Annual Report 2011

3rd Edition

Druk Green Power Corporation Limited

"Harnessing & Sustaining Bhutan's Renewable Energy Resources"

DrukGreen

Year of Incorporation	:	2008
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FOREWORD

The Annual Report of Druk Green Power Corporation Limited (Druk Green) is an insight into the development of the energy sector, especially hydropower, in Bhutan. It is hoped that this Annual Report will help readers with a better understanding of Druk Green as well as the energy sector of the country.

Druk Green was incorporated under the Companies Act of the Kingdom of Bhutan on 1st January 2008 with the amalgamation of Basochhu, Chhukha and Kurichhu Hydro Power Corporations, and the Tala Hydroelectric Project in April 2009. Since then, Druk Green has successfully ventured beyond the operation and maintenance of hydropower plants to the construction of new hydroelectric projects. Since its creation four years ago, Druk Green has come a long way and made huge strides in building its human resources capacity in the hydropower sector.

From feasibility studies to design and engineering, construction, and operation and maintenance of hydropower plants, Druk Green is today much more confident of taking on the daunting challenges of developing and managing the huge hydropower resources of Bhutan. Druk Green is set to play a key role in the further development of the energy sector in Bhutan and towards this is already venturing into developing hydropower projects on its own and in joint ventures as equal or lead partners.

Druk Green plants are some of best operated and maintained with very high plant availability and water utilization factors when compared to other hydropower plants in the region. There is a continuous effort to improve in the efficient operation and maintenance of the plants, thus enabling Bhutan to enjoy very reliable and highly affordable electricity supplies.

The success of Druk Green is not devoid of a multitude of challenges and ground realities. The year 2011 saw a decline in generation of 3.66% and subsequently a decline in revenues of 7.31% in comparison to the year 2010. While the decline in generation was primarily on account of lower inflows in the rivers with direct impact on the revenues, the revenue inflows to the Company were adversely affected by the increase in domestic consumption (domestic tariffs being lower than export tariffs) and the direct transfer of the royalty energy proceeds to Government. However, the increase in domestic demand is reflective of the very fast socio-economic development that Bhutan is going through.

A key area of concern for Druk Green continues to be in the development of its human resources. While Druk Green's achievements in the development of its human resources has been impressive, demand continues to outstrip availability considering the huge success of the Government in accelerating hydropower development during the last couple of years.

Albeit the challenges, Druk Green takes pride in its performances so far and further commits to work tirelessly towards achieving its vision "To harness and sustain Bhutan's renewable energy resources".

Tashi Delek

Chhewang Rinzin
Managing Director

"Harnessing and Sustaining Bhutan's Renewable Energy Resources"

REPORT FROM THE BOARD OF DIRECTORS

Dasho Karma Tshiteem
Chairman

Dear Shareholder,

I, as the Chairman of the Board of Druk Green Power Corporation Limited (Druk Green) and on behalf of the Board of Directors, have the immense pleasure to report to Druk Holding and Investments (DHI), the Shareholder of Druk Green, on the performance of the Company for the period 1st January to 31st December 2011.

OPERATIONAL PERFORMANCE

Druk Green power plants generated 7,046.57 GWh of electricity during the year 2011, a decline 0f 3.66% from the 2010 generation. The decline in generation was on account of less inflows in the rivers as compared to the previous year with additional losses from the forced outage of Unit 1 at Chhukha Hydropower Plant (CHP) with a generator winding insulation failure (41.92 GWh) and the simultaneous forced outages of Units 1 and 2 of Tala Hydropower Plant (THP) with the failure of the thrust bearings (19.93 GWh) in the month of September 2011.

The generation from each of the plants during 2011 vis-à-vis 2010 generation is as below:

Plant	2010 Generation (GWh)	2011 Actual Generation (GWh)	Variance (%)
Tala	4,726.847	4,588.07	-3.02%
Chhukha	1,869.557	1,774.43	-5.36%
Kurichhu	377.691	361.80	-4.39%
Basochhu	330.420	322.27	-2.53%
Total	**7,304.52**	**7,046.57**	**-3.66%**

The domestic sale of energy to Bhutan Power Corporation Limited (BPC) increased by 3.31% to 1,683.72 GWh in 2011 when compared to the 2010 domestic supply. Considering the lower generation and the higher domestic consumption, energy export to India declined by 7.49% to 5,309.86 GWh during the year when compared to the 2010 figures. The ever-increasing domestic consumption of energy continues to adversely impact the revenue inflows to Druk Green, and the trend is expected to continue.

FINANCIAL PERFORMANCE

During the year 2011, Druk Green earned revenues of Nu. 10,948.33 million, a 7.31% decline from the 2010 revenues of Nu. 11,811.46 million. The drop in revenue was mainly on account of lower generation, increase in domestic consumption and the direct transfer of the royalty energy proceeds of Nu. 135.76 million to the Ministry of Finance as per the directives issued by the Bhutan Electricity Authority (BEA) in 2011. The Profit After Tax (PAT) also declined by 12.38% to Nu 3,933.08 million when compared to the 2010 PAT. The negative variance on PAT was also on the account of the increase in employees' remuneration and benefits due to new recruits as Druk Green continues to build its human resources capacity to cater to the 10,000 MW projects by 2020 projects and other projects of Druk Green other than of course the much larger impact from the decline in generation and increase in domestic demand.

A summary of the Financial Performance for 2011 vis-à-vis the Financial Performance in 2010 is provided below:

Particulars	FY 2010	FY 2011
Revenue (Nu.)	11,811,463,973.75	10,948,330,384.34
Profit before tax (Nu.)	6,486,738,329.32	5,638,235,521.57
Provision for tax (Nu.)	1,972,107,493.89	1,705,148,993.04
Dividend (Nu.)	3,848,969,583.27	3,435,635,920.93

Druk Green will be paying a Corporate Income Tax of Nu. 1,705.15 million for the year 2011.

The financial position of the Company, however, continues to be very strong with the Shareholder's funds of Nu. 37,897.51 million and loans of Nu.

18,891.55 million; with debt representing 49.85 % of equity. The funds are almost entirely invested in income generating assets. The fund applications are in the form of Nu. 51,548.64 million in fixed assets (net block) including capital works in progress, Nu. 3,295.35 million in long-term investments, and the balance Nu. 1,945.08 million in net current assets.

DIVIDEND

A Dividend of Nu. 3.435 billion was approved by the Board for the year 2011. The Board considered a Dividend of 87.35% PAT after providing for transfer to Reserves of 12.65% of PAT; 10% as normal transfer to Reserves and 2.65% as the adjustment for the excess declaration of dividend made during the year 2009 to DHI. While it has been the normal practice for Druk Green to put aside 10% of PAT to Reserves, considering the huge investments planned for accelerating hydropower development and with some of the existing plants aging, the continuation of the policy to retain only 10% of PAT under Reserves may not be adequate to meet the future requirements to finance new projects and to rehabilitate older plants, and therefore may have to be reviewed.

ENERGY CHALLENGES

During 2011, a little over 1,044 GWh was supplied to BPC as royalty power at Nu. 0.13 per kWh and the balance 639 GWh was supplied as additional energy at Nu. 1.20 per kWh. The increase in domestic energy demand of 55.7 GWh in 2011 over 2010 had a negative impact on revenue to the extent of Nu. 36.76 million while the direct remittance of royalty energy proceeds to the Ministry of Finance led to a reduction in revenues by Nu. 135.76 million.

A major mandate of Druk Green is to provide energy security for domestic consumption. Apart from the declining revenues, Bhutan will face peaking power shortages during the lean winter months till the next major hydropower plant is commissioned, which might happen sometime in 2016. The situation could improve slightly in 2014 when the generation from the Tsibjalumchhu Diversion Scheme and the Dagachhu Hydroelectric Project are likely to become available. Meanwhile, the Department of Hydropower and Power Systems (DHPS) is leading the discussions with the Government of India (GOI) counterparts to arrange for import power from India during the lean generation months. Depending on the arrangements, Druk Green is likely to face further revenue declines.

PROJECTS

(i) Investment in Dagachhu Hydroelectric Project

As of 31st December 2011, Druk Green has injected Nu. 1,339.01 million for the 59% equity holding of Druk Green in the Dagachhu Hydroelectric Project. The amount represents Nu. 700.50 of the called up value of Nu. 1,000 per share for the 1,911,600 shares held by Druk Green. Besides the expected future returns on the investment, the Dagachhu Hydro Power Corporation Limited (DHPC) continues to provide an exceptional opportunity for Druk Green to develop its own competencies in the construction of hydropower projects. Over 35 key employees of DHPC including the Chief Executive Officer are on deputation from Druk Green.

The implementation scheduled for the 126 MW Dagachhu Project was revised at the end of 2011 after detailed deliberations with the Lot 1 Civil and Lot 2 Electro-Mechanical contractors and with the approval of the DHPC Board. With the revised construction schedule, the commissioning of the Units 1 and 2 of the project has been shifted to 24 February 2014 and 8 April 2014 respectively from the initial schedules of 25 February 2013 and 28 March 2013. The delays in the project has been primarily on account of the very poor geology encountered during the construction of the project, which necessitated changes in design and engineering and adoption of new construction methodologies that substantially slowed down progress.

The progress of the excavations of the headrace tunnels (HRT) continues to be hampered due to the poor geological strata encountered at various sectors of the HRT. With only 38% of HRT excavations completed, the HRT works now are on the critical path of the schedule.

The supply and on-site assembly of electro-mechanical equipment are on schedule as per the initially contracted milestones. The open works at the weir (dam), connecting tunnel and the desilters are progressing for the most part as per the initial schedule. With very little likelihood of further geological surprises in the excavations of powerhouse and transformer caverns, the installation of electro-mechanical equipment in the powerhouse and transformer caverns will commence sometime soon after the end of June 2012.

(ii) Joint Venture with Government of India Public Sector Undertakings (GOI PSUs)

In 2010, the Royal Government of Bhutan and the GOI agreed for four hydropower projects, under the "10,000 MW by 2020" bilateral co-operation, to be the implemented under the joint venture model. The RGOB nominated Druk Green to represent the RGOB's interests in the JV projects with the GOI nominating four of their CPSUs. The JV projects were to be established under the overall framework of the Bhutan Sustainable Hydropower Policy 2008 (BSHP) and the laws of the Kingdom of Bhutan. The projects identified and allotted through the Empowered Joint Group of the two Governments to Druk Green and the GOI CPSUs were (1) the 180 MW Bunakha Reservoir Scheme with THDC, (2) the 770 MW Chamkharchhu-I with NHPC, and (3) the 600 MW Kholongchhu HEP and the 570 MW Wangchhu HEP with SJVN.

The negotiations did not proceed as anticipated during 2011 with the GOI CPSUs demanding for concessions that were not in keeping with the BSHP and laws of Bhutan. However, the negotiations are back on track and the Memorandums of Understanding (MOU) are expected to be finalized by May 2012. Thereafter, the Shareholders Agreement, Power Purchase Agreement, and financial packaging would be negotiated, which could take probably a year or more to finalize. The MOUs are expected to pave the way for initiating the construction of the infrastructure works so as to fast track the JV projects.

Meanwhile, the Detailed Project Reports are also being cleared by the relevant Authorities of the GOI and the RGOB, with Druk Green playing a key role in the finalization of the technical parameters.

(iii) Joint Venture for Hydropower Services Center

The establishment of a Hydropower Services Centre (HSC) in Gelephu was primarily envisaged so as to cater to the reclamation of runners and other underwater parts of hydropower plants, the requirement for which will grow exponentially with the huge expansion in the hydropower sector. The feasibility study and the due diligence for the HSC was completed during 2011. Druk Green is exploring options for developing the project with Alstom (India) through a joint venture under the FDI Policy of the RGOB, and a deadline of May 2012 has been agreed to for concluding the negotiations. The HSC is expected to build capacity in terms of competencies in the reclamation of runners and other critical under water components of hydro mechanical equipment by way of technology transfer while foremost meeting the needs of the Company for such services, which are presently being availed from India and Nepal.

It is anticipated that the Centre could be further expanded in future to meet the requirement of similar services by the hydropower plants and other industries of the nearby Indian states. Other related Centers of Excellences that Druk Green has and is establishing will also be moved to the HSC to take advantage of the R&D possibilities.

