managing Director and sitting fees to other Directors, no other payments in the nature of remuneration and commission has been paid to the Managing Director and Directors. The remunerations and sitting fees paid to the Managing Director are disclosed in Note 36 of the Financial Statement.

36. 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.

37. 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.

38. 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.

39. General :

    a) Based on the net asset position reflected by the Statement of Financial Position as at December 31, 2017 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.

    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

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

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) 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

S.P. CHOPRA & CO. * CHARTERED ACCOUNTANTS * CHECKED

(PAWAN K.GUPTA)
Partner
Membership No. 092529

Place: Thimphu
Dated: 14-03-2018

Statement of Financial Position

	Note	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
ASSETS				
Non-current assets				
Property, plant and equipment	5	21,992,373,551	20,081,667,343	18,437,820,812
Intangible assets	6	14,576,623	22,270,869	56,559,502
Investments	7	155,590,324	202,958,814	-
Long-term loans and advances	8	459,654	3,074,415	406,818,359
Other receivables	9	199,330	199,330	199,330
Other non-current assets	10	947,327,154	907,556,470	861,214,271
Total non-current assets		**23,110,526,636**	**21,217,727,241**	**19,762,612,274**
Current assets				
Inventories	11	364,370,465	338,720,596	425,349,163
Amounts due from customers for contract work	12	3,601,510,071	2,730,129,875	485,810,049
Trade & other receivables	13	584,547,811	155,011,654	106,660,550
Cash and cash equivalents	14	516,232,504	1,283,776,538	3,035,926,578
Short-term loans and advances	15	3,565,132	4,819,445	4,826,490
Other current assets	16	783,403,227	2,036,423,216	1,364,274,315
Total current assets		**5,853,629,210**	**6,548,881,324**	**5,422,847,145**
TOTAL ASSETS		**28,964,155,846**	**27,766,608,565**	**25,185,459,419**
EQUITY AND LIABILITIES				
Shareholder's Equity				
Share Capital	17	8,225,118,000	8,225,118,000	8,225,118,000
Retained earnings		5,103,966,057	5,231,358,252	4,574,807,729
Investment Reserve		616,601,916	616,601,916	1,016,601,916
Asset Replacement Reserve		99,735,543	93,413,037	87,673,037
Other comprehensive income/ (loss)		(350,622,795)	(329,025,922)	(109,300,713)
Total Shareholder's equity		**13,694,798,721**	**13,837,465,283**	**13,794,899,969**
Liabilities				
Non-current liabilities				
Borrowings	18	5,461,523,675	5,648,285,383	5,953,118,042
Deferred grants	19	1,427,794,029	1,387,304,444	898,683,522
Deferred Customer's Contribution	20	9,163,793	2,979,976	3,092,428
Other payables	21	1,449,646,292	1,037,956,306	570,870,151
Employee benefit liabilities	22	414,496,180	426,750,457	382,524,097
Deferred Income Tax liabilities (Net)	23	774,604,080	681,698,770	584,604,572
Total Non-current liabilities		**9,537,228,049**	**9,184,975,336**	**8,392,892,812**

BHUTAN ... LTD. THIMPHU : BHUTAN

S.P. CHOPRA & CO. CHARTERED ACCOUNTANTS

Statement of Financial Position Contd.

	Note	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Current liabilities				
Borrowings	18	329,861,141	311,828,503	228,829,125
Deferred grants	19	51,514,024	41,723,463	24,891,343
Deferred Customer Contribution	20	864,840	112,452	112,452
Amounts due to customers for contract work	12	1,774,697,779	2,476,269,941	930,279,750
Trade & other payables	24	3,022,379,477	1,314,818,846	1,252,920,572
Employee benefit liabilities	22	224,025,124	209,905,567	202,815,969
Income tax payable (net of advances)	25	223,295,945	370,899,141	336,611,845
Other current liabilities	26	105,490,746	18,610,033	21,205,582
Total current liabilities		**5,732,129,076**	**4,744,167,946**	**2,997,666,638**
Total liabilities		**15,269,357,125**	**13,929,143,282**	**11,390,559,450**
TOTAL EQUITY AND LIABILITIES		**28,964,155,846**	**27,766,608,565**	**25,185,459,419**

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

Director (F) Director Managing Director Chairman

THIMPHU : BHUTAN

As per our report of even date attached

For S.P. CHOPRA & CO.

Chartered Accountants

ICAI Firm Registration No. 000346N

(Pawan K. Gupta)

Partner

Membership No. 092529

Place: Thimphu

Dated: 14-03-2018

Statement of Comprehensive Income

	Note	For the year ended December 31, 2017	December 31, 2016
Revenue			
Income from sale of electricity		6,627,181,985	4,798,754,607
Income from construction contracts	27	3,446,408,145	6,017,820,095
Wheeling charges		1,034,780,005	658,842,555
Other income	28	398,774,526	377,331,204
Total Revenue		**11,507,144,661**	**11,852,748,461**
Expenditure			
Purchase of electricity		3,699,273,937	1,408,260,254
Construction material consumed and sub-contracting charges		3,132,552,311	5,471,306,437
Operation and maintenance expenses	29	427,180,870	407,466,635
Employee benefit expenses	30	1,008,526,427	960,513,177
Finance costs	31	212,167,295	174,043,874
(Gain)/Loss on foreign currency fluctuation (net)		(76,420)	72,895,465
Depreciation and amortization expenses		917,419,650	914,215,675
Other expenses	32	217,548,274	192,639,879
Total Expenditure		**9,614,592,344**	**9,601,341,396**

Profit before income tax		**1,892,552,317**	**2,251,407,065**
Tax expenses	25.1		
- Current tax		471,686,787	577,719,294
- Deferred tax		92,905,310	97,094,198
Net Profit for the year		**1,327,960,220**	**1,576,593,573**
Earnings per share ('EPS')	33		
Basic/Diluted EPS (Nu.)		161.45	191.68
Profit for the year		**1,327,960,220**	**1,576,593,573**
Other comprehensive income/(loss):			
Fair Valuation of Investment		(47,368,490)	(197,041,186)
Actuarial gain/ (loss)		25,771,617	(22,684,023)
Total comprehensive income for the year		**1,306,363,347**	**1,356,868,364**

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

Director (F) Director Managing Director Chairman

THIMPHU : BHUTAN

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

(Pawan K. Gupta)
Partner
Membership No. 092529

Place: Thimphu
Dated: 14-03-2018

Statement of Changes in Equity for the year ended December 31, 2017

	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, 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**
Net profit for the year	-	1,327,960,220	-	-	-	-	**1,327,960,220**
Other comprehensive income/ (loss):							
Actuarial gain	-	-	-	-	-	25,771,617	**25,771,617**
Fair valuation of investment	-	-	-	-	(47,368,490)	-	**(47,368,490)**
Prior period adjustment for foreign exchange difference on Borrowings (net)	-	-	-	-	-	-	-
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**	**5,103,966,057**	**616,601,916**	**99,735,543**	**(244,409,676)**	**(106,213,119)**	**13,694,798,721**

