

## **REPORT FROM THE BOARD OF DIRECTORS**

**Dear Shareholders,**

It is our great pleasure to present this Report of the Board of Directors, 2020 in this 28<sup>th</sup> Annual General Meeting (AGM) of the Company. We are gathered today in the AGM through virtual means due to the serious health security threat caused by the ongoing COVID-19 pandemic.

COVID-19 has hit all sectors across the globe. The Company is affected primarily in the segment of projects development and construction. Operation of power plants and distribution business were comparatively less affected. Despite preventive measures implemented by the Company, thirteen personnel were diagnosed with COVID-19; and unfortunately, one Company employee lost his life. In spite of the pandemic adversity, overall business performance results of the company are satisfactory.

The Company posted a net profit of NPR 731 million in FY 2076/77 and is going to distribute 15% cash dividend and 10% bonus shares to its shareholders in line with its dividend policy.

The operating power plants and distribution business owned directly by the Company operated normally. The 4 MW Khudi Power Plant, which was severely hit by flood last year, has been brought into partial operation after interruption of generation for some months. Repair works of another generation unit is expected to complete shortly as the equipment supplier could not send its technical expert from China due to COVID-19. Equity interest of the Company in 60 MW Khimti-I Hydropower Plant (KHP) has been diluted by 50% from July 2020 as per the condition of earlier 20-year PPA. KHP is operating under an interim power purchase arrangement till a final PPA is signed. This has been delayed due to COVID-19. KHP will run under a new special purpose vehicle as per the new PPA. This change will have an impact on the dividend income of the Company.

30 MW Nyadi Hydropower Project (NHP) is in advance stage of construction with work progress of more than 90%. Had COVID-19 pandemic not been there and if an additional arrangement for power evacuation were not to be made, NHP would have achieved commercial operation already. NHP is expected to come into commercial operation by March 2021.

All construction works at 37.6 MW Kabeli-A Hydroelectric Project (KAHEP) were suspended since the beginning of 2020. Project is facing serious challenges after discontinuation of loan disbursement by the World Bank (WB). Our request and expectation of support from the Government of Nepal (GoN) to extend the WB loan drawdown period could not materialize as GoN remained reluctant to support the extension. Still all possible options are being explored to revive the construction of KAHEP. GoN has been requested for cooperation and support in line with the spirit of the Project Development Agreement (PDA). In this Fiscal Year's financials, partial provisioning of investment in KAHEP has been made by the Company.

Some progress has been achieved in Marsyangdi Cascade Projects (MCP) – 135 MW Manang Marsyangdi Hydroelectric Project (MMHEP), 139.2 MW Lower Manang Marsyangdi Hydroelectric Project (LMMHEP) and 327 MW Upper Marsyangdi-2 Hydroelectric Project (UM2HEP). Studies were conducted to optimize development of MCP. PPA of MMHEP has been initialed and is under process of approval at Electricity Regulatory Commission (ERC). PPA of other projects is also under consideration at NEA. Investment Board of Nepal (IBN) has granted investment approval for UM2HEP. Application for PDA is under active consideration of IBN. Construction camps and access roads were ready last year to start construction of MMHEP. However, the process was delayed due to COVID-19 pandemic and pending government approvals.

The Company has applied for obtaining Generation license of 7.9 MW Chino Khola Hydroelectric Project (CKHEP) and is in process of concluding its PPA.

Feasibility study of 160 MW Mugu Karnali Hydroelectric Project (MKHEP) is ongoing. GoN has been positive to provide relief measures to hydropower projects due to COVID-19 pandemic. It is expected that these relief measures shall extend validity period of licenses and deadlines prescribed thereunder including relief on fees. The process to recover the advance given to S.C. Power Company Pvt. Ltd., the project company for Tila 1 and Tila 2 hydropower projects, and its shareholder has been initiated.

The performance of group companies is also satisfactory. Among the group companies, Hydro-Consult Engineering Ltd. (HCE), an engineering services entity is the best performer. The group net profit has increased in FY 2076/77.

The Company conducted Gap Analysis in the business and governance of the Company through an independent consultant to identify gaps and initiate reform initiatives.

