



BHUTAN POWER CORPORATION LIMITED

ANNUAL REPORT 2019



Meeting Bhutan's Electricity Needs

ANNUAL REPORT 2019

YEAR IN REVIEW

From CEO's Desk



Understanding the importance of electricity in the socio-economic development of the Nation, our efforts has always been in building Bhutan Power Corporation as a premier corporate entity. Today, as we reflect 17 years of this journey in this pursuit and importantly the initiatives that we have taken in the last year, it gives me immense pleasure to have been a part of this endeavour. Today we operate and develop the electricity grid of the nation with our own able teams, experts and professionals that we have nurtured and developed over the years. We work towards meeting the expectations of all stakeholders and in building future resilient power system embracing and leveraging the technologies that the Industry 4.0 provides.

Considering the access to energy in the Nation, from electricity coverage of around 30% in 2002, the coverage today stands at 99.99%. The years of planning, constructing, operating and developing the power network from the cities, towns and to the remotest parts of the country, BPC has been able to connect to almost every family in the Nation. This has provided us with an experience not only in understanding the technical intricacies of electricity transmission and distribution but

also largely in understanding our culture and spirit of our Country.

Post electrification, the key challenge that remains ahead of us is in modernizing the Grid, the associated systems and policies in keeping pace by adopting appropriate technologies to provide the best service to our customers. While the terrain may not be the easiest for us in operating our systems, which sometimes manifests in reliability issues to some of our customers, we strive to upgrade our system with innovative solutions and latest technologies operated by the ever-motivated workforce. Our efforts in the pursuit of customer service excellence has also been reflective through the Customer Satisfaction Index of 4.01 achieved out of 5 for the year 2019. We are committed to maintain and sustain such customer satisfaction indices and we are aware on the need to evolve to become more customer centric and be agile in our strategies in meeting their requirement.

We are cognisant that right technology adoption is seen as a key driver not only in improving the core business processes, system operation and management but also to nurture the next generation human capacity. Towards realizing this, we have formulated a Smart Grid Master

Plan 2019-2030 providing a road map for deployment of specific programs to achieve a smart Grid platform that is highly secure, scalable and interoperable. For automation of systems and remote centralized operation of grid, local Supervisory Control and Data Acquisition (SCADA) in substations and smart surveillance system are being implemented. BPC has also instituted a platform for efficient electricity distribution systems operation and management designing the National Architecture of Bhutan Distribution Control System.

Process automation for billing system such as instant meter reading and uploading including automatic reconciliation of payments supported by mobile Apps have been implemented to enhance customer service and overall experience. The electricity bill payments have been made convenient by integrating its system with all the banks in Bhutan and most of the critical services for Thimphu can be availed online. Such facilities in all other Dzongkhags will be made available by mid 2020. Automatic meters reading facilities have also been installed for the high valued industrial customers and the bills are generated automatically eliminating any unintended human errors. On a continuous basis, the old customer meters are being replaced with higher accuracy class meters to ensure quality services.

BPC ensures a high level of corporate governance and financial discipline in planning and operating its developmental capital projects. Techno-economic studies

for major investments are conducted to thoroughly investigate the requirements. To leverage the complete value chain of utility businesses and in meeting the CSP 2030 targets, Research and Development (R&D) and Center of Excellences (CoE) are established.

Looking ahead, BPC's priorities would be in reshaping its business processes by exploring and adapting new relevant technologies, innovative solutions for improved delivery of customer services, enhancing the skills of our people and realizing the expectations of the shareholders and importantly the aspirations of the Royal Government and the people of Bhutan.

I would like to acknowledge and thank the Board of Directors for their unwavering support overall and in visioning the "Corporate Strategic Plan" (CSP) of BPC towards meeting the aspirations of the ten year's roadmap, "into the next decade". I would also like to thank all our customers, stakeholders and employees and look forward for continued support and inspiration. I strongly believe that together we can continue to grow, excel and play a critical role in the socio-economic development of our Country.



(Sonam Tobjey)
Chief Executive Officer

COMPANY PROFILE

Bhutan Power Corporation Limited (BPC) was formed as an offshoot of the erstwhile Department of Power, the then Ministry of Trade and Industry and was launched as Public Utility Company on 1st July 2002 with an objective that the corporatization of the utility functions would lead to greater efficiency and better delivery of electricity supply services in the power sector. Later, the Ownership was transferred to Druk Holding and Investment Limited (DHI), the commercial arm of the Royal Government of Bhutan, established in 2007 upon issuance of Royal Charter in 2007 “to hold and manage the existing and future investments of the Royal Government for the long term benefit of the people of Bhutan”.



OUR VISION

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"*.

DESTINATION STATEMENT

To make BPC into a 45 billion company by 2020

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BOARD OF DIRECTORS



Dasho Ugen Chewang
Chairman

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



Sonam Tobjey
Chief Executive Officer

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



Dasho Kunzang Dorji
Member

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



Dechen Wangmo
Member

Ms. Dechen Wangmo is the Director of Corporate Affairs Department, Druk Green Power Corporation Ltd. (DGPC). She completed Bachelor of Electrical Engineering from the University of Wollongong, Australia and a Master of Business Administration from the Melbourne Business School, University of Melbourne, Australia. She has served DGPC in various capacities since 2008. Prior to joining DGPC, she worked Head of Billing and Collection Unit, ESD, BPC. She serves as an Independent Director on BPC Board.



Sherab Namgay
Member

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



Kinzang Tobgay
Member

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

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



Karma P Dorji
Member

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

MANAGEMENT TEAM



Sonam Tobjey
Chief Executive Officer



Dechen Dema
Director
Strategy and Technology
Services



Thinley Gyeltshen
Director
Transmission Services



Sandeep Rai
Director
Distribution Services



Kinley Dem
Director
Finance and Accounts
Services



Sangay Tenzin
Director
Human Resources and
Corporate Services

DIRECTORS' REPORT



1. Introduction

On behalf of the Board of Directors of the Company, I am pleased to present this report on the performance of the Company for the period covering 1st January 2019 to 31st December 2019 to our shareholder, Druk Holding and Investments Ltd. (DHI) and other stakeholders.

2. On System Performance

The national peak demand of 387.66 MW was recorded on 1st January 2019 at 1902 hours as compared to 399.35 MW on 27th December 2018 at 1818 hours in 2018. The reduction in peak load is mainly due to less demand from on-going construction of hydropower projects. Today, BPC serves about 202,426 customers as compared to 192,852 in 2018. Despite the expansion in the consumer base, the industrial consumption still attributes about 72.3% of the domestic load. The load was met by purchasing 2,419.422 Million Units (MU) of energy from Druk Green Power Corporation Limited (DGPC) and 20.246 MU through internal embedded generations from mini/micro hydels. For the previous year 2,461.551 MU was purchased.

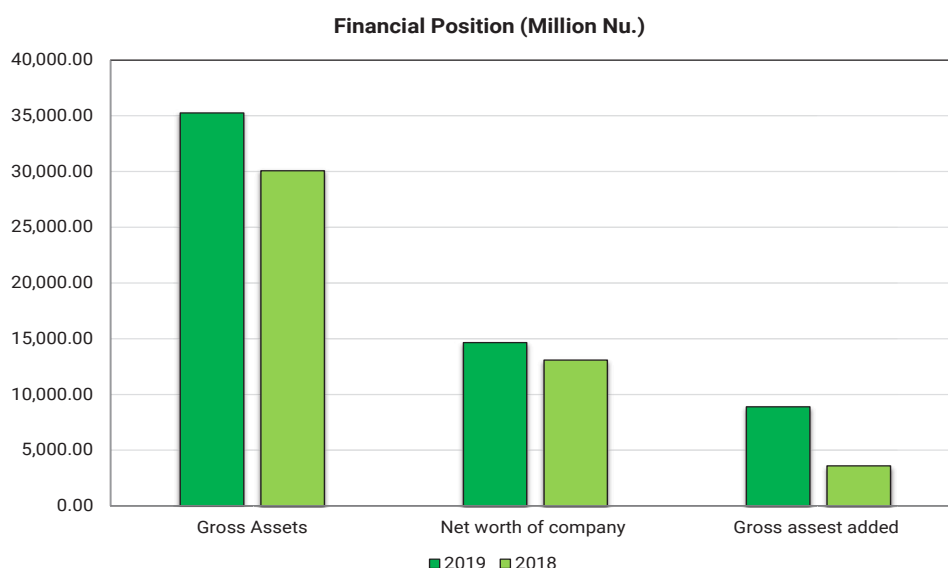
A total of 2,280.63 MU of energy was sold during the year as compared to 2,328.44 MU in the previous year reflecting a decrease of about 2.05 % compared to previous year. This was mainly due to shutdown of one of the High Voltage Industries. The energy wheeled for export to India increased to 6,172.44 MU from 4,437.92 MU in the previous year. The increase came from commissioning of the 720 MW Mangduechu Hydro Power Plant in June/July 2019.

BPC has been maintaining its Transmission and Distribution (T&D) losses at limits comparable within the region. During the year, of the total energy of 8,612.16 MU injected into the system, 8,452.78 MU was utilized translating the global energy loss to 1.85 % as compared to 2.21% in the previous year. The domestic T&D loss (excluding wheeling) in 2019 was 6.53 % as compared to 6.15% in 2018, which is a marginal increase due to expansion of the network system.

3. The State of the Company's Affairs

3.1 Financial Position

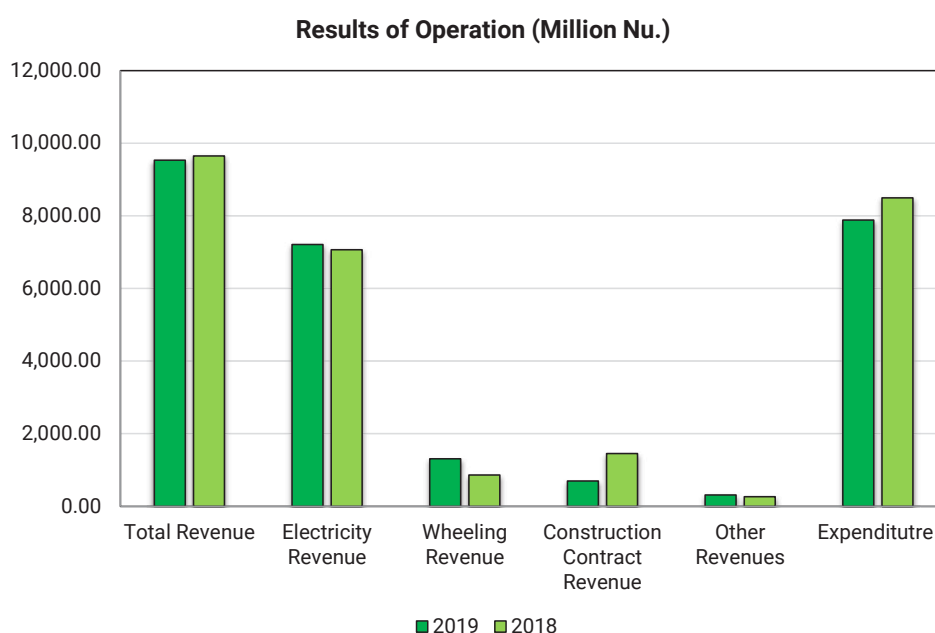
The total asset value of the Company stands at Nu. 35,248.82 million, an increase of Nu 5,192.03 million from 2018. There is an increase in the net worth of the Company from Nu. 13,076.56 million in previous year to Nu. 14,637.65 million in 2019. The gross asset added during the year is Nu. 8,885.11 million as compared to Nu. 3,583.70 million in 2018. The increase was mainly on account of transfer of Associated Transmission Systems asset pertaining to Mangdechu Hydro Power Project. The assets were transferred in the debt equity ratio of 70:30.



3.2 Results of Operation

The Company earned total revenue of Nu 9,532.54 million as compared to Nu. 9,648.26 million in 2018. The total earnings decreased marginally as compared to 2018 due to decrease in income from construction contracts having completed most of the Transmission works related to Mega Hydro Power Projects. The Income from construction contract decreased substantially by 52 % from Nu. 1,452.71 million in 2018 to Nu. 701.13 million in 2019. However, income from sale of electricity and other sources have increased. The electricity revenue grew by 2% from Nu. 7,066.13 million in 2018 to Nu. 7,209.76 million in 2019. The increase is attributable to the increase in the consumption from Low Voltage customers. The revenue from wheeling increased by 51% from Nu. 865.39 million in 2018 to Nu. 1,306.49 million in 2019 with the additional generation from Mangdechhu and revision of wheeling tariff from 1st October 2019. Income from other sources increased by 19 % from Nu. 264.02 million in 2018 to Nu. 315.17 million in 2019.