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

... CORPORATION LTD. ★ THIMPHU : BHUTAN

S.P. CHOPRA & CO. ★ CHARTERED ACCOUNTANTS ★ CHECKED

	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, 2016 (Refer Note no. 41)	**8,225,118,000**	**4,574,807,729**	**1,016,601,916**	**87,673,037**	**-**	**(109,300,713)**	**13,794,899,969**
Net profit for the year	-	1,576,593,573	-	-	-	-	**1,576,593,573**
Other comprehensive income/ (loss):							
Actuarial (loss)	-	-	-	-	-	(22,684,023)	**(22,684,023)**
Fair valuation of investment	-	-	-	-	(197,041,186)	-	**(197,041,186)**
Prior period adjustment of foreign exchange differences on Borrowings (net)	-	(26,119,025)	-	-	-	-	**(26,119,025)**
Prior period adjustment of deferred Government Grant	-	350,975	-	-	-	-	**350,975**
Cost of transfer of Lands to DHI	-	(6,879,841)	-	-	-	-	**(6,879,841)**
Transfer from Investment Reserve	-	400,000,000	(400,000,000)	-	-	-	**-**
Transfer to Asset Replacement Reserve	-	(5,740,000)	-	5,740,000	-	-	**-**
Transaction with the owners:							
Payment of Dividends for the year 2015	-	(1,281,655,159)	-	-	-	-	**(1,281,655,159)**
Balance as at December 31, 2016	**8,225,118,000**	**5,231,358,252**	**616,601,916**	**93,413,037**	**(197,041,186)**	**(131,984,736)**	**13,837,465,283**

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

Statement of Cash Flows

	For the year ended	
	December 31, 2017	**December 31, 2016**
Cash flows from / (used in) operating activities		
Profit before income tax	**1,892,552,317**	**2,251,407,065**
Adjustments for:		
Depreciation and amortization expenses	917,419,650	914,215,675
Loss (net) on disposal of property, plant and equipment	43,764,205	43,426,266
Interest expenses on borrowings	111,444,686	117,805,752
Interest income	(108,065,842)	(155,514,882)
Interest Expense on Financial Instruments	100,722,609	56,238,122
Write-back/off Provision for doubtful debts	(2,328,130)	(10,937,210)
Provision/write-back of Provision on Obsolescence of Material	823,522	(1,387,460)
Net Prior period adjustment against retained earnings:		
- for foreign exchange difference on Borrowings	-	(26,119,025)
- for deferred government grant		350,975
Liabilities no longer required, written back	(12,418,703)	(3,047,961)
Unwinding of Discount on Retention Money	(76,389,136)	(89,326,434)
Amortization of deferred grants	(48,000,660)	(37,547,347)
Amortization of deferred customer's contribution	(483,094)	(112,452)
Operating profit before working capital changes	**2,819,041,423**	**3,059,451,082**
(Increase)/ Decrease in Inventories	(26,473,391)	88,016,026
Increase in amount due from customer contract works	(871,380,196)	(2,244,319,826)
Increase in Trade and other receivables	(427,208,026)	(37,413,895)
Decrease in current and non-current assets	(126,879,492)	(105,088,069)
Increase in long-term and short-term loans and advances	3,869,075	3,750,990
(Decrease)/Increase in Amounts due to customers for contract work	(701,572,162)	1,545,990,191
Increase in Trade and other payables	1,707,560,631	61,898,274
Increase in other liabilities	500,303,378	519,960,096
Increase in employee benefit liabilities	40,055,600	31,679,896
Net cash generated from operating activities before income tax	**2,917,316,840**	**2,923,924,764**
Income tax paid, net of refunds received	**(619,289,982)**	**(543,431,999)**
Net cash generated from operating activities	**2,298,026,858**	**2,380,492,766**
Cash flows from / (used in) investing activities		
Purchase of property, plant and equipment and Intangible assets	(2,867,240,449)	(2,576,495,055)
Receipt/(repayments) of government grants	98,280,806	273,249,520
Receipt/(repayments) of deferred customer contribution	7,419,298	-
Proceeds from sale of property, plant and equipment	3,044,633	2,415,376

Investment in shares of Dungsam Cement Corporation Limited	-	(400,000,000)
Inter-Corporate deposit to Holding Company	-	400,000,000
Redemption of bank term deposit(net)	1,337,768,745	(572,562,255)
Interest received	110,425,893	114,674,106
Net cash generated from investing activities	**(1,310,301,074)**	**(2,758,718,307)**

Cash flows from / (used in) financing activities		
Proceeds from Borrowings	137,215,054	339,692,437
Repayment of Borrowings	(329,861,141)	(311,828,504)
Interest paid	(113,593,822)	(120,133,273)
Payment of dividend on ordinary shares	(1,449,029,909)	(1,281,655,159)
Net cash used in financing activities	**(1,755,269,818)**	**(1,373,924,499)**
Net increase in cash and cash equivalents	**(767,544,034)**	**(1,752,150,040)**
Cash and cash equivalents at beginning of the year	1,283,776,538	3,035,926,578
Cash and cash equivalents at end of the year	**516,232,504**	**1,283,776,538**

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

Director (F) Director Managing Director Chairman

THIMPHU : BHUTAN

As per our report of even date attached

For S.P. CHOPRA & CO.

Chartered Accountants

ICAI Firm Registration No. 000346N

(Pawan K. Gupta)

Partner

Membership No. 092529

Place: Thimphu

Dated: 14-03-2018

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, 2017 were authorized for issue in accordance with the resolution of the Board of Directors dated March 9, 2018.

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, have been early adopted during the current year 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

BHUTAN POWER CORPORATION LTD. THIMPHU : BHUTAN

CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

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. The reconciliation of the financial statements for the current period prepared under these Bhutanese Accounting Standards and General Accepted Accounting Principles (GAAP) are presented in Note 41.

2.3 As detailed above, the financial statements of the Company for the year current year ended December 31, 2017 have been 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.

BHUTAN ... CORPORATION LTD. THIMPHU : BHUTAN

CHECKED CHARTERED ACCOUNTANTS

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.

BHUTAN POWER CORPORATION LTD. THIMPHU : BHUTAN

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

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 Contract Work' and 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, security deposits, cash and cash equivalents and employee loans, etc.

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 on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 35 details how the Company determines whether there has been a significant increase in credit risk.

The trade receivables are initially recognized at the sale/recoverable value and are assessed at each Statement of Financial Position date for collectability. Trade receivables are classified as current assets, if collection is expected within twelve months as at Statement of Financial Position date, if not, they are classified under non-current assets.

For recognition of impairment loss on other financial assets and risk exposure, the Company determines that whether there has been a significant increase in the credit risk since initial recognition. If credit risk has not increased significantly, 12 months (Expected Credit Loss) ECL is used to provide for impairment loss. However, if credit risk has increased significantly, lifetime ECL is used. If in a subsequent period, credit quality of the instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then the Company reverts to recognizing impairment loss allowance based on 12-months ECL.

For assessing increase in credit risk and impairment loss, the Company combines financial instruments on the basis of shared credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on timely basis.

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 of a financial asset, 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.

THIMPHU : BHUTAN

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- 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 interest method.

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.

BHUTAN POWER CORPORATION LTD. THIMPHU : BHUTAN

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

Gratuity 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 prorate 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.

BHUTAN POWER CORPORATION LTD. ★ THIMPHU : BHUTAN ★

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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 in 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.

THIMPHU : BHUTAN

S.P. CHOPRA & CO.

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 electricity generation, transmission and distribution assets

The costs of electricity generation, transmission and distribution assets are depreciated on a straight-line basis over their respective useful lives. Management estimates the useful lives of these assets to be within 30 years. 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. 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.

iii. Provision for doubtful debts

As at each Statement of Financial Position date, the Company assesses recoverability of trade receivables. Provision for doubtful debts is recognized based on the historical experience of collectability of debts. The Company estimates the portion of its outstanding receivables that cannot be collected based on aging schedules at an increasing percentage of each aging category. Actual doubtful debts could differ from these estimates.

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	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**

Property, plant and equipment (Contd.)