## **PERFORMANCE REVIEW**

### **FINANCE**

The Company earned gross operating profit of NPR 321.61 million and dividend income of NPR 767.82 million in FY 2076/77 with an increase of 14.98% and 25%, respectively, compared to the previous FY. There was a substantial decrease in finance income and provisioning for impairment loss of equity investment in Kabeli Energy Limited (KEL) and Gurans Energy Limited (GEL) due to suspension of construction works of KAHEP since April 2019. Thereby, the profit before and after taxes decreased by 14.81% and 3.82%, respectively. Net profit of the Company stands at NPR 731.28 million in FY 2076/77. The financial highlights of the Company are briefly summarized below.

(In million NPR unless specified)

Particulars	FY 2076/77	FY 2075/76	Variance (In %)
Electricity sale to NEA	483.84	486.80	-0.61
Electricity sale and services to consumers	202.87	196.24	3.38
Generation Expenses	245.69	266.31	-7.74
Distribution Expenses	119.41	137.04	-12.86
Gross profit	321.61	279.72	14.98
Other income including dividend received	767.82	613.71	25.11
Administrative and other expenses	123.34	164.25	-24.91
Profit before interest and taxes	727.54	735.03	-1.02
Profit before taxes	719.80	844.94	-14.81
Net profit after tax	731.28	760.34	-3.82
Investment in other companies	4,068.46	4,530.30	-10.19
Earnings per share (in NPR)	27.25	31.15	-12.52
Net worth (Equity)	7,029.05	6,901.28	1.85

**The Group consolidated financial status for FY 2076/77 is as under:**

(In million NPR unless specified)

Particulars	FY 2076/77	FY 2075/76	Variance (In %)
Revenue	3,194.35	3,344.63	-4.49
Cost of sales	2,657.57	2,892.83	-8.13
Gross Profit	536.79	451.80	18.81
Profit before interest and taxes	1,052.88	762.75	38.04
Profit before tax	766.90	829.95	-7.60
Profit after tax	765.83	726.25	5.45
Profit attributable to owners of parent	754.07	732.12	3.00
Profit attributable to non-controlling interest	11.76	(5.87)	300.24
Earnings Per Share	28.10	30.00	
Net worth	7,452.02	7,284.47	2.30

Decrease in group revenue by 4.49% is due to decrease in sale of services. Similarly, decrease in cost of sales by 8.13% is mainly due to decrease in cost of consumed materials, employees' expenses and legal & professional expenses. However, the increase in gross profit by 18.81% is due to decrease in cost of sales at higher rate in comparison to decreased rate in revenue. The increase of group net profit by 5.45% is mainly due to increase in dividend income, resulting in increase in net worth by 2.30%. The group earnings per share is NPR 28.10; which was NPR 30.00 in previous FY.

## OPERATIONS

### Generation Business

The Company has been operating two power plants– 9.4 MW Andhikhola Power Plant (APP) and 12 MW Jhimruk Power Plant (JPP). Both plants operated satisfactorily in FY 2076/77. The total generation was 144.51 GWh, which is 5% higher compared to 137.56 GWh generated in the previous FY. Out of total generated energy, around 74% energy was supplied to NEA and remaining to the distribution business.

The generation status of both power plants was as follows:

- APP generated 71.370 GWh with plant factor of 86.67%, which is an increase of 4.88% (3.321 GWh) over the last year. Out of total available energy of 72.83 GWh including purchase from NEA, 39.737 GWh (54.56%) was supplied to NEA, which includes 3.169 GWh compensation for Kaligandaki Power Plant. 31.457 GWh (43.19%) was supplied to the distribution business for consumers of the Company.
- JPP generated 73.144 GWh with plant factor of 69.58%, which is an increase of 5.23% (3.637 GWh) over the last year. Out of total available energy of 75.73 GWh including purchase from NEA, 66.669 GWh (88.03%) was supplied to NEA and 7.377 GWh (9.74 %) to distribution business for consumers of the Company.

The problem of high quartz content in Jhimruk River water during monsoon season remained the major factor for reduced power generation and severe erosion of turbine parts from the beginning of operation of the power plant. Annual overhauling of all turbine parts including preventive maintenance was carried out as per schedule. Besides the silt problem, major problem also occurred in excitation system of all three generators; which were repaired timely. River training and mitigation works were carried out to protect the project area, farmers' land and to optimize the water to increase generation.