(iv) Tsibjalumchhu Diversion Scheme

The Board approved the construction of the Tsibjalumchhu Diversion Scheme through internal funds of the Company on 11th October 2011. The Scheme would provide 10 -40 MW of power during the lean season at THP by diverting the Tsibjalumchhu stream to the Tala dam through an underground tunnel. This is estimated to generate an additional 93 GWh of energy in a 90% dependable year. The National Environment Commission has already issued the Environmental Clearance and Druk Green is awaiting the issue of the Construction License by BEA to start implementing the works. A Project Management Unit has been formed with the construction of the project scheduled to commence from May 2012.

The additional generation is expected to become available in the early part of 2014.

(v) Nikachhu Hydroelectric Project

On 3rd January 2011, approval was accorded to Druk Green by the then Department of Energy to conduct the Feasibility Study for the Nikachhu Hydroelectric Project. While it was intended to complete the Feasibility Study as envisaged in the earlier reports, it was observed from site investigations that the geological and geotechnical conditions of the initial sites for the dam and the power house were not very suitable.

After extensive consultations with experts, two more dam locations were selected and field investigations carried out at these sites. The initial location of the power house below Tansibji village at the confluence of the Nikachhu and the Mangdechhu exhibited geological and geotechnical conditions similar to that of the Dagachhu power house. In view of the huge difficulties faced in the construction of the Dagachhu power house, a decision was taken to shift the Nikachhu power house site. From initial studies for alternative layouts, it was determined that the most optimal option would be to combine the Nikachhu project by diverting the Nikachhu stream to the Mangdechhu dam.

While the Feasibility Study for the Nikachhu as earlier envisaged was completed, the option of diverting the Nikachhu to the Mangdechhu dam after using the available head is now being conducted. ADB is providing a Technical Assistance to help Druk Green undertake the due diligence of the Nikachhu project, structure the financing, and overall further build capacity within Druk Green through the Nikachhu project.

(vi) Other Projects

Druk Green continues to work very closely with DHPS. While the Gamri project was not approved during 2011 for the intended Pre-Feasibility Study, Druk Green expects to be associated closely with the Norwegian experts in the investigations and the preparation of the DPR for either the Khomachhu or the Rotpashong hydroelectric project. This is expected to enable Druk Green to further acquire expertise and experience through association with international experts. Druk Green is also closely associated with DHPS and the MOEA in all the other 10,000 MW by 2020 projects, the studies of which are being taken up by the GOI CPSUs and related agencies.

CORPORATE GOVERNANCE

The Board met seven times during the year complying with the requirements of the Companies Act of the Kingdom of Bhutan, 2000 and the quorums at each of these meetings were duly maintained. The AGM, which has to be held before the 31st June of the year as per the Companies Act, was held on 30th March 2011. No necessity arose for holding any EGMs.

Druk Green continues to develop its management systems and today the Board is confident that Druk Green is one of the best-managed Companies in Bhutan even though it was established only four years back. During 2011, a number of important Plans, Strategies, and Manuals were adopted and are being implemented. Transparent systems and controls are in place. The fact that there are no major audit issues pending with the Royal Audit Authority and no audit qualifications in the Audited Accounts for 2011 is reflective of the management systems in place. A Risk Management Framework has also been approved for implementation together with an Internal Audit Manual. The Internal Audit Unit was further strengthened during the year.

A number of Board Level Committees such as the HR Committee, Audit Committee and Tender Committee are in place. As and when required, these Committees meet to deliberate on the issues and provide guidance to the management. The continued efforts to strengthen Corporate Governance will be critical for Druk Green to sustain the huge growth that is taking place in the hydropower sector.

The continued implementation and improvements of the Performance Linked Incentive Scheme and the Employee Appraisal System have effectively ensured that the Company optimizes the use of its human resources and assets through performance based systems. These systems are to a certain extent integrated within the DHI Compacts for the Company as a whole. These systems are evolving in keeping with the Company's priorities.

DHI COMPACT

Druk Green has achieved its profitability margins and the targets that were agreed to in the 2011 Compact with DHI except for the Gamri PFS for which Government approval was not obtained. The performances vis-à-vis the Compact are to be used for the payout of the 10% Performance Based Variable Allowance (PBVA) to both the regular employees and for the contract employees of Druk Green where the contract agreements provide for such allowances. With the merger of earlier 25% Corporation and the 10% Variable Allowances to basic salary from 1st January 2012, the 10% PBVA is now being continued within the framework of the 20% interim allowance that is now bifurcated into 10% PBVA and 5% Corporation Allowance of the revised basic salary.

Based on the audited accounts for 2011 and the Audit certified achievements vis-à-vis the 2011 PLIS, the performance of Druk Green in respect of the 2011 Compact is 100%.

PERFORMANCE LINKED INCENTIVE SCHEME

As per the assessment carried out and audited for the 2011 PLIS, it is observed that the overall performance of Druk Green is 78.06% as compared to 81.31% in 2010. The performance level has been proportionately ratcheted downwards to keep the incentive payouts within the overall two months' basic salary ceiling prescribed in the PLIS document. This is equivalent to an average of 67% achievement in terms of incentive payouts although the actual achievement was much higher at 78.06% for the year.

ENTERPRISE RESOURCE PLANNING (ERP)

The successful implementation of the SAP-ERP in Druk Green in the year 2011 was one of the high points of the year. The Company migrated from the Tally Accounting System to SAP Enterprise Resources Planning System with effect from 1st June 2012. With the implementation of SAP, all the stand-alone systems were integrated to ERP-SAP resulting in uniformity in the business policies and procedures. All the business processes were documented and wherever possible, process improvements were made. Further, with proper role authorization matrix, the assignment of conflicting roles has been avoided. All business policy and process change has been centralized at Corporate Office, enabling proper control, and check and balance.

A dedicated core team for sustaining the ERP-SAP system has been created with the required expertise. ERP-SAP was also implemented for DHPC through Druk Green. Druk Green's team is also helping the Mangdechhu project in implementing ERP-SAP for MHPA.

STATUTORY AUDITORS

M/s TR Chadha & Co. Chartered Accountants from Delhi undertook the statutory audit of Druk Green for the year 2011. The Statutory Auditors for the Company, M/s TR Chadha & Co., provided very valuable guidance and advice in further improving the overall management of the Company's finances, inventories and assets.

CORPORATE SOCIAL RESPONSIBILITY

Druk Green contributed to a wide range of causes encompassing religion, culture and heritage, humanitarian, sports, education and youth, social and economic development, and the environment amounting to Nu. 16.195 million during the year. As a leader in Corporate management, Druk Green has been increasingly involved in more of such activities as part of its overall Corporate Social Responsibility. The employees of Druk Green have also been generously contributing to many of these causes, through fund collections and labour inputs.

While the regular CSR activities are continuing, during 2011, the rural electrification works for the Toktogom village (on left bank of Tala dam) and Phasuma village (on left bank of Tala power house) were completed. Since 2011, Druk Green also started to provide maintenance services to the 100 kW Sengor micro hydropower plant through the Kurichhu plant as part of its CSR. Druk Green further contributed and play a key role in the flood-lighting project for the Changlimithang grounds.

It is envisaged that through the CSR programs, Druk Green will continue to promote activities that propagate the name "Green" of the Company with support at both the Company and the employee levels.

KEY CHALLENGES

Amongst many issues and challenges that Druk Green encounters on a day to day basis and also with the new projects Druk Green is taking on, it is to highlight a number of the more immediate challenges facing Druk Green.

i) Development of Human Resources

Given its crucial role in the "10,000 MW by 2020" hydroelectric projects, Druk Green continues to place top priority on building its capacity in human resources in terms of quantity as well as quality to cater to the growing needs of the organization. Druk Green has been investing a lot of its time and funds in the development of human resources at various levels with over Nu. 74 million spent during the year 2011 in trainings, seminars, workshops, skills up-gradation programs, and attachments to other utilities. As a measure to build technical expertise and gain experience, Druk Green has so far deputed over 50 of its employees, almost entirely engineers, to the major hydropower projects under construction in Bhutan. More and more of the trainings are also being conducted within Bhutan.

Despite these concerted efforts, Druk Green is faced with huge challenges in acquiring the required human resources. Firstly, it is extremely difficult to attract the people with right skills sets with Druk Green managing to recruit only 61 employees at various levels against the set target of recruiting 200 employees for the year 2011. Secondly, Druk Green is also faced with the retention challenges. Over 87 employees left the organization through voluntary resignations with just a couple leaving on superannuation. During 2011, the number of employees in the organization actually decreased by 3.01% due mainly to the much higher levels of competition for the same skills, better compensation and benefits offered mostly by the hydropower projects under construction and to a certain extent by the private sector, and a career growth path and working environment that some feel are restrictive considering a market place that is opening up. The Civil Service continues to be the choice of employment for every graduate/job seeker with just a few exceptions.

Druk Green will need to look at ways and means to attract new recruits, train and provide them with the expertise for the intended jobs immediately, and ensure pay and allowances to encourage them to stay on with the Company. This will be crucial if the Company is to succeed in fulfilling its multi-faceted mandates.

ii) Financing the Huge Planned Investments

Druk Green is planning huge investments not only to sustain the present operation and maintenance of the existing power stations but also to upgrade and automate some of the older plants. The Chhukha power plant has been in operation for over 25 years and major investments will be required to be made especially in the refurbishing of some of the electro-mechanical equipment as was evident by the failure of the insulation in one of the generating units in September 2011. Some refurbishment activities have already been initiated for CHP.

The 10% retention of funds from PAT barely meet the capital investments in the regular O&M of the plants, let alone the expected major investments for refurbishments.

Druk Green also has to invest in the new hydropower stations. Aside from the Dagachhu and the planned Nikachhu and other such projects that Druk Green is developing, investments for the cost sharing in the Bunakha reservoir scheme by the downstream projects is estimated at over Nu. 3.5 billion in equity alone. Over the next five years, Druk Green would be investing over Nu. 16.5 billion in the existing power plants and the equity participation in the new power plants if the approved plans are to be implemented. This does not include the equity that the GOI has committed to the RGOB for the JV projects, which presently is estimated at Nu. 22 billion.

There is an urgent need for Druk Green to consider its plans vis-à-vis its capabilities to finance the huge investments and to explore various options for arranging the funds. A Dividend Policy in keeping with the planned investments is over-due and needs to be addressed.

iii) Operational Complexities

While Druk Green continues to improve and optimize on the operation and maintenance of the existing power plants, the profitability of the Company has been declining over the years mainly on account of increasing domestic demand coupled with changes effected by the Government in the treatment of its revenues. This needs to be addressed appropriately through proper regulatory frameworks to deal especially with the domestic energy pricing and export tariffs.

Druk Green also continues to be faced with a number of the teething problems associated with THP that are yet to be rectified. It is envisaged that huge investments will have to be made especially to stabilize the power house caverns as the solutions are expected to be complex requiring sophisticated long terms solutions. Despite the problems, the Tala plant and the other power plants continue to be operated and maintained with very high plant availability factors. However, sustained efforts in investing in corrective measures and developing local capabilities will be required to ensure that the plants continue to contribute to the overall socio-economic development of the country.