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, 2016							
Cost	**69,290,029**	**2,267,644,384**	**763,688,027**	**18,412,460,764**	**1,164,914,293**	**1,819,056,036**	**24,497,053,534**
Accumulated depreciation	-	(469,592,438)	(496,446,672)	(4,377,574,757)	(715,618,855)	**-**	**(6,059,232,722)**
Book Value	**69,290,029**	**1,798,051,946**	**267,241,355**	**14,034,886,007**	**449,295,438**	**1,819,056,036**	**18,437,820,812**
Changes in book value during the year							
Additions	609,840	204,769,112	246,273,352	963,716,574	161,370,330	995,868,662	**2,572,607,871**
Disposals and sales	(6,879,841)	(8,784,529)	(65,456,327)	(27,667,020)	(32,610,765)	-	**(141,398,482)**
Depreciation on disposals/adjustments	-	258,978	45,850,245	12,501,365	30,066,413	-	**88,677,001**
Depreciation	-	(80,954,285)	(34,330,995)	(626,299,190)	(134,455,389)	-	**(876,039,859)**
Total changes	**(6,270,001)**	**115,289,276**	**192,336,274**	**322,251,729**	**24,370,589**	**995,868,662**	**1,643,846,530**
Balance as at December 31, 2016					-	-	
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**

BHUTAN POWER CORPORATION LTD. ★ THIMPHU : BHUTAN

S.P. CHOPRA & CO. ★ CHARTERED ACCOUNTANTS ★ CHECKED

5.1 Capital work-in-progress as at December 31, 2017, December 31, 2016 and January 1, 2016 comprise the following:

Particulars	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Generation equipment	160,269,821	6,333,792	2,643,636
Transmission lines	3,255,921,025	1,635,876,349	123,821,678
Distribution Assets	614,781,518	735,561,670	1,273,590,931
Buildings	82,000,404	92,001,311	74,122,650
Other Civil Structures	54,326,848	16,012,857	20,570,634
Others	549,645	539,679	117,456,635
Advance for capital works	249,096,588	328,599,041	206,849,871
Total	**4,416,945,849**	**2,814,924,698**	**1,819,056,036**

5.2 Borrowing costs amounting to Nu. 1,521,539 and Nu. 1,526,555 has been capitalized by the Company for the year ended December 31, 2017 and December 31, 2016 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

Computer Software	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Opening gross carrying value (i)	217,176,585	215,839,129	214,883,344
Additions	1,930,061	3,887,185	1,254,918
Disposals	-	(2,549,729)	(299,133)
Closing gross carrying value (ii)	**219,106,646**	**217,176,585**	**215,839,129**
Opening accumulated amortization (iii)	(194,905,716)	(159,279,627)	(118,774,971)
Additions	(9,624,307)	(38,175,816)	(40,803,641)
Depreciation on disposals	-	2,549,727	298,985
Closing accumulated amortization (iv)	**(204,530,023)**	**(194,905,716)**	**(159,279,627)**
Net carrying value (ii-iv)	**14,576,623**	**22,270,869**	**56,559,502**

BHUTAN POWER CORPORATION LTD. ★ THIMPHU : BHUTAN ★

S.P. CHOPRA & CO. ★ CHECKED ★ CHARTERED ACCOUNTANTS

7. Investments

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Long Term - Other Investments - Unquoted:			
4,000,000 Equity Shares of Nu. 100/- each of Dungsam Cement Corporation Limited, fully paid up	155,590,324	202,958,814	-
Total	**155,590,324**	**202,958,814**	**-**

8. Long-term loans and advances

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Advance to Holding Company	-	-	400,000,000
Advance to employees:			
- Bike loan	11,874	2,536,974	5,856,734
- Welfare loan	84,659	140,334	176,777
- Mobile phone loan	363,121	397,107	784,848
Total	**459,654**	**3,074,415**	**406,818,359**

9. Other receivables

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Security Deposit for Land Lease	199,330	199,330	199,330
Total	**199,330**	**199,330**	**199,330**

10. Other non-current assets

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Deposit against Employee Insurance Policies (Refer Note 40 (v))	484,376,423	469,847,634	433,586,764
Interest accrued on Employee Insurance Policies	151,561,221	102,903,435	57,476,734
Fixed deposits with Banks having original tenure of more than twelve months:			
- for Gratuity liability (Refer Note 40 (i))	183,338,597	287,175,365	343,000,945
- for Depreciation funds for OPGS/ADSS assets	89,490,115	-	-
Interest accrued on Fixed Deposits:			
- for Gratuity Liability	14,017,527	29,472,182	13,898,910
- for Depreciation funds for OPGS/ADSS assets	5,792,340	-	-
Prepaid Expenses	14,595,274	18,077,704	8,024,718
Advance to Suppliers	3,158,996	-	-
Advance to Others	996,661	80,150	5,226,200
Total	**947,327,154**	**907,556,470**	**861,214,271**

11. Inventories

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Stores and spare parts	310,966,839	286,964,752	379,834,091
Stock - ISU	51,512,065	50,182,973	45,452,379
Stock - Uniform	553,638	768,671	645,953
Stock - Infocom Spares	2,409,615	1,052,370	1,052,370
Less: Provision for obsolete inventory	(1,071,692)	(248,170)	(1,635,630)
Total	**364,370,465**	**338,720,596**	**425,349,163**

12. Amount due from/to customers for contract work

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Amounts due from customers for contract work			
Work in progress - Construction Contracts	10,652,760,692	8,667,188,638	10,900,618,715
Less: Progress billing and advances received	7,051,250,621	5,937,058,763	10,414,808,666
Total	**3,601,510,071**	**2,730,129,875**	**485,810,049**
Amounts due to customers for contract work			
Work in progress - Construction Contracts	9,958,711,989	9,172,134,152	1,510,314,422
Less: Progress billing and advances received	11,733,409,768	11,648,404,093	2,440,594,172
Total	**(1,774,697,779)**	**(2,476,269,941)**	**(930,279,750)**
Recognized and included in financial statements as:			
Amounts due from customers for construction contracts			
- Current portion	3,601,510,071	2,730,129,875	485,810,049
- Non-current portion	-	-	-
Amounts due to customers for construction contracts			
- For short term contract	43,299,755	72,649,186	97,362,301
- For long term contract	1,731,398,024	2,403,620,755	832,917,449
Total	**(1,774,697,779)**	**(2,476,269,941)**	**(930,279,750)**

13. Trade & other receivables

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Receivables against transmission and supply of electricity	136,987,705	160,402,597	123,284,570
Less: Provision for doubtful debts	(4,523,709)	(6,851,839)	(17,789,049)

Net Receivables	**132,463,996**	**153,550,758**	**105,495,521**
Subsidy receivable on Electricity from RGOB	446,377,168	-	-
Other receivables	5,706,647	1,460,896	1,165,029
Total	**584,547,811**	**155,011,654**	**106,660,550**

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.

Particulars	As at January 1, 2017	Amount written back and credited to 'Other Income'	As at December 31, 2017
Provision for doubtful Debts	6,851,839	2,328,130	4,523,709

14. Cash and cash equivalents

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Cash in hand	2,896,446	2,454,777	2,859,720
Bank balances in current accounts	495,610,418	1,267,286,771	3,021,309,990
Balance with bank towards staff welfare fund	17,725,640	14,034,990	11,756,868
Total	**516,232,504**	**1,283,776,538**	**3,035,926,578**

14.1 There are no restricted cash and cash equivalents.

15. Short-term loans and advances

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Advance to employees:			
- Bike loan	2,710,546	3,447,370	3,640,272
- Welfare loan	365,078	468,295	573,114
- Mobile phone loan	489,508	903,780	613,104
Total	**3,565,132**	**4,819,445**	**4,826,490**