### Distribution Business

The Company has been distributing electricity to its own consumers in four districts namely Syangja, Palpa, Pyuthan and Arghakhanchi. During FY 2076/77, the total energy purchased from the Generation Business was 38.828 GWh, which is about 4% more than that of previous FY. The consumer base has increased by 3.37% and reached 58,091 at the end of FY 2076/77. This year 32.69 GWh energy was sold to retail consumers and 0.068 GWh was consumed for internal purposes. Total energy sale has increased slightly by 3.83% compared to last year. Distribution loss is 15.64% on the purchased energy.

## SUBSIDIARY AND ASSOCIATE OF THE COMPANY

### Company's investment portfolio at the end of Ashadh, 2077

The Company has made equity investment in the following companies, valued at cost and fair value as in table below:

Name of company	No. of shares	Holdin g (In %)	Investment at Cost (In NPR)	Investment at Fair Value (In NPR)
Himal Power Limited	2,978,502	16.88	434,931,461	954,961,138
Nepal Hydro & Electric Limited	715,800	51.30	71,580,000	-
Khudi Hydropower Limited	504,000	60.00	50,400,000	-
Khudi Hydropower Limited (Preference Share)	576,000	-	57,600,000	-
Nyadi Hydropower Limited	10,751,453	98.18	1,075,145,300	-
Kabeli Energy Limited	2,966,860	27.24	296,686,000	-
Hydro-consult Engineering Limited	117,785	80.00	11,778,500	-
Manang Marshyangdi HPC (P) Ltd.	885,960	100.00	566,416,367	-
BPC Services Limited	100,000	100.00	10,000,000	-
Hydro Lab (P) Limited	10,000	10.73	1,000,000	19,356,942
Himtal Hydropower Co. (P) Ltd.	601,300	19.40	777,902,830	-
Marshyangdi Transmission Co. (P) Ltd.	6,406	19.40	10,346,245	-
Gurans Energy Limited	3,321,836	40.00	332,183,600	-
Convertible Loan to Kabeli Energy	-	-	1,260,044	-
SCIG Int'l Nepal Hydro Joint Venture Development (P) Ltd.	-	-	93,520,876	-
<b>Total</b>	<b>23,535,902</b>		<b>3,790,751,223</b>	<b>974,318,080</b>

The financial performance highlights of the subsidiary and associate companies are as under:

Name of company	Net Profit (In million NPR)	Increase (decrease ) in net profit	Net Worth (In Million NPR)	Earning Per Share (In NPR)	Book Value Per Share (In NPR)
Himal Power Limited	3,726.95	12.71%	5,656,16	211.26	320.62
Nepal Hydro & Electric Limited	35.72	212.84%	344.72	25.60	247.06
Khudi Hydropower Limited	-10.98	-141.05%	193.99	13.07	230.94
Kabeli Energy Limited	27.76	72.99%	1,113.64	-	102.64
Nyadi Hydropower Limited	-26.74	-78.79%	1,030.68	-	94.13

Hydro-consult Engineering Limited	32.20	25.69%	147.45	218.72	1,001.47
BPC Services Limited	0.82	-10.97%	15.80	8.19	157.96
Hydro Lab (P) Limited	13.85	13.05%	119.64	231.00	1,990.73
Gurans Energy Limited	-1.36	-70.96%	794.22	-	95.69
SCIG International Nepal Hydro Joint Development Co. Pvt. Ltd.	-38.16	4.38%	1,516.57	-2.44	97.05
Manang Marsyangdi Hydropower Company Pvt. Ltd.	-0.71	-128.58%	90.37	-0.80	102.00
Marsyangdi Transmission Company Private Limited	0.00	NA	1.64	NA	49.78
Himtal Hydropower Company Private Limited	0.11	-97.57%	273.18	-0.04	91.36

The Company earned dividend income of NPR 744,120,794 in FY 2076/77 from the following subsidiary and associate companies:

Name of Company	Dividend Amount in NPR (from the profit of F/Y 2075/76)
Himal Power Limited	739,085,486
Hydro- Consult Engineering Limited	5,035,308
<b>Total</b>	<b>744,120,794</b>

## PROJECTS

### 30 MW Nyadi Hydropower Project (NHP)

NHP is a run of the river project located in Marsyangdi Rural Municipality, Lamjung District. Construction was started on March 23, 2017. Nyadi Hydropower Limited (NHL) is the project company that owns NHP, where the Company holds 71.68% equity ownership. NHL has initiated process for initial public offering (IPO) of shares to the general public including project-affected locals. IPO is expected to be complete by March 2021. Construction progress of NHP is more than 90% complete as of end-November 2020. Due to COVID- 19 pandemic, NHL could not complete construction of NHP within the Required Commercial Operation Date (RCOD). NHL has a revised target to start the generation of electricity from mid-March 2021. NHL has been constructing an additional 3 km transmission line as an alternate plan to evacuate power from NHP because of delay in construction of 220 kV transmission facilities by NEA. Estimated average annual generation of NHP is 168 GWh.