ACKNOWLEDGEMENTS

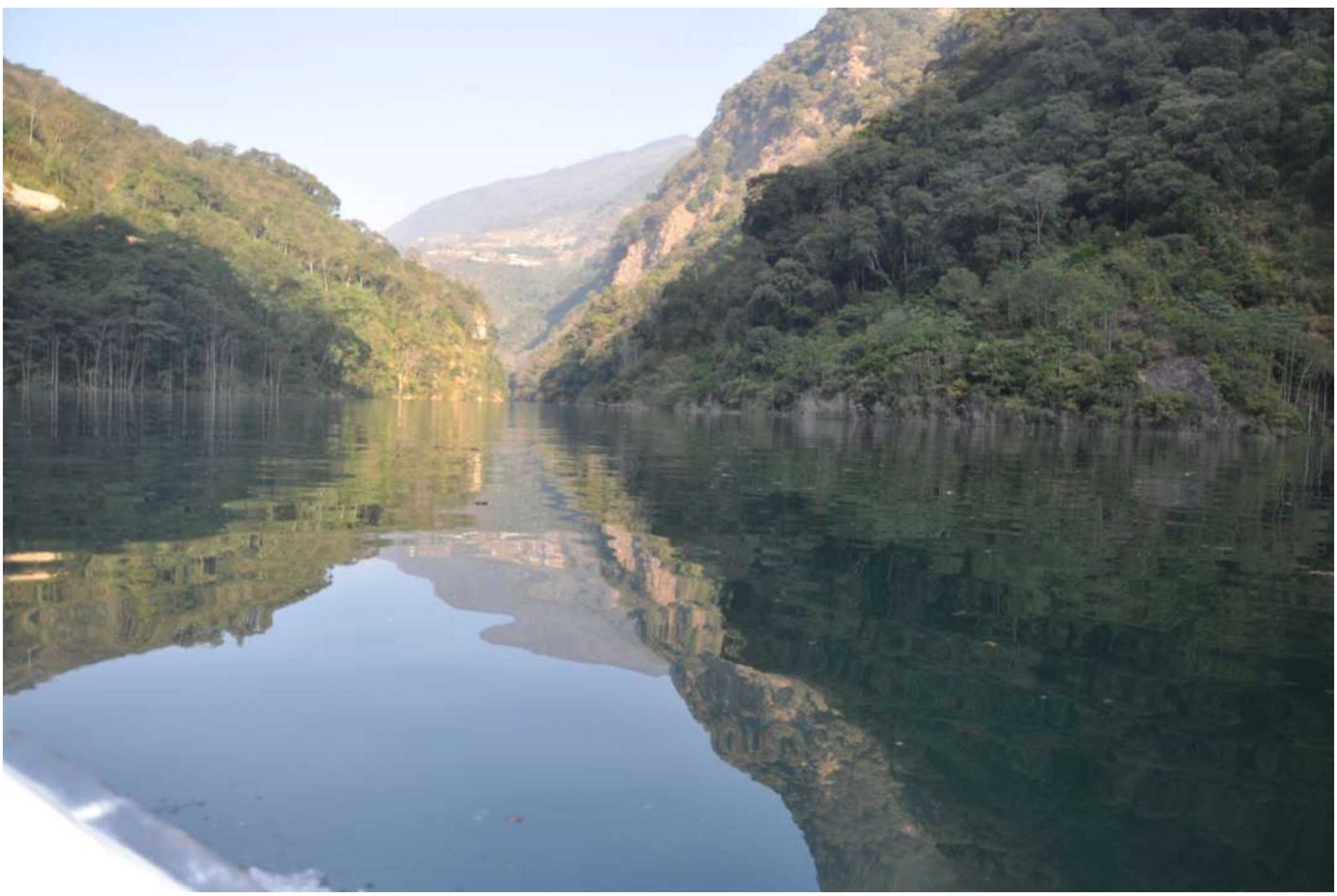
The Board would like convey its earnest gratitude and appreciation to the Royal Government of Bhutan, Druk Holding & Investments, Ministry of Economic Affairs, Ministry of Finance, Department of hydropower & Power System, Bhutan Electricity Authority, Bhutan Power Corporation, National Environment Commission and other organizations in Bhutan; to the Government of India, Central Water Commission, Central Electricity Authority, PTC India Ltd, Powergrid, Bharat Heavy Electricals Limited, and other agencies in India; and to the many private sector agencies in Bhutan and India that have provided continued support to the Company.

The Board would also like to place on record our appreciation for the Managing Director, the Druk Green Management team and all its employees for their dedicated work and contributions to the performance of the Company. The Board would like to urge the management of Druk Green to continue to work toward achieving the enormous tasks ahead; and evolve the governance of the Company in order to emerge as a leader in Corporate Management.

The Board shall continue to fully support the Company in its endeavours in achieving the multi-faceted mandates of Druk Green.

Tashi Delek
For and on behalf of the Board

Karma Tshiteem
Chairman



ORGANIZATION OVERVIEW
Vision, Mission and Values

VISION

"To promote, develop and manage renewable energy projects, particularly hydropower, in an efficient, responsible and sustainable manner, and to maximize wealth and revenues to the nation".

MISSION

Druk Green has set its missions to:

Mission 1 : Effectively and efficiently manage hydropower plants, and maximize returns;

Mission 2 : Take a lead role in accelerating hydropower development in the Kingdom;

Mission 3 : Provide energy security for domestic consumption, fuel economic growth, and also explore other forms of renewable energy other than hydropower;

Mission 4 : Build capacity in hydropower development and management; and

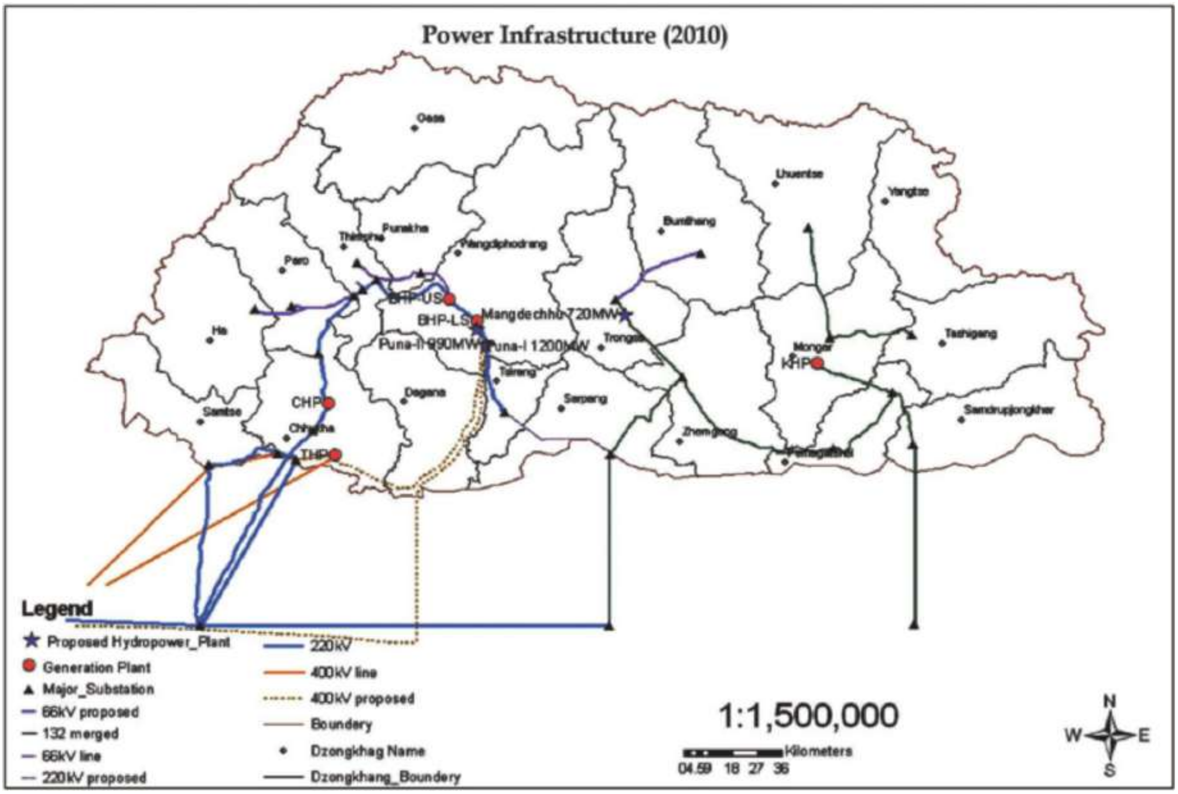
Mission 5 : Be a responsible, proactive and progressive company.

VALUE

'Unyielding Integrity in Spirit and Letter'

DRUK GREEN SYSTEMS

Bhutan has an estimated hydropower potential of around 30,000 MW of which around 23,760 MW is techno-economically feasible for immediate development. The total installed capacity of Druk Green is 1,480 MW comprising just 4.96% of this vast potential. Druk Green presently operates four power plants namely the Basochhu Hydropower Plant (BHP), Chhukha Hydropower Plant (CHP), Kurichhu Hydropower Plant (KHP), and Tala Hydropower Plant (THP). The locations of the four power plants with their respective important salient features are as below:



Basochhu Hydropower Plant	
Catchments area:	226 km2
Net Head:	356/459 m for Upper / Lower Stage
Installed Capacity:	24/40 MW for Upper/ Lower Stage
Number of Units:	2x12/2x20 MW for Upper/Lower Stage
Mean Annual Generation:	291 GWh
Turbine Type:	Pelton

Chhukha Hydropower Plant	
Catchments area:	3108 km2
Net Head:	435 m
Installed Capacity:	336 MW
Number of Units:	4x84 MW
Mean Annual Generation:	1800 GWh
Turbine Type:	Pelton

Kurichhu Hydropower Plant	
Catchments area:	9135 km2
Net Head:	32 m
Installed Capacity:	60 MW
Number of Units:	4x15 MW
Mean Annual Generation:	400 GWh
Turbine Type:	Kaplan

Tala Hydropower Plant	
Catchments area:	4028 km2
Net Head:	819 m
Installed Capacity:	1020 MW
Number of Units:	6x170 MW
Mean Annual Generation:	4865 GWh (average year)
Turbine Type:	Pelton

CORPORATE GOVERNANCE
BOARD OF DIRECTORS

Dasho Karma Tshiteem is the Secretary of the Gross National Happiness Commission. He pursued his degree in Bachelor in Commerce from Sherubtse College, Bhutan and his Masters in Business Administration from University of Canberra, Australia. Before his current appointment, he served as the Deputy Secretary, Planning and Policy Division, Ministry of Finance.

Dasho Bharat Tamang is the Managing Director of the Bhutan Power Corporation Ltd. He pursued his Bachelor of Technology in Electrical Engineering from India and his Masters degree in Electrical Engineering from the University of Missouri, USA. Before his current appointment, he worked as the Energy Specialist, Chief Engineer in the Department of Energy, under the then Ministry of Trade and Industry. He was conferred the red scarf by His Majesty the King on December 17, 2009.

Yeshi Wangdi is the Director General of the Department of Hydropower and Power System, Ministry of Economic Affairs. He pursued his Bachelor of Technology (B Tech) in Electrical Engineering from India and Masters degree in Electrical Engineering from the University of Missouri, USA. Prior to his current posting, he served as a Managing Director of the then Chhukha HydroPower Corporation Ltd from 1999 to 2007.

Choiten Wangchuk is the Director of the Department of National Budget, Ministry of Finance. He pursued a Bachelor of Commerce degree from Sherubtse College, Bhutan and an MBA from the University of Canberra, Australia. Prior to taking up his current position, he served as the Chief Planning Officer in the Policy and Planning Division, Ministry of Finance.

Sonam Lhundrup is the Company Secretary and General Counsel of Druk Holding & Investments. He pursued the Bachelor of Arts (Eng. Hons) from the University of Delhi and has a Bachelor in Law from the University of Mumbai. He has also received LLM degree from the George Washington University Law School, Washington DC, USA. He joined Druk Holding & Investments in 2008. Prior to that, he was with the Ministry of Agriculture.

Kinga Tshering is the Chief Executive Officer of DHI-INFRA. He pursued his degree in Mechanical Engineering from the University of Kansas, USA, Masters in Business Administration from Pepperdine University, California and Masters in Dispute Resolution (MDR) from the School of Law, Pepperdine University, and General Management Program (GMP) from the Indian Institute of Management, Ahmedabad (IIM-A). Prior to his present posting, he was the Chief Executive Officer of the Bank of Bhutan.

Dasho Chhewang Rinzin was appointed as the Managing Director of Druk Green Power Corporation Limited in 2008. He pursued his Bachelors in Electrical Engineering and Masters in Electrical Engineering from the University of Wisconsin, USA. He was conferred the red scarf by His Majesty the King on December 17, 2009 in recognition of his services to the nation, particularly in the energy sector. Prior to his present appointment, he was the Managing Director of Bhutan Power Corporation Limited.

DRUK GREEN EXECUTIVES

Dorji P. Phuntshok is the Director of Project Department of the Company. He pursued Bachelors of Science in Electrical Engineering and Master degree in Electrical Engineering from Drexel University, Philadelphia, USA. Prior to his present appointment, he was Chief Engineer of the Tala Hydroelectric Project. He also served as the interim CEO of the Dagachhu Hydroelectric Project.

Ugyen Namgyal is the Director of Finance and Investment of the Company. He pursued the Bachelor of Commerce (Honours) from Sherubtse College, Bhutan and also Bachelor of Business from University of South Australia, Adelaide, South Australia followed by Certified Practicing Accountant Program from CPA Australia. Prior to his current position, he was General Manager, Finance & IT Division, Bhutan Development Finance Corporation Ltd.

Dorji Tenzin Phuntshok is the Executive Director, Human Resource and Administration Department of the Company. He pursued Bachelors degree in Arts from Sherubtse College, Bhutan and Masters in Business Administration from Asian Institute of Technology, Thailand. Prior to his current position, he served as Head, Human Resource and Administration, Chhukha Hydropower Corporation Ltd.