CORPORATION LTD. ★ THIMPHU : BHUTAN

S.P. CHOPRA & CO. CHECKED CHARTERED ACCOUNTANTS

16. Other current assets

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Fixed deposits with Banks having original tenure of more than twelve months:			
- for Gratuity liability (Refer Note 40 (i))	238,289,785	-	-
Fixed deposits with Banks having original tenure of more than three months:			
- for Others	-	857,000,718	333,324,042
- for Investment Reserve	-	600,000,000	600,000,000
- for Gratuity liability	-	104,711,160	-
Interest accrued on Fixed Deposits:			
- for Others	-	23,882,205	5,112,410
- for Investment Reserve	-	2,983,607	7,364,384
- for Gratuity liability	45,046,562	10,878,486	-
Accrued Unbilled Trade Receivables	463,535,149	399,728,479	385,233,752
Prepaid Expenses	17,717,508	9,695,174	11,951,791
Advance to Suppliers	280,992	13,883,730	10,715,918
BST Receivable	-	-	313,000
Advance to employees:			
- Travel and salary advance	2,800	42,400	108,159
- Expenses	305,000	1,432,102	1,012,787
Advance to Others	18,225,431	12,185,155	9,138,072
Total	**783,403,227**	**2,036,423,216**	**1,364,274,315**

17. Share Capital

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Authorized:			
15,000,000 Equity Shares of Nu. 1,000/- each	15,000,000,000	15,000,000,000	15,000,000,000
Total	**15,000,000,000**	**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	8,225,118,000
Total	**8,225,118,000**	**8,225,118,000**	**8,225,118,000**

17.1 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)

17.2 4,910,755 equity shares (Previous year: 4,910,755) have been allotted for consideration other than cash and 3,314,363 equity shares (Previous year: 3,314,363) have been allotted pursuant to conversion of grant of Royal Government of Bhutan.

17.3 Reconciliation of Equity shares Outstanding

	As at December 31, 2017	As at December 31, 2016
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

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
i) Secured borrowings:			
Term loan from 'National Pension and Provident Fund' (Refer Note 18.1) - for Transmission Lines Project	293,492,500	335,420,000	377,347,500
ii) Unsecured borrowings:			
Term loans from 'Royal Government of Bhutan' (Refer Note 18.2)			
- for Rural Electrification Projects	5,360,325,563	5,375,006,260	5,442,612,781
- for Tala Hydroelectric Project	109,971,738	219,943,476	329,915,214
Interest accrued but not due on borrowings	27,595,015	29,744,150	32,071,672
	5,791,384,816	**5,960,113,886**	**6,181,947,167**

Borrowings analyzed as follows

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Current portion	329,861,141	311,828,503	228,829,125
Non-current portion	5,461,523,675	5,648,285,383	5,953,118,042
Total	**5,791,384,816**	**5,960,113,886**	**6,181,947,167**

Nature of Security:

18.1 Term loan of Nu. 293,492,500 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.

18.2 Other Term Loans:

i) Rural electrification Loan I (RE-I) of Nu. 149,473,229 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. 256,561,728 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. 328,109,556 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 1,104,327,345 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 JICA- Phase 1 of Nu. 1,579,231,910 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.

vi) Rural electrification Loan ADA of Nu. 300,911,221 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.

vii) Loan for Tala Transmission Lines of Nu. 109,971,738 has been obtained from the Royal Government of Bhutan and is repayable within 12 years at an interest rate of 9% in semi-annually equal installments with last installment due on December 15, 2018.

viii) Rural electrification loan – RE V and JICA Loan II of Nu. 1,641,710,574 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 (vi) 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.

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
As at January 1	1,429,027,907	923,574,865	939,325,033
Addition/Received	98,280,806	543,000,389	8,209,287
Less: Transferred to 'Other Income'	(48,000,660)	(37,547,347)	(23,959,455)
As at December 31	**1,479,308,053**	**1,429,027,907**	**923,574,865**

Deferred grant analyzed as follows:

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Current portion	51,514,024	41,723,463	24,891,343
Non-current portion	1,427,794,029	1,387,304,444	898,683,522
Total	**1,479,308,053**	**1,429,027,907**	**923,574,865**

20. Deferred customer's contribution

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
As at January 1	**3,092,428**	**3,204,880**	**3,317,332**
Received during the year	7,419,299	-	-
Less: Transferred to 'Other Income'	(483,094)	(112,452)	(112,452)
As at December 31	**10,028,633**	**3,092,428**	**3,204,880**

Deferred customer's contribution analyzed as follows:

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Current portion	864,840	112,452	112,452
Non-current portion	9,163,793	2,979,976	3,092,428
Total	**10,028,633**	**3,092,428**	**3,204,880**

21. Other payables

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Security deposits			
- Energy meter	243,094,910	208,248,827	194,447,557
- Others (Refer Note 21.1)	13,506,807	12,391,566	11,368,409
Performance security	20,000	42,171	85,185
Retention money	1,192,874,038	817,124,618	364,819,876
Payable to employees	150,537	149,124	149,124
Total	**1,449,646,292**	**1,037,956,306**	**570,870,151**

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

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Provision for:			
- Gratuity (Refer Note 40(i))	435,741,084	451,100,565	405,785,435
- Leave encashment	52,038,922	41,376,857	36,006,408
- Performance Based Incentive Scheme	79,405,493	75,930,133	75,645,862
- Performance Based Variable Allowance	71,335,805	68,248,469	67,902,361
Total	**638,521,304**	**636,656,024**	**585,340,066**

Employee benefit liabilities analyzed as follows:

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Current portion	224,025,124	209,905,567	202,815,969
Non-current portion	414,496,180	426,750,457	382,524,097
Total	**638,521,304**	**636,656,024**	**585,340,066**

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, 2017	As at December 31, 2016	As at January 1, 2016
Particulars			
Opening balance	681,698,770	584,604,572	584,604,572
Charged to Statement of Comprehensive Income	92,905,310	97,094,198	-
Closing Balance	**774,604,080**	**681,698,770**	**584,604,572**

Note 23.1: The movement in deferred income tax assets and liabilities during the year ended December 31, 2017 and December 31, 2016 and as at January 1, 2016 are as under:

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 & retention money	49,781,733	519,804	50,301,537
Total	**712,082,568**	**98,069,437**	**810,152,005**

BHUTAN ... CORPORATION LTD. THIMPHU : BHUTAN

S.P. ... & CO. CHECKED CHARTERED ACCOUNTANTS

Deferred income tax assets	As at January 1, 2017	Adjustment to 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**

For the year December 31, 2016

Deferred income tax liabilities	As at January 1, 2016	Adjustment to Statement of Comprehensive Income	As at December 31, 2016
Property, plant and equipment	577,249,321	85,051,514	662,300,835
Security deposit and retention money	33,140,886	16,640,847	49,781,733
Total	**610,390,207**	**101,692,361**	**712,082,568**

Deferred income tax assets	As at January 1, 2016	Adjustment to Statement of Comprehensive Income	As at December 31, 2016
Provision for doubtful debts	5,336,715	(3,281,163)	2,055,552
Training	19,958,231	3,918,248	23,876,479
Provision for obsolete inventories	490,689	(416,238)	74,451
Borrowings	-	4,377,315	4,377,315
Total	**25,785,635**	**4,598,163**	**30,383,798**

As at January 1, 2016

Deferred income tax liabilities	As at January 1, 2016	Op. Adjustment	As at January 1, 2016
Property, plant and equipment	577,249,321		577,249,321
Security deposit and retention money	-	33,140,886	33,140,886
Total	**577,249,321**	**33,140,886**	**610,390,207**

Deferred income tax assets	As at January 1, 2016	Op. Adjustment	As at January 1, 2016
Provision for doubtful debts	5,336,715	-	5,336,715
Training	19,958,231	-	19,958,231
Provision for obsolete inventories	490,689	-	490,689
Total	**25,785,635**	**-**	**25,785,635**

24. Trade & other payables

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Trade payables:			
- electricity	652,559,554	28,930,898	223,675,778
- suppliers & contractors	696,573,795	189,954,115	178,597,763
- services	377,029,160	3,266,862	8,356,719
Security deposits			
- Energy meter	3,946,381	8,311,329	2,719,018
- Capacity reserve charges	4,516,137	8,525,727	9,607,950