### 37.6 MW Kabeli-A Hydroelectric Project (KAHEP)

KAHEP is a peaking run of the river project located in Panchthar and Taplejung Districts. Kabeli Energy Limited (KEL) has undertaken KAHEP from the Government of Nepal as per the Project Development Agreement (PDA). The Company has 26% direct and 27.3% indirect ownership stake in KEL. Management of KEL has been led by the strategic partner InfraCo Asia. The main

construction works of the project was started on March 23, 2017. KEL has constructed 24 km access road to connect the project sites with Mechi Highway. All required lands have been acquired, Contractor's camp facilities have been built; access tunnel and 1km headrace tunnel (out of 4.5 km) have been excavated and prepared for the construction of dam and penstocks. The EPC contractor was unable to comply with the defined construction standards and planned progress. As a result, KEL terminated the EPC contract agreement in April 2019 following the recommendations of Owners and Lender's Engineer. KEL recovered Advance Payment Guarantee (APG) and settled Performance Guarantee (PG). The timeline for WB loan drawdown has expired in December 2019. All physical works are under suspension due to suspension of World Bank loan. In the meantime, RCOD under the PPA has expired without project commissioning. This expiry of RCOD is not only because of KEL, but also due to severe delay in required decisions from the Government authorities in channelizing the WB loan, getting timely approvals from GoN and WB for loan extension, and in fulfilling stringent requirements of WB and IFC for loan disbursement. GoN's focus on the Tamor Storage Project seems to have diverted attention from KAHEP. This Storage Project has potential impacts on KAHEP, and line ministries need to take a firm decision on the KAHEP at the earliest.

KEL has formulated recovery plan to resume construction works. However, to proceed with the recovery plan, a reasonable RCOD extension is required to complete remaining construction works and avert delay damages that could be substantial. KEL approached MoEWRI for extension of RCOD on the grounds of delays attributed to GoN decisions. A special committee has been formed at MoEWRI to review and recommend necessary RCOD extension for the project. Committee's report is expected to come soon. Once reasonable extension of RCOD is granted, recovery plan will be implemented, and construction works will be resumed.

**Marsyangdi Cascade Projects (MCP):**

MCP comprises of three peaking run of river (PROR) projects - MMHEP, LMMHEP and UM2HEP with combined installed capacity of 601 MW. MMHEP and UM2HEP have separate SPV named Manang Marsyangdi Hydropower Co. Pvt. Ltd. (MMHCPL) and Himtal Hydropower Co. Pvt Ltd (HHCPL) respectively. The SPV will be set up for LMMHEP jointly with the Chinese partners. The strategic partners for these projects are SCIG International Limited, Xingcheng International Investment Co. Ltd. and QYEC International Co. Ltd. With the prior consents of MoEWRI, investigations and resource optimization of MCP were carried out for adjustment of boundaries, redefining the nature of the project as PROR and conducting the Supplementary EIA.

MMHEP has been optimized at 135 MW and industry registration is being done at the Department of Industry (DOI) accordingly. Application has been submitted to MOEWRI for concluding PDA. Supplementary EIA has already been approved. Draft PPA has been initiated with NEA and is in the process of approval at ERC. The transfer of shares from the Company to the Chinese partners is in the advance stage of the approval process.

The Connection Agreement of LMMHEP has been signed with NEA for 139.2 MW. Supplementary EIA is in the process of approval. Application has been submitted to Investment

Board of Nepal (IBN) for investment approval and to DoI for industry registration of LMMHEP. A Joint Venture Agreement has been signed with the Chinese partners to set up a project company for the development and construction of the project.

IBN has granted investment approval for UM2HEP for 327 MW. Follow-ups have been made with IBN for accelerating and concluding PDA. Supplementary EIA is in the process of approval.