The total expenditure for the year is Nu. 7,881.12 million as compared to Nu. 8,495.22 million for the previous year. The expenditure has mainly decreased from the construction expenditure during the year. Expenditure on other accounts has not seen substantial increase as well.

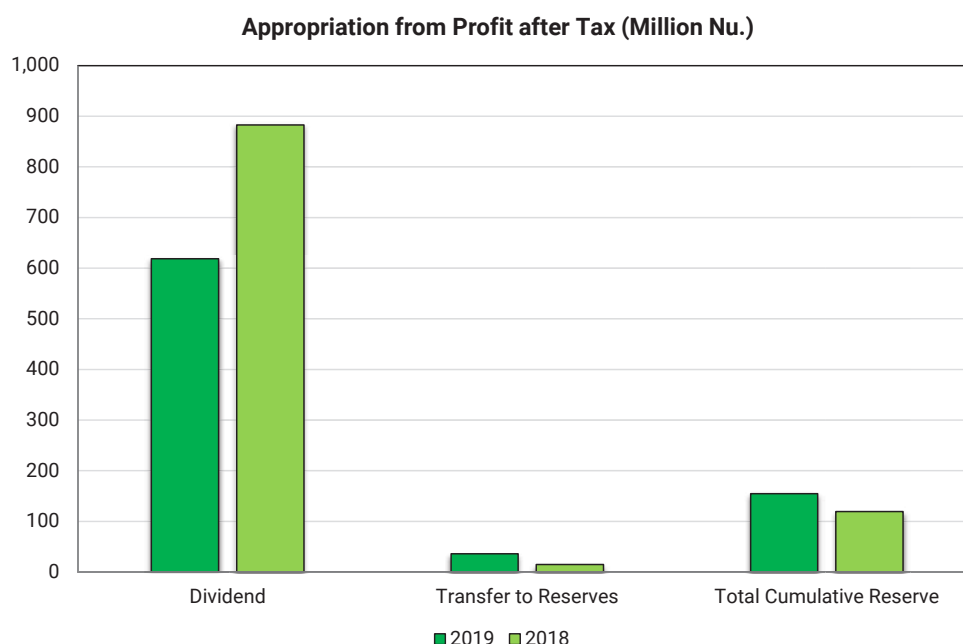


The Profit earned for the year before providing income tax is Nu. 1,651.42 million as compared to Nu. 1,153.04 million in the previous year; an increase by 43.22%. The tax assessed provisionally is Nu. 323.48 million and a deferred tax of Nu.143.92 million. The income tax and deferred tax for the previous year was Nu. 320.84 million and Nu. 69.89 million respectively. The net profit earned is Nu. 1,184.02 million as compared to Nu. 762.31 million in 2018. The basic as well as diluted earnings per share for the year is Nu. 143.86 compared to Nu 92.68 in the previous year.

The profit for the year increased due to increase in the wheeling revenue as compared to previous year although the earnings was far less than projected for the year on account of delayed commissioning of Mangdechhu HEP. On the expenditure side, BPC spent less on purchase of power and were able to contain other expenditures. The loss on foreign currency fluctuation on borrowings in 2019 decreased substantially to Nu.62.36 million from Nu.208.94 million in the year 2018.

4. Transfer to Reserves

An amount of Nu. 35.54 million, which is equivalent to 0.4% of the net asset value added during the year. This will be set aside to the Company's Asset Replacement Reserve within the asset risk mitigation policy of the Company. With the addition, the cumulative amount under this reserve will be Nu. 154.66 million.



5. Recommendation for payment of Dividend

During the year, the Board is recommending dividend of 6.04% of the Paid-Up Share Capital, which amounts to Nu.618,212,180. In the previous year, dividend of 10.73% of Paid-Up Share Capital amounting to Nu. 882,555,161 was paid.

6. Explanation or information on every reservation, qualification or adverse remarks contained in the auditor's report

The auditors have issued an unqualified Audit report for the year 2019. I am also happy to report that the Company has been consistently receiving unqualified Audit Report over the years. This is reflective of having instituted robust internal checks and controls, and more importantly BPC has adhered to its CORE values.

7. Corporate Governance

The company continues to accord high priority in the field of corporate governance and enable improvements in operational efficiency, service delivery to customers, and maximizing the shareholders' value. The Corporate Governance Code 2013 issued by DHI which is aligned with OECD principles are guiding principles on the basis of which the corporate governance in DHI companies are founded. Amongst others, the code emphasizes the importance of the Board and the role played by it in guiding the Company. The Company has complied with the CG Code issued by DHI and to the provisions of the Companies Act of Bhutan 2016. The Company convenes regular Board meetings and Board Sub Committee meetings. During the year, we convened 12 Board meetings, 32 Sub- Board Committee meetings. There are four Sub- Board Committees to assist the Board in making sound and timely decisions by ensuring proper scrutiny of the technical and commercial matters by the Sub-Committees. The Sub-committees are Board Tender and Technical Committee, Board Audit and Risk Committee, Board Human Resource Committee and Board Strategy Committee.

8. Corporate Social Responsibility

The Company's approach to Corporate Social Responsibility (CSR) is guided by the Corporate Social Responsibility framework of 2013 issued by DHI. The CSR primarily represents the Company's obligation to conduct its business operations in a socially responsible manner. As an important utility company for the

nation, we continue to uphold our economic, legal, environmental, social, and philanthropic responsibility to the society at large. Apart from intangible support, BPC during the year has spent Nu. 2,189,215.76 as CSR contributions.

9. System Expansion Highlights

We would now like to highlight the activities pertaining to System Expansion:

9.1 Power System Expansion Programs for Transmission Network

All works related to construction of three 400 kV transmission lines to evacuate power from the Mega Hydro Project Plants under construction was successfully completed during the year. However, the construction of Quad D/C transmission line from Indo – Bhutan Border in Sarpang to Alipurduar by POWERGRID was delayed for want of forestry clearances in the Indian State of Assam and the power from Mangdechhu Hydropower Plant (MHP) commissioned in June 2019, is being evacuated through Puna-II and Puna-I Transmission line to Alipurduar via Lhamoizingkha. The Indian portion 400 kV quad moose Jigmeling-Alipurduar Transmission line for evacuation of Mangdechhu power is expected to be completed within 2020.

The construction of following transmission expansion networks to enhance internal transmission capacity were completed, tested and commissioned during the year:

- i. 132 kV transmission lines from Kanglung to Phuntshothang and Motanga to Nganglam;
- ii. 132 kV Motanga substation and bay extension at Kanglung and Nganglam substation;
- iii. The 132-kV transmission line from Motanga substation to M/s Druk Metallurgy Limited in Motanga;
- iv. The 132 kV substation at Corlung for Kholongchhu Hydropower Project Authority;
- v. The 132 kV transmission line from Mangdechhu to Yurmoo;
- vi. 66 kV transmission line from Thimphu to Gasa Dzongkhag and 66 kV bay extension work at Pangrizampa substation;
- vii. The 66 kV transmission line from Jemina to Changidaphu and 66 kV Changidaphu substation; and
- viii. The construction of 220 kV substation at Dagapela, Dagana.

Future investments in the transmission network expansion has been identified and included in the Five-Year Investment and Financing Plan. Before making any investments, a robust and rigorous internal mechanism has been instituted for carrying out a detailed engineering and techno-economic viability studies. Construction of infrastructures to supply power at various identified Industrial Park have been planned and shall be taken up with the firming of the layout plan of the industries.

9.2 Power System Expansion Programs for Distribution network

With the electricity coverage of 99.99%, the main distribution network system trunk line is already in place. While the major network expansion works are now mostly required to be taken up in urban areas, BPC is also carrying out OFF-GRID to ON-GRID works through the balance fund of Rural Electrification Project (Phase 2) under JICA funding. Through this project, 1,429 households that are currently using Solar Home System shall have access to grid electricity. Towards this, BPC has awarded the contracts for the electrification works in September 2019 for 14 packages under various Dzongkhags and the works are expected to be completed by December 2020.

In order to provide a roadmap for distribution network expansion works, “Distribution System Master Plan for next 10 years” for each Dzongkhag is being prepared. During the year, the master plan for ten Dzongkhags have been completed, and the balance will be completed in 2020. All investments in the distribution network expansion shall now be based on this master plan.

Besides the line extension works, major works carried out during the year in distribution were the construction of 33/11kV, 2 x 2.5MVA Substation at Denchi in Pemagatshel and 33/11kV, 2x5MVA unitized substation at JDWNRH, Thimphu.

9.3 System Improvement Works

Recognizing the essential role of electricity in our lives and its valuable contribution to the economy, the company continues to pursue improvements in reliability of supply and reduction of losses to meet the growing power demand. System augmentation and improvement works such as substation up-gradation, replacement/reconductoring of lines, replacing bare conductors with Aerial Bundled Conductors, retrofitting of old and obsolete equipment with smart and cost-effective state-of-art technologies are carried out on a regular basis.

Moving towards managing the network smartly and gearing towards the Smart Grid implementation, the Distribution Management System (DMS) in Thimphu is nearing completion with the setting up of both main and backup control centers, building up of tele-communication network infrastructure, connecting all 484 distribution substations in the capital to the control center, successfully testing of the Outage Management System (OMS). Once completed and commissioned by 2020, the DMS shall have access to real-time data and provide all information in an integrated manner for remote operation of the entire distribution network of Thimphu. DMS shall enable greater network reliability, preventive outage management, improved operational efficiency translating to reduced operation costs, increased safety and better asset utilization.

10. Corporate strategic plan (CSP)

BPC adopted the revised Corporate Strategic Plan (CSP) - 2019-2030 and has aligned itself with the DHI Road Map. In accordance with the revised CSP, the Company is focusing and aligning its core business activities towards operationalizing and accomplishing the destination statement of contributing Nu. 5,700 million as annual dividend to DHI in 2030. At the same time, we will be guided by the company mission to provide affordable, adequate, reliable and quality electricity services to customers, and the vision to be innovative and efficient power utility, driving the socio-economic transformation in Bhutan. Important thematic areas are Customer Service Excellence, Operational and Resource Optimization Excellence, Innovation and Technology Excellence, and Business Growth Excellence. The COMPACT and Team Appraisal system for the year 2020 therefore incorporates the activities contained in CSP.

11. Organizational Development Exercise

BPC has undergone a significant evolution over the years, not only in terms of business processes and volume, technology adoption, customers and the employee but also in terms of its overall mandates, and more importantly on the expectations of the stakeholders and public at large. It has become strategically imperative to position BPC in meeting stakeholders' expectations, to evolve as a service utility of the future and to leverage the opportunities the fourth industrial revolution provides. Hence, an organizational development of BPC was timely and taken up in 2019.

BPC had to thus implement major changes in the organogram compared to one which was built and evolved since incorporation. The existing Services and Departments were consolidated to five Services namely Transmission Services, Distribution Services, Finance and Accounts Services, Human Resources and Corporate Services and Strategy & Technology Services. Additionally, to bring about efficiency and eliminate redundancy in the system, the concept of regional offices headed by regional directors have been rescinded.

11.1 Technology

The most important challenge as well as opportunity for BPC lies in its dynamism to be in tandem with the ever-evolving technological advancements in utilities and find a place in the knowledge-based economy. We must relentlessly endeavor to excel in our services beyond customers' expectations and optimize our resources by adopting the most efficient and relevant of technologies, and keep pace with the way utilities around the world are evolving. Towards this end, Strategy & Technology Services has been established within the management structure during the year. The Strategy & Technology Services will take stock of the current technology and provide a clear future pathway on technology adoption, be it seamless customer interface, smart grid ensuring supply reliability and reduction in power losses,

reducing human labor through smart technologies, and automating monitors with relevant parameters to drive a performance driven culture. It is envisaged that technology adoption will not only be considered for efficiency improvements in the processes, systems operation, and management, but also as an impetus towards building human resource capabilities to develop new technologies with the help of R&D, ultimately contributing to Business Growth Excellence.