Mr. Lam Dorjee is the Head of Operation and Maintenance of the Company. He pursued Bachelor of Mechanical Engineering from Regional Engineering College, India and Master degree in Mechanical Engineering from University of New Brunswick, Frederiction, Canada. Before his present position, he served as Head of Plant, Chhukha Hydropower Plant.

Kencho Dorji is Chief Engineer of Tala Hydro Power Plant. He pursued Bachelor of Electrical Engineering from University of Wollongong, Australia and his Master Degree in Electrical Engineer from University of New Brunswick, Fredericton,CA. Prior to his present position, he served as General Manager of Basochhu Hydropower Plant.

Yeshi Tenzin is Superintending Engineer, Kurichhu Hydro Power Plant. He pursued Bachelor degree in Mechanical Engineer from Delhi College of Engineering, India and Master degree in Mechanical Enigneer with Alternative fuel research as the concentration, University of Texas, USA. Prior to his current position, he served as General Manager, Kurichhu Hydropower Plant.

Sujan Rai is the Superintending Engineer of Basochhu Hydro Power Plant. He pursued Bachelor in Electrical Engineering and Master degree in Engineering with Specialization in power system. Prior to his current position, he served as Head of Operation and Maintenance, Kurichhu Hydropower Plant.

Rinzin Dorji is the Superintending Engineer of Chhukha Hydro Power Plant. He received Bachelor degree in Electrical Engineering , Punjab Engineer College, Chandigarh, India and Master in Electrical Engineer, University of New Brunswick, Fredericton, Canada. Prior to taking up his present position, he served as Assistant Engineer, Operation Division, Chhukha Hydropower Plant.

AUDITOR'S REPORT
TO THE MEMBERS OF DRUK GREEN POWER CORPORATION LIMITED

1. We report that we have audited the attached Balance Sheet of Druk Green Power Corporation Limited as at 31st December 2011 and the related Profit & Loss Account and Cash flow Statement of the Corporation for the year ended on that date and annexed thereto (hereinafter referred to as "financial statements") all of which we have signed under the reference to this report.

2. We conducted our audit in accordance with the generally accepted auditing standards and in keeping with the "General Terms of Reference and Minimum Audit Examination and reporting Requirements" issued by the Royal Audit Authority, as given in Schedule XIV of the Companies Act of The Kingdom of Bhutan 2000. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion.

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

4. Further to our comments in Annexure as referred to in point 3 above, we report that:

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

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

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

   d. *The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with in this report have been prepared on the basis of generally accepted accounting principles and that the financial statements are in agreement with the books of accounts.*

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

   a. *In the case of Balance Sheet, of the state of affairs as at 31st December 2011 and*

   b. *In the case of Profit and Loss account of the Corporation's profit for the year ended on that date and*

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

For T. R. Chadha & Co.
Firm Registration Number: 006711N
Chartered Accountants

Vikas Kumar

(Vikas Kumar)
Partner
Membership No. 75363

T. R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

Place: Mumbai
Date: 8.5.12

ANNEXURE TO AUDITORS' REPORT

[Referred to in paragraph 3 of the Auditors' Report of even date to the Members of Druk Green Power Corporation Limited on the financial statements for the year ended 31st December' 2011]

1. The Corporation has maintained proper records to show full particulars including quantitative details and situation of its fixed assets. As per policy of the company, Physical verification of fixed assets is being carried out by the management in a phased manner, so that all items of fixed assets are physically verified in a period of three years. Accordingly, the fixed assets were physically verified by the management during the year 2010 and no such verification has been done during the current year.

2. The fixed assets of the corporation have not been revalued during the year.

3. As the corporation is engaged in the generation of electricity, there are no finished goods or raw materials.

   Physical verification of civil, mechanical and electrical stores and spare parts has been conducted during the year and no material discrepancies have been noticed. Certain items have been identified as unserviceable and the corporation has initiated necessary action for their valuation and disposal plans. However, these are fully provided for in the accounts.

4. In our opinion and according to information and explanation given to us, the procedures of physical verification of stock (stores and spares) followed by the management are reasonable and adequate in relation to the size of the Corporation and the nature of its business but the system needs to be more strengthened.

5. On the basis of our examination of the inventory records, in our opinion, the Company has maintained proper records for inventory. Discrepancies noticed on physical verification of inventory as compared to book records were not material. *The management has to take necessary steps to strengthen the control over inventory system.*

6. In our opinion, the valuation of year-end stocks has been fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the earlier years, *except that no provision is made regarding obsolete non-moving and slow moving items in inventory due to absence of information.*

7. According to the information and explanations given to us, there is no corporation/company/firm under the same management from which a loan or an advance has been taken by the Corporation.

8. According to the information and explanations given to us, the Corporation has not granted any loan to corporation/company/firm under the same management.

9. There are no parties to whom the loans and advances have been given by the Corporation which are repayable with interest.

10. Advances granted to officers/staff are generally in keeping with the provisions of service rules and no excessive/ frequent advances are granted and there is no accumulation of large advances against any particular individual.

11. According to information and explanation given to us during the course of our audit, in our opinion, internal control systems of the Corporation are commensurate with its size and the volume of business to ensure completeness, accuracy and reliability of accounting records, to carry out the business in an orderly and efficient manner, to safeguard the assets of the Corporation as well as to ensure adherence to the applicable rules/ regulations, systems and procedures. *However, the internal control systems of Tala Hydropower Plant need to be strengthened specially towards inventories, capitalization of fixed assets, etc. The Corporation has a centralized internal audit unit, the scope of which needs to be strengthened to cover main areas of operations, compliances, etc. and to monitor the internal control systems of the corporation.*

12. In our opinion and according to the information and explanations given to us, having regard to the exception that some of the items purchased are of special nature and suitable alternative sources do not exist for obtaining comparable quotations thereof, there is an adequate system of competitive bidding, commensurate with the size of the Corporation and the nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets. As the Corporation is engaged in electricity generation, it has no requirement of raw materials.

13. The Corporation sells its electricity generated to the Power Trading Corporation of India Limited (at rates fixed manually by the Royal Government of Bhutan and the Government of India) and to Bhutan Power Corporation Limited for sale in Bhutan and other private parties (at the rates fixed by relevant authority). Hence, the question of competitive bidding for sale of goods and services, in our opinion, is not applicable to the Corporation.

    According to the information and explanations given to us, the Corporation has not made any transaction for purchases and sale of goods and services during the year in pursuance of contracts or arrangements entered into with director(s) or any other party(ies) related to the director(s) or with company or firms in which the director(s) are directly or indirectly interested. The corporation has transactions with other Companies/Corporations where the Directors of the Corporation are nominated as directors by Royal Government of Bhutan and such companies/corporations are not considered as organizations where the directors have any direct or indirect interest.

14. As explained to us, the Corporation has a procedure for determination of unserviceable or damaged stores. Provisions have been made in accounts for loss arising out of obsolescence of such stores and spare parts.

15. As the Corporation is engaged in the business of generation of electricity, there is no stock of raw material or finished goods and hence the question of ascertaining unserviceable/damaged raw material and finished goods does not arise. However, in our opinion there is adequate system of ascertaining any losses in transmission, at the point of occurrence, for taking corrective actions.

16. The Corporation is maintaining reasonable records for generation of electricity. In our opinion, reasonable records of energy received and energy distributed are maintained by the Corporation.

    The Statement of Energy Generation, Statement of Gross Energy Available for sale/use for the year 2011 and Statement of Gross Energy Available for sale/use for the year 2010 have been given in Exhibit 1, (2A, 2B, 2C, 2D), (3A, 3B, 3C, 3D) respectively.

17. The Corporation is maintaining reasonable records for sale and disposal of realizable scrap. The Corporation does not generate any by-products.

18. The Corporation has been generally regular in depositing rates and taxes, duties, provident fund and other statutory dues with the appropriate authorities, *excepting in few instances the Head office failed to deduct/deposit Tax Deducted at Source within the time limit.* In our opinion, the provision for Corporate Tax is adequate and that necessary adjustments have been made to compute amount of tax required under the Rules on the Income Tax Act of the Kingdom of Bhutan – 2001.

19. As explained to us, as on the last day of the financial year, there was no undisputed liability payable in respect of rates, taxes, duties, royalties and other statutory dues except as given in Note 18 of Notes to Accounts.

20. According to the information and explanations given to us, and on the basis of our test checking of the accounts and other books and records, to the best of our knowledge, no personal expenses have been debited to the Profit & Loss account other than those payable under contractual obligations/service rules and/or in accordance with generally accepted business practice.

21. Since the Corporation is engaged in generation of electrical energy from hydropower, this clause is not applicable to the Corporation. However, the Corporation has a reasonable system of recording receipts, issues and consumption of stores and allocating to the respective heads of accounts, which are commensurate with its size and nature of its business.

22. Quantitative reconciliation is carried out at the end of the accounting year in respect of electricity and shown in the "Notes to Accounts".

23. According to the information and explanations given to us, and on the basis of our test checking of the accounts and other books and records, proper approval of Board / appropriate authority is obtained for writing off amounts due to material loss / discrepancies in physical / book balances of inventories including stores and spares.

24. Since the Corporation is engaged in generation of electrical energy from hydropower, this clause regarding system of allocating man hours utilized to the respective job is not applicable to the Corporation.

25. There is a reasonable system of authorization at proper levels and adequate systems of internal control commensurate with the size of the Corporation and the nature of its business, on issue of stores and allocation of materials to respective cost centers (i.e. job sites). However, the internal control systems of Tala Hydropower Plant need to be strengthened towards issue of stores and allocation of materials to respective cost centers.

26. Electricity generated by the Corporation is being sold mainly to the Power Trading Corporation of India Limited, the sale price of which is fixed mutually by the Royal Government of Bhutan and Government of India. As regards sale of energy to the Bhutan Power Corporation Limited, the selling price is being fixed by the relevant authority, so the question of price fixation by taking into account the cost of production and market condition does not arise.

27. In our opinion, the credit sales policy of the Corporation is reasonable and proper. As stated above in clause 26 of this Annexure, the question of credit rating of customers does not arise.

28. Since the Corporation does not sell electricity through commission agents, this Clause is not applicable.

29. In our opinion, there is a reasonable system of continuous follow up with debtors and other parties. The age-wise analysis of outstanding amounts recoverable from other parties is being carried out for management information and follow up action.

30. In our opinion and according to the information and explanations given to us, the management of liquid resources particularly cash/bank and short term deposits etc. are adequate and that excessive amounts are not lying idle in non-interest bearing accounts. The Corporation has not withdrawn any excess amounts as loans leading to avoidable interest burden on the company.

31. In our opinion and to the extent our examination reveals, the business activities carried out by the Corporation are lawful and intra-vires to its Articles of Incorporation.

32. Investment decisions related with new projects are made with prior approval of the Board. Investments in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.

33. The Corporation has a suitable budgetary control system.

34. Since the Corporation is engaged in the generation of hydroelectricity, no input output relationship can be established. The Corporation does not have a system of standard costing but operational variances are analyzed at periodic intervals against budgeted norms.

35. In our opinion and to the extent revealed by our examination, the details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Managing Director or to any of their relatives by the Corporation, directly or indirectly, are disclosed in Para No. 20 of

Schedule 23 to the Accounts.

36. In our opinion and on the basis of examination of books and records, the directives of the Board have been complied with.

37. According to the information and explanations given to us, the officials of the company have not transmitted any price sensitive information, which are not made publicly available, unauthorizedly to their relatives / friends / associates or close persons which directly or indirectly benefit themselves. We have however relied on the management assertion on the same and cannot independently verify the same.

38. Computerized Accounting Environment:

   1. *The Corporation has introduced SAP during the year from 1st June 2011 for accounting system along with the existing packages in some operations fields like accounting, payroll, inventory management system and personal information system. In our opinion, organizational and system development controls and other internal controls are adequate relative to the size and nature of computer installation of the Corporation.*
   2. *In our opinion, the Corporation has adequate measures and back up facilities commensurate with the size and nature of computer installation.*
   3. *The operational controls in the Corporation are generally adequate to ensure correctness and validity of input data and output information.*
   4. *According to the information and explanations given to us, measures to prevent unauthorized access to the computer installation and files are adequate.*
   5. *The Corporation has a Disaster Recovery Plan (DRP) in place commensurate with the size and nature of business of the Corporation.*

39. General

1. Going Concern Problems

On the basis of the attached Financial Statements as at 31st December, 2011 and according to the information and explanations given to us, the financial position of the corporation is healthy and we have no reason to believe that the Corporation is likely to become sick in the near future.