As the installed capacity of MMHEP and LMMHEP has been optimized with the approval of MoEWRI, amendments in the Generation Licenses shall be done suitably.

Construction camps and access roads were ready last year for the earliest start of construction works. MCP will evacuate power through 220 kV Marsyangdi Corridor Transmission Line, which is being constructed by NEA.

### **7.9 MW Chino Khola Hydropower Project (CKHP)**

CKHP is a Run of the River (RoR) project located near LMMHEP. Feasibility study and EIA of the project have been completed. The EIA Report has been approved. The MCP will utilize the power of CKHP for construction power. The process of PPA with NEA has been initiated and the application for Generation License of the project is in the process of approval.

### **160 MW Mugu Karnali Hydropower Project (MKHP)**

MKHP is a Peaking Run of the River (PROR) project located near Gamgadhi, the district headquarter of Mugu district. The survey license of MKHP was awarded to BPC in 2074. The pre-feasibility study of the project has been completed and a detailed feasibility study and EIA is ongoing. The main challenge of the project is power evacuation. Under the present status of the transmission line plan, it seems very hard to get a connection agreement for PPA with NEA. Therefore, the project will be kept as a backup plan for the Company to develop in future as per availability of power evacuation facilities.

## **CORPORATE GOVERNANCE**

BPC is committed to adhering to good corporate governance. We strive to keep the trust of our stakeholders by being ethical, honest and transparent in the continuing pursuit of our vision, mission and values. We produce Corporate Governance Report every year with the intent of being transparent on our Board's activities and its performance, internal control systems and risk management. The corporate value framework includes vision, mission, core values, business principles and policies, code of corporate governance, code of conduct and ethics, and guidelines. This framework applies to everyone in the company, from employees to members of the board of directors. The fundamentals of this framework are to strive to exercise the highest standards of ethics and conduct in our personal and business relations ensuring compliance to the legal framework, fairness, integrity, honesty and environmental impacts and the interests of the stakeholders. Reports to this intent, as required by the prevalent laws, have been submitted to the regulatory bodies on time. The Corporate Governance Report has been included in the Annual Report of the Company separately.



### **Board and its Committees**

During the year, there was no change in the Board of Directors. The Board has set up mandatory three committees - Audit Committee, Risk Management Committee & Assets and Liability Committee, and other five committees as per the need of the Company. The performance of Directors as members of the Board and its committees remained satisfactory in FY 2076/ 77. The details of the shareholding pattern, Board and its committees of the Company are disclosed in the Corporate Governance Report.

### **Shareholding Structure of the Company**

The shareholding structure of the Company has been incorporated in the Corporate Governance Report. The number of shareholders was 72,938 at the end of FY 2076/77.

### **Management**

The management of the Company is led by CEO Mr. Uttar Kumar Shrestha. Mr. Shrestha has long management experience in NEA. He has been leading the management of the Company for the last 6 years successfully. There are 193 personnel in the Company with 19 working at Management level. The Collective Bargaining Agreement (CBA) has been signed with the Trade Union on 10th Ashwin, 2076 which remains valid till the end of the Ashadh, 2078. Employees have been covered under the medical, accidental and COVID-19 insurance policies.

Management improved performance during the FY 2076/77 with fulfilment of the major tasks as per the vision, mission and values of the Company under the strategic guidance of the Board of Directors and Board Committees.

### **Quality, Environment and Occupational Health and Safety Management System**

The Company has developed its Quality, Environment, Occupational Health and Safety Management System in line with ISO standards. The Company has been certified with ISO 9001:2015 (Quality Management System), ISO 14001:2015 (Environmental Management System) since May 24, 2005 and OHSAS 18001:2007 (Occupational Health and Safety Management System) since September 20, 2013 [Certification Body- DNV GL (Det Norske Veritas), India].

Further, the Company has been recertified in 2017. OHSAS system created awareness and assisted in managing occupational health, safety and security issues throughout the organization. These have been integrated and implemented as part of its overall business operations, system and procedures of the Company.

A well-developed Occupational Health and Safety and Emergency Preparedness Plan was communicated amongst all to cope up with all emergencies situation like fire, floods, landslides, earthquake, pandemic etc. Internal and external audits on integrated management system were carried out for continual improvement. No serious illness, accident, incident and injuries were reported in the Company during the FY 2076/77. However, thirteen personnel got infected from COVID – 19 pandemic and unfortunately one Company employee lost his life.