The Smart Grid Master Plan 2019-2030 providing a road map for deployment of specific smart grid programs to achieve a smart grid security platform that is highly trusted, scalable and interoperable is already put in place. The implementation of the plans has been initiated.

12. Human Resources & Administration

After a detailed OD exercise, BPC has restructured its organization to meet the expectations of BPC CSP 2019-2030. Competitiveness of a firm is no longer determined simply by the availability of physical resources. Human Resources (HR) with relevant skills and knowledge are instrumental to attain competitive advantage and more so in a globalized market economy where BPC must look beyond borders to expand its business operations. The new organization structure is geared to implement the CSP and take the Company forward. Recognizing that knowledge, skill and ability of our employees are essential to remain competitive, HR capacity development initiatives are given high priority focusing on building core competencies to achieve Human Resource Excellence. In order to remain relevant and competitive, employees are provided specialized training/workshops/field visits on changing technologies and, emerging disciplines and market demands on a continuous basis. With all these initiatives, we expect to have an improved employee attitude and the highest standard of professional services to the customers, and accomplish a customer centric organization culture.

On the long-term capacity development program, one full scholarship to pursue Masters in Electrical Engineering (Major in Distribution System Planning) and one partial scholarship to pursue Master's Program with Major in Electrical Power & Energy Engineering were approved during the year.

Similarly, on the short-term capacity development program, BPC trained 930 employees in-Country constituting 6,190 training man-days and 401 trained ex-Country constituting 2,930 training man-days. Capacity building programs are being encouraged in BPC to attain expertise in one's field. Since its inception in 2002, BPC has always considered capacity development program for its employees as one of the important and continuous activity.

Despite all the efforts and best reward system in place, employee retention is the biggest challenge and a major concern for BPC management. In year 2019, 63 employees separated from BPC, out of which, 29 employees resigned voluntarily, 3 employees had the privilege to avail the BPC Voluntarily Resignation Scheme and 19 superannuated. Nonetheless BPC shall always strive to inculcate appropriate retention policies and strategies and embrace best practice to retain its employees.

13. Challenges

The Company's primary mandate of providing uninterrupted and reliable power supply and value-added services to its customers in the midst of significant expansion in the infrastructure network system and the difficult geographical terrain continues to pose challenges. While, the Company is able to resolve most of the operational challenges, we are still confronted with some of the inherent challenges that most utilities encounter. The pertinent ones are request for shifting and relocating of the existing lines at all voltage levels, right of way and clearance issue for new power infrastructures and their constructions, and disruption in supply in the grid network of power system due to natural calamities. Nevertheless, the Company continues to rise up to these challenges, and we are optimistic that with the support and cooperation from all the stakeholders, some of these challenges are being resolved and shall in no way hinder the Company's effort to provide reliable supply and better customer care services.

14. Way forward

The Company will be guided by the ten-year Corporate Strategic Plan in moving forward to take the Company to the next level - a Company known for its performance driven culture that is customer-centric, tech-savvy and innovative. The Company will also rely and seek strategic guidance and direction from the Board, the Shareholders and relevant Government Agencies. With a concerted effort by the Board and management of the Company, and support of our shareholder, we are optimistic to overcome all challenges, improve productivity, achieve efficiency in operations, maximize shareholder value, and provide the best service to our customers.

Acknowledgement

On behalf of the Board, I would like to extend and acknowledge sincere gratitude to the Druk Holding & Investments for their continued guidance and support rendered during the year, to the Royal Government of Bhutan, the various Ministries, and Regulatory Authorities for their policy guidance and support, to the donor agencies for providing funding and technical support towards Rural Electrification works and to our customers and stake holders for supporting BPC.

The Board would also like to place on record sincere gratitude and acknowledge the valuable contributions made by Mr. Sherab Namgay, Associate Director, DHI, Board of Director who would be retiring from this AGM. Last but not the least, the Board would like to sincerely acknowledge, appreciate, commend and value the contributions made by all employees for bringing the Company to 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 that 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 statement below which describes the manner in which it has applied the principle of the code during the year 2018.

A. The Board

i. Board Charter

The Board charter sets out the principles for the operations of the Board of directors, roles and responsibilities, describes the functions and powers of the board to ensure all the Board members are aware of their duties and responsibilities. The Board charter is in line with the Corporate Governance code of DHI.

ii. Composition of the Board

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

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

Table 1: Board Member, 2018

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

Name	Designation	Appointment Date	Description	Board of Director in other company	Status
Dasho Ugen Chewang	Chairman DHI	8 March, 2017	Chairman	BOB	Non-Independent
Mr. Karma P Dorji	Chief Engineer Dept. of Hydropower & Power System	5 June, 2018	Board of Director		Non-independent
Dasho Kunzang Dorji	Zimpon Wongma Office of the Gyalpoi Zimpon	5 June, 2018	Board of Director		Independent
Ms. Dechen Wangmo	Director Corporate Affairs Department, DGPC	5 March, 2019	Board of Director		Independent
Mr. Sherab Namgay	Associate Director, Dept. of Investments, DHI	5 June, 2018	Board of Director		Non-independent
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	5 June, 2018	Board of Director		Independent
Mr. Sonam Tobjey	Chief Executive Officer	23 August 2018	Member Secretary	RICBL WCCL	Executive Director

Table 2: Board Members retired as on March 2019

Name	Designation	Appointment Date	Retired on	Description
Ms. Dechen Yangden	Chief Engineer, Department of Engineering Services, MoWHS	5 March, 2018	5 March, 2019	Member

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 Chief Executive Officer

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

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

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

vi. Board Meetings

In 2019, 12 Board meetings were held. The dates of the meeting and attendance of the Directors are set below:

a) Dates of Board Meetings held in 2019:

Date	Board Meeting No.
13 th February, 2019	119 th Board Meeting
27 th February, 2019	120 th Board Meeting
5 th March, 2019	121 st Board Meeting
7 th May, 2019	122 nd Board Meeting
8 th May, 2019	123 rd Board Meeting
21 st June, 2019	124 th Board Meeting
22 nd June, 2019	125 th Board Meeting
9 th August, 2019	126 th Board Meeting
5 th October, 2019	127 th Board Meeting
22 nd October, 2019	128 th Board Meeting
19 th December, 2019	129 th Board Meeting
20 th December, 2019	130 th Board Meeting

b) Attendance of ex- Board Director from 13th February till 27th February 2019:

Name of the Board Members	Attendance
Ms. Dechen Yangden	1/2

c) Attendance of current Board Directors from 13th February till 20th December 2019:

Name of the Board Members	Attendance
Dasho Ugen Chhewang	12/12
Ms. Dechen Wangmo	9/10
Mr. Kunzang Dorji	9/12
Mr. sherab namgay	9/12
Mr. Kinzang Tobgay	10/12
Mr. Karma P Dorji	11/12
Mr. Sonam Tobjey	12/12

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

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

B. Board Committees

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

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

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

a. Board Audit and Risk Committee

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

i. Attendance of Committee Members in 2019

Name of Committee Members	Designation	Attendance
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	10/10
Mr. Karma P. Dorji	Director, DHPS, MoEA	10/10
Mr. Sherab Namgay	Director, CPD, DHI	7/10
Mr. Sangay Tenzin	Chief Internal Auditor, BPC	7/10 Retired as Member Secretary from 37 th Board Meeting held on 16 October, 2019.
Mr. Subash Rai	Offtg. Chief Internal Auditor & Member Secretary	2/2 Represented as Member Secretary from 38 th BARC held on 15 November 2019

ii. Dates of the Meeting.

In 2019, 10 Board Audit and Risk Committee meetings were held. The dates of the meeting held are set below:

Date	Board Meetings No.
23 January, 2019	30 th BARC Meeting
26 February, 2019	31 st BARC Meeting
1 March, 2019	32 nd BARC Meeting
26 April, 2019	33 rd BARC Meeting
20 June, 2019	34 th BARC Meeting
8 August, 2019	35 th BARC Meeting
26 August, 2019	36 th BARC Meeting
16 October, 2019	37 th BARC Meeting
15 November, 2019	38 th BARC Meeting
6 December, 2019	39 th Board Meeting

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

b. Board Tender and Technical Committee

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

Name of Committee Members	Designation	Attendance
Mr. Karma P. Dorji	Director, DHPS, MoEA	10/10
Mr. Sherab Namgay	Associate Director, DoI, DHI	7/10
Ms. Dechen Yangden	Chief Engineer, DoES, MoWHS	9/10

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

- To satisfy itself that proper procurement procedures has been followed as per the norms provided in the Procurement Manual,
- all Bidders have been provided with equal time and opportunity for submission of bids,
- modifications of the bidding documents, if any, have been communicated simultaneously to all Bidders,
- response to any Bidder's query has been sent to all Bidders simultaneously,
- no specific Bidder / Bidders have been put to undue advantage / disadvantage due to actions of BPC,
- that the evaluation committee has carried out the work in strict compliance to the terms of the tender
- In 2019, 10 Board Tender and Technical Committee meeting was held. The dates of the meeting is listed as follows:

Date	BTTC Meeting No.
12 February, 2019	6 th BTTC Meeting
12 March, 2019	7 th BTTC Meeting
6 May, 2019	8 th BTTC Meeting
13 June, 2019	9 th BTTC Meeting
22 June, 2019	10 th BTTC Meeting
8 August, 2019	11 th BTTC Meeting
1 October, 2019	12 th BTTC Meeting
18 Nov, 2019	13 th BTTC Meeting
28 Nov, 2019	14 th BTTC Meeting
26 December, 2019	15 th BTTC Meeting

c. Board HR Committee

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

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

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

Name of Committee Members	Designation	Attendance
Ms. Dechen Yangden	Chief Engineer, MoWHS	2/12 (Retired on 5 th March, 2019)
Dasho Kunzang Dorji	Zimpon Wongma	11/12
Mr. Sherab Namgay	AD, Dept. of Investments, DHI	11/12

Ms. Dechen Wangmo	Director, Corporate Affairs Department, DGPC	9/12 (Nominated on 5 th March, 2019)
Mr. Karma P Dorji	Director, DHPS, MoEA	2/12 (Invited to 27 th and 28 th BHRC)
Mr. Kinzang Tobgay	Managing Partner, Bhutan Consultancy Services	1/12 (Invited to 27 th and 28 th BHRC)

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

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

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

In 2019, 12 BHRC meetings were held and the date of the meetings is listed below:

Date	BTTC Meeting No.
18 February, 2019	24 th BHRC Meeting
28 February, 2019	25 th BHRC Meeting
17 June, 2019	26 th BHRC Meeting
9 August, 2019	27 th BHRC Meeting
20 August, 2019	28 th BHRC Meeting
26 th August, 2019	29 th BHRC Meeting
10 Sept, 2019	30 th BHRC Meeting
27 Sept, 2019	31 st BHRC Meeting
28 Sept, 2019	32 nd BHRC Meeting
1 Oct, 2019	33 rd BHRC Meeting
8 Nov, 2019	34 th BHRC Meeting
16 Dec, 2019	35 th BHRC Meeting

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 2019 is as follows:

Directors	Fees
Full Board	Nu. 654,000.00
Board Audit and Risk Committee	Nu. 132,000
Board Tender and Technical Committee	Nu 166,000
Board HR Committee	Nu. 89,000
Annual General Meeting	Nu. 52,000
Joint Sitting – BHRC and BARC meeting	Nu. 28,000
Total	Nu. 941,660

D. Annual General Meeting

The 16th Annual General Meeting was held on 12 March, 2019 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, 2019 and auditors' report, appointment, remuneration of auditors' and declaration of dividend .

The AGM also discussed on the appointment and retirement of directors' and remuneration of the Chief Executive Officer. As per the section 138 of the Companies Act of Bhutan 2016, the Directors need to retire during AGM. Ms. Dechen Yangden, Chief Engineer, MoWHS retired from BPC Board, while the board reappointed Dasho Ugen Chewang, Chairman and Mr. Karma p. Dorji. The AGM welcomed appointed Ms. Dechen Wangmo, Director, CPD, DGPC as the new Board of Director.

E. Risk Management and Internal Control

The Board, through its sub-committee Board Audit & Risk Committee (BARC) continues to play an instrumental role in the institutionalization and mainstreaming of Risk Management functions and activities within and across the company. While the BARC assumes the overall ownership and oversight, the implementation of risk management activities and initiatives is sponsored by the Management.