Performance security	13,579,278	6,035,000	4,880,832
Retention money	1,258,546,618	1,037,811,087	820,119,816
Payable to employees	1,765,131	1,717,497	517,898
Accrued expenses	10,868,320	21,056,197	1,791,400
Other liabilities	2,995,103	9,210,134	2,653,398
Total	**3,022,379,477**	**1,314,818,846**	**1,252,920,572**

25. Income tax payable (net of advances)

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Provision for corporate income tax	472,000,205	577,719,294	519,783,722
Less: Advance tax and income tax deducted at source	(248,704,260)	(206,820,153)	(183,171,877)
	223,295,945	**370,899,141**	**336,611,845**

25.1 Details of Income Tax is as under:

	As at December 31, 2017	As at December 31, 2016
Current income tax		
Current tax on profits for the year	471,686,787	577,719,294
Total Current income tax	471,686,787	577,719,294
Deferred income tax		
Origination and reversal of temporary differences	92,385,506	84,830,666
Security Deposit, Retention Money & Borrowings	519,804	12,263,532
Total Deferred income tax	**92,905,310**	**97,094,198**
Income tax expense	**564,592,097**	**674,813,492**

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:

	As at December 31, 2017	As at December 31, 2016
Profit before tax	**1,892,552,317**	**2,251,407,065**
Tax calculated at domestic tax rates	**567,765,695**	**675,422,120**
Income tax effect due to:		
- Donations	234,000	213,000
- Fines and Penalties	-	282,615
- Depreciation on disposal	23,820,395	27,368,018
- Reversal on disposal of asset	(27,227,993)	(28,472,261)
Income tax charge	**564,592,097**	**674,813,492**

25.3 The applicable corporate income tax rate was same, i.e. 30% for the current year and earlier year ended on December 31, 2017 and December 31, 2016 respectively.

26. Other current liabilities

	As at December 31, 2017	As at December 31, 2016	As at January 1, 2016
Statutory liabilities	20,519,106	4,615,043	8,444,670
Welfare grant fund	17,685,640	13,994,990	11,716,868
Other payables	67,286,000	-	1,044,044
	105,490,746	**18,610,033**	**21,205,582**

27. Income from construction contracts

	For the year ended	
	December 31, 2017	**December 31, 2016**
Value of contracts performed and service charges	3,445,857,856	6,017,510,163
Estimation charges for works	550,289	309,932
Total	**3,446,408,145**	**6,017,820,095**

28. Other Income

	For the year ended	
	December 31, 2017	**December 31, 2016**
Interest income on:		
- Fixed deposits	18,046,722	43,692,610
- Benefit Accrued on Employee Insurance Policies (Refer Note 40 (v)	50,157,787	47,226,700
- Fixed Deposit on Investment Reserve	8,582,574	37,619,223
- Fixed Deposits on Gratuity Liability	31,278,760	26,451,759
- Inter-Corporate Loan	-	524,590
Unwinding of discount on Retention money	76,389,136	89,326,434
Penalties and liquidated damages	43,094,360	17,875,767
Revenue Grant	56,626	64,750
Amortization of deferred grants (Refer Note 19)	48,000,660	37,547,347
Amortization of deferred customer's contribution (Refer Note 20)	483,094	112,452
Liabilities no longer required written back	12,418,703	3,047,961
Write-back/off of Provision for doubtful debts	2,328,130	10,937,210
Scrap Sales	5,487,019	10,713,961
Tender form sales	1,814,200	919,600
Hire and lease charges	3,138,082	1,799,377
Other miscellaneous income	97,498,673	49,471,463
Total	**398,774,526**	**377,331,204**

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29. Operation and maintenance expenses

	For the year ended	
	December 31, 2017	December 31, 2016
Repairs and maintenance:		
- Material/Stores	114,609,978	127,351,510
- Services	161,131,324	140,622,673
- Meter Equipment	2,762,578	1,677,105
- Vehicle running expenses (POL)	29,327,180	27,803,926
- Consumables	18,265,080	15,148,274
- Others	101,084,730	94,863,147
Total	**427,180,870**	**407,466,635**

30. Employee benefit expenses

	For the year ended	
	December 31, 2017	December 31, 2016
Salaries, wages, bonus and allowances	784,768,261	737,312,914
Contribution to provident and pension fund	48,124,622	44,664,305
Contribution for gratuity and leave encashment	91,250,030	86,712,384
Workmen and staff welfare expenses	84,383,514	91,823,574
Total	**1,008,526,427**	**960,513,177**

31. Finance cost

	For the year ended	
	December 31, 2017	December 31, 2016
Interest on long term borrowings from:		
Royal Government of Bhutan for:		
- Rural electrification Projects	48,929,406	51,493,492
- Tala Hydro Electric Project	35,945,361	35,945,361
National Pension and Provident fund for:		
- Transmission Lines Project	27,888,348	31,756,607
Interest expenses on Financial Instruments	100,722,609	56,238,121
Other finance charges	203,110	136,848
Total	**213,688,834**	**175,570,429**
Less: Amounts capitalized on qualifying assets	1,521,539	1,526,555
Total	**212,167,295**	**174,043,874**

32. Other expenses

	For the year ended	
	December 31, 2017	December 31, 2016
Travelling expenses	42,089,828	43,620,746
Rent charges	10,053,726	7,055,793
Rates and taxes	869,187	1,456,614
Printing and stationary	11,357,490	12,816,563

License and registration fees	20,350,455	15,922,786
Audit fees and expenses	1,006,095	855,301
Office expenses	8,324,205	8,769,571
Consultancy fees	734,500	250,000
Entertainment expenses	6,835,267	7,548,721
Publicity and Advertisement expenses	2,888,037	3,097,806
Insurance charges	3,169,127	2,848,263
CSR expenses	805,000	8,017,347
Vehicle Hire charges	2,031,163	1,324,487
Loss on disposal of property, plant and equipment	43,764,205	43,426,266
Provision/Write-back of Provision on Obsolescence of Material	823,522	(1,387,460)
Board meeting expenses and sitting fees	1,172,508	1,397,648
Management Fee for holding Company	32,425,501	17,419,105
Miscellaneous expenses	28,848,458	18,200,324
Total	**217,548,274**	**192,639,880**

33. Earnings per share ('EPS')

	For the year ended	
	December 31, 2017	**December 31, 2016**
Basic EPS attributable to Ordinary shares		
Net Profit attributable to the owners of the Company	1,327,960,220	1,576,593,573
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	**161.45**	**191.68**

34. Fair Value Measurement

Financial instruments by category:

Particulars	As at December 31, 2017			As at December 31, 2016			As at January 1, 2016		
	FVTPL	FVTOCI	Amortized cost	FVTPL	FVTOCI	Amortized cost	FVT-PL	FV-TOCI	Amortized cost
Financial assets									
Investments	-	155,590,324	-	-	202,958,814	-	-	-	-
Long-term loans and advances	-	-	459,654	-	-	3,074,415	-	-	406,818,359
Other receivables	-	-	199,330	-	-	199,330	-	-	199,330
Amount due from customers for contract work	-	-	3,601,510,071	-	-	2,730,129,875	-	-	485,810,049
Trade & other receivables	-	-	584,547,811	-	-	155,011,654	-	-	106,660,550
Cash and cash equivalents	-	-	516,232,504	-	-	1,283,776,538	-	-	3,035,926,578
Short-term loans and advances	-	-	3,565,132	-	-	4,819,445	-	-	4,826,490
Total financial assets	**-**	**155,590,324**	**4,706,514,502**	**-**	**202,958,814**	**4,177,011,257**	**-**	**-**	**4,040,241,356**
Financial liabilities									
Borrowings	-	-	5,791,384,816	-	-	5,960,113,886	-	-	6,181,947,167
Other payables	-	-	1,449,646,292	-	-	1,037,956,306	-	-	570,870,151
Amount due to customers for contract work	-	-	1,774,697,779	-	-	2,476,269,941	-	-	930,279,750
Trade & other payables	-	-	3,022,379,477	-	-	1,314,818,846	-	-	1,252,920,572
Total financial liabilities	**-**	**-**	**12,038,108,364**	**-**	**-**	**10,789,158,979**	**-**	**-**	**8,936,017,640**

(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 DCCL is measured at fair value through other comprehensive income. Since the investment company is unlisted company, fair value is measure using level 3.