### **Industrial and Business Relations of the Company**

The Company is engaged with its stakeholders and always committed to enhance relationships through participation in seminars, training programs, meetings and involvement in CSR activities. The company is an institutional member of the Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Independent Power Producers' Association Nepal (IPPAN), Nepal Hydropower Association (NHA), Confederation of Nepalese Industries (CNI), International Center for Hydropower (ICH) Norway, Energy Development Council (EDC), Nepal Tunneling Association (NTA) and Management Association of Nepal (MAN).

The Company has established a partnership with international agencies such as IFC, World Bank, InfraCo Asia, Singapore, Statkraft AS, Norway and SCPHI, Canada for different areas of business relationships in the development of hydropower projects. The Company has further established a partnership with three renowned Chinese companies from Sichuan Province viz. Sichuan Provincial Investment Group Co. Ltd (SCIG), Chengdu Xingcheng Investment Group Co. Ltd. (CXIG) and Qing Yuan Engineering Consulting Co. Ltd. (QYEC) for development of MCP.

### **Enterprise Risk Management**

Risk management is an integral part of business initiation, decision and implementation. BPC has been continually assessing and monitoring the risks at different levels of management to ensure that the risks are properly managed. Risk Management Committee monitors and guides Management and recommends the Board for ensuring good risk management in the Company. A well-defined Risk Management System has been implemented in the Company.

### **Internal Control and Accountability**

The internal control and accountability system has been implemented in the Company. The control environment and accountability are monitored by the Audit Committee and the Board.

The periodic internal and external ISO audits are carried out for continual improvement and implementation of the management systems. Also, the internal audit has been carried out every quarterly through an independent auditor for assessment of the internal control and risk management of the company. The recommendations of the internal auditor and the decisions of the Audit Committee have been implemented. M/s PL Shrestha & Co., Chartered Accountants, performed the internal audit of the Company in FY 2076/77.

### **Statutory Audit**

M/s CSC & Co., Chartered Accountants audited the books and accounts of the Company for FY 2076/77, consecutively for two years in row. The auditor has issued an unqualified report of financial statements of the Company.

### **Shareholders' Suggestions and Communication**

The suggestions from shareholders have been taken at the right earnest and implemented based on merit and business interest of the Company. All means of communication are being used by the publication of quarterly reports, abridged reports, annual report, AGM minutes, which were

uploaded in the web page of the Company for information to the shareholders. The Company encourages and welcomes suggestions from shareholders for continual improvement.

### Share Registrar and Share Transactions

Nabil Investment Banking Ltd, Narayanchaur, Naxal, Kathmandu is share registrar of the Company effective from Shrawan 01, 2077. There is no case of share forfeiture and share buyback during the year. The summary of annual share transaction highlights of the company is as under:

Year	Max. Price	Min. Price	Closing Price	Transaction Days	Transaction (Nos)	Volume of Transaction	Turnover Amount (In million)
2076/77	429	284	359	183	13,000	1,822,560	657
2075/76	496	332	409	246	15,852	1,902,187	793

### Related Party Transactions

The Company conducts transactions with subsidiaries at arm's length, as per the best industry practices and prevailing law. All major transactions, which the Company undertook with its subsidiaries and associated companies, are disclosed in notes to the financial statements for the FY 2076/77.

### Business Environment and Investment Climate

Nepal's large perennial rivers with favorable conditions for the generation of hydropower provide an ample opportunity for investment in the hydropower sector.

COVID – 19 pandemic started in the middle of the FY 2076/77 not only created a health crisis but also pushed back the economic activities in the country. Public services were also affected. The projects in the development and construction phase were badly affected. Whereas the operating power plants were affected less comparatively. The power supply was adequate, but consumption remained low.

In order to manage the country's power demand during the dry period, NEA has purchased 38.55% less power as compared to previous fiscal year because of increased generation and less economic activities caused due to lockdowns. As compared to the fiscal year 2075/76, total installed capacity added in 2076/77 is 151 MW where from IPP contribution is 135 MW. The sale of power from IPPs has increased by 36.57% as compared to the previous fiscal year. NEA achieved a profit of NRs 11,056 million against the net profit of NRs 9,812 million in the FY 2075/76. This indicates that Nepal is in the direction of being independent in the power sector and will be able to export surplus power to cross border market in near future. Many hydropower projects including bigger projects like Upper Tamakoshi HEP are under construction and completion stage with a high possibility of generating excess power during the wet season. NEA is working for the management of surplus power to be generated after commissioning of bigger hydropower projects.