2. Ratio Analysis

Financial and Operational Results of the Corporation has been given in Exhibits – 4A-4B to this report.

3. Compliance with the Companies Act of the Kingdom of Bhutan.

According to the information and explanations given to us by the management and based on a Compliance Checklist completed by the Corporation Officials, the Corporation has generally complied with the provisions of the Companies Act of the Kingdom of Bhutan, 2000 except in few cases. Details are given in Exhibit- 4C to this report.

4. Adherence to Laws, Rules and Regulations

On the basis of our examination of the books and records of the Corporation and according to the information and explanations given to us, we have neither come across nor have we been informed of any non compliance to the Companies Act of the Kingdom of Bhutan 2000 (except as mentioned above) and the relevant laws under the Bhutan Electricity Act. In respect of compliance with other Acts prevalent in the Kingdom of Bhutan, we cannot properly comment on the same in the absence of any information provided to us in this matter. Management of the Corporation needs to establish proper and comprehensive compliance assurance systems for all other acts.

For T. R. Chadha & Co.
Firm Registration Number: 006711N
Chartered Accountants

Vikas Kumar

(Vikas Kumar)
Partner
Membership No. 75363

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

Place: Mumbai
Date: 8.5.12

RATIO ANALYSIS

Sl.No.	Particulars	2011	2010	Remarks
A. Ratios for assessing financial health (In numbers)				
I	Debt Equity Ratio	0.50	0.55	The ratio has decreased due to decrease in the loan obligation due to repayment.
II	Current Ratio	1.44	1.32	The ratio has improved due to increase in the maturity of long-term FDR
III	Liquid Ratio	1.33	1.25	The ratio has improved due to increase in the maturity of long-term FDR
IV	Fixed Assets to Equity	1.36	1.41	The ratio has decreased due to increase in equity on account of increase in General Reserve and decrease in Fixed Assets (Net Block) due to increase in Accumulated Depreciation
V	Fixed Assets to Turnover	0.21	0.22	The ratio has decreased due to decrease in revenue on account of less generation during the year and also due to direct remittance of royalty energy sales to Ministry of Finance
B. Ratios for assessing profitability (In percentage)				
I	Return on Equity (%)	10.38	11.99	The ratio has decreased due to increase in general reserve and decreases in profit compared to the previous year.
II	Return on Capital Employed (%)	12.01	13.48	The ratio has decreased due to decrease in profit. Further, the decrease is also due to direct remittance of royalty energy sales to Ministry of Finance
III	Generation and Maintenance Expenses to Electricity Revenue (%)	9.59	10.31	The ratio has decreased due to the decrease in operation and maintenance expenses during the current year.
IV	Dividend to Share Capital (%)	11.26	12.62	The decrease is mainly attributable to decrease in the profit due to less energy generation
C. Ratios for assessing cash flow efficiency (in numbers)				
I	Cash flow turnover	0.66	0.64	Slight increase mainly due to decrease in the revenue during the year 2011
II	Operation Index	1.80	1.63	Increase is mainly on account of decrease in profit after tax
III	Cash flow return on assets	0.18	0.18	Has remained same

FINANCIAL STATEMENT

Balance Sheet as at 31st December 2011			
Particulars	**Schedules**	**Nu. 2011**	**Nu. 2010**
Sources of Funds			
Shareholders' Fund			
Share Capital	1	30,508,291,000.00	30,508,291,000.00
Reserve & Surplus	2	7,389,218,756.10	**6,934,356,146.56**
		37,897,509,756.10	37,442,647,146.56
Loan Fund	3		
Unsecured loan		18,891,548,188.84	20,478,092,235.83
Total		**56,789, 057,944.94**	**57,920,739,382.39**
Application of Funds			
Fixed Assets			
Gross Block	4	60,660,697,246.48	59,981,806,013.84
Less: Depreciation		9,712,676,827.95	7,520,617,686.09
Net Block		50,948,020,418.53	52,461,188,327.75
Provision for Losses: Assets		(2,500,572.57)	
Add: Capital Work in Progress		603,116,226.05	372,267,845.19
		51,548,636,072.01	**52,833,456,172.94**
Investments	5	3,295,354,729.96	3,469,484,007.76
Current Assets, Loans and Advances			
Cash and Bank Balance	6	1,543,766,104.41	244,775,658.59
Short Term Investments	7	2,263,710,547.95	3,788,962,000.00
Sundry Debtors	8	1,437,034,956.75	1,376,347,843.30
Inventories	9	408,475,870.28	292,958,616.95
Accrued Interest on Investment	10	144,421,931.98	157,827,990.61
Other Current Assets	11	302,111,589.03	314,516,954.41
Loans and Advances	12	240,313,944.19	483,644,871.53
		6,339,834,944.59	**6,659,033,935.39**
Less: Current Liabilities and Provision			
Current Liabilities	13	695,770,807.37	535,949,994.62
Provisions	14	3,698,996,994.25	4,505,284,739.08
		4,394,767,801.62	**5,041,234,733.70**
Net Current Assets		**1,945,067,142.97**	**1,617,799,201.69**
Total		**56,789,057,944.94**	**57,920,739,382.39**

Significant Accounting Policies & Notes on Accounts 23
This is the Balance Sheet referred to in our report of even date
Schedule referred to above form an integral part of the Accounts

For T.R. Chadha & Co.
Chartered Accounts
Firm's Registration No.006711N

Vikas Kumar
(Vikas Kumar)
Partner
Membership No.75363

Date:- 8 · 5 · 12
Place:- Mumbai

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

(Dasho Karma Tshiteem)
Chairman, Druk Green & Secretary GNHC

(Dasho Chhewang Rinzin)
Managing Director

(Ugyen Namgyel)
Director Finance

INCOME STATEMENT

Profit and Loss Statement for the year Ended 31st December 2011

Particulars	Schedule	Nu. 2011	Nu. 2010
Income			
Electricity Revenue	15	10,705,219,448.87	11,529,585,467.17
Interest Earned	16	194,831,222.94	225,449,025.99
Other Income	17	48,279,712.53	56,429,480.59
		10,948,330,384.34	**11,811,463,973.75**
Expenditure			
Operation and Maintenance Expenses	18	959,028,610.25	954,581,680.88
Employees' Remuneration and Benefits	19	608,147,245.77	530,583,883.17
Other Expenses	20	331,118,574.18	105,978,499.06
Purchase of Energy	21	67,180,227.90	233,871,421.60
Interest on Borrowings		1,183,968,243.20	1,320,237,545.94
Depreciation		2,198,541,029.84	2,156,771,421.44
		5,347,983,931.14	**5,302,024,452.09**
Operating Profit		**5,600,346,453.20**	**6,509,439,521.66**
Less:			
Extra Ordinary (Gains)/Losses	22	(37,889,068.37)	22,701,192.34
Profit Before Tax		**5,638,235,521.57**	**6,486,738,329.32**
Income Tax for earlier years		-	26,036,569.26
Provision for tax		1,705,148,993.04	1,972,107,493.89
Profit After Tax		**3,933,086,528.53**	**4,488,594,266.17**
Appropriations			
Transfer to General Reserve		497,450,607.60	639,624,682.90
Interim Dividend Paid		1,477,840,000.00	1,359,936,000.00
Proposed Dividend		1,957,795,920.93	2,489,033,583.27
		3,933,086,528.53	**4,488,594,266.17**

Significant Accounting Policies & Notes on Accounts 23

This is the Profit and Loss Account referred to in our report of even date

Schedule referred to above form an integral part of the Accounts

For T.R. Chadha & Co.
Chartered Accounts
Firm's Registration No.006711N

Vikas Kumar

(Vikas Kumar)
Partner
Membership No.75363

Date:- 8 · 5 · 12
Place:- Mumbai

(Dasho Karma Tshiteem)
Chairman, Druk Green & Secretary GNHC

(Dasho Chhewang Rinzin)
Managing Director

(Ugyen Namgyel)
Director Finance

CASHFLOW STATEMENT

Statement of Cashflow for the year ended 31st December 2011

Particulars	Nu. 2011	Nu. 2010
Cashflow from operating activities		
Profit before taxation	5,638,235,521.57	6,486,738,329.32
Adjustment for:		
Depreciation	2,198,541,029.84	2,156,771,421.44
Foreign Exchange Loss	215,642,912.96	(23,231,308.41)
Investment Income	(194,831,222.94)	(225,449,025.99)
Interest Expenses	1,183,968,243.20	1,320,237,545.94
(Increase)/Decrease in Sundry Debtors	(60,687,113.45)	(107,748,867.52)
(Increase)/Decrease in Inventories	(115,517,253.33)	(64,276,277.32)
(Increase)/Decrease in Other Current Asset	12,405,365.38	(208,806,446.24)
(Increase)/Decrease in Loans and Advances	243,330,927.34	8,505,453.11
Increase/(Decrease) in Current Liabilities	(55,458,788.05)	(27,966,994.27)
Increase/(Decrease) in Provision	(8,091,581.64)	6,988,857.53
Cash generated from Operation	**9,057,538,040.88**	**9,321,762,687.59**
Income Tax Paid	(1,972,107,493.89)	**(1,992,837,885.00)**
Net Cash from Operating Activities	7,085,430,546.99	7,328,924,802.59
Cash flow from investing activities		
(Increase)/Decrease in Fixed Asset	(913,720,928.91)	(620,953,841.47)
(Increase)/Decrease in Long Term Investment	174,129,277.80	2,087,055,570.50
Interest Received	208,237,281.57	180,775,534.77
Net Cash used in investing activities	**(531,354,369.54)**	**1,646,877,263.80**
Cashflow from financing activities		
Increase/(Decrease) in Reserve	(42,587,998.06)	(1,580,421,378.30)
Increase/(Decrease) in Loan Fund	(1,627,476,159.17)	(1,299,310,628.71)
Interest Paid	(1,143,399,443.18)	(4,452,427,334.91)
Dividend Paid	(3,966,873,583.27)	
Net Cash used in financing activities	**(6,780,337,183.68)**	**(7,332,159,341.92)**
Net increase in cash and cash equivalents	**(226,261,006.23)**	**1,643,642,724.47**
Cash and cash equivalents at the beginning of the period	**4,033,737,658.59**	**2,390,094,934.12**
Cash and cash equivalents at the end of the period	**3,807,476,652.36**	**4,033,737,658.59**

This is the Cash Flow Statement referred to in our report of even date

For T.R. Chadha & Co.
Chartered Accounts
Firm's Registration No.006711N

Vikas Kumar

(Vikas Kumar)
Partner
Membership No.75363

Date:- 8.5.12
Place:- Mumbai

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

(Dasho Karma Tshiteem)
Chairman, Druk Green & Secretary GNHC

(Dasho Chhewang Rinzin)
Managing Director

(Ugyen Namgyel)
Director Finance

SCHEDULE FORMING PARTS OF ACCOUNTS

Particulars	Nu. 2011	Nu. 2010
Schedule 1: Share Capital		
Authorized Share Capital	50,000,000,000.00	50,000,000,000.00
50,000,000 equity shares@ Nu. 1,000 per share		
Subscribed and Paid-up Share Capital	30,508,291,000.00	30,508,291,000.00
30,508,291 equity share @ 1,000 per share		
	30,508,291,000.00	30,508,291,000.00
Schedule 2: Reserve & Surplus		
General Reserve		
Opening Balance	6,934,356,146.56	6,294,731,463.66
Add: Transferred from Profit & Loss	497,450,607.60	639,624,682.90
Less: Transitional provision for Gratuity as per IAS-19 provided	42,587,998.06	-
	7,389,218,756.10	**6,934,356,146.56**
Schedule 3: Unsecured Loan		
Term Loans:		
Government of India Loan	9,839,993,493.71	11,325,706,849.95
Interest Accrued During Project Construction Phase	5,786,943,628.82	6,162,936,529.26
Government of Austria Loan	1,924,623,215.42	2,069,948,078.14
ADB-ADF Loan	1,273,786,227.69	894,231,267.46
Interest Accrued but not due (greater than one year)	66,201,623.20	25,269,511.02
	18,891,548,188.84	**20,478,092,235.83**