The Risk Management Division (RMD) carries out the identification and analysis of risks the company is expected to experience and the implementation of risk mitigation measures in collaboration with the Risk Focal Persons from various Services & Departments. This constitutes the key aspect of risk management and control improvement functions in BPC.

RMD provides the quarterly report on the status of risk mitigation activities to BARC as a part of risk governance, communication and reporting measures.

The Board shall continue to provide support to enhance maturity of risk management framework and processes within the company, with a focus on capacity building and skill progression.

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 the 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 2019, BPC has contributed Nu. **2,189,215.76/-** for various activities keeping within the approved CSR budget by DHI.



AUDITORS' **REPORT**

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BANSAL & CO LLP
CHARTERED ACCOUNTANTS

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

Opinion

We have audited the financial statements of **Bhutan Power Corporation Limited** ("the Company"), which comprise the Statement of Financial Position as at December 31, 2019, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 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'.

Basis for Opinion

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

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

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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the audit of the Financial Statements

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

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

We also:

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

Report on Other Legal and Regulatory Requirements

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

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

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

For Bansal & Co.LLP

Chartered Accountants

Firm Regn. No.-001113N/N500079



CA (Dr) D S Rawat

Partner

M. No. 083030

Place: Thimphu

Date: 16.03.2020



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

Report On 'Minimum Audit Examination and Reporting Requirements' for the year 2019

1. The Company has maintained proper records of the property, plant & equipment in the assets register maintained in SAP to show full particulars including quantitative details and situation of the property, plant & equipment. As explained to us, the assets have been physically verified by the management during the year in a phased/periodical manner which in our opinion is reasonable having regard to the size of Company and nature of its assets. In some units/divisions the physical verification report were not found to be adequate/proper to depict the physical verification as the same were not containing the complete particulars/details such as a Personal Number/Identification marks of Assets.
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. 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. On the review of the Physical verification report of stocks there is no material discrepancies mentioned in the report as compared to the book records.
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 applicable Accounting Standards issued by the Accounting and Auditing Standard Board of Bhutan (AASBB). Further, there is no deviation in the basis of valuation, as compared to the earlier period/year.
7. The Company has taken secured loans & unsecured loans. 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, except the advances given to the contractors and suppliers in the normal course and as per the requirement of the business.
9. The company has not given the loans or advances to the parties except the advances given to the contractor and suppliers in the normal course and as per the requirement of the business.
10. The loans / advances granted by the Company to its officers/staff are as per the provisions of service rules or as per the business requirement. No instance of excessive / frequent advances or accumulation of large advance against particular individual has been noted.
11. 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. 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.
14. The unserviceable or damaged stores or other items wherever identified have been properly dealt

with and Provision for loss 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. 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. The Company is regular in depositing its rates and taxes, duties, provident fund and other statutory dues with the appropriate authorities. Further, the corporation tax was found to be adequately computed and deposited timely in accordance with the current applicable taxation laws, and has been appropriately disclosed in the financial statements.
19. There was no undisputed amount payable in respect of rates, taxes, duties, provident funds and other statutory deductions at the year end.
20. No personal expenses have been debited to the Statement of Comprehensive Income.
21. 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. 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. Yes, there is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of the company and nature of its business, on issue of stores and allocation of materials and labour to jobs.
26. The Company is engaged in distribution and sale of electricity, prices for which are regulated by the Bhutan Electricity Authority, and therefore the said clause is not applicable.
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. 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. The activities carried out by the Company are lawful and intra vires to the Articles of Incorporation of the Company.
32. There is no investment done during the year so this clause is not applicable.
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. Other than the remunerations and sitting fee to the Chief Executive Officer, and sitting fees to other



Directors, no other payments in cash or in kind, has been paid to them or any of their relatives, in the nature of remuneration or commission. The remunerations and sitting fees paid to the Chief Executive Officer, and the Directors, are disclosed in the Financial Statement.

36. Directives of the Board have been complied with.

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, unauthorized to any other person with intent to benefit themselves.

General-

38. Going Concern Problems-

Based on the net asset position reflected by the Statement of Financial Position as at December 31, 2019 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.

39. Ratio Analysis-

Financial and Operational Resume of the Company has been given in enclosed Exhibit-I (Ratio Analysis).

40. Compliance with the Companies Act of the Kingdom of Bhutan-

The audit of the Company conducted by us is governed by The Companies Act of Bhutan, 2016 and scope of work is limited to the examination and review of the Financial Statements as provided to us by the management. In the course of audit we have considered the compliance of the provisions of the said Companies Act and its Article of Incorporation. It is not possible for us to comment as regards adherence to all Laws, Rules and Regulations, System, Procedures and Practices by the Company, as comprehensive Compliance Reporting and Recording System of the Company in this regard is currently not in place. However, any non-compliance or departure from accepted practice and approved systems / procedures having effect on financial statements that came to our notice during the course of our audit is properly impacted / disclosed in the accounts.

41. Adherence to laws, Rules and Regulations-

The Company has followed the Corporate Governance, which is in accordance and compliant of the provisions of the Corporate Governance Code and the Ownership Policy developed by the Druk Holding and Investments Ltd., the Companies Act of Bhutan, 2016 and other statutory requirements, to the extent as applicable to the Company.

For Bansal & Co.LLP
Chartered Accountants



CA (Dr) D S Rawat
Partner
Membership No.083030

Place: Thimphu
Date: 16.03.2020



FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION

(Amount in Nu.)

	Note	As at December 31, 2019	As at December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	4	31,157,418,161	23,038,202,033
Intangible assets	5	53,596,479	65,061,864
Long-term loans and advances	6	2,908,590	535,714
Other receivables	7	199,330	199,330
Other non-current assets	8	39,901,566	505,962,594
Total non-current assets		31,254,024,126	23,609,961,535
Current assets			
Inventories	9	384,102,415	320,200,209
Amounts due from customers for contract work	10	1,071,256,239	3,879,746,630
Trade & other receivables	11	792,250,402	441,616,179
Cash and cash equivalents	12	430,170,308	470,756,785
Short-term loans and advances	13	2,538,171	1,017,493
Other current assets	14	1,314,478,084	1,333,493,332
Total current assets		3,994,795,619	6,446,830,627
TOTAL ASSETS		35,248,819,745	30,056,792,161
EQUITY AND LIABILITIES			
Shareholder's Equity			
Share Capital	15	10,235,301,000	8,225,118,000
Other Equity		4,402,351,997	4,851,442,908
Total Shareholder's equity		14,637,652,997	13,076,560,908
Liabilities			
Non-current liabilities			
Borrowings	16	12,770,628,702	7,652,348,999
Deferred grants	17	1,366,163,594	1,407,709,019
Deferred Customer's Contribution	18	129,947,393	133,927,981
Other payables	19	1,013,551,021	588,715,827
Employee benefit liabilities	20	618,299,995	414,101,878
Deferred Income Tax liabilities (Net)	21	988,410,745	844,490,834
Total Non-current liabilities		16,887,001,451	11,041,294,539




STATEMENT OF FINANCIAL POSITION (Contd.)

(Amount in Nu.)

	Note	As at December 31, 2019	As at December 31, 2018
Current liabilities			
Borrowings	16	1,311,012,228	438,639,273
Deferred grants	17	41,519,811	51,514,024
Deferred Customer Contribution	18	10,615,373	10,460,990
Amounts due to customers for contract work	10	958,038,578	1,212,126,319
Trade & other payables	22	940,141,723	3,876,877,081
Employee benefit liabilities	20	302,152,735	217,810,016
Income tax payable (net of advances)	23	122,642,461	45,439,793
Other current liabilities	24	38,042,388	86,069,218
Total current liabilities		3,724,165,297	5,938,936,714
Total liabilities		20,611,166,748	16,980,231,253
TOTAL EQUITY AND LIABILITIES		35,248,819,745	30,056,792,161

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



Director



Chief Executive Officer



Chairman

As per our report of even date attached
For BANSAL & Co. LLP
Chartered Accountants
ICAI Firm Registration No. 001113N/N500079




CA (Dr.) D.S. Rawat
Partner
Membership No.083030

Place: Thimphu
Date: 16.03.2020



STATEMENT OF COMPREHENSIVE INCOME

(Amount in Nu.)

	Note	For the year ended	
		December 31, 2019	December 31, 2018
Revenue			
Income from sale of electricity		7,209,755,687	7,066,133,188
Income from construction contracts	25	701,125,249	1,452,705,402
Wheeling charges		1,306,493,330	865,394,590
Other income	26	315,166,974	124,202,434
Total Revenue		9,532,541,239	9,508,435,615
Expenditure			
Purchase of electricity		3,750,116,270	3,913,866,281
Construction material consumed and sub-contracting charges		636,954,693	1,335,246,611
Operation and maintenance expenses	27	464,606,599	455,376,895
Employee benefit expenses	28	1,150,613,962	1,008,990,223
Finance costs	29	447,516,568	215,971,341
Loss/(Gain) on foreign currency fluctuation (net)		62,356,314	208,944,269
Depreciation and amortization expenses		1,162,254,340	1,015,104,952
Other expenses	30	206,700,925	201,897,943
Total Expenditure		7,881,119,670	8,355,398,514



STATEMENT OF COMPREHENSIVE INCOME (Contd.)

(Amount in Nu.)

Profit before income tax		1,651,421,569	1,153,037,102
Tax expenses	23.1		
- Current tax – current year		322,636,158	262,495,503
- Deferred tax		143,919,911	58,343,375
- Tax adjustment of earlier years		846,015	69,886,754
Net Profit for the year		1,184,019,486	762,311,470
Earnings per share ('EPS')	31		
Basic/Diluted EPS (Nu.)		143.86	92.68
Profit for the year		1,184,019,486	762,311,470
Other comprehensive income/(loss):			
Fair Valuation of Investment		-	244,409,676
Actuarial gain		(153,390,191)	82,550,509
Total comprehensive income for the year		1,030,629,295	1,089,271,655


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



Director



Chief Executive Officer



Chairman

As per our report of even date attached
For BANSAL & Co. LLP
 Chartered Accountants
 ICAI Firm Registration No. 001113N/N500079




CA (Dr.) D.S. Rawat
 Partner
 Membership No.083030

Place: Thimphu
Date: 16.03.2020



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

	Equity Share capital	Retained earnings	Investment Reserve	Asset Replacement Reserve	Actuarial gains/(losses)	Total Equity
	Refer Note 15					
Balance as at January 1, 2019	8,225,118,000	4,195,068,243	572,157,472	104,785,492	(20,568,299)	13,076,560,908
Net profit for the year	-	1,184,019,486	-	-	-	1,184,019,486
Other comprehensive income /(loss):						
Actuarial gain	-	-	-	-	(153,390,191)	(153,390,191)
Transfer of land to DHI		(25,007,573)				(25,007,573)
Transfer of Investment Reserve	-	-	(572,157,472)	-	-	(572,157,472)
Transfer to Asset Replacement Reserve	-	(14,334,804)	-	14,334,804	-	-
Transaction with the owners:						
Payment of Dividends for the year 2018	-	(882,555,161)	-	-	-	(882,555,161)
Issue of Share Capital	2,010,183,000	-	-	-	-	2,010,183,000
Balance as at December 31, 2019	10,235,301,000	4,457,190,190	-	119,120,296	(173,958,490)	14,637,652,996

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



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2019

		(Amount in Nu.)						
	Equity Share capital	Retained earnings	Investment Reserve	Asset Replacement Reserve	FVOCI-Investment	Actuarial gains/(losses)	Total Equity	
	Refer Note 15							
Balance as at January 1, 2018	8,225,118,000	4,865,946,473	616,601,916	99,735,543	(244,409,676)	(103,118,808)	13,459,873,448	
Net profit for the year	-	762,311,471	-	-	-	-	762,311,471	
Other comprehensive income/(loss):								
Actuarial gain	-	-	-	-	-	82,550,509	82,550,509	
Fair valuation of Investment	-	-	-	-	244,409,676	-	244,409,676	
Transfer to Investment Reserve	-	(400,000,000)	400,000,000	-	-	-	-	
Transfer to Asset Replacement Reserve	-	(5,049,949)	-	5,049,949	-	-	-	
Transaction with the owners:								
Payment of Dividends for the year 2017	-	-	-	-	-	-	-	
Adjustment on transfer of investment to DHI (Refer Note 32(iii))	-	(1,028,139,750)	-	-	-	-	(1,028,139,750)	
		-	(444,444,444)	-	-	-	(444,444,444)	
Balance as at December 31, 2018	8,225,118,000	4,195,068,245	572,157,472	104,785,492	-	(20,568,299)	13,076,560,910	

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



STATEMENT OF CASH FLOWS

(Amount in Nu.)