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 the 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.

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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 quiet 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 are 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.

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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, 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	5,461,523,675	**5,791,384,816**
Total financial liabilities	**3,352,240,618**	**6,911,169,967**	**10,263,410,585**

Contractual maturities of financial liabilities as at December 31, 2016	Less than 1 year	More than 1 year	Total
Trade and Other Payables	1,314,818,846	1,037,956,306	**2,352,775,152**
Borrowings	311,828,503	5,648,285,383	**5,960,113,886**
Total financial liabilities	**1,626,647,349**	**6,686,241,689**	**8,312,889,038**

Contractual maturities of financial liabilities as at January 1, 2016	Less than 1 year	More than 1 years	Total
Trade and Other Payables	1,252,920,572	570,870,151	**1,823,790,723**
Borrowings	228,829,125	5,953,118,042	**6,181,947,167**
Total financial liabilities	**1,481,749,697**	**6,523,988,193**	**8,005,737,890**

** 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.

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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:-

(Values in Nu.)

Particulars	As at December 31, 2017		As at December 31, 2016		As at January 1, 2016	
Currency	**Euro**	**Yen**	**Euro**	**Yen**	**Euro**	**Yen**
Financial liabilities	300,911,211	2,660,247,363	279,334,253	2,736,138,374	312,903,654	2,574,370,607
Net exposure to foreign currency risk	**300,911,211**	**2,660,247,363**	**279,334,253**	**2,736,138,374**	**312,903,654**	**2,574,370,607**

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, 2017	**As at December 31, 2016**	**As at January 1, 2016**
YEN sensitivity			
Nu. depreciate by 5% (2016: 5%)	133,012,368	136,806,919	128,718,530
Nu. appreciate by 5% (2016: 5%)	**133,012,368**	**136,806,919**	**128,718,530**
EURO sensitivity			
Nu. depreciate by 5% (2016: 5%)	15,045,561	13,966,713	15,645,183
Nu. appreciate by 5% (2016: 5%)	**15,045,561**	**13,966,713**	**15,645,183**

* 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, 2017	As at December 31, 2016	As at January 1, 2016
Increase in equity share by 5%	7,779,516	10,147,941	-
Decrease in equity share by 5%	(7,779,516)	(10,147,941)	-

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, 2017 (Amount in Nu.)	Transactions during the year (Amount in Nu.)
Royal Government of Bhutan	Ultimate holding	a) Borrowings for rural electrification project	Cr. 5,360,325,563	Disbursement(Cr.) 89,780,861 Repayment (Dr.) 130,527,710
		b) Borrowings for Tala hydro-electric project	Cr. 109,971,738	Repayment (Dr.) 109,971,738
		c) Grants received for rural electrification.	Cr. 1,479,308,053	Received (Cr.) 98,280,806
		d) Interest Paid/payable on Borrowings	Cr. 27,595,015	Dr. 111,241,576

Druk Holding & Investments	Holding Company	a) Issue of Share Capital b) Payment of dividend c) Brand Management Fee paid	Cr. 8,225,118,000	 1,449,029,909 32,425,501
Druk Green Power Corporation Limited	Fellow Subsidiary	(a) Purchase of electricity for transmission and distribution. (b) Wheeling charges (c) Electricity charges	Cr. 652,509,554 Dr. 54,600,843 Dr. 18,403	Dr. 3,684,480,813 Cr. 947,814,135 Cr. 10,333,161
Dagachhu Hydro Power Corporation	Fellow Subsidiary	(a) Wheeling charges (b) Purchase of Power	Dr. 4,057,269	Cr. 86,965,870 Dr. 14,793,124
Druk Air Corporation Limited	Fellow Subsidiary	Air Travel Service		Dr. 13,040,986
Dungsam Cement Corporation Limited	Fellow Subsidiary	a. Investment in Equity Shares b. Electricity charge received c. Trade receivable d. Non-Trade receivable	Dr. 155,590,324 Dr. 20,659,888 Dr. 517,986	 Cr. 205,459,334
Royal Insurance Corporation of Bhutan Ltd	Government undertaking	a) Insurance Premium paid b) Deposit against Employees Insurance Policy (including interest) a) Benefits accrued on Insurance Policies b) Death Benefit Claims under Employees Insurance Policies adjusted	 Dr. 635,937,644 	Dr. 14,528,789 Cr. 50,157,787 Dr. 15,00,000

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, Managing Director.

	For the year ended	
	December 31, 2017	**December 31, 2016**
Basic Salary and contract allowance	1,605,810	1,559,040
Performance based variable allowances	161,545	164,761
Performance based incentive scheme	170,238	135,240
Sitting fees	140,000	115,000
Contribution to provident fund	110,400	107,184
Other allowances	-	97,400
Total	**2,187,993**	**2,178,625**

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:

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.

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, 2017	Year ended 31st December, 2016	Year ended 31st December, 2017	Year ended 31st December, 2016
Present Value of obligation at the beginning of year	451,100,565	405,785,435	41,370,828	36,006,408
Interest cost	31,557,040	32,462,835	2,895,958	2,880,513
Current Service Cost	46,108,938	45,998,587	10,668,094	5,364,420
Benefit Paid	(29,277,806)	(21,930,422)	(40,891,994)	(36,780,406)
Net actuarial (Gain) / Loss on obligation	(63,767,653)	(11,215,870)	37,996,036	33,899,893
Present value of the defined benefit at the end of period/year	435,741,084	451,100,565	52,038,922	41,370,828
Current Liability	21,244,904	24,350,108	-	-
Non-current Liability	414,496,180	426,750,457	-	-

ii. Expense recognized in the Statement of Comprehensive Income.

(in Nu.)

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2017	Year ended 31st December, 2016	Year ended 31st December, 2017	Year ended 31st December, 2016
Current Service Cost	46,108,938	45,998,587	10,668,094	5,364,420
Interest cost	31,577,040	32,462,835	2,895,958	2,880,513
Net actuarial (Gain) / Loss recognized in the year	(63,767,653)	(11,215,870)	37,996,036	33,899,893
Expenses recognized in Statement of Profit and Loss	(48,639,195)	67,245,552	51,560,088	42,144,826

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iii. Actuarial Assumptions:

Principal assumptions used for actuarial valuation are:

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2017	Year ended 31st December, 2016	Year ended 31st December, 2017	Year ended 31st December, 2016
Method used	Projected unit credit method			
Discount rate	7.58%	7.00%	7.58%	7.00%
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)	21 years	21 years	21 years	21 years

38. Capital Commitments

The Company has contractual commitments of Nu. 2,472,660,637 and Nu. 5,461,181,557 as at December 31, 2017 and December 31, 2016 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

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

   In the previous year, the Tax Authority has carried out the Tax assessment of the Company for the income tax assessment year 2014 and 2015. In assessing the Tax for these periods, the Tax Authority has assessed that the Company is liable to pay additional tax of Nu. 8,187,310 and Nu. 23,499,496 for the assessment year 2014 and 2015 respectively being the disallowance of tax deductible expenses of Brand Management Fee paid to the Holding Company and the Performance Based Variable Allowance paid to its employees. Based on the clarification sought by the Holding Company from the Tax Authority, the Tax Authority has agreed to review the issue and conveyed to keep the assessed tax liability on hold till the Authority arrives at a decision on the issue.