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

FIXED ASSETS	GROSS BLOCK					DEPRECIATION					NET BLOCK	
	Opening Balance as at 01/01/2011	Additions	Disposal	Book Adjustments	Closing Balance as at 31.12.2011	Opening Balance as at 01.01.2011	During the year	Disposal	Adjustments	Closing balance as at 31.12.2011	31.12.2011	31.12.2010
Land and Land Development	146,736,614.34	725,438.40	-	-	147,462,052.74	-	-	-	-	-	147,462,052.74	146,736,614.34
CIVIL STRUCTURES	–											
Buildings	1,801,937,733.12	172,091,338.97	(1,489,359.27)	(851,121.23)	1,971,688,591.59	189,950,226.13	58,809,464.92	(752,556.72)	(288,179.83)	247,718,954.50	1,723,969,636.96	1,611,987,506.99
Walls & Fencings	59,196,115.03	36,453,429.66	-	(4,722,268.75)	90,927,275.94	6,580,045.79	2,065,797.18	-	394,255.13	9,040,098.10	81,887,177.84	52,616,069.24
Road & Culverts	2,565,881,529.97	57,292,022.53	-	9,811,357.16	2,632,984,909.66	178,008,588.56	78,113,583.21	-	(222,381.23)	255,899,790.54	2,377,085,119.12	2,387,872,941.41
Water Supply & Sanitation	202,580,950.67	12,144,720.18	(385,013.48)	3,212,412.60	217,553,069.97	13,181,191.67	6,532,772.75	(5,064.19)	358,763.13	20,067,663.36	197,485,406.61	189,399,759.00
Dam Complex-Civil	10,393,599,845.03	1,881,957.21	-	172,055,394.72	10,567,537,196.96	1,289,796,106.83	314,859,373.31	-	10,285,014.21	1,614,940,494.35	8,952,596,702.61	9,103,803,738.20
Power House Complex- Civil	5,566,491,164.30	-	-	(59,184,395.41)	5,507,306,768.89	750,858,015.31	165,953,738.16	-	(87,513,703.85)	829,298,049.62	4,678,008,719.27	4,815,633,148.99
Transmission Line -Civil	216,328.23	-	-	-	216,328.23	48,750.27	6,489.85	-	0.00	55,240.12	161,088.11	167,577.96
Switch Yard- Civil	139,500,725.02	1.00	-	-	139,500,726.02	22,414,895.68	4,185,021.75	-	0.00	26,599,917.43	112,900,808.59	117,085,829.34
Water Conductor System- Power House	23,592,157,499.71	26,864,681.90	-	(117,231,104.07)	23,501,791,077.54	1,668,840,164.76	705,704,950.34	-	77,100,395.89	2,451,645,510.99	21,050,145,566.55	21,923,317,334.95
Other Civil Structures	48,535,367.42	5,785,716.30	(2,423.20)	(711,745.40)	53,606,915.12	2,837,080.76	1,453,678.96	(30.27)	261,889.35	4,552,618.80	49,054,296.32	45,698,286.66
PLANT AND MACHINERY----												
Trash Cleaning Equipment	132,857,421.25	6.00	-	(32,605.80)	132,824,821.45	23,308,922.50	6,641,916.46	-	(4,350.76)	29,946,488.20	102,878,333.25	109,548,498.75
Gates	866,916,967.28	32.00	-	5,861,151.00	872,778,150.28	249,096,190.59	43,348,252.08	-	5,847,672.67	298,292,115.34	574,486,034.94	617,820,776.69
Generators	3,670,633,268.00	4.00	(2.00)	(128,013,638.80)	3,542,619,631.20	774,306,375.33	177,116,583.03	-	(126,990,954.16)	824,432,004.20	2,718,187,627.00	2,896,326,892.67
Excitation Systems	367,267,349.55	12.00	-	-	367,267,361.55	70,362,713.35	17,763,881.16	-	0.00	88,126,594.51	279,140,767.04	296,904,636.20
Governing Systems	370,200,305.09	18.00	-	(34,663,101.48)	335,537,221.61	77,324,193.99	17,493,864.09	-	(13,388,736.55)	81,429,321.53	254,107,900.08	292,876,111.10
Turbines	2,944,960,299.29	33,191,763.00	-	204,843,972.40	3,182,996,034.69	638,172,179.20	150,447,532.81	-	69,586,145.95	858,205,857.96	2,324,790,176.73	2,306,788,120.09
Runners	211,789,351.79	82,581,098.15	-	57,977,862.35	352,348,312.29	74,449,141.69	57,185,160.75	-	18,115,408.31	149,749,710.75	202,598,601.54	137,340,210.10
Oil Handling Systems	28,666,212.63	1,473,203.80	-	42,138,944.76	72,278,361.19	4,348,656.78	2,720,683.33	-	14,187,355.22	21,256,695.33	51,021,665.86	24,317,555.85
Control & Conditioning Monitoring Systems	299,457,113.87	698,751.00	-	(4,061,124.23)	296,094,740.64	52,520,274.29	14,865,495.82	-	(379,351.09)	67,006,419.02	229,088,321.62	246,936,839.58
Control & Protection Panels	727,857,607.70	31,653,083.64	(5,171,317.35)	(23,729,646.18)	730,609,727.81	152,733,658.03	36,164,572.46	(23,934.56)	(7,562,837.87)	181,311,458.06	549,298,269.75	575,123,949.67
Pumps & Motors	217,666,909.64	681,314.00	-	6,343,706.99	224,691,930.63	30,631,073.30	11,363,067.35	-	1,671,560.14	43,665,700.79	181,026,229.84	187,035,836.34
Transformers	1,206,848,349.66	35.00	(3.00)	(291,451,905.71)	915,396,475.95	268,071,974.28	50,547,297.10	-	(116,130,938.77)	202,488,332.61	712,908,143.34	938,776,375.38
Shunt Reactors	86,089,024.60	-	-	-	86,089,024.60	12,859,357.24	4,304,451.23	-	-	17,163,808.47	68,925,216.13	73,229,667.36
Gas Insulated Switch Gears	918,633,090.61	1.00	-	641,491.44	919,274,583.05	80,537,695.61	45,931,654.52	-	641,485.44	127,110,835.57	792,163,747.48	838,095,395.00
Valves	970,302,756.72	8,765,123.60	-	(13,983,470.54)	965,084,409.78	210,746,628.70	45,545,139.52	-	(6,668,135.62)	249,623,632.60	715,460,777.18	759,556,128.02
Switchyard	4,841,874.00	-	-	-	4,841,874.00	424,493.06	242,093.70	-	-	666,586.76	4,175,287.24	4,417,380.94
Electro-Mechanicals-Others	1,435,999,916.89	22,482,725.77	(4,683,539.52)	149,813,365.94	1,603,612,469.08	258,928,648.64	69,414,473.11	(97,520.27)	156,337,312.81	484,582,914.29	1,119,029,554.79	1,177,071,268.25
Machinery	228,094,662.05	3,919,104.80	-	3,000.00	232,016,766.85	92,974,648.12	29,478,512.88	-	2,998.99	122,456,159.99	109,560,606.86	135,120,013.93

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

TOOLS & SAFETY EQUIPMENT												
Tools and Plants	144,342,251.10	42,405,875.64	(723,816.22)	29,548,023.77	215,572,334.29	59,306,906.30	19,246,477.06	(451,801.92)	5,700,243.34	83,801,824.78	131,770,509.51	85,035,344.80
Fire Fighting and Safety Equipment	68,887,084.73	4,952,028.30	(155,590.08)	(2,675,047.46)	71,008,475.49	33,668,659.54	7,115,017.21	(137,227.08)	(66,341.59)	40,580,108.08	30,428,367.41	35,218,425.19
OTHER ASSETS												
Office Equipment	84,754,043.67	7,787,004.80	(509,026.84)	(2,366,945.13)	89,665,076.50	37,636,902.99	9,515,054.62	(139,647.73)	(3,301,543.86)	43,710,766.02	45,954,310.48	47,117,140.68
Furniture & Fixtures	25,428,170.60	12,831,433.86	(2,033,405.67)	(518,223.41)	35,707,975.38	17,912,720.87	2,243,167.40	(1,567,804.17)	(2,102.53)	18,585,981.57	17,121,993.81	7,515,449.73
Vehicles	174,054,661.03	20,456,063.93	(4,273,041.84)	(3,482,458.50)	186,755,224.62	95,145,972.26	17,125,513.60	(4,180,695.08)	(21,862.33)	108,068,928.45	78,686,296.17	78,908,688.77
Illumination System	196,098,192.27	1,844,511.71	-	(2,931,608.10)	195,011,095.88	50,587,870.73	9,505,009.45	-	(856,552.95)	59,236,327.23	135,774,768.65	145,510,321.54
Information and Technology	70,719,941.62	107,461,623.39	(2,919,142.15)	(36,989.74)	175,225,433.12	24,963,623.05	15,834,145.02	(182,340.11)	(101,635.62)	40,513,792.34	134,711,640.78	45,756,318.57
General Assets	11,605,316.83	6,238,550.93	(708,738.62)	7,679,690.95	24,814,821.89	6,641,665.64	1,631,890.51	(436,536.75)	3,009,106.29	10,846,125.69	13,968,696.33	4,963,651.19
Total	**59,981,806,015.31**	**702,662,674.47**	**(23,054,419.24)**	**(717,025.86)**	**60,660,697,244.68**	**7,520,176,211.84**	**2,200,475,776.70**	**(7,975,158.85)**	**(1.74)**	**9,712,676,827.95**	**50,948,020,418.53**	**52,461,629,803.47**

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

SCHEDULE FORMING PARTS OF ACCOUNTS

Particulars	Nu. 2011	Nu. 2010
Schedule 5: Long Term Investments		
Investment in shares, debenture or bonds:		
Long Term Investment in Bonds and Others	1,393,539,000.00	943,539,000.00
Equity Investment in DHI Infra Ltd	190,000,000.00	-
Equity Investment in DHPC	1,339,015,729.96	921,445,007.76
Fixed Deposit Receipts:		
Long Term Investment (Bhutan National Bank)	228,000,000.00	1,604,500,000.00
Long Term Investment (Druk PNB)	144,800,000.00	-
	3,295,354,729.96	**3,469,484,007.76**

Schedule 6: Cash & Bank Balances		
Cash Balance on Hand:		
Cash in Hand	468,265.69	874,915.85
Bank Balances		
Bank of Bhutan	377,928,571.24	201,069,937.85
Bhutan National Bank	1,163,301,521.47	41,845,235.68
Druk PNB	1,781,806.22	495,918.42
Tashi Bank	150,000.00	150,000.00
Central Bank of India	135,939.79	339,650.79
	1,543,766,104.41	**244,775,658.59**

Schedule 7: Short Term Investments		
Short Term Investment (Tashi Bank)	200,710,547.95	-
Short Term Investment (Bhutan National Bank)	2,063,000,000.00	2,363,962,000.00
Short Term Investment (Bank of Bhutan)	-	466,000,000.00
Short Term Investment (Druk PNB)	-	959,000,000.00
	2,263,710,547.95	**3,788,962,000.00**

Schedule 8 : Sundry Debtors (Unsecured, Considered good)		
a) Outstanding for the period of exceeding six months		
b) Others	584,268,769.37	416,201,909.10
Sundry Debtors - BPC	554,990.02	-
Sundry Debtors - Others	852,211,197.36	960,145,934.20
Sundry Debtors - PTC	**1,437,034,956.75**	**1,376,347,843.30**

Schedule 9: Stores & Spares		
Stores & spares	410,695,425.09	295,125,420.12
Less: Provision for Losses: Inventory	(2,219,554.81)	(2,166,803.17)
	408,475,870.28	**292,958,616.95**

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

Schedule 10: Accrued Interest on Investment		
Accrued Interest on Investment	144,421,931.98	157,827,990.61
	144,421,931.98	**157,827,990.61**

Schedule 11: Other Current Assets		
Prepaid Expenses	70,124,817.79	71,845,379.39
Deposits- Miscellaneous	1,595,447.07	1,006,772.37
Tax Deducted at Source - Receivables	14,851,417.52	22,731,034.59
Other receivables	215,539,906.65	218,933,768.06
	302,111,589.03	**314,516,954.41**

Schedule 12: Loans & Advances		
Recoverable in Cash or in Kind or its value		
Staff Advance	3,325,802.23	2,050,690.24
Advance to Supplier/contractor	121,637,578.45	314,001,445.28
Advance Corporate Income Tax	115,350,563.51	167,592,736.01
	240,313,944.19	**483,644,871.53**

Schedule 13: Current Liabilities		
Security Deposit- Suppliers & Others	43,258,557.42	46,737,100.11
Sundry Creditors	295,857,185.96	73,493,310.15
Other Liabilities:		
Outstanding Liabilities to contractors	50,508,211.82	118,698,497.46
Outstanding Liabilities for expenses	31,513,616.57	50,715,340.96
Gratuity Payable	234,650,069.62	165,854,525.99
Leave Encashment Payable	21,100,024.44	21,134,706.88
Sundry Liabilities	11,663,911.04	54,066,492.87
Tax Deducted at Source - Payable	2,407,672.46	75,150.00
Interest accrued but not due on loans (Others)	4,811,558.04	5,174,870.20
	695,770,807.37	**535,949,994.62**