	For the year ended	
	December 31, 2019	December 31, 2018
Cash flows from / (used in) operating activities		
Profit before income tax	1,651,421,569	1,153,037,102
Adjustments for:		
Depreciation and amortization expenses	1,162,254,340	1,015,104,952
Loss on disposal of property, plant and equipment	37,440,831	35,952,055
Interest expenses on borrowings	384,821,835	411,251,868
Interest income	(64,961,017)	(93,559,186)
Unwinding of discount on retention, security deposit & borrowings	62,694,733	(136,917,334)
Loss/(gain) on foreign currency fluctuation (net)	62,356,314	208,944,269
Provision for doubtful debts	2,488,365	(407,865)
Provision on Obsolescence of Material	(2,657,642)	2,902,412
Liabilities no longer required written back	(15,904,722)	(16,242,022)
Amortization of deferred grants	(51,610,485)	(51,435,008)
Amortization of deferred customer contribution	(10,416,494)	(10,379,549)
Operating profit before working capital changes	3,217,927,627	2,518,251,693
Decrease / (Increase) in inventories	(61,244,564)	41,267,845
Increase in amounts due from customers for contract work	2,808,490,390	(278,236,559)
Decrease / (Increase) in trade and other receivables	(353,122,589)	143,339,496
Decrease / (Increase) in current and non-current assets	125,753,686	4,361,680
Increase in long-term and short-term loans and advances	(3,893,554)	2,471,579
Decrease in amounts due to customers for contract work	(254,087,740)	(562,571,460)
Increase in trade and other payables	(2,920,830,636)	872,504,757
(Decrease)/ Increase in other current liabilities	376,808,364	(924,796,438)
Increase / (decrease) in provision	135,150,645	27,488,967
Net cash generated from operating activities before income tax	3,070,951,631	1,844,081,560
Income tax paid, net of refunds received	(246,279,505)	(498,695,030)
Net cash generated from operating activities	2,824,672,125	1,345,386,530



STATEMENT OF CASH FLOWS (contd.)

Cash used in investing activities		
Purchase of property, plant and equipment and Intangible assets	(1,913,574,072)	(2,411,858,319)
Receipt of deferred grants	70,846	31,350,000
Receipt of deferred customer contribution	6,590,288	144,739,888
Proceeds from sale of property, plant and equipment	2,818,040	50,349,275
Redemption of bank term deposits (net)	149,318,652	(73,493,241)
Interest received	274,964,954	53,965,202
Net cash used in investing activities	(1,479,811,291)	(2,204,947,195)
Cash flows from financing activities		
Proceeds from Borrowings	457,491,143	1,593,064,098
Repayment of Borrowings	250,397,480)	310,145,680
Interest paid	(638,623,302)	(60,985,082)
Payment of dividend on ordinary shares	(1,454,712,633)	(1,028,139,750)
Net cash generated from/use in financing activities	(1,385,447,312)	814,084,946
Net decrease in cash and cash equivalents	(40,586,477)	(45,475,719)
Cash and cash equivalents at beginning of the year	470,756,785	516,232,504
Cash and cash equivalents at end of the year	430,170,308	470,756,785

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



Director



Chief Executive Officer



Chairman

As per our report of even date attached
For BANSAL & Co. LLP
Chartered Accountants
ICAI Firm Registration No. 001113N/N500079




CA (Dr.) D.S. Rawat
Partner
Membership No.083030

Place: Thimphu
Date: 16.03.2020



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 , 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, 2019 were authorized for issue in accordance with the resolution of the Board of Directors dated March 04, 2020. The Company's financial statements are prepared in accordance with and are fully compliant with the Bhutanese Accounting Standards (BAS), except as stated otherwise in the financial statements.

2. Summary of Significant Accounting Policies

2.1 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 3.

2.2 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.

2.3 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 2.13 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 equipments 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.

2.4 Intangible assets

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

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

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

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

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



2.5 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.

2.6 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.

2.7 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 impairment of financial assets, based on the incurred loss model as per BFRS-9 provides that impairment of financial assets will be done as per the provision of BAS-39 accordingly, the Company assesses at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired, and in that case the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through Provisions / Allowance for Impairment Loss Account, and the amount of the loss is recognised in the Statement of Comprehensive Income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the Provisions / Allowance for Impairment Loss Account, to the extent the impairment loss was previously recognised on the respective asset. The amount of such reversal is recognised in the Statement of Comprehensive Income.



(d) Derecognition of financial assets

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

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

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

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.



Financial Liability at Amortised cost

Financial liabilities at amortised cost represented by trade and other payables, security deposits and retention money are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest rate.

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.

2.8 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.

2.9 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.



2.10 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.

2.11 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.

2.12 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.



2.13 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.

2.14 Employee benefit liabilities

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

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

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

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

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

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



2.15 Revenue Recognition

Accounting Policy

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Description of performance obligations are as follows:

Wheeling Charges

Wheeling charges are accounted on the basis of periodic billing to the power generating companies at the tariff rates approved by Bhutan Electricity Authority. Input Method is used to recognize revenue after adjustment for line loss.

Sale of Electricity

Revenue attributable to sale of electricity is accounted for as per tariff rates approved by Bhutan electricity authority on the basis of billing to consumer under the billing cycle followed by the company including interest on delayed payment. Revenue is recognized as electricity is delivered and consumed by customers. Revenue also includes subsidy claims from royal government of Bhutan. Electricity delivered and consumed by customers for which bill has not been raised at the end of the reporting period is estimated and revenue is recognized accordingly as unbilled revenue.

Construction Contracts

Revenue from a Contract to provide services is recognized over time based on:
Input method where the extent of progress towards completion is measured based in the ratio of costs incurred to date to the total estimated costs at completion of performance obligation. Revenue, including estimated fees or profits, are recorded proportionally based on measure of progress. Output method where direct measurements of value to the customer based on surveys of performance completed to date.

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.

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.

2.16 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.

2.17 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.

2.18 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 balance 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.

3. Critical accounting estimates and assumptions

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

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



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

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

i) Useful lives of property, plant and equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over their respective useful lives. Management estimates the useful lives of these assets as detailed in the accounting policy vide note 2.3. Changes in the expected level of usage, technological developments, level of wear and tear could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised and could have an impact on the profit in future years.

ii) Fair Value measurement of Financial Instruments

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

iii) Retirement benefit obligations

The costs of retirement benefits and present value of the retirement benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, retirement benefit obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

iv) Unbilled revenue

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



4. Property, plant and equipment

(Amount in Nu.)

Particulars	Freehold Land	Building and Civil Structures	Generation equipment's	Network system	Others	Capital Advances and Construction work in progress	Total
Balance as at January 1, 2019							
Cost	70,433,629	2,925,359,331	1,144,799,345	22,761,242,426	1,657,821,515	3,030,964,880	31,590,621,127
Accumulated depreciation	-	(733,566,154)	(554,780,333)	(6,292,280,311)	(971,792,294)	-	(8,552,419,093)
Book Value	70,433,629	2,191,793,177	590,019,012	16,468,962,115	686,029,221	3,030,964,880	23,038,202,033
Changes in book value during the year							
Additions	-	544,042,963	8,101,122	8,237,719,177	89,327,067	450,164,900	9,329,355,228
Disposals and sales	(24,858,438)	(4,439,702)	(1,653,199)	(70,649,294)	(44,238,195)	-	(145,838,827)
Depreciation on disposals/adjustments	-	1,756,848	1,628,867	38,579,654	38,607,013	-	80,572,382
Depreciation	-	(121,620,018)	(47,811,969)	(842,287,533)	(133,153,136)	-	(1,144,872,656)
Total changes	(24,858,438)	419,740,091	(39,735,179)	7,363,362,005	(49,457,252)	450,164,900	8,119,216,128
Balance as at December 31, 2019							
Cost	45,575,191	3,464,962,593	1,151,247,268	30,928,312,309	1,702,910,388	3,481,129,780	40,774,137,528
Accumulated depreciation	-	(853,429,324)	(600,963,435)	(7,095,988,189)	(1,066,338,418)	-	(9,616,719,367)
Book value	45,575,191	2,611,533,269	550,283,833	23,832,324,120	636,571,970	3,481,129,780	31,157,418,161



Property, plant and equipment (Contd.)

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



4.1 Capital work-in-progress as at December 31, 2019 and December 31, 2018 comprise the following:

Particulars	As at December 31, 2019	As at December 31, 2018
Generation equipment	9,346,291	4,999,648
Transmission lines	2,388,355,394	2,170,394,586
Distribution Assets	864,679,312	518,970,782
Buildings	114,583,795	123,335,627
Other Civil Structures	48,885,967	84,212,551
Others	1,033,313	2,319,972
Advance for capital works	54,245,709	126,731,714
Total	3,481,129,780	3,030,964,880

4.2 Certain Property, plant and equipment are pledged as securities against borrowings.(Refer Note 16.1)

5. Intangible assets

Computer Software	As at December 31, 2019	As at December 31, 2018
Opening gross carrying value (i)	285,140,439	219,106,646
Additions	5,916,299	66,033,794
Closing gross carrying value(ii)	291,056,738	285,140,440
Opening accumulated amortization (iii)	(220,078,576)	(204,530,023)
Additions	(17,381,684)	(15,548,553)
Closing accumulated amortization (iv)	(237,460,259)	(220,078,576)
Net carrying value (ii-iv)	53,596,479	65,061,864

6. Long-term loans and advances

	As at December 31, 2019	As at December 31, 2018
Advance to employees:		
- Bike loan	2,279,459	-
- Welfare loan	126,721	107,171
- Mobile phone loan	502,410	428,543
Total	2,908,590	535,714



7. Other receivables

	As at December 31, 2019	As at December 31, 2018
Security Deposit for Land Lease	199,330	199,330
Total	199,330	199,330

8. Other non-current assets

	As at December 31, 2019	As at December 31, 2018
Deposit against Employee Insurance Policies (Refer Note 40 (iv))	-	-
Interest accrued on Employee Insurance Policies	-	-
Fixed deposits with Banks having original tenure of more than twelve months:		
- for Depreciation funds for OPGS/ADSS assets	-	22,558,799
- for other fixed deposit	-	423,677,244
Interest accrued on Fixed Deposits:		
- for Depreciation funds for OPGS/ADSS assets	-	1,381,340
- for other fixed deposit	-	29,480,311
Prepaid Expenses	39,875,416	19,194,662
Advance to Suppliers	-	3,125,588
Advance to Others	26,150	6,544,150
Total	39,901,566	505,962,594

9. Inventories

	As at December 31, 2019	As at December 31, 2018
Stores and spare parts	330,466,387	273,053,052
Stock- ISU	48,943,172	46,461,178
Stock - Uniform	348,497	461,301
Stock – Info com Spares	5,660,820	4,198,782
Less: Provision for obsolete inventory	(1,316,462)	(3,974,104)
Total	384,102,415	320,200,209



10. Amount due from/to customers for contract work

	As at December 31, 2019	As at December 31, 2018
<u>Amounts due from customers for contract work</u>		
Work in progress -Construction Contracts	4,864,620,631	11,418,359,609
Less: Progress billing and advances received	3,793,364,391	7,538,612,980
Total	1,071,256,239	3,879,746,630
<u>Amounts due to customers for contract work</u>		
Progressive billing and advances received	11,888,065,964	11,741,543,395
Less: Work in progress -Construction Contracts	10,930,027,385	10,529,417,076
Total	958,038,578	1,212,126,319
<u>Recognized and included in financial statements as:</u>		
Amounts due from customers for construction contracts		
- Current portion	1,071,256,239	3,879,746,630
- Non-current portion	-	-
Amounts due to customers for construction contracts		
- For short term contract	(23,694,037)	(625,633)
- For long term contract	981,732,615	1,212,751,952
Total	(958,038,578)	(1,212,126,319)