Cross Border Power trading with India started a few years back. The first 400 kV Cross Border transmission line between Nepal and India, from Dhalkebar to Mujaffarpur, has been fully functional now. The process has been initiated for another three cross border transmission lines. Government of Nepal has recently decided to give prior approval to NEA for all types of cross border power trading including Day-Ahead Market (DAM), Term Ahead Market (TAM) and long term, medium-term and short term power trading. In addition to power exchanges, NEA has also commenced necessary commercial preparations by signing a composite agreement with NTPC Vidyut Vyapar Nigam (NVVN) for transactions involving both purchase and sale of electrical energy.

GON also provided support to the private sector through an arrangement for interest subsidies to those serving debt regularly and allowing deferral of debt service to those who could not make the debt service on timely manner due to COVID – 19. The investment in Nepal has also increased gradually. Nepal is at a critical juncture and this is an opportune moment that Nepal should leverage to restructure its legislative realm with sound policies. It is indeed time for the government to deliberate on policies that would ensure a favorable business and investment environment. The equal focus should also be given to reducing bureaucratic hurdles, stringent regulations, archaic and inconsistent policies, and anti-competitive practices, allowing embellishment of new and innovative enterprises.

It is believed that the private sector drives the economic growth. As FNCCI has recently elected its new leadership with a hope that it unleashes greater opportunities for the private sector in Nepal.

Hedging regulation has been framed and amended, but there is still a lack of clarity in the sharing of hedging costs, time and amount to provide adequate confidence to the foreign investors. With the establishment of the Electricity Regulatory Commission (ERC), IPPs are quite hopeful for PPA tariff adjustment and expediting the regulatory processes. NEA Electricity Consumer tariff has been revised by ERC recently, encouraging higher consumption of electricity. MoEWRI has also recommended relief package for sick hydropower plants below 10 MW.

Due to delay in completion of transmission lines by NEA, several hydropower plants are not able to supply the electricity in full capacity. Timely Implementation of government's under-construction and planned transmission lines is very important for increasing the generation and distribution of electricity.

### **Dividend**

The Company has adopted a stable dividend policy. Considering the dividend policy and plans of the Company to develop hydropower projects, the Board has proposed to the 28<sup>th</sup> Annual General Meeting of the Company to distribute 15% cash dividend and 10% bonus shares to the shareholders from the net profit of FY 2076/77 and retained earnings. Total unclaimed dividend as on Asadh end, 2077 amounts to NPR 55.11 million.

### **The Year Ahead**

The coming year is going to be challenging for the Company. Marsyangdi Cascade projects are in priority. Concluding bankable PPA for Marsyangdi Cascade projects, achieving their financial closure and taking up them for construction are challenging tasks. Reviving of Kabeli-A HEP is also equally important to the Company. It has been expected to complete the following works in this FY 2077/78.

- PPA of MMHEP, LMMHEP and CKHEP;
- PDA of MMHEP, LMMHEP and UM-2HEP;
- Supplementary EIA approval of LMMHP and UM2-HEP;
- Completing the process of selling the shares in MMHP to Chinese partners;
- Setting up a project company for LMMHEP and CKHEP;
- Financial Closure and construction start of MMHEP;
- Starting the commercial operation of NHP; and
- Reviving of KAHEP.

### **Acknowledgement**

We are grateful to the Government of Nepal and its line agencies, Electricity Regulatory Commission, Nepal Rastra Bank, Securities Board of Nepal, Nepal Electricity Authority, Foreign partners, clients, contractors, vendors, suppliers, associate organizations, bankers, auditors, consumers and other stakeholders who have contributed, supported and provided valuable assistance directly or indirectly towards the betterment of the company in the FY 2076/77.

We thank the members of the Board Committees, Management Team and Employees for their dedication and continued contribution towards the progress of the Company and the shareholders for their confidence accorded to us.

Thanking you.

On behalf of the Board of Directors

Padma Jyoti  
Chairman

Date: December 18, 2020