   During the current year, the authority issued a letter and allowed deduction of Brand Management Fees for the above mentioned years; however disallowed the deduction of PBVA and issued order for balance additional tax payable of Nu. 8,187,310 and Nu. 19,208,023 for 2014 and 2015 respectively. Thereafter, DHI on behalf of the Group filed the appeal to Ministry of Finance for allowance of PBVA; however no outcome has been received so far.

Considering that demand against disallowance of PBVA is at assessment level and the management is of the view that the same shall not be sustainable, no provision towards this demand is considered necessary.

Further, assessment for the year 2016 is still not made by the Authorities.

40. Other Notes to Accounts

i. Gratuity:
The liability towards Gratuity is funded through fixed deposits with the banks. As on December 31, 2017 there is balance of Nu. 480,692,471 in the fixed deposits (including interest of Nu. 59,064,089 accrued thereon) earmarked towards gratuity liability of Nu. 435,741,084 as on December 31, 2017; 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. 15,359,481 (Previous year: Provision of Nu. 45,315,130) 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 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.

v. 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. 635,937,644 (after deducting death claims of Nu. 5,100,000 paid/payable under the policies) as on the reporting date have been considered as 'Deposit against Employees Insurance Policy' under 'Other Non-Current Assets' in the Statement of Financial Position. The death claim benefits of Nu. 1,500,000 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.

THIMPHU : BHUTAN

50,157,787 (Previous year Nu. 47,226,700) accrued under the policies during the year have been added in the same on prorated basis by credit to 'Other Income'.

vi. The detail of Loans Funds for the year is as under:

(Amount in Nu.)

Particulars	Loan outstanding as on 01.01.2017	Disbursement during the year	Foreign Exchange difference ((gain)/ loss)	Repayment / Adjustment during the year	Loan Outstanding as on 31.12.2017	Interest Paid/ provided for during the year
From Royal Government of Bhutan (Unsecured)						
A. **For Rural Electrification works**						
ADB-RE I	157,777,298	-	-	8,304,069	149,473,229	9,151,083
ADB-RE II	274,887,566	-	-	18,325,838	256,561,728	15,796,872
ADB-RE III	346,337,865	-	-	18,228,309	328,109,556	20,181,776
ADB-RE IV	1,127,823,671	-	-	23,496,326	1,104,327,345	-
ADB-RE V	700,076,926	81,921,735	-	-	781,998,661	-
ADA	279,334,253	-	21,576,968	-	300,911,221	2,090,594
JICA-I	1,636,915,893	-	(21,695,984)	35,987,999	1,579,231,910	187,542
JICA-II	851,852,788	7,859,125	-	-	859,711,913	1,521,539
	5,375,006,260	**89,780,860**	**(119,016)**	**104,342,541**	**5,360,325,563**	**48,929,407**
B. **For Tala Transmission Lines**						
THP	152,476,308	-	-	76,238,154	76,238,154	35,945,361
THP- IDC	67,467,168	-	-	33,733,584	33,733,584	-
	219,943,476	**-**	**-**	**109,971,738**	**109,971,738**	**35,945,361**
From National Pension and Provident Fund (Secured)						
NPPF	335,420,000	-	-	41,927,500	293,492,500	27,888,348
	335,420,000	**-**	**-**	**41,927,500**	**293,492,500**	**27,888,348**
Total	**5,930,369,736**	**89,780,860**	**(119,016)**	**256,241,779**	**5,763,789,801**	**112,763,115**

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

	2017		2016	
	Units (kWh)	Amount	Units (kWh)	Amount
Purchase	2,326.38	3,699.27	2,084.69	1,408.26
Hydel	12.21	-	11.22	-
DG	0.03	-	-	-
Sale	2,185.75	6,554.74	2,008.90	4,771.65

41. Implementation of BAS Phase-III

These financial statements of the Company are prepared in accordance with fully applicable BAS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended December 31, 2017, the comparative information presented in these financial statements for the year ended December 31, 2016 and in the preparation of an opening fully BAS compliant statement of financial position as at January 1, 2016 (date of transition for the standards applied in current year). In preparing its fully opening BAS compliant statement of financial position, the company has adjusted the amounts reported previously in financial statements prepared in accordance with previous GAAP (for standards adopted in current year), i.e., Bhutanese Accounting Standards (BAS) (Phase- I & II).

A. Exemptions and exceptions availed

Set out below are the applicable BFRS 1 optional exemptions and mandatory exceptions applied in the transition from previous BAS to fully Compliant BAS (including Phase-III).

A.1 Mandatory Exemptions

A.1.1 Estimates

An entity's estimates in accordance with BAS (Phase-I & II) at the date of transition to BAS (All phases applied)) shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

BAS estimates as at January 1, 2016 are consistent with the estimates as at the same date made in conformity with previous GAAP.

A.1.2 Classification and measurement of financial assets

BFRS 1 requires an entity to assess classification and measurement of financial assets on the basis of the fact and circumstances that exits at the date of transition to this BFRS.

A.2 Optional Exemptions

A.2.1 Government loans

A first-time adopter is required to apply the requirements in BFRS 9 and BAS 20 prospectively to government loans existing at the date of transition to BAS. However, a first-time adopter may choose to apply the requirements of BFRS 9 and BAS 20 to government loans retrospectively, if the information needed to do so had been obtained at the time of initially accounting for that loan.

The Company has elected to BAS 20 on loans obtained from government on and after the date of transition.

B. Reconciliations between previous BAS (Phase- I & II) and BAS (after adoption of Phase-III)

Reconciliation of total equity as on January 1, 2016

Particulars	Notes	Amount
Balance of Equity under previous GAAP		**13,717,571,236**
Discounting of security deposit and retention money	1	110,469,619
Balance of equity as per BAS before tax impact on adjustments		**13,828,040,855**
Deferred tax (asset)/liability	1	33,140,886
Balance of Equity as on January 1, 2016 under fully compliant BAS		**13,794,899,969**

Reconciliation of total equity as on December 31, 2016

Particulars	Notes	Amount
Balance of Equity under previous GAAP		**13,928,562,827**
Discounting of security deposit and retention money	1	110,469,619
Amortization of Government Loan		7,790,127
Unwinding of Discount of Retention money (Current Year)		89,326,434
Interest expense on financial instruments measured at amortised cost	1	(56,238,122)
Fair valuation of investment in equity shares	2	(197,041,186)
Balance of equity as per BAS before tax impact on adjustments		**13,882,869,699**
Deferred tax (asset)/liability	1	45,404,418
Balance of Equity as on December 31, 2016 fully compliant BAS		**13,837,465,283**

Reconciliation of total comprehensive income for the year ended December 31, 2016

Particulars	Notes	Amount
Total comprehensive income as per previous GAAP		**1,525,294,641**
Interest expense on financial instruments measured at amortised cost	1	(56,238,122)
Unwinding of discount on Retention Money	1	89,326,434
Amortization of deferred grant		7,790,127
Fair valuation of investment in equity shares	2	(197,041,186)
		1,369,131,894
Tax effects of adjustments**	1	12,263,530
Balance of total comprehensive income 2016 under BAS		**1,356,868,364**

*** Deferred Tax adjustment*

C. Notes to Implementation of BAS Phase-III

Note 1: Security deposit, Retention money and Borrowing

Under the previous GAAP, security deposit, retention money and borrowings are recorded at their transaction value. After applicability of Phase-III of BAS, all financial assets are and financial liability are required to be recognised at fair value. Accordingly, the Company has fair valued these secur ity deposit, retention money and borrowings under Phase-III at the date of initial recognition i.e. the date of transition net of deferred taxes.