Schedule 14: Provisions		
Provision for Corporate Income Tax	1,705,148,993.04	1,972,107,493.89
Proposed Dividend	1,957,795,920.93	2,489,033,583.27
Provision for Bonus	36,052,080.28	44,143,661.92
	3,698,996,994.25	**4,505,284,739.08**

Schedule 15: Electricity Revenue		
Bhutan Power Corporation Ltd	798,267,507.91	883,829,186.37
Power Trading Corporation Ltd	9,906,389,286.86	10,645,332,296.80
From Staff & Other Private Parties	562,654.10	423,984.00
	10,705,219,448.87	11,529,585,467.17

Schedule 16: Interest Earned		
Interest on short term Deposits	32,375,326.47	44,725,568.16
Interest on long term Deposits	92,390,821.90	174,912,082.83
Interest on Government Bonds	70,065,074.57	5,811,375.00
	194,831,222.94	**225,449,025.99**

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

Schedule 17: Other Incomes		
House Rent Recovered- Employee/Others	13,807,351.00	13,276,948.13
Miscellaneous Receipts	27,568,601.95	18,924,960.29
Profit on sale/discard of Assets (Net)	6,042,884.58	304,216.76
Sale of Tender forms	860,875.00	692,047.00
Foreign Exchange Gains/Loss	-	23,231,308.41
	48,279,712.53	**56,429,480.59**

Schedule 18: Operation & Maintenance Expenses		
Wheeling charges	589,620,066.37	651,659,741.99
R&M Civil Structures	35,197,911.72	33,844,606.10
R&M Electro-Mechanical	152,134,151.77	159,499,905.66
R&M Vehicles	42,375,304.39	36,674,168.80
R&M-Fire Fighting & Safety	1,732,524.80	2,839,211.07
R&M-Office Equipment	1,350,138.16	703,644.11
R&M-Information Technology	8,366,764.62	1,274,878.50
Insurance	128,251,748.42	68,085,524.65
	959,028,610.25	**954,581,680.88**

Schedule 19: Employees Remuneration & Benefits		
Salaries and Wages	363,175,480.97	287,833,852.90
Employer's Contribution to Provident Fund	23,671,859.96	21,996,262.31
Bonus	36,655,418.26	46,693,224.99
Incentive/Honorarium	32,694,560.68	34,017,765.66
Staff Welfare Expenses	4,180,844.59	6,374,441.27
Medical Expenses	989,335.39	2,413,902.72
Gratuity Expenses	36,556,067.95	22,549,258.42
Leave Encashment	14,370,025.74	13,895,979.32
Terminal Benefits	1,083,260.00	1,730,369.00
Professional Training	70,135,372.65	71,163,299.80
Liveries	4,705,126.52	5,258,407.64
Leave Travel Concession	16,884,359.21	13,776,928.37
GPA- Insurance	3,045,533.85	2,880,190.77
	608,147,245.77	**530,583,883.17**

T.R. CHADHA & CO. MUMBAI CHARTERED ACCOUNTANTS

Schedule 20: Other Expenses		
Travel	28,412,031.17	22,805,555.39
Entertainment	6,739,267.52	5,948,816.67
Electricity	11,811,333.91	9,464,782.25
Advertisement and Publicity	4,192,538.90	3,194,738.95
Telephone and Fax	12,309,488.22	4,131,743.86
Postage and Telegram	242,488.84	250,929.00
Printing and Stationery	6,198,948.18	7,534,116.66
Licence Fee	14,063,119.13	10,628,020.52
Rates and Taxes	240.00	5,964.00
Bank Charges	1,991,091.94	2,019,704.37
Audit Fees & Expenses	638,166.25	674,854.00
Corporate Social Responsibility	16,195,427.65	16,569,959.53
Directors' Sitting Fees	540,000.00	805,000.00
Board Meeting Expenses	297,146.72	375,812.50
Books & Periodicals	268,322.13	358,548.65
Loss on Disposal of Assets	3,337,283.26	3,798,059.58
Consultancy Charges	3,484,409.53	8,572,537.06
Obsolete stores/spares.	114,571.32	5,742,629.43
Foreign Exchange Gains/Loss	215,642,912.96	-
Other Expenses	1,896,969.43	1,341,373.39
	331,118,574.18	**105,978,499.06**

Schedule 21: Purchase of Energy		
Purchase of Electricity from PTC	67,180,227.90	233,871,421.60
	67,180,227.90	**233,871,421.60**

Schedule 22: Extra Ordinary Gains or Losses		
Prior Period Adjustment	(37,889,068.37)	22,445,438.70
Loss on Transfer of Asset	-	255,753.64
	(37,889,068.37)	22,701,192.34

Schedule forming parts of Accounts for the year ended 31st December 2011
Schedule 23

A. Nature of Operations

Druk Green Power Corporation Limited is engaged in generation of hydro electrical energy and for bulk sale of the same to other corporations for distribution and transmission of electricity within Bhutan, and for export of the surplus hydro electrical energy to India.

B. Significant Accounting Policies

1. Basis of Preparation

The financial statements have been prepared to comply in all material respects with the generally accepted accounting principles and the relevant provisions of the Companies Act of the Kingdom of Bhutan, 2000, and on going concern basis. The financial statements have been prepared under the historical cost convention on an accrual basis except as stated otherwise. The accounting policies have been consistently applied by the Corporation.

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

2. Changes in Accounting Policy

In the current year, the Corporation has changed the accounting policy on depreciation for Tools & Plants costing above Nu. 500 and up to Nu. 5,000. As per the earlier policy, in case of Tools & Plants costing above Nu. 500 and up to Nu. 5,000, the entire cost was treated as depreciation expenses when put to use by keeping Nu. 1 as book value. The policy has been withdrawn and henceforth same depreciation rate as applicable to Tools & Plants above Nu. 5,000 are applicable to this category.

During the current year, the depreciation policy on the fixed asset retired during the year has also been changed. Earlier, no depreciation was provided on fixed assets sold or retired during the year. The policy has been amended to provide depreciation till the date of sale or retirement of the fixed asset.

The accounting policy for inventory valuation has been changed from FIFO basis to that of Weighted Average Price Method with effect from 1st June 2011.

The gratuity liability is reported in line with the IAS 19 issued by the International Accounting Standard Board (IASB).

3. Fixed Assets

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

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

The carrying amounts are reviewed at each Balance Sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amounts.

4. Depreciation

Depreciation on fixed assets is provided on straight-line method at the rates provided by the Rules of the Income Tax Act of the Kingdom of Bhutan, 2001 and considering the useful lives of the assets.

The depreciation for the fixed assets purchased / constructed during the year is pro-rated on the basis of actual number of calendar days from the date asset has been put to use.

The assets costing Nu. 500 and below is considered as consumables and charged as expenses.

5. Investment

Long-term investments are stated at costs and provision is made to recognize a decline, other than temporary, in the value of long term investments. Other investments are carried at cost or market rates whichever is less, on individual investment basis.

6. Inventory

i. *Inventories are valued at lower of cost or net realizable value.*
ii. *Cost is calculated on Weighted Average Price Method basis and comprises expenditure incurred in the normal course of business in bringing such inventories to its present location.*
iii. *Obsolete, slow moving and defective items of inventory are identified at the time of physical verification of inventories and where necessary, adjustment is made for the same.*
iv. *Stock of salvaged and scrapped materials has been stated at nil value. The amount realized on disposal of such stock is accounted for as Other Income.*
v. *As the Corporation is engaged in the generation of electricity, there are no finished goods or raw materials.*
vi. *Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale.*

7. Revenue Recognition

Electricity Revenue

i. Revenue from the Sale of Electricity within and outside Bhutan is recognized on accrual basis.
ii. Rates for sale of electricity are as determined by the appropriate authority.

Other Revenue

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

Interest

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

Claims for Escalation/Liquidated Damages

Suppliers'/ Contractors' claims for price escalation are accounted for to the extent such claims are accepted by the Company. Claims for liquidated damages against the suppliers/contractors are taken as income when these are deducted from the bills.

8. Retirement benefits

Under Defined Contribution Scheme

i. *The Corporation contributes to Provident Fund administered by National Pension and Provident Fund, and such contributions are charged to revenue every year on the basis of when the contribution to the Fund becomes due.*

Under Defined Benefit Scheme

ii. *Gratuity is provided on the basis of actuarial valuation.*
iii. *Leave encashment is provided for in the financial statements on accrual basis.*

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9. Foreign Currency Transactions

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

10. Prior Period Adjustments

All items of expense / income relating to prior year, exceeding Nu. 5,000 in each case not charged in the accounts in the earlier year due to errors or omission, are accounted for under prior period adjustment account.

11. Contingent Liabilities

No provision is made for liabilities which are contingent in nature, unless it is probable that future events will confirm that the asset has been impaired or a liability has been incurred as at balance sheet date and reasonable estimate of the resulting loss can be made. Contingent liabilities however have been disclosed in the Notes to Accounts.

12. Income Tax

Current Tax is determined in respect of taxable income for the year based on applicable rates and laws.

13. Research and Development Expenditure

Revenue expenditure on Research and Development is expensed in the year in which they are incurred. Items of capital nature are included in Fixed Assets.

14. Expenditure on new projects and substantial expansion

Expenditure on material, labour and contractors appointed for executing the project are capitalized. The employee costs directly attributable to projects are capitalized. Indirect expenditure and overheads, like project management expenses, relating to projects incurred during construction period are also capitalized.

Other indirect expenditure and overheads relating to projects incurred during construction period is not capitalized and charged off to the Profit and Loss account.

Direct expenditure on expansion is capitalized only if they increase the value of the asset beyond its original standard of performance. As regards indirect expenditure on expansion, it is charged off to the Profit and Loss account.

NOTES TO ACCOUNTS

1. The company is a wholly owned subsidiary company of Druk Holding and Investments (DHI).

2. The authorized share capital of the Company is Nu. 50,000,000,000 (50,000,000 share @ Nu. 1,000 per share) and as of the report date, the total subscribed and paid up capital is Nu. 30,508,291,000. The Company presents separate financial statements for all the Hydropower Plants and share capital of the company is subdivided amongst the Hydropower Plants for maintenance of information on the performance and financing structure of each Hydropower Plant. The Hydropower Plants operates as profit center of DGPC and does not have legal existence of their own.

3. The revised repayment schedule between Government of India (GOI) and Royal Government of Bhutan (RGOB) regarding Loan taken for Tala Hydropower Project Authority (THPA) had not been signed and letters were written to Ministry of Foreign Affairs, RGOB to finalize this. The tentative repayment schedule of Loan and Interest (revised on 31.05.2009) of Nu. 2,650,855,365.58 p.a. signed on behalf of THPA and RGOB was "Subject to verification/Confirmation by the RGOB/GOI". Payment of Nu. 2,691,037,076.17 were made during 2011 as per original repayment schedule. The closing balances of (i) GOI Loan, (ii) Interest accrued during the project construction phase, (iii) Advance to GOI as on 31/12/2011 are subject to confirmation due to above revised repayment schedule.

4. Interest on loan to the Government of India for the year ended 31st December 2011, amounting to Nu. 935,313,616.49 for the Tala Hydropower Plant has been charged as per the new schedule, leaving the annual repayment obligation to the Government of India unchanged. This has been formulated by the management and duly approved by DHI vide letter no DPZ/GoI (Tala)/2010/6779 dated 8th March 2010. However, the same is yet to be approved by the Ministry of Finance of the Kingdom of Bhutan. (Interest as per the old schedule is Nu. 949,634,195.85 for the same period).

5. Dagachhu Hydro Power Corporation Limited is a subsidiary company, where the Company has 59% stake along with 26% of Tata Power Company Limited and 15% being shared by National Pension & Provident Fund (NPPF). The Company has been allotted 1,911,600 shares of Nu 1,000 each in this regard as per their stake. Nu 700.50 has been called up in respect of the said shares till 31.12.2011 and Nu 299.50 remains uncalled on each share (Uncalled amount Nu 572,584,270.00, previous year Nu 990,154,992.20).

6. The Board during 27th Board Meeting held on March 19, 2011 approved for investment of Nu. 190 million as equity in DHI Infra Limited and accordingly the investment was made. The Board accorded the approval based on the request of Druk Holding and Investments vide letter No. 6/DHI/CM/DGPC/2011/315 dated March 3, 2011.