11. Trade & other receivables

	As at December 31, 2019	As at December 31, 2018
Receivables against transmission and supply of electricity	377,480,377	112,038,044
Less: Provision for doubtful debts	(6,604,210)	(4,115,844)
Net Receivables	370,876,168	107,922,200
Subsidy receivable on Electricity from RGOB	416,978,507	323,979,810
Other receivables	4,395,728	9,714,169
Total	792,250,402	441,616,179

11.1 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, 2019	Amount written back and credited to 'Other Income'	As at December 31, 2019
Provision for doubtful Debts	4,115,845	(2,488,365)	6,604,210



12. Cash and cash equivalents

	As at December 31, 2019	As at December 31, 2018
Cash in hand	2,165,713	3,099,722
Bank balances in current accounts	402,394,857	446,657,006
Balance with bank towards staff welfare fund	25,609,738	21,000,057
Total	430,170,308	470,756,785

12.1 There are no restricted cash and cash equivalents.

13. Short-term loans and advances

	As at December 31, 2019	As at December 31, 2018
Advance to employees:		
- Bike loan	1,528,056	59,072
- Welfare loan	371,795	357,188
- Mobile phone loan	638,320	601,233
Total	2,538,171	1,017,493

14. Other current assets

	As at December 31, 2019	As at December 31, 2018
Deposit against Employee Insurance Policies (Refer Note 40 (iv))	330,836,730	494,034,658
Interest accrued on Employee Insurance Policies	6,961,711	202,526,339
Fixed deposits with Banks having original tenure of more than twelve months:		
- for Depreciation funds for OPGS/ADSS assets	151,324,441	89,490,115
- for other fixed deposit	194,478,530	48,885,580
Interest accrued on Fixed Deposits:		
- for Depreciation funds for OPGS/ADSS assets	7,172,684	12,504,098
- for other fixed deposit	31,873,304	10,119,047
Accrued Unbilled Trade Receivables	543,448,525	457,085,537
Prepaid Expenses	21,809,300	17,078,515
Advance to Suppliers	2,294,813	1,372,395
Advance to employees:		
- Travel and salary advance	-	-
- Expenses	100,000	120,000
Advance to Others	24,178,049	277,047
Total	1,314,478,084	1,333,493,332



15. Share Capital

	As at December 31, 2019	As at December 31, 2018
Authorized:		
15,000,000 Equity Shares of Nu. 1,000/- each	15,000,000,000	15,000,000,000
Total	15,000,000,000	15,000,000,000
Issued, Subscribed and fully Paid up:		
10,235,301 Equity Shares of Nu. 1,000/- each	10,235,301,000	8,225,118,000
Total	10,235,301,000	8,225,118,000

15.1 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)

16. Borrowings

	As at December 31, 2019	As at December 31, 2018
i) Secured borrowings:		
Term loan from 'National Pension and Provident Fund' (Refer Note 16.1.i) - for Transmission Lines Project	209,637,500	251,565,000
ii) Unsecured borrowings:		
Term loan from 'National Pension and Provident Fund' (Refer Note 16.1.ii) - for Transmission Lines Project	1,995,832,138	2,000,000,000
Term loans from 'Royal Government of Bhutan' (Refer Note 16.2) - for Rural Electrification Projects - for JICA I Borrowing BAS adjustment for JICA I - for Mangdechhu Hydroelectric Project	3,796,187,243 1,917,828,990 (185,548,020) 5,710,499,125	3,739,510,611 1,932,206,737 (203,113,621) -
Bank Overdraft	457,491,143	-
Interest accrued but not due on borrowings	179,712,811	370,819,545
	14,081,640,930	8,090,988,272



Borrowings analyzed as follows

	As at December 31, 2019	As at December 31, 2018
Current portion	1,311,012,228	438,639,273
Non-current portion	12,770,628,702	7,652,348,999
Total	14,081,640,930	8,090,988,272

Nature of Security, Interest Rate and terms of repayments:

16.1 Term loan from NPPF:

- i) Term loan of Nu. 209,637,500 from National pension and provident fund is outstanding as on 31st December 2019 for setting up of the project “220 kV Double Circuit Transmission Lines from Dagapela-Tsirang- Gelephu to Lodrai” and is secured by first mortgage charge on project assets and carry fixed rate of interest of 9% per annum and is repayable within 12 years in 24 half yearly equal installments with last installment due on September 01, 2024.
- ii) Term loan of Nu.1,487,535,222 & Nu.508,296,917 from National pension and provident fund is outstanding as on 31st December 2019 for setting up of the various transmission lines projects and are secured by the Guarantee provided by the Druk Holding and Investments (DHI) Limited for a Guarantee Fee of 0.85%per annum and carry fixed rate of interest of 8% per annum and are repayable within 12 years including moratorium period of 1 year and last installment due on January 01, 2030 and April 01, 2030 respectively.

16.2 Other Term Loans:

- i) Rural electrification Loan I (RE-I) of Nu.132,865,093 is outstanding as on 31st December 2019 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. 219,910,053 is outstanding as on 31st December 2019 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.291,652,939 is outstanding as on 31st December 2019 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 1,010,342,039 is outstanding as on 31st December 2019 from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 24 years at an interest rate of 0% in 48 semi-annually equal installments with last installment due on March 15, 2041.
- v) Rural electrification Loan V (RE-V) of Nu 800,374,646 is outstanding as on 31st December 2019 from the Royal Government of Bhutan for Rural Electrification Works and is repayable within 32 years at an interest rate of 6% in 48 semi-annually equal installments with last installment due on March 15, 2043.
- vi) Rural electrification Loan JICA- Phase 1 of Nu.1,732,280,970 is outstanding as on 31st December 2019 which is net of amount of Nu. 1,917,828,990 (after retranslation) and Nu. 185,548,020 (BAS Adjustment) from Royal Government of Bhutan for Rural Electrification Works and is repayable within 30 years at an interest rate of 0.01% on Japanese Yen in 61 semi-annually equal installments with last installment due on May 20, 2047.
- vii) Rural electrification Loan ADA of Nu.286,098,924 is outstanding as on 31st December 2019 from Royal Government of Bhutan for Rural Electrification Works and is repayable within 12 years at an interest rate of 0.7% on EURO in 12 semi-annually equal installments with last installment due on December 31, 2029.
- viii) Rural electrification loan – JICA Loan II of Nu.1,054,943,550 is outstanding as on 31st December 2019 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.

16.3 Refer Note 40(v) for transaction wise detail under each borrowing.

17. 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, 2019	As at December 31, 2018
As at January 1	1,459,223,044	1,479,308,052
Addition/Received	70,846	31,350,000
Less: Transferred to 'Other Income'	(51,610,485)	(51,435,008)
As at December 31	1,407,683,405	1,459,223,044



Deferred grant analyzed as follows:

	As at December 31, 2019	As at December 31, 2018
Current portion	41,519,811	51,514,024
Non-current portion	1,366,163,594	1,407,709,019
Total	1,407,683,405	1,459,223,044

18. Deferred customer's contribution

	As at December 31, 2019	As at December 31, 2018
As at January 1	144,388,972	10,028,633
Received during the year	6,590,288	144,739,888
Less: Transferred to 'Other Income'	(10,416,494)	(10,379,549)
As at December 31	140,562,766	144,388,972

Deferred customer's contribution analyzed as follows:

	As at December 31, 2019	As at December 31, 2018
Current portion	10,615,373	10,460,990
Non-current portion	129,947,393	133,927,982
Total	140,562,766	144,388,972

19. Other payables

	As at December 31, 2019	As at December 31, 2018
Security deposits		
- Energy meters	302,419,893	268,996,014
- Others (Refer Note 19.1)	16,047,438	14,722,420
Performance security	1,040,234	-
Retention money	693,903,533	304,880,870
Payable to employees	139,924	116,523
Total	1,013,551,021	588,715,827

19.1 Includes 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.



20. Employee benefit liabilities

	As at December 31, 2019	As at December 31, 2018
Provision for:		
- Gratuity	577,816,748	393,272,158
- Separation Benefits	61,286,155	47,983,000
- Leave encashment	61,858,658	35,701,995
- Performance Based Incentive Scheme	109,882,504	80,342,775
- Performance Based Variable Allowance	99,068,397	72,393,418
- Payable to employees	10,540,269	2,218,548
Total	920,452,730	631,911,894

Employee benefit liabilities analyzed as follows:

	As at December 31, 2019	As at December 31, 2018
Current portion	302,152,735	215,591,468
Non-current portion	618,299,995	416,320,426
Total	920,452,730	631,911,894

21. Deferred Income Tax Liabilities (Net)

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

	As at December 31, 2019	As at December 31, 2018
Particulars		
Opening balance	844,490,834	774,604,080
Charged to Statement of Comprehensive Income	143,919,911	69,886,754
Closing Balance	988,410,745	844,490,834

Note 21.1: The movement in deferred income tax assets and liabilities during the year ended December 31, 2019 and December 31, 2018 are as under:



For the year December 31, 2019

Assets & Liabilities	Carrying Amount	Tax Base	Taxable Temporary Difference (DTL)	Deductible Temporary Difference (DTA)
Property, Plant & Equipment	27,729,877,720	24,458,999,880	3,270,877,840	-
Inventories	385,418,877	384,102,415	-	1,316,462
Trade & Other Receivables	798,854,612	792,250,402	-	6,604,210
Borrowings under JICA I	1,732,280,970	1,917,828,990	185,548,020	-
Performance Based Incentive Scheme	109,882,504	-		109,882,504
Performance Based Variable Allowance	99,068,397	-		99,068,397
Retention Money-Non current	693,903,533	822,395,725	128,492,192	-
Security Deposit	16,047,438	16,759,951	712,513	-
Training expenses	-	74,056,508	-	74,056,508
Total			3,585,630,565	290,928,081
Net Deferred Liability				3,294,702,484
Deferred Tax Liability for 2019				988,410,745

22. Trade & other payables

	As at December 31, 2019	As at December 31, 2018
Trade payables:		
- electricity	605,461,894	682,637,123
- suppliers & contractors	53,683,427	826,258,671
- services	2,578,636	31,028,652
Security deposits		
- Energy meter	6,790,906	6,247,390
- Capacity reserve charges	23,934,599	11,408,012
Performance security	8,791,258	5,249,983
Retention money	154,519,519	2,272,997,670
Payable to employees	10,540,269	2,218,548
Accrued expenses	31,273,236	15,229,568
Other liabilities	53,108,248	25,820,010
Total	940,141,723	3,876,877,081



23. Income tax payable (net of advances)

	As at December 31, 2019	As at December 31, 2018
Provision for corporate income tax	322,636,158	263,448,377
Less: Advance tax and income tax deducted at source	(199,993,697)	(218,008,583)
	122,642,461	45,439,793

23.1 Details of Income Tax is as under:

	As at December 31, 2019	As at December 31, 2018
Current income tax		
Current tax on profits for the year	322,636,158	262,495,503
Total Current income tax	322,636,158	262,495,503
Deferred income tax		
Origination and reversal of temporary differences	133,174,797	106,024,784
Security Deposit, Retention Money & Borrowings	(36,138,030)	(36,138,030)
Total Deferred income tax	143,919,911	69,886,754
Income tax expense	466,556,069	332,382,257

23.2 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:

	2019	2018
Profit Before Income Tax	1,651,421,569	1,153,037,102
Adjustments:		
Provision for Obsolete Materials	(2,657,642)	2,902,412
Provision for Doubtful Debts	2,488,365	(407,865)
PBIS and PBVA	26,328,644	49,271,296
Donations	2,124,216	932,400
Training	(14,421,444)	7,621,124
Fines and penalties	923,170	311,780
BAS adjustments	(62,694,733)	136,917,334
Amortization of Government Grant	(8,616,353)	(8,616,353)
Depreciation as per books	1,162,254,340	1,015,104,952
Depreciation as per Income Tax	(1,562,201,400)	(1,384,868,616)
Profit as per Income Tax	1,194,948,733	972,205,565
30% Corporate Tax	358,484,620	291,661,669
10% Rebate as per Fiscal Incentive Act Chapter 2 Section 12	35,848,462	29,166,167
Assessed Tax after Rebate	322,636,158	262,495,503



23.3 The applicable corporate income tax rate has remained same, i.e. 30% for the current year and earlier year ended on December 31, 2019 and December 31, 2018 respectively. However, 10% rebate on current year tax has been availed as per Section 12 of Fiscal Incentives Act of Bhutan, 2017 for employing 100% Bhutanese Nationals in the year 2019.