Note 2: Fair valuation of investment

Under the previous BAS (Phase-I & II), investment in equity shares other than in subsidiary, associate and joint venture were carried at cost less provision for decline in the value of such investments. After adoption of BFRS 9, these investments are required to be measured at fair value. Accordingly, the Company has fair valued this investment at the date of initial recognition and each reporting period.

Note 3: Retained earnings

Retained earnings as at January 1, 2016 has been adjusted consequent to the above BAS transition adjustments.

Note 4: Statement of cash flows

The transition from BAS (Phase- I & II) to BAS (Phase-III) has not had a material impact on the statement of cash flows.

42. Subsequent events

i. The Board of Directors has proposed a final dividend of Nu.125 per share for the financial year ended December 31, 2017. The total dividend of Nu. 1,028,139,750 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, 2017. These financial statements do not reflect this dividend payable.

ii. In line with the Asset replacement policy of the Company, the Board of Directors has proposed an amount of Nu. 5,049,949 to be transferred to Asset Replacement Reserve for the financial year ended December 31, 2017, 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, 2017. These financial statements do not reflect this transfer.

iii. The Board of Directors has proposed the transfer of Company's investment in DCCL at cost amounting to Nu. 400 million and payment of the balance amount after such adjustment of Ni. 216.60 million lying in GIR to its holding company, Druk Holdings and Investment Limited. 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, 2017. These financial statements do not reflect this transfer.

Signatures to 'Notes 1 to 42' of the Financial Statements
For and on behalf of the Board of Directors

Director (F)	Director	Managing Director	Chairman

THIMPHU : BHUTAN

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

(Pawan K. Gupta)
Partner
Membership No. 092529

Place: Thimphu
Dated: 14-03-2018

Ratio Analysis

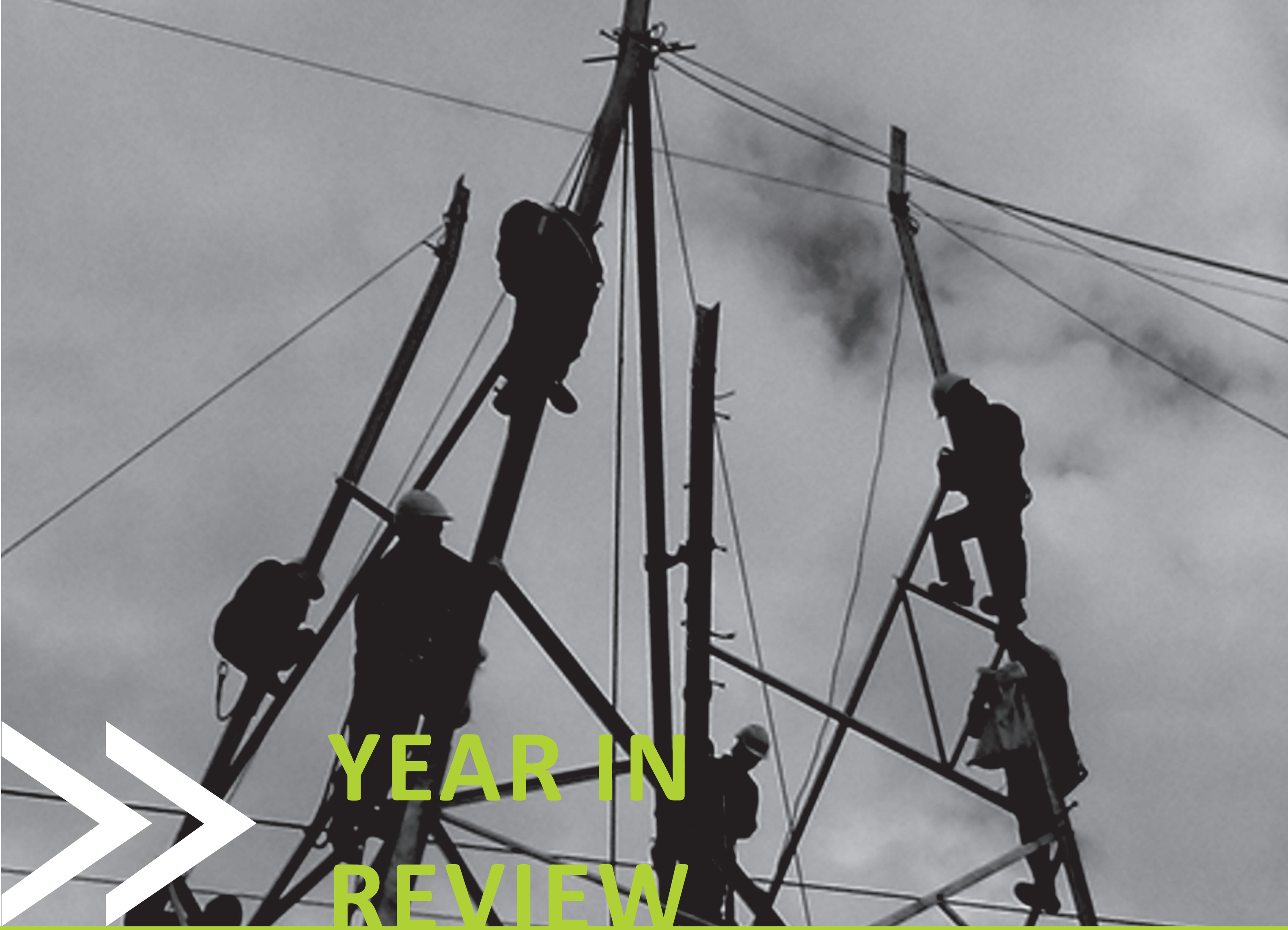
PARTICULARS	2017	2016
NP ratio	0.164	0.190
Fixed Assets Turnover Ratio (Sales/ Average Net Block)	0.660	0.697
Debtors Turnover Ratio (Energy Sales/Average Debtors)	15.962	38.285
Current Ratio (Current Assets/Current Liabilities)	1.021	1.380
Quick Ratio (Current Asset-Inventory/Current Liabilities)	0.958	1.309
Interest Coverage Ratio (Profit before interest & tax/Interest)	9.920	13.936
Debt Service Coverage Ratio ((PAT + Dep +Interest)/(Interest + Principal Repayment))	4.534	5.485
Gearing Ratio (Debt /Gross Value of Fixed Asset)	22.74%	24.50%
Gearing on net Fixed asset	32.9%	34.5%
Debt Equity Ratio (Debt/average Equity)	42.07%	43.14%
Return on Capital Employed (EBIT/(Capital + Reserve +Long term liability)	10.80%	12.25%
Return on asset (Profit after tax)/average net total assets	7.61%	9.27%
Return on equity (Return available /Average Equity)	9.65%	11.41%

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

S.P. CHOPRA & CO. CHARTERED ACCOUNTANTS CHECKED

(Pawan K. Gupta)
Partner
M. No. 092529

Place: Thimphu
Dated: 14-03-2018



YEAR IN REVIEW

>> Management with the promotion recipients

>> TD, New GM appointed

>> Winner of inter departmental Archery tournament

JANUARY

MARCH

MAY

JUNE

>> World water day observed

>> inauguration of 66/33kV Olathang substation after upgradation

>> contract signing with Ms OSI

>> 15th BPC foundation day

>> BPC Chairman on his familarization tour

>> MD recognised by AIT Alumni

JULY

SEPTEMBER

NOVEMBER

DECEMBER

>> BPC gets Tea room

>> 400 kV GIS inaugurated

BUREAU VERITAS Certification

BHUTAN POWER CORPORATION LIMITED

ISO 9001:2015, ISO 14001:2015 & BS OHSAS 18001:2007

>> BPC receives ISO Certificate