7. Bhutan Electricity Authority (BEA) vide its letter No. BEA/CEO/DGPC/2011-2012/983 dated 30th December 2011 advised DGPC to deposit the revenue earned from the sale of royalty energy with Ministry of Finance, Royal Government of Bhutan, in line with the Economic Development Policy with retrospective effect from 1st January 2011. The royalty energy obligation for the year 2011 is 1,689.18 GWh and the corresponding impact on the electricity revenue during the reporting period amounted to Nu. 135.76 million decrease, considering the applicable royalty energy tariff of Nu. 0.13 per kWh.

8. During the year, the Company made changes to the following accounting policies:
   i. *The depreciation policy for the tools and plants costing more than Nu. 500 and equal to Nu. 5,000.00 had been amended from earlier policy of considering the entire cost less Nu. 1 book value as depreciation expenses to that of charging depreciation based on economic life of the assets. Based on the change the applicable depreciation rate is 15% on straight-line basis. The change in depreciation policy has decreased the depreciation expenses by Nu. 1 million for the year 2011.*

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ii. *The accounting policy of not charging any depreciation for the asset sold or retired during the year had been amended, requiring the depreciation to be charged till the date asset is sold or retired. The change in policy does not have any impact on the profitability of the company during the reporting period.*

iii. *The accounting policy for the valuation of inventory has been amended from the FIFO method to Weighted Average Price Method with effect from 1st June 2011. Given the complexity associated with the maintenance of record of individual inventory for assessment of the impact of change, the impact of this policy change cannot be ascertained.*

iv. *During the year, the HR Policy for the entitlement of earned leave for the employees had been changed from 20 days a year to 30 days a year with effect from 1st January 2011. Further, the policy on encashment of earned leave had been amended from one month's basic salary in lieu of 20 days leave to one month's basic salary in lieu of 30 days leave. Further, the maximum leave accrual limit had been enhanced from 30 days to 60 days. This policy change does not have any financial impact.*

9. The company has, with effect from January 1, 2011, adopted International Accounting Standard 19, Employee Benefits, issued by the International Accounting Standard Board. Consequently, the company recorded the difference between the liability as per IAS 19 and the liability that could have been recognized at the same date under the Company's previous accounting policy amounting to Nu. 42,587,998.45 against the opening balance of General Reserve as on January 1, 2011.

10. Defined Benefit Plans
Valuation in respect of Gratuity has been carried out by independent actuary, NUMERICA Quantitative Services Private Limited, Bangalore, India. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The disclosures as provided by the actuary are as given below. The relevant disclosures for previous year in certain cases are not given, as the relevant information was not provided.

IMPORTANT DATES

1	Census Date	31-Dec-11
2	Measurement Date	31-Dec-11

AMOUNT RECOGNIZED IN BALANCE SHEET

		31-Dec-11	31-Dec-10
1	Present Value of Defined Benefit Obligation	192,825,267	187,829,320
2	Fair Value of Plan Assets	(194,195,433)	(162,256,234)
3	Funded Status - (Surplus)/Deficit	(1,370,166)	25,573,086
4	Unrecognized Past Service (Cost)/Credit	-	-
5	Unrecognized Actuarial (Loss)/ Gain	41,824,803	-
6	Effect of Asset Ceiling: Para 58A	-	-
7	Liability/(Asset) recognized in Balance Sheet	40,454,637	25,573,086

AMOUNT RECOGNIZED IN STATEMENT OF PROFIT & LOSS

		Year ended	**31-Dec-11**
1	Current Service Cost		18,350,579
2	Interest Cost		15,074,190
3	Expected Return on Plan Assets		(8,112,812)
4	Employee Contributions		-
5	Past Service Cost - Vested Benefits		-

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6	Past Service Cost - Non-Vested Benefits	-
7	Effect of Change in Asset Ceiling	-
8	Settlement/Curtailment Cost/(Credit)	-
9	Actuarial Loss/(Gains)	-
10	Total Employer Expense	25,311,957

ACTUAL RETURN ON PLAN ASSETS

	Year ended	31-Dec-11
1	Expected Return on Plan Assets	8,112,812
2	Actuarial Gain/(Loss) on Plan Assets	23,826,387
3	Actual Return on Plan Assets	31,939,198

RECONCILIATION OF DEFINED BENEFIT OBLIGATION

	Year ended	31-Dec-11
1	Present Value of Defined Benefit Obligation as at 31 December 2010	187,829,320
2	Current Service Cost	18,350,579
3	Interest Cost	15,074,190
4	Employee Contributions	-
5	Past Service Cost - Vested Benefits	-
6	Past Service Cost - Non-Vested Benefits	-
7	Amalgamations	-
8	Curtailment Cost/(Credit)	-
9	Settlement Cost/(Credit)	-
10	Actual Benefit Payments	(10,430,406)
11	Actuarial Loss/(Gains) due to change in assumptions	(10,320,313)
12	Actuarial Loss/(Gains) due to plan experience	(7,678,103)
13	Present Value of Defined Benefit Obligation as at 31 December 2011	192,825,267

RECONCILIATION OF FAIR VALUE OF PLAN ASSETS

	Year ended	31-Dec-11
1	Fair Value of Assets as at 31 December 2010	162,256,234
2	Expected Return on Plan Assets	8,112,812
3	Contributions by Sponsor	-
4	Employee Contributions	-
5	Actual Benefit Payments from Fund	-
6	Amalgamations	-
7	Settlements	-
8	Actuarial Gains/(Loss)	23,826,387
9	Fair Value of Assets as at 31 December 2011	194,195,433

RECONCILIATION OF BALANCE SHEET AMOUNT

		Year ended	31-Dec-11
1	Net Liability as at 31 December 2010		25,573,086
2	Employer Expense for the period		25,311,957
3	Benefit Payments made directly by Sponsor		(10,430,406)
4	Actual Contributions by Sponsor		-
5	Net Liability as at 31 December 2011		40,454,637

RECOGNITION OF ACTUARIAL GAIN/LOSS

		Year ended	31-Dec-11
1	Actuarial Loss/(Gain) arising on Obligation		(17,998,416)
2	Actuarial Loss/(Gain) arising on Plan Assets		(23,826,387)
3	Total Loss/(Gain) for the period		(41,824,803)
4	(Loss)/Gain recognized during the period		
5	Unrecognized Actuarial Loss/(Gain)		(41,824,803)

RECOGNITION OF PAST SERVICE COST

		Year ended	31-Dec-11
1	Past Service Cost - Non-Vested Benefits as at 31 December 2010		
2	Past Service Cost - Non-Vested Benefits arising during the period		
3	Past Service Cost - Non-Vested Benefits recognized during the period		
4	Past Service Cost - Non-Vested Benefits as at 31 December 2011		

EXPERIENCE HISTORY

1	Defined Benefit Obligation	31-Dec-11	31-Dec-10
2	Fair Value of Plan Assets	192,825,267	187,829,320
3	(Surplus)/Deficit	(194,195,433)	(162,256,234)
4	Experience Adjustment on Liabilities: Gain/(Loss) Experience Adjustment on Plan Assets: Gain/(Loss)	(1,370,166)	25,573,086
5	No figures are given for the year 2008 and 2009 as the same was not available.	7,678,103	-

MAJOR CATEGORIES OF PLAN ASSETS

		31-Dec-11	31-Dec-10
1	Government Securities	0%	0%
2	Corporate Bonds	0%	0%
3	Equity shares of Listed Companies	0%	0%
4	Property	0%	0%
5	Insurer-managed Funds	0%	0%
6	Bank Deposits	100%	100%
7	Total	100%	100%

EXHIBIT A.11: DETAILS OF SELF-INVESTMENT*

		31-Dec-11	31-Dec-10
1	Sponsor's Debt Instruments	0%	0%
2	Sponsor's Equity Shares	0%	0%
3	Property owned/used by Sponsor	0%	0%
4	Other	0%	0%
5	Total	0%	0%

OTHER DISCLOSURES

1. Best Estimate of Contribution over Next Year	**37,298,048**	-
	31-Dec-11	**31-Dec-10**
2. Estimated Term of Liability (Decrement-adjusted)	12.18	12.44

3 Recognition of Actuarial Gain/Loss

Recognition of Actuarial Gain/Loss is done using "Corridor Approach" which is one of the approaches allowed under IAS 19. Under this approach, amount of actuarial gain/loss, in excess of 10% of greater of Defined Benefit Obligation and Fair Value of Assets, is recognized over the average future amortization service of active employees.

11. No segregation or classification of inventories under fast moving, slow moving and non-moving has been made as the policy for such segregation had been introduced towards the end of the current period. The policy requires historical information on inventory movement for last three years, which would be achieved by 2014.

12. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance) - Nu. 532.781 million (previous year Nu. 286.743 million).

13. Of the Other Receivables amounting to Nu. 215.569 million, Nu. 0.160 million is recoverable from the employees on account of higher remittance to the various financial institution towards the loan availed by the employees. The reconciliation on the remittances would be made and adjustment affected during the year 2012.

14. All the balances against debtor, creditors and advances are based on the invoiced raised to, raised from and advances paid respectively, which are not settled as at 31st December 2011 and practice of confirming and reconciling the balances would be put in place with effect from the year 2012.

15. The Company through its bank has issued Letter of Credit amounting to Nu. 382.200 million to various suppliers by creating lien on Fixed Deposit Receipt Certificate amounting to Nu. 456.000 million.

16. The company has not calculated and accounted deferred tax assets / liabilities so far. The same shall be done during the year 2012.

17. In keeping with the earlier trend of declaring 90% of the profit after tax as dividend, the proposed dividend of Nu. 1,957.796 million has been derived after deducting Nu. 104.142 million representing 50% of Nu. 208.284 million excess dividend declared in 2009, from the 90% of the profit after tax. The deduction has been made after obtaining confirmation from Druk Holding & Investments vide letter DHI/CEO/DGPC/2012/217 dated February 29, 2012. During the year interim dividend of Nu. 1,477.840 million has been paid.

18. The following statutory dues were outstanding and pending to be deposited as on 31.12.2011:

Particulars	Total
TDS	1,661,454.99
Royalty	135,759,170.92
Corporate Income Tax	1,574,947,012.01
Grand Total	1,712,367,637.92

19. Quantitative Information of purchase and sale of power:
(Amount: Millions Nu.) (Units: MU)

Particulars	2011		2010	
	Units	Amount	Units	Amount
Purchase	36.92	67.28	128.31	261.84
Self Generation	7,046.57	798.27	7,304.52	
Sale:				
Within Bhutan	1,683.73	9,906.39	1,628.03	908.98
Export to India	5,309.86	0.56	5,707.60	10,645.33
Internal Consumption & Losses	89.89		97.19	0.42
Total	**7,083.48**	**10,705.22**	**7,432.83**	**11,816.58**

20. Managerial Remuneration:

Amount in Million

	Particulars	2011	2010
a)	Managing Director's Remuneration	1.76	1.48
b)	Directors' Sitting Fees	0.54	0.81
c)	Travelling Expenses	0.44	0.73
	Total	**2.74**	**3.02**

The above remuneration is based on the actual payment.

21. Auditor's remuneration: Audit fees provided in the accounts Nu. 350,000 (P.Y Nu 330,000).

22. During the year the company migrated from the Tally Accounting System to SAP Enterprise Resources Planning System with effect from 1st June 2012. With the implementation of SAP, all the stand-alone system has been integrated resulting in uniformity in the business policies and procedures. All the business process has been documented and wherever possible process improvement has been made. Further, with proper role authorization matrix, the assignment of conflicting roles has been avoided. All the business policy and process change has been centralized at corporate office, enabling proper control and check and balance. The company has implemented following SAP modules.

   a. **Finance and Controlling (FICO)**
   b. **Funds Management (FM)**
   c. **Material Management (MM)**
   d. **Human Capital Management (HCM)**
   e. **Plant Maintenance (PM)**
   f. **Project Systems (PS)**
   g. **Business Planning and Consolidation (BPC)**
   h. **Business Intelligence (BI)**
   i. **Sales & Distribution (SD)**

23. Previous year's figures have been rearranged and regrouped wherever necessary.

Signatures on Schedules 1 to 23

(Dasho Karma Tshiteem)
Chairman, Druk Green & Secretary GNHC

(Dasho Chhewang Rinzin)
Managing Director

(Ugyen Namgyel)
Director Finance

T.R. CHADHA & CO.
MUMBAI
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