24. Other current liabilities

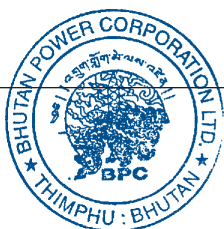
	As at December 31, 2019	As at December 31, 2018
Statutory liabilities	12,471,332	65,109,161
Welfare grant fund	25,569,738	20,960,057
Other payables	1,318	-
	38,042,388	86,069,218

25. Income from construction contracts

	For the year ended	
	December 31, 2019	December 31, 2018
Value of contracts performed and service charges	700,777,329	1,452,353,100
Estimation charges for works	347,920	352,302
Total	701,125,249	1,452,705,402

26. Other Income

	For the year ended	
	December 31, 2019	December 31, 2018
Interest income on:		
- Depreciation Fund	6,710,762	8,093,099
- Benefit Accrued on Employee Insurance Policies (Refer Note 40 (iv))	49,337,714	51,315,117
- Other Fixed Deposits	8,912,541	34,150,970
Unwinding of discount on retention, security deposit & borrowings	62,694,733	(136,917,334)
Penalties and liquidated damages	57,023,529	4,119,591
Revenue Grant	4,000	49,250
Amortization of deferred grants (Refer Note 17)	51,610,485	51,435,008
Amortization of deferred customer's contribution (Refer Note 18)	10,416,494	10,379,549
Liabilities no longer required written back	15,904,722	16,242,022
Write-back/off of Provision for doubtful debts	-	407,865
Provision/Write-back of Provision on Obsolescence of Material	2,657,642	(2,902,412)
Scrap Sales	9,858,767	18,094,869
Tender form sales	681,700	2,941,000
Hire and lease charges	3,144,397	2,807,176
Other miscellaneous income	36,209,489	63,986,665
Total	315,166,974	124,202,434



27. Operation and maintenance expenses

	For the year ended	
	December 31, 2019	December 31, 2018
Repairs and maintenance:		
- Material/Stores	111,176,825	104,204,362
- Services	184,026,016	183,773,219
- Meter Equipment	7,864,278	3,540,961
- Vehicle running expenses (POL)	30,343,775	27,657,656
- Consumables	13,085,966	23,855,877
- Others	118,109,739	112,344,819
Total	464,606,599	455,376,895

28. Employee benefit expenses

	For the year ended	
	December 31, 2019	December 31, 2018
Salaries, wages, bonus and allowances	884,762,860	788,473,423
Contribution to provident and pension fund	58,903,750	47,957,786
Contribution for gratuity and leave encashment	141,575,702	77,941,376
Workmen and staff welfare expenses	65,371,650	94,617,639
Total	1,150,613,962	1,008,990,223

29. Finance cost

	For the year ended	
	December 31, 2019	December 31, 2018
<u>Interest on long term borrowings from:</u>		
Royal Government of Bhutan for:		
- Rural electrification Projects	90,885,450	151,049,048
- Tala Hydro Electric Project	-	34,365,345
National Pension and Provident fund for:		
- Transmission Lines Project	183,530,310	82,404,203
MHPA Loan	143,935,873	-
Guarantee fee	17,452,745	6,365,796
BoB Overdraft	11,190,643	-
Other finance charges	521,546	150,142
Total	447,516,568	274,334,534
Less: Amounts capitalized on qualifying assets	-	58,363,193
Total	447,516,568	215,971,341



30. Other expenses

	For the year ended	
	December 31, 2019	December 31, 2018
Travelling expenses	36,610,206	40,219,751
Rent charges	11,107,240	10,076,222
Rates and taxes	7,301,014	4,425,978
Printing and stationary	10,418,996	10,087,175
License and registration fees	21,707,493	21,204,599
Audit fees and expenses	1,227,065	1,246,808
Office expenses	7,931,675	7,962,392
Consultancy fees	413,406	1,857,710
Legal fees	20,000	-
Entertainment expenses	7,763,917	7,113,687
Publicity and Advertisement expenses	1,921,889	5,184,013
Insurance charges	2,899,075	2,592,279
CSR expenses	2,189,216	997,400
Vehicle Hire charges	1,934,237	1,890,195
Bad debt expenses	2,488,365	-
Loss on disposal of property, plant and equipment	37,440,831	35,952,055
Board meeting expenses and sitting fees	2,012,777	1,746,280
Management Fee for holding Company	24,331,782	30,837,277
Miscellaneous expenses	26,981,741	18,504,119
Total	206,700,925	201,897,943

31. Earnings per share ('EPS')

	For the year ended	
	December 31, 2019	December 31, 2018
Basic EPS attributable to Ordinary shares		
Net Profit attributable to the owners of the Company	1,184,019,486	762,311,471
Issued and outstanding ordinary shares at the beginning/end of the year	8,225,118	8,225,118
Effect of ordinary shares issued during the year	5,507	-
Weighted average number of ordinary/diluted shares	8,230,625	8,225,118
Basic/Diluted EPS attributable to ordinary/diluted shares	143.86	92.68



32. Fair Value Measurement

Financial instruments by category:

Particulars	As at December 31, 2019			As at December 31, 2018		
	FVTPL	FVTOCI	Amortized cost	FVTPL	FVTOCI	Amortized cost
Financial assets						
Investments	-	-	-	-	-	-
Long-term loans and advances	-	-	2,908,590	-	-	535,714
Other receivables	-	-	199,330	-	-	199,330
Amount due from customers for contract work	-	-	1,071,256,239	-	-	3,879,746,630
Trade & other receivables	-	-	787,854,674	-	-	431,902,010
Cash and cash equivalents	-	-	430,170,308	-	-	470,756,785
Short-term loans and advances	-	-	2,538,171	-	-	1,017,493
Total financial assets	-	-	2,299,323,041	-	-	4,793,872,130
Financial liabilities						
Borrowings	-	-	14,081,640,930	-	-	8,090,988,272
Other payables	-	-	1,013,551,021	-	-	588,715,827
Amount due to customers for contract work	-	-	958,038,578	-	-	1,212,126,319
Trade & other payables	-	-	940,141,723	-	-	3,876,877,081
Total financial liabilities	-	-	16,993,372,253	-	-	13,768,707,498



(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.

(iii) Financial assets at fair value - recurring fair value measurements

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

(iv) 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.

33. Capital Management**(a) Risk management**

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

The Company manages its funds / capital so as to ensure that funds are available to meet future commitments, working capital requirements and also the dividend and tax expectations of its holding Company Druk Holding



& Investments and Royal Government of Bhutan. Capital expenditure is mostly met from operating cash flows and fixed term borrowing are made only for major capital projects and such borrowings are repaid when the project is completed and is generating positive cash flows.

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

(b) Financial risk management

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

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

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

(1) Credit risk

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

i) Trade receivables

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



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

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

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

ii) Financial instruments and cash deposits

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

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

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

(2) Liquidity risk

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

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

(i) Maturities of financial liabilities

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



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

Contractual maturities of financial liabilities as at December 31, 2019	Less than 1 year	More than 1 year	Total
Trade and Other Payables	940,141,723	1,013,551,021	1,953,692,744
Borrowings	1,311,012,228	12,770,628,702	14,081,640,930
Total financial liabilities	2,251,153,951	13,784,179,723	16,035,333,674

Contractual maturities of financial liabilities as at December 31, 2018	Less than 1 year	More than 1 year	Total
Trade and Other Payables	3,876,877,081	588,715,827	4,465,592,908
Borrowings	438,639,273	7,652,348,999	8,090,988,272
Total financial liabilities	4,315,516,354	8,241,064,826	12,556,581,180

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

(3) Market risk

(i) Foreign currency risk

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

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

Foreign currency risk exposure

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

Particulars	As at December 31, 2019		As at December 31, 2018	
	Euro in Nu.	Yen in Nu.	Euro in Nu.	Yen in Nu.
Financial liabilities	286,098,924	1,91,78,28,990	313,974,033	2,793,718,429
Net exposure to foreign currency risk	286,098,924	2,972,772,540	313,974,033	2,793,718,429



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, 2019	As at December 31, 2018
YEN Sensitivity		
Nu. depreciate by 5% (2019:5%)	148,638,627	139,685,921
Nu. appreciate by 5% (2019:5%)	(148,638,627)	(139,685,921)
EURO Sensitivity		
Nu. depreciate by 5% (2019:5%)	14,304,946	15,698,702
Nu. appreciate by 5% (2019:5%)	(14,304,946)	(15,698,702)

(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.

34. 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, 2019	Transactions during the year
			(Amount in Nu.)	(Amount in Nu.)
Royal Government of Bhutan	Ultimate holding	a) Borrowings for rural electrification project	Cr.5,714,016,233	Disbursement(Cr.) 193,431,857 Repayment (Dr.) 204,302,118
		b) Grants received for rural electrification.	Cr.1,407,683,405	Received (Cr.)70,846
		c) Interest Paid/ payable on Borrowings	Cr.29,591,012	Dr.90,885,450
Druk Holding & Investments	Holding Company	a) Issue of Share Capital	Cr.10,235,301,000	
		b) Payment of dividend		Dr. 882,555,161
		c) Transfer of Investment Reserve as dividend		Dr. 572,157,472
		d) Brand Management Fee paid		Dr. 24,331,782
Druk Green Power Corporation Limited	Fellow Subsidiary	(a) Purchase of electricity for transmission and distribution.	Cr.605,381,042	Dr.3,749,815,485
		(b) Wheeling charges	Dr.250,294,275	Cr.1,306,493,330
Druk Air Corporation Limited	Fellow Subsidiary	Air Travel Service		Dr.9,258,525
Royal Insurance Corporation of Bhutan Ltd	Government undertaking	a) Insurance Premium Paid		Dr.494,034,658
		b) Deposit against Employees Insurance Policy (including interest)	Dr.337,798,441	
		a) Benefits accrued on Insurance Policies		Cr. 49,337,714
		b) Death Benefit Claims under Employees Insurance Policies adjusted		Dr.350,000



Key management personnel ('KMP')

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

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

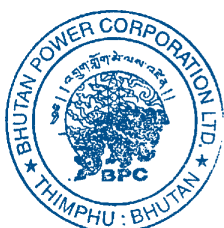
	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	2,061,444	686,452
Performance based variable allowances	60,373	-
Performance based incentive scheme	55,289	-
Sitting fees	209,000	81,000
Contribution to provident fund	125,740	37,775
Other allowances	-	-
Total	2,511,846	805,227

Summary of compensation paid to the KMP, Mr. Thinley Gyeltshen, Director, Transmission Services

	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	371,491	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	-	-
Contribution to provident fund	30,201	-
Other allowances	18,724	-
Total	420,416	-

Summary of compensation paid to the KMP, Ms. Kinley Dem, Director, Finance & Accounts Services

	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	371,491	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	-	-
Contribution to provident fund	30,201	-
Other allowances	18,724	-
Total	420,416	-



Summary of compensation paid to the KMP, Mr. Sangay Tenzin, Director, HR & Corporate Services

	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	371,491	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	4,000	-
Contribution to provident fund	30,201	-
Other allowances	18,724	-
Total	424,416	-

Summary of compensation paid to the KMP, Mr. Sandeep Rai, Director, Distribution Services

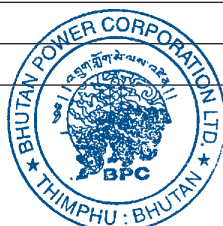
	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	371,491	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	-	-
Contribution to provident fund	30,201	-
Other allowances	18,724	-
Total	420,416	-

Summary of compensation paid to the KMP, Ms. Dechen Dema, Director, Strategy & Technology Services

	For the year ended	
	December 31, 2019	December 31, 2018
Basic Salary and contract allowance	371,491	-
Performance based variable allowances	-	-
Performance based incentive scheme	-	-
Sitting fees	-	-
Contribution to provident fund	30,201	-
Other allowances	18,724	-
Total	420,416	-

The sitting fees to the Board of Directors:

Sl.no.	Name of Board Director	Amount (Nu.)
1	Dasho Ugyen Chewang	112,000
2	Dasho Kunzang Dorji	132,000
3	Kinzang Tobgay	148,000
4	Karma P Dorji	204,000
5	Sherab Namgay	196,000
6	Dechen Wangmo	160,000
7	Dechen Yangdon	28,000



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

Note:

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

35. Employee Benefits

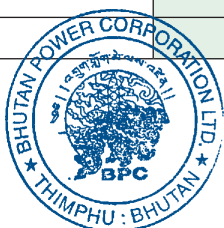
(a) Disclosures as required under BAS-19 "Employee Benefits" are as under: -

i) Change in present value of obligation:

(in Nu.)

Particulars	Gratuity		Leave Encashment	
	Year ended 31 st December, 2019	Year ended 31 st December, 2018	Year ended 31 st December, 2019	Year ended 31 st December, 2018
Present Value of obligation at the beginning of year	393,272,158	435,741,084	35,701,995	52,038,922
Interest cost	30,257,075	33,029,000	(1,085,905)	3,945,000
Current Service Cost	36,460,419	24,941,000	26,156,663	9,611,000
Past Service Cost	4,222,085	-	-	-
Benefit Paid	(30,117,435)	(20,872,478)	(49,275,802)	(38,481,196)
Net actuarial (Gain) / Loss on obligation	143,722,445	(79,566,448)	-	-
Present value of the defined benefit at the end of period/year	577,816,747	393,272,158	61,858,658	35,701,995
Current Liability	18,811,224	22,565,111	-	-
Non-current Liability	559,005,523	370,707,047	-	-

Particulars	Transfer Grant		Separation Allowance	
	Year ended 31 st December, 2019	Year ended 31 st December, 2018	Year ended 31 st December, 2019	Year ended 31 st December, 2018
Present Value of obligation at the beginning of year	15,250,000	14,814,000	15,355,000	14,937,000
Interest cost	1,149,813	1,065,824	1,182,163	1,070,751
Current Service Cost	1,401,494	1,382,403	1,403,619	1,472,770
Benefit Paid	(1,754,684)	(1,179,864)	(1,155,925)	(1,179,864)
Net actuarial (Gain) / Loss on obligation	3,634,654	(832,363)	2,897,142	(945,657)
Present value of the defined benefit at the end of period/year	19,681,277	15,250,000	19,681,999	15,355,000
Current Liability	626,224	1,367,862	626,224	1,495,549
Non-current Liability	19,055,053	13,882,138	19,055,775	13,859,451



Particulars	Carriage Charges	
	Year ended 31st December, 2019	Year ended 31st December, 2018
Present Value of obligation at the beginning of year	17,378,000	16,936,000
Interest cost	1,272,041	1,214,051
Current Service Cost	1,614,376	1,766,464
Benefit Paid	(1,477,488)	(1,332,474)
Net actuarial (Gain) / Loss on obligation	3,135,950	(1,206,041)
Present value of the defined benefit at the end of period/year	21,922,879	17,378,000
Current Liability	739,235	1,724,758
Non-current Liability	21,183,644	15,653,242

ii) Expense recognized in the Statement of Comprehensive Income.

(in Nu.)

Particulars	Gratuity		Leave Encashment	
	Year ended 31st December, 2019	Year ended 31st December, 2018	Year ended 31st December, 2019	Year ended 31st December, 2018
Current Service Cost	36,460,419	24,941,000	26,156,663	9,611,000
Interest cost	30,257,075	33,029,000	(1,085,905)	3,945,000
Past Service Cost	4,222,085	-	-	-
Immediate recognition of gain/ loss-other long term employee benefits	-	-	50,361,707	8,588,269
Net actuarial (Gain) / Loss recognized in the year	143,722,445	(79,566,448)	-	-
Expenses recognized in Statement of Profit and Loss	70,939,579	57,678,145	75,432,465*	22,144,269

*In the Statement of Comprehensive Income, expenses recognized is Nu. 62,612,617 and the liability has been taken as per actuarial valuation of Nu. 61,858,658.

Particulars	Transfer Grant		Separation Allowance	
	Year ended 31st December, 2019	Year ended 31st December, 2018	Year ended 31st December, 2019	Year ended 31st December, 2018
Current Service Cost	1,401,494	1,382,403	1,403,619	1,472,770
Interest cost	1,149,813	1,065,824	1,182,163	1,070,751
Net actuarial (Gain) / Loss recognized in the year	3,634,654	(832,363)	2,897,142	(945,657)
Expenses recognized in Statement of Profit and Loss	2,551,307	2,448,227	2,585,782	2,543,521



Particulars	Carriage Charges	
	Year ended 31 st December, 2019	Year ended 31 st December, 2018
Current Service Cost	1,614,376	1,766,464
Interest cost	1,272,041	1,214,051
Net actuarial (Gain) / Loss recognized in the year	3,135,950	(1,206,041)
Expenses recognized in Statement of Profit and Loss	2,886,417	2,980,515

iii) Actuarial Assumptions:

Principal assumptions used for actuarial valuation are:

Particulars	Gratuity		Leave Encashment	
	Year ended 31 st December, 2019	Year ended 31 st December, 2018	Year ended 31 st December, 2019	Year ended 31 st December, 2018
Method used	Projected unit credit method			
Discount rate	8%	7.58%	8%	7.58%
Rate of Increase in Compensation levels	6.00% p.a.	4.00% p.a.	6.00% 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)	15 years	9 years	12 years	10 years

Particulars	Transfer Grant Separation Allowance Carriage Charges	
	Year ended 31 st December, 2019	Year ended 31 st December, 2018
Method used	Projected unit credit method	
Discount rate	8%	7.58%
Rate of Increase in Compensation levels	6.00% p.a.	4.00% p.a.
Rate of return on plan assets	0.00%	0.00%
Expected Average remaining working lives of employees (years)	12 years	8 years

36. Capital Commitments

The Company has contractual commitments of Nu.628,670,467.88 and Nu.2,070,332,717 as at December 31, 2019 and December 31, 2018 respectively; on account of capital expenditures relating to acquisition of Property, plant and equipment, but not recognized as liabilities as on the reporting date

37. As per the DHI Land Policy and Implementation Guidelines vide letter no DHI/DOI/PIU/Land/2019/95 dt. 5th March, 2019 has DOCs' freehold lands (without encumbrance) of Nu 25 Million under the different-different divisions have been transferred to DHI by debiting to Retained Earning. Accordingly, the land has been derecognized from the BPC books.



38. Investment reserves worth Nu. 572,157,472 were utilized for payment of dividend to DHI during the year 2019 as per the instructions of DHI.

39. Contingent Liabilities

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

- a) Mr. Pema Dorji Vs. BPC. (Before the Gelephu Dungkhag Court)
Mr. Pema Dorji had filed case before the Royal Court of Justice, Dungkhag Court, Gelephu, Sarpang Dzongkhag on account of erection of 66 Kv and 220 Kv Transmission lines in his private land without his consent by BPC. The Plaintiff had submitted to the court to direct BPC either to shift the lines or compensate him as per the prevailing market rate. However, the Plaintiff has not set the premise/rate of compensation.
- b) M/s Kecho Dorji Construction Vs. BPC (Before the Alternative Dispute Resolution Center, Thimpu)
M/s Kecho Dorji Construction was engaged for construction of Regional Corporate Office, BPC, Phuentsholing and the contract had to be terminated after one year since site could not be handed over to the contractor. The contractor had put for arbitration before the Alternative Dispute Resolution Center, Thimpu and claimed around Nu. 12 million as compensation/damages.

40. Other Notes to Accounts

- i. 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.
- ii. 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.
- iii. 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.
- iv. 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. 337,798,441 as on the reporting date have been considered as 'Deposit against Employees Insurance Policy' under 'Current Assets' in the Statement



of Financial Position. The death claim benefits of Nu.350,000 paid/payable during the year have been reduced from the same and accounted for as 'Employee Benefit Expense' and the policies bonus / benefit of Nu. 49,337,714 accrued under the policies during the year have been added in the same on prorated basis by credit to 'Other Income'.

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

(Amount in Nu.)

Particulars	Loan outstanding as on 01.01.2019	Disbursement during the year	Foreign Exchange difference ((gain)/loss)	Repayment / Adjustment during the year	Loan Outstanding as on 31.12.2019	Interest Paid/ provided for during the year
From Royal Government of Bhutan (Unsecured)						
A. For Rural Electrification works						
ADB-RE I	141,169,161	-	-	8,304,068	132,865,093	8,154,595
ADB-RE II	238,235,891	-	-	18,325,838	219,910,053	13,597,772
ADB-RE III	309,881,247	-	-	18,228,309	291,652,939	17,994,379
ADB-RE IV	1,057,334,692	-	-	46,992,653	1,010,342,039	-
ADB-RE V	817,403,894	-	-	17,029,248	800,374,646	48,940,231
ADA	313,974,033	-	(1,762,443)	26,112,666	286,098,924	2,002,692
JICA-I	1,932,206,737	-	54,931,590	69,309,337	1,917,828,990	195,782
JICA-II	861,511,693	193,431,857	-	-	1,054,943,550	-
	5,671,717,347	193,431,857	53,169,147	204,302,118	5,714,016,233	90,885,450
B. For Mangdechhu Transmission Lines						
MHPA	-	5,710,499,125	-	-	5,710,499,125	143,935,873
	-	5,710,499,125	-	-	5,710,499,125	143,935,873
C. From National Pension and Provident Fund						
NPPF	2,251,565,000	-	-	46,095,362	2,205,469,638	183,530,310
	2,000,000,000	-	-	46,095,362	2,205,469,638	183,530,310
D. Over Draft Loan						
BoB	-	457,491,143	-	-	457,491,143	11,190,643
	-	457,491,143	-	-	457,491,143	11,190,643
Total	7,923,282,347	6,361,422,125	53,169,147	250,397,480	14,087,476,139	429,542,277

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

	2019		2018	
	Units (kWh)	Amount (in Nu. Millions)	Units (kWh)	Amount (in Nu. Millions)
Purchase	2,419.47	3,750.12	2,461.55	3,913.87
Hydel	20.24	-	19.21	-
DG	0.01	-	0.04	-
Sale	2,280.63	7,189.19	2,328.44	7,066.13



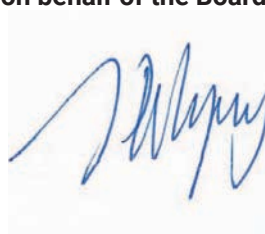
41. Subsequent events

- i. The Board of Directors has proposed a final dividend of 6.04% of share capital for the financial year ended December 31, 2019. The total dividend of Nu.618,212,180 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, 2019. 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.35,540,427 to be transferred to Asset Replacement Reserve for the financial year ended December 31, 2019, which is calculated at 0.4% on the asset addition 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, 2019. These financial statements do not reflect this transfer.

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



Director



Chief Executive Officer



Chairman

As per our report of even date attached

For BANSAL & Co. LLP

Chartered Accountants

ICAI Firm Registration No. 001113N/N500079



CA (Dr.) D.S. Rawat

Partner

Membership No.083030

Place: Thimphu

Date: 16.03.2020



Ratio Analysis

Particulars	2019	2018
NP ratio	0.124	0.080
Fixed Assets Turnover Ratio (Sales/ Average Net Block)	0.399	0.504
Debtors Turnover Ratio (Energy Sales/Average Debtors)	13.639	15.540
Current Ratio (Current Assets/Current Liabilities)	1.073	1.086
Quick Ratio (Current Asset-Inventory/Current Liabilities)	0.970	1.032
Interest Coverage Ratio (Profit before interest & tax/Interest)	4.690	6.339
Debt Service Coverage Ratio (PAT+Dep+Interest/(Interest + Principal Repayment)	1.589	3.045
Gearing Ratio (Debt /Gross Value of Fixed Asset)	37.47%	28.05%
Gearing on net Fixed asset	50.8%	40.3%
Debt Equity Ratio (Debt/average Equity)	101.62%	60.98%
Return on Capital Employed (EBIT/(Capital+Reserve+long term liability)	7.66%	6.47%
Return on asset (Profit after tax)/average net total assets	4.95%	4.04%
Return on equity (return available /Average Equity)	8.54%	5.75%

For Bansal & Co. LLP

Chartered Accountants



CA (Dr) D S Rawat

Partner

Membership No.083030

Firm Regn. No. 001113N/N500079

Place: Thimphu

Date: 16.03.2020



BHUTAN POWER CORPORATION LIMITED

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